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China's De-dollarization Mechanisms within the Yuan Internationalization Strategy

Mekhri Aliev
Yu Xiao
Sofya Ryazanova

RUSSIAN INTERNATIONAL AFFAIRS COUNCIL
SINO-RUSSIAN RESEARCH CENTER FOR THE DIGITAL ECONOMY

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Sino-Russian Research Centre for the Digital Economy

Authors:

Mekhri Aliev, Ph.D. in Political Science; **Yu Xiao**; **Sofya Ryazanova**

Reviewer:

Sergei Savinsky, Ph.D. in Economics

Editors:

Svetlana Gavrilova, Ph.D. in History (Lead Editor); **Yulia Melnikova**, Ph.D. in Political Science; **Gleb Gryzlov**; **Katerina Trotskaya**; **Daniil Rastegaev** (Publishing Editor)

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The following report provides a detailed analysis of how the People's Republic of China is working to strengthen its position in the global financial system by internationalizing its currency. The authors thoroughly examine the factors and strategic objectives of de-dollarization as part of the yuan internationalization process. The study outlines China's key de-dollarization mechanisms and evaluates the yuan's potential to become a major reserve currency. In addition, the report examines how China's strategy affects the Russian economy, comparing Moscow and Beijing's de-dollarization approaches, and offers recommendations for developing Russia's de-dollarization policy.

The opinions expressed in this report reflect solely the personal views and analytical outlook of the authors and do not necessarily represent the views of the Russian International Affairs Council NP (Non-profit Partnership).

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Introduction

One of the most notable changes in the dynamics of the international financial system has been the active use of sanctions by the U.S. and other Western governments to achieve political objectives. In this context, de-dollarization — reducing dependence on the U.S. dollar as a reserve currency, medium of exchange, and unit of account in the global financial system — is becoming an increasingly urgent priority for international players affected by these measures. For example, efforts by BRICS countries to reduce the dollar's share in their international transactions will gradually help shrink the dollar's client base among economic actors. As China, Russia, India, and Brazil introduce alternative currencies and non-dollar systems in international trade, other Global South countries are increasingly recognizing the feasibility and appeal of reducing their dependence on the American currency.

The People's Republic of China stands as one of the most influential players in the global financial system. China is systematically promoting the internationalization of its national currency to strengthen its global position. De-dollarization is an integral part of China's yuan internationalization strategy, serving partly as a response to mounting economic and financial pressure from the United States. Additionally, China is actively expanding its financial and monetary cooperation with countries in Asia, Africa, and Latin America, thereby simultaneously enhancing the international standing of its national currency.

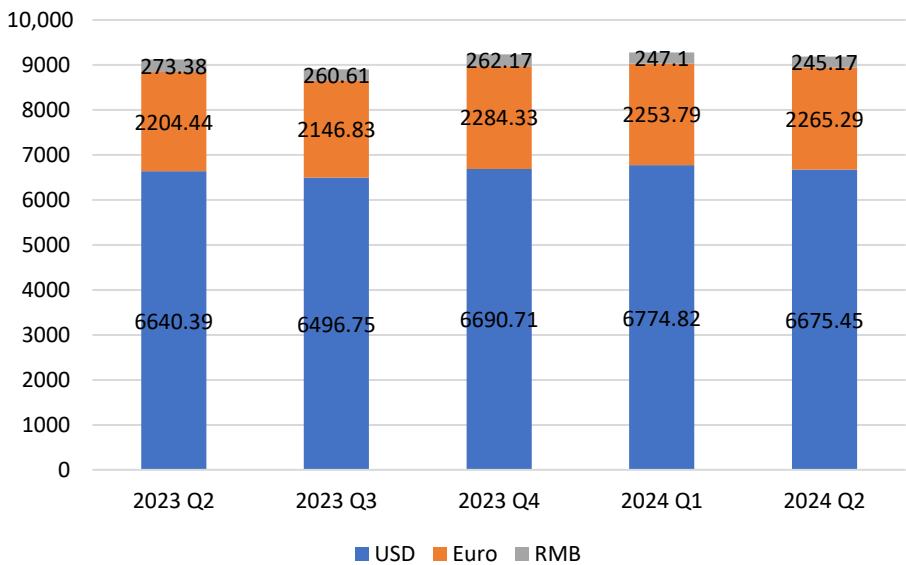
China's experience in overcoming global financial market constraints offers valuable lessons for all international actors pursuing similar objectives. This report examines China's mechanisms for de-dollarization and yuan internationalization. Based on the study's findings, recommendations are provided for how Russia can apply China's experience.

Key Factors and Strategic Objectives of China's De-dollarization

Factors Driving De-dollarization

The U.S. dollar serves as the keystone of the global economy: out of the total world trade volume of \$32 trillion, transactions in American currency account for \$24 trillion.¹ The fact that most global economic transactions are conducted in dollars gives traders confidence in the dollar's stable value and ensures convenient transaction processing. Banks, companies, governments, and individuals worldwide hold over \$6.5 trillion, representing 58% of all foreign currency reserves (see Fig. 1).

Figure 1. Currency Reserve Statistics, billions



Source: IMF²

For many countries, particularly U.S. allies in Asia and Europe, relying on the dollar provides a viable way to stably participate in the international trading system. Another group of countries relies on the U.S. dollar as their domestic currency, viewing it as a way to avoid problems associated with volatile national currencies.

However, the dollar's global position is currently undergoing several changes: alternative reserve currencies and payment systems are emerging, trade and investment links and partnership networks are becoming more diversified, and interaction between developing countries is intensifying. The inevitability of dollar

¹ Global Trade Update (July 2024) // UNCTAD. URL: <https://unctad.org/publication/global-trade-update-july-2024>

² Currency composition of official foreign exchange reserves // International Monetary Fund. URL: <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>

hegemony as a universal, universally recognized medium of exchange and settlement is therefore becoming increasingly questionable.

The Chinese government's policy of internationalizing the yuan and reducing the share of dollar transactions in international settlements is determined by a combination of internal and external factors.

First, the push toward de-dollarization naturally intensifies as China's economic power grows and, in a sense, this push becomes a byproduct of this development. From 2012 to 2022, its GDP grew from 54 to 114 trillion yuan (7.65 and 15.9 trillion dollars respectively), accounting for 18.5% of the global economy.³ Meanwhile, the Chinese economy demonstrated strong recovery rates after the forced slowdown during the COVID-19 pandemic. In the first half of 2024, China's GDP reached 61.7 trillion yuan (\$8.65 trillion), representing a 5.0% increase year-on-year in real terms.⁴ While GDP figures have fallen short of Bloomberg and Reuters forecasts for several quarters, China's position as the world's second-largest economy after the United States remains undisputed (with projected year-end 2024 figures of \$18.57 trillion and \$27.97 trillion respectively). Although China's per capita GDP (\$13,100 as of early 2024) lags significantly behind many developed nations, its rapid economic growth – driven by expanding production, consumer market size, and technological innovation – continues to significantly shape the global economic order.⁵ Consequently, as its macroeconomic indicators strengthen, China is working to reduce its dependence on the U.S. Federal Reserve, partly to reflect its growing geopolitical influence.

Second, China maintains its position as the world's largest exporter of goods. In 2023, exports reached \$3.38 trillion, accounting for 14.2% of international settlements, while imports totaled \$2.56 trillion (10.6%).⁶ Meanwhile, the Chinese currency's share in global payments remains quite modest. Although this figure increased by 1.56% from 2022 to 2023, only 3.71% of international transactions were conducted in Chinese yuan as of September 2023, which is clearly disproportionate to China's share in global GDP and international trade (as well as the share of exports in the Chinese economy).⁷ As a major exporting nation, China is naturally interested in conducting cross-border operations in its national currency and aims to reduce the share of dollar-based transactions, which aligns with its goal of developing capitalism with Chinese characteristics.

