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**The Role of Economic Corridors in Facilitating International Trade:**  
**The Red Sea study case**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ




## **Special Dedication**

To the indomitable people of Gaza (Palestine),

You inspire the world with your strength, courage, and unyielding  
faith in hope and possibility in horrible times.

May you be heard, may you be known, and may you reclaim  
your dignity.

This work is a tribute to your spirit and your struggle for justice and peace.





## Dedication

To the dear one whose name I proudly bear, to the pillar of my strength and the light of my path, who taught me dignity, hard work, and perseverance **MY FATHER.**

To the one whose prayers accompanied my every step, whose love nurtured my soul, and whose faith in me never wavered **MY MOTHER.**

To the souls whose presence fills my world with warmth, laughter, and understanding, the ones who have always stood by my side; my beloved sisters, **IMAN AND TAKOUA.**

To the brothers whose strength gave me courage, whose words lifted me up, and whose love I carry in my heart **ISLAM AND RAFIK.**

To the stars of our home, whose smiles brighten even the darkest of days, and whose joy reminds me of the beauty in simplicity; my precious nibbling, **TADJ, NADJM, ELENA**

To the one who became a brother not by blood but by heart,  
whose kindness and support mean more than words  
can express **KHALIL MADACI.**

To the friend who stayed through every storm, who celebrated my victories and held my hand in moments of doubt, your friendship is one of life's greatest gifts thank you for being my chosen family **SALMA HAMANI.**

And to those whose presence may have been brief but whose kindness left a lasting mark, thank you for reminding me that even the smallest gestures can carry great meaning.

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Every step, every challenge, and every achievement was made through His will and wisdom.

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To my colleagues and classmates, thank you for the memories, the teamwork, and the moments of laughter and learning that we shared. Your presence made this experience richer and more meaningful.

Finally, to everyone who contributed in any way to this journey, through advice, help, a kind word, or a smile, thank you from the bottom of my heart. Your presence and encouragement were felt and appreciated more than you can imagine.

May Allah reward you all and bless you with endless success.

**Abstract:**

This study aims to highlight the role of economic corridors in facilitating international trade, with a focus on the Red Sea corridor due to its geostrategic importance in facilitating trade in goods and services and attracting foreign investment. The study used a quantitative approach based on relevant statistics and official reports, through a literature review and analysis of trade and investment data related to the region. One of the study's most notable results is that the Red Sea corridor plays a major strategic role in facilitating trade in goods and services and attracting foreign investment, given its potential. This is evident in its importance to the countries directly involved in the corridor, as well as the efforts made by major powers to seize control of it. Among the study's recommendations is the need for regional and international coordination and cooperation to serve the interests of all parties in facilitating international trade.

**Keywords:** Economic corridor, Red Sea, international trade, trade facilitation.

## الملخص:

هدفت هذه الدراسة إلى إبراز دور الممرات الاقتصادية في تسهيل التجارة الدولية، مع التركيز على ممر البحر الأحمر نظرًا لأهميته الجيوستراتيجية في تسهيل تجارة السلع والخدمات وجذب الاستثمارات الأجنبية. استخدمت الدراسة المنهج الكمي اعتماداً على الإحصائيات والتقارير الرسمية ذات الصلة، من خلال مراجعة الأدبيات وتحليل البيانات التجارية والاستثمارية المتعلقة بالمنطقة. من أبرز النتائج التي توصلت لها الدراسة أن ممر البحر الأحمر يُعد من المناطق ذات الأهمية الاستراتيجية الكبرى في تسهيل تجارة السلع والخدمات وجذب الاستثمار الأجنبي لما يمتلكه من مقومات، ويظهر ذلك من خلال أهميته للدول المعنية بالمعبر مباشرة وبما تقوم به الدول الكبرى من جهود من أجل الاستحواذ عليه. ومن بين ما أوصت به الدراسة ضرورة وجود تنسيق وتعاون إقليميين ودوليين بما يخدم مصالح جميع الأطراف في تسهيل التجارة الدولية.

**الكلمات المفتاحية:** الممر الاقتصادي، البحر الأحمر، التجارة الدولية، تسهيل التجارة

**Résumé :**

Cette étude vise à mettre en lumière le rôle des corridors économiques dans la facilitation du commerce international, en se concentrant sur le corridor de la mer Rouge en raison de son importance géostratégique pour faciliter le commerce des biens et des services et attirer les investissements étrangers. L'étude a utilisé une approche quantitative basée sur des statistiques pertinentes et des rapports officiels, à travers une revue de la littérature et une analyse des données commerciales et d'investissement liées à la région. L'un des résultats les plus notables de l'étude est que le corridor de la mer Rouge joue un rôle stratégique majeur dans la facilitation du commerce de biens et de services et l'attraction des investissements étrangers, compte tenu de son potentiel. Cela est évident dans son importance pour les pays directement impliqués dans le corridor, ainsi que dans les efforts déployés par les grandes puissances pour en prendre le contrôle. Parmi les recommandations de l'étude figure la nécessité d'une coordination et d'une coopération régionales et internationales pour servir les intérêts de toutes les parties dans la facilitation du commerce international.

**Mots-clés :** Corridor économique, Mer Rouge, Commerce International, facilitation du commerce.

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## **Abbreviation**

**WTO:** World Trade Organization

**FDI:** Foreign Direct Investment

**GDP:** Gross Domestic Product

**LNG:** Liquefied Natural Gas

**BRI:** Belt and Road Initiative

**CPEC:** China–Pakistan Economic Corridor

**OECD:** Organization for Economic Co-operation and Development

**ASEAN:** Association of Southeast Asian Nations

**IEA:** International Energy Agency

**GATS:** General Agreement on Trade in Services

**UNCTAD:** United Nations Conference on Trade and Development

**TEU:** Twenty-foot Equivalent Unit

**SCZONE:** Suez Canal zone

**UN:** United Nations



# **Chapter one: Introduction**



## Introduction

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International trade is vital for global economic growth, enabling trade between countries and the exchanges of goods and services and capitals. International trade allows countries to specialize in industries where they have a comparative advantage, fostering efficiency and encouraging innovation. Trade policy liberalization (removal of protectionist policies), improvements in transportation infrastructure, and the digitalization of supply chains have all helped enhance global trade flows, taking on increased cost-consciousness and increased market access for businesses around the world. The World Trade Organization (WTO) estimates that international trade makes up almost 60% of global GDP, demonstrating the importance of international trade to economic development (Organization, 2022). Nonetheless, international trade relies on well-established trade routes, logistics networks, and infrastructure for efficiency and success. Economic corridors are essential conduits that enhance trade by connecting key markets and facilitating the smooth exchange of goods among countries.

Economic corridors are uniquely positioned in determining international trade, since they combine trades, infrastructure, and logistics in order to move goods, services, and investments in an efficient manner. Thus, economic corridors enhance connectivity, decrease the cost of trade, and promote growth. In fact, the World Trade Organization (WTO), estimates that about 80% of international trade by volume is conducted by water, which indicates the importance of strategic trade corridors (Organization, 2022). Of these, the Red Sea corridor is perhaps the most important; it connects various parts of the world and provides an avenue for international trade. The corridor is framed primarily by the Suez Canal, a critical waterway carrying nearly 12% of global trade and nearly 19,000 vessels annually (Authority, 2023). This route represents a much shorter replacement to Cape of Good Hope, roughly 7,000 km, whilst reducing transportation costs to trade for businesses and

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governments. The economic importance of the Red Sea is not only from its geographical significance. The Red Sea corridor serves as an important trade route for some of the world's largest economies, including China, India, the European Union, and Gulf states. It is especially critical for energy trade, with almost 10% of the world's oil trade and 8% of liquefied natural gas (LNG) exports either coming to or leaving from the region each year (Agency, 2023). Because of its strategic significance, the Red Sea corridor is relied upon by numerous adjacent countries, including Egypt, Sudan, Eritrea, Djibouti, and Saudi Arabia, to grow their trade and economic development. Egypt, for example, earns over \$9 billion annually in Suez Canal transit fees, which is a significant portion of the country's foreign exchange revenue. Saudi Arabia also has invested in strategic logistics, including with the recent launch of the Neom Port and Red Sea Gateway Terminal, to solidify itself as a global trade nexus. Djibouti, situated at the Red Sea access, has become a strategic transshipment point, servicing over 90% of Ethiopia's imports and exports, further demonstrating the corridor's regional significance (Bank, 2022).

The Red Sea corridor has significant economic implications, but it is plagued with complexities that hinder trade efficiency and stability. Political tensions, Especially those related to the major powers' attempts to control the corridor, led by the United States. Further, logistics inefficiencies, port congestion, and unhealthy customs delays are conferred upon businesses as costs, and in total, the World Bank estimates operational cost increases. Alternatively, logistics disruptions in terms of time and operational costs can increase trade costs by approximately 30%, making it much more costly for exporters and importers to trade through this corridor (Bank W. , 2021). To sustain its position as a global trade corridor, investments in infrastructure, security, and digital trade facilitation are needed. Tackling these obstacles would enhance the efficiency of the corridor and make it more competitive in

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global supply chains. Given its strategic role in global commerce, the key question arises: What is The Role of Economic Corridors In International Trade?

### **Research questions:**

Given the strategic role of economic corridors in global commerce in general and the Red Sea corridor in particular, the key question arises:

- What is the role of economic corridors in facilitating international trade in general and the Red Sea corridor in particular?

This key question will be answered by addressing this sub questions:

- What is the role of economic corridors in facilitating international trade?
- What is the role of the Red Sea corridor in facilitating goods trade?
- What is the role of Red Sea corridor in facilitating services trade?
- What the role of the Red Sea corridor in attracting foreign direct investment (FDI)?

### **Research objectives**

**The General aim:** The aim of this research is to study the role of economic corridors, particularly the Red Sea corridor, in facilitating international trade.

The specific objectives of the study are:

1. Analysing the role of economic corridors in facilitating international trade: This involves understanding how economic corridors streamline trade by improving connectivity, reducing trade costs, and enhancing logistical efficiency.

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2. Identifying the role of the Red Sea corridor in facilitating the movement of goods and services across global regions. This objective seeks to examine the flow and types of goods exchanged between various nations, with a particular emphasis on key industries and sectors, as well as to explore the corridor's impact on the volume and composition of traded services.
3. Study focuses on how the Red Sea corridor facilitates the movement of services (such as logistics, financial services, and digital trade) between these major economic regions.
4. Studying the role of the Red Sea corridor in attracting Foreign Direct Investment (FDI): This objective aims to investigate how infrastructure development within the Red Sea corridor boosts FDI, providing a competitive edge to countries along the corridor by improving trade connectivity and investor confidence.
5. Providing some recommendations for policymakers and stakeholders to improve the corridor's efficiency.

## Research Significance

The significance of this research is potentially offering meaningful insights into the importance of economic corridors, especially the Red Sea economic corridor, to global trade. Economic corridors are more than just a term used for regional trade because located corridors serve a real purpose to ensure that trade is efficient, create regional integration, and stimulate economic growth.

Through our focus on the Red Sea economic corridor, we will help to provide the path of how such trade flow can shape global economic structure and exchanges, in the case in example providing links between various parts of the world, three of the important economic territories. Further, the study will provide qualified insights into how the Red Sea economic corridor can facilitate

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shaping foreign direct investment and contribute to economic development and growth for countries along its route.

Moreover, this study will contribute to the literature by analyzing the Red Sea corridor specifically after the majority of previous research has examined land corridors or failed to study this important global trade route with enough depth. The results of this research will be useful to policymakers, business leaders and regional economic planners when making decisions concerning infrastructure investments, trade facilitation, and economic cooperation.

### **Hypotheses:**

The Hypotheses of this study is that the Red Sea corridor is an important channel in international trade, are as follows:

-Economic corridors play positively role in international trade by facilitating good and services movement, enhancing connectivity, reducing Trade costs, and improving logistics efficiency.

-The Red Sea corridor play significantly role in facilitating the of goods Trade.

- The Red Sea corridor play significantly role in facilitating the services Trade.

-The Red Sea corridor play significantly role in attracting foreign direct Investment (FDI).

### **Limitations of the Study:**

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The study is constrained by the quality and availability of trade data in the Red Sea region, especially for less developed nations. Furthermore, certain variables relating to military or political effects may be inaccurate or under-reported due to geopolitical implications. In addition, a lack of access to primary data collection and time constraints may further limit the extent of the case study. In addition, the subject has numerous different dimensions, and it was not possible to explore reasonably all of them, hence the study only delved into three areas, which are Goods, services and foreign direct investment (FDI).

**Methodology Summary:** This study adopts a qualitative approach based on data obtained from international reports, trade databases, and scholarly publications. It includes policy review to evaluate the Red Sea corridor's impact on international trade dynamics.

**Structure of the Study:** This thesis is structured into two main chapters:

**Chapter One:** Theoretical Framework. It covers the foundations of international trade, the concept and characteristics of economic corridors, and a literature review related to trade routes and regional integration.

**Chapter Two:** Applied Study – Red Sea Corridor Case Study. This chapter analyses the strategic importance of the Red Sea corridor in international trade, focusing on trade volumes, service flows, FDI attraction, and the geopolitical and infrastructural challenges it faces. It includes quantitative data to evaluate the corridor's effectiveness.



**Chapter Two:  
Literature review**

## **Chapter Two: Literature review**

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The fundamental ideas of economic corridors and international trade will be defined first in this chapter, along with an outline of their functions in the world economy. Next, it looks at how these two factors relate to one another and how trade flows are affected by economic corridors. Finally, it talks about the main obstacles to the effectiveness of trade in these corridors and possible ways to get past them. The objective in conducting this review is to offer a more profound comprehension of the ways in which economic corridors impact global trade and the elements that contribute to their prosperity

### 1. Definitions of Concepts

Before exploring the relationship between economic corridors and international trade, it is essential to define the core concepts that underpin these ideas. In this section, we will clarify the meaning of economic corridors and international trade, two fundamental components that shape global commerce. Understanding these concepts will provide a solid foundation for analyzing how they interact and influence trade efficiency in the context of regional and global economies.

#### 1.1. Economic Corridors

Economic corridors are specialised, geographically defined areas designed to integrate key components of infrastructure, logistics, and trade policies. According to the Asian Development Bank, to improve the regional and global trade, their primary goal is to expedite the movement of services, capital, and goods across the borders. These channels are essential in emerging economies for detecting trade movements, building trade relationships, and accelerating economic growth. Economic corridors serve as essential catalysts for sustaining economic growth and promoting collaboration among neighboring nations by linking local and regional markets with the global market (Bank A. D., 2014, p. 45).

##### 1.1.1. Key Components of Economic Corridors

Usually, economic corridors have both digital and physical infrastructure:

➤ **Transport Systems:** These include seaports, airports, railroads, and roadways. Trade is greatly aided by effective transportation infrastructure since it lowers the time and expense involved in transferring goods across international borders. For example, roads and railroads link ports and industrial centers, facilitating the flow of goods to global markets. Airports and seaports, on the other

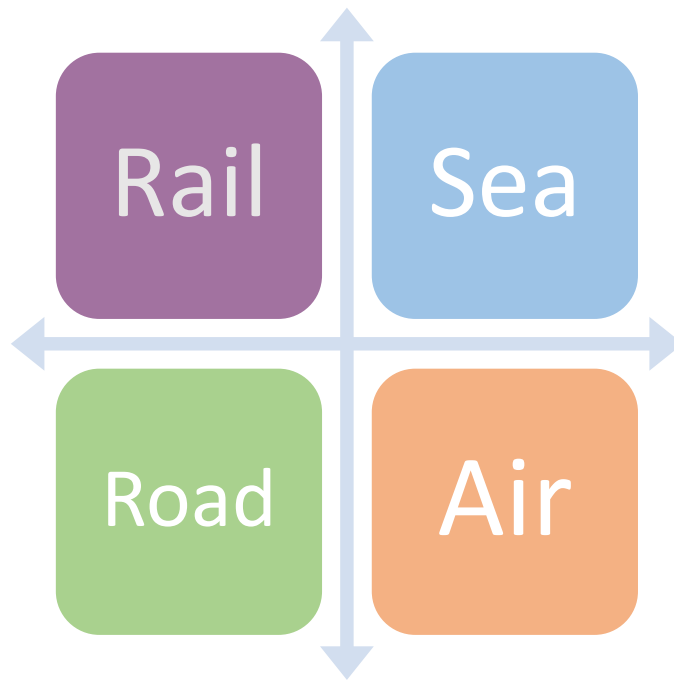
## Chapter Two: Literature review

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hand, promote trade in goods and services by facilitating the movement of people and goods (Bouraoui, 2017, p. 25).

To continue the analysis of infrastructure and technology integration across trade routes, the following figure highlights the design of a smart logistics system applied in economic corridors.

**Figure 1 : Modes of Transportation in Global Trade**



This figure shows the main transport modes—roads, railways, airports, and seaports.

➤ **Logistical Networks:** These includes the systems that manage the flow of goods such as warehouses, freight services, and distribution centers. An essential part of the trade ecosystem, logistics make sure that goods are delivered in time while streamlining the storage and transportation procedures. Logistics in economic corridors can now be used as smart tracking systems, real-time data analytics, and predictive tools to optimize supply chains thanks to advancements in digital technology (Belaidi, 2021, p. 55).

