Are ASEAN+3 Nonfinancial Firms Caught in the Russia-Ukraine Crossfire?[1]

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"Whatever affects one directly, affects all indirectly."

~ Martin Luther King, Jr.
Civil rights activist, 1929–68

I. Introduction

1. **Credit rating agencies have downgraded dozens of Russian companies, following the sovereign's cut to "junk" status in the wake of its war with Ukraine.** The international community has tightened economic sanctions to ban trade in military equipment and, in some cases, oil and gas (hereafter "O&G") with Russia, and freeze the assets of Russian oligarchs, potentially jeopardizing the solvency of affected Russian firms. Financial measures have also been imposed to remove selected Russian banks from the international financial messaging system SWIFT and prevent major state- and privately-owned Russian entities in the energy, agricultural, transportation, and telecommunications sectors from raising debt or equity in US markets. The manifestation of any funding liquidity risk at these firms could eventually cripple their operations and raise default risks in the corporate sector.

2. **The heightened solvency risks to Russia's firms are unlikely to be fully contained within its borders, given their international footprints.** In 2020, Russia reported an outward direct investment position of USD 381 billion with the rest of the world. Importantly, major Russian firms are present and integrated in the economic activities of ASEAN+3 members. Hence, rising solvency risks to the Russian parents could have negative ramifications for their Asian subsidiaries or branches and, potentially, the local economies. Spillovers could be further amplified if these Russian firms have also obtained financing from banks in the ASEAN+3 region.

3. **Similarly, ASEAN+3 firms with businesses in Russia face increasing business uncertainty and are another avenue for spillovers back to the region.** A growing number of businesses across sectors—from O&G to fashion to electronics—have been put on hold or have pulled out of Russia in a bid to avoid reputational risk or to cut (potential) losses. Any

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marked impact on the revenue streams of foreign subsidiaries in Russia could have knock-on effects on the balance sheets of their parents back home─including in the ASEAN+3—potentially raising the credit risks of domestic banks that have lent to these parents. Firms in the region that have borrowed from Russian banks may also be exposed to funding liquidity risks from loan rollovers.

4. **Shockwaves could also be transmitted to the ASEAN+3 region via trade and other channels.** In addition to exposures through longer-term commitments (e.g. investment and banking ties), the region's exporters could find that their Russian counterparts may be unable to make timely payment or may have to pull out of their contracts altogether. Separately, Russian exporters may have trouble supplying their downstream counterparts in this region. As an example, Russia's palladium exports—used for catalytic converters in motor vehicles—are reportedly being disrupted by flight bans (Fedorinova, Spence, and Pakiam 2022), which could have eventual trickle-down effects on production in this region. Importantly, disruptions to trade with and/or foreign direct investment (FDI) from major economies could manifest in a broader global slowdown, and the ASEAN+3 region is unlikely to escape unscathed.

5. **This note attempts to track and quantify the various channels through which sanctions on Russia could impact ASEAN+3 economies through the nonfinancial firm sector.** The analysis extends the work on banking sector spillovers by Wong and Ong (2022), to also cover the exposures of ASEAN+3 nonfinancial firms to any potential fallout from those sanctions, their potential effects on the broader domestic economy, and any attendant implication for the region's banks.

II. Estimating Cross-Border Exposures

A. Russian Investment in and Loans from the ASEAN+3

6. **Cross-border investments of Russian firms in the ASEAN+3 region are concentrated in a few sectors, and may come under stress as a result of the sanctions.** Out of the total number of FDI projects, including mergers and acquisitions (M&As), by Russian firms in the ASEAN+3 over the 2013–21 period, 31 percent were in banking, insurance, and financial services, followed by 15 percent in transport, freight and storage sector, and 11 percent in the wholesale industry (Figure 1). The largest investors, based on their operating revenues, are Gazprom (USD 86 billion), followed by Gazprom Neft, Sberbank, Central Bank of Russia,[2] Russian Railways, and VTB Bank (Table 1), all of which are on either the international sanction or financial restriction list. Although there is limited information on the extent to which these firms' operating revenues are derived from their ASEAN+3 operations, their placement on the controlled lists could have negative repercussions for their group businesses.

