

MP-IDSA *Backgrounder*

The Red Sea Crisis and Regional Economic Ramifications

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Summary

The Red Sea crisis as a result of the attacks on shipping traffic by the Houthis in solidarity with the Hamas fighting Israel has had significant negative, economic ramifications for regional countries.

Introduction

The Red Sea, part of the Northwest Indian Ocean and stretching over 2,000 kilometres, is a vital trade route connecting Europe, Africa and Asia by linking the Mediterranean Sea with the Indian Ocean. It plays a crucial role in global commerce, handling 12 per cent of global trade and 8 per cent of the world’s LNG trade.¹ The Suez Canal and the Bab al-Mandab Strait are key chokepoints on this route. The Bab El Mandab Strait ranks as the world’s fourth most important chokepoint for oil trade. The Gulf of Aden, located along Yemen’s southern coastline, is also a crucial area of concern.

As the war between Israel and Hamas escalated in October 2023 in the aftermath of the Hamas attacks on Israel, the Yemeni Houthis started attacking shipping traffic in the Red Sea beginning from 19 November 2023. This led to significant repercussions for vessels passing through the Red Sea, Strait of Bab El Mandab and the Gulf of Aden. From 15 December 2023, a number of ships began to divert and reroute via the Cape of Good Hope. On 15 December 2023, A.P. Moller – Maersk, a container logistics company, became the first ship to do so. This was followed by other shipping firms like MSC and CMA CGM. A report by the World Bank notes that by March 2024, traffic via the Bab El Mandeb and Suez Canal dipped by 50 per cent, whilst it has doubled along the circumnavigated route along the Cape of Good Hope.²

This has translated into higher insurance costs and delays of 10–14 days.³ As a result, container shipping rates have also gone up. On 18 December 2023, Lloyd Austin, the US Secretary of State announced the establishment of Operation Prosperity Guardian to ensure freedom of navigation in the Red Sea. The situation, however, still remains tense in the Red Sea. Apart from the security concerns, the ongoing crisis has had severe economic repercussions for a number of countries.

Economic Ramifications

Egypt and Horn of Africa

Egypt has been facing economic challenges since the Arab unrest in 2011. It was further exacerbated by the COVID-19 pandemic and the Russia–Ukraine War. Foreign investments in the Egyptian oil and gas industry have been negatively

¹ Zahra Ahmed, “[10 Major Sea Routes of the World](#)”, *Marine Insight*, 15 December 2023.

² “[Dire Strait: The Far-Reaching Impact of the Red Sea Shipping Crisis](#)”, World Bank Group, April 2024.

³ Wendell Roelf, “[Ships Rerouted by Red Sea Crisis Face Overwhelmed African Ports](#)”, *Reuters*, 22 December 2023.

impacted. The Israel–Gaza conflict and the corresponding Red Sea crisis has put an already suffering Egyptian economy into a tougher spot.

Among all the countries along the Red Sea, Egyptian economy has been hit the hardest. The Suez Canal accounts for 14 per cent of Egypt’s economy. The Sumed pipeline and Suez Canal of Egypt can transport 2.5 million barrels per day. With the Houthi attacks on the ships in the Red Sea, and fewer ships passing by this chokepoint, Egypt’s revenues have been affected in three ways—declining remittances; tourism; and transit fees.⁴

In February 2024, Egyptian President Abdel Fattah El Sisi stated that Egypt’s Suez Canal revenues had dipped by approximately 50 per cent.⁵ Egypt’s revenues for the fiscal year 2023–2024 plummeted to US\$ 7.2 billion from US\$ 9.4 billion in the previous year.⁶ The Suez Canal Authority (SCA) records that there has been a decline in the number of ships transiting via the canal from 25,911 to 20,148 in this fiscal year.⁷ Since January 2024, the Suez Canal Authority has been offering discounts to varying types of vessels on selected long-distance trades in order to have more ships pass by the Suez Canal. This will continue until the end of 2024.⁸

Djibouti is on the other side of the Bab al-Mandab Strait. About 31 per cent of its foreign trade volume passes by the canal.⁹ Imports to the state have declined by a fifth since the Red Sea crisis began. There have been adverse implications for Sudan since it depends on the Suez Canal for its trade volume amounting to 34 per cent.¹⁰ States such as Djibouti, Sudan and Eritrea must compete with less availability of vessels, and increased freight and insurance costs, all of which challenge maritime trade.¹¹

West Asian Countries

Saudi Arabia has the longest coastline along the Red Sea and the ports along the Red Sea are an important lifeline for its trade. In March 2024, King Abdullah and Jeddah Ports witnessed a decline in traffic of 90 per cent and 70 per cent respectively,

⁴ Noah Berman, [“Can Egypt’s Economic Overhaul Stave Off Crisis?”](#), Council on Foreign Relations, 17 April 2024.

