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AN INDISPENSABLE EVOLUTION FOR SUSTAINABLE CORPORATES**

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RUSSIA'S IMPACTS AND SCENES ON BEING BANNED FROM SWIFT

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Abstract

Today, most cross-border transactions are performed through telecommunications networks all over the world, and Swift is considered the backbone of the global money transfer system. On February 26, 2022, the United States and its allies announced the removal of some Russian banks from Swift as a measure of sanctions against Russia. In the short-term, it means Russia's participation in the global economy will be more difficult, adding severe pressure to the Russian economy. That decision will also have far-reaching consequences for the global economy and trade, including Vietnam.

Keywords: *International payment, Payment system, Russia, Swift.*

1. Introduce

On February 24, 2022, Russia decided to conduct a special military operation in Ukraine. Reacting to Russia's decision, on February 26, 2022, the US, the European Commission (EU), France, Germany, Italy, the UK, and Canada announced the exclusion of Russia from Swift. The consequences of banning Russia from connecting to Swift are immense. However, not only Russia suffered damage but other countries were also more or less affected, including Vietnam. At the same time, this event also has a significant impact on the world economic recovery after the Covid-19 pandemic.

The article emphasizes the role and effect of the Swift system in international payment activities and the influence of the financial infrastructure in transmitting cross-border payment signals. At the same time, we also assess the impact of Russia's exclusion from the Swift system on the Russian economy in particular and the global economy in general, as well as other scenarios that Russia might consider for its payment system when being excluded from Swift.

2. What is Swift?

Swift - Society for Worldwide Interbank Financial Telecommunication, founded in 1973, headquartered in Belgium – the organization behind most money transfers international today.

When being founded, the association had 239 member banks from 15 countries with a common goal of how to communicate about cross-border payments. By 1977, the number had grown to 518 organizations in 22 countries all over the world. And now, Swift has more than 11,000 members from 200 countries and territories.

According to Swift's annual report published in May 2022, the system records an average of 42 million messages per day in 2021, more than 11% compared to the previous year. Moreover, it has reached a new milestone with a peak of 50.2 million messages in a day in November 2021.

Understanding the simple way, the Swift is a messaging network used by banks and major financial institutions. Members will exchange information with each other through Swift messages. This system helps to provide information quickly, accurately and securely. Swift provides each financial institution with

a unique passcode of 8 to 11 characters. They can be Swift or BIC (Banking/Business Identifiers) codes or ISO 9362 codes (a standard format of business identifiers).

Swift allows access and use of many different applications, including:

- Real-time execution of treasury and forex trading .
- Access to banking market infrastructure to process payments between banks .
- Access to stock market infrastructure for clearing, stock trading, forex and derivatives.

Swift does not hold funds or manage customer accounts, but the system allows a global community of users to communicate securely. Although there is no shortage of similar service providers like Fedwire, Ripple or CHIPS, Swift still has an edge over its competitors. Swift is constantly adding new codes to provide thousands of informations. Besides, it is processing millions of financial transactions per day in a standardized and supporting global financial flows. Therefore these have made the system as successful as it is today.

According to the Commission on Payments and Market Infrastructure (CPMI), Swift has improved cash flow worldwide. The analysis shows that payments are quick with a cross-border payment taking an average of just 90 minutes. Also, the majority of payments were settled within minutes or even seconds. Intermediaries can process 78% of cross-border payments in less than five minutes. When delays do occur, the report shows, it is often on the beneficiary's side or due to compliance controls.

In July 2021, Swift launched a transaction screening service, which allows financial institutions to securely screen incoming and outgoing messages based on updated sanctions list, providing alerts if you find anything suspicious.

3. Trade relations between Russia and the world

Based on the international trade map data in 2021, Russia's exports represent 2.2% of world exports, its ranking in world exports is 13, while imports was 1.3% of world and its ranking in world imports is 22.