7. **Fortunately, inward investments from Russian firms to the ASEAN+3 are not significant, thus limiting any spillover risk to the region.** As of 2020, half of the economies in the region reported outstanding FDI from Russia, but they constituted no more than 3.0 percent of the total stock of FDI in any one economy (Figure 2). Within the region, Russian FDI was highest in Vietnam, accounting for 2.1 percent of the latter's total inward

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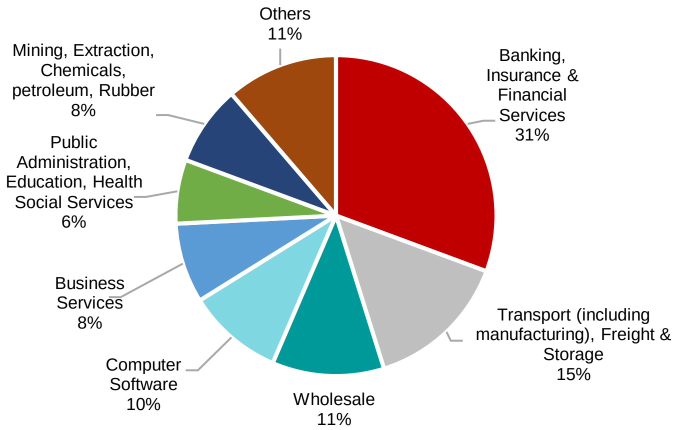
[2] Examples of projects by the Central Bank of Russia include investments in a construction project in Cambodia in 2014 and a retail project in Singapore through Denizbank in 2015, and establishment of a banking services office in China in 2017.

stock; followed by Cambodia (0.94), Singapore (0.69), Thailand (0.17), and lastly, Japan, Korea, and China (all with less than 0.05 percent). Measured relative to GDP, FDI from Russia amounted to less than 1 percent for each ASEAN+3 recipient, with the exception of Singapore (3.3 percent) (Figure 2). Indeed, most ASEAN+3 FDI have continued to originate within the region, which should curb any amplification of risks from the Russia-Ukraine war through the investment channel.

Figure 1. Russian Firms in ASEAN+3: Number of Projects (including Deals) by Industry

(Percent share of total projects)



Sources: Orbis Crossborder Investment; and AMRO staff calculations.
Note: Projects include FDI and M&As in the ASEAN+3 from 2013–21.

Table 1. Top Russian Firms Operating in the ASEAN+3

(Ranked by operating revenues)

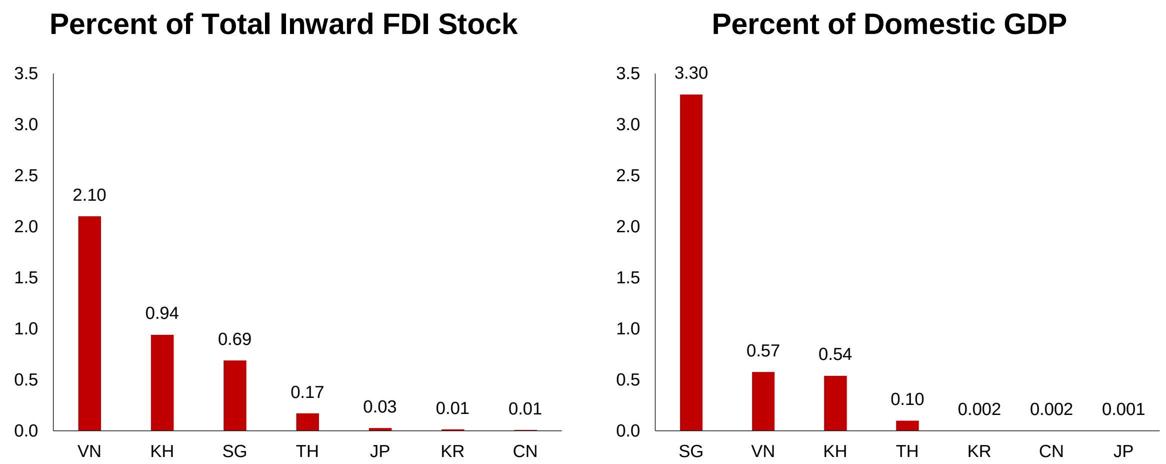
Rank	Company	Global Operating Revenue	Worldwide Projects	Worldwide M&A	Industry
		USD Billion	Number[c]		
1	Gazprom[a]	86	29 (1)	27 (0)	Transport, Freight & Storage
2	Gazprom Neft[a]	41	3 (1)	21 (0)	Mining & Extraction
3	Sberbank of Russia	30	13 (1)	54 (0)	Banking, Insurance & Financial Services
4	Central Bank of the Russian Federation	29	20 (4)	2 (0)	Banking, Insurance & Financial Services
5	Russian Railways[b]	27	29 (3)	8 (0)	Transport, Freight & Storage
6	VTB Bank[a]	10	20 (4)	44 (0)	Banking, Insurance & Financial Services

Sources: Orbis Crossborder Investment; and AMRO staff calculation.
Note: a = public joint stock company; b = joint stock company; c = numbers in parentheses refer to FDI and M&As in the ASEAN+3. Only existing FDI and M&As in ASEAN+3 between 2013–21 are included. Industry refers to the business function of the company's project in the ASEAN+3 region.

