Impact of Red Sea Trouble on Indian Trade

Why in News?

Recent attacks on commercial ships near the Red Sea amidst the ongoing Gaza war impacts India's global trade.

What is Red sea?

- The Red Sea is a narrow inland sea between *Africa and the Arabian Peninsula*.
- The nearly 2,000-km Red Sea connects the Mediterranean Sea with the Indian Ocean via the narrow ***Suez Canal*** (since 1869).
- It is connected to the Arabian Sea and the Indian Ocean to the south through the Gulf of Aden and the narrow strait of Bab el Mandeb.
- The ***Bab-el-Mandeb Strait***, also known as the "***Gate of Tears***" in Arabic, is a crucial trade route that connects the Mediterranean Sea and the Indian Ocean via the Red Sea and the Suez Canal.
- **Bordering countries** – Egypt, Saudi Arabia, Yemen, Sudan, Eritrea and Djibouti.

To know about Red Sea, click here

Why trade across red sea is important?

- **Historical significance** – There are evidences of Indian diaspora in the Middle East even at the time of Meluha (the Indus Valley Civilisation, c. 3300-1300 BCE).
- In the 1st and 2nd century CE, maritime highway linked the Roman Empire and India through the Red Sea, with many 100's of ships going in both directions each year.
- **Economic significance** – Suez Canal was opened in ***1869*** and since then, it has become the busiest trade route as it reduced distance between Europe and Asia by 7000km.
- **Geopolitical significance** – The narrow Suez Canal is strategically located connecting west and east.

What is the impact of Red Sea trouble on Indian trade?

- **Stopping vessel movements** – Major cargo shipping lines decided they would not operate on this route and even small feeder vessels have of late stopped plying in these waters.
- **Re-routing of ships** – Almost 90% of western hemisphere cargo, both inbound or shipped from India is now getting re-routed ***through the Cape of Good Hope.***
- The remaining 10% of Indian import or export cargo is either not moving or using a transit facility.

- **Higher transit time** – Trade with Europe, the U.S. east coast and to North Africa is taking the longer route and thus elongating both export and import cycles.
- **Holding back the consignment** – Roughly 20-25% consignments are being held up.
- **Increase in freight costs** – It may affect all consignments by up to 6-fold in some cases which may also be due to peak season surcharge and contingency surcharge.
- **Increased Insurance costs** – They are not sure of what will happen to the ships as more escorts are needed.
- **Higher fuel burning** – Long route ships could burn a million dollars' worth of fuel per trip.
- **Costlier imports** – Final products could turn dearer and it could affect the plans to reduce pump prices of petrol and diesel.

Gross imports of crude oil and petroleum products as a share of India's gross imports in value terms was 25.8% in 2022-23, and 22.6% in the 1st half of the current fiscal.

- **Affects commodity sectors** – The worst affected sectors are *chemicals, plastic, petrochemicals,* because margins are not there to absorb the hike in freight.

What lies ahead?

- The Indian navy is monitoring the overall situation in coordination with national maritime agencies.
- **Enhanced maritime surveillance** – Indian Navy's destroyers and frigates are undertaking maritime security operations and rendering assistance to merchant vessels in case of any incident.
    - *INS Chennai* closely followed the hijacked MV Lila Norfolk ship and rescued all 21 crew, including 15 Indians, onboard.
- **Aerial surveillance** – A complete maritime domain awareness is done by using long-range maritime patrol aircraft and remotely piloted aircraft.
- **Strengthening 'Operation Prosperity Guardian'** – US spearheaded multinational operation to keep the sea lanes open and free of threats but *India is yet to decide on joining* it.

References

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2. The Hindu| The Strategic Chokepoint

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