Russia exported 491.6 billion USD worth of goods globally in 2021, reflecting a dramatic increase to 37.7% since 2017, while the figure from 2020 to 2021 experienced a rapid rise to 45.8%. Russia's biggest export products by value in 2021 were crude oil, refined petroleum oils, coal, gold, and goods made from semi-finished iron or non-alloy steel. In aggregate, those major exports accounted for 45.6% of overall exports sales from Russia. That percentage suggests that the Russian Federation offers a relatively concentrated range of exported goods.

In the Russian total export turnover in 2021, from a continental perspective, roughly half (50.8%) of Russia's exports by value were delivered to fellow European countries while 39.8% were sold to importers in Asia. Russia shipped another 3% worth of goods to North America (Daniel Workman, 2022)

Table 1: List of top trading partners of Russia ranked by export sales in 2021

No.	Export partners	Turnover (billion USD)	Share (total exports of Russia)
1	China	68	14%
2	Netherlands	42.1	8.6%
3	Virtue	29.6	6%
4	Türkiye	26.4	5.4%
5	Belarus	23.1	4.7%
6	United Kingdom	22.3	4.5%
7	Italia	19.3	3.9%
8	Kazakhstan	18.5	3.8%
9	United States of America	17.7	3.6%
10	Korea	16.9	3.4%

In terms of import, Russia imported US\$293.4 billion worth of goods from around the globe in 2021, up by 29.3% since 2017 and expanding by 26.7% from 2020 to 2021. Russia's 5 biggest imports by dollar value are smartphones, automobile parts or accessories, medications, cars and computers. From a continental perspective, 47% of Russia's total imports by value in 2021 were purchased from countries in Asia. Fellow European trade partners generated 42.5% of import sales to Russia while 6.7% worth originated from North America (Daniel Workman, 2022).

Table 2: List of top trading partners of Russia ranked by import turnover in 2021

No.	Import partners	Turnover (billion USD)	Share (total exports of Russia)
1	China	72.7	24.8%
2	Germany	27.3	9.3%
3	United States of America	17.2	5.9%
4	Belarus	15.6	5.3%
5	Korea	13	4.4%
6	France	12.2	4.2%
7	Italy	12	4.1%
8	Japan	9.1	3.1%
9	Kazakhstan	7.1	2.4%
10	Türkiye	6.5	2.2%

Source: International Trade Map Data

According to European Commission, in 2020, the EU was Russia's first trade partner, accounting for 37.3% of the country's total trade in goods with the world. 36.5% of Russia's imports came from the EU and 37.9% of its exports went to the EU. In 2021, Russia was the EU's fifth largest trade partner, representing 5.8% of the EU's total trade in goods with the world. Moreover, the total trade in goods between the EU and Russia amounted to €257.5 billion and the EU's exports in 2021 totalled €99.0 billion.

Because Russia plays an important role in trade relations with Western countries, both in terms of trade turnover and in some essential goods that Russia supplies to the world market, so the previous sanctions were a must not enough. Economic sanctions against Russia are also carefully considered by Western leaders to minimize their damage. The basic sanctions include preventing the Russian government and banks from borrowing money in global financial markets, blocking the import of technology (Boeing and Airbus have announced the withdrawal of technical support and the cessation of spare parts supply. alternative to Russian aviation), and freeze the assets of influential Russians, freeze the assets of the Central Bank of Russia abroad, limit Russia's use of more than \$630 billion in foreign exchange reserves to exchange (in which billions of dollars (being invested in foreign bonds or the form of deposits in foreign banks)).

To deal with the economic impacts, EU leaders must also find the right sanctions. Italy seeks to remove its luxury industrial goods from any sanctions package. The EU also bypassed sanctions that could affect energy imports from Russia to Europe. Allies are also hesitant to exclude Russia from Swift, where France, Italy, and Germany are the major powers calling on Russia not to be cut off from the system. However, after much deliberation, as a result, Western countries still agreed to exclude some large Russian banks from Swift.

4. Russia's effects on being excluded from Swift

Swift plays an important role in Russia because Russia is currently the second largest country, after the US, in terms of the number of users, around 300 financial firms are lodged in the system, accounting for 1.5% of transaction flows, equivalent to payments worth about \$800 billion per year. Russia used Swift to make or receive payments with foreign financial institutions in commercial transactions.