Third, the policy of moderate liberalization of stock, currency, and other financial market components, implemented with minor deviations, ensures China's finan-

³ Report to the 20th National Congress of the Communist Party of China // Embassy of the People's Republic of China in Malaysia. October 16, 2022. URL: http://my.china-embassy.gov.cn/eng/zgxw/202210/t20221026_10792358.htm

⁴ China's Balance of Payments Report for the First Half of 2024 (in Chinese: 2024 年上半年中国国际收支报告) // State Administration of Foreign Exchange Balance of Payments Analysis Group. September 30, 2024. P. 8. URL: <https://www.safe.gov.cn/safe/file/file/20240930/1ceafa2dcee7463ca4dfdb93936a4cf3.pdf>

⁵ Top 10 countries in terms of GDP in 2024 (in Chinese: 2024 年全球 GDP 排名前 10 位的国家) // Daily Economic. February 22, 2024. URL: <https://cn.dailyeconomic.com/2024/02/22/92389.html>

⁶ Global Trade Outlook and Statistics // World Trade Organization. April 2024. P. 39. URL: https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pdf

⁷ Report on Yuan Internationalization 2023 (in Chinese: 2023 年人民币国际化报告) // Bank of China. P. 3. URL: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5114765/2023102720175126516.pdf>

cial system is more open and competitive, while making the Chinese yuan more attractive to investors, thus promoting its use in international settlements. Specifically, China is gradually easing restrictions on foreign investment in Chinese stocks, bonds, and real estate. In January 2024, foreign investors were permitted to acquire controlling stakes in banking and insurance institutions, and in April, these permissions were extended to digital data sector enterprises in four pilot zones of China.^{8,9} Additionally, China is providing investors with wider risk management options, particularly for hedging, through the development of spot and futures markets and the derivatives market.

External de-dollarization factors are primarily linked to growing geopolitical tensions and are therefore common to many developing countries and economies in transition. The U.S. has long practiced imposing sanctions and trade restrictions on other countries, effectively using currency as a competitive tool against states whose geopolitical and economic goals and ambitions don't align with the American vision of world order, primarily China. This process began in 1977 with the introduction of the U.S. Foreign Corrupt Practices Act (FCPA),¹⁰ which initially applied only to individuals but later gained extraterritorial reach, extending to both American companies and foreign firms listed on U.S. stock exchanges. Eventually, its scope expanded to include all legal entities conducting transactions in U.S. dollars, giving American government agencies broad authority to intervene in foreign company operations and affecting economic and political relationships between nations.¹¹ This law served as the basis for imposing sanctions on various foreign companies, including Chinese ones. Sanctions pressure became a key element of U.S. strategy toward entire nations, with Iran, Venezuela, and Afghanistan being well-known examples. For instance, in 2012, the U.S. disconnected Iranian banks from the SWIFT system due to suspected nuclear program resumption, thereby limiting the country's access to international transactions and financing.¹² The power to impose such sanctions in all these cases stems from the dollar-centric structure of the global financial system.

The harmful effects of the U.S. weaponizing the dollar became most evident when Russia was cut off from SWIFT in 2022 and had \$330 billion of its dollar assets frozen.¹³ This freezing of Russian assets gave Chinese leadership additional rea-

⁸ Han Songgui. Xiao Yuanqi, Deputy Director of the National Financial Regulatory Administration: Foreign Ownership Restrictions Lifted. Foreign Capital Can Now Own 100% of Banking and Insurance Institutions (in Chinese: 金融监管总局副局长肖远企:已取消外资股份比例限制 外国资本可以持有银行保险机构100%的股权) // Shanghai Securities News. January 25, 2024.
URL: <https://news.cnstock.com/news/bwtx-202401-5182619.htm>

⁹ Chen Wei, Yan Binglin. Four pilot zones remove restrictions on foreign investment in value-added telecommunications services (in Chinese: 四地试点取消增值电信业务外资限制) // Junhe. April 13, 2024.
URL: <https://junhe.com/legal-updates/2406>

¹⁰ Kremyanskaya E. FCPA — U.S. Foreign Corrupt Practices Act. Features and Implementation // Compliance. March 15, 2014. URL: <http://www.complianceblog.ru/?p=63>

¹¹ Foreign Corrupt Practices Act (FCPA) // U.S. Securities and Exchange Commission. September 13, 2023.
URL: <https://www.sec.gov/enforcement/foreign-corrupt-practices-act>

¹² Swift and sanctions // Swift. URL: <https://www.swift.com/about-us/legal/compliance-0/swift-and-sanctions>

¹³ Khabidulina E. Siluanov announced cabinet and Central Bank plans to begin exchanging frozen investor assets // Forbes. August 22, 2023. URL: <https://www.forbes.ru/finansy/495051-siluanov-soobshil-o-planah-kabmina-i-cb-nacat-obmen-zamorozennymi-aktivami-investorov>

sons to worry about similar measures being used during potential Taiwan-related or other conflicts, while previous restrictions on China's semiconductor industry demonstrated China's vulnerability to sectoral sanctions.¹⁴ In April 2022, representatives from China's Ministry of Finance and regulators met with domestic and foreign banks to discuss countermeasures against potential U.S. sanctions.¹⁵ Among the proposed protective measures were increasing domestic production of critical intermediate goods (such as semiconductors and other ICT components), and maintaining and strengthening other state economic dependencies on China to reduce their likelihood of supporting sanctions. Discussions also included further reducing dollar dependency and diversifying assets.^{16,17}

The geopolitical differences between the U.S. and China continue to deepen, leading to growing mutual distrust and intensifying confrontation, manifested through the reciprocal introduction of customs tariffs and duty increases. A prime example is the so-called trade war between China and U.S. in 2018-2019, when, citing intellectual property rights violations and trade conditions threatening U.S. national security, tariffs were imposed on Chinese steel and aluminum imports (25% and 10% respectively), followed by duties on key Chinese export items.¹⁸ Geopolitical tensions are also evident in U.S. sanctions targeting major Chinese tech companies like Huawei, particularly in semiconductor manufacturing – sanctions that indirectly block China from importing semiconductor chips made by Taiwan's TSMC. Naturally, Chinese authorities view such moves as U.S. attempts to slow down their technological progress and respond with their own sanctions regimes and import substitution programs, as well as moving away from dollar-based settlements.

China is highly attuned to changes in the global financial system as it gradually becomes multipolar, creating favorable conditions for strengthening alternatives to the dollar. Efforts to conduct transactions in national currencies, diversify foreign exchange reserves, and develop and launch non-dollar payment systems are being undertaken with varying degrees of success by individual countries and multilateral frameworks such as the EAEU, BRICS, and SCO. China largely supports such initiatives and, when possible, implements yuan-based settlements with several Asia-Pacific countries.¹⁹

¹⁴ United States Starts "War of Chips" as Made in China Grows Rapidly (in Chinese: 美国发动“芯片战争” “中国制造”加速成长) // China Trade Remedies Information. July 28, 2022. URL: <https://cacs.mofcom.gov.cn/article/ffwpt/jyjdycgal/202207/173924.html>

¹⁵ Financial Times: China Holds Urgent Meeting to Discuss Protecting Foreign Assets from US-led Sanctions (in Chinese: 金融时报：中国紧急开会讨论海外资产如何免受美 主导的国际制裁) // VOA. May 1, 2022. URL: <https://www.voachinese.com/a/china-meets-to-discuss-protecting-assets-from-us-sanctions-20220501/6552524.html>

¹⁶ Taylor Fravel M. China's Potential Lessons from Ukraine for Conflict over Taiwan. *The Washington Quarterly*. Vol. 46. No. 3. Pp. 7-25.

¹⁷ In the years that followed, China made timely steps to introduce a set of measures to mitigate the effect of sanctions and export controls. For more details, see: Liu Xinyu, Guo Huan, Li Jia, Jiang Ruixing, and Liu Xuepeng. China's Export Control and Counter-Sanctions Annual Review and Outlook 2023 (in Chinese: 2023年中国出口管制与反制裁年度回顾 及展望) // King&Wood Mallesons. 31.01.2024. URL: <https://www.kwm.com/cn/zh/insights/latest-thinking/china-s-export-control-and-anti-sanctions-in-2023-review-and-prospect.html>

¹⁸ Trade War between the US and China. Timeline of Confrontation // Medium. April 9, 2018. URL: <https://clck.ru/3CRbsm>

¹⁹ Babaev K.V., Sergienko E.E., Wang Jingwei, Li Feng, Sazonov S.D. Internationalization of the Yuan within the Belt and Road Initiative. *ETAP: Economic Theory, Analysis, Practice*. 2024. No. 1. Pp. 75-90.

