

Red Sea Turmoil: Impact on Global Supply Chain

Strategic and Economic Significance of the Red Sea

- The Red Sea, with its connection to the Suez Canal, is one of the world's most heavily used shipping lanes and is considered to be the fastest maritime route between Europe and Asia, offering an alternative to the route around the Cape of Good Hope.
- The Suez Canal, facilitates around 12% of the world's trade and 30% of container shipping. This man-made canal, opened in 1869, and is essential for transporting goods and fuel.
- In 2023 alone, over 23,000 ships passed through it, averaging more than 50 daily.
- The route is also vital for India's trade with Africa, the European Union, and the Middle East.

Current Crisis

- The escalating Israel-Palestine conflict is sparking a global economic crisis, with ships in the Red Sea increasingly targeted by the Houthis, a Yemen-based group backed by Iran.
- In response to the Israeli offensive in Gaza, they've attacked over 100 vessels with drones and missiles, particularly in the strategic Bab el-Mandeb Strait.
- World's leading shipping companies - CMA CGM, Hapag Lloyd, AP Moller-Maersk and MSC (accounting for 53% of global maritime trade) have re-routed or suspended operations through the route.
- The ongoing attacks on shipping routes in the Red Sea due to the Israel-Palestine conflict have caused a surge in transit times, shipping rates, and insurance premiums. This disruption has notably pushed oil prices above \$80 per barrel.
- To counter these threats, the US has initiated an international naval operation, with support from the UK, Canada, France, Bahrain, Norway, and Spain, aiming to safeguard the ships in these critical waterways.



Source : CNBC

Captivating Historical Insights

- After the Six-Day War between Arab nations and Israel, Egypt closed the Suez Canal from 1967 to 1975, contributing to the 1973 Oil Crisis.
- To enhance its capacity, the canal was expanded from one to two lanes between 2014-2015.
- In 2021, the Ever Given, a 400-meter-long container ship, ran aground in the Suez Canal due to strong winds, blocking it for six days. This incident led to a backlog of over 100 ships at both ends of the canal.

Main Shipping Routes and Choke Points



Impact on Global trade

- **Global Shipping Disruptions:** The Red Sea conflict has led many companies to halt operations or reroute vessels. This causes longer transit times and reduced shipping volumes, resulting in increased freight rates.
- **Diverted Vessels and Cargo:** As of December 21, around 158 vessels carrying over 2.1 million cargo containers worth \$105 billion have been rerouted away from the Red Sea.
- **Impact on Logistics Costs:** Persisting or escalating conflict could significantly raise logistics costs. In light of these risks, global shipping firms are now adding a war risk surcharge to the normal freight rates.
- **Increased Freight Rates for Indian Exporters:** Indian exporters expect a 20-30% hike in freight rates for shipments to Europe and Africa if the security situation does not improve. This is of major concern as the European Union is a key export market for India.
- **Effect on Indian Industries:** The reduced demand from Europe is impacting India's labor-intensive sectors, including textiles, gems and jewelry, which rely heavily on exports to these regions.
- **Global Economic Context:** This issue is compounded by the higher interest rates in Western countries, implemented to control inflation. These measures could further suppress demand, affecting both global and Indian exporters.



Reference: Indian Express, Moneycontrol, Economic Times