Persistent Red Sea Crisis To Hurt India's Export Competitiveness: Experts

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Photo Credit :

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by Abhishek Sharma

If the Red Sea crisis persists for a longer period, it will affect the cost of raw materials, further aggravate container shortage, increase shipping costs and hurt India's merchandise export competitiveness, according to the experts. Earlier, Bloomberg reported that the country may see around USD 30 billion as exporters hold back on shipments amid the rising threats to cargo vessels.

The Red Sea, a major passage for East-West trade is witnessing sharp disruptions because of the attacks by Yemeni Houthi militia on ships, leading to a rise in fuel and interest costs, longer voyages and straining the capacities of the logistics sector. Notably, the strait acts as a linchpin for 30 per cent of global container traffic and 12 per cent of global trade.

"The tension in the Red Sea has increased shipping costs and transit time for Indian exporters to the USA, Europe and Africa. Different shipping lines have raised tariffs at different levels for the above three destinations," said Vijay Kalantri, Chairman, World Trade Center (WTC), Mumbai.

According to freight forwarders, the shipping cost has increased anywhere between 15 to 25 per cent, depending on the shipping lines because of this crisis. Currently, shipping costs for East Asia may increase rates for exports to Asian countries as well, experts noted.

"The increase in shipping cost has affected mostly Indian exporters who have entered into CIF (cost, insurance and freight contracts with their foreign buyers. Under the CIF contract, exporters bear the cost of freight and insurance involved in the transport of goods to the importing country. Therefore, exporters should be wary of entering into such CIF contracts for fresh export orders," Kalantri added.

India is heavily reliant on the Red Sea route for its exports as about 80 per cent of its merchandise trade with Europe traverses the Red Sea, making this crisis a cause for concern. The challenges posed by this situation have not spared Indian exporters, especially those dealing in textiles and apparel.

“Export or import-dependent businesses will, of course, experience disruptions. An increase in freight and insurance costs will hurt their margins, but only in the case of commodities where freight is a significant proportion of costs, e.g., minerals and coal trading businesses. On the other hand, a business that exports or imports high value-adding products does not need to worry about logistics-related cost increases,” said Anil K Sood, Professor and Co-founder, Institute for Advanced Studies in Complex Choices (IASCC).

Indian exporters are particularly vulnerable to supply chain disruption arising from such a crisis because India does not have a strong domestic container and shipping industry. "It is high time that India looks at developing an indigenous container manufacturing sector to deal with the shortage of containers arising from such a crisis," WTC Mumbai's Kalatri added.

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In a BW Businessworld column, SP Sharma, Chief Economist, PHD Chamber of Commerce and Industry (PHDCCI) wrote that while the immediate impact of the Red Sea crisis on Indian exports and imports may seem limited, the cumulative effects could be more profound. "The longer routes freight companies choose to avoid the troubled waters lead to higher freight costs, increased insurance premiums and extended transit times," he added.

These factors, when combined, have the potential to significantly raise the cost of imported goods, creating economic challenges for both exporters and importers alike.

Meanwhile, Sood added that trade disruptions caused by the Red Sea crisis are not likely to have any major adverse impact on India, as it is not a major participant in global trade. The disruption was expected to cause a major upsurge in oil prices, but that has not happened so far. If the crisis gets resolved during the next three to four months, most businesses can avoid higher costs and any major loss of revenue costs by drawing down on their inventories, he mentioned.

However, Bloomberg reported that the current turmoil in the Red Sea has caused an 182 per cent surge in oil tanker prices, completely changing the dynamics of global shipping. The revenues of the oil tanker sector are surging to previously unheard-of levels; rates on some routes have increased by the greatest in a single day since 2022. The primary cause of this abrupt surge is the rising expense of shipping gasoline barrels from the Middle East to Asia.