S&P Global
Ratings

Korea's Exports Provide An Early Look at Russia-Ukraine Conflict Trade Distortions

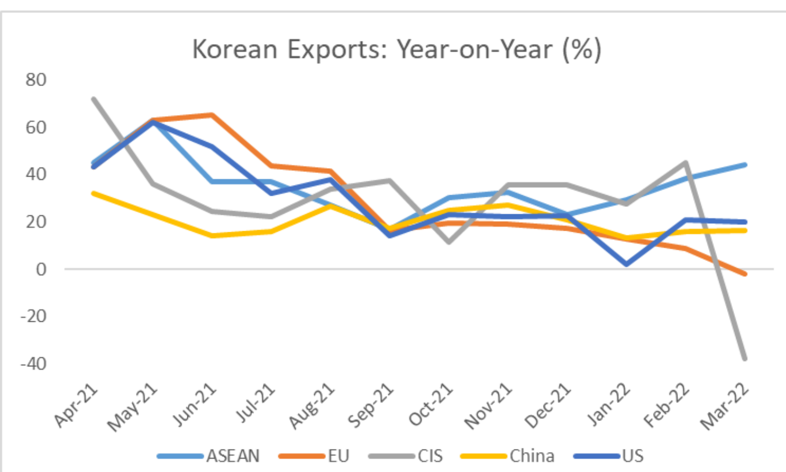
April 07, 2022

As discussed in our recent global macro report, [Global Economic Outlook Q2 2022], the Russia-Ukraine conflict will affect economic outcomes through many channels, including direct trade, energy and commodity prices, confidence, and policy responses.

Trade linkages is a key channel. It reflects the reduced importing capacity of the combatants, including as a result of various sanctions imposed on Russia. We would expect the conflict to have a measurable negative impact on imports into Russia and Ukraine, as well as neighboring countries through so-called "gravity" effects. Sanctions, including voluntary restrictions, are playing a role on the flow of physical goods, as well as indirectly through the financing of trade. Owing to the lags between economic activity and official reporting, data documenting these effects have so far been scarce.

Korean Data Give a First Glimpse

Korea's export data are one of the first set of trade numbers to be released to the market and provide a good test for our hypothesis around transmission channels. The destination numbers are of particular interest. The export data represented as 12-month growth rates show a clear break in recent trade patterns (see chart). Korea's exports by product are concentrated in electronics, machinery, and automobiles, which account for 55 percent of the total.



CONTACTS

Dr. Paul F. Gruenwald
Global Chief Economist
55 Water Street, New York, NY
paul.gruenwald@spglobal.com

Essential Economics
S&P Global Ratings

FOLLOW US ON LinkedIn AND SUBSCRIBE!

While the destination data for March 2022 are preliminary, they are available for most of Korea's major trading partners including ASEAN, the EU, the Commonwealth of Independent States (CIS), China and the US.

The data show a clear split in trends across Korea's trading partners. Export growth for three of Korea's main trading partner groups in March is broadly unchanged or improving. The value of shipments to the US and China grew by 20 percent and 17 percent respectively, only marginally different from February. The growth in shipments to ASEAN continues to pick up speed, rising to 44 percent.

The story changes as we get closer to the Russia-Ukraine conflict. Export growth to the European Union fell by 2 percent in March after averaging over 10 percent growth in the first two months of the year. While the breakdown is not yet available, we suspect that countries in the Eastern part of the union are pulling this number down and that the demand from core EU countries has moderated as well.

The story for the CIS countries, which includes Russia, is even more dramatic. Exports in March fell by 38% year-on-year after having grown by an average of 36% over the previous four months. We suspect that the decline to Russia is steepest given the impact of sanctions, although neighboring countries are likely to have been impacted as well.

What It Means

Early trade data from Korea confirm our prior expectations about the changes in trade patterns as a result of the Russia-Ukraine conflict. Countries with close trade and/or financial linkages to the combatants are seeing the largest impact on trade flows. To the extent that Korea is a global bellwether, incoming data from other countries are likely to confirm this trend.

Zooming out, the trade impacts from the conflict broadly mirror the economic impacts. We revised down sharply our 2022 GDP growth estimate for Russia, forecast moderately lower growth in nearby countries, and see a much lower impact on countries further from the conflict. These forecasts included not only trade effects, but the impact of higher energy and commodity prices as well as confidence effects, which are tricker to measure and still a wildcard in our view.

The risks to baseline forecast remain firmly on the downside, mainly related to the potential for disruptions in energy/commodity flows and industrial inputs to Europe from Russia and Ukraine. This shock would likely have a much larger effect on real variables and market outcome comes than the transmission channels identified above.

This product does not constitute a rating action.