U.S. actions had already been indirectly influencing de-dollarization even before geopolitical competition became so pronounced. A significant factor in de-dollarization was the 2008-2009 subprime lending crisis, which triggered a global financial crisis and began eroding confidence in the dollar even then. During the crisis, China managed to maintain relatively high economic growth rates (9.6% in 2008 and 9.2% in 2009), partly thanks to dollar reserves accumulated through trade surplus in its balance of payments.²⁰ However, the crisis also revealed China's vulnerability to dollar volatility and Federal Reserve policies.²¹

The dollar's credibility was further undermined by the general instability of the American economy and financial sector that emerged in recent years. The protectionist trade policies of the Trump and Biden administrations, the impact of the COVID-19 pandemic, and America's de facto involvement in the Ukraine conflict led to record-high inflation of 9.1% and increased market uncertainty in mid-2022. Despite the Federal Reserve's multiple key rate hikes aimed at controlling inflation, they only managed to reduce it to 6.5%.²² In 2023, a banking crisis resulted in the collapse of several major banks, including Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank.²³ Furthermore, experts estimate that nearly 200 banks remain vulnerable to the same risks that caused SVB's bankruptcy.²⁴ As a result, China's distrust of American financial institutions began growing more than a decade ago, with this trend gaining additional momentum after 2022.²⁵

Thus, the decision to gradually reduce dollar dependency was driven both by China's own ambitions as a major power and by external economic factors, stemming from the imperative to maintain a smooth functioning national economy, as in recent years the potential risks of using the dollar system have significantly outweighed the benefits of having access to Western markets.

Strategic Goals of Yuan Internationalization and Official Rationale for De-dollarization

China's regulatory and strategic documents do not directly mention the term de-dollarization (去美元化), largely due to China's ability to maintain a neutral policy towards the U.S. and Western countries.²⁶ However, this process can be

²⁰ Li Linyue, Willett T.D. The Effects of the Global Financial Crisis on China's Financial Market and Macroeconomy. *Economics Research International*. 2012. 6 p. URL: <https://onlinelibrary.wiley.com/doi/10.1155/2012/961694>

²¹ Liqing Zhang. China's Policy Responses to the Global Financial Crisis: Efficacy and Risks // IDOS. September 9, 2009. URL: https://www.idos-research.de/fileadmin/_migrated/content_uploads/Berlin_workshop_090831.pdf

²² Srinivasan H. Historical U.S. Inflation Rate by Year: 1929 to 2024 // Investopedia. July 31, 2024. URL: <https://www.investopedia.com/inflation-rate-by-year-7253832>

²³ Wack K. Dramatic Collapses Made 2023 the Biggest Year Ever for Bank Failures // American Banker. December 13, 2023. URL: <https://www.americanbanker.com/list/dramatic-collapses-made-2023-the-biggest-year-ever-for-bank-failures>

²⁴ Steinbock D. How a Weaponized Dollar Is Internationalizing the Yuan // CHINA US Focus. May 19, 2023. URL: <https://www.chinausfocus.com/finance-economy/how-a-weaponized-dollar-is-internationalizing-the-yuan>

²⁵ Broken Trust between U.S., China Fuels Conflict // CGTN. August 8, 2019. URL: https://news.cgtn.com/news/2019-08-08/Broken-trust-between-U-S-China-fuels-conflict-IZ2CiYClfu/share_amp.html

²⁶ The term "de-dollarization" may nevertheless appear in expert opinions and commentaries, reports, or analytical notes from the People's Bank of China. See, for example: An Objective Assessment of Current Opportunities and Challenges in Yuan Internationalization (in Chinese: 客观把握当前人民币国际化的机遇与挑战) // Bank of China. April 19, 2023. URL: <https://pic.bankofchina.com/bocappd/rareport/202304/P020230420686979112594.pdf>

considered part of a broader strategy of Chinese currency internationalization (人民币国际化), which Chinese authorities have prioritized since the early 2000s. It is important to note that currently there is no theoretical definition of currency internationalization. According to the New Economic Dictionary (3rd ed., 2018), a currency is considered international if it can be used as a store of value, medium of exchange, and unit of account in cross-border transactions.²⁷ In reality, currency internationalization means its use by both residents and non-residents outside the issuing country, with the degree of internationalization increasing as its circulation abroad grows.²⁸ The People's Bank of China (PBOC) and China's central authorities do not provide an official definition of this process, though they use it in the sense described above.

Sporadic yuan-based trade settlements occurred in some Chinese regions bordering Vietnam, Myanmar, and Mongolia in the early 2000s. However, the systematic internationalization process, initiated by regulatory bodies through policy adjustments and other institutional changes, began in 2009. The regulatory framework for cross-border yuan payments was modified through several interconnected phases.²⁹ Chinese researchers identify between three and eight periods, typically linking them to the yuan's progressive development as a trade, investment, reserve, and quoted currency.³⁰ According to the central government, the internationalization of Chinese currency has gone through three stages: launch and "steady development" (稳步推进, 2009-2020), "cautious advancement" (稳慎推进, 2020-2022), and "orderly development" (有序推进, 2022-present). From a broader standpoint, however, the process can be divided into three distinct phases: the initial launch (2009-2015), a period of stagnation and adaptation (2015-2020), and a stage of systematic development (2020-present).^{31,32}

In 2009, the PBOC published "Thoughts on Reforming the International Monetary System," which described the shortcomings of the existing international currency system and expressed the need to revise evaluation standards and adopt a new reserve currency.³³ High-ranking PBOC officials repeatedly emphasized the need

²⁷ According to the Central Bank of Russia's definition, currency internationalization is "the process of a national currency extending beyond national borders by taking on 1) the functions of payment and circulation, 2) store of value, and 3) universal measure of value in international economic relations." For more details, see: "Internationalization of the Ruble: Prospects and Risks, and the Role of the Russian Ruble in Foreign Economic Relations" // Central Bank of the Russian Federation. July 12, 2017. URL: <https://cbr.ru/Content/Document/File/16745/01.pdf>

²⁸ Promote the Internationalization of the Yuan in an Orderly Manner (in Chinese: 有序推进人民币国际化) // China Reform. January 3, 2023. URL: <http://www.chinareform.org.cn/2023/0103/37093.shtml>

²⁹ Deepening Reforms and Expanding Openness Initiated Yuan Internationalization (in Chinese: 深化改革 扩大开放 为人民币国际化扬帆起风帆) // The People's Bank of China. October 20, 2014. URL: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/2808720/index.html>

³⁰ A Comprehensive Analysis of Cross-border Yuan Policies (in Chinese: 海口自贸参考 | 跨境人民币政策全梳理) // Haikou Free Trade Zone Committee. Haikou Free Trade Guide. August 18, 2020. URL: <https://mp.weixin.qq.com/s/CRKqw1HZaKp8p5yefofJlw>

³¹ Policies and Measures for Yuan Internationalization under New Conditions (in Chinese: 新形势下人民币国际化的政策与措施) // China Development Press. November 30, 2023. URL: <https://mp.weixin.qq.com/s/VzuBV8lgFfw-zJvYCbWUg>

³² The division into time periods can vary depending on the year being reviewed, the level of detail, and classification criteria, and is not particularly relevant to the current research.

