

# **Impact of Russia-Ukraine War for Post COVID19 Economic Recovery**

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Presentation prepared for Bursa Malaysia and AmInvestment Bank, Kuala Lumpur, 2.00pm-3.15pm April 27, 2022 by Zoom.

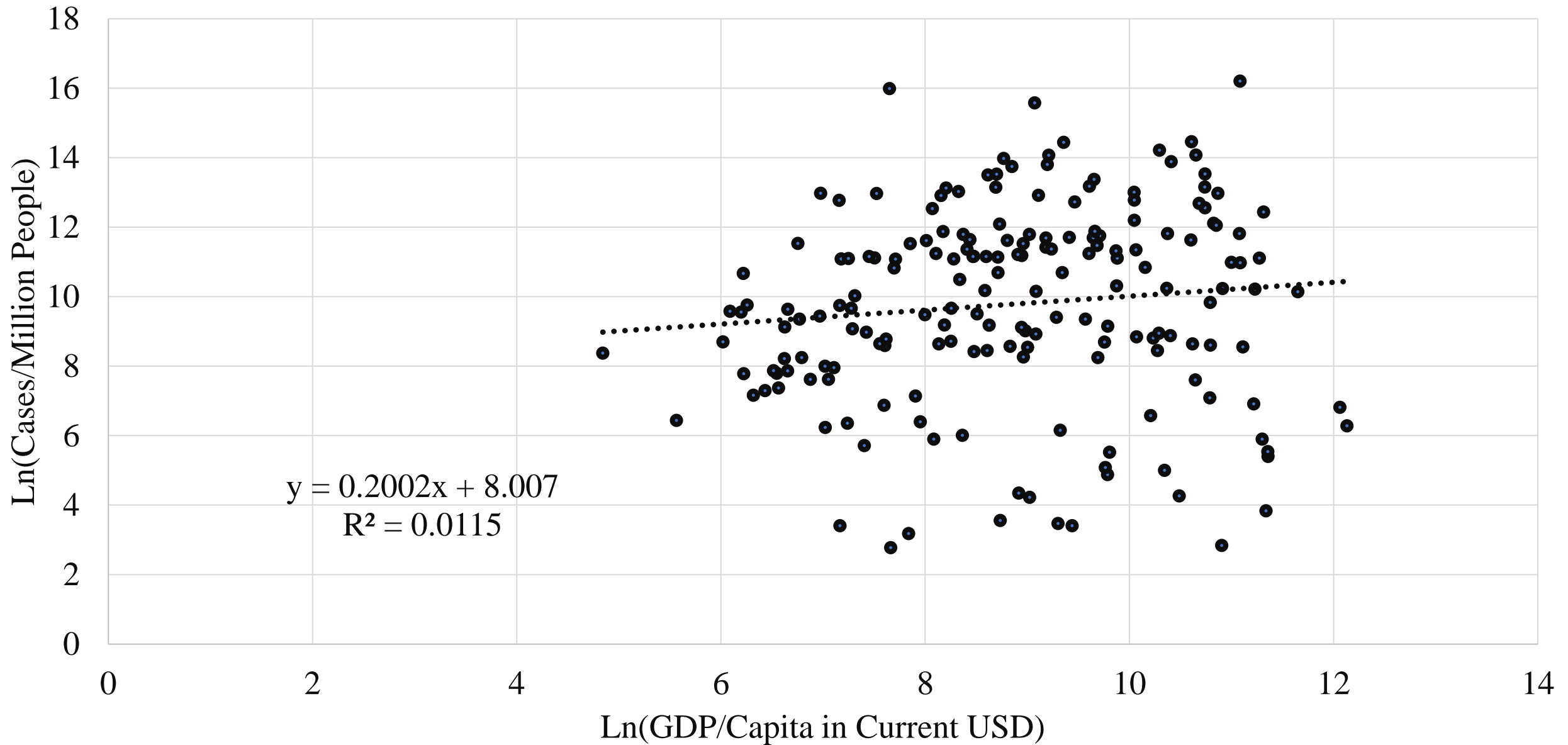
# 1. Introduction

- COVID19 pandemic outbreak in February 2020, and the surges accompanying the virus' mutations
- Shift to endemic from pandemic but before clear scientific evidence of the bottoming of the COVID19 pandemic
- Economic contractions and slowdowns caused by lockdowns and disruptions to economic activities, including supply chains
- Prediction of “V” recovery and “W” shaped economic recovery clouded by further surges in COVID19 cases and deaths.
- Outbreak of Russia-Ukraine war on February 24, 2022.
- The war between Russia and Ukraine backed by the US and its NATO allies threatens to be prolong stagnation
- Economic Sanctions by the US and NATO members and allies against Russia
- ASEAN's position on the Russia-Ukraine War
- Economic Consequences of Russia-Ukraine War and economic sanctions

