

The Price of Passage: Red Sea Tensions and the Ripple Effect

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ABSTRACT

This paper examines the ongoing crisis in the Red Sea and its far-reaching implications for global maritime trade. It highlights how the escalating Houthi rebel attacks on shipping routes have disrupted supply chains, increased shipping costs, and contributed to inflationary pressures across global markets. The study underscores the vulnerabilities of concentrated trade corridors and the lack of diversified, resilient alternatives to mitigate geopolitical risks. Drawing on the frameworks of realism in international relations and supply chain resilience, the paper explores the intersection of security threats, economic dependencies, and strategic policy responses. Emphasising the urgent need for international cooperation, it calls for multilateral efforts to enhance maritime security, invest in alternative shipping routes, and develop policies that stabilize critical trade arteries. The paper advocates for proactive measures that address both the immediate disruptions and the long-term resilience of global supply chains.

Keywords: Red Sea crisis, maritime security, supply chain resilience, geopolitical instability, global trade, shipping costs, economic disruptions.

The Red Sea, a critical artery for global maritime trade, has recently become a geopolitical flashpoint, with escalating tensions threatening global commerce. Particularly, the rise of the Houthi rebel activities targeting shipping routes has created a crisis that threatens the stability of global commerce. The consequences of this conflict reverberate across the maritime economy, with increased costs, trade disruptions, and broader economic repercussions¹. The crisis can be examined through the lens of realism in international relations, which emphasises state-centric power dynamics, conflict over strategic resources, and security dilemmas. Furthermore, the dependency theory from global trade frameworks highlights how disruptions in key shipping lanes disproportionately affect dependent economies. These theoretical lenses provide a foundation for analysing the interplay between geopolitical power struggles and the economic fallout of the Red Sea crisis. This article explores the scope of the crisis, its direct impact on maritime trade, and the long-term implications for the global economy.

Overview of the Crisis

The current crisis in the Red Sea stems from the conflict between the Houthi rebels in Yemen and the allied forces, especially involving Israel and the United States. Since late

2023, the Houthis have increasingly targeted commercial vessels traversing the Red Sea, Bab-el-Mandeb Strait, and the Gulf of Aden, which are vital waterways responsible for approximately 15% of global maritime trade volume. These attacks, involving advanced drones and missile strikes, have created a hostile environment for maritime trade, prompting major shipping companies to reroute vessels around Africa's Cape of Good Hope². From a global trade theory perspective, the disruption underscores vulnerabilities in concentrated trade corridors, highlighting the need for diversified and resilient supply chains.

The increased hostilities have led to over 80 vessels being attacked, forcing shipping companies to reconsider their transit through these once-secure waters. The route around the Cape of Good Hope, while avoiding direct threats, has contributed to significant cost escalations, hike in insurance premiums and trade delays that have rippled throughout the global supply chain.

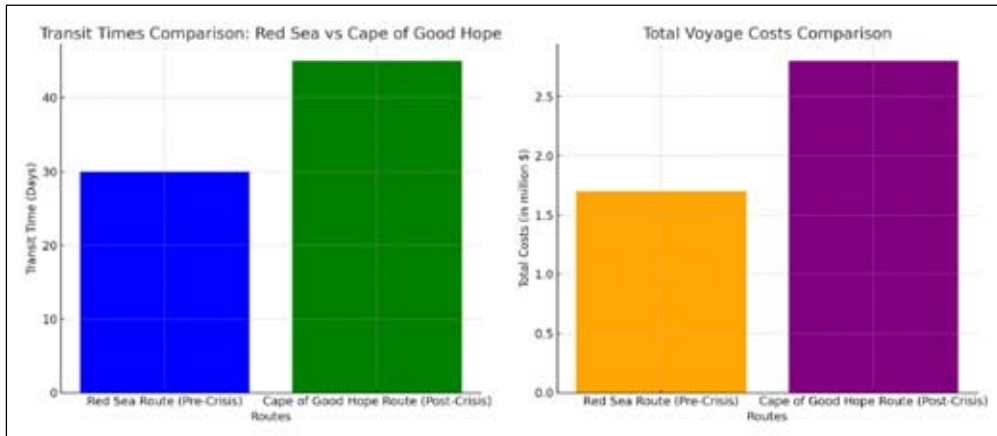
Impact on Maritime Trade and Shipping Costs

Shipping Costs. The most immediate and noticeable impact of the Red Sea crisis has been the increase in shipping costs. Companies, which are wary of potential attacks, have shifted to the longer, more secure route around the Cape of Good Hope. This detour adds 12 days to typical voyages between Asia and Europe, translating to additional fuel consumption, increased crew wages, and higher vessel chartering costs. Thus, the rerouting of vessels alone increases overall shipping prices by almost 30%, costing companies an additional \$1 million per voyage³. From a supply chain resilience perspective, the rerouting highlights both the adaptability and fragility of global shipping networks in the face of geopolitical shocks.