Russia meets 40% of Europe's gas needs, and accounts for 10% of global oil production. Russia is also the largest exporter of grain and fertilizers, third in coal and steel, and fifth in world timber exports. Blocking Russia from Swift will make difficult for the Russia's banks in international payment. And that really was a shock for Russian companies and their foreign clients, especially oil and gas customers, as these transactions are still dependent on the dollar.

Therefore, removing the seven largest Russian commercial banks from Swift on February 26 2022 is considered the strongest sanction that US and EU can do. This action targets almost 80% of total bank assets in Russia. 7 Russian banks had been removed from Swift including VTB Foreign Trade Bank (Russian second-largest bank), Otkritie, Novikombank, Promsvyazbank, Rossiya, Sovcombank, and VEB (Vnesheconombank), as well as subsidiaries of these banks, including those operating abroad. After that, on April 6, 2022, US added two of Russian largest banks, Public Joint Stock Company Sberbank of Russia (Sberbank) and Joint Stock Company Alfa Bank (Alfa-Bank), and their subsidiaries. These events was described as cutting off internet when Russian banks no longer get access to this infrastructure to send information and transactions to customers. Sanctions that have banned most transactions have had a major impact on Russia's relationship with the global financial system and affected total Russia's revenue. Nadine El-Bawab and Elizabeth Schulze (2022) argue that export controls will not have an immediate impact on Russia's capabilities, they will have a corrosive effect on its development and growth. Russian industry and military. Damage will build up over time.

In the monetary aspect, the Central Bank of Russia has significantly lost its money market stabilizing tools. It is a reason why the dollar exchange in Russia increased rapidly by nearly 40%. The Central Bank of Russia also had to increase the prime rate from 9.5% to 20% to prevent people from massively withdrawing money. The sharp increase in the exchange rate also had a huge impact on the supply of essential goods, affecting the life of Russian citizens.

Sanctions made to various sectors of the Russian economy. Notably, many major shipping lines, such as Maersk Line, Hapag Lloyd, MSC, and Ocean Network Express... have announced to stop or intend to stop operating the route with Russia. With this move, imports and exports were severely congested, which slowing down the economic engine.

Russia also tackled with the risk of default when the US banned Russia from paying its debts with deposits at US banks. The Russian Finance Ministry said the country forced to pay its foreign debt worth 649.2 million USD in rubles because an overseas bank branch refused to pay in foreign currency. In theory, Russia could fall into default according to rating agencies (when it has to pay its debt in rubles). Russia avoided default after paying 117 million USD in bond interest through JPMorgan and Citigroup, a transaction the US Treasury Department confirmed was authorized. Russia claims to have the necessary resources to settle its debts but will continue to repay foreign debts in rubles as long as Russia's foreign exchange reserves remain frozen. However, Moody's Investors Services believes that the risk of Russia defaulting on its payment obligations still exists, as the ability and goodwill of the Russian Government significantly reduced in continuing to pay interest on these debts.

According to the Wall Street Journal, as the war continues into the next years and Western sanctions grow heavier, the Russian government's revenue is being squeezed and the country's economy has shifted to a lower growth trajectory, possibly in the longer term. Russia's biggest exports, such as gas and oil, have lost major customers. Government finances are under strain. The ruble has fallen more than 20% in USD since November 2022. The workforce has shrunk as young people have been sent to the front or fled the country for fear of being drafted. Uncertainty has limited business investment.

5. Impact of the world economy after this removal:

The attempt to remove the world's 11th-largest economy from Swift is an unprecedented move in the era of globalization, leading to negative impacts. It impacted not only the Russian economy but also the world economy. For example, being a gas supplier to Europe, Russia did not receive foreign currency and Europe did not get oil, gas, metals, and other vital goods, leading was forced to look for alternative suppliers. It is a difficult problem, especially in the current state of Europe's energy crisis. As a concrete example, the cessation of Russian gas supplies will affect the German market and result in a threefold increase in the share of German gas imports (Bachman et al., 2022).