8. **Cross-border risks posed by Russian resident (financial and nonfinancial) borrowers to ASEAN+3 banks should also be relatively contained.** Although information on these debtors is not readily available, the risks they pose could be assessed from the latter's total claims on Russia. Four ASEAN+3 banking systems provided loans to Russian residents as of Q3 2021, with Korea having the largest claims of 0.022 percent of its banking sector assets, followed by Japan, Hong Kong and the Philippines (Wong and Ong 2022). Should these Russian residents be unable to service their loans, the small cross-border

exposures of ASEAN+3 banking systems suggest that any risk to the latter's resident banks would be very limited.

Figure 2. ASEAN+3: Inward FDI from Russia, as of 2020



Sources: IMF Coordinated Direct Investment Survey (CDIS) via Haver Analytics; and AMRO staff calculations.
Note: The rest of the ASEAN+3 economies with less than 0.001 percent share FDI from Russia are excluded.

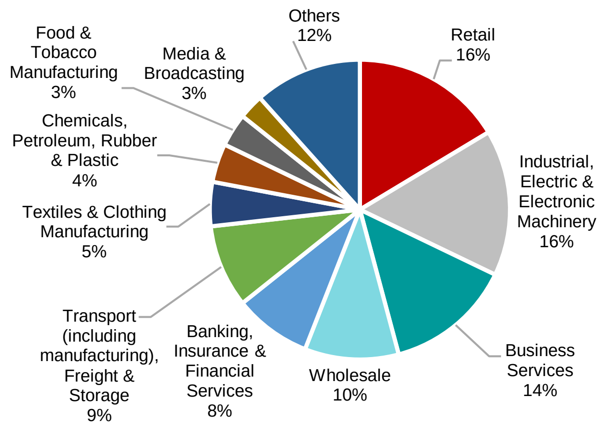
Sources: IMF CDIS and World Economic Outlook (WEO) via Haver Analytics; and AMRO staff calculations.
Note: The rest of the ASEAN+3 economies with less than 0.001 percent share of domestic GDP are excluded.

B. ASEAN+3 Investment in and Loans from Russia

9. **ASEAN+3 FDI projects in Russia are distributed across a diverse range of business activities, with top investors typically among the largest conglomerates in their home countries.** Of the total number of FDI projects by ASEAN+3 firms in Russia over the 2013–21 period, 16 percent are in the retail sector, with another 16 percent in the industrial, electric, and electronics industry, and 14 percent in the business services sector (Figure 3). The largest firms, based on overall operating revenues, with FDI in Russia are from China (e.g. China National Petroleum Corporation and China Petrochemical Corporation) in the energy sector; followed by Japan and Korea in the transportation and industrial sectors (e.g. Toyota and Samsung, respectively) (Table 2).

Figure 3. ASEAN+3 Firms in Russia: Number of Projects (including Deals) by Industry

(Percent share of total projects)



Sources: Orbis Crossborder Investment; and AMRO staff calculations.
Note: Projects include FDI and M&As in Russia from 2013 to 2021.

Table 2. Top ASEAN+3 Corporates Operating in Russia
(Ranked by operating revenues)

Rank	Company	Global Operating Revenue	Worldwide Projects	Worldwide M&A	Industry
		USD Billion	Number		
1	China National Petroleum Corporation	362	17 (1)	9 (1)	Chemicals, Petroleum, Rubber and Plastic
2	China Petroleum and Chemical Corporation	324	7 (0)	11 (2)	Mining and Extraction
3	China Petrochemical Corporation	292	10 (0)	4 (1)	Chemicals, Petroleum, Rubber and Plastic
4	Toyota Motor Corporation	246	228 (1)	17 (0)	Transport Manufacturing
5	Samsung Electronics Co., Limited	218	314 (15)	53 (0)	Industrial, Electric and Electronic Machinery
6	China Railway Construction Corporation Limited	139	4 (1)	5 (0)	Construction

Sources: Orbis Crossborder Investment; and AMRO staff calculations.
Note: Numbers in parentheses refer to projects and M&As in Russia. Only existing FDI and M&As in Russia from 2013–21 are included. Industry refers to the business function of the company's project in Russia.