## Chapter Two: Literature review

To add geographical context and a visual snapshot of one of the major Belt and Road Initiative projects, the following map illustrates the route and main components of the China-Pakistan Economic Corridor (CPEC).

**Figure 2 : Smart Logistics System in Economic Corridors**



Conceptual illustration of the logistics system in economic corridors, integrating traditional supply chain elements with digital technologies like smart tracking, real-time data analytics, and predictive tools.

➤ **Digital Networks:** Economic corridors are increasingly integrating digital infrastructure including high-speed internet, telecommunications, and e-commerce platforms. In this technological era, these systems facilitate the global exchange of information and services and allow businesses to coordinate operations across borders more efficiently (Belaidi, 2021, p. 58).

➤ **Energy and Financial Systems:** In order to ensure a continuous supply of energy needed for commercial and industrial operations, economic corridors also include energy infrastructure, such as oil pipelines, electricity grids, and renewable energy sources. In order to support cross-border transactions and investment flows,

## Chapter Two: Literature review

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financial systems such as banking networks, digital payment platforms, and investment regulations are crucial (Mouslim, 2021, p. 25).

Economic corridors serve as highly successful trade and investment channels by bringing together all of these components into a single, easy framework, allowing nations and regions to take advantage of their business advantages. Depending on the geographic setting and the sectors that have priority, these corridors can take many different shapes.

### 1.1.2. Types of Economic Corridors

Economic corridors can be classified into different types based on their structure and the modes of transportation involved. The main categories include:

➤ **Land-Based Corridors:** These corridors connect regions mainly through overland transportation networks, like roads railroads. One well known example for a land-based corridor is the China-Pakistan economic corridor, it improves connectivity between Central Asia, China, and the Arabian sea by connecting the port of Gwadar in Pakistan with the Xinjiang region in China (Sarwar, 2020, p. 120).

➤ **Maritime Corridors:** These corridors facilitate trade between regions by using sea-based routes. A great example the Suez Canal which is one of the greatest maritime roads in the world (Hammad, 2019, p. 60). By creating a direct shipping route between Europe and Asia, it links the Mediterranean Sea and the red sea, greatly cutting down on time travel and costs

To compare strategic waterways connecting Asia, Europe, and Africa, the following map shows the Suez Canal and the alternative pathway around the Cape of Good Hope.

**Figure 3 : Maritime Corridors: Suez Canal vs. Cape of Good Hope**



Source: Based on data from, <https://mykn.kuehne-nagel.com/news/article/suez-canal-vs-cape-of-good-hope-current-situa-21-Dec-2023>, visited 10/04/2025.

The map shows two important maritime corridors: the Suez Canal route and the Cape of Good Hope (Ras El-Radjae El-Salleh) route. It highlights how ships usually pass through the Suez Canal to save time and distance. When that route is blocked or unsafe, ships take the longer way around the Cape of Good Hope. This map helps show how important maritime corridors are for global trade and how disruptions can affect shipping routes and delivery times.

➤ **Multimodal Corridors:** These corridors combine land, sea, and air transportation modes, providing the most flexible and comprehensive infrastructure. For example, a multimodal corridor may combine a railway system, an international airport, and a seaport to create a highly efficient and interconnected trade network. These types of corridors often provide access to a broad range of markets, catering to different industries and sectors (Ali, 2020, p. 135).

### 1.1.3. The importance of Economic Corridors in International Trade

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Economic corridors serve several critical functions within the global economy:

➤ **Streamlining Trade and Reducing Costs:** Economic corridor's main role is to facilitate trade by increasing market access, lowering logistics costs and enhancing transportation effectiveness. Economic routes reduce the obstacles and the delays that can otherwise obstruct trade by creating a single structure that for transportations and logistics that makes it possible for goods and services to travel across borders swiftly and affordably (World Bank, 2016, p. 105).

➤ **Promoting Regional Integration:** By linking adjacent nations and regions, economic corridors promotes regional integration. In addition to fostering trade, this interconnectedness strengthens diplomatic and economic ties, opening doors cooperative ventures, shared infrastructure initiatives, and reciprocal investments (Zahra, 2018, p. 70).

➤ **Increasing Market Access:** Economic corridors open up access to bigger and more varied markets by enhancing transportation systems and connecting remote areas to important economic centers. Smaller or land locked nations that depend on nearby areas for access to global trade routes may find this to be especially advantageous. Domestic companies can grow having access to international markets, which boost imports and exports and attract foreign direct investment (Sharma, 2017, p. 108).

➤ **Facilitating Foreign Direct Investment (FDI):** Economic corridors often attract foreign investors by improving infrastructure and providing easier access to regional and global markets. When regions or countries can offer a streamlined trade and transport system, they become more attractive to international companies looking to expand or set up operations. FDI can bring in capital, technology, and expertise, further driving economic development (Sharma, 2017, p. 110).

### 1.2.1. Economic Corridors and Infrastructure Development

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The ability of economic corridors to promote infrastructure development is among their most important advantages. These corridors serve as investment magnets, especially in areas that might not have had sufficient infrastructure in the past. When a clear route or economic corridors promise efficient trade and increased market access, governments and private investors are more likely to invest in energy, transportation, and communication infrastructure (Zhang, X., & Liu, H., 2019, p. 85).

For instance, through the Belt and Road Initiative (BRI), China has made significant investments to construct infrastructure in various nations, connecting them with a network of ports, roads, and railroads. In addition to enhancing trade and logistics, these investment projects are also assisting in the modernization of infrastructure, which benefits the participating nation's economies (Zhang, X., & Liu, H., 2019).

Furthermore, well-developed infrastructure increases competitiveness by lowering trade and transportation costs. It enables business to operate and thrive, reduces the costs of goods and services for consumers, and enhances the local economy. The construction of reliable energy grids and highways, cutting-edge transit corridors, and intricate financial network systems fortifies the environment required for business to flourish (Lin, 2020, p. 120).

By increasing creativity, lowering transportation costs, and simplifying logistics, economic corridors are created when infrastructure is integrated with digital and transportation systems. Cross-border trade is facilitated by these corridors more quickly and affordably. They also encourage regional integrations, attract foreign direct investment, and boost the general economic of the regions they link. Economic corridors, whether land-based, maritime, or multimodal, continue to be crucial to the global economy because they influence the flow of capital, goods, and services across national boundaries and connect developing markets to international trade networks (Kumar & Mishra, 2018, pp. 35-38).

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The Suez Canal and the Red sea corridor are two examples of strategically significant routes that show how infrastructure investments can affect international trade flows. Yang and Tan (Yang & Tan, 2021, p. 175) stress that nations and regions can open-up new trade opportunities and support global economy growth by concentrating on the creation and optimization of economic corridors.

### 1.2. International Trade

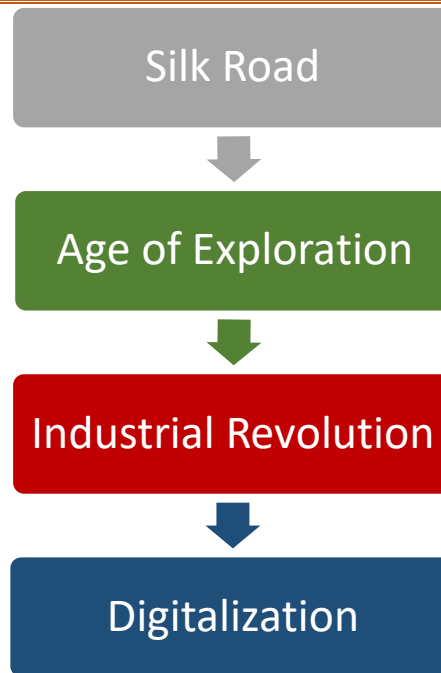
This section, explores the main components of international trade: goods, services, and foreign direct investment (FDI), all of which contribute significantly to the movement of capital, resources, and opportunities across borders.

The exchange of capacities, goods, and services between nations and regions is referred to as international trade. It is an essential part of the global economy, given countries access to market, resources, and technologies they might not have at home. Countries can specialise in producing goods and services where they have a comparative advantages by engaging international trade, which boosts economic growth, creates more job opportunities, and raises living standards (Allais, 2025).

International trade has a long history that dates back to the Silk Road and other ancient networks. It expanded through colonial exchanges during the age of exploration (peter, 2015). Technological developments during the industrial revolution revolutionised trade, and twentieth century brought formalized international trade organizations such as the world trade organization (WTO) (O'Rourke, 2007). Digitalisation is still changing the nature of trade today.

To provide context on the evolution of cross-border commerce, the figure below provides a historical overview of international trade through the ages.

#### **Figure 4 : History of International trade**



This diagram illustrates the major phases in the development of international trade, beginning with ancient trade routes like the Silk Road, progressing through the Age of Exploration and the Industrial Revolution, and culminating in the modern era of digitalization

Trade policies, exchange rates, international arrangements, infrastructure, and political stability are some of the variables that affect international trade. The emergence of globalization, advancements in digital technologies, and improvements in logistics and transportations had all being crucial in growing and improving international trade flows (Yeung, 1967, p. 194).

### 1.2.1. Goods in International Trade

Goods are physical items that are manufactured, traded, and sold internationally most well-known and established type of international trade in the exchange of goods (Krugman, P., & Obstfeld, M., 2018, p. 47). Goods are tangible commodities that are produced, exchanged, and traded globally. Goods trade is the most familiar and oldest form of international trade. They may be intermediates, final goods, or raw materials. They can include manufactured goods like cars, electronics, and textiles, as well as agricultural products like wheat, coffee, and cotton.

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Countries can take advantage of their comparative advantages through trade in goods. A nation with abundant natural resources, for example, might focus on exporting raw materials, whereas a nation with advanced technology might focus on producing and exporting sophisticated machinery. This specialization boosts global efficiency, allowing nations to purchase goods at lower prices than they would if they produce everything domestically (Bhagwati, J., & Panagariya, A., 2018, p. 155).

International trade in goods is crucial for several reasons:

- **Access to a larger variety of products:** Countries can obtain goods through trade that they are unable to produce themselves or that are produced less effectively in their home markets (Helpman, 2014, p. 100).
- **Economic growth and job creation:** Trade in goods boosts the economy and generates employment, especially in sectors like manufacturing, logistics, and services related to exports (Acemoglu, D., & Robinson, J. A., 2012, p. 230).
- **Revenue generation:** Countries can create revenue through exporting goods, which boosts GDP and promotes economic growth. Export earnings are frequently used to fund technological advancements, infrastructures, and other national development initiatives (Edwards, 2015, p. 115).

International organisations like the WTO play a major role in regulating global trade in goods. They strive to make trade flows and equitable as possible by lowering trade barriers and tariffs that might prevent the exchange of goods (Garcia, 2018, p. 55).

### 1.2.2. Services in International Trade

In addition to goods, services account for a sizable portion of global trade. Services are intangible goods that are offered to clients and businesses without requiring the production or sale of tangible goods. Finance, tourism, consulting, technology, and education are few industries that provide services for international trade.

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Due to increased globalisation of trade, the growth of digital economy, and technological advancements, service trade has increased dramatically over the past few decades. There are several ways to trade services (Hoekman, B., & Mattoo, A., 2019, p. 130):

➤ **Cross-border trade:** It entails the transfer of services, such as teaching, financial consulting, or software programming, from one nation to another (Organization, 2021).

➤ **Consumption abroad:** This happens when customers travel to another country to use services, such as when tourists go somewhere or international students attend universities abroad. (Organization, 2021).

➤ **Commercial presence:** This is when foreign businesses, like multinational banks or law firms, establish branches or subsidiaries in another country to offer services. (Organization, 2021).

➤ **Movement of natural persons:** This describes the temporary movement of individuals for the purpose of providing services, such as business professionals or healthcare workers providing services overseas.

The growing importance of services in international trade reflects several key trends (Lee, 2019, pp. 80-82):

➤ **Technological advancement:** The service industry has undergone a revolution thanks to the development of the internet and digital platforms, which have made cross-bordered services delivery and consumption simpler. For instance, digital media, financial transactions, and software services are now readily available from any location in the world (Lee, 2019).

➤ **Economic diversification:** As more nations transition to new, knowledge-based economies, trading services has emerged as a crucial means for them to diversify their economies and lessen their reliance on one or more established sectors (Lee, 2019).

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➤ **Global value chains:** As a component of a larger global value chain, international services trade is essential to many global industries, including technology, finance, and health. For example, a U.S. technology company might contract with a call center in India to handle customer support, establishing a multi-country integrated service network (Lee, 2019).

The WTO's General Agreement on Trade in Services (GATS), which attempts to create a worldwide framework for the regulation and liberalization of services trade, is one of the agreements that regulate the trade in services.

### 1.2.3. Foreign Direct Investment (FDI) in International Trade

A foreigner investing in assets, companies, or projects based in another country is known as foreign direct investment, or FDI.

FDI is essential to international trade because it makes it easier for money, technology, and experiences to move between countries (Mouslim, 2021, p. 98). . It can take different forms, with local businesses purchasing already-existing businesses, or creating subsidiaries.

In the context of economic corridors, where enhanced connectivity and infrastructure attract foreign investments, FDI is especially relevant. Economic corridors allow multinational corporations to establish bases in regions with establishes trade flows, stable infrastructure, and favorable regulatory environments (Cheng & Kwan, 2018, pp. 50-55-60). The presence of FDI boosts trade flows by (see figure 06):

- **Expansion of production capacities:** The establishment of manufacturing or processing facilities that produce goods for both the local and international markets is frequently the result of foreign investments in a nation. Because goods are produces and exported from the host nation, this boosts trade volumes in addition to local economic growth (Bank W. , 2020).
- **Enhancing technology transfer:** Local businesses benefits from new technology and management expertise brought in by FDI, which could raise

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productivity and product quality. Local businesses may become even more competitive in the global market result (Lall, 2004)

➤ **Creating jobs:** The existence of foreign investors may also act as a positive indicator to draw in more foreign businesses and investment to the nation. This starts a positive cycle of investment, growth, and increased international trade (OECD, 2020).

➤ **Drawing other investments:** the existence of foreign investors may also act as a positive indicator to draw in more foreign businesses and investment to the nation. This starts a positive cycle of investment, growth, and increased international trade (OECD, 2025).

To consider the interplay between investment and cross-border commerce, the figure below describes the relationship between Foreign Direct Investment (FDI) and international trade flows.

**Figure 5 : The Impact of Foreign Direct Investment (FDI) on Trade Flows**



This figure demonstrates how FDI contributes to economic growth by expanding output, fostering job creation, transferring technology, and attracting additional investment.

FDI is a crucial tool for global economic integration. Because it frequently results in the development of new markets, trade routes, and funding sources, it enhance trade in goods and services. Political stability, economic policies, market size, labor costs, and access to trade networks are some of the factors that affect the flow of foreign direct investment (FDI) (Cheng & Kwan, 2018, p. 75).

In conclusion, international trade is a complex idea that includes services, foreign direct investments (FDI), and the exchange of material goods. While FDI is essential to improving trade flows by bringing in capital, technology, and expertise, trade in goods and services enables countries to specialize, lower costs, and access a wider range of products and resources. Together, these elements influence how

international trade works, promoting regional integration, economic growth, and chances for innovation and advancement in a worldwide marketplace.

### **2. Relationship Between Economic Corridors and International Trade**

International trade and economic corridors are related, and trade is greatly facilitated by economic corridors. By attracting infrastructure, regulatory frameworks and supply chains, economic corridors make it easier to move capital, goods, and services across international borders. They are important determinants of the dynamics of international trade because they improve flows, increase connectivity, and lower trade barriers (Asian Development Bank, 2014, p. 78).

This relationship can be understood in several key ways, as outlined below:

#### **2.1. Infrastructure Development and Trade Efficiency**

Economic corridors place a strong emphasis on the construction and improvement of infrastructure, including energy supplies, digital connectivity, and transportation networks (roads, railroads, seaports, and airports). International trade depends on the seamless flow of goods and services, which is largely dependent on the existence of strong and effective infrastructure.

##### **2.1.1. Transport Connectivity:**

Cross-border trade benefits from the development of transportation networks in the economic corridors. For instance, efficient cross-country rail and road connection make it simpler to move goods. The nation's value in international trade has increased as a result of the more competitive movement of goods in terms of time and cost (Li & Wang, 2020, p. 172).

##### **2.1.2. Port Infrastructure:**

Ports are essential components of the world's economy. Economic corridors with important ports, such as the red sea corridors newly added Suez Canal, improve shipping vessels access to markets. Modern port infrastructures effective customs

procedures, and improved trade facilitation can all significantly increase trade (Jensen & Taylor, 2019, p. 126).

### **2.1.3. Digital Infrastructure:**

The establishment of specially designed digital networks that improve process automation, supply chain monitoring, and logistics simplification is also taken into consideration by economic corridors. International trade is completed faster and cheaper when trade processes like e-trade, marketing, and document filing are automated (Bhattacharyay, 2021, p. 156).

## **2.2. Reduced Trade Barriers and Facilitation of Cross-Border Transactions**

One of the primary benefits of economic corridors is the reduction of trade barriers, which include tariffs, regulatory barriers, and customs procedures. Economic corridors enable easier cross-border interactions by aligning trade policies and regulations.

### **2.2.1. Harmonized Trade Policies:**

Countries are frequently encouraged to harmonize their trade laws, rules, and standards by economic corridors. This can involve shared regulatory frameworks, streamlined customs processes, and agreements on tariff reduction. For instance, the integration of nations along the Belt and Road Initiative (BRI) corridor has made doing business easier and reduced trade barriers (Kawai & Wignaraja, 2019, p. 130).