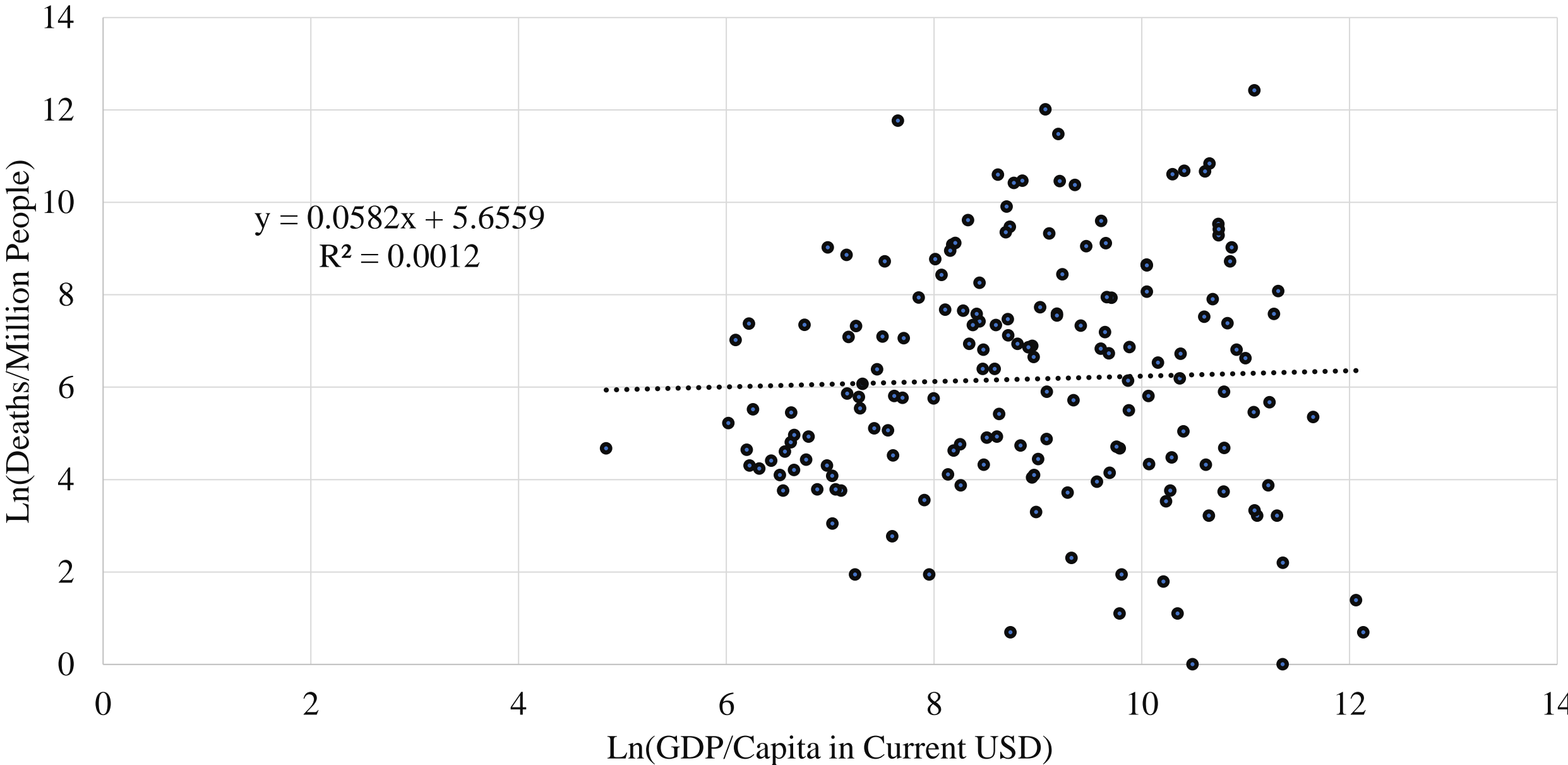
## **2. Assessing COVID19 Pandemic Remains Elusive**

- Initial “V” shaped recovery predictions by IMF and World Bank went wrong as the infections and deaths have continued to surge after declines. Why the COVID19 pandemic is making recovery efforts difficult?
- Cases and Deaths by countries since the pandemic struck (Figure 1 and 2)
- Impossibility of Containing COVID19 pandemic
- Rationale for shift from pandemic to endemic?
- Recovery initiatives of all countries have remained bearish despite bullish predictions by the IMF and the World Bank.
- Confronting economic recovery in the face of continued uncertainty.

**FIGURE 1: COVID19 INFECTIONS/MILLION PEOPLE AND GDP PER CAPITA, 2019/2020**



**FIGURE 2: COVID19 DEATHS/MILLION PEOPLE AND GDP PER CAPITA, 2019/2020**



### 3. Economic Impact of the Russia-Ukraine War

- Economic sanctions imposed by the US and its Nato allies.
- Within ASEAN, while condemning the Russia-Ukraine war, except for Singapore no other ASEAN member has embarked on imposing economic sanctions on trade and investment involving Russia.
- Initial impact of the war and sanctions drove the Ruble down with Biden claiming that the Ruble will eventually be turned into Rubble (see Figures 3 and 4).
- However, the Ruble has recovered and is around the same value as it was before its fall.
  - Russian exports dominated by essentials, such as oil and gas, wheat, and cooking oil.
  - Russia's insistence on the use of the Ruble in trade transactions
- Given Russia's economic past, and its friendship with the large economies of China and India, isolation seems to only recreate the iron-curtain of the past but with changed circumstances.

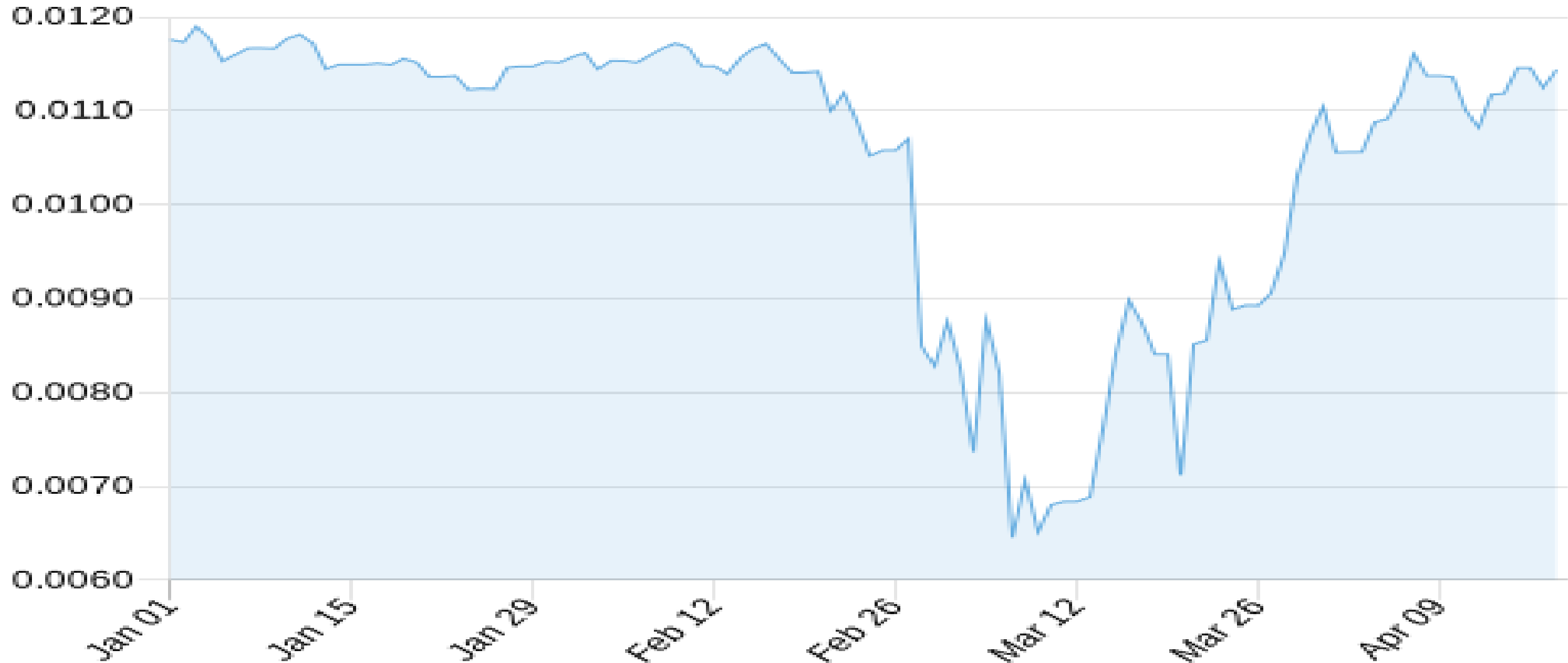
**FIGURE 3: Ruble-USD Exchange Rate, January 1 till April 9, 2022**

