Dire Strait: The Far-Reaching Impact of the Red Sea Shipping Crisis

This is the first of a new series of notes analyzing recent economic and social developments and special issues in Fragile, Conflict, and Violence (FCV) situations in the Middle East and North Africa (MENA).

The Red Sea, a vital maritime artery channeling 30 percent of global container traffic, is in the middle of an escalating shipping crisis with far-reaching consequences—and the impact is intensifying. The conflict in the Middle East that led to attacks on commercial vessels in recent months has precipitated a dramatic slump in maritime activity. As of March 2024, traffic through the strategic Suez Canal and Bab El-Mandeb Strait has halved while the Cape of Good Hope route has seen a twofold increase in navigation. The detours necessitated by the crisis have not only inflated the journey distances for cargo and tankers by up to 53 percent, but also the environmental toll, with a surge in CO₂ emissions from the additional fuel consumed by ships rerouting around the Horn of Africa. Financial repercussions are acute: freight rates have risen and the cost of shipping insurance has reached unprecedented heights, delivering a blow to both regional and international shipping economies; it would also increase cost pressures on inflation. The Red Sea ports and associated economies are enduring the most of this upheaval, with most grappling with diminished volumes and only a select few benefiting from the diverted traffic. The ripple effects of the Yemeni port disruptions are palpable, particularly in Saudi Arabia, though they wane with distance from the epicenter. This brief delves into the multifaceted dimensions of a crisis that is reshaping the landscape of global shipping and trade and its associated environmental and economic impacts. Faced with these challenges, what should policymakers do? They must remain vigilant, constantly evaluating the evolving impacts, and maintain sound monetary-exchange and fiscal policy frameworks to limit economic vulnerabilities to new shocks. Depending on the severity of impacts, and the presence of fiscal space, they could consider countermeasures, including countercyclical interventions. Also, the ongoing global re-shoring, near-shoring, and friend-shoring, while contributing to increased trade costs, offers a silver lining for countries that are geographically close to major economic blocs like the European Union and the Gulf states. Nations in North Africa, for example, that can offer a conducive investment climate and sound policy frameworks may stand to attract foreign direct investment from these regions, potentially boosting local investment and jobs, raising incomes, and facilitating technology transfer—all of which can contribute to the resilience and growth of local economies.

Harnessing the power of latest geospatial and economic data, this briefing offers a snapshot of the cascading effects of the Red Sea shipping crisis as of the close of March 2024. It charts the shifting patterns in maritime traffic, voyage lengths, emission outputs, and the increased costs of freight. The analysis then narrows its focus, dissecting the repercussions at the granular level of individual ports and the broader economic shockwaves rippling through nations in the vicinity and further afield.

> Conflict Location and Trends

The tapestry of conflict in the Red Sea region, particularly around Yemen, has become increasingly complex since October 2023. From the commencement of the Red Sea Crisis on November 17, 2023, to April 11, 2024, the area has been the stage for 86 conflict incidents, culminating in 11 tragic losses of life. The frequency of

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these incidents has surged, with March 2024 witnessing a peak of 27 conflict events—the most intense month to date, as depicted in Figure 1A. These incidents encompass a range of hostile engagements against shipping targets from Ansar Allah (the Houthis) to countermeasures by a coalition of US, UK, German, French, and Italian naval forces. In a broader context, these actions have been implicated in 986 conflict events, leading to 956 conflict-related fatalities across the MENA (Middle East and North Africa) region since the conflict’s inception, as illustrated in Figure 1B.