### **2.2.2. Simplified Customs Procedures:**

Economic corridors are typically linked to better customs processes because they facilitate trade effectively. By reducing delays at ports and borders, this encourages quicker movement of goods between nations. The efficiency of international trade is increased when there is a common customs agreement in place because it significantly lowers transaction costs (Zhang & Zhao, 2020, p. 59).

## **2.3. Enhanced Market Access and Trade Volume**

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By linking various economic hubs, geographical areas, and even a nation's domestic markets, economic corridors make it easier to access global markets. Their market prominence is increased by these corridors, which provide access to bordering countries and neighboring markets that foster trade.

### **2.3.1. More Accessibility to Markets:**

Economic corridors improve connectivity by bringing a variety of infrastructure developments. Through the East African Corridor, borders are opened to international trade, particularly for landlocked nations like Rwanda, Burundi, and Uganda, which promotes trade in these nations and maintains the global flow of goods (Oumarou, 2019).

### **2.3.2. Easier Trade:**

As a result of greater globalization, these corridors increase the volume of goods and services traded between the participating nation. The development of faster and more efficient means of moving goods and services reduces logistical costs and greatly aided trade. The growth in intraregional maritime and energy export trade that flows through the Suez Canal, which connects different regions in the world is a prime example (Development, 2024).

## **2.4. Attraction of Foreign Direct Investment (FDI)**

Apart from their importance for trade routes, economic corridors help to draw foreign direct investment (FDI). Improved logistics, better infrastructure, and a more enticing atmosphere for foreign investors through the removal of trade barriers FDI contributes to the development of industries and services that boost global trade

### **2.4.1. FDI as a catalyst for trade Expansion:**

By bringing capital, technology, and experience, foreign direct investment (FDI) helps to boost trade by increasing the productivity of industries like manufacturing, logistics, and financial services. For instance, significant foreign direct investment (FDI) has increased trade opportunities in countries along the China-Pakistan

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Economic Corridor (CPEC), especially in sectors like manufacturing, logistics, and energy (Okumu & Nkuna, 2019, p. 218).

### **2.4.2. Creating business opportunities:**

The development of industrial parks, special economic zone, and logistical hubs that support trade and investment is encouraged by the expansion of economic corridors. These initiatives improve the region's overall competitiveness, create jobs opportunities, and improve infrastructure (Lim & Patel, 2019, p. 127).

## **2.5. Regional Economic Integration and Cooperation**

Greater regional economic integration is facilitated by economic corridors, which encourage collaboration among participating nations. Through the creation of a more interconnected economic region, this integration facilitates the sharing of resources, joint ventures, and knowledge, all of which enhance international trade.

### **2.5.1. Regional Cooperation:**

Bilateral and multilateral agreements promoting trade and financial cooperation are frequently entered into by nations that share economic corridors. For example, the Association of Southeast Asian Nations, or ASEAN, has established economic corridors that facilitate infrastructure projects, free trade agreements, and cross-border cooperation, thereby boosting regional trade flows (Hufbauer & Schott, 2015, p. 115).

### **2.5.2. Synergies in Trade Relations:**

The integration of businesses in the economic corridor countries leads to increased economies of scale, better resource management, and more effective trade allocation. This collaboration contributes to increasing the amount and diversity of trade between participating countries (Roberts & Smith, 2019, p. 186).

## **2.6. Promoting Trade in Services**

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Economic corridors facilitate trade in services, such as digital services, telecommunications, finance, and tourism, in addition to goods. Economic corridors facilitate cross-border service movement by enhancing connectivity and establishing effective trade networks.

### **2.6.1. Digital and Financial Services:**

Trade in services like IT, telecommunications, and financial services is improved as economic corridors are constructed around digital infrastructure more and more. For instance, creating digital corridors can make it easier for information, software, and services to move around, opening up new markets for digital goods (Martin, 2018, p. 92).

### **2.6.2. Tourism and Cultural Exchange:**

Cross-border economic corridors frequently encourage travel and cross-cultural interactions. The growth of transportation systems and tourism infrastructure increases tourism flows, which have a major impact on the economy and global service trade (Lang & Wilson, 2021, p. 25).

Economic corridors have strategic importance in international trade because they promote regional economic integration, lower trade barriers, build infrastructure, attract foreign direct investment, and open markets. These economic routes facilitate the efficient and timely cross-border movement of capital, goods, and services. On a global level, trade becomes very easy, affordable, and accessible. Economic Corridors and International Trade are closely related because they are mutually dependent. As nations become more developed, it is also observed that they are creating and innovating these economic corridors, which is a definite sign that these nations are ready for the future. We can undoubtedly draw the conclusion that the growing use of global trade networks will lead to an increase in trade efficiency and economic growth accompanied by global partnerships on an international scale.

## **3. Challenges in Enhancing Trade Efficiency in Economic Corridors**

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Even though corridors play a vital role in regional and global economic development, issues with infrastructure, security, governance, policies, and cross-border cooperation often limit their potential. By addressing these problems, we can encourage international trade through economic corridors and improve sustainable economic development we can boost foreign trade through economic corridors and make economic growth more stable by tackling these issues. Some of the main obstacles to improving trade efficiency in economic corridors are listed below.

Below are some of the primary challenges faced in enhancing trade efficiency in economic corridors:

### 3.1. Infrastructure Limitations

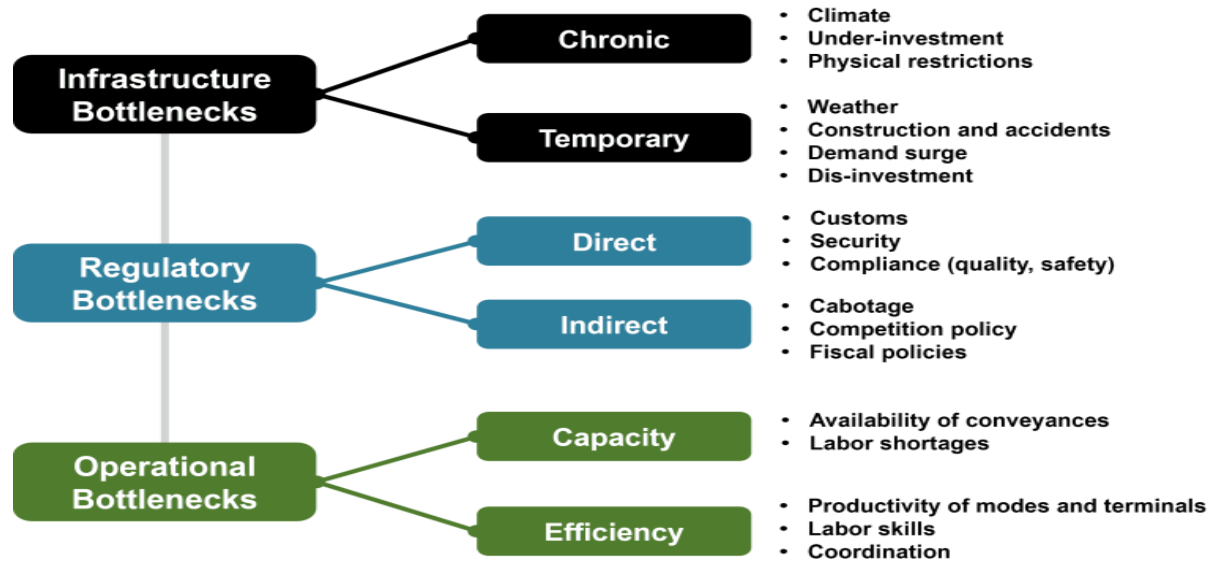
Despite the substantial investments in infrastructure that economic corridors often attract, many corridors still face significant gaps in critical infrastructure such as transport networks, energy supply systems, and digital infrastructure.

#### 3.1.1. Transport Bottlenecks:

The insufficient or ineffective transportation systems that continue to afflict many economic corridors are one of the main obstacles. For instance, the movement of goods can be considerably slowed down by port congestion, badly maintained roads, and rail systems that are not interconnected. Poor connectivity to inland areas and neighboring countries can limit trade potential even in corridors with sophisticated transportation infrastructures (Zhang & Wang, 2021, p. 120).

The following figure groups added bottlenecks that can obstruct trade efficiency to understand the typical vulnerabilities faced.

Figure 6 : Types of Bottlenecks



Source: Data from, <https://transportgeography.org/contents/chapter2/transport-and-spatial-organization/bottlenecks-types-transportation/>, visited 15/04/2025.

Transportation bottlenecks are divided into three primary categories in this diagram: operational, regulatory, and infrastructure. Physical limitations like old bridges, constrained roads, or inadequate port and terminal facilities are referred to as infrastructure bottleneck. These can be made worse by weather and environmental factors. Ineffective system management practices, such as inadequate coordination, postponed maintenance, and a lack of personnel or equipment, are example for operational bottleneck. institutional and policy constraints that restrict the flow of goods and carriers across borders, such as cabotage laws, customs procedures, and restrictive fiscal policies, are the root cause of regulatory bottlenecks. The effectiveness, dependability, and competitiveness of global trade corridors are all greatly impacted by these bottlenecks taken together.

### 3.1.2. Energy and Utilities:

Energy infrastructure is still unreliable and underdeveloped in many developing nations, which can interfere with trade and industrial production. In industrial zones or economic hubs, a lack of dependable water supplies, electricity, or other essential

utilities can deter trade-related investments and lower the competitiveness of areas within economic corridors (International Energy Agency, IEA, 2020, p. 37).

### **3.1.3. Digital Connectivity:**

Even though the importance of digital infrastructure for economic corridors is becoming more widely acknowledged, many areas still lack adequate internet access, platforms for exchanging data, and technological capacity. Lack of a strong digital infrastructure can make it more difficult for services like digital trade, financial transactions, and communication to flow freely in today's digital economy (International Energy Agency, IEA, 2020, p. 38).

## **3.2. Security Concerns**

Security issues, including geopolitical instability, conflicts, and criminal activities such as piracy and smuggling, pose significant threats to the efficiency of economic corridors.

### **3.2.1. Geopolitical Instability:**

Many economic corridors particularly those that pass through politically sensitive or conflict-prone areas, are vulnerable to geopolitical tensions. Trade, transit delays, and the cost of shipping goods can all be negatively impacted by unrest in neighboring countries. The Red Sea Corridor is affected by conflicts in the horn of Africa and the Arabian Peninsula. A crucial maritime route, the Bab el-Mandab strait, is now unsafe and threatened by piracy as a result of these conflicts (Shaw, 2019, p. 186).

### **3.2.2. Piracy and Criminal Activities:**

In maritime corridors like the Horn of Africa and the Gulf of Aden, piracy continues to pose a serious security threat. The risk of piracy not only drives up shipping costs but also deters businesses from utilizing specific trade routes. Additionally, the presence of organized crime groups can result in smuggling corruption, and illegal

trade all of which undermine the effectiveness of trade laws and obstruct economic expansion (Brown, 2017, p. 112).

### **3.2.3. Terrorism and Armed Conflict:**

Armed conflicts and terrorist attacks along trade routes have the potential to disrupt operations, result in fatalities, and destroy vital infrastructure. Certain areas of insecurity can make it harder to draw in investments and increase the risks for companies that depend on the stability of economic corridors to operate (Brown, 2017, p. 112).

### **3.3. Regulatory and Policy Barriers**

Despite efforts to harmonize trade policies and reduce barriers, discrepancies in national regulations, customs procedures, and standards continue to hamper the smooth flow of goods and services across borders.

#### **3.3.1. Customs and border procedures:**

Even though some economic corridors prioritize expediting customs processes, bureaucratic inefficiencies, delays, and uneven enforcement of regulations continue to plague many border crossing points. These inefficiencies can make trade more expensive and time-consuming, which lowers the corridor's ability to compete. Trade flows may become tense due to complicated customs paperwork, disparate import/export regulations, and uneven tariff structures (World Bank Group, 2018, p. 18).

#### **3.3.2. Divergent national policies:**

Even within the same economic corridor, national policies on trade, investment, and economic cooperation frequently diverge. Taxation, labor, and environmental policies among nations in an economic corridor can make trade operations more difficult and impede trade integration. Bringing these policies into harmony is frequently a difficult undertaking that calls for a great deal of political will and collaboration (Davis & Lee, 2021, p. 73).

### **3.3.3. Regulatory Overlap and Conflicts:**

Businesses operating within economic corridors may experience confusion and inefficiencies due to the overlap of local, regional, and international regulations. Different national laws can impede the free flow of capital, goods, and services, making compliance difficult and raising operating expenses (Davis & Lee, 2021, p. 78).

### **3.4. Environmental and Social Concerns**

The growth and effectiveness of economic corridors are also hampered by concerns about social justice and environmental sustainability.

#### **3.4.1. Environmental Impact:**

There may be negative environmental effects from large-scale infrastructure projects like port expansion, industrial development, and road construction that take place within economic corridors. The rapid development of trade routes may lead to environmental challenges such as deforestation, pollution, habitat destruction, and increased carbon emissions. Long-term viability of economic corridors depends on striking a balance between environmental sustainability and economic development (Harris, 2019, p. 61).

#### **3.4.2. Social inequality and displacement:**

In order to create economic corridors, local communities must frequently be uprooted, particularly in rural areas, to make room for infrastructure projects. Tensions between local populations and governments, poverty, and social unrest can all result from this displacement. To prevent social inequalities, it is crucial to make sure that the advantages of economic corridors are distributed fairly among all parties involved (Moore & R, 2020, p. 127).

#### **3.4.3. Cultural Sensitivity and Inclusivity:**

Local customs, traditions, and lifestyles must be carefully taken into account when establishing economic corridors in areas with a variety of cultures, languages, and

social structures. Corridor development projects may encounter opposition and backlash if local communities are not involved or cultural sensitivities are not taken into consideration (Moore & R, 2020).

### **3.5. Coordination and Governance Challenges**

For economic corridors to be developed and run successfully, countries and stakeholders must coordinate and exercise effective governance. However, a lack of coordination among the parties involved and inadequate governance structures plague many corridors:

#### **3.5.1. Fragmented Governance:**

Economic corridors frequently cross several nations, each with its own legal system, government, and decision-making procedures. Delays, disputes, and ineffective trade flow management can result from this fragmentation. It can be difficult and time-consuming to coordinate infrastructure projects, harmonize policies, and resolve disputes across international borders (O'Connor, 2020).

#### **3.5.2. Corruption and Lack of Transparency:**

In certain areas, the efficiency of economic corridors may be compromised by corruption in governmental organizations and oversight bodies. Project implementation delays, higher expenses, and the diversion of funds meant for development are all consequences of corruption. For economic corridors to function successfully, accountability and transparency are essential (O'Connor, 2020).

#### **3.5.3. Lack of Stakeholder Engagement:**

For economic corridors to operate as efficiently as possible, governments, corporations, local communities, and international organizations must work together effectively. Stakeholder engagement is frequently lacking, though, which breeds mistrust and competing interests. In order to address their concerns and guarantee the long-term success of these projects, stakeholders must be involved in the planning and execution of economic corridors (Bignoli, 2022).

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In conclusion, despite the fact that economic corridors can greatly improve trade efficiency and promote economic growth, a number of obstacles stand in the way of their full potential. These difficulties cover a wide range of topics, including governance shortcomings, regulatory obstacles, environmental effects, infrastructure constraints, and security worries. Governments, corporations, international organizations, and local communities must work together to address these issues. Economic corridors can realize their full potential in supporting international trade and economic integration by strengthening governance, promoting environmental sustainability, harmonizing trade policies, improving infrastructure, and boosting security.

### 4. Previous studies

Going over earlier research on economic corridors and their function in global trade in this section. Highlighting previous results, approaches, and constraints that guide the current study is the goal. Through the analysis of these works, it points out areas that require more research, especially in relation to the Red Sea Corridor. The basis for gaining a more thorough grasp of the research gap is this review.

#### 4.1. Similar studies

This section summarizes earlier research on international trade and economic corridors. It displays what has already been discovered as well as any gaps that remain. This clarifies why the research on the Red Sea Corridor is necessary.

##### 4.1.1. Studies related to economic corridors in general

These are some related studies that examine economic corridors in general:

- **Economic corridors and regional trade integration: Evidence from South Asia.**

With an emphasis on South Asia, the (De, 2022) study looks at how economic corridors lower trade costs and improve logistics effectiveness. By enhancing

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transportation networks and lowering administrative obstacles, the authors demonstrate how land-based and maritime corridors facilitate trade. The China-Pakistan Economic Corridor (CPEC) is a prime example of how infrastructure investments foster regional cooperation and trade flows. Although the study highlights issues in emerging economies, like poor connectivity, it comes to the conclusion that corridors greatly reduce logistical costs and boost competitiveness.

