

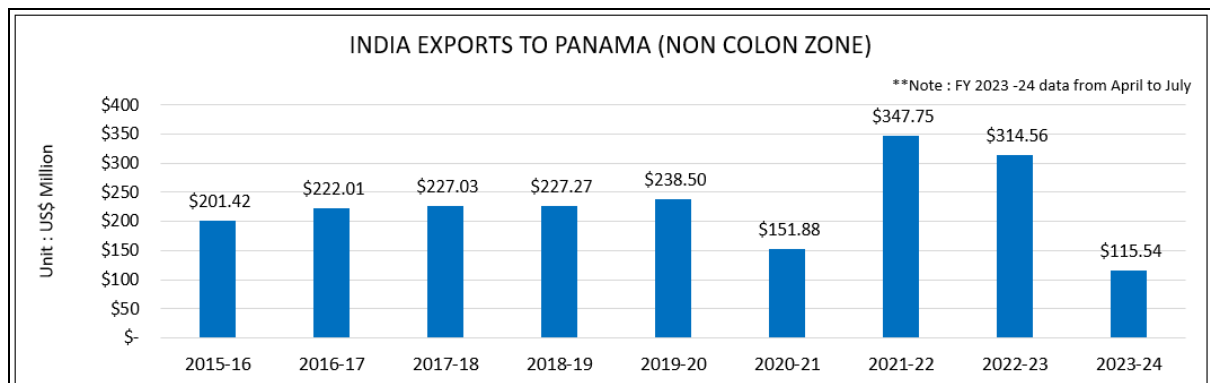
Maritime Disruptions : Impact on India

Recent disruptions to global shipping in Red Sea and Panama have implications for India. We step back a bit to analyze the Indian involvement in these areas and analyze the recent developments.

The maritime challenges in Panama Canal

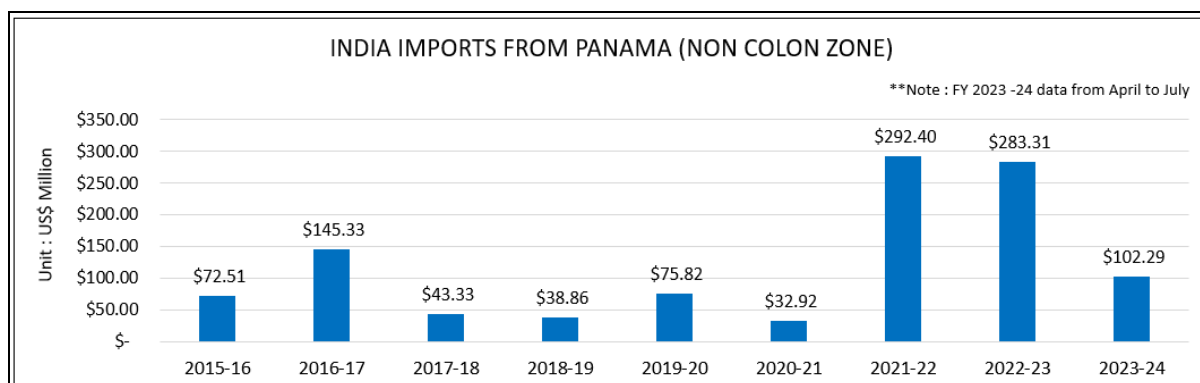
India-Panama relations are the oldest in the Central American region, dating back to the middle of the 19th Century when groups of Indians came to Panama to work on the construction of Panama Railways and later the Panama Canal in the early 20th Century. The diplomatic relations between India and Panama were [established in 1962](#). Over the years, both nations have deepened ties through diplomatic missions, trade agreements, and shared values of democracy, multiculturalism, and secularism. In recent years, India and Panama have solidified their partnership with various Memorandums of Understanding (MoUs) spanning different fields. Notably, the collaboration between the Panamanian Election Tribunal and the Indian Election Commission underscores the commitment to enhancing cooperation in election management and administration.

This institutional foundation reflects a shared dedication to democratic ideals which has contributed in building trade relations among both the nations. India and Panama have seen a steady increase in trade in recent years. In [FY 2022-23, bilateral trade reached US\\$ 597.87 million, with India exporting US\\$314.56 million worth of goods to Panama \(Non-Colon Zone\) and importing US\\$283.31 million worth of goods from Panama \(Non-Colon Zone\)](#). India's exports, comprising machinery, automobiles, textiles, and pharmaceuticals, demonstrate the diversification of trade. Panama, in turn, exports copper ore, scrap iron, and wood to India. The strategic location of Panama, serving as a gateway to the USA, Latin America, and the Caribbean, has led to India considering the possibility of establishing a logistics hub in the region.



Source : Ministry of Commerce and Industry

Graph 1- Data on India's exports to Panama (Non-Colon Zone). In FY 2023–24 (April 2023–July 2023), India exported US\$115.54 million, followed by FY 2022–23 (US\$314.56), FY 2021–22 (US\$347.75), and FY 2020–21 (US\$151.88).