RUB/USD Day History | Apr 19 01:17 AM GMT+1



**FIGURE 4: Ruble-Euro Exchange Rate, January 1 till April 9, 2022**

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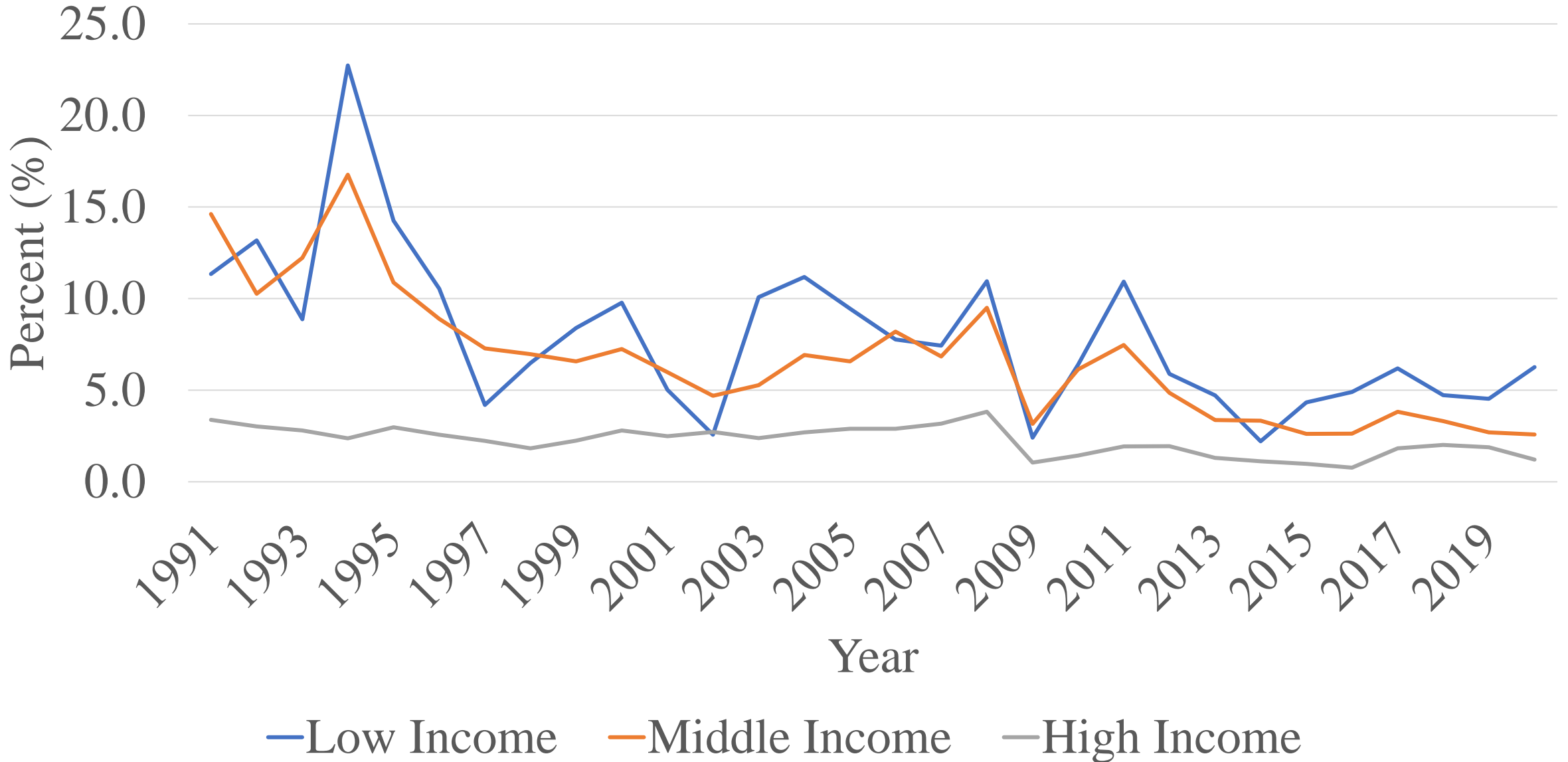




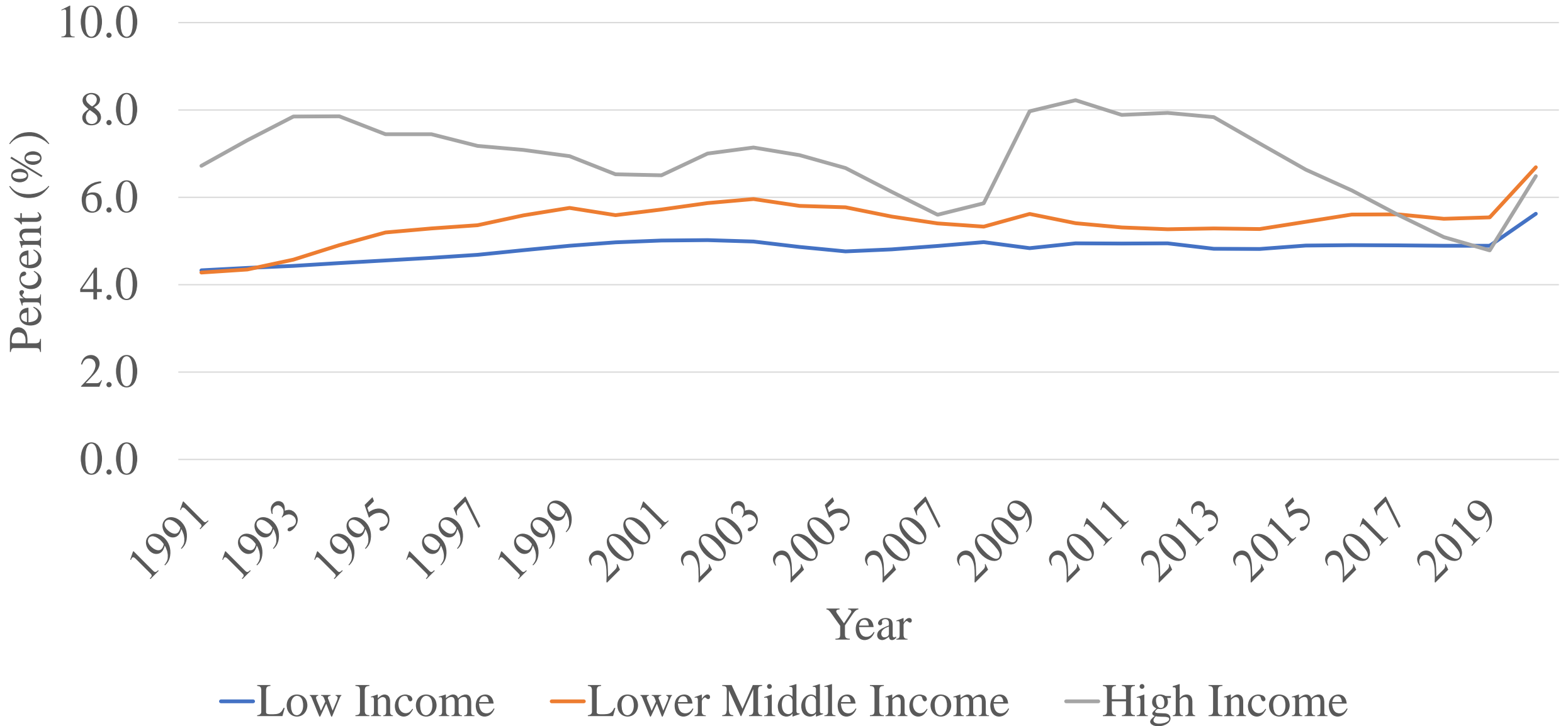
## **4. Rise of Inflation and Unemployment - Stagflation**

