# Economic Implications of the Red Sea Crisis

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To start with, between October 2023 and December 2024, Houthi forces have conducted 201 attacks on commercial vessels, resulting in 12 fatalities. The resulting crisis has inflicted huge cost globally, but especially on the Arab economy. To capture such cost and the ramifications of the crisis, the World Bank published in February 2025, *The Deepening Red Sea Shipping Crisis: Impacts and Outlook*, which we will analyze in what follows.

The Red Sea crisis has emerged as a critical flashpoint of the conflict in the Middle East, upending global trade and maritime transport, and the ecological balance of the Red Sea. By end-2024, about a year after the onset of the crisis, vessel traffic through the strategic Suez Canal and Bab El-Mandeb Strait -- which used to carry 30% of world container traffic -- had plummeted by three-fourths. Meanwhile, the impact has not only deepened but also spread geographically: the Strait of Hormuz, the world's most critical oil passageway and a chokepoint between the Arabian Gulf and the Gulf of Oman, has not been immune to the spillover effects, with maritime traffic dropping 15% as the conflict casts its shadow over the region. Moreover, the alternative Cape of Good Hope passage has seen a surge in activity, with navigation volumes increasing by over 50%. But the number and frequency of vessels passing around the Cape of Good Hope has become much more volatile in recent months, also reflecting the broader disruption to supply chains linking Asia and Europe and the Americas[1].

1 Additionally, travel distances for cargo ships and tankers that previously passed through the Red Sea had risen by 48% and 38% respectively.

In country terms, since November 2023, nearly all of the top 20 ports across Red Sea and Gulf countries recorded notable drops in both imports and exports, with an average trade volume decrease of 8% compared to their pre-crisis levels. Jordan and Oman saw the steepest declines in shipping exports, with reductions of 38% and 28%, respectively, while Jordan and Qatar experienced the largest declines in shipping imports, at 50% and 27%. Egypt reported an estimated $7 billion loss in Suez Canal revenues for 2024, representing approximately 5% of its GDP. Nevertheless, a few ports in the UAE, Egypt, and Saudi Arabia have bucked the trend. Their locations in the Mediterranean and the Arabian Gulf, away from Houthi-controlled Yemeni territory, likely enabled them to benefit from trade diversion from ports located near the conflict's center. Specifically, since December 2023, attacks on Red Sea shipping have spurred the development of an alternative “land bridge” to carry cargo by trucks through Saudi Arabia to reach destinations in Israel and Egypt and beyond. This shift has also increased vessel activity at Saudi Arabia's Dammam port by about 15%, as cargo previously routed through Yanbu, a port on Saudi Arabia's western coast, is now being redirected to Dammam. Overall, though, these adjustments weren't enough to compensate for the loss of trade that the crisis has induced.

Perhaps more important, the Red Sea has not only become a geopolitical flashpoint but also a site of growing environmental catastrophe. Oil spills, resulting largely from the attacks on tankers, have contaminated critical marine habitats, threatening biodiversity and undermining local livelihoods. Additionally, fishing—a cornerstone of subsistence for coastal communities—has decreased due to safety concerns and environmental damage. The crisis also resulted in distressed ships damaging critical undersea fiber optic cables, disrupting vital telecommunications infrastructure and global connectivity, forcing the rerouting of approximately 25% of internet traffic across these regions.

Globally, between December 2023 and December 2024, seaborne trade volumes dropped by 5% for imports and 4% for exports, mostly due to the Red Sea shipping crisis. And in terms of shipping cost, the disruption of maritime has driven up global shipping costs, with the sharpest increases observed on routes directly affected by the hostilities. The Drewry World Container Index, a critical gauge of global shipping costs, remains 141% higher than pre-crisis levels, but is more pronounced along routes passing through the Red Sea standing at 250%. And given that transport cost is around 11% the Free on Board Value[2], these figures would translate to higher inflation rates by more than 1% globally and more than 2% in MENA.

The Red Sea crisis is one example of how the disruptive 'Arms of Iran' have wreaked havoc to the Arab economy. In this case, if we restrict ourselves to the reduction in Arab exports and the higher cost of imports only, the Red Sea crisis would cost $104 billion and $20 billion respectively in 2024[3]. But that is not all, of course. If we count the damages caused by 'Iran's Arms' in other Arab countries or cases, the resulting cost would be quite substantial: $400 billion for rebuilding Syria, $53 billion for Gaza, and $12 billion for Lebanon – and these are perhaps the widely-cited conservative estimates[4]. This calls for needed action to eliminate the root causes of these crises and to rid the Arab economy from their debilitating burden – and the sooner the better!.

2 UNCTAD Statistics, 2024. Transportation cost is estimated as the average differences between Cost Insurance and Freight (CIF) value and Free on Board (FOB) value. FOB is used to estimate the pure cost of imported goods.

3 In 2023, Arab goods exports stood at about $1.3 trillion and Arab goods imports at $1 trillion. So in 2024, an 8% reduction in exports amounts to $104 billion and a 2% increase in cost of imports amounts to $20 billion.

4 Not to mention the fact, that close to half the 40 million Yemenis is at or below the poverty line and requires assistance of around $2.5 billion annually.

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