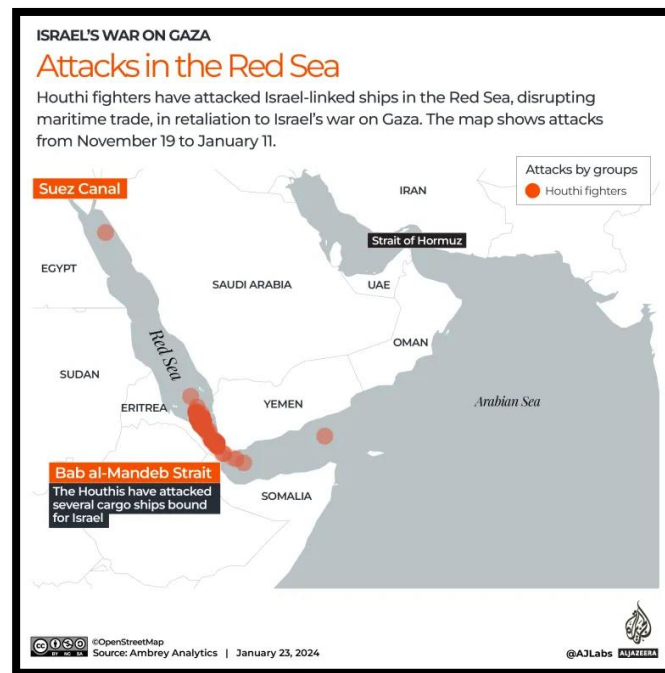


## Rising Tensions: Red Sea Crisis and its Impact

Fatima Binte Zahid<sup>1</sup>



Source: Al Jazeera

### Introduction

One of the busiest shipping channels in the world, the Red Sea provides an alternative to the Cape of Good Hope because of its connection to the Suez Canal. It is a vital pathway crucial to preserving the political and economic stability of numerous nations. Since November 2023, the Houthis, a proxy force in Yemen with Iranian backing, have started attacking commercial ships associated with Israel in the Bab-al-Mandab strait in the Red Sea. Their declared intention is that they are doing this in response to Israel's war on Hamas in the Gaza Strip.

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These Houthi attacks are causing disruption in the global supply chain and upsetting international markets. So the UK and US are targeting Houthis in the Red Sea targets, and the US is attacking Iranian proxies in Syria and Iraq. The financial cost to the world economy is steadily rising, and conflict in the Middle East is widening due to this unrest in the Red Sea.

## Reasons Behind Rising Tensions



*Source: Al Jazeera*

The declared intention of the Houthis is to end Israel's catastrophic war on Gaza. They expect that the financial consequences of the trade interruptions will persuade Western nations to put pressure on Israel to agree to a Gaza ceasefire. They have attacked US and UK military warships as well as commercial ships connected to Israel with missiles, drones, and boats in the Red Sea. In addition, the Houthis have asked Israel to permit the passage of humanitarian supplies to Gaza, where almost all 2.3 million residents are in danger of starvation.<sup>2</sup>

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<sup>2</sup> “US, UK launch new wave of strikes on Yemen’s Houthis amid Gaza war”, Al Jazeera, February 4, 2024, [https://www.aljazeera.com/news/2024/2/4/us-uk-launch-new-wave-of-strikes-on-yemens-houthis-amid-gaza-war?traffic\\_source=KeepReading](https://www.aljazeera.com/news/2024/2/4/us-uk-launch-new-wave-of-strikes-on-yemens-houthis-amid-gaza-war?traffic_source=KeepReading).

However, the Houthis are also taking advantage of the chance to increase their popularity in Yemen. Yemenis are facing severe economic and humanitarian issues following ten years of fighting, and the Houthis are finding it difficult to deliver essential services. By these attacks, they can deflect attention from domestic issues and present themselves as fighters on the front lines of a regional conflict against Israel and the US.

## **Disruption of trade routes and global shipping**

One of the most important waterways in the world, the Suez Canal, is being avoided by hundreds of vessels due to the Red Sea crisis. It is the shortest maritime route between Europe and Asia. About 15% of all shipping traffic worldwide uses this route.<sup>3</sup> Along with vital resources like gas and oil, this traffic also carries common goods and commodities that power the world economy.

Attacks in the Red Sea have led to a lengthy detour around southern Africa by the vessels through the Cape of Good Hope, adding 4,000 miles to each cruise and significantly increasing freight prices and transportation time.<sup>4</sup> The crisis is destabilizing supply chains because the Suez Canal handles thirty percent of the world's container commerce.

