Sanctions on Russia Cost the US More Than it Thinks

For more than many weeks now, many Western leaders have been calling for blocking Russia out of the SWIFT payment system. The UK’s Boris Johnson thinks that this is a potentially good way of ‘punishing’ Russia. But the US/EU have not blocked Russia out of this global payments system yet. There are two reasons for this ‘reluctance.’ First, even if the West decides to ‘punish’ Russia financially, it could potentially push the drive towards de-dollarisation of the global financial system. Secondly, even after blocking out of SWIFT, there are already alternative payment systems in place that Moscow can use to off-set Western sanctions. Therefore, if the US/EU were to block Russia out of SWIFT, it could directly – and very forcefully – accelerate the growth of payment systems that are not only not dollar-centric, but would ensure that the global payment system is no longer West centric. Thus, a Russian exclusion of SWIFT – which remains a possibility as more and more western countries join the call for Russia’s exclusion – could mean the beginning of the end of the US/Western financial hegemony.

SWIFT is, therefore, a double-edged sword for the West. According to reports in the German media, the economic consequences of excluding Russia from SWIFT would be deeply felt in Europe – which nonetheless relies on Russian supply of gas for more than 40 per cent of its total gas exports. There is already opposition from many western financial quarters, including Germany, to block Russia. More importantly, excluding Russian from SWIFT would also mean that Western creditors, which hold the lion’s share of the nearly US$30 billion in foreign banks' exposure to Russia, will not be able to get their money back.

At the same time, the fact there are alternative payment systems in place means that Russian financial system could never be fully cut-off. There are two least two systems. First, there is the Russian System for Transfer of Financial Messages (SPFS). The SPFS already has more than 400 member banks and handles more than 20 per cent of
Whereas Russian exclusion from SWIFT could further accelerate the growth of SPFS, there are already talks going-on with regards to connecting SPFS with China’s financial system i.e., Cross Border International Payment System. While CIPS, like SPFS, is still under-development, it already has 80 foreign banks as its partners. There is, therefore, no reason that CIPS cannot replace SWIFT immediately for Russia, and gradually for more and more financial institutions and interests that would, as mentioned above, be inevitably hurt by a US/EU decision to block Russia. There is, then, also the possibility of connecting SPFS with Iran’s own financial system known as SEPAM. As it stands, Russia and Iran are already using these systems to trade in local currencies, proving that bypassing US/western sanctions is not only possible, but that trading in local currencies is not a bad option either.

Furthermore, if Russia, China and Iran start - which they will eventually - coordinated moves in the wake of US/western sanctions, its impact will not be limited to three countries only. China’s Belt and Road Initiative has already expanded out of Asia into Africa and even South America and the Caribbean. The Russian led Eurasian Economic Union – which now has Iran as its member – too will find an opportunity to consolidate itself in the face of sanctions by connecting with these systems. It could have the impact of helping SPFS and CIPS to grow even more quickly, covering more and more countries beyond Asia, than has been the case thus far. This, in turn, will accelerate the growth towards de-dollarisation of the global financial system – a change that, more than anything else, could signal the beginning of the end of the US hegemony.

Ever since the end of the Second World War in 1945, the US dollar has been the central currency of trade in the world. Use of the US currency has, however, given the US disproportional amount of influence – and power – that it often exercises to force countries into submission. A case in point may be Iran. What the US basically did is that after signing an agreement with Iran, it backed out of the agreement and even imposed sanctions unilaterally to hurt Iran financially – a move opposed by Russia, China and even European powers. The question that many Iranians have been asking is: should the US have so much power to unilaterally strangulate any country that refuses to submit? Russian, Chinese and Iranian payment systems are, in this context, a step towards breaking the US hegemony, and not just a de-dollarisation of the financial system.

As of 2018, trade in Eurasian Economic Union is already de-dollarized by almost 70 per cent. This trend is spreading fast. As Yi Gang, the governor of the central bank China, also said last week, China is in talks with its Asian partners to increase the use of local currencies for payment settlements. As Yi mentioned, bilateral currency swaps among the ASEAN regional grouping, China, Japan and South Korea have already reached US$380 billion, and that there was a growing need to rely on local currencies to increase economic and financial “resilience” against global economic shocks, such as the one expected by a possible Russian exclusion from SWIFT or caused by US sanctions on any country it wants to punish. As some very recent reports have suggested, Gazprom Neft, the oil unit of Russian gas giant Gazprom, has confirmed that it has become the first Russian company to entirely shift to Yuan settlements for fueling planes within China.

An acceleration towards alternative payment systems plus a decreasing reliance on US dollar could give access to many countries in the world to a system that would directly allow them to pursue their specific, national-interest based foreign policy goals without the US pressure of retaliation. This includes countries in Europe, such as Germany, who seem just forced to tow the US line than having a genuine ‘German’ approach to the crisis.

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