### Trade Diversion

Since November 2023, the Red Sea—a critical conduit for nearly a third of global container traffic—has been thrust into chaos by attacks on commercial vessels. These assaults have jolted the backbone of international maritime trade, compelling a shift in transit routes that have long been taken for granted. In the wake of these disruptions, the once-thriving maritime passage, prized for its role as the most expedient link between Europe and Asia, has witnessed a precipitous drop in vessel traffic. Shipping companies, in a bid to circumvent the turmoil, have been rerouting en masse, a trend that took hold just weeks following the initial barrage of Houthi offensives. The repercussions have been stark: by March 2024, the flow of trade through the Suez Canal and Bab El-Mandeb Strait has plummeted by half relative to historical norms, while the volume of ships braving the longer journey around the Cape of Good Hope has surged, doubling in frequency (Figure 2A and 2B). This strategic dislocation has not only reshaped the map of global shipping lanes but also signaled a new era of uncertainty for maritime commerce.

### Travel Time and Emissions Implications

In response to the escalating crisis in the Red Sea, ships have been forced to seek alternative pathways, notably the extended route around the Cape of Good Hope. This strategic detour has led to a significant elongation of travel distances and times, as well as increased fuel consumption, including from ships traveling at higher speeds to maintain schedules. The impact on regional supply chains has been profound, with the trade diversion causing a sharp uptick in the monthly distance traveled by vessels that once frequented the Red Sea. The data paint a stark picture: starting from January 2024 and peaking in March 2024, the monthly distance traveled for cargo has increased by half relative to historical norms, while the volume of ships braving the longer journey around the Cape of Good Hope has surged, doubling in frequency (Figure 2A and 2B). This strategic dislocation has not only reshaped the map of global shipping lanes but also signaled a new era of uncertainty for maritime commerce.
Figure 2 > Attacks targeting ships in the Red Sea have disrupted commercial shipping operations since December 2023

| A. AIS transit calls relative to historical average  
| (number of vessels, change from historical average)  
<table>
<thead>
<tr>
<th>Bab el-Mandeb Strait</th>
<th>Cape of Good Hope</th>
<th>Suez Canal</th>
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<tbody>
<tr>
<td>2023-01</td>
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<td>60</td>
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<td>60</td>
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</table>
| B. AIS transit calls in key areas  
| (% change from historical average)  
<table>
<thead>
<tr>
<th>Bab el-Mandeb Strait</th>
<th>Cape of Good Hope</th>
<th>Suez Canal</th>
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Note: Figure 2A separates transit calls for each area and includes a black line to indicate the historical average for each respective area.

and tanker vessels has ballooned by up to 53 percent and 28 percent respectively, compared to the pre-conflict baseline of January to September 2023. This has resulted in corresponding increases in travel times of up to 51 percent for cargo and 39 percent for tankers, signaling a significant recalibration in global maritime logistics (Figures 3 and 4).

The Red Sea crisis has precipitated a dramatic reshaping of maritime logistics, with vessels embarking

Figure 3 > The trade diversion has led to a sharp increase in monthly distance traveled by Red Sea vessels

| A. Total distance traveled by Red Sea vessels  
| (nautical miles)  
<table>
<thead>
<tr>
<th>Vessel type</th>
<th>Cargo</th>
<th>Tanker</th>
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<tbody>
<tr>
<td>2023-01</td>
<td>2023-04</td>
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<td>0</td>
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</table>
| B. Total distance traveled by Red Sea vessels  
| crossing Cape of Good Hope  
| (nautical miles)  
<table>
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<tr>
<th>Vessel type</th>
<th>Cargo</th>
<th>Tanker</th>
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| C. Total distance traveled by Red Sea vessels  
| crossing Bab El-Mandeb Strait  
| (nautical miles)  
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on lengthier voyages, guzzling more fuel, and consequently, emitting more CO₂ along these routes. Theoretically, this should have led to a spike in global greenhouse gas emissions from shipping. Yet, intriguingly, the latest data reveals a paradox: despite the anticipated surge in emissions along the Red Sea route due to increased fuel consumption, higher speeds, and potentially the deployment of less efficient vessels—projected to amplify emissions by a staggering 260 percent to 354 percent for routes to Northern Europe and the Mediterranean—global maritime transport CO₂ emissions have remained stable.