### **➤ Infrastructure Development and Economic Growth: The Role of Economic Corridors in Asia and Africa**

In this research, Fernando and Jha examined the role of economic corridors in promoting infrastructure development and economic integration, particularly in Asia and Africa. The goal of the study was to determine how trade and regional cooperation could be promoted by increasing connectivity through economic corridors. According to the study, regional trade and economic integration are significantly hampered by a lack of connectivity and infrastructure, particularly in less developed areas. The authors came to the conclusion that significant investments in infrastructure, like those made by the Belt and Road Initiative (BRI), have promoted economic growth in Asia, Africa, and Europe and greatly enhanced regional connectivity. They emphasized the Red Sea corridor in particular, stressing its value in connecting Africa to international markets and promoting trade and foreign direct investment (FDI) in the area. The study underlined that one of the main forces behind regional integration and sustainable economic growth is the construction of infrastructure via economic corridors (Fernando & Jha, 2021)

#### **4.1.2. Studies related to the Red Sea in general**

These are some related studies that examine the Red Sea economic corridors in general:

### **➤ The Red Sea's role in connecting Africa, Asia and Europe: Trade facilitation and logistics challenges**

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The Red Sea's vital role in establishing trade networks between three continents is examined in this study by Miroudot (2021). Port inefficiencies are one of the main issues identified by the study; on average, cargo dwell times in regional ports are 5-7 days, while in global hubs they are 1-2 days. It was discovered that along this corridor, political unrest raised shipping costs by 12–18%. On the other hand, the study estimates that putting in place single-window systems could cut border delays by 40%, highlighting important opportunities through digital trade facilitation. The author highlights that increased regional cooperation between Red Sea states could lead to \$15–20 billion in potential annual trade (Miroudot, 2021).

### **➤ Maritime networks and regional trade: The Red Sea corridor in global context**

Outdated port facilities raise shipping costs by 18%, according to Ducruet's (2020) mapping of the Red Sea's trade networks. The report promotes AI-driven logistics to combat piracy threats and suggests public-private partnerships to finance port upgrades (Ducruet, 2020)

### **4.1.3 Studies related to the Red Sea in specific**

These are some related studies that examine the Red Sea economic corridors in specific:

### **➤ The Red Sea corridor: Geopolitical risks and trade resilience**

The significance of the Red Sea as a vital trade route connecting Europe, Asia, and Africa is examined by Hesse and Rodrigue (2023). The study identifies geopolitical risks that affect shipping routes and raise insurance premiums, such as political unrest and piracy. The Suez Canal, which handles 12% of world trade, is still essential for international trade in spite of these obstacles. To reduce risks and preserve the corridor's functionality, the authors support improved security protocols and infrastructure improvements (Hesse & Rodrigue, 2023)

### ➤ **The Suez Canal as a global trade chokepoint: Risks and resilience strategies**

Wilms Meier and Notteboom (2022) evaluate the security risks and overcapacity of the Suez Canal. Systemic risks were exposed by the 2021 blockage incident, which resulted in a daily trade loss of \$9.6 billion. The study makes the case for diversification (such as Arctic routes), but it comes to the conclusion that continuous infrastructure modernization is necessary due to the Canal's strategic importance, particularly for oil shipments (Wilmsmeier & Notteboom, 2022)

#### **4.2. Research gap**

Economic corridors are essential for improving regional trade integration, reducing trade costs, and accelerating infrastructure development, according to recent studies. For example, De (2022) highlights how South Asian land-based and maritime corridors, like the China-Pakistan Economic Corridor, reduce bureaucratic and transport inefficiencies to improve competitiveness and streamline logistics. In a similar vein, Fernando and Jha (2021) emphasize how significant infrastructure projects like the Belt and Road promote regional connectivity and economic growth throughout Asia and Africa, paying special attention to the Red Sea corridor's role in attracting foreign direct investment and opening up markets. Several studies highlight the strategic importance and operational difficulties of the Red Sea in particular. Whereas Wilmsmeier and Notteboom (2022) address the systemic vulnerabilities of the Suez Canal and argue for infrastructure modernization, Hesse and Rodrigue (2023) examine geopolitical threats such as political instability and piracy that undermine trade resilience. Both Ducruet (2020) and Miroudot (2021) highlight inefficiencies in regional ports and highlight the potential benefits of digital solutions and AI-driven logistics. When taken as a whole, these studies highlight the need for consistent investment and collaboration to guarantee the efficiency and safety of economic corridors, particularly those with global trade importance like the Red Sea.

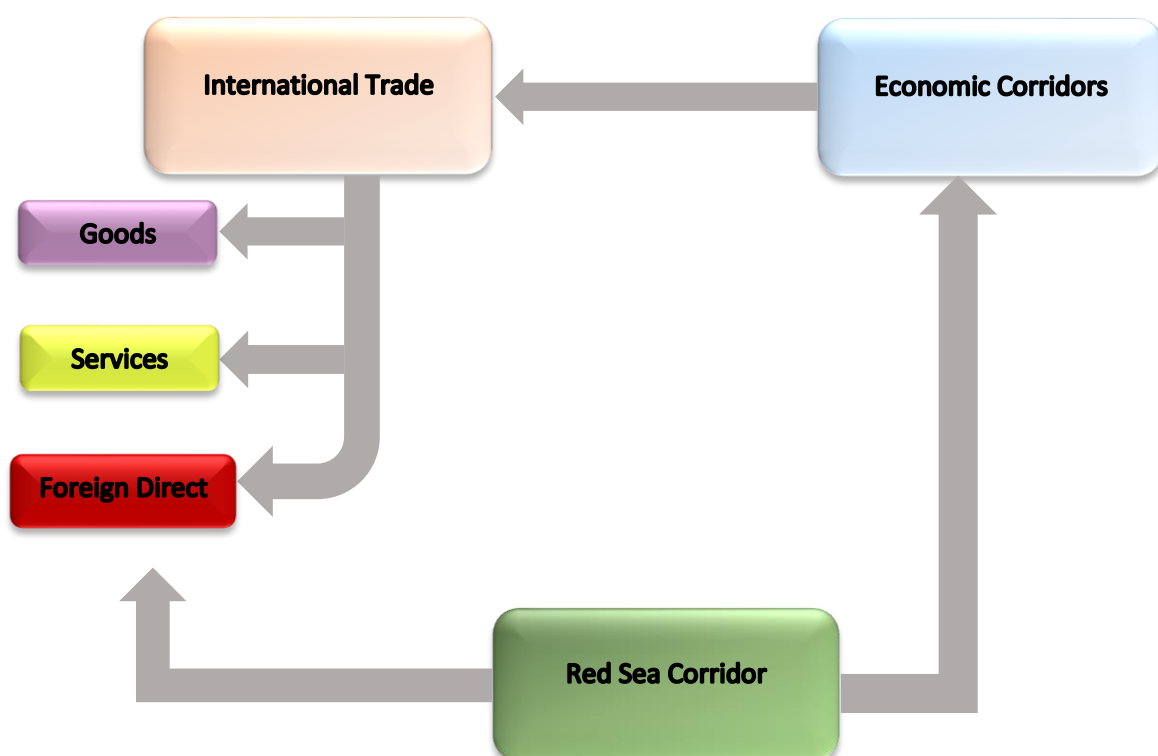
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There is still a clear lack of information regarding the precise economic effects of the Red Sea corridor on trade in goods, trade in services, and foreign direct investment (FDI), despite the growing body of research on the importance of economic corridors. Without breaking down the various elements of global trade or carefully examining the connection between corridor development and FDI attraction, the majority of previous studies have generalized the role of the corridor in increasing trade.

Therefore, by offering a targeted analysis of how the Red Sea corridor affects the flow of goods, services, and foreign direct investment, this study aims to close this gap. The current study attempts to provide insightful information for investors, policymakers, and regional planners by focusing on this particular dimension. This will help them make well-informed decisions about infrastructure development, trade facilitation, and regional economic cooperation.

To clarify the analytical framework in the study, the following figure provides the proposed study model depicting the main variables and their relationships.

**Figure 7 : The Study Model**



The thesis's central idea (how the Red Sea economic corridor promotes global trade in goods, services, and foreign direct investment (FDI)), is summed up in this figure. It illustrates how the corridor contributes to increased trade by visually connecting these important components, In this context, the Red Sea economic corridor is the independent variable, global trade is the dependent variable, and goods, services, and FDI represent the key dimensions of international trade.

### Summary of the Chapter

The fundamental ideas of international trade and economic corridors have been covered in this chapter, along with how they are interconnected and how they influence world trade. Economic corridors are essential for enabling the effective flow of capital, goods, and services across international borders since they combine trade policies, logistics, and infrastructure. These corridors contribute to the simplification of the global supply chain, which in turn stimulates economic growth and international trade by improving connectivity, lowering trade barriers, and encouraging regional cooperation.

It talks about the key elements of global trade, such as products, services, and foreign direct investment (FDI), all of which are necessary for economic corridors to operate. While FDI acts as a catalyst for infrastructure investment and regional economic development, the movement of goods and services between nations is becoming more and more reliant on well-established corridors.

Economic corridors have potential, but a number of obstacles prevent them from operating to their full potential. Infrastructure constraints, security issues, ineffective regulations, environmental effects, and governance problems are some of these difficulties. Addressing these barriers is essential for optimizing the efficiency of economic corridors and ensuring that they continue to foster trade and economic integration.

It will delve deeper into the particular instance of the Red Sea corridor and its crucial function in global trade in the upcoming chapter, stressing both its strategic significance and the difficulties it faces. We can more accurately evaluate economic corridors' potential to stimulate global economic growth and enhance regional and international trade efficiency by comprehending these dynamics.

## **Chapter Two: Literature review**

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In addition, this chapter also investigated a number of previous literature regarding international trade and economic corridors, highlighting both important contributions and elements missing from the literature. Certainly, this revealed some clear gaps of research which will be examined in the next chapters through an in-depth analysis of the Red Sea corridor.



# **Chapter three: The role of the red sea in facilitating International Trade**

An overview of economic corridors and their function in global trade was given in Chapter One. It was determined that in order to improve connectivity, lower trade barriers, and foster regional economic growth, economic corridors combine logistics, infrastructure, and trade policies. The chapter also emphasized the importance of goods, services, and foreign direct investment (FDI) in global trade, as well as how these elements are interdependent with economic corridors. But obstacles like inadequate infrastructure, ineffective regulations, and security threats can prevent them from reaching their full potential.

Building on this framework, Chapter Two explores the Red Sea Corridor, which connects Europe, Asia, and Africa and is one of the most important trade routes in the world. Due in large part to the Suez Canal, which handles 10–12% of global trade, including 30% of container traffic, the Red Sea is strategically significant (UNCTAD, 2023). In addition to supporting trade in services like shipping, logistics, and financial intermediation, the corridor serves as a major route for the transportation of manufactured goods, agricultural products, and oil (4.6 million barrels per day) (Administration, 2023).

This chapter is divided into four main sections:

an overview of the geographic, and strategic importance of the Red Sea corridor is given at the beginning, followed by an analysis of the flow and makeup of goods traded through the corridor, a look at the major service sectors and how they are integrated throughout the region, and a conclusion that assesses the corridor's ability to draw in foreign direct investment, emphasising the effects of regional conflicts and infrastructure development on investment trends.

### **1. Overview The Red Sea Corridor**

The Red Sea Corridor is a vital trade route that uses the Suez Canal to link the Indian Ocean and the Mediterranean Sea. It lies between the Arabian Peninsula and northeastern Africa. This corridor involves numerous nations, including Saudi

## The Role of The Red sea in facilitating international trade

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Arabia, Yemen, Egypt, Sudan, Eritrea, and Djibouti. Its location will be discussed, the surrounding nations, and the various programs and development projects in this section.

### 1.1. Location and Geographic Importance

The coastlines of the following Dugong Range States, arranged anticlockwise from the border with Somalia, encircle the Red Sea proper: Yemen, Saudi Arabia, Egypt, Sudan, Djibouti, and Eritrea. While the Gulf of Aqaba is bounded by Saudi Arabia, Egypt, Palestine, and Jordan, the Gulf of Suez and the Suez Canal are entirely within Egyptian territorial waters (Schramm, 2024).

The Red Sea is geographically bounded by nine nations and is distinguished by a large number of islands, shoal systems, and coastal lagoons. The Sinai Peninsula divides it into the Gulf of Aqaba and the Gulf of Suez at its northernmost point. A line that runs from Ras Muhammad ( $27^{\circ}43'N$ ) to Shadwan Island's southernmost point ( $34^{\circ}02'E$ ) and then westward along the  $27^{\circ}27'N$  parallel to the African coast defines the northern boundary of the Red Sea (Najeeb M.A. Rasul, 2015). It also includes a line that runs southwest from Ras al Fasma to Requin Island ( $27^{\circ}57'N$ ,  $34^{\circ}36'E$ ), then west along  $27^{\circ}54'N$  to the Sinai Peninsula coast after passing through Tiran Island to its southwest point. A line connecting Ras Siyyan ( $12^{\circ}29'N$ ,  $43^{\circ}20'E$ ) and Husn Murad ( $12^{\circ}40'N$ ,  $43^{\circ}30'E$ ) denotes the southern boundary.

To give geographical context to the study, the next map shows the region of the Red Sea and surrounding trade routes.

Figure 8 : The Red Sea Map



Source: data from, <https://www.nationsonline.org/oneworld/map/Red-Sea.htm>, visited (10/05/2025).

The nations that border the Red Sea are depicted on this map, including Saudi Arabia, Yemen, Egypt, Sudan, Eritrea, and Djibouti. Major maritime checkpoints like the Suez Canal and Bab el-Mandab strait are highlighted, along with the Red Sea's major geographic divisions like the Gulf of Suez and the Gulf of Aqaba. These characteristics highlight the Red Sea's vital role as a commercial and strategic route that links the Mediterranean Sea to the Arabian Sea and the Indian Ocean.

## **The Role of The Red sea in facilitating international trade**

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The red sea is a vital route for international maritime trade because of its advantageous location between the Arabian Sea (through the Bab el-Mandab strait) and the Mediterranean Sea (through the Suez Canal). As a gateway between Europe and Asia, the Bab el-Mandab is only 29 kilometers wide at its narrowest point. The Suez Canal, which runs directly from the red sea to the Mediterranean at its northern end, account for 12-15% of the world's maritime trade, which includes 8% of the LNG and roughly 9% of all seaborne oil (Administration, 2023).

Around 1.32 billion tonnes went through the Suez Canal in 2022, bringing in over 10.25 billion dollars for Egypt (news, 2024). These figures highlight the significance of the red sea as a vital conduit for global trade, particularly in the exchange of raw materials, energy, and containerized goods, in addition to serving as a geographical link between the three continents of Africa, Asia, and Europe

### **1.2. Countries Involved and Key Ports**

Eight strategically important nations Egypt, Sudan, Eritrea, Djibouti, Saudi Arabia, Yemen, Jordan, Palestine (called Israel) border the red sea economic corridor. These countries are home to vital maritime infrastructure that supports global trade, as well as coastlines along the red sea or its two main northern extensions, the Gulf Suez and the Gulf of Aqaba.

Egypt runs important ports on the western coast, including port said and port Sokhna, which are both part of the Suez Canal economic zone (SCZONE). With 107 billion dollars in foreign direct investment (FDI) projects in 2022, including green hydrogen megaprojects (today, 2023), this zone is essential to Egypt's goal of becoming a global logistics hub.

The port of Sudan handles about 5 million tonnes of cargo a year, making it the nation's main maritime outlet, with a capacity of about 2 million tonnes, Eritrea's Massawa port facilitates both its naval logistics and trade (insight, 2023).

## **The Role of The Red sea in facilitating international trade**

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With the Jeddah Islamic Port alone handling 130 million tonnes of cargo and more than 7.5 million TEUs a year, Saudi Arabia controls the majority of maritime trade on the eastern shore (East, 2024). Furthermore, with projected capacity of 20 million TEUs annually, King Abdullah Port Economic City, is among the ports with the fastest rate growth in the world (KAEC, 2024).

Serving both landlocked Ethiopia and Djibouti, the port of Djibouti is situated close to the Bab el-Mandab strait. It handles more than 90% of Ethiopia's external trade and handles 12 million tonnes of goods annually (Group A. S., 2024). Additionally, China's Belt and Road Initiative now uses Djibouti as a strategic hub.

With capacity of about 1.5 million tonnes and a history as a British maritime hub, Yemen's Port of Aden continues to be significant both economically and geopolitically despite the ongoing conflict (insight, 2023).

Palestine's (called Israel) Port of Eilat and Jordan's Port of Aqba are the Levant's entry points to the Red Sea in the Gulf of Aqba. Although it is smaller, the port of Eilat handles general cargo and vehicle imports for Palestine's (called Israel) southern trade, while the port of Aqba handles up to one million TEUs yearly (Orbitshub, 2023).

Together, these ports make up an essential maritime network that upholds regional growth, international trade, and the Red Sea's standing as a major hub for world trade.

The following table provides an overview of the major ports located along the Red Sea corridor, highlighting their capacities and strategic importance in international trade

## The Role of The Red sea in facilitating international trade

**Table 1 : Table of Red Sea Ports and Capacities**

Country	Port Name	Cargo Capacity	Key Functions
<b>Saudi Arabia</b>	Jeddah Islamic Port	130 million tonnes; 7.5 million TEUs	Handles 65% of Saudi imports; major container and bulk cargo hub.
<b>Saudi Arabia</b>	King Abdullah Port	20 million TEUs	Designed for mega-container ships; part of King Abdullah Economic City.
<b>Egypt</b>	Port Said	3.6 million TEUs	Northern gateway to the Suez Canal; container and general cargo operations.
<b>Egypt</b>	Port Sokhna	1.75 million TEUs	Southern Suez Canal access; part of the Suez Canal Economic Zone.
<b>Sudan</b>	Port Sudan	5 million tonnes	Main seaport for Sudan; handles general cargo and petroleum products.
<b>Eritrea</b>	Massawa Port	2 million tonnes	Handles general cargo; strategic for Eritrea's maritime trade.
<b>Djibouti</b>	Port of Djibouti	12 million tonnes	Key hub for Ethiopia's imports/exports; container and bulk cargo operations.
<b>Yemen</b>	Port of Aden	1.5 million tonnes	Historical port; handles general cargo and oil exports.
<b>Jordan</b>	Port of Aqaba	1 million TEUs	Jordan's only seaport; handles containers, bulk cargo, and passengers.
<b>Palestine (called israel)</b>	Port of Eilat	0.5 million TEUs	Palestine's southernmost port; handles general cargo and vehicles.

