



# Ukraine Crisis: Impact on Asia

March 2022

## Outlook & Commentary

Russia's invasion of Ukraine has sent shockwaves across global financial markets. In response to Russia's military aggression, the West has imposed severe sanctions targeting Russia's financial system and the country's access to the US dollar and is mulling over sanction on its oil exports. Christiaan Tuntono, Senior Economist for Asia Pacific at Allianz Global Investors discusses the impact of the Ukraine crisis on Asia.

### Summary

**Asia is not likely to be severely impacted by a seizure in financial linkages with Russia.** Firstly, Russia's GDP and equity market capitalisation are not sizable on a global scale, only representing about 1.6% and 0.35% of the world's total, respectively. Secondly, only a few North Asian economies (Japan, Korea and Taiwan) have limited exposures of less than US\$10 billion to the Russian banking system and equity market.

**As for trade linkages, Asia's exposure to Russia and Ukraine is limited** at about 1.4% of the regional total and even lower at 1% when China is excluded from the calculation. Bulk of the trade exposure towards Russia is in mineral imports given the country's position as a key commodity exporter, but that only represents 5.7% of total mineral imports by Asia and 4.1% when China is excluded from the calculation.

**Asia is more directly impacted by the rapid surge in global energy prices caused by the escalation in the Ukraine crisis.** This is because most Asian economies, except for Malaysia, are net energy importers. Surging oil prices is expected to impact Asia through lower growth (higher fuel prices as a tax), higher inflation (fuel is a CPI component) and weaker current account balances (rising oil import bills).

Sensitivity analysis suggests that a rough 11% surge on global oil prices to US\$100 per barrel shall deduct Asia's growth by 0.17 percentage points (pp), raise CPI inflation by 0.33pp and weaken current account balance by 0.24% of GDP. When China is excluded from the calculation, the sensitivities are -0.25pp, +0.39pp and -0.36% of GDP, respectively.

The study shows that small-open economies like Singapore and Taiwan are most impacted on growth and current account balances, while Malaysia and Indonesia are the least due to their sizable commodity exports. On inflation the worst hit are the ASEAN economies and India given higher weights of fuel in their CPI baskets. We remain cautious over India, Indonesia and Philippines as oil prices surge given their high inflation prints and current account deficits.

## Sanctions on Russia have limited direct impact on Asia

The West responded to Russia’s military aggression by imposing sanctions primarily on the country’s financial system and is mulling over sanction on its oil exports. Cutting off key Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and freezing the Central Bank of Russia’s (CBR’s) foreign assets are expected to cause severe disruption to Russia’s international payments and the CBR’s ability to support the RUB.

Other sanctions target to cut off Russian banks from the US financial system and seize the personal assets of the Russian policy makers (President Putin, Foreign Minister Lavrov, etc.) and their oligarchs. The measures launched so far are short of cutting off Russia’s mineral exports (e.g. crude oil, natural gas and coal) in fear of aggravating shortages in Europe and the global markets, but sanction on oil exports is being actively discussed among the US and European allies at the time of writing this paper.

Asia is not likely to be severely impacted by the financial sanctions on Russia. There are two reasons behind that:

- (1) The scope of Russia’s economy and financial market is limited in a global context. Figure 1 shows that Russia’s GDP and equity market capitalisation are not sizable on a global scale, only representing about 1.6% and 0.35% of the world’s total, respectively.
- (2) Asia’s exposure to Russia’s equity market and banking system is relatively muted. As shown in Figure 2, Japan has merely around US\$2 billion position in the Russian equity market, representing about 1% of total foreign ownership. On the banking system, Japanese banks have the highest claims on Russian banks (US\$9.5 billion), followed by Korea (US\$1.7 billion) and Taiwan (US\$184 million) according to the data from the Bank for International Settlements as of March 2022. These exposures are very small fractions of the banking system’s assets of these economies.

Asia’s trade exposure to Russia and Ukraine is also very limited. Data from Alpine Macro reveals that Russia is the world’s third largest energy exporter (e.g. oil, gas, coal) and a key exporter of rare metals (e.g. Palladium) and agricultural products (e.g. wheat). But that said, our research shows that Asia as a whole only has about 1.4% of its trade transacted with Russia as well as Ukraine (Figure 3). Excluding China, Asia’s trade exposure to the two countries falls further to 1% of total trade. China, Korea, India and Japan have the greatest exposure while Singapore, Malaysia and Hong Kong have the least.