Figure 4 > Travel distances and times for Red Sea vessels spiked in March 2024 compared to their pre-conflict baselines


Figure 5 > Despite increased distances traveled, global maritime transport CO₂ emissions have remained stable

Source: OECD, OECD Data Explorer website; World Bank staff estimates.

Note: Allocation to countries is determined by the companies operating the ships’ residency. Vessel-level emissions estimates are associated with operator information and then aggregated for all countries or territories represented in the estimates.

time CO₂ emissions have defied expectations, remaining stable through March 2024 (Figure 5).

This unexpected steadiness in global emissions can be attributed to a simultaneous downturn in shipping activity—which caused a countervailing decline in associated emissions. This is linked to the deterrent of rising shipping costs or to other global disruptions, such as the congestion at the Panama Canal caused by fluctuating water levels. Likely affected by the Red Sea shipping crisis, both worldwide port visits and maritime trade volume have depicted a consistent decrease from December 2023 through April 2024 (Figures 6A and 6B). This complex interplay of factors underscores the multifaceted nature of the crisis and its wide-ranging, yet balanced, global environmental impact.

Increased Shipping and Insurance Costs

The Red Sea crisis has unleashed a wave of economic disruption, catapulting shipping rates to new heights. The Drewry World Container Index, a critical gauge of global shipping costs, recorded a staggering 170 percent surge from the calm before the storm in November 2023 to a peak in January 2024, with the cost to ship a 40-foot container nearing US$4,000. While rates have since retreated from their zenith, they continue to hover at a 90 percent above pre-crisis levels as of April 2024 (Figure 7A). The tempest was fiercest along the Red Sea routes, where prices soared to four to four-and-a-half times their pre-crisis rates in January. Although they have since receded, they remain at an elevated two-and-a-half times higher in April 2024 (Figure 7B). The Freightos Baltic Index (FBX), which tracks freight rates from China to the United States, mirrors this trend, painting a picture of a shipping industry navigating through a difficult storm. Moreover, a recent analysis by the IMF indicates

6 In January 2024, shipping costs from Shanghai to Rotterdam and Genoa surged by 306 and 339 percent, respectively, compared to pre-crisis levels. In April 2024, these rates remain elevated, still up by 150 percent. Similarly, costs to Los Angeles and New York rose by 116 and 139 percent in early February 2024, with April 2024 still seeing increases of 65 and 80 percent, respectively.
7 FBX increased threefold from mid-October 2023 to mid-February 2024 and then started to drop. At the beginning of April 2024, the prices are still twice the price before the conflict in Gaza. The decline in freight rates since February could be partially due to reduced demand for China’s manufactured goods in North America, leading the world’s largest shipper, MSC, to cancel some routes from China to the US and
that doubling of freight costs have been shown to influence inflation around the world, on average by about 0.7 percentage points, with the impact more pronounced in island and low-income countries.  

The conflict in the Middle East and the ensuing Red Sea crisis have resulted in soaring insurance costs for shipping. Insurers, grappling with the heightened risk, have significantly raised premiums for vessels crossing the Yemeni waters, with war risk premiums in January 2024 soaring to 1 percent of a ship’s value—a 3,200 percent leap from the early days of December. By February, the premiums doubled yet again, reaching a 2 percent. This surge has not only burdened carriers with heavier costs for navigating the Suez Canal but also threatens to ripple through the global economy, as soaring freight and insurance expenses add to global inflationary pressures, also casting long shadows over the oil market.  