Insurance Premium. The insurance premiums for ships that continue to use the Red Sea and Bab-el-Mandeb Strait have skyrocketed. The risk of the Houthi attacks has driven war risk premiums up from 0.6% to 2% of the cargo value. For large shipping companies like Maersk, these increased risks have forced them to temporarily suspend operations in the region, further contributing to trade disruptions⁴. Moreover, this spike not only increases direct costs but also discourages smaller shipping companies from operating in the region. Figure 5 illustrates the trend in insurance costs on the Red Sea route as a percentage of cargo value, comparing pre-crisis and post-crisis periods.

Freight Charges. The impact on trade routes is significant, with over 30% of global container traffic passing through the Red Sea. A sharp decline in vessel traffic through the Suez Canal and Bab-el-Mandeb Straits — a reduction of 50% in some cases — has shifted the burden to alternative routes, causing global freight rates to rise. For instance, the cost of shipping between Shanghai and Rotterdam doubled, and rates for shipping from Shanghai to Genoa rose by 350% in early 2024⁵.

Disruptions in the Global Supply Chain. The additional transit time has created delays in shipments, particularly for time-sensitive goods. Container vessels, which often carry

Figure 1 - Transit Time Comparison and Total Voyage Costs Comparison

Source: 'What are the impacts of the Red Sea shipping crisis?', *JP Morgan Report*, Feb 8, 2024

high-value cargo, have been among the most affected, with shipping delays of up to 17 days for Asia-Europe voyages. These delays strain global supply chains, especially for industries reliant on just-in-time delivery models, such as automotive, electronics, and retail. Such delays align with the dependency theory, where peripheral economies suffer disproportionately from disruptions in core shipping routes.

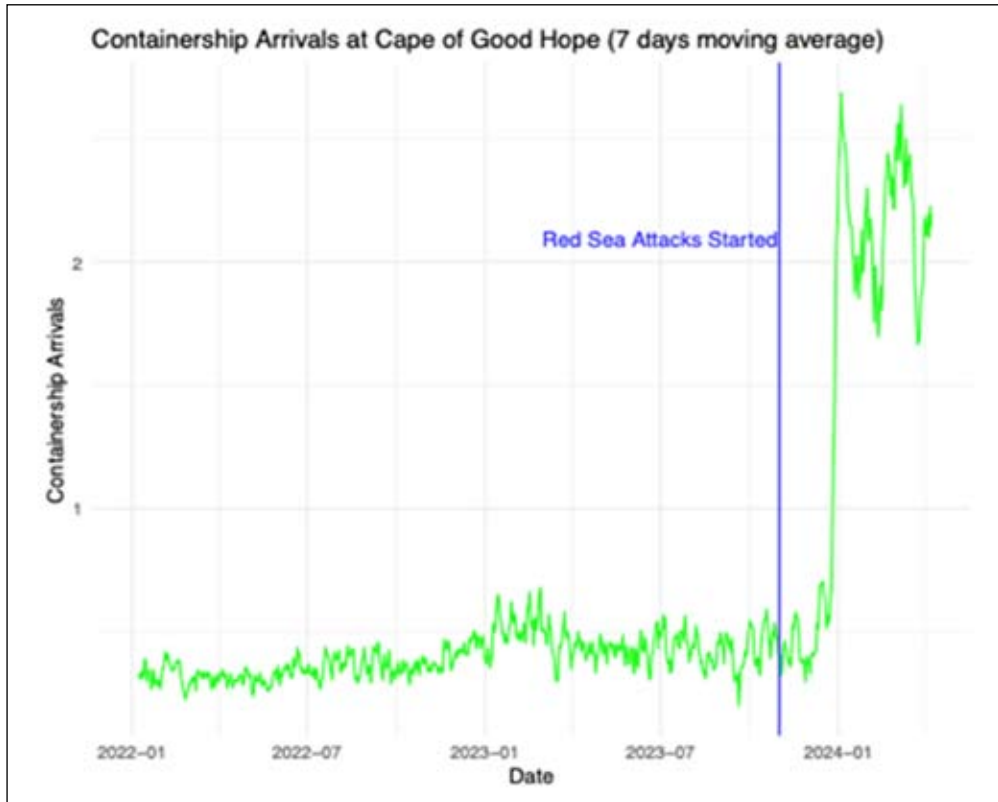
As vessels are forced to reroute, African ports have seen a sharp increase in traffic, contributing to congestion and further delays. Ports such as Durban and Cape Town in South Africa, which were not fully equipped to handle this surge, are experiencing bottlenecks that prolong shipments even further⁶, complicating the global supply chain⁷. For some African ports, like Maputo in Mozambique, the increase in traffic has created short-term economic windfalls. However, this benefit is offset by the broader disruptions to international trade.

