



FedFin Client Report

Wednesday, April 6, 2022

Tough on Russia Also Means Tough on China

Client Report: SANCTION18

Executive Summary

As [anticipated](#), today's HFSC hearing with Secretary Yellen largely focused on ways to sanction the Russian Federation and its allies and associates. However, Secretary Yellen made it clear that, were China to mount a similar action against Taiwan, the U.S. would take like-kind action against China, noting that actions against Russia demonstrate U.S. willingness to use its economic power to geopolitical ends. Members on both sides of the aisle supported this position, although Republicans pressed not only for more sanctions against Russia, but also more certainty that China would be punished.

Analysis

Opening Statements

Chairwoman Waters (D-CA) applauded U.S. actions to date but worried that de-risking is depriving some Caribbean nations of needed remittance flows. Ranking Member McHenry (R-NC) wanted greater and faster sanctions, expressing concern that Russia might make use of IMF special drawing rights (a concern Secretary Yellen discounted under subsequent questioning).

Testimony

Secretary Yellen's testimony emphasized the importance of the IFIs not only to address recovery after the war ends, but also continuing and acute stresses due to supply shortages, commodity price hikes, and the pandemic. She also said that the U.S. should support IDA replenishment and advance MBD reform.

Q&A

- **Russian Sanctions:** Both Democratic and Republican Reps. such as McHenry, Lucas (R-OK), Scott (D-GA) and Axne (D-IO) asked Secretary Yellen about the strength of current sanctions and what future sanctions might be necessary. Ms. Yellen believed that sanctions have been both appropriate and forceful, supporting the continuation of levying sanctions while not giving specifics on future sanctions, reminding members that these decisions are not unilateral.
- **Energy Sanctions:** House Republicans pushed Ms. Yellen to support furthering Russian energy sanctions; the Secretary emphasized Europe's energy dependence and potential harm to American consumers. Rep. McHenry specifically asked why Treasury is still issuing licenses allowing financial transactions enabling other countries to purchase Russian oil and natural gas; Yellen responded that the Treasury is working with our allies to lessen their long-term dependence. Rep. Barr (R-KY) discussed an escrow arrangement similar to Iran. Sec. Yellen said it was "worth exploring."
- **Crypto:** Democratic and Republican members such as Rep. Velázquez (D-NY) and Rep. Gonzalez (R-OH), expressed concern over cryptocurrencies being used to evade US and allied sanctions. Ms. Yellen echoed their concerns, but stated that there is no evidence of sanction evasion via crypto and that American crypto exchanges are subject to AML/CFT regulations. Rep. Foster (D-IL) asked the Secretary about the Treasury's work in establishing a digital identity framework to help FinCEN in combating illicit finance and agencies in potentially establishing a CDBC. Ms. Yellen stated that a regulatory framework is a necessary prerequisite and agreed to work with his office.
- **Taiwan:** Mr. McHenry and his Republican colleagues also pressed Secretary Yellen on the parallels between the Ukraine invasion and a possible invasion of Taiwan by China, arguing that the U.S. needs to be at least as forceful, if not more, with Chinese sanctions. Rep. Luetkemeyer (R-MO) advocated for preemptive sanctions should China begin building up forces by Taiwan as Russia did at the Ukrainian border earlier this year. Yellen expressed confidence in the sanctions packages that would be compiled, but disagreed with Mr. Luetkemeyer's assessment.

- **Chinese Lending:** Rep. Mooney (R-WV) expressed concern about China being a lender of first resort for many developing countries, expanding their influence, and asked what can be done to make American, allied, and MDB loans more attractive. Rep. Gonzalez echoed these statements, asking what has been done to counter the “predatory” Belt and Road initiative. Secretary Yellen called these loans “predatory” and “unsustainable”, suggesting Congress fully fund MDB commitments and programs as a solution.
- **AML-CFT:** Rep. Maloney (D-NY), referencing her Corporate Transparency Act, asked Ms. Yellen why the Treasury has not finalized the beneficial ownership rule required under the law ([see FSM Report AML133](#)) and what the timeline is; Secretary Yellen called the process “complex” and a final rule is likely this year. Chairwoman Waters expressed concern that Caribbean nations are being cut off due to de-risking, with Ms. Yellen noting that jurisdictions advancing their AML measures would improve the situation.
- **IFI:** Rep. Wagner (R-MO), referencing her Isolating Russian Government Officials Act, asked the Secretary point-blank if she thought Russian membership should be barred or, at the very least, protested from the G20, Financial Action Task Force, FSB, IMF and World Bank. Secretary Yellen argued that meetings where Russia is attending should not be regarded as business-as-usual, but again stressed that these decisions are not unilateral. Reps. Davidson (R-OH) and Barr expressed frustration that Congress has no insight to what American negotiators advocate for in Basel and FSB meetings; Ms. Yellen promised to provide members with materials, but reiterated that these organizations are simply forums for regulatory coordination without enforcement powers. Rep. Hill (R-AR) expressed concerns about Director Georgieva’s qualifications and asked if Ms. Yellen shared these concerns; Secretary Yellen did not.