In particular, the banking sector is significantly affected by this issue. According to data from the Bank for International Settlements (BIS), Italian and French banks have an uncollected debt of up to 25 billion USD in Russia by the end of 2021. American and German banks also suffered when using Swift most often to connect with Russian banks.

6. Vietnam's influences

According to some economic experts, Russia's removal will make payment activities more difficult for trading partners with Russia, including Vietnam. The price of petrol and gas is escalating, causing difficulties for domestic transportation and freight rates, affecting input costs of businesses. In addition, the payment in trade between the two countries is also affected, and the remittance activities of expatriates are also restricted. Tourism businesses in Vietnam were also significantly impacted when the number of visitors from Russia rapidly decreased. The disconnection from Swift also affects Russian investment projects in Vietnam, making capital receipt limited and not ensuring the correct implementation of the investment schedule. Specifically, according to the statistics of the Vietnam Trade Office in Russia, in the first two months of 2023, Vietnam's export turnover to the Russian Federation reached 205.43 million USD, down 59.4% compared to the same period in 2022.

On the other hand, the withdrawal of Western businesses from Russia creates a large gap in the market. It is both an opportunity and a challenge for Vietnamese businesses with strengths in apparel, footwear, agricultural products, consumer goods, and household electronics to increase exports and invest in Russia.

7. Situations for the Russian payment system after exclusion from Swift .

a. Using the payment system established by Russia :

(1) Financial message delivery system (SPFS)

Russia has been using the SPFS payment system since 2014 when it was sanctioned by the West for its annexation of Crimea. According to the Central Bank of Russia, 400 customers are currently using SPFS, which processes 20% of all money transactions in Russia. In parallel with Swift, SPFS is created using Swift as a template. The main purpose of Russia's alternative SPFS system is to support trade in goods despite economic sanctions.

SPFS is mainly used in Russia, however, the Russian Parliament authorized its use for transnational purposes in March 2019. Venezuela is considering joining the Russian system in 2019 due to concerns about the new sanctions, which will also lead to exclusion from Swift; Iran has linked the newly built payment communication system SEPAM with the Russian system; and Belarus to join the system in 2021.

However, due to limitations in the time, number, and complexity of transactions it can perform, SPFS will not be able to provide an adequate alternative to Swift.

(2) National card payment system NSPK and Mir card system

The National System of Card Payments (NSPK) manages a financial system in Russia that processes card transactions, including cards with the Mastercard and Visa logos. The plan is part of Russia's eight-year effort to make its economy immune to Western financial pressure. Mir, Russia's own card company, has created a payment system using the NSPK infrastructure.

When Visa and Mastercard left Russia in early March 2022, most Russians could still use Mastercard and Visa-branded cards to make payments in the country. By the end of 2020, there are about 197 million cards from these two card companies in Russia, but they will not rely on the US payment system but will instead use the card payment system of the Central Bank of Russia, NSPK.

In 2017, Russia enacted a law forcing banks to pay pensions and salaries to government employees with Mir cards, causing the number of Mir card users to skyrocket. The number of cards increased from 2 million in 2016 to 95 million by the end of 2020. After Visa and Mastercard withdrew from Russia in March 2022, the issuance of Mir cards skyrocketed. According to Russian bank Rosbank, demand for debit cards running on the Mir system more than quadrupled in the first quarter of 2022 compared to the same period in 2021.

(3) Digital currency

The weaponization of Swift has accelerated the development and application of digital currency as an alternative to the modern payment system. Russia has begun creating a digital currency separate from Swift. This is the new local currency, which is a specific digital token kept in an electronic wallet on a single platform provided by the Central Bank. Digital rubles are formed in electronic wallets and can be transferred online or offline, regardless of internet availability, as opposed to conventional rubles issued by the Central Bank of Russia, which go through banks' trade and circulation in two forms: currency and accounts.