Increased shipping costs and delays also have inflationary effects on the global economy. The cost of consumer goods is expected to rise as businesses pass on the additional shipping costs to consumers. According to estimates, the disruptions in the Red Sea have raised global core goods inflation by as much as 0.7 percentage points in the first half of 2024⁸.

Figure 4 compares fuel consumption between the Red Sea route (pre-crisis) and the Cape of Good Hope route (post-crisis). Ships transiting through the Red Sea Route (pre-crisis) on average consumed about 2,500 tonnes of fuel per voyage. Rerouting through the Cape of Good Hope Route (post-crisis) has increased the fuel consumption significantly to around 3,800 tonnes per voyage.

To sum up, the Red Sea crisis has led to a considerable increase in shipping costs, with companies being forced to choose between the more dangerous and costly Red Sea route

Figure 2 - Containership Arrivals at the Cape of Good Hope



Source: MP-IDSA Report, September 04, 2024

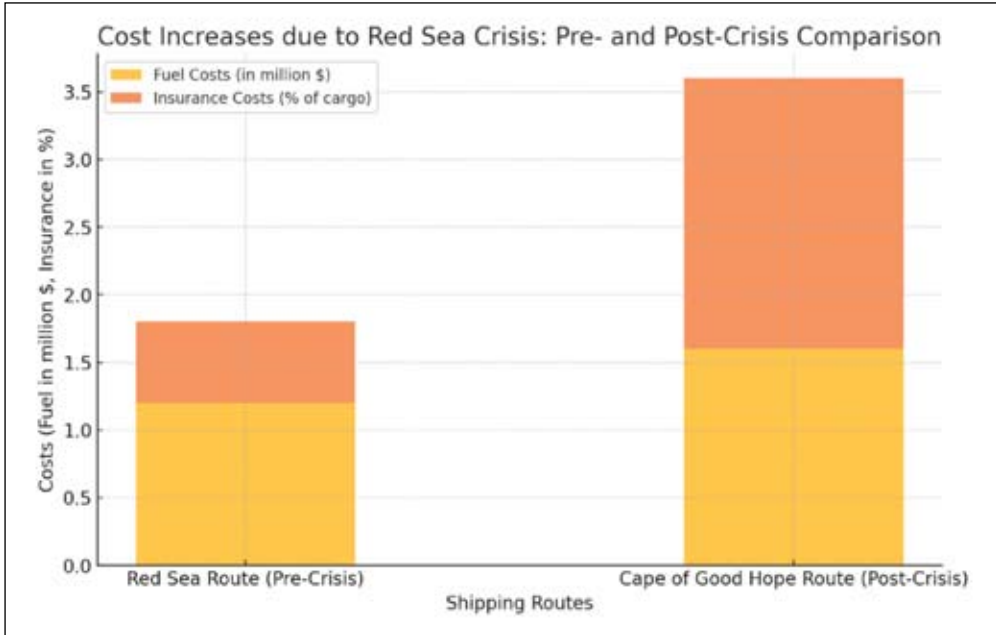
or the longer, more expensive Cape of Good Hope route. Both options carry significant financial and environmental burdens, with fuel costs, insurance premiums, and port fees all contributing to a steep rise in overall costs. As ships have been diverted to avoid the Red Sea, the Cape of Good Hope route has become the primary alternative. While it avoids the conflict zone, this route comes with significant cost increases. A comparison of the cost break-down of both shipping routes has been undertaken and is tabulated below.