- The World has seen higher inflation and unemployment in the past than in 2019-2022 (although Figures 5 and 6 only come to 2020).
- Inflation fell considerably in 2019-2020 as a sharp fall in oil and gas prices insulated price hikes from food shortages caused by lockdowns
- However, rising oil and gas prices led to rising inflation since 2021.
- While unemployment stayed steady (flat) among the low and middle income countries, it fell strongly among the high income countries from 2020 (Figure 6).
- Economic sanctions more than the war is threatening a rise in stagflation – high inflation and unemployment occurring at the same time – all over the world.

# Figure 5: Inflation by Income Levels, 1991-2020



# Figure 6: Unemployment by Income Levels, 1991-2020



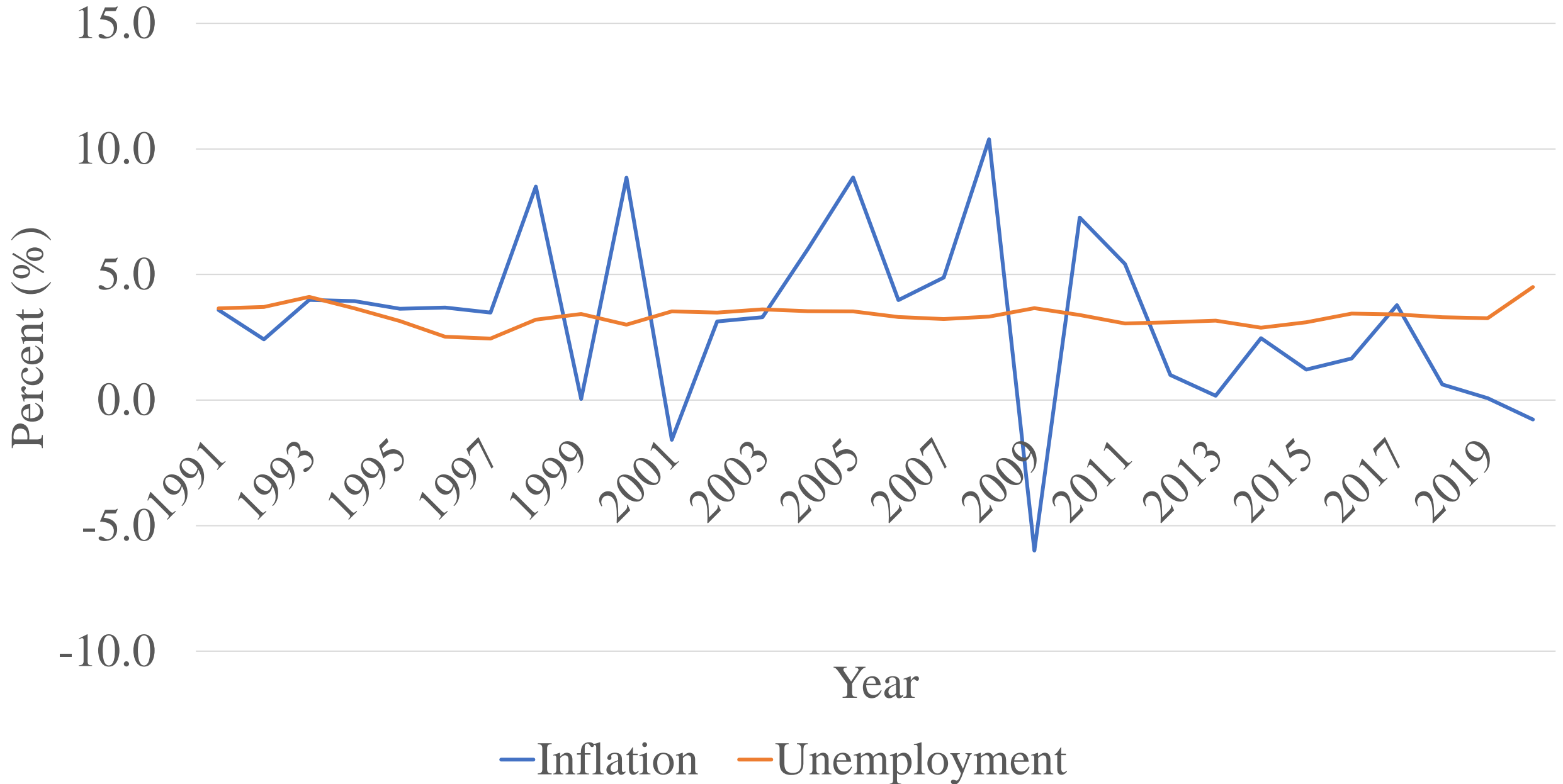
## 5. Economic Impact on ASEAN countries

- We focus on the impact of the COVID19 pandemic and the Russia-Ukraine war on two critical macroeconomic variables among the founding ASEAN countries and Vietnam
- Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam faced low inflation in 2020 owing to sharply fallen oil and gas prices (Figures 7 till 12).
- However, unemployment rose in all these countries despite in 2020 but fell slightly in 2021.
- Economic sanctions imposed by the US and the NATO allies are likely to reverse unemployment levels to rise again since February 24, 2022.
- Food shortages and a fall in trade is expected to exacerbate inflation so as to cause a rise in stagflation.