The crisis is driving up the cost of shipping, which is driving up the price of some routes, especially those that connect Asia with Europe, by almost five times. The cost of fuel, insurance, charter fees, and wages has gone up.<sup>5</sup> Auto companies like Suzuki, Tesla and Volvo have had to halt production due to delays in the transport routes. Retailer companies like Adidas, Ikea and Marks and Spencer complained about the negative effect of the crisis on their gross margins and delivery delays.<sup>6</sup>

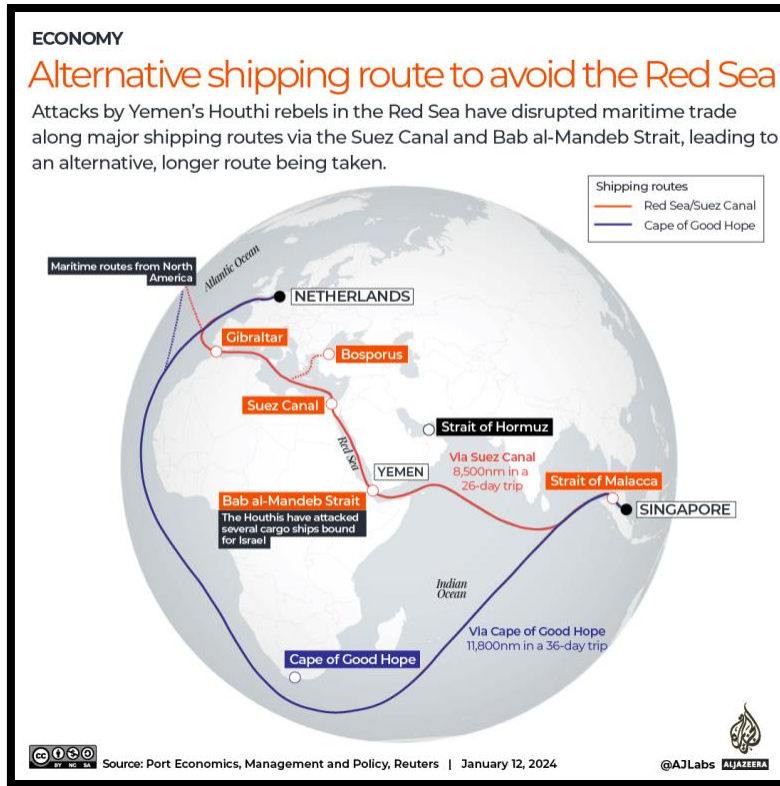
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<sup>3</sup> “How have Red Sea attacks by Yemen’s Houthi fighters affected companies?”, Al Jazeera, February 4, 2024, <https://www.aljazeera.com/news/2024/2/4/how-have-red-sea-attacks-by-yemens-houthi-fighters-affected-companies>.

<sup>4</sup> “What are the impacts of the Red Sea shipping crisis?”, J.P. Morgan, February 8, 2024, <https://www.jpmorgan.com/insights/global-research/supply-chain/red-sea-shipping>.

<sup>5</sup> Anna Cooban, “\$1 million in extra costs and weeks of delays. How the Red Sea crisis is upending global trade”, CNN, February 9, 2024, <https://edition.cnn.com/2024/02/08/business/red-sea-crisis-global-trade-explained/index.html>.

<sup>6</sup> “How have Red Sea attacks by Yemen’s Houthi fighters affected companies?”, Al Jazeera, February 4, 2024, <https://www.aljazeera.com/news/2024/2/4/how-have-red-sea-attacks-by-yemens-houthi-fighters-affected-companies>.



## Impact on regional economies:

Egypt's Suez Canal has generated 40% less revenue at the start of the year than it did in 2023.<sup>7</sup> Egypt's economy will be severely impacted by this crisis, as the Suez Canal has traditionally been a vital source of foreign exchange.

Kenya, Ethiopia, and Somalia are among the East African nations most vulnerable to the issue. They import a lot of wheat through the Suez Canal, mostly from the EU, Russia, and Ukraine. Long-term disruptions will make growing food costs more expensive for local consumers in this region.

India is highly reliant on the Red Sea route for trade with the Middle East and Europe. India exports about 35% of its rice production through the Red Sea.<sup>8</sup> The crisis has increased the price of Indian

<sup>7</sup> Ariel Cohen, "The World Is Going Into The Red From The Red Sea Crisis", Forbes, February 7, 2024, <https://www.forbes.com/sites/arielcohen/2024/02/07/the-world-is-going-into-the-red-from-the-red-sea-crisis/?sh=2e50c91c54a9>.

<sup>8</sup> Bibhudatta Pradhan, "How escalating Red Sea crisis poses billions of dollars of risk for India", Al Jazeera, January 31, 2024, <https://www.aljazeera.com/economy/2024/1/31/how-escalating-red-sea-crisis-poses-billions-of-dollars-of-risk-for-india>.

