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De-globalization of Western Banking System: How Latest Banking Crisis and the Radical Use of Sanctions are Pushing the Global South to Look for Alternative Global Payment Systems

Executive Summary

The chaos in the U.S. and European banking industries in March 2023, stemming from the seizures of Silicon Valley Bank ("SVB) and Signature Bank in the U.S. and the hasty merger of Credit Suisse by UBS (UBS), have rattled the financial markets. However, it was the scale of the collapses and the speed at which things quickly went south that shocked the world. At year-end 2022, the two U.S. banks had total combined assets of more than US$320 billion, while Credit Suisse had 1.3 trillion Swiss francs in assets under management. The collapses of SVB and Signature Bank happened just in a few days.

Causes for the failures of western banks may vary in details, but the **consequence is common** – **a general loss in trust in the western banking system**. Actions taken by the regulators on both sides of the Atlantic Ocean aiming to stop further bank runs and regain confidence in the banking system had eased concerns to some extent. But investors are still worried that risks are ahead because there are U.S. banks holding a high percentage of their assets in long-term Treasury bonds with coupon rates much lower than the prevailing ones. If these long-term Treasury securities are forced to turn into cash upon a large number of withdrawal requests from depositors, those banks would realize notable losses and probably face liquidity issues.

First Republic Bank ("First Republic") was the latest casualty after being taken possession by U.S. regulators on 1 May and more than US$100 billion of deposits were pulled out from the bank in the first quarter of 2023. However, JPMorgan Chase (JPM) came to the rescue, acquiring all of First Republic's deposits and a substantial majority of its assets. Consequently, all First Republic depositors will have full access to their money. The impact of the demise was insignificant to other midsize and regional bank stocks on 1 May. Nonetheless, renewed selling interest in these stocks occurred the following day presumably on lingering worries about their balance sheets amid economic slowdown concerns driven by newly released macroeconomic data.

After the western bank failures, depositors have been exploring alternatives that would give them a peace of mind. **Moving wealth to the East is an option and possibly a growing trend**. Based on Federal Reserve data, a record US$174.5 billion bank deposits were withdrawn from the U.S. banking system in the week ended 15 March 2023 (first week of the involuntary closures of SVB and Signature Bank). Therefore, we have seen reports saying that banks in Hong Kong have been busy recently dealing with new customers especially after the city issued the Policy Statement and announced eight measures on 24 March 2023 to make family office business a new focus area. Hong Kong even set the target of attracting the world's largest 200 family offices to set up their businesses there by 2025, which will turn the city into one of the leading asset and wealth management centers on earth.

On the other hand, since the start of the Ukraine war in February 2022, there have been 10 packages of sanctions against Russia by the EU alone. Importantly, the **scope of western sanctions (mainly from the U.S. plus EU) is unprecedented and covers many fronts**, including the confiscation/blocking/freezing Russian assets totaled US$1,300 billion (US$300 billion for Russia and US$1,000 billion for its oligarchs) and suspension of a vast majority of Russian banks from accessing the dollar-dominated global payment system, Society for Worldwide Interbank Financial Telecommunication ("SWIFT"), along with the ban of importing Russian crude, natural gas and a lot of other goods, export controls on items such as those needed for oil refining, among

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