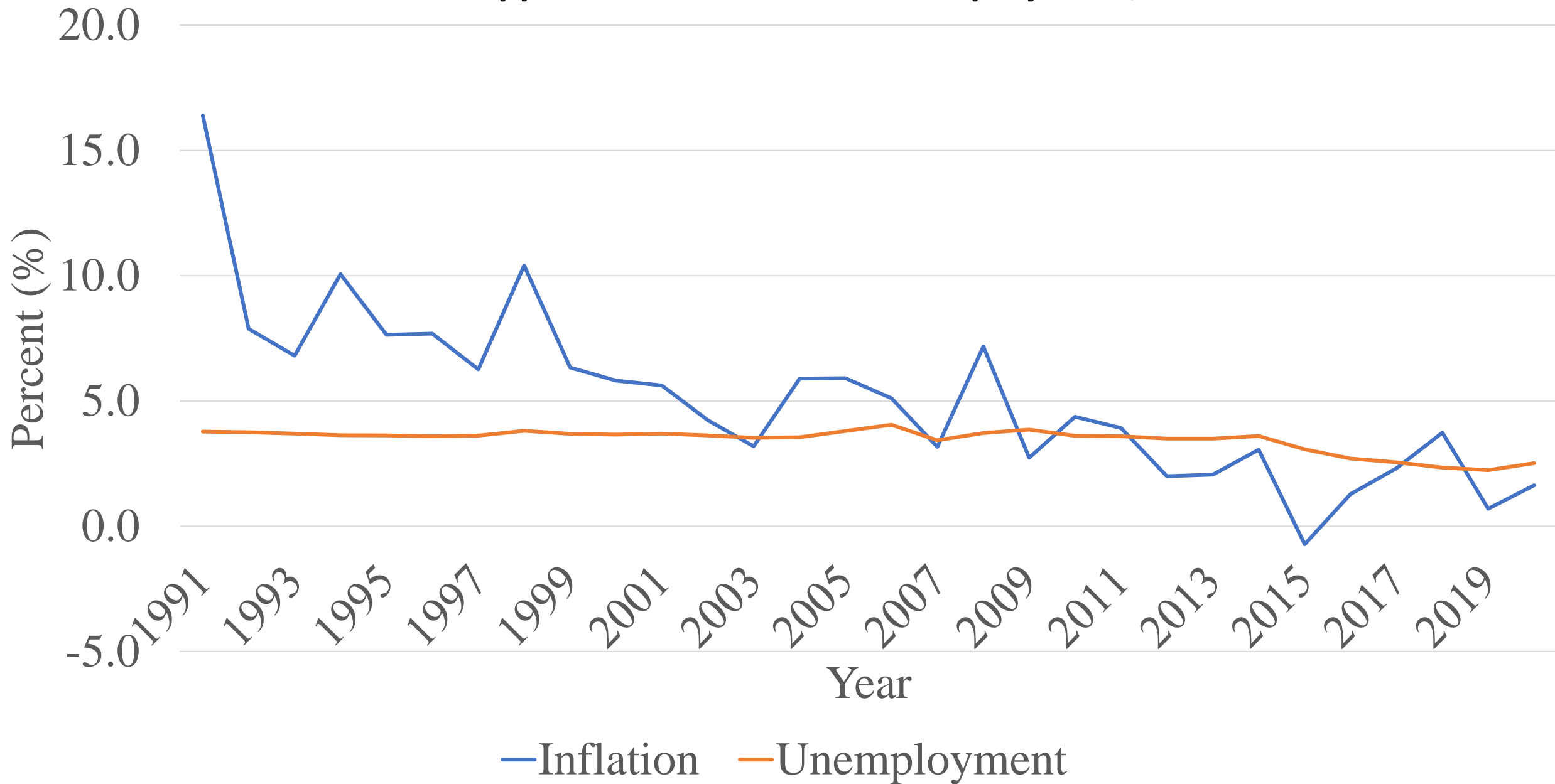
**FIGURE 7: Indonesia – Inflation and Unemployment, 1991-2020**



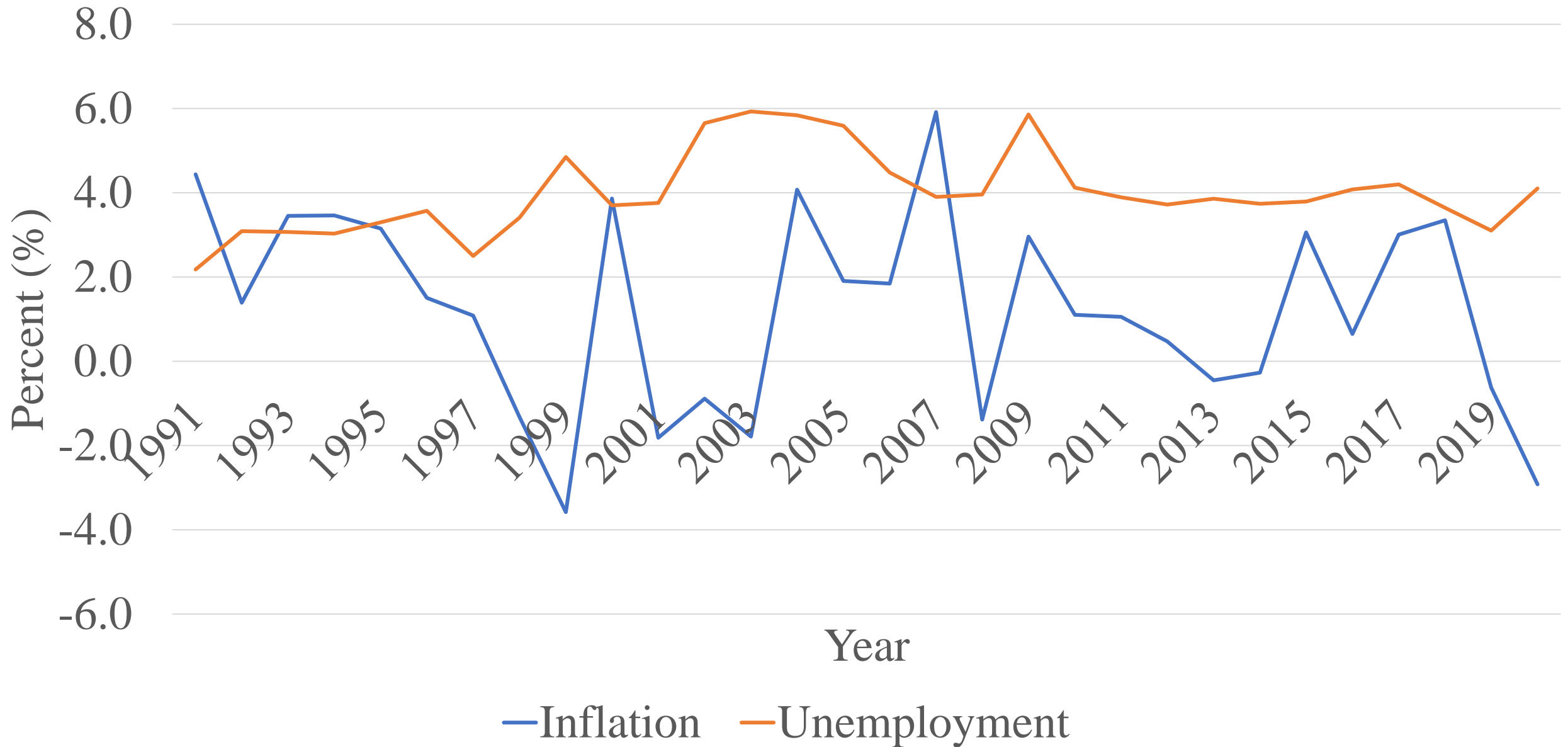
**FIGURE 8: Malaysia – Inflation and Unemployment, 1991-2020**



