China, Russia Outflank Financial Sanctions

by Paul Gallagher

Sept. 10—The BRICS nations continue to beat off the attempts at crippling financial sanctions directed at Russia, from the actually crippled London- and Wall Street-centered trans-Atlantic financial system. While other anti-Russia sanctions have boomeranged especially against the EU economies, U.K. and U.S. Treasury experts have spoken boastfully of "the atomic weapon of financial warfare," cutting off Russia's banking system from the global interbank payments system known as SWIFT—Secure Worldwide International Financial Telecommunications. Now, in a visit by Russian Deputy Prime Minister Igor Shuvalov to Beijing, China and Russia are creating an alternative to SWIFT, as reported by Reuters, ITAR-TASS, and other media. The alternative, for now, is Russian banks using China's own UnionPay interbank transfer system.

Already in April, an independent Russian capability to make interbank payments and credit card payments were points 6 and 7 of a 15-point program of financial and economic defense presented to Russian President Putin by advisor Sergei Glazyev (see box), a nationalist economist, who, in June 2001, brought U.S. Lyndon LaRouche to Russia to address the Duma.

The Chinese and Russian finance ministers met in early June to discuss investment projects, and also, bilateral currency and credit swap arrangements.

Intense Diplomacy

Since then, these steps have been taken between Russia and China in parallel with another vital step taken within the BRICS and other countries attracted to the development policies of China, in particular: exchanging currency swaps among central banks to support settling trade with Russian rubles, Chinese yuan, Indian rupiahs, etc. This was Glazyev's point 5. In late June, Russian Central Bank head Elvira Nabiullina briefed Putin publicly that the Chinese and Russian central banks were developing such swaps. She then visited China in early July to complete the policy, which was actually announced around the mid-July BRICS Summit, when both a New Development Bank and a Currency Reserve Agreement were initiated.

At a Rhodes Forum meeting in 2013, Glazyev separated measures to defend economic development, from creating an "anti-dollar" system of alternative reserve currencies. He said that regional currencies were all very well, but they would *not* fund development if controlled by financial oligarchies. The role of the state is crucial, Glazyev said, given the scale of investment that is needed. Who will pay for modernization and infrastructure? It has to be those who issue the money.

In the past two days, Russia's Shulakov and Chinese Vice-Premier Zheng Gaoli have agreed on a pact to advance both goals, ruble-yuan trade settlements, and an alternative payments system. Shuvalov says that China's UnionPay is "ready for a full-scale collaboration and will provide all infrastructural capacities for that." Since Russia's national interbank payments system is not yet deployed, Russian banks will meanwhile set up accounts in Chinese state banks, and Chinese firms will be able to make loans directly to Russian companies, thus effectively opening the Chinese payments-transfer system to the Russian banking system.

The Chinese National Petroleum Company (CNPC) also was enabled to invest $1 billion into one of the largest and most developed petrochemical fields of Russia's Rosneft, the Vancor field. This investment is also refinancing credit for Rosneft, which has been cut off from borrowing for more than 90 days by London and similarly disposed banks.

An Entirely New System?

Thus, it appears that even the Obama-British "atomic-bomb" launcher of financial warfare doesn't work—but Europe is finding it does have a heck of a recoil kick when they attempt to fire it.

And more is likely to come, as the following outline of Glazyev's plan, published in *Vedomosti* last April, shows.

Vedomosti's Summary of 'The Glazyev Plan'

1. Move dollar- and euro-denominated state assets and accounts from NATO countries to neutral ones.

2. Repatriate all state-owned valuables (precious metals, works of art, etc.) to Russia.

3. Sell the bonds of NATO countries before the imposition of sanctions.

4. Halt the export of gold, precious metals, and rare earth elements.

5. Arrange a credit and currency swap with China in order to finance critical imports and shift to settlement in national currencies.

6. Create our own interbank information exchange system, analogous to SWIFT, for payments and settlements within the Customs Union[1] and the CIS,[2] and with other partner countries.

7. Create a payment system for bank card settlements within the Eurasian Economic Community,[3] which would incorporate and fully process settlements made using Visa or MasterCard.[4]

8. Limit the foreign currency positions of banks and require prior declaration of major non-trade currency transactions. Subsequently introduce a tax on capital export and financial speculation.

9. Shift to settlement in national currencies in trade within the Customs Union and with other countries. Denominate new hydrocarbon export contracts in rubles.

10. Arrange credit and currency swaps with individual countries to finance trade.

11. Rapidly reduce the portion of our reserves held in dollar-denominated instruments and bonds of countries supporting sanctions.

12. Replace the dollar and euro borrowings of state corporations and state-owned banks with ruble loans on the same terms, making a targeted monetary emission for this purpose and utilizing VEB Bank to float the loans.

13. Conduct a publicity campaign on the advantages of shifting euro and dollar deposits into rubles. In the event that Central Bank and state-owned bank assets are frozen in the USA and the EU, freeze dollar- and euro-denominated bank liabilities.

14. In response to a trade embargo, carry out critically important operations through Belarusian and Kazakstan companies.

15. Bring the ownership of strategic enterprises, subsurface resource operations, and real estate, currently registered in offshore locations, under Russian jurisdiction.

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1. CU: Belarus, Kazakstan, Russia
2. Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan (associate), Uzbekistan
3. EurAsEC: Belarus, Kazakstan, Kyrgyzstan, Russia, Tajikistan
4. In a March 26, 2014 interview with the Russian News Agency (RSN), Sergei Glazyev explained this function as analogous to China's UnionPay system: "You adopt a law requiring all bank card settlements within a country to go through a national operations center. Visa and MasterCard can't do anything about it. That is, within China those cards function as Chinese cards. Abroad, they work as international cards."