³³ Zhou Xiaochuan. Thoughts on Reforming the International Monetary System (in Chinese: 关于改革国际货币体系的思考) // The People's Bank of China. March 23, 2009. URL: <http://www.pbc.gov.cn/hanglingdao/128697/128719/128772/825742/index.html>

to reform the current system, expand Special Drawing Rights (SDR), and accelerate the pace of “the yuan going global.”³⁴ Initially, the term “RMB internationalization” was used by Chinese media, while official channels preferred other phrases such as “cross-border settlements and pricing in the yuan” and “cross-border circulation and use of the yuan.”³⁵

At a December 2014 CCP Central Committee economic work conference, the idea to “steadily promote RMB internationalization” (稳步推进人民币国际化) was proposed for the first time, and the term has since become part of official discourse. The conference also put forward a package of “reform and opening up” measures, including promoting import-export operations and trade facilitation, expanding Shanghai-model free trade zones, and improving the efficiency of foreign investment.³⁶ In 2015, internationalization was incorporated into China's 13th Five-Year Plan (2016-2020), along with goals for expanding bilateral financial sector openness, increasing convertibility and free use of the currency, and developing a global “going out” of RMB capital. The Plan also called for relaxing restrictions on foreign investment and overseas operations of multinational company funds, expanding the scope of overseas insurance fund investments, and increasing domestic financial market access for foreign institutions.³⁷

China's 2018 government work report outlined key steps taken to internationalize the yuan, highlighting several major initiatives: the Belt and Road projects, the establishment of the Asian Infrastructure Investment Bank, the launch of 11 pilot free trade zones and 13 comprehensive cross-border e-commerce pilot zones, the introduction of a “blacklist” system for foreign investments and reduction of restrictive measures, the implementation of stock exchange connection schemes (Shanghai-Hong Kong, Shenzhen-Hong Kong, and bond trading),³⁸ as well as the yuan's inclusion in the International Monetary Fund's Special Drawing Rights basket in 2016. The PBOC also affirmed its commitment to the “national currency first” principle and its readiness to promote yuan capital account convertibility, strengthen the foundation for market-oriented exchange rate reform, and continue expanding the cross-border use of the yuan.³⁹

³⁴ Huang Jinyi, Wen Wang Xiaoying, Jiao Jianyu. 2009: The First Year of RMB Internationalization (in Chinese: 2009: 人民币国际化元年) // Sina Finance. July 7, 2009. URL: <https://finance.sina.cn/sa/2009-07-07/detail-ikftpnny0951162.d.html>

³⁵ He Dexu, Cheng Gui. Implementing Orderly RMB Internationalization on the New Path (in Chinese: 新征程上有序推进人民币国际化的实现路径) // Chinese Academy of Social Sciences Tourism Research Center. October 9, 2023. URL: <https://mp.weixin.qq.com/s/38JxLMiqkPsgGQEF0JkAQ>

³⁶ Lin Jianyang, Han Miao, Wang Yaguang, Zhao Chao. 50 Must-Read Statements from the Central Economic Work Conference (in Chinese: 中央经济工作会议必读50句话) // Xinhua. December 12, 2014. URL: <https://news.12371.cn/2014/12/12/ART11418350640045464.shtml>

³⁷ Outline of the Thirteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China (in Chinese: 中华人民共和国国民经济和社会发展第十三个五年规划纲要) // Ministry of Education of the People's Republic of China. March 18, 2016. URL: http://www.moe.gov.cn/jyb_xxgk/moe_1777/moe_1778/201603/t20160318_234148_13.html

³⁸ Policies and Measures for Yuan Internationalization Under New Conditions (in Chinese: 新形势下人民币国际化的政策与措施) // China Development Press. November 30, 2023. URL: <https://mp.weixin.qq.com/s/VzuBV8lgFfw-zJvYCbWUg>

³⁹ Li Keqiang. Government Work Report 2018 (in Chinese: 2018年政府工作报告) // Belt and Road Portal. March 5, 2018. URL: <https://www.yidaiyilu.gov.cn/p/49556.html>

In November 2020, the 14th Five-Year Plan proposed to “reasonably promote yuan internationalization,” adhering to a market-based approach and creating a new type of international cooperation based on the free use of the yuan. The policy stance underwent a distinctive evolution: from “confident” development, yuan internationalization shifted to a “steady and prudent” approach, reflecting the need to balance the country’s economic capabilities, market demand, and available financial instruments. The nature of reforms changed significantly as a result of intensifying competition between China and the U.S., and the COVID-19 pandemic, which caused production declines, rising inflation, and restructured global supply chains. Consequently, the direction of internationalization needed to be adjusted, based on the priorities of maintaining exchange rate stability and building the international community’s confidence in the yuan. On the other hand, the dynamic mechanism required transformation as China’s economy moved from rapid growth to a “high-quality development stage,” with market mechanisms driven by demand and the needs of the real economy, rather than policy directives and institutional adjustments, becoming the main driver of internationalization.⁴⁰ During the emerging liquidity crisis, key tasks included opening financial institutions to international markets, stepping up the liquidity of yuan-denominated financial assets, exploring Local Currency Settlement (LCS) possibilities with ASEAN countries, and improving the offshore yuan liquidity provision mechanism.⁴¹

In October 2022, the report of the 20th National Congress of the CCP once again proposed to “steadily advance RMB internationalization.” The report also outlined a detailed action plan for this initiative, which included: 1) reducing the “blacklist” of foreign investments, protecting the legitimate rights and interests of foreign investors, and creating a market-oriented international business environment; 2) promoting the high-quality development of the Belt and Road Initiative, expanding regional openness through eastern coastal areas and integrating central and north-western regions; 3) developing the Hainan Free Trade Port, upgrading pilot free trade zones, and expanding the global network of e-commerce zones; 4) deepening involvement in global industrial division of labor and cooperation, while maintaining stable trade and economic relationships with partners.⁴²

In October 2023, the CPC Central Committee’s working conference on finance introduced for the first time the concept of a “financial power” (金融强国 {2}), directly related to internationalization. Following the 13 national strengthening goals clearly outlined in the report of the 20th CPC National Congress, China’s objective as a “financial power” was established to “comprehensively promote

⁴⁰ Steadfastly adhere to reform, opening up and mutually beneficial yuan internationalization (in Chinese: 坚持改革开放和互利共赢 人民币国际化稳步推进) // People’s Bank of China.
URL: <http://camlimac.pbc.gov.cn/redianzhuanli/118742/4657542/4675743/index.html>

⁴¹ Report on RMB Internationalization 2020 (in Chinese: 2020年人民币国际化报告) // The people’s bank of China. 2020. P. 26. URL: <http://www.pbc.gov.cn/huobizhengceersi/214481/3871621/4073241/2020081717014093078.pdf>

⁴² Xi Jinping. Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects. Report to the 20th National Congress of the Communist Party of China // Embassy of the People’s Republic of China in Malaysia. October 16, 2022.
URL: http://my.china-embassy.gov.cn/eng/zgxw/202210/t20221026_10792358.htm

the rejuvenation of the Chinese nation through Chinese-style modernization.” In January 2024, Xi Jinping delivered a speech at a special workshop for ministerial-level officials, noting that a “financial power” must possess six core elements: a strong currency, central bank, financial institutions, international financial center, financial oversight system, and a team of financial experts. These elements are interconnected and mutually reinforcing, with a strong national currency serving as the central component. Moreover, the internationalization of the yuan was identified as the sole means of strengthening it.⁴³

Following the Third Plenum of the 20th CPC Central Committee in July 2024, the CPC Central Committee published its Decision on Further Comprehensively Deepening Reforms and Promoting Chinese Modernization, which detailed financial opening-up reforms and established the yuan's internationalization as their main driver. Priority was given to “establishing an independent and controlled cross-border payment system and strengthening financial security mechanisms in an open environment” (CIPS) and multiplying models of mutual access to bond markets (bond connect mechanisms). The document also emphasized the need to standardize lending rates to make yuan-denominated assets more attractive by providing transparent and reliable pricing benchmarks, reducing information asymmetry, and decreasing yuan exchange rate volatility. The decision also emphasized developing Hong Kong's offshore market and pursuing “steady progress in the development and application of the digital yuan” as key elements of the yuan's continued internationalization.⁴⁴

⁴³ Hua Junce. Current Situation, Challenges and Countermeasures Regarding Yuan Internationalization (in Chinese: 人民币国际化的现状、挑战与应对) // Hua Junce. June 10, 2024.
URL: <https://mp.weixin.qq.com/s/isgbeH5RdsHPWuik215XAQ>

⁴⁴ Decision of the Communist Party of China Central Committee on Further Comprehensively Deepening Reforms and Promoting Chinese-Style Modernization (in Chinese: 中共中央关于进一步全面深化改革 推进中国式现代化的决定) // Government of the People's Republic of China. July 21, 2024.
URL: https://www.gov.cn/zhengce/202407/content_6963770.htm

