

A China-Russia SWIFT Alternative Will Not Undermine Iran Sanctions

by [Steven Turner \(/experts/steven-turner\)](/experts/steven-turner)

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ABOUT THE AUTHORS

[Steven Turner \(/experts/steven-turner\)](/experts/steven-turner)

Steven Turner is an independent geopolitical consultant focusing on the political economics of the Middle East, in particular Iran.



Brief Analysis

There is no realistic prospect that Beijing and Moscow will establish a viable joint system that imminently and significantly reduces Tehran's difficulties with accessing the international financial system.

When the United States and Europe issued a cascade of sanctions in response to the invasion of Ukraine, a decision to exclude Russia from the financial messaging system overseen by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) was not among them. In a February 24 op-ed for the *Washington Post*, analyst Sebastian Mallaby noted that Kyiv and three Baltic governments had called for this punitive measure. British prime minister Boris Johnson has made similar statements this week. As Mallaby pointed out, however, other European states have balked so far, fearing the potential impact on energy imports.

Meanwhile, Iranian leaders have made their own declarations about SWIFT in a different context, claiming they may soon be able to circumvent Western sanctions by using a joint Chinese-Russian alternative to the system. If true, this workaround could reduce Tehran's incentive to make concessions when reviving the 2015 nuclear deal.

These unusually public debates about SWIFT raise several questions. Is delisting Russia from the system actually in the offing? If so, would this step undermine sanctions on Iran? More to the point, is a Chinese-Russian counter to SWIFT even viable? The reality is quite different from Tehran's hype: an alternative that enables the regime to effectively avoid the Western financial system is not around the corner.

What Have Iran, Russia, and China Done So Far?

In 2019, SWIFT cut off access for nearly all Iranian banks. Washington had been pressing for this move, presumably spurred by the nuclear deadlock with Tehran. Yet SWIFT attributed the action to money-laundering problems rather than U.S. sanctions. In response, Tehran connected its SEPAM domestic financial clearing system to Russia's System for Transfer of Financial Messages (SPFS), theoretically enabling the two countries to conduct cross-border transactions.

In summer 2021, Iran's Expediency Council published an economic [strategy report](http://econrahbord.csr.ir/article_139337_9613670a24b9d719922bef4676202747.pdf) (http://econrahbord.csr.ir/article_139337_9613670a24b9d719922bef4676202747.pdf) on how to blunt the impact of Western sanctions. Its primary recommendations were to broker "bilateral swap agreements" and join a Chinese-Russian global financial messaging and clearing system. According to the report, these steps would allow Iran to not only trade with Moscow and Beijing, but also use Russian and Chinese intermediaries to move funds to other countries. Yet the accuracy of this claim is by no means clear.

On December 15, following talks between Presidents Vladimir Putin and Xi Jinping, the Kremlin announced plans to develop a joint financial messaging and clearing system with China. The goal of this system would be to recruit numerous international banks—enough participants to deter the threat of Western economic sanctions.

Tehran appears to harbor hopes that Moscow and Beijing will make rapid progress in this regard. On January 17, former ambassador Mahmoud Reza Sajjadi implied that Russia would help Iran circumvent Western sanctions. During a trip to Moscow later that week, President Ebrahim Raisi declared that the two countries had reached a turning point in their relations and would be seeking trilateral cooperation with China. But his statement contained few specifics, leaving observers unclear if there was any substance to his claim.

To be sure, some traders in China and, to a lesser extent, Russia have been developing concrete ways to evade U.S. financial restrictions on Tehran through a form of barter—that is, swapping Iranian products for domestic products, sometimes in ways that appear to violate U.S. sanctions. But these methods are expensive and cumbersome, as illustrated by the considerable difficulties Iran has encountered in paying for its large-scale imports of Russian wheat, even though U.S. sanctions do not apply to humanitarian goods like wheat.

Obstacles to a Viable Workaround

If China and Russia were able to create a system similar to SWIFT, it would satisfy certain strategic interests in both capitals. In particular, Russia seeks ways to blunt the impact of Western sanctions, and China seeks to assert its global influence while reducing America's. Yet neither country is working determinedly to develop such a joint system—rather, they have taken limited steps toward creating financial messaging systems that are used almost exclusively by their own domestic banks.

For instance, Russian leaders describe the SPFS as part of its "Fortress Economy," a defensive economic strategy adopted in 2014 to insulate the country from foreign pressures. Other aspects of this strategy have included approaching economic self-sufficiency, amassing large amounts of foreign currency, and developing financial systems that undermine the effectiveness of U.S. and NATO-led economic sanctions.

Although SPFS has been adopted by hundreds of Russian banks, only a handful of international banks have followed suit, and many of them do not actively use the system. Explanations for this dearth of adoption include concerns about the system's inefficiency, limited hours of operation, and low participation numbers, not to mention the political-economic influence Moscow would hold over foreign banks that join up. Notably, despite the Kremlin's bluster about joining a Chinese-Russian system, the Bank of China is the only institution from that country to join SPFS.

In contrast to Russia's defensive strategy, Beijing's economic policies are aimed at asserting itself at home and projecting influence abroad. To this end, its Cross-Border Interbank Payment System (CIPS) was designed to enhance central government control over the domestic economy and settle international claims in yuan. Yet the vast majority of China's global transactions are conducted in other currencies, so the country continues to rely heavily on SWIFT, which allows settlement of transactions in a wide variety of currencies. As a result, only a few dozen international banks are members of the yuan-based CIPS. As long as the bulk of Chinese transactions abroad are conducted in U.S. dollars, it will not be in Beijing's interest to undercut SWIFT. Likewise, as long as so few global

transactions are conducted in yuan, a system based on that currency will not attract many foreign adopters.

Suppose, however, that establishing a SWIFT alternative with Russia was within Beijing's interests and means. Even in that hypothetical scenario, the fact remains that such a system could not be established soon enough to blunt existing sanctions on Iran. There is little if any prospect that the yuan could achieve sufficient strength and stability in the next few years to compete with the U.S. dollar for prominence in global financial transactions—the precondition for any alternative system that might enable Iran to effectively sidestep U.S. restrictions. Thus, despite Tehran and Moscow's statements to the contrary, the development of a joint system for evading sanctions related to the 2015 nuclear deal is not imminent.

Policy Options

Imposing new economic sanctions on Moscow for its invasion of Ukraine will have many implications, but it is difficult to see how Russian and/or Chinese reactions to such pressure could do much to improve Iran's access to international finance. That being said, U.S. policymakers still have many reasons to disincentivize Beijing from developing a parallel global financial system—including the fact such a system might provide workarounds to international sanctions in the long term.

For its part, Iran has many factors to weigh in deciding how to approach the nuclear deal and its longstanding international isolation. But one thing is clear: the regime has no realistic prospect of relying on a Russian or Chinese messaging and clearing system to significantly reduce the problems it has experienced in accessing the international financial system—certainly not within any reasonable timeframe. Of course, this issue could come back into play if the United States and Europe continue intensifying sanctions in response to further Russian escalation.

Steven Terner is an independent geopolitical consultant focusing on the political economics of the Middle East, in particular Iran. This PolicyWatch was published under the auspices of The Washington Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East. ❖

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