Basmati rice in the Middle East, which has led to its decreased demand there. Exporting rice, tea, spice, grapes, and buffalo meat has become challenging for India due to increased freight costs, shortage of containers and longer transit time. At the same time, the import cost of essential items has also increased.<sup>9</sup>

## **Energy resources**

The Red Sea serves as a crucial route for the transportation of energy, with tankers passing through its waters annually, transporting up to 8% of the world's liquefied natural gas and 8–10% of its oil.<sup>10</sup> Energy companies like BP, Edison and Shell had to temporarily pause all transits through the Red Sea. Energy supply disruptions could also cause a significant increase in energy prices in an environment of intensifying wars. Increased geopolitical and economic uncertainties as well as major knock-on effects on other commodity prices could discourage investment and further impede growth.

## **Impact on Bangladesh**

Bangladesh has begun to feel the effects of the protracted Red Sea crisis as a result of increased international trade expenses. This will hinder exports, increase inflationary pressures, and prolong the nation's economic recovery.

As a precaution, the majority of Bangladeshi maritime vessels have begun to steer clear of the Red Sea. On January 29, the Department of Shipping in Bangladesh released a circular outlining transit regulations for ships flying the Bangladeshi flag. The Department included the necessary security precautions for vessels traveling via the Red Sea, Bab al Mandeb Strait, Gulf of Aden, and Yemeni shore in the circular. Ships' expenses are rising because of the extra fuel costs they incur when traveling longer alternative routes and bearing more war risk insurance.

About 70% of Bangladesh's exports, headed for Europe and America, the two main markets transit through this waterway.<sup>11</sup> Additionally, it uses this channel to import goods from the US, Russia,

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<sup>9</sup> Bibhudatta Pradhan, “How escalating Red Sea crisis poses billions of dollars of risk for India”, Al Jazeera.

<sup>10</sup> Gabriel Gavin, Antonia Zimmermann, Laura Kayali And Giovanna Coi, “Expensive fuel and million dollar missiles: Counting the cost of the Red Sea crisis”, Politico, January 4, 2024, <https://www.politico.eu/article/red-sea-crisis-means-practice-cost-expensive-fuel-missile-yemen-houthi-israel-hamas/>.

<sup>11</sup> Sohel Parvez, “The Red sea crisis: What does it mean for Bangladesh?”, The Daily Star, January 7, 2024, <https://www.thedailystar.net/business/news/what-does-it-mean-bangladesh-3512726>.

Ukraine, and Romania, especially necessities like soybeans, wheat, and pulses. Import costs will rise due to the turbulence in the Red Sea. Since most of Bangladesh's exports are destined for Europe and the US, exports have been impacted by the Red Sea war more than imports. The increased cost of freight will put pressure on the foreign exchange reserve. A rise in shipping costs will also have a negative effect on the ready-made garment sector of Bangladesh. The additional cost will have to be borne by the buyers and consumers. Exporters will also face the pressure of early delivery.

## **Global Response**

Attacks by the Houthis on ships have hampered international trade and prompted a reaction from the US and the UK. The US and the UK have launched airstrikes in areas in Yemen under Houthi control. A Houthi anti-ship missile that was prepared to launch against ships in the Red Sea was also struck by the US Central Command (CENTCOM). According to CENTCOM, it carried out proportionate strikes with assistance from Denmark, Australia, Bahrain, Canada, the Netherlands, and New Zealand. They announced in a unified statement that 36 targets were hit across 13 locations. These strikes are meant to weaken Houthi capabilities used to continue their reckless and illegal attacks on US and UK ships as well as international commercial shipping in the Red Sea, Bab al-Mandeb Strait, and the Gulf of Aden. The Houthis have also declared that these attacks will not go unanswered. Iran has condemned these attacks by the US and UK and called these actions undermining international peace and security.

China has only openly called for a halt to attacks on civilian ships and subtly criticized US-led military actions against the Houthis in response to the Red Sea issue. The United States has attempted to encourage China to put pressure on Iran, as Beijing has shown no interest in becoming directly involved in the conflict. Chinese authorities emphasized time and again that an early ceasefire between Israel and Hamas is the paramount goal and that the Red Sea problem is a "spillover" from the fighting in Gaza.

Egypt and China have jointly stated their intention to keep a close eye on the developments in the Red Sea region.<sup>12</sup> Given the region's critical significance in global trade and regional stability, its main focus is ensuring the safety and security of passage.

## **Conclusion**

In conclusion, there are significant ramifications for international trade, local economy, and energy supplies from the continuing Red Sea crisis, which was sparked by Houthi attacks on commercial ships. The shipping routes have been disrupted, especially by avoiding the Suez Canal, which has resulted in higher freight prices, longer transit times, and a major effect on global supply chains. As the crisis develops, it continues to be a challenging geopolitical issue with ramifications for international relations, security, and the economy. This underscores the necessity of concerted efforts to address the underlying issues and find a long-term solution.

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<sup>12</sup> “China, Egypt pledge joint vigilance on Red Sea tensions”, The Business Standard, January 15, 2024, <https://www.tbsnews.net/worldbiz/middle-east/china-egypt-pledge-joint-vigilance-red-sea-tensions-775138>.