China's De-dollarization Mechanisms and Yuan Internationalization Dynamics

Overview of Key Mechanisms

Offshore Yuan Operations and Clearing Centers. Until 2009, yuan transactions were restricted to mainland China. The first step toward internationalization came when trade restrictions with Hong Kong were lifted, marked by the creation of the so-called offshore yuan (CNH), jointly developed by the Hong Kong Monetary Authority and the PBOC.⁴⁵ This established Hong Kong as China's primary offshore market (and for the yuan), while mainland China adopted a dual-currency system for the renminbi (人民币, RMB).⁴⁶ This system features two RMB rates — the onshore yuan (CNY), which circulates domestically and is fully regulated by the PBOC within a “plus-minus 2%” trading band, and the offshore yuan (CNH), which trades in external markets and is primarily determined by trading volumes under the Hong Kong Monetary Authority.⁴⁷ The establishment of Hong Kong's offshore market enabled yuan-denominated import payments, account openings in Chinese currency for technology companies and foreign investors, alongside bond issuance. Additionally, markets began trading the convertible offshore yuan, in contrast to the non-convertible onshore yuan, which significantly simplified cross-border transactions in Chinese currency.

In subsequent years, the pilot zone for cross-border CNY payments gradually expanded throughout the Guangdong province and neighboring cities: by 2010 it had spread to 20 cities and provinces, and by mid-2011 it covered the entire country.⁴⁸ This led to the formation of an offshore yuan market and the robust development of a network of clearing banks and centers, which became the fundamental infrastructure for CNH offshore yuan operations for the following years. By 2022, the total number of yuan clearing centers had grown to 33. New yuan clearing banks were established in Laos, Kazakhstan, Pakistan, and Brazil, followed shortly by Cambodia and Serbia. By the end of 2022, yuan deposits in major offshore markets reached approximately 1.5 trillion yuan, revisiting historic highs.⁴⁹

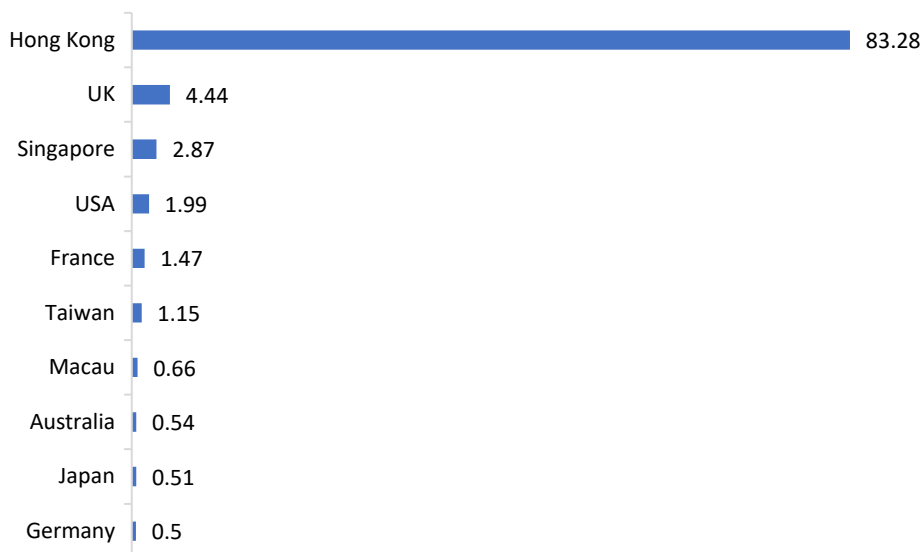
⁴⁵ People's Bank of China Circular on Printing and Distribution of Detailed Rules for Implementing Administrative Measures under the Pilot Program for Yuan Settlement in Cross-border Trade (in Chinese: 2024人民银行关于印发《跨境贸易人民币结算试点管理办法实施细则》的通知) // People's Bank of China. July 3, 2009.
URL: https://www.gov.cn/gongbao/content/2010/content_1555970.htm

⁴⁶ There are two types of yuan: onshore yuan and offshore yuan – do you know the difference between them? (in Chinese: 2024人民币居然分为两种: 在岸人民币和离岸人民币, 你知道两者的区别吗?) // Epay. July 29, 2022.
URL: <https://www.epay.com/zh-CN/news/offshore-cny-onshore-cny-cny-settlement-chinese-currency>

⁴⁷ Currently, six currencies are in use across China in various forms: the onshore yuan (CNY), offshore yuan (CNH), Hong Kong dollar (HKD), Macau pataca (MOP), New Taiwan dollar (TWD), and digital yuan (eCNY). The first two are used for calculating foreign trade volumes; Hong Kong, Taiwan, and Macau each have their own accounting systems and central bank equivalents. The Macau pataca and Hong Kong dollar are not freely convertible currencies: The MOP is pegged to the HKD at a rate of 1.03 to 1, while the HKD is pegged to the US dollar at a fixed rate of 7.75 to 1 (since 2005, with a trading band of 7.75 to 7.85). See: Hong Kong SAR // Bis. URL: https://www.bis.org/mc/currency_areas/hk.htm

⁴⁸ People's Bank of China: Cross-border Yuan Settlement Zone Expanded Nationwide (in Chinese: 2024人民银行: 跨境贸易人民币结算地区扩大至全国) // Central government portal. August 23, 2011.
URL: https://www.gov.cn/gzdt/2011-08/23/content_1930922.htm

⁴⁹ RMB Internationalization Report 2023 (in Chinese: 2024 年人民币国际化报告) // People's Bank of China. P. 2.
URL: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5114765/2023102720175126516.pdf>

Figure 2. Top 10 offshore yuan markets as of March 2024

Source: *SWIFT RMB Tracker*⁵⁰

Opening the Capital Market to Foreign Investors. In 2010, foreign central banks, yuan clearing banks in Hong Kong and Macau, and foreign banks involved in yuan cross-border trade settlements were permitted to conduct bond transactions in the interbank market within approved quotas.⁵¹ In 2011 and 2014, the Renminbi Qualified Foreign Institutional Investor (RQFII) and Renminbi Qualified Domestic Institutional Investor (RQDII) mechanisms were launched. In 2012, with Chinese State Council approval, Hong Kong's RQFII pilot quota successively increased by 50 billion and then by 200 billion yuan.⁵² In 2019, investment quotas and QFII/RQFII restrictions were eliminated for pilot countries and regions to facilitate foreign qualified investor access to Chinese markets.⁵³ Partly due to these measures, QFII/RQFII enterprise cross-border yuan receipts and payments reached 3.6 trillion yuan in 2022; from January to September 2023, they totaled 2.9 trillion yuan.⁵⁴

Panda Bonds and Dim Sum Bonds. The issuance of Chinese bonds in international financial markets represents another way to move away from the dollar. While they make up a very small portion compared to China's domestic bonds (\$19.67

⁵⁰ RMB Tracker. Document Centre // Swift. April 17, 2024. URL: <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/rmb-tracker-document-centre?category%5B0%5D=168711>

⁵¹ Foreign institutions permitted to invest in the interbank bond market (in Chinese: 2024 境外机构获准进入银行间债券市场投资) // Central government portal. August 8, 2010. URL: https://www.gov.cn/banshi/2010-08/18/content_1682328.htm