Table 1 - Cost Breakdown between Shipping Routes

Cost Factor	Red Sea Route (Pre-Crisis)	Cape of Good Hope Route
Average Transit Time	25-30 days	40-45 days
Fuel Costs / Voyage	\$1.2 million	\$1.5-1.7 million
Suez Canal Toll	\$300-700 thousand	NA
Insurance Premium	0.6% of cargo value	1.2% of cargo value
War Risk Premium	\$500/ voyage	\$5000-10,000/ voyage
Additional Port Costs	Minimal (no additional bunkering)	\$50,000-100,000
Freight Rates	\$1,500-2,000	\$3,500-6,000
Total	\$1.5-2 million	\$2.4-2.9 million

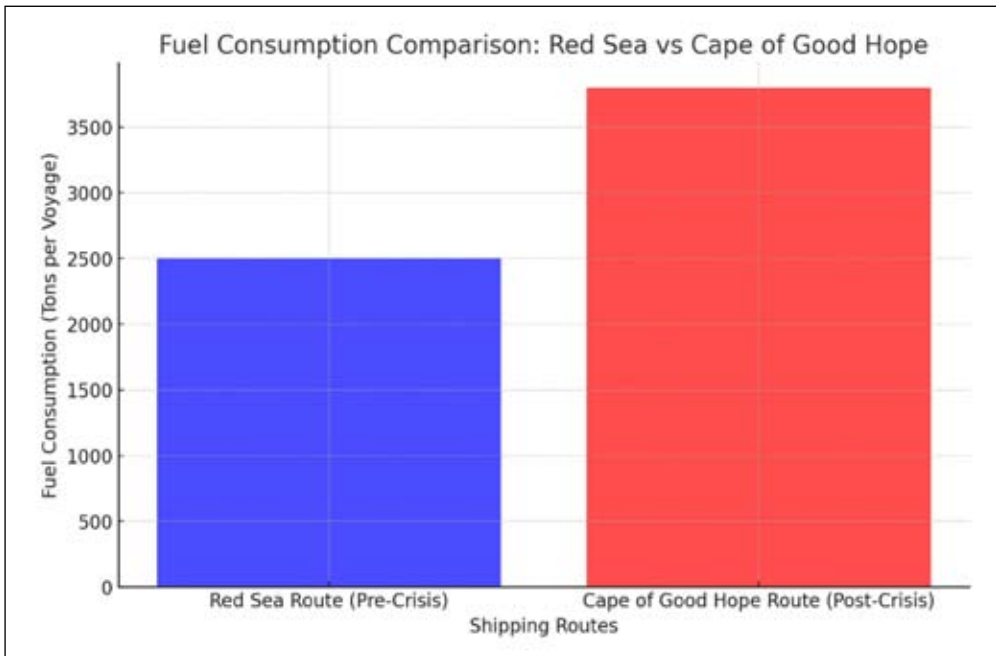
Source: Collated by the author

Figure 3 - Cost Increases due to the Red Sea Crisis

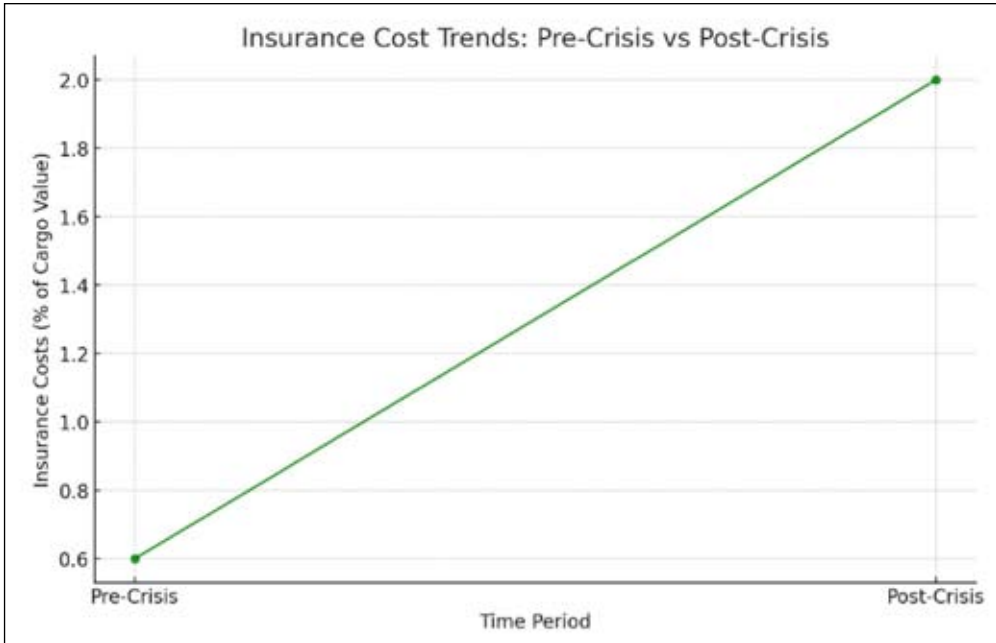


Source: UNCTAD, February 22, 2024

Figure 4 - Fuel Consumption Comparison: Red Sea vs Cape of Good Hope



Source: UNCTAD, February 22, 2024

Figure 5 - Insurance Cost Trends

Source: UNCTAD, February 22, 2024

Broader Economic Implications

The impact of the Red Sea crisis extends beyond shipping companies and trade routes. Egypt, which heavily relies on revenues from the Suez Canal, has experienced a 40% drop in income from canal tolls due to the diversion of vessels⁹. The broader economic effects are also felt across industries, particularly those dependent on stable and efficient shipping routes.

For oil and gas, the crisis has increased transportation costs, particularly for tankers rerouted around Africa. With the Red Sea playing a crucial role in the transport of Middle Eastern oil to Europe and North America, any disruptions in this region have significant consequences for global energy markets. Increased transit times and higher insurance premiums for oil tankers contribute to volatility in energy prices¹⁰.

Similarly, the global agriculture industry is impacted. Grain shipments from Asia and Africa, which pass through the Suez Canal, have been delayed, exacerbating global food price inflation¹¹. These delays come at a time when global supply chains are already strained due to ongoing geopolitical conflicts, such as the war in Ukraine.

Conclusion

The ongoing crisis in the Red Sea highlights the vulnerability of global trade routes to geopolitical tensions. As shipping companies adapt to new realities, the cost structure of

global trade is likely to change. Higher shipping costs, increased insurance premiums, and longer transit times may become the norm, particularly if conflicts in the Middle East persist. Businesses will need to develop more agile and resilient supply chains to navigate these disruptions. This may involve diversifying trade routes, increasing stockpiles of critical goods, or investing in new technologies that can help reduce shipping times and costs. In the long term, companies may need to reassess their supply chain strategies, explore more diversified routes, and invest in greener technologies to offset these escalating costs. The current disruptions highlight the vulnerabilities of global trade to geopolitical tensions, and shipping companies will need to adapt to a new reality of higher operational costs and increased uncertainty.