⁵ Adam Lucente, [“Egypt’s Sisi: Suez Canal Revenue Down as much as 50% over Red Sea Attacks”](#), *Al-Monitor*, 20 February 2024.

⁶ [“Suez Canal Revenues Maintain Downward Trend, Falling to \\$7.2B in FY23/24 Amid Red Sea Attacks”](#), *Egypt Today*, 18 July 2024.

⁷ [“Due to Red Sea Security Challenges: Egypt’s Suez Canal Revenues Drop to \\$7.2B”](#), *Egypt Today*, 18 July 2024.

⁸ Glenn Taylor, [“Amid Red Sea War-Risk Premium Surge, Rerouting Around Africa Less Expensive by Comparison”](#), *Sourcing Journal*, 18 June 2024.

⁹ Céline Bacrot and Marc-Antoine Faure, [“Red Sea Crisis and Implications for Trade Facilitation in Africa”](#), *UNCTAD Transport and Trade Facilitation Newsletter*, First Quarter 2024.

¹⁰ *Ibid.*

¹¹ [“Red Sea Crisis Affects African Ports”](#), *Economic Intelligence*, 29 February 2024.

as opposed to their normal capacity.¹² The Kingdom’s export of oil was also affected by the escalating tensions in the Red Sea. In July 2024, Saudi Arabia announced that its oil shipments would not be passing through the waters of the Red Sea. This came in the wake of two of its ships being attacked by the Houthis.

In February 2024, the UAE Minister of Economy highlighted the need for alternative trade routes and logistics in order to ensure stable supply chains.¹³ DP World, which is a UAE-based port operator, recorded a 59 per cent fall in net profit in the first half of this year owing to the Red Sea crisis.¹⁴ Since January 2024, Qatar, the second largest exporter of LNG globally, has paused its LNG export shipments via the Red Sea. The route via the Cape of Good Hope takes an additional approximately nine days for the journey from Qatar to Europe.¹⁵

Salalah Port in Oman witnessed a dip in container volume by 16 per cent in the first half of the year owing to the rerouting of ships via the Cape of Good Hope. Up until 30 June 2024, there have been 1.679 million shipping containers, in contrast to 1.999 million from the previous year. The port operator has noted that they expect that the volume will continue to dip for the rest of the year, given the deteriorating situation.¹⁶

The World Bank’s Yemen Economic Monitor notes that whilst experiencing one of the world’s worst humanitarian crisis, Yemen’s imports have looked relatively stable although, with exacerbations in the Red Sea, there will be supply shortages and increased import costs. However, it is the areas under the internationally recognised government of Yemen that will be hit more as compared to the ones controlled by the Houthis. The report forecasts that there will be a dip in the ‘overall growth of the MENA region in 2024’ by 0.8–2.7 per cent as compared to October 2023.¹⁷

As for Israel, on 7 July 2024, the Eilat Port CEO stated that the port has been redundant since the past eight months and that no revenues were being generated from the same. The commercial port is among the three ports (the others being Ashdod and Haifa) in a similar state. Eilat primarily handles bulk cargoes, as well as

¹² Linton Nighingale and Bridger Diakun, [“Saudi’s Red Sea Box Port Traffic Decimated by Houthi Attacks”](#), Lloyd’s List, 7 March 2024.

¹³ Alvin R Cabral, [“Red Sea Crisis Highlights Need for Further Trade Routes, UAE Minister Says”](#), *The National*, 29 February 2024.

¹⁴ [“UAE Port Operator Sees Profit Fall 59% Amid Red Sea Crisis”](#), *Business Insurance*, 23 August 2024.

¹⁵ Emily Chow and Marwa Rashad, [“Tankers Carrying Qatari LNG Change Course Amid Red Sea Tension -Data”](#), *Reuters*, 16 January 2024.

¹⁶ Catherine Cartier, [“Oman’s Salalah Port Sees Fall in Container Volumes Amid Red Sea Crisis”](#), *Reuters*, 16 August 2024.