**FIGURE 9: Philippines – Inflation and Unemployment, 1991-2020**

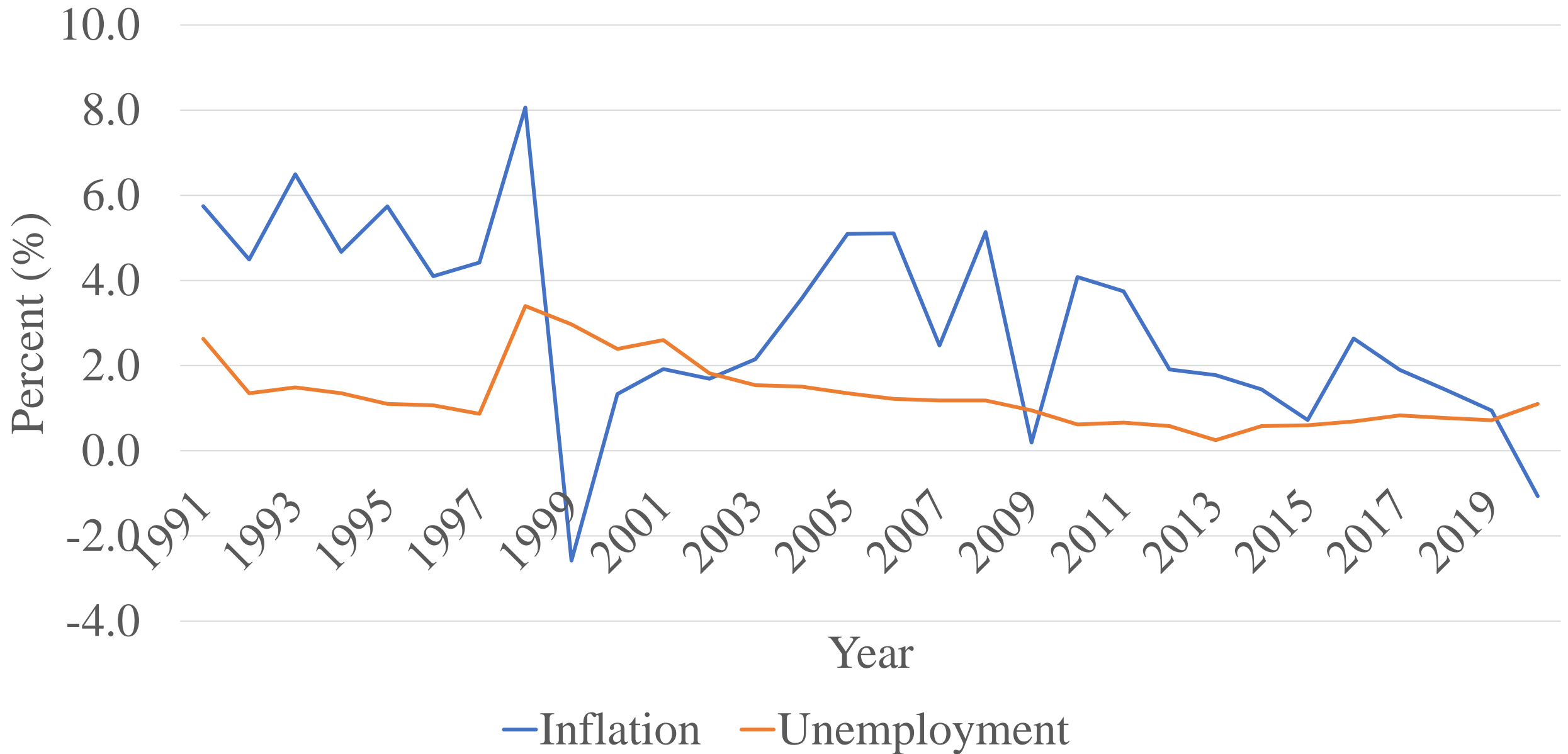


**FIGURE 10: Singapore – Inflation and Unemployment, 1991-2020**

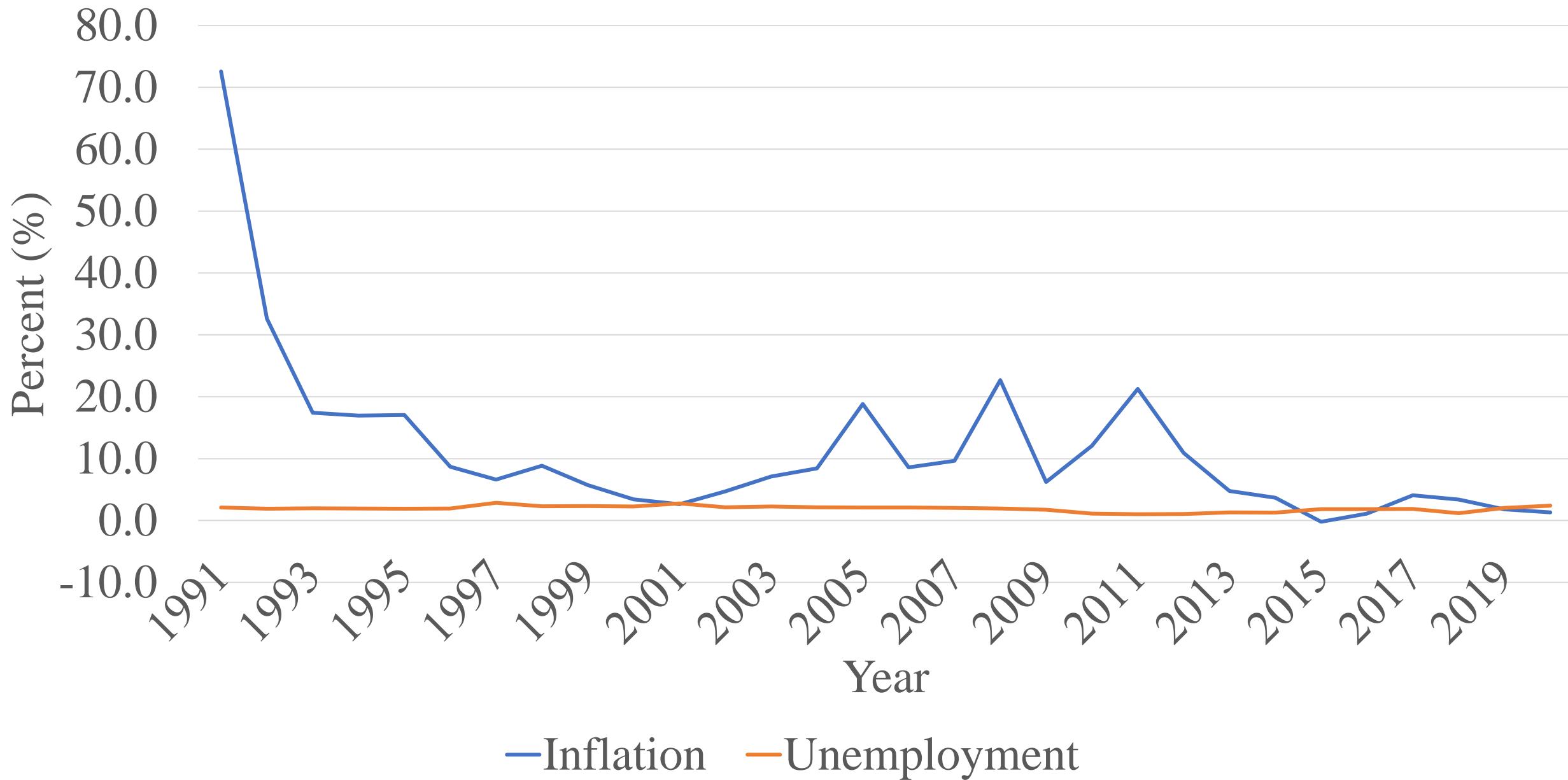




