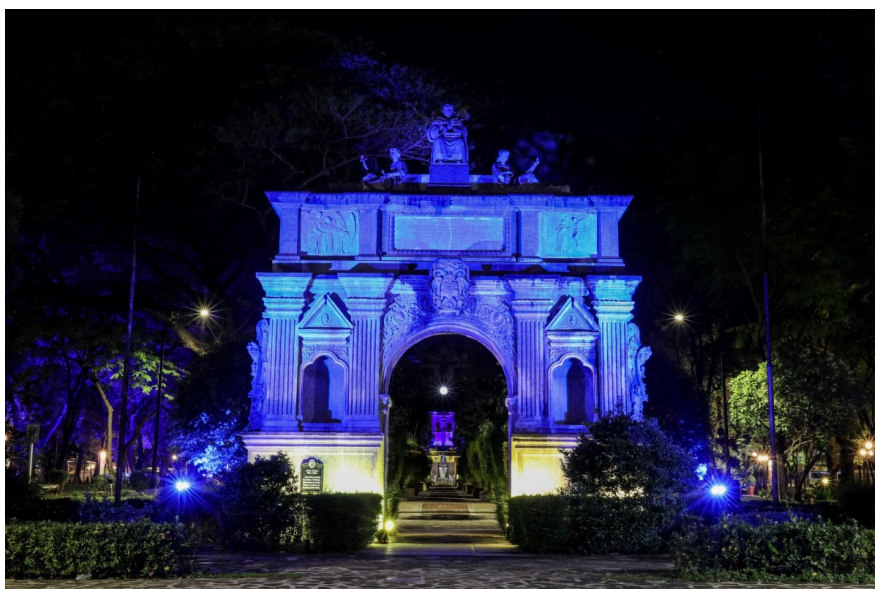


The Asian economies most exposed to the Russia-Ukraine conflict

For a region that really does not need another headwind to economic growth, the relatively good news is that the Russia-Ukraine conflict should not have too severe economic consequences for Asia



The Ukrainian flag projected on the Arch of the Centuries in Manila, Philippines.

Direct trade channels are small

When considering how the Russia-Ukraine conflict could affect Asia, we look at three main channels:

1. Direct trade exposures: The conflict and ensuing sanctions on Russia will not just damage export markets to these two countries, but could disrupt import channels too, creating bottlenecks in supply and production shortfalls. We look at these exposures relative to nominal GDP.
2. The net energy dependence of an economy: The more an economy needs to import oil and gas, even if from other sources than Russia or Ukraine, the greater the likelihood that they face a sharply escalating energy import bill. The opposite would be true for net energy exporting economies, for whom the higher prices would represent a positive terms-of-trade shock.
3. The weight of energy (and food) in the Consumer Price Index (CPI) basket: Irrespective of the

trading position of energy of an economy, the more that rising prices of energy (and food) push up inflation, the greater the weight of these items in the CPI basket, resulting in eroded consumer purchasing power. Energy and food prices are related through the energy inputs into fertiliser production, but there are also direct impacts on food prices as both Ukraine and Russia are substantial global producers of grains.

We don't ignore financial channels, but it is less straightforward to compare and contrast these. Suffice it to say that there will also likely be impacts through weaker stock prices, and consequently lower investment and future productivity. Though this is beyond the scope of this note, it is worth keeping in the back of your mind.

Below, we show how different Asian economies are exposed through these three different channels. Given the already difficult backdrop, it is some comfort that most Asian economies' direct exposures to the Russia-Ukraine conflict are relatively small.

Although some people will read across from the Russia-Ukraine conflict to ongoing territorial and sovereignty disputes in Asia, in what follows we will limit our analysis to direct and indirect macroeconomic and market impacts on the region.