Note: TEU = Twenty-foot Equivalent Unit, a standard measure for container capacity.

The major ports along the Red Sea Corridor are listed in this table along with their estimated cargo capacities and strategic roles. The figures highlight the importance of the Red Sea as a crucial route for international trade by giving a comparative overview of each nation's maritime role and infrastructure.

### 1.3. Corridor Development Initiatives

The effectiveness of an economic corridor is greatly influenced by its connectivity, infrastructure, and investment climate. To strengthen regional Trade integration, attract foreign direct investment, and enhance maritime logistics, numerous development projects have been initiated along the Red Sea. These projects are transforming the Red Sea into a thriving trade route that links Africa, Europe, and Asia.

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One of Egypt's most ambitious projects is the Suez Canal Economic Zone. This program aims to make Egypt a significant global logistics hub by offering tax breaks, modern industrial zones, and enhance port infrastructure. In 2022, Egypt attracted approximately 107 billion dollar in foreign direct investment (FDI), mainly in the SCZONE and mainly in the areas of green energy and logistics (Today, 2023).

Port modernization and corridor expansion are key components of Saudi Arabia's vision 2030, a plan to diversify the kingdom's economy. Major parts such as King Abdullah Port and Jeddah Islamic Port are being upgraded to handle the increasing volume of containers; the latter is anticipated to handle 20 million TEUs annually (KAEC, 2024). These ports are linked to economic centers like King Abdullah Economic City (KAEC) to promote the growth of non-oil Trade (Group, 2022).

Situated at the southern entrance of the Red Sea, Djibouti had rapidly emerged as a crucial logistical hub. Chinese investment through the Belt and Road initiative supports the Djibouti Port and Free Trade Zone, which handles about 12 million tonnes of cargo annually and serves over 90% of Ethiopia's external Trade (Authority, 2022), (Group A. S., 2024).

Sudan has proposed modernizing Port Sudan, including agreements with China and the United Arab Emirates to increase capacity and connectivity, despite ongoing political under predictability (bank, 2022) Enhancing Sudan's connectivity to Red Sea shipping lanes and optimising its Trade potential depend on these initiatives.

The objectives of regional cooperation framework such as the Council of Arab and African Coastal States of the Red Sea and the Gulf of Aden, which was founded in 2020, include infrastructure alignment, standardised customs procedures, and maritime security, (bank, 2020). These are supported by multilateral organizations such as the World Bank and UNCTAD, which work with the Red Sea nations on Port digitization, logistics performance, and facilitating cross-border trade (UNCATD, 2023).

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Despite challenges like regional instability and piracy threats near the Bab el-Mandab Strait, these corridor development projects present a significant opportunity to transform the Red Sea into a fully integrated economic corridor. More funding, teamwork, and governance reforms are needed to realize its full potential.

The table below outlines key infrastructure and logistics projects that have been developed or are underway in the Red Sea corridor, reflecting the region’s growing strategic and commercial importance.

**Table 2: Strategic Infrastructure and Logistics Projects in the Red Sea Corridor**

Country	Project Name	Project Type / Goal	Year Started	Key Partners / Investors
<b>Egypt.</b>	Suez Canal Economic Zone (SCZONE)	Logistics, industrial zone, trade hub	2016	UAE, China, private FDI
<b>Saudi Arabia</b>	King Abdullah Economic City (KAEC)	Port and urban development, logistics hub	2010	Private sector, Vision 2030
<b>Djibouti</b>	Djibouti Free Trade Zone (DIFTZ)	Logistics + port for BRI and Ethiopian trade	2017	China, Djibouti Ports Authority
<b>Soudan</b>	Port Soudan Expansion	Port modernization and infrastructure upgrade	Planned (2022+)	UAE (DP World), China (interest)
<b>Yemen</b>	Port of Aden Rehabilitation	Restore logistics functionality (conflict zone)	Ongoing/Intermittent	UNDP, World Bank
<b>Jordan</b>	Aqaba Logistics & Port Upgrade	Container & passenger capacity expansion	2018	Aqaba Development Corporation
<b>Palestine( called israel)</b>	Eilat Red-Med Rail Link (Planned)	Connect Red Sea port to Mediterranean by rail	Proposed	Palestine Gov., private sector

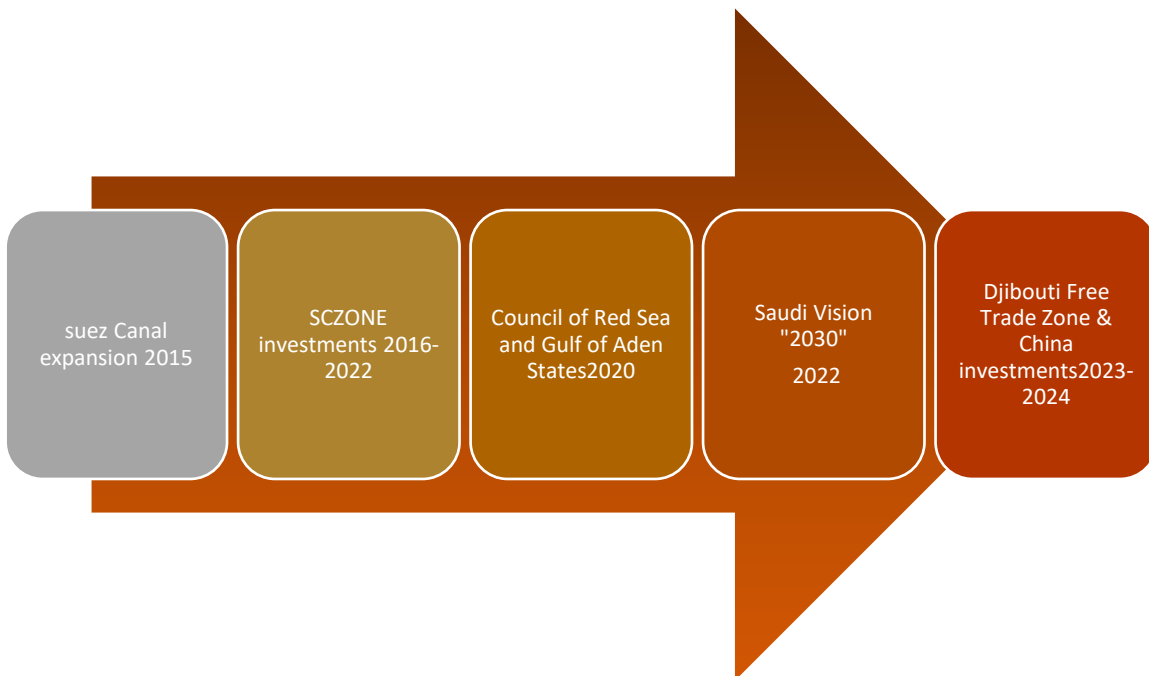
The main logistics and infrastructure projects in the red sea corridor countries are listed in this table, along each country’s initiatives to improve port capacity, trade connectivity, and regional integration. These initiatives, which range from Egypt’s

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SCZONE to the planned Eliat Red-Med rail link, demonstrate growing geopolitical and economic interest, especially from international organisations and partners like China and the United Arab emirates. Their objectives range from promoting industrialization and exports to aiding in the recovery from conflicts and tying together international supply chains.

To give geographical context to the study, the next map shows the region of the Red Sea and surrounding trade routes.

**Figure 9 : The Red Corridor Projects Over Time**



This timeline illustrates key milestones contributing to the development of the Red Sea economic corridor and its growing strategic importance in international trade.

## 2. The Role of The Red Sea Economic Corridor in facilitating the Goods Trade

The transportation of goods between Europe, Asia, and Africa is significantly influenced by the Red Sea Corridor. Every day, a large number of important commodities, including manufactured goods, food items, petrol, and oil, travel through this route. Because of its location, it is among the quickest and most

economical ways to ship goods around the world. This section will describe the Red Sea Corridor's impact on trade, the most crucial kinds of goods, and how recent security concerns and attacks have affected global trade and the movement of goods.

### **2.1. Key Commodities**

A crucial route for global trade, the Red Sea Economic Corridor makes it easier for important commodities to move between numerous nations. The unique products that each country along this corridor contributes highlight the region's strategic significance in international trade. Saudi Arabia exports large amount of crude oil and refined petroleum products by using its red sea ports, particularly Yanbu. In early 2024, exports to Europe from these terminals surged as the kingdom capitalized on its ability to bypass regional disruptions, reinforcing its position as a reliable energy supplier. Egypt, through the Suez Canal, plays a pivotal role in global trade, with approximately 22% of global seaborne container trade passing through it in 2023. The canal facilitates the transport of natural gas, oil, vehicles, raw materials, and manufactured goods between the Indian Ocean, the Mediterranean Sea, and the Atlantic Ocean (UNCATD, 2024). India is significantly impacted by the Red sea corridor, especially concerning fertilizer imports. The ongoing crisis has disrupted shipments, raising concerns over potential shortages ahead of critical agricultural seasons (Daily, 2024). Jordan has seen a notable increase in phosphate exports, with a 5.3% rise in 2024 compared to the previous year, totaling over 7 million tons. These exports are made possible by the nation's advantageous location along the Red Sea, which boosts its economy (Association, 2024). Despite international efforts, illicit charcoal exports from Somalia via the Red Sea persist, allegedly funding armed groups and worsening environmental degradation. A UN Security Council report states that these shipments continue to violate sanctions and underscore the region's security threats (Council, 2023). Lastly, up to 30% of Russia's shipments of wheat and barley travel via the Suez Canal, which it uses for grain exports. These exports highlight the canal's contribution to global food security and are essential for nations in the Persian Gulf, Asia, and East Africa

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(Interfax, 2024). These factors highlight how important the red sea economic corridor is for enabling a variety of commodity flows. In order to guarantee resilience and continuity in global supply chains, countries are reevaluating and modifying their trade strategies in response to recent geopolitical tensions that have brought attention to the corridor's vulnerabilities.

The following table presents the primary commodities that are transported through the Red Sea corridor, emphasizing the region's role in global trade flows.

**Table 3 : Key Commodities Traded Through the Red Sea**

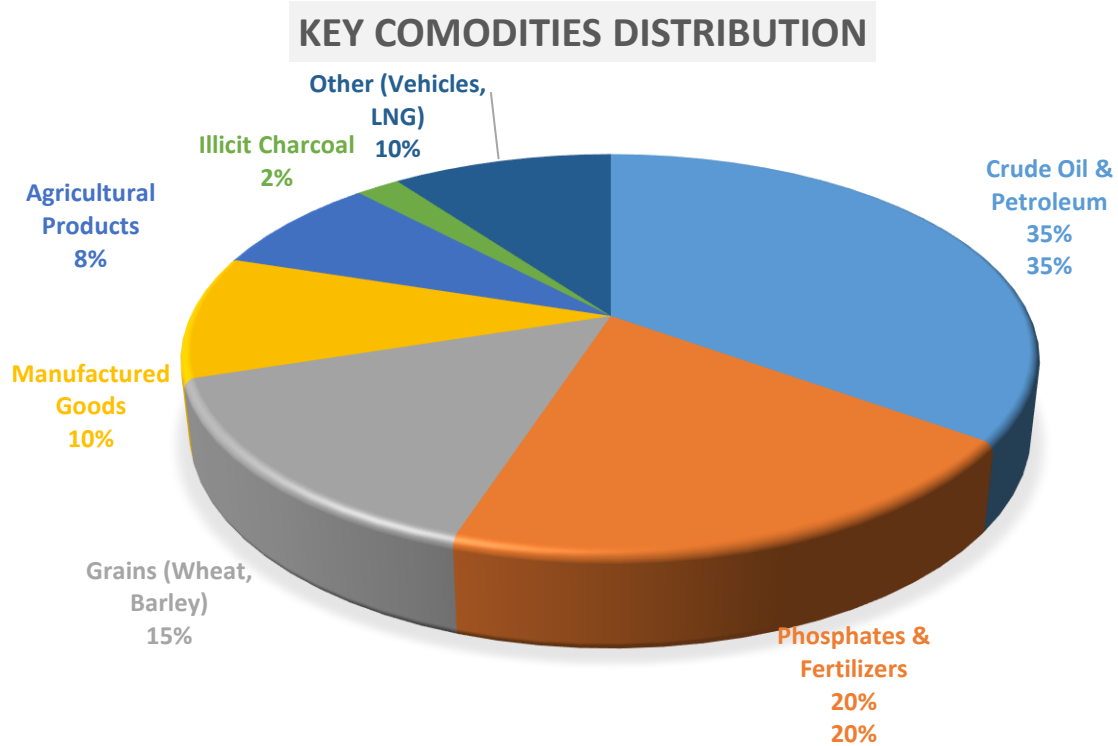
Commodity Category	Approximate Share (%)	Exporting Countries
Crude Oil & Petroleum	35%	Saudi Arabia, Egypt
Phosphates & Fertilizers	20%	Jordan, Egypt, India (imports)
Grains (Wheat, Barley)	15%	Russia
Manufactured Goods	10%	Egypt, re-exported via Suez
Agricultural Products	8%	Egypt, India
Illicit Charcoal	2%	Somalia (illegal trade)
Other (Vehicles, LNG)	10%	Egypt, Saudi Arabia

The primary product categories and their approximate shares that are transported via the red sea corridor are displays in the table. Petroleum and crude oil account for 35%, primarily from Saudi Arabia and Egypt, demonstrating the corridor's crucial role in the world's energy trade. Jordanian and Egyptian fertilizers and phosphates (20%) emphasize its significance for agricultural supply chain. For food security in Asia and Africa, grains (15%); particularly Russian wheat; are essential.

To provide clarity on the main goods flowing through the corridor, the next pie chart shows the distribution of key commodities.

**Figure 10 : Pie Chart for key Commodities distribution**

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The primary commodities traded across the Red Sea are displayed in this pie chart. Crude oil and petroleum make up the largest portion (35%) and are mostly sources from Saudi Arabia and Egypt. Nest in line at 20% are fertilizers and phosphates, and then grains, primarily from Russia, like wheat and barley (15%). Vehicles and LNG (10%), agriculture (8%), and manufactured goods (10%) are additional important commodities. Illegal important commodities. Illegal charcoal from Somalia makes up a tiny percentage (2%) of the total. This demonstrates the Red Sea's function in transporting goods, food, and energy between areas.

### 2.2. The Importance of The Red Sea Corridor on The Trade of Goods

About 12% of global trade and more than 30% of contained traffic are handled by the red sea economic corridor, which is one of the most important maritime routes for international trade and is anchored by the Suez Canal (UNCATD, 2023). The Corridor has a particularly noticeable impact on the movement of goods between Europe, Asia, and Africa in important industries like agriculture, electronics, and energy. More than 22,000 ships and more than 1.14 billion metric tonnes of cargo passed through the Suez Canal in 2022 alone, bringing in 8 billion dollar for Egypt

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(Canal, 2023). About 54% of the cargo that travelled through the corridor was headed for Europe from Asia, while 11% was headed for Africa and 19% was headed within Asia. The corridor is still essential for manufactured goods, food commodities like wheat and rice, and oil and gas (which account almost 20% of the world's seaborne oil trade).

However, by early 2024, weekly vessel transits had decreased by 56% and container throughput had decreased by 73% due to recent security concerns, especially the Red Sea crisis that intensified in late 2023 (Kpler, 2024). According to the world bank, these disruptions compelled shipping lines to reroute via the Cap of Good Hope, which resulted in an increase in average delivery times of 10-12 days and 40% increase in transport costs (Bank, 2024). As a result, the makeup of traded goods has changed; bulk commodities like grain, LNG, and crude oil have remained relatively stable in volume, while high-value, time-sensitive goods like consumer electronics, semiconductors, and auto parts have seen sharp drops. For instance, due to enduring demand from East Africa and Asia, global wheat shipments via the corridor increased from 19% to 22% of all seaborne wheat trade. Due to their heavy reliance on chemicals and machinery imports from Europe and Asia, East African economies like Kenya, Ethiopia, and Tanzania have faced significant supply constraints and cost inflation. 75% of Uganda's coffee exports go through the Red SEA on their way to European markets, so the disruptions have also affected those exports. These consequences highlight the Red Sea Corridor's dual function in global supply chains as a strategic pressure point and a lifeline for trade.

The table below illustrates the annual trade volume passing through the Suez Canal from 2020 to 2024, reflecting its critical role in facilitating global maritime trade.

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**Table 4 : Annual Trade Volume through the Suez Canal (2020-2024)**

Year	Number of Vessels	Cargo Volume (Billion Tons)	Container Volume (Million TEUs)
2020	18,500	1.17	20.1
2021	19,400	1.25	22.5
2022	19,800	1.30	23.8
2023	17,000	1.10	20.0
2024	8,000 (est.)	0.65 (est.)	6.4 (est.)