10. **Spillovers from ASEAN+3 investments in Russia back to their respective home countries are likely to be insignificant in aggregate, despite some firms having large market shares in Russia:**

- As of end-2020, ASEAN+3 investments in Russia constituted no more than 1.0 percent of their respective outward direct investments, with the exception of Vietnam, with a share of 16 percent (Figure 4).[3] Measured relative to GDP, FDI to Russia was also small, at not more than 1.0 percent for each ASEAN+3 country (Figure 4). Hence, even if their operations in Russia were to come under stress, the small exposures suggest that any disruption to group operations would be minimal.

- No ASEAN+3 firm appears to be sufficiently exposed to Russia to cause economic ructions back home. As an example, Korea's Samsung has a 30 percent market share in the Russia's smartphone market as of Q4 2021 (Lee 2022). However, any collapse in demand for the products of its Russian business should not have significant ramifications for the group or the Korean economy—Samsung's sales in Russia are estimated to have been USD 3 billion in 2021,[4] approximately 1.4 percent of the group's USD 218 billion in operating revenues. Moreover, with Korea's total stock of FDI in Russia estimated at 0.18 percent of GDP in 2020, Samsung's exposure would be less than that amount.

11. **Risks originating from Russian bank claims on ASEAN+3 firms also appear negligible.** Russian banks have outstanding claims on (financial and nonfinancial) borrowers from four economies in the region: Hong Kong firms have the largest obligations, amounting to 0.094 percent of its own banking sector assets, followed by those in Korea, Japan and the Philippines (Wong and Ong 2022). Although borrowers based in the

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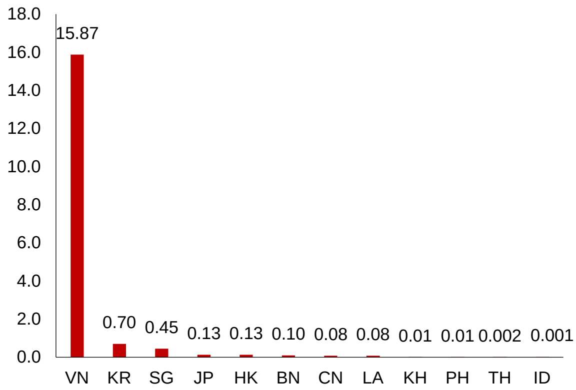
[3] Vietnam invested 9 projects in Russia from 2013–21, the majority of which were made in 2020. The Vietnam-Eurasian Economic Union Free Trade Agreement came into effect in 2016. The investments were made by 6 entities across various industries in a myriad of areas, namely: (1) solar power; (2) production of animal feed and breeding of cows; (3) production of milk; (4) packaging and distribution of fish; (5) biotechnology; and (6) promotion of bilateral ties.

[4] Based on annual smartphone sales in Russia of USD 9.7 billion (https://www.statista.com/statistics/1198335/smartphones-sales-value-in-russia/).

ASEAN+3 region that have obtained financing from Russian banks might face rollover risks arising from the sanctions on some Russian banks, the situation may not necessarily translate into liquidity problems—the borrowers are likely to be able to plug any funding gap that arises with alternative sources, given the relatively tiny amounts involved.

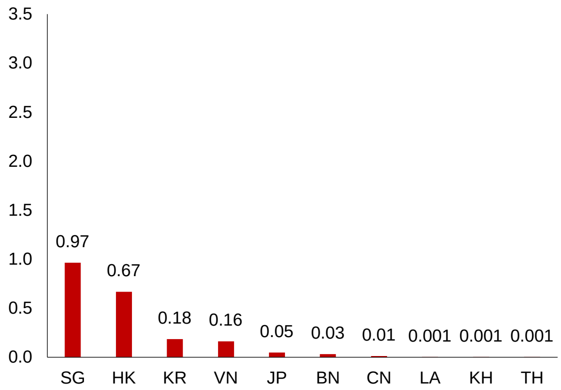
Figure 4. ASEAN+3: Outward FDI to Russia, as of 2020

Percent of Total Outward FDI Stock



Sources: IMF CDIS via Haver Analytics; and AMRO staff calculations.
Note: ASEAN+3 economies that invest less than 0.001 percent of their total outward investments in Russia are excluded.

