



IEMS seminar on



“Sanctions on Russia:
Implications for Emerging
Markets”


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To what extent would Russian entities be able to circumvent the sanctions through China, for instance a Chinese version of SWIFT?

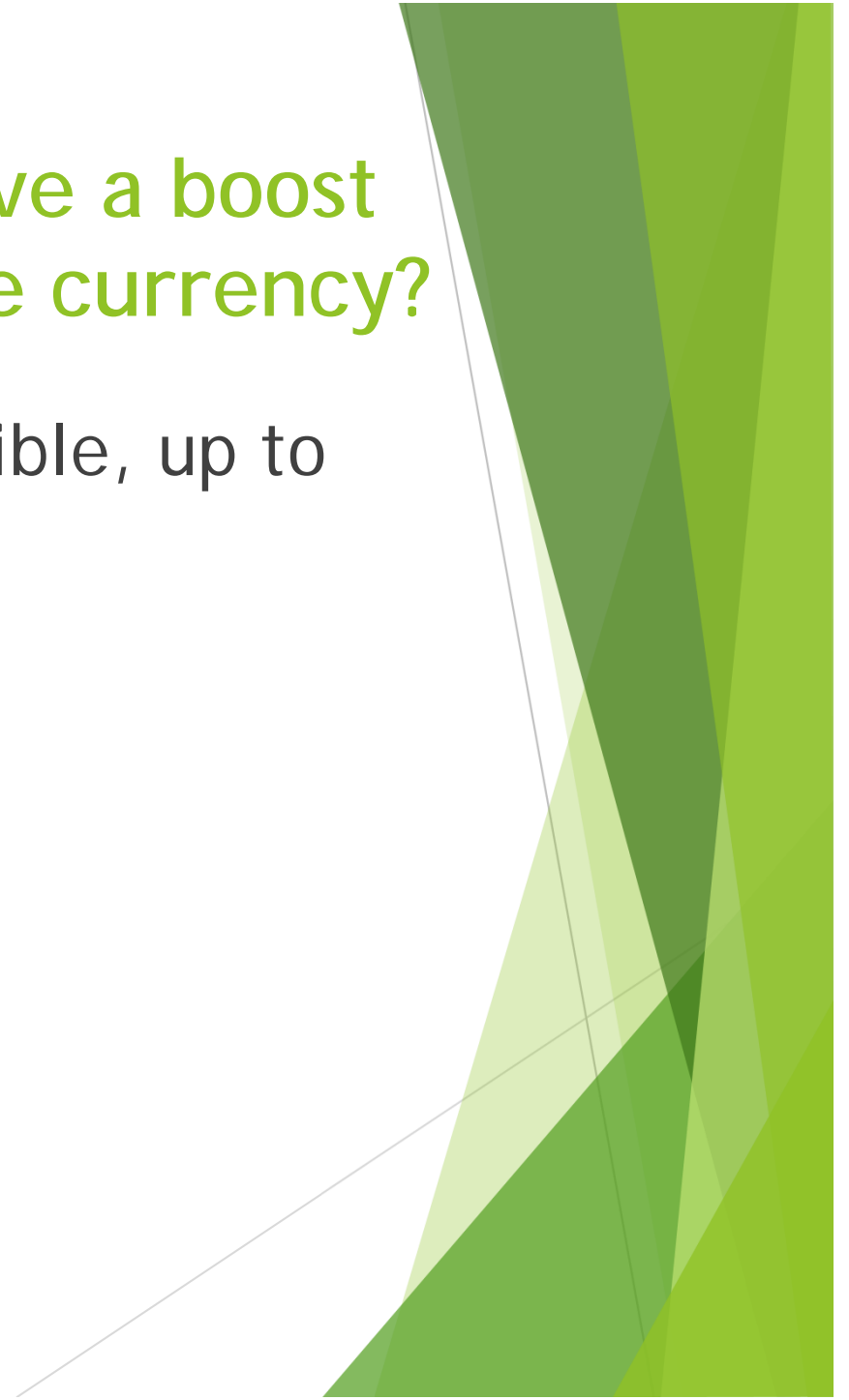
- ▶ The extent is probably not large. The so-called Chinese version of SWIFT is often referred to as the CIPS (Cross-border Interbank Payment System).
- ▶ However, this is a misunderstanding.
- ▶ There are two components in funds transfers: “the instructions”, which contain information on the sender and receiver of the funds, and the actual movement or “transfer of funds”.

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- ▶ SWIFT is a messaging system taking care of the “instructions” .
 - ▶ CIPS is a payment system that is mainly used for “transfer of funds” .
 - ▶ The use of the CIPS for messaging payments is limited, as CIPS still mostly relies on SWIFT for messaging.
 - ▶ The CIPS is a payment system primarily used for international payments denominated in RMB, mainly those in and out of China.

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- ▶ Very few non-Chinese banks can use CIPS for messaging even when they make payments through CIPS. They mostly still use SWIFT for messaging.
 - ▶ I think payment flows between Russia and China and denominated in RMB can bypass SWIFT, through either the clearing bank system of China or CIPS.
 - ▶ However, payment flows between Russia and other countries, even if they are denominated in RMB, probably cannot bypass SWIFT.

Would the sanctions give a boost to the RMB as a reserve currency?

- ▶ In the long run, it is possible, up to a point. See below.



More broadly, what longer term impacts would the sanctions have on the global financial order?

- ▶ In the long term, it can have important impact on the international monetary system because:
 - ▶ - it can hasten the splitting of the world into currency blocs, with the RMB-bloc being one of them
 - ▶ - some countries may reduce the amount of USD in central bank foreign reserves, and possibly increase the amount of RMB in foreign reserves. This will increase the degree of RMB internationalization.

Does the sanctions on Russia hasten the splitting of the world into currency blocs?



- ▶ Possibly.
- ▶ On the one hand, it can hasten the use of RMB in countries that want to avoid the sanctions of the US, such as Russia, some central Asian countries, Pakistan, Iran, some Middle East countries, some B&R countries.
- ▶ On the other hand, it can make the countries in the West more reluctant to diversify towards RMB because they fear that China may prevent them from accessing their RMB reserves based on political considerations.

- ▶ Thus, it can hasten the splitting of the world into a RMB-bloc and non-RMB-blocs (e.g. USD, euro).



Does it enhance the use of the RMB as a reserve currency in the long run?

- ▶ It can both help and hurt the use of the RMB as a reserve currency.
- ▶ After the sanctions on Russia, it is apparent that the use of a foreign currency as reserve is risky, as access of it can be revoked due to political considerations. This is true of all currencies, whether USD or euro or RMB.
- ▶ (In the past, people may worry more about the RMB, but now they worry about all currencies.)

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- ▶ This consideration, however, can cut both ways:
 - ▶ On the one hand, it can hasten the use of RMB in countries that want to avoid the sanctions of the US, as mentioned in a previous slide.
 - ▶ On the other hand, it can make the countries in the West more reluctant to diversify towards RMB. So, while China may gain some “friends”, it may also gain some “enemies” regarding the use of RMB.

Does it hasten the use of physical wealth (e.g. oil or gold) as central bank reserves?

- ▶ It is hard to say.
- ▶ On the one hand, physical wealth is free of political risks.
- ▶ On the other hand, the prices of these physical wealth items are too volatile.
- ▶ They cannot really be considered “safe asset” .
- ▶ Russia, though, being a countries with lots of oil and gold, may think they are better than Western currencies for reserves.