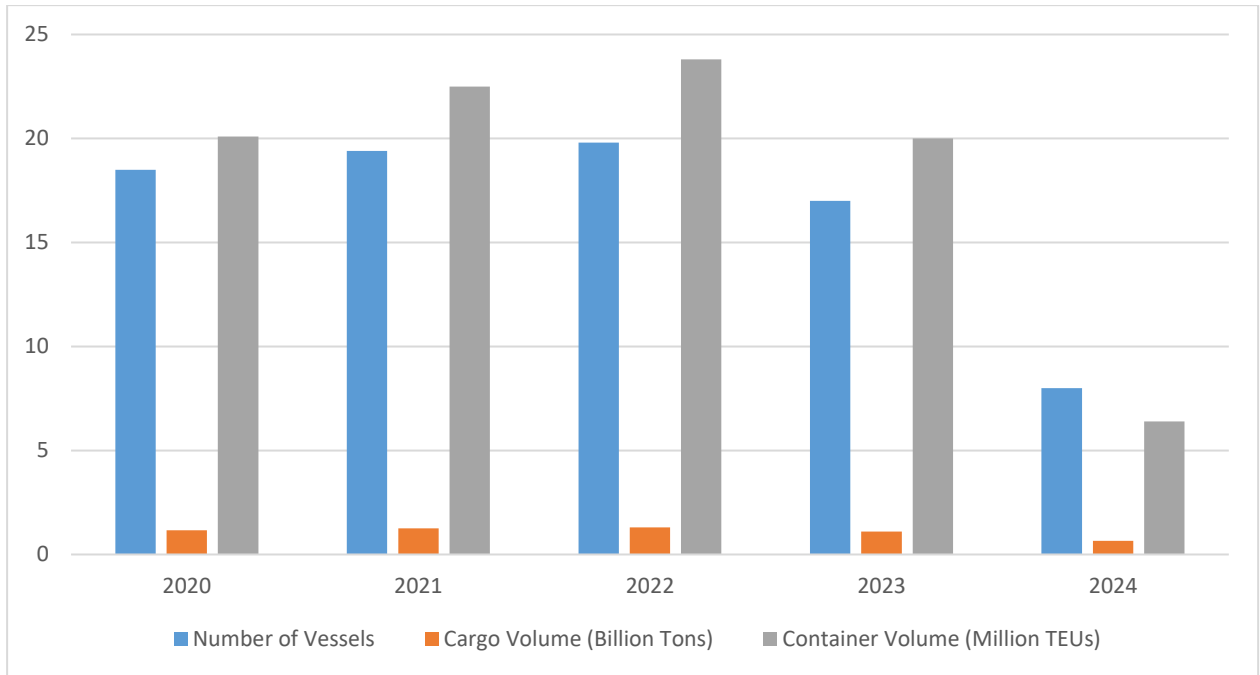
Note: est. = estimated

Based on estimates, there will be almost 50% fewer vessels and equivalent volumes of cargo and containers in 2024, based on a significant decline in maritime activity through the corridor. This decline may be due to regional disruptions affecting maritime logistics, redirected international trade routes, or geopolitical tension.

To illustrate the shipping activity in the region, the next bar chart shows trends of the maritime traffic along the Red Sea Corridor.

**Figure 11 : Red Sea Corridor Maritime Traffic Trends**

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With statistics relating to the number of vessels, cargo volume in billion tonnes, and container volume in million TEUs, this chart depicts the downward trend in maritime traffic through the Red Sea corridor over the period of 2020 to 2024. After a very slight increase from 2020 to 2022, there is a severe drop in 2023, followed by an even more pronounced drop in that trend line into 2024. The number of vessels dropped almost in half from approximately 20,000 in 2022 to fewer than 10,000 in 2024. Similarly, containers dropped from a high of approximately 24 million TEUs in 2022 to approximately 6 million TEUs in 2024. The Red Sea crisis coincided with this sharp drop, as ships were sent around the crisis, and geopolitical unrest slowed global trade that transited this corridor and concerns for general safety.

The table below compares average freight costs for container shipments from Asia to Europe, providing insight into the economic efficiency of the Red Sea corridor.

## The Role of The Red sea in facilitating international trade

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**Table 5 : Freight Costs from Asia to Europe (USD per Container)**

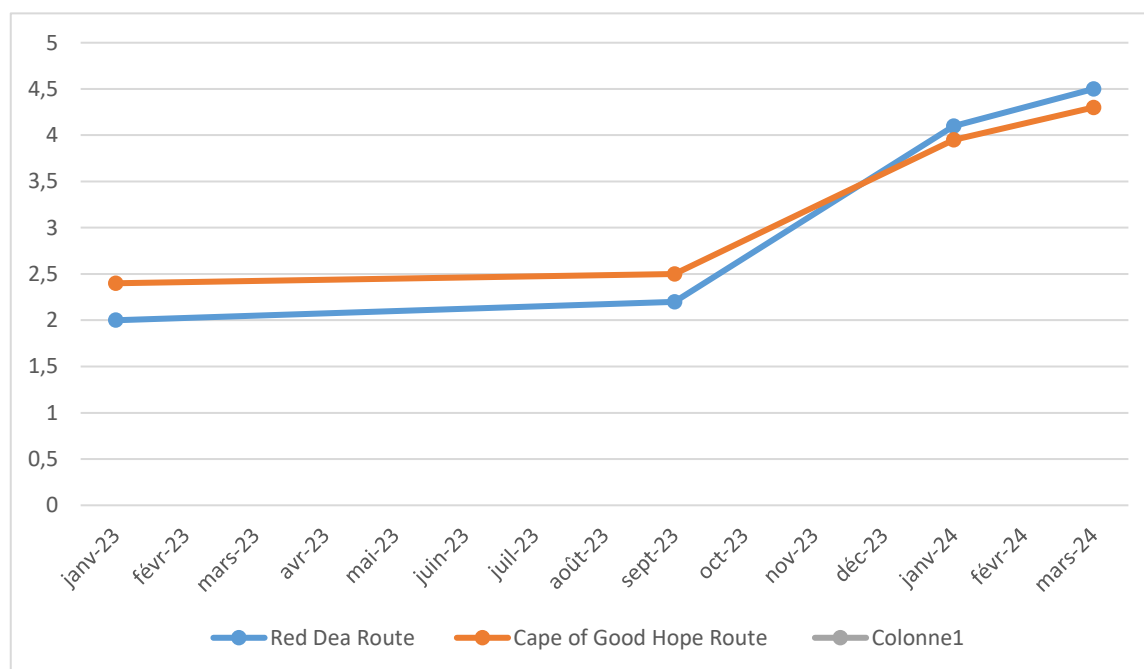
<b>Date</b>	<b>Red Sea Route</b>	<b>Cape of Good Hope Route</b>
<b>Jan 2023</b>	\$2,000	\$2,400
<b>Sep 2023</b>	\$2,200	\$2,500
<b>Jan 2024</b>	\$4,100	\$3,950
<b>Mar 2024</b>	\$4,500	\$4,300

The data indicates that shipping costs for the Cape of Good Hope Route and the Red Sea Route sharply escalated between 2023 and 2024. While the price differences between the two routes remained relatively stable and moderate, the Red Sea route continued to remain the more affordable option in January and September 2023. However, between September 2023 and January 2024 the price for the Red Sea route spikes by 86%, from \$2,200 to \$4,100. This is likely due to heightened geopolitical tensions, security threats, or interference with passage through the Suez Canal, which have raised insurance costs and operational costs for the Red Sea Route.

Also interesting to note, is even though the Cape of Good Hope route also experienced price increases, the increases for this route were less significant, probably because it was considered a longer, albeit safer option. By March 2024, the shipping prices for both routes crossed the \$4,000 threshold, and the Red Sea route was still slightly higher. The shrinking price differential suggests a shift in the business of international shipping; as risk exposure undermines the historic viewpoint that the Red Sea route is quicker and less expensive. These shifts in costs speak to how maritime security will affect levels of pricing and logistics for trade.

To provide context for comparison with major maritime routes, the next line chart compares the rate from the Red Sea route and the Cape of Good Hope.

**Figure 12 : Red Sea vs. Cape of Good Hope ( shipping route costs)**



This graph contains the maritime route costs for the Cape of Good Hope Route and Red Sea Route for the time period from January 2023 to March 2024. The costs for the Cape of Good Hope Route were typically slightly higher than that of the Red Sea Route for most of 2023. In October 2023, the costs of both routes jumped significantly and by early 2024 the Red Sea Route surpassed the Cape of Good Hope Route. The spike in costs for both routes could be attributed to geopolitical disturbances in the Red Sea region (e.g., war, piracy, and/or blockades), which caused many shipping companies to change their routes to avoid the Red Sea and use the Cape of Good Hope route instead. More demand for shipping, with visits to ports around the world, increased the prices of shipping. The global trend included in the graph illustrates developing uncertainty in established shipping lanes and the subsequent costs of international trade logistics.

### **3. The Role of The Red Sea Economic Corridor in facilitating services trade**

The Red Sea Corridor facilitates the trade of services like transportation, logistics, tourism, and financial services, even though it is primarily recognised for its goods. This busy trade route is very beneficial to ports, shipping companies, and

## The Role of The Red sea in facilitating international trade

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related services. This section will describe how the corridor supports the expansion of service industries, which services are most affected, and how regional stability and development plans impact local service trade.

### 3.1. Key Services Facilitated through The Red Sea

In addition to being essential for international trade in goods, the Red Sea Economic Corridor—which includes the Suez Canal—is also a vital route for a number of services between Europe, Asia, and Africa. Logistics and goods forwarding are among the main services made possible by this corridor. By enabling integrated logistics solutions, it lowers transit times and fuel expenses, improving supply chain efficiency (Group R. ).

- **Financial Services:** To support international trade operations, the corridor's freight movement requires a variety of financial services, such as currency exchange, insurance, and trade financing (Group R. ).
- **Digital Trade and Telecommunications:** Submarine communication cables laid along the Red Sea facilitate digital connectivity between continents, supporting services like cloud computing, data centers, and international telecommunication (Group R. ).

The table below highlights the main services enabled by the Red Sea corridor, emphasizing its role beyond goods transport in supporting regional and global service trade.

**Table 6 : Key Services Facilitated by the Red Sea Corridor**

<b>Service Category</b>	<b>Description</b>
<b>Logistics and Freight</b>	Transportation of goods, warehousing, and distribution services
<b>Financial Services</b>	Trade financing, insurance, and currency exchange related to trade
<b>Digital Trade</b>	Internet-based services, cloud computing, and data transmission
<b>Telecommunications</b>	Submarine cables facilitating international communication
<b>Port and Free Zone Services</b>	Operations supporting trade, including customs clearance and storage

The Red Sea corridor has strategic importance both in the transportation of physical goods as well as in the service-based trade flows. This table shows that maintaining competitiveness and the integration of Europe, Asia and Africa requires development of these service outlets, particularly the digital infrastructure and logistics platforms that underpin modern regional and global trade.

### **3.2. The Importance of The Red Sea on Trade of Services**

The Red Sea Economic Corridor serves as a vital link for the movement of goods from the Suez Canal in the North to the Bab el-Mandeb Strait in the South, while also contributing to a highly integrated service delivery network throughout the European, Asian and African continents. Whereas goods and services are supported through a diverse service ecosystem along the corridor, such as port related services, financial and insurance related services, digital trade-related platforms, maritime logistics and freight forwarding related services, and telecommunications services, the free zones developed in important trade-related hubs, such as Port Said and Suez in Egypt, Jeddah in Saudi Arabia, and Djibouti, are

## **The Role of The Red sea in facilitating international trade**

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critical to the service ecosystem because they are the regional hubs for light manufacturing, value-added logistics and re-export. For instance, as of 2023, the Suez Canal Economic Zone (SCZone) comprised an area of over 460 square kilometres, and was home to more than 200 multinational enterprises, which was generating over \$18 billion per year in service-related trade activities (SCZone, 2023). In a comparable way, Djibouti's International Free Trade Zone, funded by Chinese investment, opens up landlocked African markets like Ethiopia and South Sudan to global supply chains while supplying more than \$1.5 billion in logistics and warehousing services every year ((DPFZA), 2023).

The infrastructure of the corridor also enables significant financial and digital services. Undersea internet cables traverse the Red Sea, like SEA-ME-WE 5 and PEACE Cable, which provide a fast digital backbone for ECommerce, fintech platforms, and cross-border data transfer. The main red sea ports are also clustered with financial services connected to maritime trade with real estate currency maps, export credit, and marine insurance. The Suez Canal Insurance Company are major providers of insurance and regional offices of Standard Chartered Bank facilitate billions of dollars in trade finance

That said, in 2023–2024, this services ecosystem faced a serious crisis due to Red Sea security issues. Logistics service times increased by 25–40%. And shipping insurance premiums rose 300% for shipping through the Red Sea, according to the World Bank (Bank, 2024), telecoms activated business continuity terrestrial options through Jordan and Turkey, as concerns developed around underwater cable damage and also risked many digital services. Volume at transshipment sites fell to almost zero temporarily in the free zones. In Q1 2024, the SCZone reported service revenues decline of 17% year on year (SCZone, 2024). Despite these limitations, services in the Red Sea space especially around logistics and free zones, act as a vital strategic function for stimulating trade and driving economic integration between the three continents.

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The following table presents major free zones located along the Red Sea corridor, highlighting their strategic roles in attracting investment and facilitating trade.

**Table 7 : Major Free Zones Along the Red Sea Corridor**

<b>Free Zone</b>	<b>Country</b>	<b>Year Established</b>	<b>Key Services Offered</b>	<b>Annual Trade Volume (2023)</b>
<b>SCZone (Suez Canal)</b>	Egypt	2015	Logistics, manufacturing, transshipment	\$18B
<b>Djibouti International FTZ</b>	Djibouti	2018	Warehousing, distribution, gateway to Africa	\$1.5B
<b>King Abdullah Economic City</b>	Saudi Arabia	2010	Logistics, port services, business outsourcing	\$3.8B
<b>Port Sudan Free Zone</b>	Sudan	2000s	Light industry, import/export hub	\$600M

Four prominent free zones in the Red Sea corridor are included in the table, with each contributing to the dynamics of regional and global trade in their own way. Of the four free zones, Egypt's SCZone (Suez Canal Economic Zone), established in 2015 and achieving an estimated \$18 billion in volume of trade each year, is the most mature. Its location at the crossroads of Asia, Europe, and Africa allows it to leverage the Suez Canal to provide integrated services based on manufacturing, logistics, and transshipment. It is composed of a series of port and industrial zones to attract foreign direct investment and support Egypt's export-driven growth. By contrast, the Djibouti International Free Trade Zone was established in 2018 and is still expanding, but has rock solidified its role as an important entry point for trade

## **The Role of The Red sea in facilitating international trade**

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with Sub-Saharan Africa. The port's status as a logistics connector to landlocked nations like Ethiopia, and its modern port infrastructure, facilitates opportunities in warehousing and distribution. King Abdullah Port, one of the fastest evolving container ports in the world, anchors Saudi Arabia's King Abdullah Economic City, established in 2010, which advocates commercial, residential and industrial developments. It performs an important role as a logistics port in the context of the Kingdom's Vision 2030 plan, offering ancillary services, like value-added and re-exporting as well as business outsourcing to facilitate logistics connectivity. Last but not least is the Port Sudan Free Zone, established in the early 2000s, which has a minor but strategic impact on Sudan's economy. Although political impediments and the lack of infrastructure make it difficult to trade in the region, the port, through both its import/export traffic and light industrial activities, encourages trade. Overall, all of these areas are examples of how a Red Sea economic corridor can catalyse national development plans, while also enhancing regional trade connectivity, industrialisation and diversification across Africa and the Middle East.

The table below shows the impact of the 2023–2024 Red Sea crisis on service-related costs.

**Table 8 : Impact of 2023-2024 Red Sea Crisis on Service-Related Costs**

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Service Category	Pre-Crisis Index (2023 Q2)	Post-Crisis Index (2024 Q1)	% Increase
Logistics Costs	100	135	+35%
Insurance Premiums	100	300	+200%
Data Latency (ms)	100	115	+15%
Storage/Warehousing	100	118	+18%

The index values from the table indicate how service categories changed relative to one another prior to, and after their crisis. For the base level for each of the categories, the level prior to the crisis was set at an index of 100 as the baseline in Q2 of 2023. The post-crisis values (135, 300, 115, 118) for each service area were calculated by determining what percentage increase each service area reflected from the pre-crisis level. For example, in an index of 135 there was a 35 percent increase in costs incurred when using logistics services. An index of 300 resulted from a 200 percent increase in the costs associated with insurance premiums. Further, the costs incurred from data latency increased by 15 percent, and for storage by 18 percent, to have index values of 115 and 118. Index values have made it easy and consistent to compare the level of disruption for each service category. Clearly, the index values have provided also some insight in how the crisis has introduced financial effects on international trade too, which is an additional reason why considering multiple service categories creates a more robust benchmarking approach.

