



RED SEA BLOCKADE AND INDIA'S TRADE - GS II MAINS

Q. What does Houthi attacks in the Red Sea mean for global trade and India? Bring out its impacts on Indian trade in particular. (10 marks, 150 words)

News: *What do Houthi attacks in the Red Sea mean for global trade and India?*

What's in the news?

- While the war in Gaza between Israel and Hamas may not lead to the opening of a new military front in Yemen, Red Sea attacks by the Houthi group have already triggered a disruption to global trade.

Key takeaways:

- Asia's second largest oil and gas importer. India is keeping a wary eye on the Houthi Red Sea conflict, as international maritime trade is being constrained severely.
- Even that India is a vast importer of Persian Gulf related oil and gas volumes, not only from Saudi Arabia, UAE or Qatar, but also Iran, New Delhi has strong military-economic interests in free-passage in the Suez Canal-Red Sea region too.

Houthi Militia Attacks:

- Since November, attacks by the Houthi militia of Yemen have rendered the Red Sea, a crucial marine route via the Suez Canal, unsafe for cargo ships.

Alternative Route:

- This has led to a significant rerouting of cargo, with ships now taking the longer Cape of Good Hope route, affecting global trade and increasing costs.

Sector-Specific Impact:

- **Commodities Most Affected:** Sectors like chemicals, plastics, and petrochemicals are severely impacted due to their inability to absorb freight hikes.
- **Alternatives for High-Value Goods:** For high-value, low-volume commodities, airlifting is an option, but most affected goods are large in volume.



Impact of Red Sea Blockade on India's Trade:

1. Stopping vessel movements:

- Major cargo shipping lines decided they would not operate on this route and even small feeder vessels have of late stopped playing in these waters.

2. 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.

3. 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.

4. Holding back the consignment:

- Roughly 20-25% consignments are being held up.

5. 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.

6. Increased Insurance costs:

- They are not sure of what will happen to the ships as more escorts are needed.

7. Higher fuel burning:

- Long route ships could burn a million dollars' worth of fuel per trip.



8. Energy Security:

- Because of its heavy reliance on Middle Eastern energy resources, India may have energy security issues in the event of a disruption in the Red Sea region.

9. Naval Presence:

- To safeguard its economic interests and guarantee the security of maritime routes, India may increase its naval presence in the Indian Ocean due to its strategic location.
- To handle security issues in the Red Sea and its environs, this might entail stepping up patrols and collaborating with foreign fleets. Eg: Operation Sankalp.

10. Contractual Implications:

- The impact varies based on the type of buyer-seller contract, with some consignments being held up due to increased freight costs.

Global and Indian Response:

- **UN and US Stance:** The UN condemned the Houthi attacks, and the US is seeking more support for 'Operation Prosperity Guardian' to ensure safe sea lanes.
- **India's Monitoring:** The Indian government is closely observing the situation, with the Commerce Secretary discussing potential impacts with officials and trade bodies.
- **Continued Uncertainty:** The situation in the Red Sea presents ongoing challenges for global and Indian trade, with no immediate resolution in sight.
- **Adaptation and Monitoring:** Businesses and governments are adapting to these changes, with a focus on monitoring developments and mitigating impacts.
- **Long-Term Implications:** The crisis underscores the vulnerability of global trade routes to geopolitical conflicts and the need for diversified shipping strategies.

India's foreign policy response is likely to be multifaceted, focusing on diplomatic initiatives, economic diversification, and a strategic naval presence to safeguard its interests in the region.