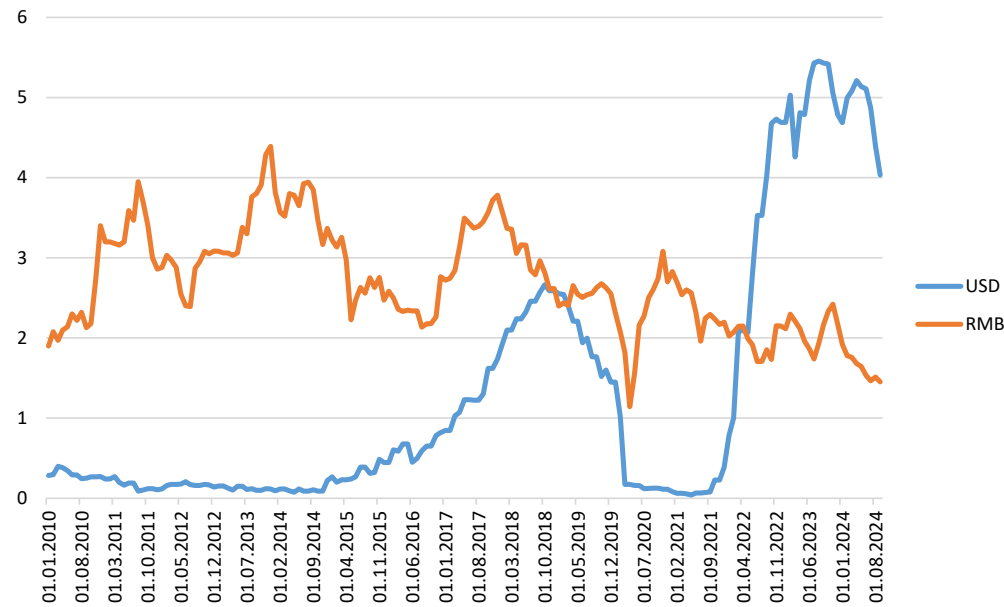
⁵² RMB Internationalization Report 2023 (in Chinese: 2023 年人民币国际化报告) // People's Bank of China. Pp. 46-47. URL: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5114765/2023102720175126516.pdf>

⁵³ RMB Internationalization Report 2020 (in Chinese: 2020 年人民币国际化报告) // People's Bank of China. P. 22. URL: <http://www.pbc.gov.cn/luobizhengceersil/214481/3871621/4073241/2020081717014093078.pdf>

⁵⁴ Global Trade Outlook and Statistics // World Trade Organization. April 2024. P. 15. URL: https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pdf

trillion in the first quarter of 2024), their increasing issuance enhances the yuan's effectiveness as an international stock market instrument.⁵⁵ The liberalization of China's bond market began in 2005, when the PBOC and Ministry of Finance published the "Interim Administrative Rules for International Development Institutions," allowing international development institutions to issue yuan-denominated bonds in China's financial market, and continued with the 2019 Foreign Investment Law, which levelled the playing field between foreign and Chinese investments.⁵⁶ Today, non-residents issue the following types of yuan-denominated bonds: dim sum bonds (offshore bonds from Hong Kong issuers), Mulan bonds (issued by the World Bank in Special Drawing Rights), BRI bonds (Belt and Road Initiative bonds), and panda bonds (issued by foreign entities). The first panda bonds were issued in 2005 by the International Finance Corporation and the Asian Development Bank, with their volume gradually increasing since.⁵⁷

Figure 3. U.S. and Chinese Short-Term Government Bond Values, 2010-2024



Source: *TradingView*⁵⁸

Due to the PBOC's monetary policy — methodically lowering the key rate (in contrast to the U.S. Federal Reserve, Bank of England, and the European Cen-

⁵⁵ Asia Bond Monitor, June 2024 // AsianBondsOnline.
URL: https://asianbondsonline.adb.org/documents/abm_jun_2024.pdf?src=spotlight

⁵⁶ China's new Foreign Investment Law will Strengthen Investor Confidence and Ensure China's Openness – Russian Experts // Xinhua News. March 21, 2019. URL: http://russian.news.cn/2019-03/21/c_137912213.htm

⁵⁷ It's All Black and White: Understanding China's Panda Bonds // Euromoney. June 12, 2019.
URL: <https://www.euromoney.com/article/b1ftg16s04wpj0/its-all-black-and-white-understanding-chinas-panda-bonds>

⁵⁸ China 1Y yield // TradingView. URL: <https://www.tradingview.com/symbols/TVC-CN01Y/>; US 1Y yield // TradingView.
URL: <https://www.tradingview.com/symbols/TVC-US01Y/>

tral Bank) — the price of yuan-denominated bonds has recently decreased. The spread between Chinese and U.S. 10-year government bond yields has reached its highest level since 2006. As a result, in 2023, foreign companies issued Chinese currency-denominated bonds worth 154.5 billion yuan, 82% more than in 2022. (\$21.65 billion, just 5% below the 2016 record).⁵⁹ Investors are eagerly buying panda bonds, especially when issued by trusted banks and companies that also issue dollar bonds and Eurobonds. Offshore dim sum bond sales in 2023 also grew by a record 65% compared to 2022, reaching 550 billion yuan (\$76 billion), due to both the lower cost of yuan financing compared to dollar financing and issuers and borrower desires to hedge currency risks.⁶⁰

Development of Swap Lines. Currency swaps — bilateral agreements for direct currency exchange between central banks — were first adopted by the PBOC as protection against dollar exchange rate fluctuations and accessibility risks. Shortly after the 2008 financial crisis, China initiated the use of these swaps for trade settlements and has since been actively developing direct transactions between central banks.⁶¹ In 2009, agreements were signed with Malaysia, Argentina, and Indonesia, and by 2015, the number of partner countries had rapidly grown to 32 (out of 67 worldwide).⁶² Using swap arrangements, China is working to strengthen the yuan's international circulation through networks of bank deposits in countries along the New Silk Road (Mongolia, Pakistan, South Korea, Russia) and in Latin American countries (Argentina and Brazil).⁶³ By the end of 2021, the PBOC had signed bilateral local currency swap agreements with central banks or monetary authorities in 40 countries and regions, totaling over 4.02 trillion yuan, by an impressive 3.54 trillion yuan.⁶⁴ In 2022, the number of countries and regions with bilateral agreements increased to 41, with the total swap volume exceeding 4 trillion yuan.

Furthermore, on June 22, 2022, the PBOC and the Bank for International Settlements signed the “Renminbi Liquidity Arrangement” (RMBLA), requiring each participating central bank to maintain yuan reserves of 15 billion or its dollar equivalent at the Bank for International Settlements to create a reserve pool. During financial market volatility, central banks can request financial support under this

⁵⁹ Head of the Ministry of Commerce Financial Department Interprets “Several Measures to Further Support Foreign Institutions’ Investment in Domestic Technology Enterprises” (in Chinese: 2024 商务部财务司负责人解读《关于进一步支持境外机构投资境内科技型企业的若干政策措施》) // Ministry of Commerce of the People’s Republic of China. April 19, 2024. URL: <https://m.mofcom.gov.cn/article/zcjd/jdzhsw/202404/20240403504774.shtml>

⁶⁰ Hong Kong: Capitalizing On Dim Sum Bonds // Gfmag. March 4, 2024.
URL: <https://gfmag.com/capital-raising-corporate-finance/hong-kong-dim-sum-bonds/>

⁶¹ Wenjie Zhan, Yin-Wong Cheung, Zhitao Lin. China’s Bilateral Currency Swap Lines. *China and World Economy*. 2016. Vol. 24. No. 6. Pp. 19-42.

⁶² Jongsoon Shin, Kiichi Tokioka, Perks M., Youdong Rao. Evolution of Bilateral Swap Lines. *IMF Working Paper. Strategy, Policy and Review Department*. 2021. Pp. 5-6.

⁶³ Fan Zhang, Jiantuo Yu, Miaojie Yu, Yang Jin. The Effect of RMB Internationalization on Belt and Road Initiative: Evidence from Bilateral Swap Agreements. *Emerging Markets Finance and Trade*. 2017. Vol. 53. No. 12. Pp. 2845-2857.