Figure 1: Russia’s diminishing economic and financial relevance



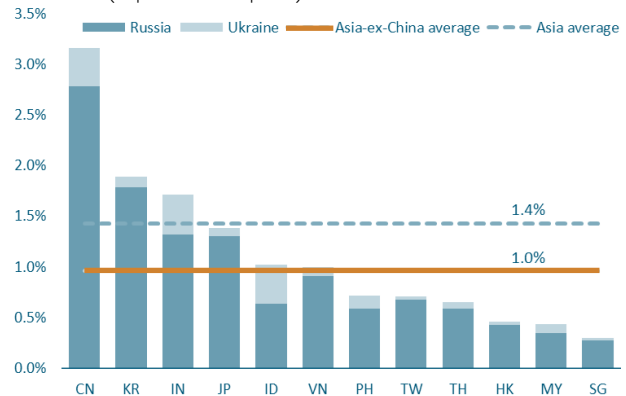
Source: Alpine Macro, Bloomberg, AllianzGI Economics & Strategy, March 2022.

Figure 2: Foreign exposure on Russian equities

	Market Cap (Bn USD)	% of Total Foreign Ownership
United States	\$89,18	44%
United Kingdom	\$43,31	22%
Luxembourg	\$23,62	12%
Ireland	\$16,35	8%
Sweden	\$8,93	4%
France	\$7,10	4%
Canada	\$4,14	2%
Japan	\$1,97	1%
Other	\$6,35	3%
<b>Total</b>	<b>\$200,94</b>	<b>100%</b>

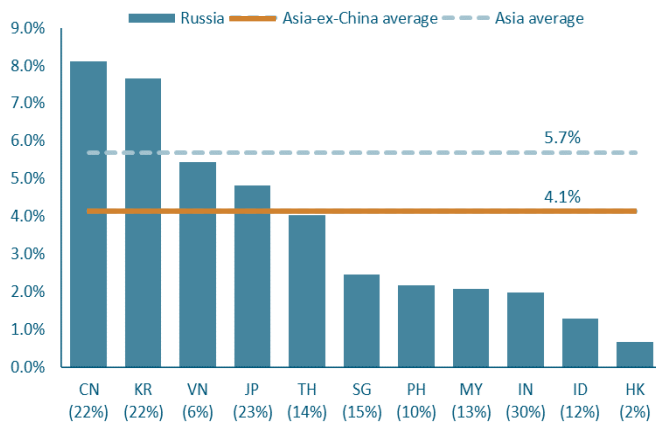
Source: Alpine Macro, Bloomberg, AllianzGI Economics & Strategy, March 2022.

Figure 3: Asia’s trade exposure to Russia and Ukraine



Source: CEIC, OECD, UN Comtrade, AllianzGI Economics & Strategy, March 2022.

**Figure 4: Asia’s mineral imports from Russia**



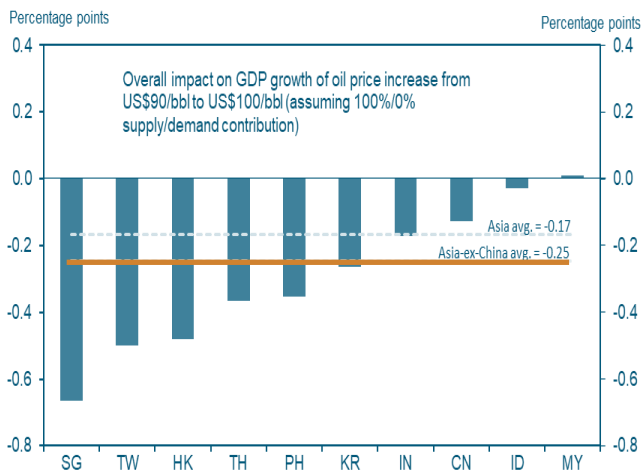
\*Brackets represent % of mineral imports as of total imports  
 Source: CEIC, OECD, UN Comtrade, AllianzGI Economics & Strategy, March 2022.

Asia’s trade with Russia is predominantly on mineral imports but the weight is not high either. Of all the mineral product imported by Asia only 5.7% is sourced from Russia as depicted in Figure 4. The weight is lowered again to 4.1% when China is excluded, which has the highest mineral import exposure towards Russia (8.1%) among regional peers.