Percent of Domestic GDP

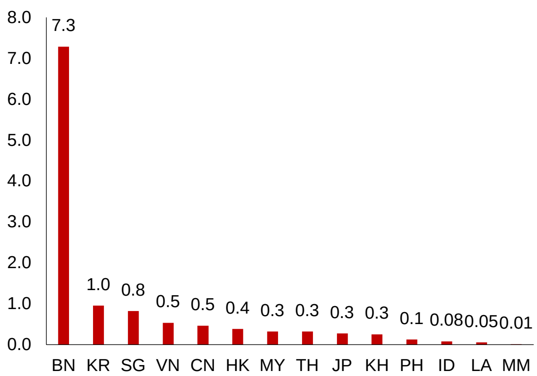


Sources: IMF CDIS and WEO via Haver Analytics; and AMRO staff calculations.
Note: ASEAN+3 economies that invest less than 0.001 percent of their domestic GDP are excluded.

C. ASEAN+3 Trade with Russia

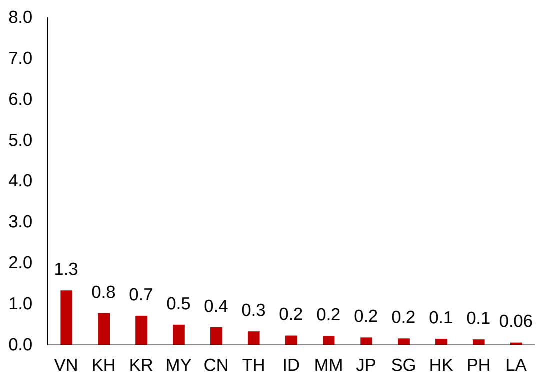
12. **Spillover risks to the ASEAN+3 region via direct trade with Russia are small.** With the exception of Brunei Darussalam, ASEAN+3 imports from Russia constituted no more than 1 percent of each country's GDP in 2021 (Figure 5). A majority of the imports are mineral fuels and oils, and related distillation products. Exports of ASEAN+3 to Russia, which include items such as machineries and vehicles, are also not substantial—exports are led by Vietnam, at 1.3 percent of GDP, while those from the rest of ASEAN+3 are well below 1.0 percent of their respective GDP (Figure 6).

Figure 5. ASEAN+3: Import of Goods from Russia, 2021
(Percent of own GDP)



Sources: IMF via Haver Analytics; and AMRO staff calculations.
Note: The numerator is based on amount of imported goods reported by the respective ASEAN+3 countries.

Figure 6. ASEAN+3: Export of Goods to Russia, 2021
(Percent of own GDP)



Sources: IMF via Haver Analytics; and AMRO staff calculations.
Note: The numerator is based on amount of imported goods reported by Russia; Russia did not report any imports from Brunei in 2021.

13. **However, ASEAN+3 economies would likely be adversely affected by weaker growth in the United States and Europe that originates from a protracted Russia-Ukraine war**. The top 14 investors in Russia (representing more than 80 percent of Russia's total inward investment stock in 2020)—who are also among the latter's biggest trade counterparts—include France, Germany, the United Kingdom, and the United States. These major economies are also among the ASEAN+3 region's biggest trade and investment partners, with activity mostly concentrated in the manufacturing, travel, and retail commerce sectors. Any drag on the former's growth would adversely affect their trade with and FDI in this region, even as ASEAN+3 economies are trying to recover from the effects of the COVID-19 pandemic.

III. Conclusion

14. **Although there are multiple channels through which the Russia-Ukraine war could affect ASEAN+3 nonfinancial firms, the direct exposures are small.** Specifically, the top Russian corporates with direct investments in the ASEAN+3 region that have been placed on the sanctions list and the top ASEAN+3 firms with direct investments in Russia that are dominant firms in their home countries, have relatively insignificant exposures either way. Trade activity between the ASEAN+3 and Russia is also negligible. Correspondingly, there appear to be limited spillovers to the region's banking sectors via its nonfinancial firms—the small exposures of affected ASEAN+3 nonfinancial firms to Russia (relative to own GDP) suggest that their bank borrowings for related operations would be similarly insignificant.

15. **However, a protracted war could weigh significantly on economic activity in the United States and Europe, with implications for the rest of the world and the ASEAN+3 region.** Disruptions to global supply chains, tightening financial conditions, and high energy prices are already having knock-on effects for economic output and inflation globally. Their impact on growth in the major economies is likely to have adverse ramifications for this region, through weaker trade and investment.

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