Port Disruption

The Red Sea crisis has cast a long shadow over the ports of the region. From December 1, 2023, to March 31, 2024, ports activity contracted sharply in trade volume, a stark contrast to the bustling activity of the previous year. While a handful of ports have eked out marginal gains, the majority witnessed significant drops in both imports and exports. Jordan’s Al Aqabah, Yemen’s Al Mukalla and Aden, Saudi Arabia’s Jeddah, Rabigh, and King Fahd, as well as Egypt’s El Sokhna, have all withstood the worst of this downturn. Yet, amidst this bleak landscape, a glimmer of resilience shines through at Egypt’s Safaga and Suways ports, Saudi Arabia’s Duba, and Yemen’s Al Hudaydah, where a surge in imports signals a defiant pivot in trade patterns, as these smaller harbors become unlikely havens for diverted traffic.  


Spillover Impacts of Port Disruptions

The 90-day paralysis of a key Yemeni port has unleashed a cascade of economic tremors, with Saudi Arabia at the epicenter, shouldering a potential loss of over 1.1 million metric tons in export capacity.12 This spillover from Yemen’s port disruption has most heavily impacted Saudi Arabia, with US$125 million in export value affected. Djibouti, too, faces significant impact, 1.0 million metric tons of exports on the line. While China, despite its distance, faces a looming threat to US$96 million worth of exports, the relative impact on other nations’ total export values is marginal, barely registering at less than one percent. Oman and Kuwait also feel the ripples, albeit with less force, and even distant South Asian countries, are not entirely immune to the disturbance, though the effect on their vast economies is but a minor disturbance (Figure 9A, 9B, and 9C).

Implications for Policymaking

The crisis in Red Sea shipping has created new difficulties for regional policymakers, who are now facing the dual challenge of navigating trade disruptions and leveraging potential opportunities. The crisis has sent ripples through the global economy, with cost-push inflation extending to region’s and European markets due

12 Spillover, in this context, denotes the indirect effects of disruptions in maritime transport networks on global trade flows, supply chains, and economic activities, including port closures and conflicts impacting multiple countries and industries.
to the soaring freight and insurance costs and strain on ports and their surrounding economies. This has affected foreign exchange revenues and both import and export capacities in the region, which in turn threatens to slow down economic activity. To minimize the impact of such shocks, sound monetary-exchange and fiscal policy frameworks are critical.

**Policymakers, therefore, must remain vigilant, constantly evaluating the evolving impacts and maintaining sound macroeconomic policy frameworks.**

Policies for low inflation and sustainable public finances are key to limiting macroeconomic vulnerabilities and the impact of new shocks such as the Red Sea crisis. Where economic downturn is particularly severe, and if budgetary conditions allow, governments may consider temporary countercyclical measures to cushion the impact on the vulnerable population.

**Moreover, this situation unfolds against the backdrop of a global shift towards reshoring and near-shoring strategies, which aim to bring production closer to end-consumer markets.** This shift, while contributing to increased trade costs, offers a silver lining for countries that are geographically close to major economic blocs like the European Union and the Gulf states. Nations in North Africa that can offer a conducive investment climate and sound policy frameworks may stand to attract foreign direct investment from these regions, potentially boosting local investment and jobs, raising incomes, and facilitating technology transfer—all of which can contribute to the resilience and growth of local economies.
Annex: The Red Sea crisis has had a significant impact on trade across most ports in the region.

Figure 10 Monthly trade volumes via the Red Sea ports (metric tons)
Figure 10 Monthly trade volumes via the Red Sea ports (metric tons) (continued)

- Monthly trade volume – Aden, Yemen
- Monthly trade volume – Duba Bulk Plant Tanker Terminal
- Monthly trade volume – Jeddah Oil, Saudi Arabia
- Monthly trade volume – Rabigh, Saudi Arabia
- Monthly trade volume – King Fahd Port, Saudi Arabia
- Monthly trade volume – Duba, Saudi Arabia
- Monthly trade volume – Yanbu, Saudi Arabia
- Monthly trade volume – Jeddah, Saudi Arabia

Note: The vertical dotted lines mark the beginning of key periods of interest, with the Middle East conflict starting on October 7, 2023, and the Red Sea crisis on November 17, 2023.
References