Payments made by individuals and businesses using the digital ruble platform can be sent directly to the recipient without the involvement of a credit institution as a middleman. This implies that cash flows can avoid infrastructure under the control of rival countries.

b. Using China's payment system

(1) Cross-Border Interbank Payment System (CIPS)

In October 2015, CIPS was created under the supervision of the People's Bank of China (PBOC).

First of all, only renminbi transactions between Russia and China are supported by the cross-border interbank payment system, and only if both countries are members of the CIPS and deal with the transactions. Only a small number of transactions, about 6% of all yuan-denominated transactions between China and Russia, meet the above requirement. Therefore, this option is somewhat limited. However, the technique could become more popular in countries at risk of US and European sanctions.

(2) Central Bank Digital Currency (CBDC)

The Central Bank of China has stepped up efforts to create a digital currency (CBDC) to replace the current cross-border payment system.

The CBDC works without Swift and a correspondent banking system. In the future, customers will be able to conduct financial transactions using the digital yuan for both cross-border wholesale transactions as well as domestic retail payments. As a result, it is anticipated that the CBDC will reduce the USD's position as a reserve currency as well as US overs.

c. Coordination of payment systems of Russia and China

Russia and China are also working together to connect payment networks. Russia's SPFS system allows money to continue to move between banks in the country, but the time, number, and complexity of transactions are still limited. Therefore, cooperation with China's CIPS system seems as a possible alternative. However, the CIPS system only accepts payments in RMB. To eliminate risks, the two payment systems in Russia and China must be linked.

After not having access to USD and Euro, the Russian Ministry of Finance said that it would use the renminbi in foreign exchange reserves. When their Visa or Master cards could not be used abroad, some Russian banks issued cards using China's UnionPay payment system.

d. Find an alternative commercial market

Russia intends to continue to find markets and expand its economic presence in Africa to replace the current supplier of goods from Europe, such as tea, coffee, and fruit. Russia currently maintains four trade missions in Africa: Algeria, Egypt, Morocco, and South Africa.

Russian energy and product exports to Asia, especially China, are expected to continue. If the shipment to the West were stopped, Russia could redirect them to China. Trade between Russia and China increased by more than 40% between January and February 2022 and expected to expand further soon.

8. Conclusion

Russia's exclusion from Swift has a two-way impact. On the one hand, it is likened to a "financial nuclear weapon" to isolate and weaken the Russian economy. However, on the other hand, on the other side, the US and Western countries cannot avoid losses when businesses and people of these countries cannot import goods from Russia (especially natural gas). As a result of this event, the world economy, which was already "depressed" after the Covid-19 pandemic, now faces more difficulties. In other words, the world economy suffered a double shock, causing the recovery process to slow down and facing the risk of high inflation, an energy crisis, and the global supply chain being at risk. For Vietnam, Russia's exclusion from Swift will affect our country's economic recovery after the Covid-19 pandemic, according to Dragon Capital and many economics experts, the impact is small in the short term for Vietnam. However, this event also makes Vietnamese businesses dealing with Russian partners have to consider other methods and directions.

Besides, Russia takes into account suitable alternative payment options when excluded from Swift. Linking to China's CIPS payment system and the use of SPFS, a payment system created by Russia, two options are appropriate for the current situation.

Suppose SWIFT is no longer the global messaging system of choice. If that is the case, we will need to think carefully about how international monetary flows will be managed in the future, and what will happen to the cost of any financial transaction. The decision of 1973 to develop one global and open system has had the extraordinary consequence of limiting the cost of international transactions, hence maximizing its number. Competing systems will imply increased costs, and hence—comparatively speaking—a lower amount of transactions. Unless of course, we find new ways to come up with a truly global and agnostic system. All eyes will be on a new technology blockchain. In theory, it has all the required ingredients to allow for such a system. But, as in 1973, it will depend on the willingness of the relevant players – Central Banks—to give away local power to foster a genuinely global solution. This seems to be an almost impossible job. But if we want to avoid the creation of permanent (technological) barriers in the global payment system, we will have to start working now to safeguard a globally united financial future (Sandra Sieber, 2022).

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