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NON-STATE ACTORS AND DISRUPTION OF GLOBAL SUPPLY CHAINS: A STUDY

Understanding the Red Sea Crisis.

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Abstract: The Red Sea Crisis has thrust global maritime trade into turmoil, triggered by intensified attacks from Houthi rebels in Yemen on commercial vessels traversing the Bab-el-Mandeb strait. This abstract encapsulates the essence of the crisis, shedding light on its inception, economic ramifications, and strategic significance. With industry giants like Maersk and Hapag-Lloyd halting cargo transit, the ripple effects are palpable, driving up shipping costs and lengthening delivery times as ships reroute around the Cape of Good Hope. These disruptions reverberate across global supply chains, amplifying concerns of potential inflationary pressures. Moreover, the crisis unveils underlying regional tensions and geopolitical intricacies, complicating efforts to restore stability. The lack of cohesive action among key stakeholders, including the United States, European Union, and regional players, underscores the complexity of the challenge at hand. As maritime security hangs in the balance, diplomatic maneuvers are imperative to navigate the crisis effectively.

The biggest shipping companies in the world are still stopping cargo via the Red Sea in response to Houthi rebel attacks along this vital route for international trade. The interruption is driving up the cost of supplies from Asia to Europe, creating the possibility of another inflation shock for the global economy, as container ships are rerouted around the Cape of Good Hope on the southern point of Africa, adding thousands of miles to travels.

WHAT'S HAPPENING IN THE RED SEA?

Since late November, the Houthi rebels in Yemen, who are supported by Iran, have increased the frequency of their attacks on commercial vessels in the Bab-el-Mandeb strait, which separates the Arabian Peninsula from the Horn of Africa. The attacks, which were started in retaliation for Israel's bombardment of Gaza, have gotten worse over the past week. After extremists attacked a Maersk ship over the weekend, the Danish shipping line decided to suspend all freight transit through the region until further notice. The helicopters were launched from US navy warships. Hapag-Lloyd of Germany has also declared that its container ships will keep avoiding the route, which is a vital conduit for international trade on the journey from Asia to Europe via the Mediterranean and the Suez Canal.

HOW IMPORTANT IS THE TRADE ROUTE OVER THE RED SEA?

About 12% of all traffic goes through the Suez Canal, which is reached by ships from Asia across the 30-kilometre Bab-el-Mandeb strait. Most of the cargo transported over the canal consists of containerised items. Additionally, the route serves as a crucial conduit for oil supplies from the Persian Gulf to North America and Europe. According to the Dutch bank ING, rerouting cargo via the Cape of Good Hope extends the travel time by roughly 10 days and adds 3,000–3,500 nautical miles (6,000 km) to trips linking Europe and Asia. Increased shipping times could have a negative effect on turnaround times at ports in the UK and major hubs in Europe including Rotterdam, Antwerp, and Hamburg.

COULD INFLATION INCREASE AS A RESULT?

Every round journey between Asia and Europe that involves rerouting a ship is predicted to incur additional fuel expenses of up to $1 million, and the cost of insurance is also projected to rise, raising the total cost of shipments. In addition to container shipments of consumer items, commodities, apparel, and food, tankers carrying diesel and jet fuel from the Middle East and Asia are being rerouted. Wednesday saw an increase in the price of oil throughout the world as news of disruption to Libya's largest oilfield added to worries about delays in the Red Sea. In spite of this, crude prices have not increased much and are still much lower than they were a few months ago, having dropped by about $20 per barrel since the autumn. The cost of shipping can significantly affect inflation. The International Monetary Fund calculated that during the Covid epidemic, global supply chain constraints increased inflation by almost 1%. In regular times, freight expenses make up roughly 7% of the price of long-distance imports. A 25% increase occurred during the Covid disruption. Former government trade adviser Rhys Davies, who now counsels clients at Flint Global, acknowledged that Red Sea conflicts had an influence on freight costs, but he predicted that it would have little effect on inflation. "It takes around a year for the effect to become apparent in the economy after the spike in shipping costs," he said. Therefore, if the disruption is temporary, as we would anticipate, it would most likely be overwhelmed by broader deflationary effects. In contrast to the massive issues that arose for global trade when the Ever-Given cargo ship blocked the Suez Canal in 2021, the current interruption in the Red Sea has a very different economic background. Two years ago, the demand for manufactured products from customers who were unable to spend on services due to lockdown limitations was so high that global supply networks were straining, and factory output and international freight were not keeping up with the demand. The world's central banks are using higher interest rates to stifle demand, which is causing inflation to decline today. The strain on firms and individuals has caused a slowdown in global trade and economic growth, increasing the risk of recession in the US, UK, and other EU countries. Even though the Red Sea interruption has caused a substantial increase in freight expenses recently, overall costs are still far lower than they were two years ago. The most often used benchmark for sea freight prices for imports from China, the Shanghai Containerised Freight benchmark, has decreased by more than half.

