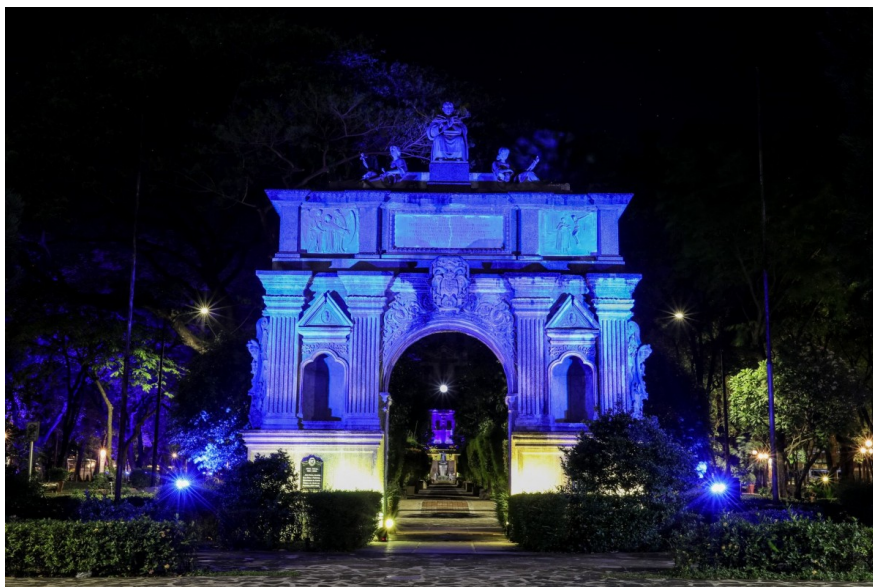


The Asian economies most exposed to the Russia-Ukraine conflict

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

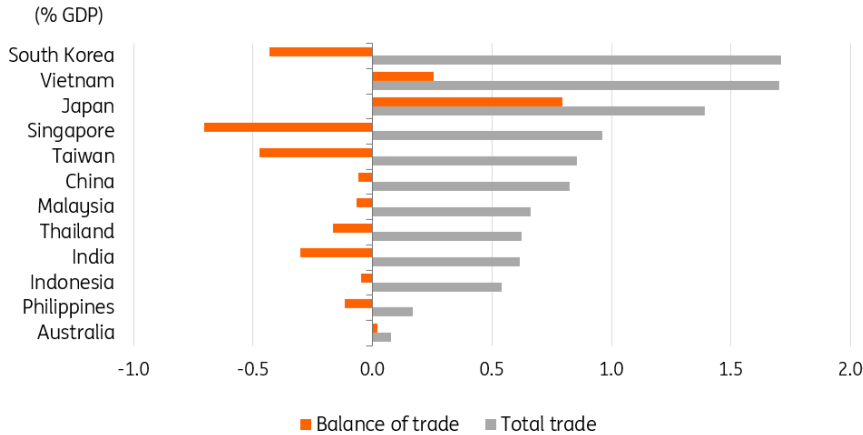
We have combined the sum of trade between Asian economies and both Russia and Ukraine in this analysis. Asian trade to both these nations is likely to be disrupted by the conflict.

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)



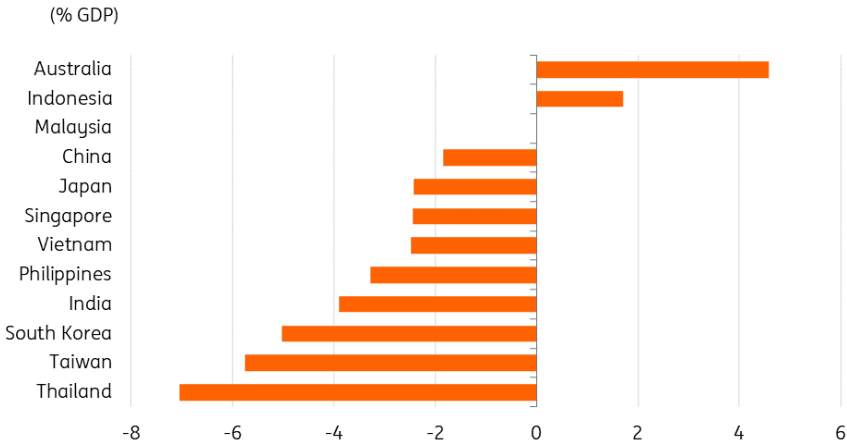
Source: CEIC, ING

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.

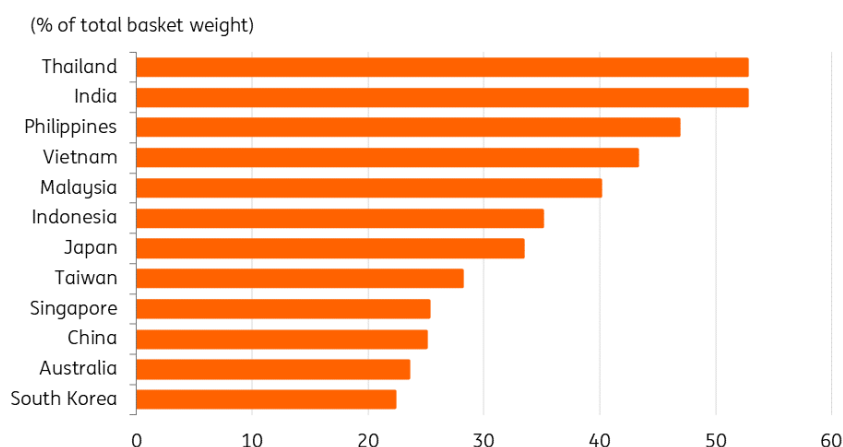
With the global inflation backdrop already precarious, this additional shock to price levels comes at a very unfortunate time, although Asia was already looking better placed compared to global peers thanks to its better positions in supply chains for hi-tech products and more favourable transport costs.

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

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