Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Red Sea Conflict and Inflation Risk: Were Interest Rates Raised in Vain?

Recently, I met trade, economics and foreign policy experts at the USLA campus, Topkapı University's Gastronomy Centre, to taste the delicacies of world cuisine. The consensus was that global trade is facing a serious risk, which threatens to cause a major increase in freight shipping rates, and ultimately in inflation.

The problems affecting the region are interconnected. Red Sea attacks have caused 40-foot container prices to double to above $3,000. This means an increase by 122% in just one month.

According to many freight forwarders, costs can reach up to $8,000 with additional cargo. It goes without saying that this conflict poses billions worth of risks for China, considering that 80% of its trade is seaborne.

The attacks in the Red Sea, which began just when China visibly started to shock global markets with its electric vehicle surge, could hinder Chinese EV export (China's auto exports had risen by 60% to 5 million cars in 2022-2023).

Obviously, that is not the only problem. On Tuesday, Iran launched missiles in Erbil, targeting what they described as espionage centres of Israel's Mossad. The attacks led to civilian casualties in residential areas.

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The attack on Iran and the attack on a Turkish military base in Iraq by the PKK just before the signing of an anti-terrorism cooperation agreement between Turkey, Iraq and Iran indicate that the war might spread further into the region.

And it does not take a fortune teller to guess that Israel and the US are behind these attacks.

The fact that the attack on a Turkish base was carried out right after President Erdoğan delivered a statement intimidating Israel on the anniversary of the establishment of Turkey's national intelligence agency "MIT" is a tangible proof of such involvement.

A paradigm shift in the Middle East

Accordingly, Turkey is expected to launch a large-scale military operation in the region. It is highly likely that Turkey could confront the US, Russian and Iranian forces in a possible military operation. There is no need to worry about Israel because Israel equals the United States.

The interesting point here is that Turkey reached an agreement with Iraq and Barzani to combat terrorism and took Talabani out of the picture. And the US is stirring up trouble in the region to prevent Iran from being a party to this agreement.

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Apparently, the US and Israel do not desire a paradigm shift in the Middle East. But they can only slow down this shift.

The parties have been supporting Turkey to create a safe zone extending to a depth of 60 km into Northern Iraq, killing Israel's dream of a Kurdish State before it is born.

Of course, none of this will come to fruition unless the Kremlin is convinced that the process is on its side.

The Iraqi Prime Minister recently said that the US troops must leave the region. Washington's response was that they have no plans to leave Iraq yet.

It is clear that the United States and Israel are quite concerned about the possibility that the

players in the region could reach an agreement that is similar to the Sa'dabad Pact signed between Turkey, Iran, Iraq and Afghanistan in 1937.

Red Sea crisis

Of course, all these developments pose a major threat to shipping in the Red Sea. This is a Red Sea crisis but shipping costs are soaring all around the world.

This rise has not yet affected global inflation, but surely we will feel it very soon. Everyone fears that the world might have to go through the same process that it had gone through during the COVID-19 pandemic, in which container prices had gone up to $12,500.

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More bad news is that there are other criminal incidents on the rise, apart from piracy and terrorism. For instance, in 2021, the rate of cargo theft was 16%, and it jumped to 24% in 2022. Thefts from customs, docks and warehouses increased from 24% to 26%.

Thefts from moving trucks rose from 10% to 15%, motor vehicle theft increased to 10%.

All of these incidents show that piracy is not the only danger to shipping. Most stolen items are food with 16%, electronics at 12%, agricultural products and motor vehicles at 9%, followed by fuel theft at 8% and building materials at7%.

And most hijacking incidents occur in India, the US, Brazil, Mexico, Russia, Germany and South Africa.

The inflatory effects of the Red Sea attacks

Regardless of the per capita income of the country, it is very likely for people whose income falls under the poverty threshold to engage in illegal activities, such as, in this case, cargo theft.

For example, incidents amounting to property damage and looting took place in the United States last year. However, the felony theft threshold varies from state to state in the US.

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In some states, if the stolen item is of small monetary value, the crime is not prosecuted as it is considered an "immoral act", not necessarily a criminal act.

In conclusion, all these recent incidents do increase the importance of regional trade. Soon, we will feel the inflationary effects of the Red Sea attacks.

The world is about to embark on a dangerous path where rising interest rates will no longer have meaning. I think what Kenneth Rogoff said in Davos needs to be analysed again, but this time from this particular perspective.