**FIGURE 11: Thailand – Inflation and Unemployment, 1991-2020**



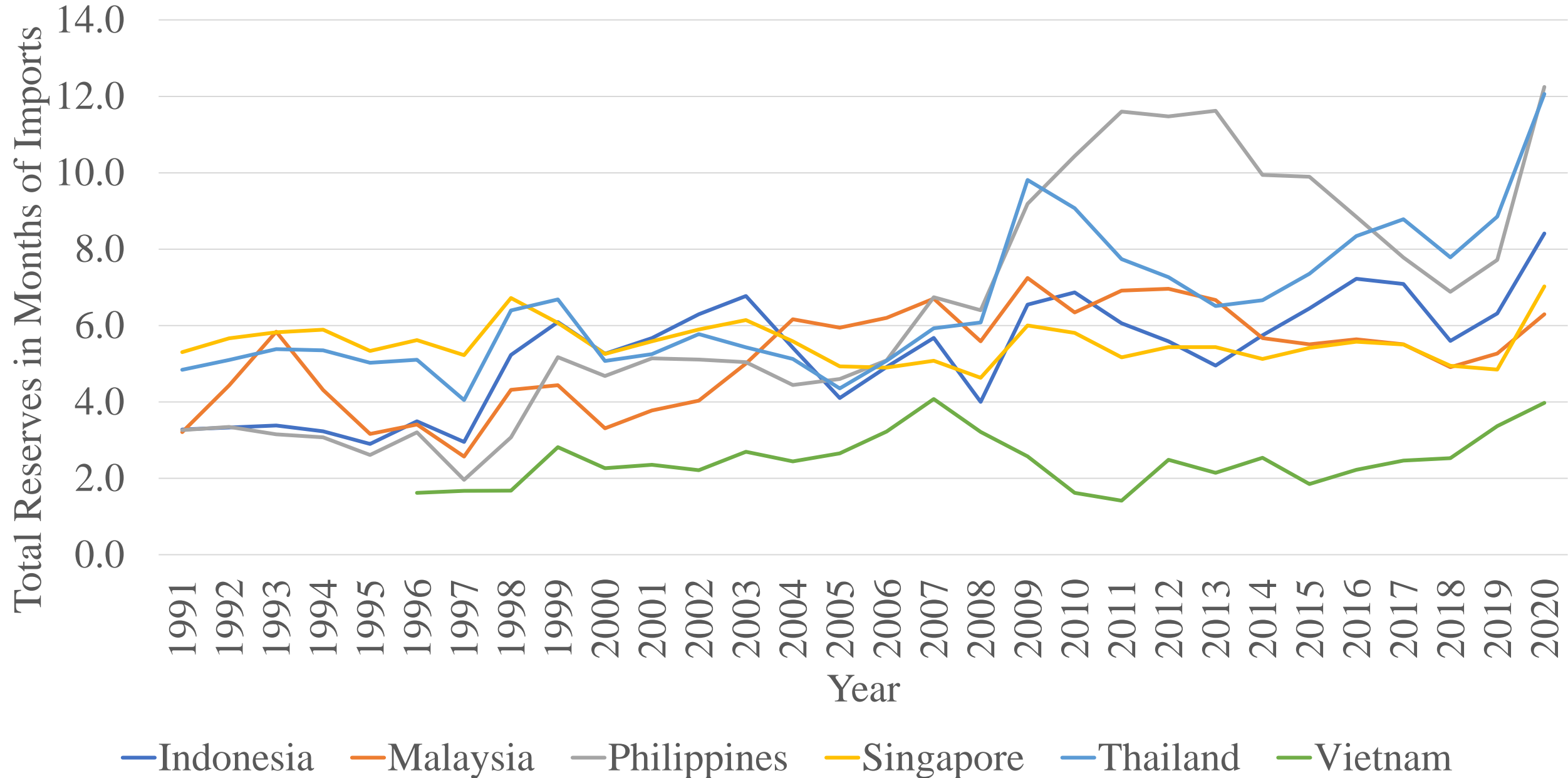
**FIGURE 12: Vietnam – Inflation and Unemployment, 1991-2020**