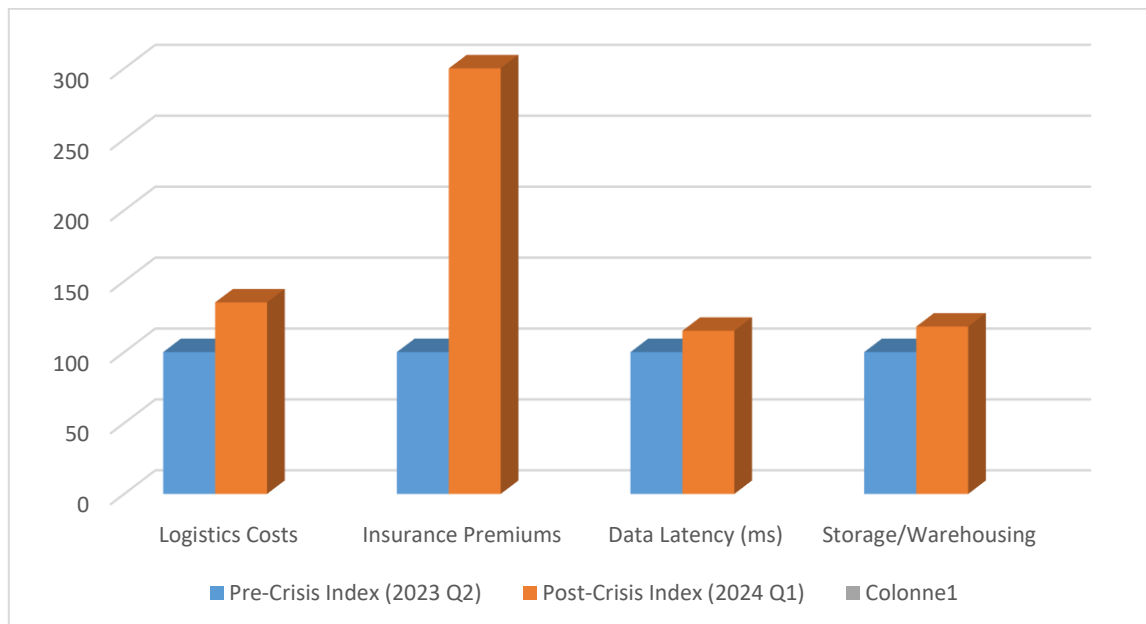
The table illustrates the disruptive levels of decline across components of international trade services which manifested after a recent crisis event tied to unstable shipping routes or geopolitical tensions. Q2 2023 to Q1 2024 showed dramatic increases in costs and inefficiencies in all service types. In logistics, costs increased by 35% due to either higher fuel prices caused by route changes, limited labour availability, or increased customs process scrutiny. While alarming, the 200% increase in insurance premiums suggested an increased perception of risks associated with cargo or vessels or the perceived level of security within a region

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(possibly from conflict or concerns tied to maritime security). Another measure, data latencies reflecting time-related lags in digital interactions with service functions (like cargo tracking or customs systems for clearance) indicated 15% increases. While moderate, even slight triggers in on-line performance can create significant inefficiencies of coordinating within the supply chain and significantly affecting transit times. Costs for storage and warehousing also increased by 18%, reflecting the costs associated with slowed distribution flows, cargo deterioration, port congestion, and longer periods for holding inventory. When viewed as a whole, the data is indicative of how trade infrastructure and services are inter-dependent and how operational costs can escalate and trade efficiencies diminish quickly after crises in major trade corridors, like routes through the Red Sea.

To illustrate the last while noting recent disruptions, the next bar chart shows the impact of the 2023–2024 Red Sea crisis on trade and shipping flows.

**Figure 13 : The Impact of the the 2023-2024 Red Sea Crisis**



The chart shows how sizeable a number of service-related costs were affected by the Red Sea Crisis of 2023–2024 by referencing data from before the crisis (2023 Q2) and after it was resolved (2024 Q1). Insurance premium costs had the largest

increase, moving from slightly over 100 index points to 300+, indicative of a large increase in perceived risk and the price to secure shipments. Logistics and storage/warehousing also saw sizeable increases in costs, signaling longer (or differently routed) logistics, greater transportation complexity, and the implied need for the supply chain to change routes or adapt to longer lead times. Longer delivery times and rerouted digital tracking may have also contributed to the very slight, but marked, increase in data latency. In totality, these changes vis-à-vis the Red Sea Crisis reveal a considerable operational and financial burden on international supply chains.

#### **4. The Role of The Red Sea Economic Corridor in attracting Foreign Direct Investment**

Due to its advantageous location and expanding trade, the Red Sea Corridor is a popular destination for foreign direct investment. Along the corridor, numerous nations and businesses make investments in ports, infrastructure, logistics, and energy projects. These investments support regional job creation and economic growth. This section will go over how the Red Sea Corridor promotes foreign direct investment (FDI), which industries are drawing the most investment, and how investor interest is influenced by security and regional cooperation.

##### **4.1. The Major Projects and Foreign Direct Investment (FDI)**

The Red Sea corridor's strategic location at the meeting point of Europe, Asia, and Africa has made it a desirable destination for foreign direct investment (FDI). The corridor is supported by a number of massive infrastructure projects in nations like Saudi Arabia, Egypt, and Djibouti that aim to increase industrial capacity, energy, and logistics.

The table below presents a comprehensive overview of the major infrastructure projects undertaken between 2022 and 2024, alongside corresponding foreign direct investment (FDI) inflows.

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**Table 9 : Key Infrastructure Projects and FDI (2022-2024)**

Country	Project/Zone	Sector	FDI Inflow (USD)	Key Investors
<b>Egypt</b>	Suez Canal Economic Zone (SCZone)	Logistics, Green Hydrogen	\$6.3 billion	DP World, Siemens, COSCO
<b>Saudi Arabia</b>	NEOM and Red Sea Project	Renewable Energy, Tourism	\$8.2 billion	ACWA Power, PIF, international firms
<b>Djibouti</b>	Doraleh Port + Free Zones	Port Infrastructure, Telecom	\$4.0 billion	China Merchants Group, DPFZA

The table captures the main foreign direct investment inflows into strategic economic zones in Saudi Arabia, Egypt, and Djibouti. It also conveyed the growing attractiveness of the region with regards to port infrastructure, renewable energy, and logistics. Each of the three nations attracted a considerable level of investment from national and international sources, illustrating the significance of the Red Sea corridor region to the global energy transition and trade.

The Suez Canal Economic Zone (SCZone) is a notable flagship project with more than 460 square kilometers area supported by four industrial zones and six ports. Between 2022 and 2024, the SCZone drew more than US \$6.3 billion in foreign direct investments. Significant ongoing projects feature port development extensions targeting a 35% increase in cargo throughput by 2026 and a proposed US \$500 million green hydrogen facility in Sokhna (SCZone, 2024).

The Red Sea Project and NEOM are transforming Saudi Arabia's coastlines into smart infrastructure and sustainable development hubs. With a focus on logistics, artificial intelligence and renewable energy, the projects had already finalized \$8.2 billion in committed foreign investment as of December 2024 (Reuters, 2024). In addition, Djibouti has spent upwards of \$4 billion to develop

Doraleh Port and its surrounding free zones, the East African logistics hub. From 2021 to 2023 foreign partnerships of DPFZA grew by 27% ((DPFZA), 2023).

### **4.2. The Importance of The Red Sea Corridor on Foreign Direct Investment (FDI)**

The Red Sea corridor is an attractive destination for foreign direct investment (FDI), with its strategic positioning as a trade and investment gateway between three continents. Within the past ten years, the countries along the corridor have branded the corridor as a competitive logistics centre, enacted investment-friendly legal reform, and modernized infrastructure. Port infrastructure, renewable energy, logistics services, and digital connectivity have benefitted from stable FDI into Egypt and the neighbouring countries, primarily based on the corridor's reasonable geographic location and inclination toward ICT. One of the main variables still affecting the attraction of FDI is modern-day infrastructure. Countries that invest in industrialization zones and modernisation of ports should plan on seeing an average increase of 15–22% FDI in a five-year period, according to the World Bank (bank, 2024). In this regard, SCZone offers a viable example. SCZone provides integrated services for shipping and customs, having a multimodal platform that connects road, rail, and sea logistics, thereby decreasing transaction costs and increasing productivity. Global firms like Siemens, DP World and COSCO are attracted to these conditions. The Red Sea Project and Saudi Arabia's NEOM have showed how an infrastructure-oriented economic approach can attract environmental and high-tech investment capital such as sovereign wealth funds, international logistics companies and the clean energy sector. The port of Djibouti is increasingly appealing due to the digitisation initiatives (via the Djibouti Data Centre) and its proximity to neighbouring landlocked countries (like Ethiopia). Between 2020 and 2023, Djibouti's non-oil foreign direct investments (FDI) tied to the port increased by 38% due to international participation in the Belt and Road Initiative, largely through Chinese investment ((DPFZA), 2023) .

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The table details the annual foreign direct investment (FDI) inflows across the Red Sea Corridor countries from 2022 to 2024, highlighting trends and fluctuations over the period.

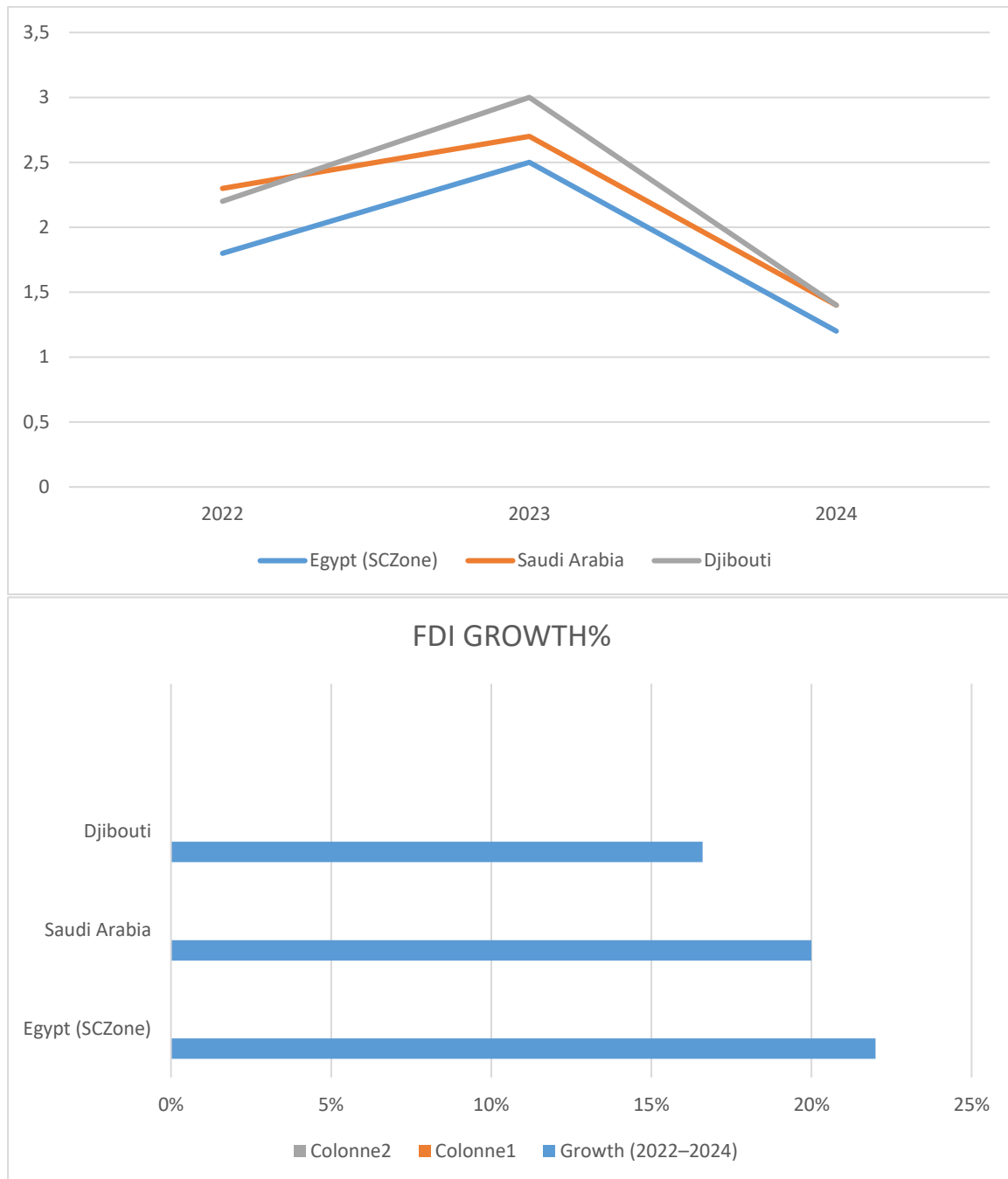
**Table 10: Annual FDI Inflows in Red Sea Corridor Countries (2022-2024)**

Country	2022	2023	2024 (est.)	Growth (2022–2024)
<b>Egypt (SCZone)</b>	\$1.8 billion	\$2.3 billion	\$2.2 billion	+22%
<b>Saudi Arabia</b>	\$2.5 billion	\$2.7 billion	\$3.0 billion	+20%
<b>Djibouti</b>	\$1.2 billion	\$1.4 billion	\$1.4 billion	+16.6%

The data suggests that FDI inflows to the important Red Sea corridor economies have been steadily increasing between 2022 and 2024 (estimated). Egypt's Suez Canal Economic Zone has led with a 22% increase, and is poised to become increasingly important as a hub for green energy and logistics. Saudi Arabia follows closely in second place with a 20% increase driven by large initiatives like NEOM. Djibouti, while smaller in size, is notable for its sizeable 16.6% growth, illustrating the strategic importance of Djibouti's regional port infrastructure.

To provide understanding of investments dynamics along the corridor, the next charts illustrate trends of Foreign Direct Investment (FDI) inflows and economic growth.

Figure 14 : Charts for FDI Inflows and growth



The anticipated revenue growth for Saudi Arabia, Djibouti and Egypt (SCZone) between 2022 and 2024 is shown in these charts. As observed all three countries produced positive growth during this period. Egypt produced revenue growth of 22% from \$1.8 billion in 2022 to an estimated \$2.2 billion in 2024. Saudi Arabia grew by 20% from \$2.5 billion to \$3.0 billion. Djibouti grew at 16.6% from \$1.2

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billion to \$1.4 billion The forecast anticipates that all three countries will maintain positive growth expected by 2024 notwithstanding regional challenges such as the Red Sea crisis.

By alleviating some obstacles to transport logistics and providing better connectivity, enhancements to the Red Sea corridor's infrastructure may have reignited investor interest. For the period 2022-2023, Saudi Arabia and Egypt have witnessed steady increases to their foreign direct investment inflows. In the last three years, Egypt's SCZone alone, has reported average annual growth rate of 11% in foreign direct investment (SCZone, 2024) The corridor also has Strategic Free Trade Zones that offer incentives such as exemptions from taxes, relaxed customs, and 100% foreign ownership of defined sectors.

That being said, FDI performance is significantly compromised by geopolitical risk and maritime security threats in the Red Sea region. Since late 2023, the regional shipping system has been negatively impacted by increased attacks on commercial vessels operating near Bab el-Mandeb (NEWS, 2024). This has led to:

- Vessels are being rerouted via the Cape of Good Hope, which adds 10–12 days to shipping times.
- Inflation in capital costs due to tripled marine insurance premiums.
- Hold-ups in FDI project implementation, particularly in maritime terminals and logistics.

Investor behaviour is where these effects are most apparent in the first quarter of 2024. The Economist Intelligence Unit (Unit, 2024) reports that, alongside the Red Sea corridor, FDI project announcements in various Red Sea countries decreased 18% from 2022 and had more pronounced near-term declines in port-centric projects in both Egypt and Djibouti. As businesses reviewed the impacts of regional risks, many capital-intensive infrastructure projects were delayed by as much as four months.

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The table compares key investment indicators before and after the crisis, highlighting the impact of conflict on investment flows and economic stability.

**Table 11 : Conflict Impact on Investment Indicators ( Pre- and Post - Crisis)**

Indicator	Pre-Crisis (2023 Q2)	Post-Crisis (2024 Q1)	% Change
Marine Insurance (per vessel)	\$150,000	\$600,000	+300%
Average Transit Time (days)	12	18	+50%
FDI Project Announcements	42	34	-18%
FDI in Maritime Logistics	\$4.5 billion	\$3.3 billion (est.)	-27%

The following table illustrates the adverse impacts of the regional crisis on shipping investment and commerce. Risk, coupled with operational delays, were illustrated by an increased marine insurance cost of 300% and a rise in time-in-transit of 50% on average. Additionally, a 27% estimated drop in FDI in the maritime logistics sector and an 18% drop in FDI project announcements, indicated a level of investor confidence had declined.

### 5. The Global Importance of the Red Sea Corridor

This section analyzes the Red Sea Corridor's international relevance by discovering the interstate competition that the corridor fuels with Great Power ambitions, primarily due to the corridor's location and economic importance. Second, covering the key challenges to performance and stability of the corridor.

#### 5.1. The Strategic Competition that the Red Sea Drives

With about 15% of all seaborne trade including a third of all container trade and 10% of all oil trade transiting the Red Sea corridor, it is one of the most significant maritime routes in the world (UNCATD, 2023) Therefore, it is integral to maintaining global economic stability, in particular for superpowers like the US, China, and the EU which have economies that directly depend on unimpeded maritime access through this corridor.