⁶⁴ Steadily and prudently advancing the internationalization of the yuan: analysis of the process and development path (in Chinese: 2024 稳慎扎实推进人民币国际化: 发展历程与路径探析) // Rmlt. January 26, 2024.
URL: <http://www.rmlt.com.cn/2024/0126/694024.shtml>;
How Much Money Does the World Owe China? // Harvard Business Review. February 26, 2020.
URL: <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china>

arrangement. Besides the PBOC, the initial group of participants included the central banks of Indonesia and Malaysia, the Hong Kong Monetary Authority, the Monetary Authority of Singapore, and the Central Bank of Chile. As more central banks and key financial institutions join, this arrangement will become an important source of yuan liquidity for China during market fluctuations and help prevent a recurrence of the situation that emerged during the pandemic.⁶⁵

Launch of an Independent International Payment System. In 2015, Beijing officially launched its own international interbank payment system — the CIPS (Cross-border Interbank Payment System) — designed exclusively for yuan transactions. The system was built on bilateral swap lines, which Beijing uses to increase the yuan reserves of its trading partners, enabling centralized transaction settlements without routing through offshore clearing banks (in Hong Kong, Singapore, Taiwan, etc.).⁶⁶ As a result, CIPS became a cross-border payment clearing mechanism, and its membership provides insight into China's financial ambitions. Between June 2023 and May 2024, CIPS added 62 direct and 63 indirect participants, and as of September 2024, it includes 153 direct and 1,413 indirect participating banks.⁶⁷ For example, in October 2023, the PBOC's Turkish branch launched a cross-border payment system to provide yuan-based financial services to Turkish banks and corporate clients; in November, the Serbian and Panamanian branches of Bank of China became direct CIPS participants. It is important to note that CIPS's active development does not mean a complete departure from or replacement of SWIFT; firstly, due to their different functions, and secondly, because SWIFT messaging channels are still used in the Chinese payment system, especially among indirect participants.⁶⁸ Nevertheless, a number of direct CIPS participants conduct operations without relying on SWIFT, which means traditional indicators of yuan usage may underestimate its actual weight.

BRI Bonds and Investments. Another equally significant interest advancing Beijing initiative in international financial markets is the Belt and Road Initiative. Creating demand for the yuan in BRI participating countries through trade and investment has become one of the key levers for strengthening its international position. Since 2013, the initiative has provided financial support to project participants in various forms: direct Chinese bank loans (75% of which are issued in yuan), equity financing for participating companies, and the issuance of yuan-denominated securities by foreign companies and participating countries on the Chinese

⁶⁵ Bank for International Settlements (BIS) Announces Yuan Liquidity Arrangements (in Chinese: 2024 国际清算银行 (BIS) 宣布人民币流动性安排) // Bank for International Settlements. February 25, 2022.
URL: https://www.bis.org/press/p220625_zh.pdf

⁶⁶ What is China's onshore yuan clearing and settlement system CIPS? // Reuters. 28.02.2022.
URL: <https://www.reuters.com/markets/europe/what-is-chinas-onshore-yuan-clearing-settlement-system-cips-2022-02-28/>

⁶⁷ CIPS Participants Announcement No. 101 // Cross-border Interbank Payment System. September 30, 2024.
URL: https://www.cips.com.cn/en/2024-09/30/article_2024093014093044419.html

⁶⁸ What Will CIPS Do With SWIFT? (in Chinese: 2024 CIPS“牵手”SWIFT要做什么) // Cross-border Interbank Payment System. March 25, 2016. URL: https://www.cips.com.cn/cips/2016-03/28/article_2023122305160287393.html;
What Is CIPS? A Guide to China's Cross-border Payment System // Statrys. June 24, 2024.
URL: <https://statrys.com/blog/what-is-cips-china>

market.⁶⁹ Starting in 2017, due to speculative attacks on the currency, annual BRI payments were significantly reduced and took the form of subsidized loans to Chinese companies for infrastructure construction in foreign countries. Nevertheless, these remain one of Beijing's important financial instruments, and today many loan agreements are concluded using Chinese laws and dispute resolution mechanisms instead of traditional Western alternatives, e.g. British ones, which have long dominated bank lending.⁷⁰

Bilateral Trade Settlements in National Currencies. Foreign trade serves as one of the main tools for promoting the yuan's international use, with China actively encouraging its trading partners to use the yuan and other national currencies in recent years. For example, instead of dollars, Brazilian exporters receive payment in reals, while Chinese exporters to Brazil are paid in yuan. This type of cooperation helps avoid currency risks, reduce transaction costs, and minimize the impact of changes in third-party payment and settlement currency liquidity on bilateral trade and economic relations. At the same time, local currency settlements help develop the direct yuan trading market and accelerate the formation of a fully fledged offshore yuan market.

Since 2009, China has been consistently taking measures to expand cross-border trade in yuan and simplify yuan settlements in export trade. In 2018, the PBOC issued a notice allowing yuan settlements for all cross-border transactions conducted in foreign currencies. The following year, a PBOC directive established 18 pilot free trade zones across China, where banks were authorized to directly conduct yuan transactions for cross-border trade in goods and services (excluding re-exports and returns).⁷¹

Since the start of 2023, the use of the yuan in trade with China has been rapidly expanding, aided by exchange rate conditions – specifically the similar fluctuations of local currencies against the dollar among transaction participants. In February, the central banks of Iraq and Cambodia announced the launch of direct yuan settlements and an increased share of Chinese currency in their trade cooperation. In March, China and Brazil reached agreements on switching to national currencies, followed by a similar agreement with Malaysia in April. During the same period, Argentina conducted transactions worth \$2.72 billion with China using the yuan as the primary instrument, and announced it would accept the yuan for settling payments for goods imported from China.⁷² In June 2023, Pakistan

⁶⁹ Belt and Road Tracker // Council on Foreign Relations. 01.06.2020.
URL: <https://www.cfr.org/article/belt-and-road-tracker>

⁷⁰ Yip M. "Extraterritorial Observance": The Invisible Laws that Compete to Govern China's Belt and Road Loans // *Harvard International Law Journal*. 05.02.2024. URL: <https://journals.law.harvard.edu/ilj/2024/02/extraterritorial-observance-the-invisible-laws-that-compete-to-govern-chinas-belt-and-road-loans/>

⁷¹ Review and Analysis of Domestic and Foreign Currency Operations Policy (in Chinese: 2024 跨境本外币业务政策梳理及解析) // *China Law Insight*. March 16, 2020.
URL: <https://www.chinalawinsight.com/2020/03/articles/finance/跨境本外币业务政策梳理及解析>

⁷² Argentina to Use Yuan to Settle Chinese Imports amid Global De-dollarization Push // *Global Times*. April 27, 2023.
URL: <https://www.globaltimes.cn/page/202304/1289908.shtml>; Argentina, a BRICS member, has been partially repaying its IMF debt in yuan since July 2023, moving away from the US dollar. See: Argentina Uses Yuan for the First Time to Settle Part of Its IMF Debt // *Elpais*. July 1, 2023. URL: <https://english.elpais.com/economy-and-business/2023-07-01/argentina-uses-yuan-for-the-first-time-to-settle-part-of-its-imf-debt.html#>

also used yuan to pay for its first intergovernmental purchase of 100,000 tons of Russian crude oil, marking the country's first international transaction in a currency other than the dollar.⁷³

Thanks to expanding bilateral settlement cooperation using national currencies with Russia in 2022 — and in 2023 with major emerging economies like Brazil and developed economies like France — the use of the yuan in cross-border trade has grown significantly. In 2010, less than 1% of China's cross-border payments were made in yuan, while 83% were in dollars. In March 2023, the yuan overtook the dollar to become the primary currency for China's foreign trade transactions for the first time. According to China's State Administration of Foreign Exchange, 48.4% of the country's cross-border settlements were conducted in the yuan, while the dollar accounted for 46.7%. By March 2024, over half (52.9%) of Chinese payments were made in the yuan, representing a doubling of its share in just five years.⁷⁴ This demonstrates the network effect of the yuan's cross-border usage, leading to its increased circulation in international trade.

