

2. Israel–Hamam Ceasefire Impact

Israel and Hamas have agreed to a ceasefire and hostage release deal, potentially ending the two-year-long conflict in Gaza. The agreement could reopen the Red Sea shipping route, which had been disrupted by Houthi attacks on vessels, believed to be backed by Iran.

Freight Rates and Global Trade – Recent Surge and Strategic Implications

Background and Context

Since late 2023, global freight rates have increased nearly threefold, driven by the need for vessels to reroute around the Cape of Good Hope instead of using the Suez Canal. The Red Sea–Suez Canal route, which handles about 12% of global trade, was disrupted due to escalating tensions and attacks on shipping, particularly linked to the Israel–Hamas conflict and Houthi militia activities in the region. The longer Cape of Good Hope route added 10–15 days to voyages between Asia and Europe, escalating fuel costs, insurance premiums, and logistical delays.

Impact on Global Trade Patterns

Increased Transit Time – Rerouting vessels significantly extended delivery times, disrupting global supply chains and just-in-time manufacturing systems.

Higher Shipping Costs – Freight and insurance costs surged, particularly for bulk commodities and container cargo. The Drewry World Container Index reported rates above \$5,000 per 40-foot container, compared to less than \$2,000 in early 2023.

Regional Disparities – European importers bore higher costs for goods from Asia, while Asian exporters, including India, faced declining competitiveness due to inflated shipping expenses.

Profit Windfalls for Shipping Companies – Global carriers such as Maersk, Hapag-Lloyd, and CMA CGM reported record profits, benefiting from surcharges and tight vessel availability.

Impact on India

Trade Dependence – Approximately 90–95% of India's merchandise trade by volume is carried via maritime routes, largely through the Suez Canal corridor. India's shipping sector remains heavily dependent on foreign-flagged vessels, with domestic carriers holding a minor share of global shipping tonnage.

Export Challenges

Rising Costs and Delays – Longer routes around the Cape raised shipping time to Europe by 10–15 days, increasing freight charges by 200–300%. This directly affected exporters of low-margin, labour-intensive sectors such as textiles, leather, marine products, agriculture, and handicrafts.

Erosion of Profit Margins – Higher logistics costs eroded price competitiveness, particularly against East Asian exporters (like China and Vietnam).

Foreign Remittances to Shipping Lines – Indian exporters paid over \$100 billion annually to foreign shipping companies even before the Red Sea crisis, indicating significant capital outflow and loss of strategic control over logistics.

Strategic and Connectivity Projects Affected

India–Middle East–Europe Economic Corridor (IMEC) – Announced during the G20 Summit (2023), IMEC aims to create a multimodal transport corridor connecting India to Europe via the UAE, Saudi Arabia, Jordan, and Israel. It includes sea, rail, and road components, designed to reduce transit time by up to 40% compared to the Suez Canal route. The Israel–Hamas war and Red Sea insecurity have delayed IMEC's operational planning and feasibility coordination.

Energy Imports – Rerouting increased the cost of oil and LNG shipments to India, particularly from the Middle East and North Africa, affecting trade balances and inflation.

Major Maritime Choke Points in Global Trade

1. Strait of Hormuz

Location – Between the Persian Gulf and the Gulf of Oman.

Importance – Around 20% of global petroleum trade passes through it, making it one of the most critical oil arteries.

Vulnerability – Any disruption due to conflict or sanctions can spike global energy prices.

2. Strait of Malacca

Location – Between the Malay Peninsula and Sumatra (Indonesia).

Role – Connects the Indian Ocean to the South China Sea and Pacific Ocean.

Significance – It handles nearly one-fourth of the world's traded goods; vital for India's energy imports and East Asian exports.

Concern – Vulnerable to piracy and potential military blockades.

3. Panama Canal

Location – Central America, connecting the Atlantic and Pacific Oceans.

Importance – Critical for maritime trade between the Americas, Europe, and Asia.

Issue – Currently facing water shortage-related restrictions, reducing cargo capacity.

4. Taiwan Strait

Location – Separates Taiwan and mainland China.

Relevance – A vital shipping lane for semiconductors, electronics, and goods between China, Japan, and Southeast Asia.

Risk – Rising cross-strait tensions threaten supply chains in East Asia.

Policy and Institutional Responses in India

1. Shipbuilding and Maritime Self-Reliance – Recognizing strategic vulnerability, the Indian government launched a comprehensive revival package worth ₹69,725 crore to strengthen domestic shipbuilding and maritime capacity.

Shipbuilding Financial Assistance Scheme (SBFAS) – Extended up to 2036 with an outlay of ₹24,736 crore. Aims to make India a global shipbuilding hub, reduce dependence on foreign fleets, and create high-skill maritime jobs.

National Shipbuilding Mission – To coordinate policy, finance, and infrastructure development.

Encourages Make in India for defence, cargo, and passenger vessels. Focuses on green shipbuilding, port modernization, and coastal shipping promotion.

2. Maritime Connectivity and Infrastructure

Sagarmala Programme – Focuses on port-led industrialization and cost-efficient logistics along India's coastline.

Bharatmala and Dedicated Freight Corridors – Integration of ports with hinterland logistics hubs to improve multimodal connectivity.

Maritime India Vision 2030 – Targets capacity expansion, digitalization, and clean energy adoption in ports.

Expected Outcomes and Global Outlook

Short-Term Outlook – The **Israel-Hamas's ceasefire** and improved Red Sea security could lead to –

1. Easing of freight rates, reducing global shipping inflation.
2. Improved India-Europe trade flows, especially for low-value and perishable goods.
3. Stabilization of supply chains for energy, commodities, and consumer goods.

Long-Term Outlook

Dependence on Stability – Much depends on Houthi compliance and continued maritime security in the Red Sea.

Strategic Shift in Trade Corridors – Renewed focus on alternative routes like IMEC, Arctic routes, and Eurasian land corridors to diversify global trade pathways.

India's Maritime Self-Reliance – Investment in domestic shipbuilding and port modernization is expected to reduce vulnerability, increase strategic autonomy, and enhance India's role in global maritime governance.

Conclusion

The Red Sea and Suez disruptions underscore how geopolitical conflicts directly influence trade economics and strategic logistics. For India, the crisis served as a wake-up call to reduce dependence on foreign carriers, diversify trade routes, and build indigenous maritime capacity. Strengthening

shipbuilding, port infrastructure, and regional connectivity initiatives like IMEC and Chabahar will be crucial for India's long-term economic security and global trade resilience.

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