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➤ **United States:** The Red Sea plays a critical role for United States resilience for moving goods containing energy, technology, and defense-related shipments; it is estimated that \$350 billion of trade flows through the Red Sea corridor in 2023 (DC, 2024). The Red Sea corridor is also a key energy channel, handling about 12% of U.S. oil imports and LNG flows (CSIS, 2024). The U.S. operates a number of military facilities in the region to safeguarding shipping flows such as the headquarters of the 5th Fleet in Bahrain, a permanent base in Djibouti, and logistical facilities in Diego Garcia and the Gulf of Aden. The U.S. is spending more than \$2 billion annually on regional naval operations, with a greater emphasis on anti-drone defense systems in response (Insider, 2025). Operation Prosperity Guardian is a United States-led multinational mission to protect commercial shipping which involved deploying the USS Dwight D. Eisenhower and additional carrier strike groups setting sail, to the Red Sea in the early 2024 (Guardien, 2024). With respect to use of force and sovereignty, the United States, in a way, is also attempting to complement its traditional military force with diplomatic pressure through the Combined Maritime Forces (CMF) coalition with more than 39 nations contributing to patrolling and security in the Red Sea and Gulf of Aden (CMF, 2024).

The persistent instability in the Middle East is undeniably connected to the strategic convergences of global powers, particularly the United States. As the preeminent external actor in the region, the U.S. has frequently embraced armed conflict when it is in its geopolitical/economic interests, either directly or indirectly. A prime manifestation of this is in its ongoing military and political support for the Israeli occupation, even amid the recent war on Gaza. This support perpetuates the conflict, undermining the ability of the world to effectuate peace, and to protect civilian life.

The next table provides a summary of the human cost of the war on Gaza beginning on October 7, 2023. This data has been gathered from reputable international medical and humanitarian organizations and lists their estimated

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numbers associated with deaths, injuries, displacements, and other indicators of civilian suffering.

**Table 12: Statistics of Gaza Deaths and Humanitarian Crisis (Oct 2023 – May 2025)**

CATEGORY	ESTIMATED NUMBER
<b>ESTIMATED TOTAL DEATHS (ALL CAUSES)</b>	55,298 – 78,525
<b>OFFICIALLY REPORTED DEATHS (AS OF JAN 2025)</b>	~33,000
<b>WOMEN AND CHILDREN SHARE OF DEATHS</b>	~70%
<b>CHILDREN KILLED</b>	Over 14,000
<b>INJURED PALESTINIANS</b>	Over 80,000
<b>MISSING PERSONS (UNDER RUBBLE)</b>	Over 10,000
<b>DISPLACED PALESTINIANS</b>	Over 1.9 million (85% of population)

The figures offered by the Lancet and other western sources illustrate a humanitarian catastrophe of unparalleled magnitude in Gaza. With up to 78,525 estimated deaths and over 1.9 million people displaced from their homes, the war has severely impacted civilians, especially women and children. Such statistics underscore the failure to protect non-combatants and the breakdown of essential services, but also highlight the need to examine the Red Sea corridor in the context of larger geopolitical tensions that greatly impact human security in the region.

➤ **China:** China features an even greater dependence on the Red Sea - \$1 trillion of trade occurs annually through this route. China intends to maintain long-term control over this shipping corridor, clearly illustrated in the Belt and Road Initiative. Securing trade routes and influence across the Middle East and East Africa form

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strategic and economic purposes for Beijing, as seen in the \$1.4 billion investment in the port and military base in Djibouti (Monitor, 2024).

➤ **European Union:** The European Union depends on this route to reach markets based in Asia, the Middle East, and Africa. The Red Sea-Suez corridor accounted for most of the European Union's (EU) over €650 billion traded with Asia in 2022. A disruption to this corridor would have serious implications for Europe's energy, electronics and raw material imports (UNCATD, 2023).

➤ **India:** India is a rising player with strong motivation to keep its passage through the Red Sea safe because of rapidly expanding trade with Africa and the Gulf, which is estimated to exceed \$20 billion in 2023 with an annual growth rate of greatest 18%. To bolster its regional presence, India has entered into port cooperation agreements, and has commensurately increased naval missions in the western Indian Ocean (DC, 2024).

The table outlines the trade activities and strategic objectives of major global powers operating within the Red Sea Corridor.

**Table 13: Trade and Strategic Interests of Key Global Powers in the Red Sea Corridor**

Country/Actor	Annual Trade Volume (USD)	Strategic Objectives	Key Actions Taken
<b>United States</b>	\$350 billion	Secure energy flows, protect global supply chains	Naval bases, drone defense systems, patrols
<b>China</b>	\$1 trillion+	Belt and Road expansion, military projection	Djibouti base, port investments
<b>European Union</b>	€650 billion	Maintain access to Asian and Gulf markets	Naval coordination, diplomatic security efforts
<b>India</b>	\$20 billion+	Energy imports, trade with Africa and Gulf	Naval deployments, port partnerships

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This table depicts the degree of strategic engagement and economic dependence of major global powers in the Red Sea corridor. The role the corridor plays in enabling global supply chains is clear by sheer scale of the volume of trade (China is have largest volume of goods by way of over \$1 trillion in trade annually, compared with the transacted volume for the US and the EU). In addition to the level of trade these actors engage in, the larger question is what are these actors' strategic goals and mechanisms of influence, given the nature of trade, The United States, for example, provides relatively stable military positioning with some of the highest level security technology in the world, which reflects a defense-first posture, but maintains its economic interests. China has taken a long-term strategic posture for things such as investing in infrastructure and military-commercial facilities in the region broadly and Djibouti specifically. The European Union has a multilateral and defence supported by naval alliances and diplomatic engagement to maintain market access. Meanwhile, India's presence is increasing objective in the realm of regional port diplomacy and development of economic trade presence in the area. Collectively all of these different approaches to the Red Sea corridor suggest that this area is highly contestable geo-political space with contending national interests and investment patterns in addition to other forms a commerce.

However, high strategic significance of the corridor, correlated with increasing geopolitical competition and increased risk of regional instability. Various disruptions - whether state or non-state driven - have demonstrated the fragility of maritime security in the Red Sea.

➤ During the period from November 2023 to mid-2024, over 300 incidents occurred at sea and many shipping firms rerouted their traffic around the Cape of Good Hope (List, 2024).

➤ Non-state actors (called as the Houthi movement) executed numerous attacks on merchant vessels in late 2023. These attacks represent larger attempts to shape maritime contexts linked to regional rivalries and foreign actors.

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➤ All of these incidents had huge impacts including a 90% reduction in shipping incidents in the Red Sea, upwards of 150% increases in insurance prices, 10-12 days increase in shipping times, and increases of almost 60% in freight costs around the whole world (Monitor Y. , 2024), (IMF, 2024).

**Table 14: Geostrategic Competition and Disruption in the Red Sea Corridor**

Actor	Interests	Disruptive/Strategic Actions	Result/Impact
<b>United States</b>	Global trade security, energy protection	\$2B/year in naval security; anti-drone defense systems;	Maintains maritime presence
<b>China</b>	Secure trade, extend BRI	\$1.4B investment in Djibouti infrastructure	Permanent base, port control
<b>India</b>	Trade flow to Africa/Gulf	Expanded navy patrols, trade diplomacy	Greater Indian Ocean footprint
<b>Non state actors</b>	Undermine Western control, disrupt rivals	300+ vessel attacks, use of drones and missiles	+150% insurance costs, rerouted global shipping

This table shows the different forms and motivations through which the range of different regional and international actors, begin to exert influence over the Red Sea Corridor. In the same vein, states such as the United States, China, and India, are increasing their political, economic, and military presence in the area to compete for strategic advantage.

The United States has a strong naval presence and continues to extend its defense capabilities for its geopolitical interests in maritime access. China is using soft power through economic attachment and military aspiration. For instance, China’s investment, \$1.4 billion into an infrastructure project in Djibouti, has commercial and strategic projects. India has further developed its naval engagement and regional engagement as it also is growing its reach for the balance of power in the area.

There has not been any small disruption to trade. Over 300 attacks on commercial vessels, with unimaginable route diversions, along with rising shipping and insuring costs are indications of the competition over the corridor. These elements together frame the Red Sea narrative as it is not simply a commercial corridor for shipment, it, along with other actors, is currently a battleground for state and non-state actors to project power to manage outcomes for systems and potential gains for their organization or nation.

### 5.2.Challenges Facing the Red Sea Corridor

Despite its strategic importance, the Red Sea corridor is becoming more unstable, endangering investor confidence and global supply chains.

➤ **Security Risks:** As of early 2024, commercial passage through the Red Sea was down by approximately 90%, mainly due to growing maritime insecurity from related tensions in the region (Yemen Monitor, 2024). Major container shipping companies like Maersk and CMA CGM had to reroute vessels around the Cape of Good Hope, shifting the time by 10 to 12 days to transport goods and increasing freight costs by up to 60% (IMF, 2024).

➤ **Economic Losses:** While vessels were being rerouted and insurance premiums surged, the Suez Canal Authority experienced a plunge in revenues from \$9.4 billion in 2023 to \$7.2 billion in 2024 (Al-Monitor, 2024). As a remedy for further economic loss, Egypt has been harassing tourism campaigns.

➤ **Environmental Hazards:** A subsequent attack on the oil tanker MT Sounion in August 2024, caused an estimated 150,000 tons of crude oil to be reintroduced into the Red Sea. This case raised serious questions about environmental protections, threatening coastal ecosystems and industries that rely on the ocean for resources (Times, 2024).

➤ **Political Fragmentation:** Poor trade facilitation is due to the Red Sea's neighboring countries not having a coordinated maritime defence, a unified regulatory framework, and an integrated custom.

## The Role of The Red sea in facilitating international trade

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The table identifies the primary challenges affecting development and stability within the Red Sea Corridor.

**Table 15: Key Challenges in the Red Sea Corridor**

Challenge	Impact	Stakeholders Affected
<b>Non state groups</b>	Vessel rerouting, insurance spike, traffic collapse	Global shipping, Egypt, Saudi Arabia
<b>Revenue Loss (Suez Canal)</b>	Drop in national income and global transit capacity	Egypt, European & Asian exporters
<b>Oil Spill / Environmental Risk</b>	Marine ecosystem degradation, long-term economic harm	Regional tourism, fisheries
<b>Policy Disunity</b>	Slow customs, inconsistent regulations	All Red Sea states and trade partners

The types of challenges that are illustrated in the table below represent the diverse, multifaceted challenges that affect the stability and operational effectiveness of the Red Sea Corridor. Disruptions from maritime security incidents, such as those related to non-state actors, are potentially the also most immediate disruptions, given the significant impacts that maritime security incidents have had on international shipping traffic. In some instances, the impact has led to instances of nearly full interruptions to commercial transit through the exchanges of the passageways, such as effected through the Suez Canal, resulting in increased insurance premiums and significant operational delays.

These interruptions have global consequences given the implications on both global trade and regional economies. Countries like Egypt and Saudi Arabia are directly affected from a revenue perspective via loss of canal fees and the interruption of commercial shipping services. Revenue reductions from tolls like those levied at the Suez Canal impact budgetary planning for ministries and impact shipping agencies financial timelines from Europe to Asia based on the need for timely shipments, many of which were established and costed around the canal services.



### Summary of the Chapter

This chapter has focused on the movement of goods and services and foreign direct investment across borders and regions and the Red Sea Economic Corridor's role as a strategic segment as part of a more interconnected global trade. By analyzing key infrastructure projects, trade flows, and service networks, it has been demonstrated that the corridor is not just a maritime corridor, but a vibrant economic corridor that encompasses physical maritime infrastructure with digital infrastructure, investment regimes, and logistics. Dedicat zones of economic activity like the Suez Canal Economic Zone and Djibouti's free trade zones have exemplified how regulatory and physical infrastructure can work hand-in-hand to improve investor confidence and competitiveness. This chapter has also presented the challenges created by geopolitical instability and regional conflicts, which continue to hinder trade economic activity and foreign direct investment. These challenges show the need for better coordination and strengthened infrastructure and especially a nimble and flexible set of policy regimes. The evolution of the Red Sea corridor allows us to better understand how today's contemporary economic corridors can facilitate local growth, activate global trade, and ultimately influence the process of international economic integration going forward.



# **Chapter four: Conclusion**

## **General Conclusion**

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This conclusion will capture the main results of this study and reflect on the overall development role and impact of the Red Sea economic corridor, as well as its core contributions, limitations, and directions for future research.

### **1. Results :**

The purpose of this study was to examine the role of economic corridors in international trade with a focus on the Red Sea corridor. The first chapter was prepared to encompass a theoretical background where the concept of international trade was provided with a review of the relevance of international trade to economic growth and the regional integration of trading partners. The chapter included an introduction to economic corridors where the distinct features, the role of economic corridors, as well as strategic significance of economic corridors to international trade were outlined. A review of the literature relevant to economic corridors provided further substantiation of economic corridors as topics of continuing discussion by globally dispersed researchers focused on increased connectivity, reduced trade costs, or increased attraction of foreign direct investment (FDI).

The second chapter examined the Red Sea corridor as a unique case study based on the theoretical elements discussed. The findings established the role of the Red Sea corridor as significant to international trade connecting various regions around the world with recent focus on the Suez Canal linking two continents. The Red Sea corridor is significant to trade volume including energy, manufactured products as well as agricultural products or commodity-type goods, and supports and encourages a variety of service sectors such as logistics and maritime services.

The study additionally demonstrated that the Red Sea corridor is attracting FDI with the infrastructure development, trade facilitation reforms, and port modernization by countries (i.e. Egypt, Saudi Arabia, and Djibouti). However, the study also established that geopolitical threats, piracy, limited digitalization, and customs infrastructure are challenges that mitigate the corridor, and these challenges require joint efforts along with policy coordination.

### 2. Discussion of Hypotheses:

- Hypothesis 1: Economic corridors play a positive role in international trade by enhancing connectivity, reducing trade costs, and improving logistics efficiency.

Both chapters thoroughly show the author's arguments. Chapter One discussed economic corridors as substantive infrastructure and policy tools which integrate the ability to significantly diminish trade barriers and connect remote inland trade with the global trade network. Chapter Two described the Red Sea corridor in practice through the example of the Suez Canal that enables between 12 - 15% off global trade passage and diminished shipping distance and costs. The infrastructure investment in ports such as King Abdullah Port and SCZone has increased the ability to provide logistical efficiency which leads to our conclusions on the ability of economic corridors to mediate the performance of trade.

- Hypothesis 2: The Red Sea corridor play significantly role in facilitating the trade of goods.

The applied study itself is evidenced with clarity and direction. In Chapter Two it discusses over 30% of global container traffic moves through the Red Sea, a corridor which links different areas from the world together. Fifty-four per cent of cargo moves from Asia to Europe, while 11% moves to and beyond. The corridor mediates bulk trade in crude oil, wheat, fertilizers, and manufactured goods. Even in late Feb - early March 2023, during the relative security disruptions in the world, trade was only moderately reduced showing the durability of the supply chain and corridor and its essential connection to trade of good on the planet.

- Hypothesis 3: The Red Sea corridor play significantly role in facilitating the services

This evidence is both literature and data based. The Red Sea region has active logistics hubs like SCZone whose service trade made up \$18B in 2023, as well as port-centric networks like Djibouti. It also has submarine cables (e.g., PEACE, SEA-ME-WE 5) which allow for borderless digital trade and tele-communications. There is even a clustering of financial services related to direct trade: insurance, trade credit, etc. Sure, 2023 to 2024 crisis increased service costs (e.g. logistics +35%, insurer premiums +200%), but the corridor's infrastructure remains a significant and effective alternative to service flows.

## General Conclusion

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- Hypothesis 4: The Red Sea corridor play significantly role in attracting foreign direct investment (FDI).

Chapter Two validates this through data: SCZone in Egypt generates \$6.3B, the Red Sea projects in Saudi Arabia and NEOM generated \$8.2B, Djibouti's port upgrades generated \$4B of FDI from 2022-2024. In total, these efforts in logistics, digital infrastructure, green energy and tourism investment. The investment climate has positive and improving conditions from enhanced infrastructure and government motivated reforms, despite ongoing security risks. In total, the trend is clear, that the corridor is pulling in unique levels of FDI distinct and that it continues to offer trade-aligned benefits.

### 3. Practical Recommendations:

Based on the findings of this research, the following recommendations are proposed:

- Encourage regional cooperation in Red Sea corridor countries that contributes to securing trade and political stability.
- Enhance investment in trade facilitation infrastructure (modern ports, customs systems, logistics hubs).
- Encourage digital trade with electronic data interchange and single window systems.
- A large regional initiative by Arab states to strengthen control of the Red Sea corridor through institutional cooperation, formal legal frameworks, and agreements with neighbouring countries to sustain strategic sovereignty and limit foreign control.
- A unified Arab maritime policy to maximize the economic potential of the Red Sea corridor, including trade facilitation, investment in port and terminal infrastructure and regional governance for secure logistics networks.
- A multilateral Arab task force to monitor foreign engagement in the Red Sea and regulate foreign activities with the strategic aim of long-term sustainability and long-term political development.

### 4. Suggestions for Further Studies:

Given the importance of the Red Sea corridor in global trade and the limitations of this study, several areas are suggested for future research:

- A detailed examination of the security threats related to maritime corridors and how this can affect international trade.
- A Quantitative study through econometric modelling which accurately measures the impact of the development of a corridor on trade growth and foreign direct investment inflows.
- Investigating the effects of corridor development and shipping activities on environmental and sustainability matters.

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