Trade

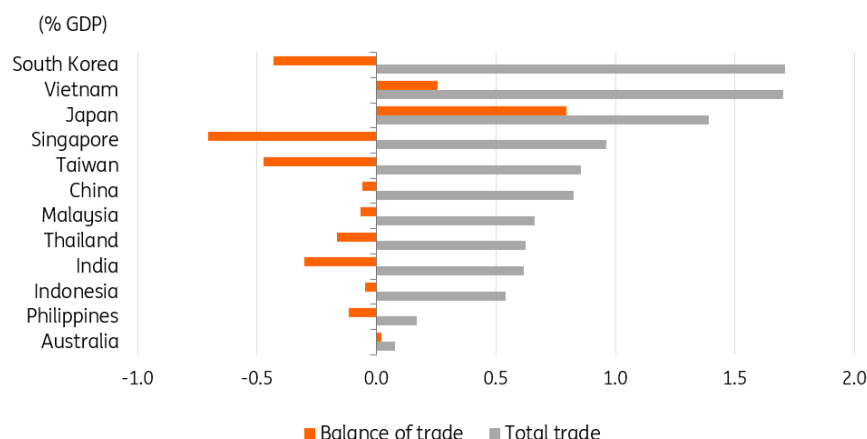
We have combined the sum of trade between Asian economies and both Russia and Ukraine in this analysis. Asian trade to both these nations is likely to be disrupted by the conflict.

In absolute terms, total trade with these two economies is greatest for South Korea, Vietnam, and Japan. For South Korea, imports outweigh exports (mostly energy). But both Vietnam and Japan run small bilateral trade surpluses with these two nations. In all cases, the extent of trade is small, with total trade less than 2% of GDP for both Vietnam and Korea.

Singapore and Taiwan run similar bilateral deficits with Russia and Ukraine, of about 0.5% GDP, though overall trade is equivalent to less than 1% of nominal GDP. For all other countries, including China, total trade amounts to less than 1% of nominal GDP and the bilateral trade positions are very small.

If we only consider the export channel, then Vietnam, South Korea and Japan top the table, though even in the case of Japan, total exports to Russia and Ukraine only just exceed 1% of 2021 GDP.

Asia trade with Russia and Ukraine (2021 values where available)



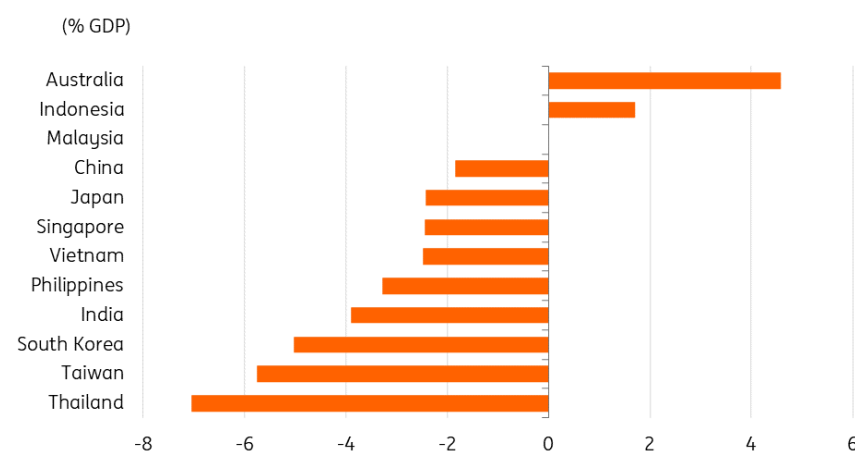
Source: CEIC, ING

Energy dependence

Asian economies are often heavily reliant on imported energy, with only a few economies coming close to being net energy exporters. For the surplus countries, spiking energy prices will provide a windfall gain boosting revenues from this trade and possibly even boosting demand and sales as Russia-Ukraine sources are blocked off or avoided resulting in substitution for other suppliers.

In the following chart, we show the net trade balance for oil, natural gas, and related petroleum and gas products (where that is provided in the trade data). Australia comes out of this best, with a net surplus position of about 4% of nominal GDP in its energy exports, ahead of Indonesia and Malaysia. All other economies are net energy importers to a greater or lesser extent. In order of increasing dependence, India, South Korea, Taiwan and Thailand prop up the bottom of the chart. China's net energy deficit is a little less than 2% of GDP at 2021 prices.