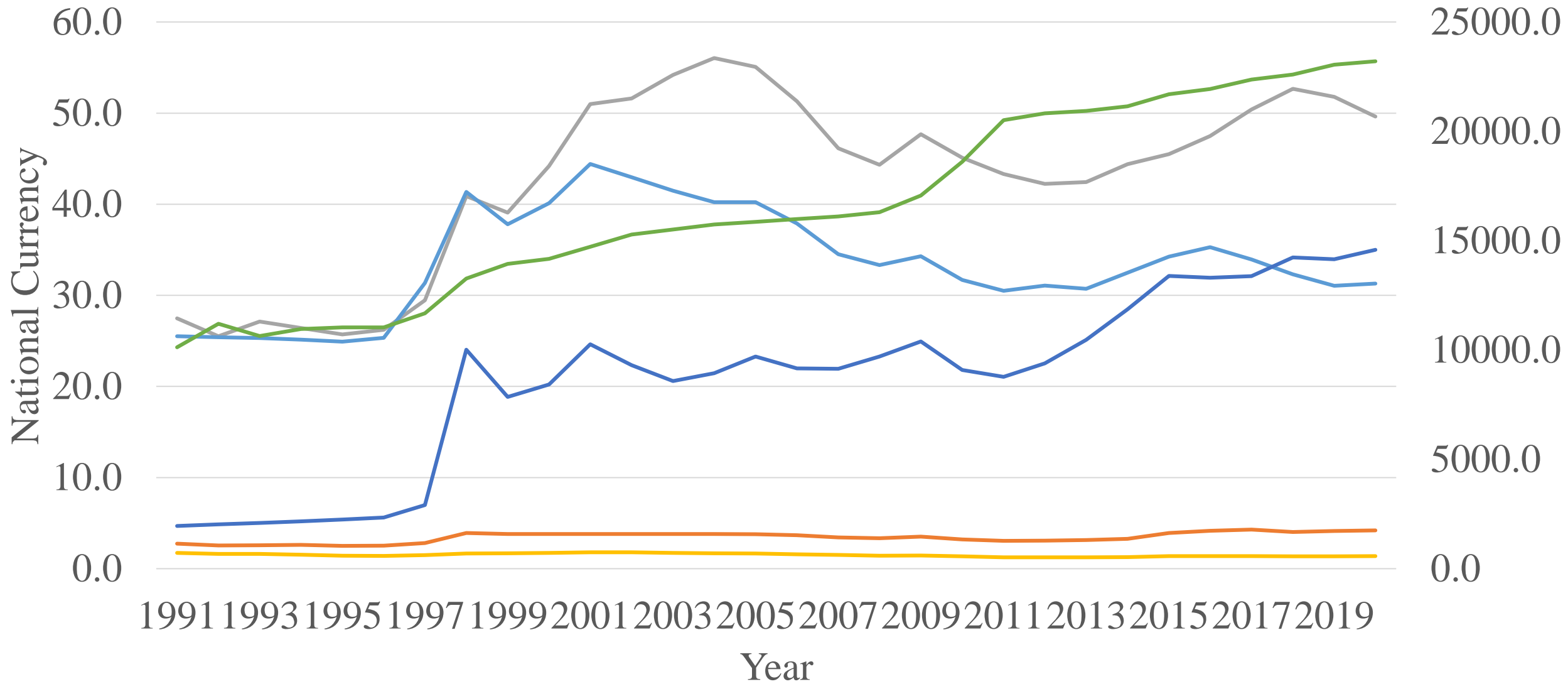
# 6. Economic Exposure Facing ASEAN

- International reserves (IR) in months of imports, debt service plus BOP/IR ratios, and NPLs are some of the instruments typically used to assess the extent of international exposure countries face. However, in the short time I had to prepare this presentation, I shall use IR in months of imports as the only proxy for that purpose.
- By rule of thumb any ratio of reserves above 5 months of imports is considered good.
- Figure 13 shows the reserves in months of exports of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
- It can be seen that this ratio has not only risen above 5 for all countries, except for Vietnam, many have also been achieving significant surpluses. Vietnam's is below 4 but that has reached its previous peak of 2007.
- The exceptionally high international reserves has translated into a strong rise in the Peso, while the other currencies have stayed steady, though there has been a slight fall in the Bhat and the Dong (Figure 14).
- As with the rest of the world, economic sanctions on Russia primarily and to some extent on China, will have a contagion effect on ASEAN countries soon. Hence, despite surging IR, these countries are also expected to face stagflation over 2022.
- Nevertheless, because these statistics show that the ASEAN countries enjoy strong external macroeconomic fundamentals, the evidence shows that the external economy of these countries will remain positive over the rest of 2022.

**FIGURE 13: Total Reserves in Months of Imports, ASEAN, 1991-2020**



**FIGURE 14: Exchange Rates, ASEAN Currencies/USD, 1991-2020**



— Binggit — Base — SDG — Baht — Rupiah — Dong

# 7. Conclusions

- The impact on the world from the COVID19 pandemic has remained uncertain despite the shift in many countries from the pandemic to the endemic. COVID19 cases and deaths have surged again in a number of countries, which has left the economic future of most countries still grim.
- The unnecessary Russia-Ukraine war, (which has claimed large numbers of lives) has indeed been a negative distraction, but the economic sanctions by the US and its NATO allies have deepened the stagflation that emerged from 2021.
- With rising inflation and unemployment, ASEAN and Malaysian national economies are not expected to achieve the bullish growth predictions others have made.
- However, because the international reserves of all ASEAN countries have continued to improve since 2020, they show strengthening of external macroeconomic fundamentals that will insulate them from externally driven crises.
- Also, the East Asian economies have tightened their financial instruments that they are unlikely to face the external exposure (e.g., foreign debt service and BOP deficits, and burgeoning NPLs) the type South Korea, the Philippines, Thailand, and Indonesia encountered in 1997-98.
- A key issue ASEAN countries must address, though is the need to raise self-sufficiency levels in essential goods, (especially food) to check inflation affecting the poor. Efforts in that direction should also offer the opportunity to create jobs that can control unemployment.