WHAT MAKES THE RED SEA IMPORTANT FROM A STRATEGIC PERSPECTIVE?

With the Suez Canal linking the Indian and Mediterranean seas, the Red Sea is an important conduit for international trade and container shipping. This strategically significant canal is used by 15% of all marine traffic worldwide, making it the quickest route between Europe and Asia. A whopping 123.5 million metric tons of commodities were transported via Egypt's Suez waterway in January 2023, according to Statista, and over 22,000 ships successfully passed through this waterway in 2022. By volume, this route makes about 12% of all trade, demonstrating its enormous importance to the world economy. There has been a noticeable increase in regional tensions in the Red Sea recently, which has led to attacks on commercial ships. These incidents are entangled in larger geopolitical conflicts that affect this vital trading route. The majority of the attacks have happened close to the Bab al-Mandab Strait, which has significantly altered marine transportation patterns.

WHAT EFFECTS HAS THE RED SEA DISRUPTION HAD ON SHIPPERS?

An ongoing crisis has significantly impacted the Red Sea region's shipping landscape. Significant maritime firms, including Maersk and others, have had to make decisions to reroute and temporarily suspend operations due to threats to their vessels. In comparison to the same period last year, researchers report that during the three weeks from December 18 to January 7, there was a startling 60% decrease in the fleet capacity moving through the Suez Canal. Twenty-foot equivalent units, or TEUs, have dropped from 3.3 million to slightly under 1.3 million as carriers choose safer routes more frequently. Though more safe, these alternate routes—like the one that circles the Cape of Good Hope—are also lengthier and more expensive, which drives up fuel costs and raises insurance premiums. Additionally, since the crisis intensified in mid-December 2023, charges for ocean freight transit between the Far East and North Europe have increased dramatically—by a startling 124%, according to statistics from Xeneta. Rates into the Mediterranean have increased by 118%, while rates between the Far East and the US East Coast have increased by 45%. Shipping companies are rushing to convey orders from China before factories close for the Lunar New Year break, which might worsen the situation in the upcoming weeks. Global shipping is changing as a result of the Red Sea disruption, with major operators like Maersk and MSC avoiding the area. Exporters of perishable commodities are facing difficulties as a result of this change, since delays and reroutes raise shipping costs and increase the chance of spoiling. Shipping companies are further burdened by rising insurance prices. Exporters are urged to modify their strategy for more seamless operations in the face of volatility even as initiatives such as the coalition lead by the United States attempt to rebuild confidence. The Red Sea issue has had a substantial impact on the economies of the nations bordering the Red Sea in addition to disrupting international shipping. Countries like Egypt, Saudi Arabia, and Sudan that depend significantly on marine trade are facing economic difficulties as a result of disruptions in shipping operations. The employment in the maritime industry, port income, and general economic growth have all been impacted by the downturn in trade, which has made the socioeconomic problems already present in the area worse.