Asia balance of energy



Source: CEIC, ING

Asia balance of energy

Price effects

The other major channel we consider for the impacts of this conflict on Asian economies is the extent to which it pushes up inflation and undermines purchasing power for households. This might end up being the most powerful channel for the Russia-Ukraine conflict to weigh on the region, with food and energy making up a substantial proportion of the entire CPI basket, especially for developing Asia, and potentially also eliciting a more hawkish policy response from central banks.

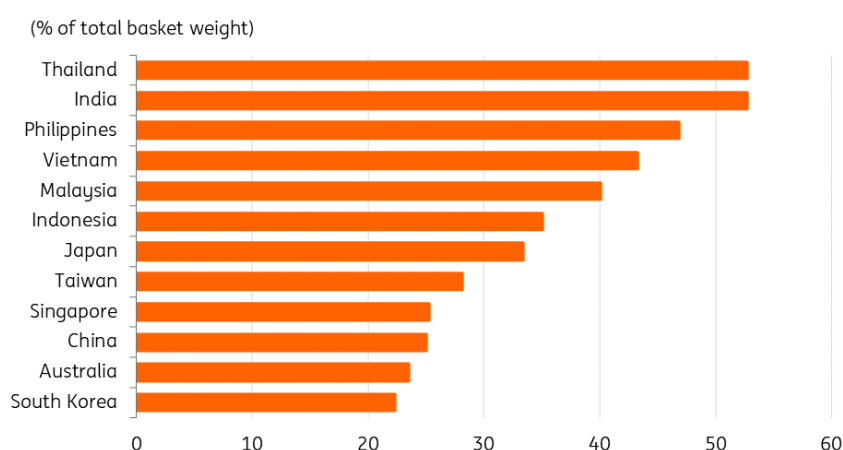
With the global inflation backdrop already precarious, this additional shock to price levels comes at a very unfortunate time, although Asia was already looking better placed compared to global peers thanks to its better positions in supply chains for hi-tech products and more favourable transport costs.

However, higher global wheat prices could also push up the price of grain substitutes such as rice, while corn price increases could push up the price of alternative animal feeds for hogs such as soybeans, which will then cause regional pork prices to surge. In the longer term, higher energy prices could also increase the price of fertilisers for which they are a feedstock, leading to reduced fertiliser usage, lower yields and higher prices. So the effects could be far-reaching as well as long-lasting.

To proxy for exposure to this channel, we compare the proportion of food and energy in the CPI baskets for Asian economies. The impact looks as if it will be concentrated in the less-developed economies of Asia, with Thailand, the Philippines, India and Vietnam all having a weight of food and energy of 40% or greater in their CPI baskets.

At the other end of the spectrum, Singapore, China, South Korea and Australia have the smallest food and energy weights in their CPI basket and so should see the least loss of household purchasing power.

Weight of food and energy in CPI basket (%)



Source: CEIC, ING

Relative ranking

With only the sketchiest idea of how this conflict will develop, putting hard numbers onto its impact for Asian economies in terms of percentage points of GDP is not something we can

contemplate at this point.

Instead, we can consider the relative rankings of the channels we have analysed as being the most likely to affect the economies of the region. When we do this, it looks like Vietnam will be the most-affected economy in the region, along with Thailand, Japan and South Korea. At the other end of the table, Australia, Indonesia, the Philippines and Singapore will be the least-affected economies.

Relative rankings table: most affected (top) to least affected (bottom)

	Trade	Exports	Oil and Gas balance	Food and energy weights	Total rank/4
Vietnam	2	2	6	4	3.50
Thailand	8	7	1	1	4.25
Japan	3	1	8	7	4.75
South Korea	1	3	3	12	4.75
Taiwan	5	8	2	8	5.75
India	9	9	4	2	6.00
Malaysia	7	5	10	5	6.75
China	6	4	9	10	7.25
Singapore	4	10	7	9	7.50
Philippines	11	12	5	3	7.75
Indonesia	10	6	11	6	8.25
Australia	12	11	12	11	11.5

Source: ING

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com