### Surging oil prices have greater impact on Asia

Global energy prices surged in response to the potential sanction on Russian oil exports from the global market. Brent crude oil price surged to over US\$125 per barrel (bbl) from over \$90/bbl (+39%) in the aftermath of the Russian invasion. Natural gas prices also surge. Global buyers have already been shunning away from Russian producers in concern of repercussion such as payment and delivery difficulties. Russian-produced crude oils are currently sold at a discount from Brent crude oil and the spread remains wide (~US\$20-30/bbl).

**Figure 5: Most Asian economies are hit by surging oil prices**

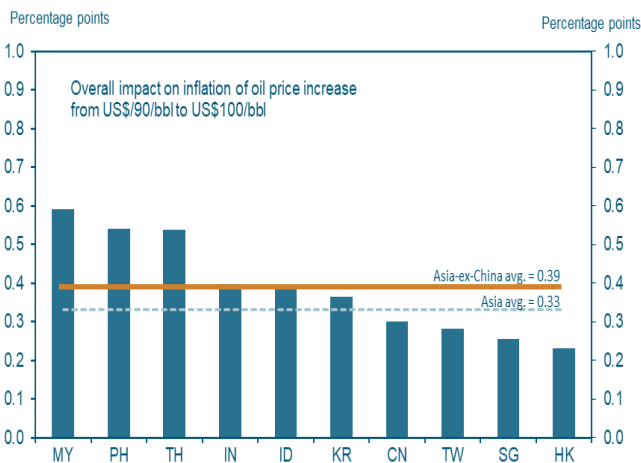


Source: GS Research, AllianzGI Economics & Strategy, as of March 2022.

Asia is more directly impacted by the rapid surge in global energy prices. This is because most Asian economies, except for Malaysia, are net energy importers. Surging oil prices is expected to impact Asia through lower growth (higher fuel prices as a tax), higher inflation (fuel is a CPI component) and weaker current account balances (rising oil import bills).

Sensitivity analysis shown in Figure 5 suggests that an approximately 11% (\$90/bbl to \$100/bbl) surge in global oil prices would deduct Asia’s GDP growth by an average 0.17 percentage points (pp). The sensitivity is higher at -0.25pp when China is excluded from the calculation. The study assumes the rise in oil prices is fully caused by supply disruption and not from the lack of demand.

**Figure 6: Inflation is expected to rise across Asia**



Source: GS Research, AllianzGI Economics & Strategy, as of March 2022.

The study shows that small-open economies like Singapore and Taiwan are most impacted, while Malaysia and Indonesia are the least. The difference can be explained by the lack of commodity production/exports among the small-open economies which can help offset the negative impact from higher crude oil/energy costs. Malaysia and Indonesia, on the other, are major commodity exporters which can benefit from higher global energy prices.

### Inflation

Same analysis (Figure 6) suggests that an 11% surge in global oil prices would raise Asia’s CPI inflation by an average 0.33pp. The sensitivity is higher at +0.39pp when China is excluded from the calculation. India and ASEAN economies, which have higher weighting of fuel and energy products in their CPI baskets, have their CPI inflation more sensitive to oil price surge than their North Asian peers.

We are cautious on India, Indonesia and the Philippines as their inflations are comparatively higher in the region. Further aggravation in global oil prices may worsen the inflation dynamic in these economies and prompt their central banks to respond with tighter monetary policy measures.

### *Current account balances*

Same analysis suggests that an 11% surge in global oil prices would weaken Asia's current account balances by an average 0.24% of GDP. The sensitivity is higher at -0.36% of GDP when China is excluded from the calculation. Singapore, Taiwan, Thailand and Korea are the most sensitive (over -0.4% GDP). Impact on Indonesia is relatively tamed (-0.05% of GDP) while Malaysia's current account balance widens (+0.18% of GDP) given its position as a net energy exporter.

We remain cautious on India, Indonesia and the Philippines as their current accounts are in deficits and may deteriorate further upon higher oil prices. Further aggravation in global oil prices may worsen the external positions of these economies, exert downward pressure on their currencies and prompt their central banks to respond with tighter monetary policy measures.

To view more market insights from Christiaan Tuntono, visit [Market & Model QuickUpdate](https://www.allianzgi.com) at [ap.allianzgi.com](https://ap.allianzgi.com)

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