Rising Ocean Freight Rates following the Red Sea Crisis, there was a noticeable increase in shipping costs from Asia to Europe, according to Drewry's WCI Spot Rate Index. Though still below the pandemic highs, rates have increased by more than 200%. Shipping premiums from the Mediterranean to North Europe have surged to $800 per FFE, a significant rise from the $250 cost that was in place previously. Simultaneously, backhaul rates have increased significantly, by 44%, from North Europe to Asia. This spike highlights how the crisis is having a knock-on effect on the dynamics of global shipping. Furthermore, the Middle East's economic expansion has contributed to a notable 20% increase in traffic on the Far East-Persian Gulf route. This route is currently used by about 150 vessels, demonstrating its increasing importance in marine trade. Almost all vessels have rerouted from the Suez Canal to the Cape of Good Hope route due to security dangers posed by the Red Sea Crisis. This tactical change emphasizes how crucial maritime security is to determining the paths and activities of vessels. Smaller maritime companies continue to operate in the Red Sea despite the difficulties brought forth by the crisis, demonstrating their adaptability and resilience in the face of difficulty. On the other hand, the Far East-Persian Gulf route now charges $2,340 per TEU, doubling in price from the previous year. This large increase demonstrates how the dynamics of maritime trade are changing and how geopolitical events continue to affect the economics of shipping. There are concerns that the conflict between Israel and Hamas may expand throughout the region considering recent events in the Red Sea. International attention has been drawn to the Houthis since November 2023 because of their takeover of Israeli and Israeli-affiliated vessels at the port of Hodeidah and their employment of drones and missiles to target these vessels. The Israeli port of Eilat is under stress due to the Houthis' actions, which have paralyzed commercial activity. The Houthis have declared that they will continue their military operations until Israel's attacks on Gaza halt. The Red Sea problem stems from this circumstance, which has serious regional geoeconomic ramifications. The Red Sea plays a vital role in maritime trade, particularly in the transmission of petroleum. As a result, the effects of attacks on nearby vessels quickly surface up in the world economy. In reality, trade flow in the region has decreased and the cost of containers traveling across the Red Sea has quadrupled in a couple of weeks. Furthermore, the political context of the crisis in the area indicates that the Houthis launched attacks in the Red Sea to fortify internal unity and deflect attention from the shortcomings of their government, in addition to their anti-Semitic and anti-Zionist ideological stances.

There have been two stages to the US response to the Houthi attacks thus far. The "Prosperity Guard" operation, a multinational naval mission, was established in December 2023. Anglo-American raids against Houthi military installations began in January

2024. The way that Americans and Europeans view the Houthis has changed because of the Red Sea situation. Yemen was long viewed as peripheral to regional and global processes, and the Houthis were recognized as local actors in the country. However, the Houthis' potential as a threat to global trade became evident when they targeted ships in the Red Sea that they thought were associated with Israel, upsetting the world's supply chain. The European Union and the United States' lack of coordination in responding to the Red Sea shipping crisis is also noteworthy.

Responses from other countries to the threat posed by the Houthis are diverse; the United States and the United Kingdom seek to reduce the Houthis' capacity for offensive action while regaining freedom of navigation. The Europeans, on the other hand, aim to minimise risk to prevent the current conflict in the region from getting worse. It is significant in this regard that the US and the UK have addressed the Houthi danger in the Red Sea quickly to accomplish their objectives. Regarding the response of the European Union, French President Emmanuel Macron declared that to "avoid an escalation" of bloodshed in the area, Paris "decided not to participate" in the US and UK attacks on Houthi rebels in Yemen. Meanwhile, Spain's pro-Palestinian administration under Sánchez has not yet demonstrated any desire to get involved in the dispute. Despite the European Union's claim to be a single entity, its ability to act cohesively and effectively in the face of global crises is severely limited by the disparate strategic interests and foreign policy perspectives of its member states. The EU's ambition to rise to the position of geopolitical superpower is seriously hampered by this lack of cooperation between its military and politics. In actuality, the Red Sea crisis illustrated how unwilling European nations have remained to act as a unified bloc when confronted with global issues, both between themselves and with other Western nations. The impact of the Red Sea crisis on global trade will vary depending on how long it lasts in addition to these developments. If there is a prolonged disruption in global supply, productive sectors might find it challenging to adapt. Some ships were forced to pass past the Cape of Good Hope because of interruptions in maritime traffic via the Suez Canal. They had to travel around Africa, which added ten days to the trip, delaying their arrival and raising the expense of transportation. Furthermore, the Mediterranean may become less important in marine trade if ports along the Suez Canal route cannot be traversed. Maritime routes need to be rearranged and Mediterranean ports run the risk of going out of business if the crisis continues.

There appears to be a risk of inflation for the world economy when all these variables are combined. In summary, the world becomes more interconnected and, at the same time, more vulnerable to the effects of political unrest and economic crises. This more and more delicate system keeps showing up in various situations. Stated differently, the world economy is becoming more fragile. Since 2014, the Gaza War and Yemen's civil war have intermingled in the present Red Sea political landscape. Meanwhile, the United States has concentrated on reestablishing maritime security in the Red Sea and the Bab al-Mandeb Strait as part of its commitment to upholding the universal value of freedom of navigation. Tensions in the area are expected to increase over the next few days, as seen by the Houthis' declaration that they will punish any further Anglo-American strikes and the fact that their attacks have not decreased thus far. Diplomatic measures cannot be used to address this situation given the current political environment. In this regard, even while they do not wish to exacerbate tensions in the region, European states must take a more proactive role in this global crisis to protect their strategic interests and maintain security in the Red Sea.

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