Source : Ministry of Commerce and Industry

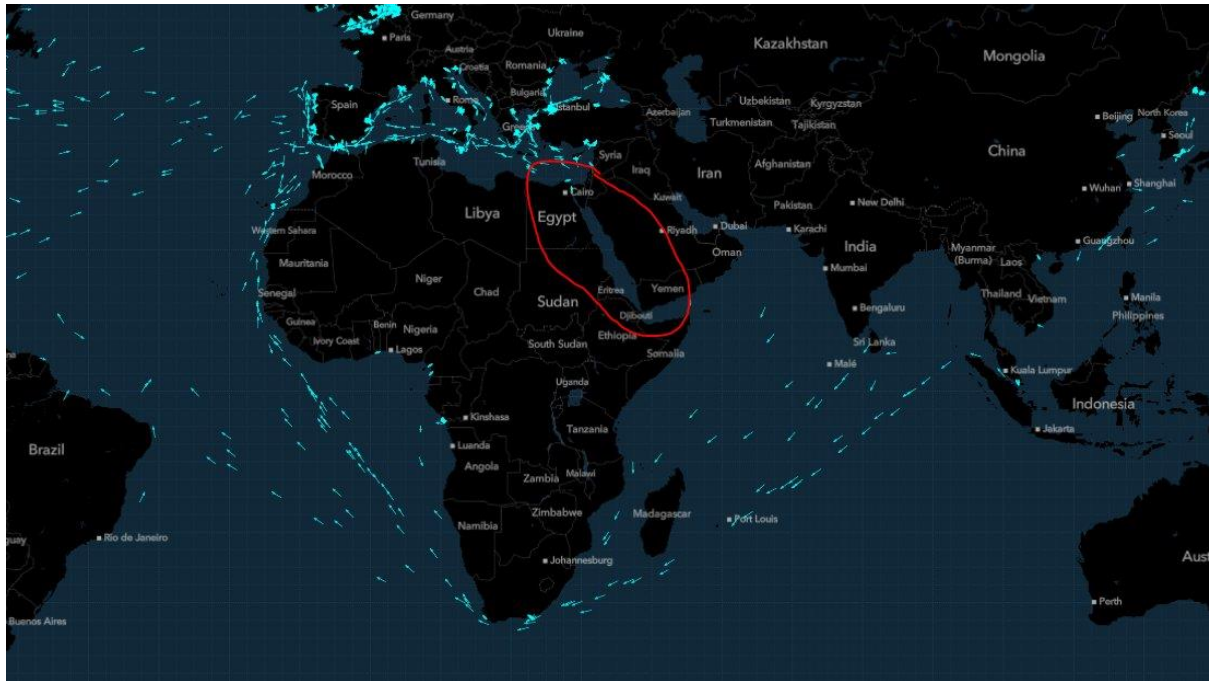
Graph 2- Data on India's imports from Panama (Non-Colon Zone). In FY 2023–24 (April 2023–July 2023), India imported US\$102.29 million, followed by FY 2022–23 (US\$283.31), FY 2021–22 (US\$292.40), and FY 2020–21 (US\$32.92).

However the recent concern about the Panama Canal is from other factors. There has been a more than [50% decrease](#) in shipping activity due to a severe drought affecting the 51-mile passage. The water scarcity has compelled vessels traveling from Asia to the United States to divert to the Suez Canal, resulting in an additional six days of transit compared to the Panama Canal. Panama is facing its driest rainy season in decades, raising fears of prolonged canal bottlenecks. Maintaining strong trade relations is crucial for any nation which becomes difficult to sustain due to these maritime challenges on such important trade routes. The maritime disruptions in Panama due to droughts resulting in a reduction in daily transits has potential economic consequences for India too. Costs for Indian maritime consignments rise as there is a general hardening of freight rates globally.

The maritime challenges in the Red Sea:

The Red Sea, a crucial waterway connecting Asia and Europe, has experienced disruptions due to attacks by [Yemen's Houthi rebels](#) on this route. This has forced a significant rerouting of global trade away from this route.

Situated at the northern end of the Red Sea, the Suez Canal and the narrow [Bab el-Mandeb Strait](#) at its southern end, leading into the Gulf of Aden, are essential conduits for ships transporting goods between Asia and Europe. Following the attacks in the Bab-el-Mandeb Strait, global shipping firms have introduced war risk surcharges on top of regular freight rates. Indian exporters have expressed concerns that if the security issues along the Red Sea trade route persist, freight rates for Indian shipments to Europe and Africa could surge by as much as 25-30%.



[Bloomberg tweeted this](#) quoting as *“MAP OF THE DAY: Sometimes, a picture is worth a thousand words. Container ships heading toward Europe and/or North America, with almost all avoiding the Red Sea (red). More than two weeks after the launch of US-led 'Prosperity Guardian', the Houthis still rule in the Red Sea”*.

The disruption in maritime transport is a significant concern for the global economy, given that over 80% of the global goods trade relies through maritime transportation. Developing countries like India are particularly vulnerable to such disruptions in the maritime trade. The European Union, being one of India's second-largest export destinations, has experienced slowing demand, impacting labor-intensive sectors such as textiles, gems, and jewellery exports.

India faces a substantial challenge due to these disruptions. The rerouting of shipments through alternative routes, like the Cape of Good Hope, could lead to a [10 to 20 percent increase](#) in the prices of Indian agricultural products. This is particularly worrisome situation, considering the European Union's significance as a major export destination for India, raising concerns about demand and export revenues in sectors like textiles and gems.

The decline in global oil and petroleum product flows through the Red Sea route has repercussions extending beyond trade. With a 50% reduction in December, benchmark Brent crude prices have seen a surge of over 5%, stabilizing around \$80 per barrel. Although Goldman Sachs suggests that disruptions may not significantly impact international oil prices, the indirect economic consequences for countries heavily reliant on oil imports cannot be overlooked.

Thus as global maritime trade faces unprecedented challenges with disruptions in key shipping routes, India must strategically adapt to protect its economic interests. Strengthening ties with Panama, exploring new logistics hubs, and actively engaging in diplomatic efforts to secure these critical waterways are crucial steps. The interconnected nature of the global economy necessitates collaborative efforts to mitigate the impact of disruptions and ensure the continued flow of goods and energy supplies.