¹⁷ [“Yemen Economic Monitor”](#), The World Bank, Spring 2024.

car imports and potash.¹⁸ These cars include Chinese manufactured ones which account for 70 per cent of Israel’s electric vehicle sales.¹⁹

In February 2024, there was also a sabotage on underwater cable. The Houthis denied any role in this. This caused a 25 per cent disturbance to the telecommunications traffic in the West Asia and North African region (WANA). States like Ghana were also severely impacted by the same. Together with Nigeria, the states have asked the International Telecommunications Union to protect the cables.²⁰

India

The Red Sea accounts for around 80 per cent of India’s trade with Europe.²¹ In January 2024, External Affairs Minister S. Jaishankar visited Iran where he highlighted that, in addition to threats posed to maritime safety, there is also ‘a direct bearing on India’s energy and economic interests’.²² In the monthly economic review held in February 2024, the Ministry of Finance acknowledged that the ongoing Red Sea crisis can lead to corresponding surge in prices and also affect the economic growth given the rise in oil prices and that there is a requisite to diversify the trade route and transportation.²³

India has experienced a decline of 5.39 per cent in its seafood exports due to the low consumer demand from the American, EU and UK markets due to high selling prices owing to the disruptions in the Red Sea.²⁴ In March 2024, the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority of India (IRDAI) were requested by the Ministry of Finance to keep track of the availability of credit export and insurance costs of the export expenditures involved.²⁵

An assessment by Research and Information System for Developing Countries, New Delhi has pointed at a loss of US\$ 30 billion owing to the Red Sea crisis. It has enumerated that Indian exports would experience a decline by 6.7 per cent as

¹⁸ Nick Savvides, “[Attacks on Red Sea Shipping Bankrupt Israeli Port](#)”, *Seatrade Maritime News*, 10 July 2024.

¹⁹ Simon Speakman Cordall, “[Have the Houthi Red Sea Attacks Hurt Israel’s Economy?](#)”, *Al Jazeera*, 13 January 2024.

²⁰ Sameer Patil and Prithvi Gupta, “[Undersea Chokepoints: The Red Sea Cable Disruptions](#)”, Observer Research Foundation, 21 May 2024.

²¹ Nikita Prasad, “[Explained | Upside Risk on Inflation to Export Woes—Here’s How the Red Sea Crisis Will Impact Indian Economy in FY25](#)”, *Livemint*, 22 March 2024.

²² “[Joint Press Statement by EAM, Dr. S. Jaishankar with Minister of Foreign Affairs of Iran](#)”, Ministry of External Affairs, Government of India, 15 January 2024.

²³ “[India’s Inflation, Growth at Risk from Red Sea Crisis-driven Oil Price Rise, Govt Says](#)”, *Reuters*, 22 March 2024.

²⁴ V. Sajeew Kumar, “[India’s Seafood Exports Decline Due to Red Sea Crisis and Overseas Demand Slump in FY24](#)”, *The Hindu Business Line*, 12 June 2024.

²⁵ Rimjhim Singh, “[Red Sea Crisis: RBI, IRDAI Called in to Help Limit Impact on Indian Exports](#)”, *Business Standard*, 11 April 2024.

compared to the previous FY’s US\$ 451 billion for Indian exports.²⁶ Not even one Indian fuel tanker to Europe has taken the Red Sea Route in June and July. Instead, the ships have been transiting via the Cape of Good Hope which has resulted in an extra 15–20 days. India’s petroleum exports to Europe has come down to approximately 250,000–300,000 barrels per day from 425,000 barrels per day in December 2023.²⁷

A report by S&P Global Commodity Insights has shown that there has been a 65 per cent rise in bunkering at Indian ports in 2024 due to the Red Sea crisis. The costs for the same at Indian ports and regular supplies from domestic refineries have contributed to this choice made by the rerouting ships.²⁸ India’s economy and security is linked to the maritime security in the Western Indian Ocean. The Indian Navy has been playing an important role in ensuring the safety of the sea lines of communication in the Gulf of Aden in the midst of the Red Sea crisis. As the situation worsened in the Red Sea, the Indian Navy has responded to stress calls from different ships in the Gulf of Aden and engaged in anti-piracy operations as well.

Conclusion

The Red Sea crisis has had economic repercussions not only for the adjacent countries but also for India and global trade and commerce. Egypt and Saudi Arabia—two big countries on either side of the waterway, are heavily dependent on the Red Sea for their economy. The threat to shipping on the Red Sea has affected global supply chains, in addition to disturbing oil and commodity trade. The Houthis have asserted that they will ease off the attacks only if Israel stops attacking Gaza. As the Israel–Gaza conflict continues to escalate with multiple negotiation efforts producing no concrete results, the tension in the Red Sea seems to continue with negative implications for regional and global trade.

²⁶ Shruti Srivastava, [“India’s Exports May Take a \\$30 Billion Hit on Red Sea Threats”](#), *Bloomberg*, 8 January 2024.

²⁷ Sukalp Sharma, [“India’s Fuel Exports to Europe Shift Entirely to Longer Route Around Africa Amid Attacks on Ships in Red Sea”](#), *The Indian Express*, 22 August 2024.

²⁸ [“Bunkering at India Ports Shot Up 65% in 2024: S&P Global Commodity Insights”](#), *The Print*, 13 August 2024.

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