In conclusion, the Red Sea crisis represents a significant challenge to the global maritime economy. The direct costs in terms of increased shipping expenses and insurance premiums are already being felt, but the longer-term economic consequences are likely to be even more profound. As global trade becomes more dependent on secure and stable routes, the crisis underscores the need for international cooperation to protect critical maritime arteries and ensure the smooth flow of global commerce¹². The attacks themselves are unlikely to be resolved soon. Besides the Israel-Hamas conflict, which is unlikely to subside soon, the Houthis' realisation that their attacks attract international attention and distract the Yemeni population from the group's inability to provide basic services is reinforcing their current course of action.

The Need for Strategic Cooperation and Resilience. The Red Sea crisis underscores the fragility of global trade networks in the face of geopolitical instability. From a realist perspective, regional powers must prioritise stability in key waterways, while supply chain resilience frameworks suggest long-term investment in diversified trade routes and technological innovations. International cooperation remains essential, involving multilateral organisations like the IMO and UNCTAD. Failure to address these tensions risks entrenching higher shipping costs, prolonged inflationary pressures, and continued geopolitical instability in the region. A UN-led Maritime Security Task Force to monitor/secure Red Sea trade routes, investment in alternative shipping corridors and green shipping technologies, as well as regional dialogues among key stakeholders, including Yemen, Egypt and Saudi Arabia, are a few policy-level recommendations to improve stability, economy and trade.

Notes

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Disclosure Statement

The views expressed in the article are solely those of the author.

Note on Contributor

Captain Anoop Govindan was commissioned into the Indian Navy in January 2004. A specialist in communication and electronic warfare, he has served on various naval ships, Command HQ, and Naval HQ. As a Naval Air Operations Officer with extensive operational experience, he is qualified on the Dornier and TU-142M Maritime Patrol Aircraft and is a certified flying instructor on Naval UAVs. His academic credentials include an MSc in Air Operations and Management and an MSc in Telecommunications from CUSAT, an MSc in Defence Studies from Madras University, and an MSc in Maritime Studies and Defence Relations from the Indonesian Defence University. An avid reader and writer, Captain Anoop actively contributes to various defence-related topics, reflecting his deep expertise in the field.