RCEP Development. In 2022, China spearheaded the signing of a major trade agreement among 15 Asia-Pacific nations, including South Korea, Japan, and Australia — the Regional Comprehensive Economic Partnership (RCEP). The agreement aims to reduce customs duties and facilitate easier market access for member countries. However, as it is structured as a trade union, it represents only the first step toward economic integration, and does not prevent member countries from implementing protectionist policies or imposing restrictions.⁷⁵ According to SWIFT data, the volume of yuan-denominated money transfers among RCEP member countries increased by 20.4% in 2023.⁷⁶ In 2023, the RCEP free trade zone accounted for 30.2% of China's foreign trade, with ASEAN making up 15.4%, while Japan, South Korea, Australia, and New Zealand collectively represented 14.8%. Additionally, 21% of cross-border yuan-denominated customer transfers in mainland China are conducted within this free trade zone.⁷⁷

The Petroyuan and Oil Futures. After the dollar was decoupled from gold in the 1970s, oil became one of the main guarantors of the dollar's international status, thanks to agreements between the U.S. (under the Nixon administration) and Saudi Arabia. In recent years, sanctioned countries and several Central Asian states have tried to bypass the petrodollar system by using euros and yuan in bilateral oil trade. Representatives from the PBOC and other Chinese banks have expressed concerns about restrictions on oil-exporting and oil-importing

⁷³ De-dollarization and Emergence of Chinese Yuan // Geopolitical Monitor. June 21, 2023.

URL: <https://www.geopoliticalmonitor.com/de-dollarization-and-emergence-of-chinese-yuan/>

⁷⁴ The Start of De-dollarization: China's Move Away From the USD // Oil Price. August 6, 2024.

URL: <https://oilprice.com/Finance/the-Markets/The-Start-Of-De-Dollarization-Chinas-Move-Away-From-The-USD.html>

⁷⁵ Largest Trade Deal in History Takes Effect, Uniting 15 Countries Around China // BBC. January 1, 2022.

URL: <https://www.bbc.com/russian/news-59839560>

⁷⁶ White Paper on Yuan Internationalization, 2024 (in Chinese: 2024 人民币国际化白皮书) // Bank of China. P. 10.

URL: <https://pic.bankofchina.com/bocappd/rareport/202406/P020240606578399779075.pdf>

⁷⁷ Ibid. P. 23.

countries and highlighted the urgency of de-dollarizing oil trade.⁷⁸ In its efforts to reduce dollar dependency, Beijing developed the concept of the “petroyuan,” which involves using the Chinese yuan as the settlement currency for oil contracts and exchanging oil for goods and equipment. The petroyuan, intended to be an alternative to the petrodollar, should secure China a special position in the hydro-carbon market as the leading oil importer, while also creating demand for the yuan outside China’s economy.⁷⁹ Since 2015, Beijing has been trying to establish its own system of commodity exchanges and an independent futures market to break free from the “Anglo-Saxon monopoly.”⁸⁰ In 2018, it finally succeeded in launching yuan-denominated oil futures on the Shanghai International Energy Exchange (ENI), with crude oil futures (OilFut) being the first to open to global traders.⁸¹

As futures derivatives develop, “Shanghai standards” are being recognized by an increasing number of companies, while “Shanghai oil” is being used by many domestic and foreign oil companies in implementing their trading strategies and business models. In 2023, 40,600 lots (40.6 million barrels) of such futures were sold, representing a 68.7% increase from the previous year, while delivery volume increased by 48.51%.⁸² This clearly shows that more and more enterprises are implementing hedging and procurement plans through future market deliveries. In August 2023, China’s Ministry of Natural Resources and Ministry of Finance published guiding opinions on establishing standard starting prices for mineral extraction rights transfer revenues, which for the first time adopted Shanghai futures prices as the benchmark.⁸³ Furthermore, in June 2024, Saudi Arabia did not renew its 50-year petrodollar agreement with the U.S., opening up possibilities for oil supplies in other currencies, including yuan, euros, and yen.⁸⁴

Reduction in Dollar-Denominated External Debt. The sale of U.S. government debt by China could serve as a significant blow to the American economy in response to U.S. protectionist policies. As of 2018, Beijing was the largest holder of Washington’s government bonds. According to the U.S. Treasury Department, China held \$1.18 trillion (out of total debt of \$21.21 trillion).⁸⁵ In 2023, China’s share of

⁷⁸ The Petro-RMB is expected to resolve the “trilateral dilemma” – first part of the Petro-RMB research series (in Chinese: 2024 石油人民币有望击破“三方困局”——石油人民币研究系列之一) // Industrial and Commercial Bank of China. October 26, 2016. URL: <https://cicb.ru/3CmHaU>

⁷⁹ Moreover, the dollar’s history clearly demonstrates that the “oil-currency” link serves as a starting point for gaining control over commodity pricing.

⁸⁰ Chicago (CBOT) for agricultural commodities, London (LME) for metals, and New York (NYMEX) for oil.

⁸¹ Kholodkov V.M. Shanghai Oil Exchange ‘Disrupts’ the Global Market // Russian Institute for Strategic Studies. December 3, 2018. URL: <https://riss.ru/analitika/shankhayskaya-neftyanaya-birzha-vzryvayet-mirovoy-rynok/>

⁸² Additional Notes on the Quality Performance of Shanghai’s Crude Oil Futures Market (in Chinese: 2024 上海原油期货市场高质量运行侧记) // China National Petroleum Corporation. June 26, 2024. URL: <http://news.cnpc.com.cn/system/2024/06/26/030135521.shtml>

⁸³ Guiding Opinions of the Ministry of Natural Resources and Ministry of Finance on establishing standard starting prices for mineral extraction rights transfer revenues (in Chinese: 2024自然资源部 财政部关于制定矿业权出让收益起始价格的指导意见) // Central Government Portal. August 25, 2023. URL: https://www.gov.cn/zhengce/zhengceku/202309/content_6901681.htm

⁸⁴ U.S. and Saudi Arabia Announce Major Changes! (in Chinese: 2024 美国沙特，突传重大变局!) // Securities Times. June 14, 2024. URL: <https://www.stcn.com/article/detail/1230695.html>

⁸⁵ Shane D. China Has Boosted Its Huge Stash of U.S. Government Debt // CNN Business. February 16, 2018. URL: <https://money.cnn.com/2018/02/16/news/economy/china-us-debt-holdings/index.html>

U.S. debt obligations fell below \$1 trillion, indicating deliberate efforts to minimize dollar dependency, especially amid escalating trade tensions.⁸⁶ As of early 2024, China's external debt balance stood at 17.34 trillion yuan (\$2.45 billion), with 47% in national currency and the remaining 53% in foreign currencies (\$1.3 trillion). Moreover, among the external debt denominated in foreign currencies, U.S. dollar-denominated debt accounts for 84%.⁸⁷ The dollar's share in registered outstanding external debt continues to decline slowly: by March, foreign debt obligations increased to \$1.31 trillion, while the dollar percentage decreased to 83%.⁸⁸

Increase in Foreign Exchange and Gold Assets. Financial sanctions against Iran, Venezuela, and Russia have led reserve managers to reassess geopolitical risks, resulting in about a third of all central banks announcing plans to increase their foreign exchange and gold holdings by 2024.⁸⁹ The restructuring of reserve portfolios stems from concerns about the potential freezing of dollar and euro assets, while increasing gold reserves helps reduce sanctions-related risks during times of heightened geopolitical uncertainty. These factors may drive further gold accumulation by several emerging market central banks, including the PBOC, despite China's historically low proportion of gold in its reserves (see Fig. 4).⁹⁰ Nevertheless, in the short to medium term, such measures can be viewed as defensive diversification tools against dollar inflation rather than part of a deliberate de-dollarization strategy.

Devaluation of the Yuan. Since 2008, China maintained its dollar peg while artificially devaluing the yuan to boost national exports. As the economy recovered from the 2009-2010 recession, the PBOC allowed the yuan to strengthen against the dollar. However, the further devaluation of the Chinese currency from 2018 onward was a response to escalating U.S.-China trade tensions and restrictions on Chinese product access to the American market. Using devaluation as a de-dollarization tool can help make Chinese goods and services more competitive in international markets, while also making the yuan more attractive for international settlements due to its lower cost. Nevertheless, devaluation has its limitations, such as the risks of currency market volatility or uncertainty about other country appetites for conducting international transactions in yuan. Moreover, China still needs a flow of dollars to pay for non-yuan imports, to contain downward pressure on the dollar exchange rate, and to finance Chinese overseas investments.⁹¹

⁸⁶ De-dollarization and Emergence of Chinese Yuan // Geopolitical Monitor. June 21, 2023.
URL: <https://www.geopoliticalmonitor.com/de-dollarization-and-emergence-of-chinese-yuan/>

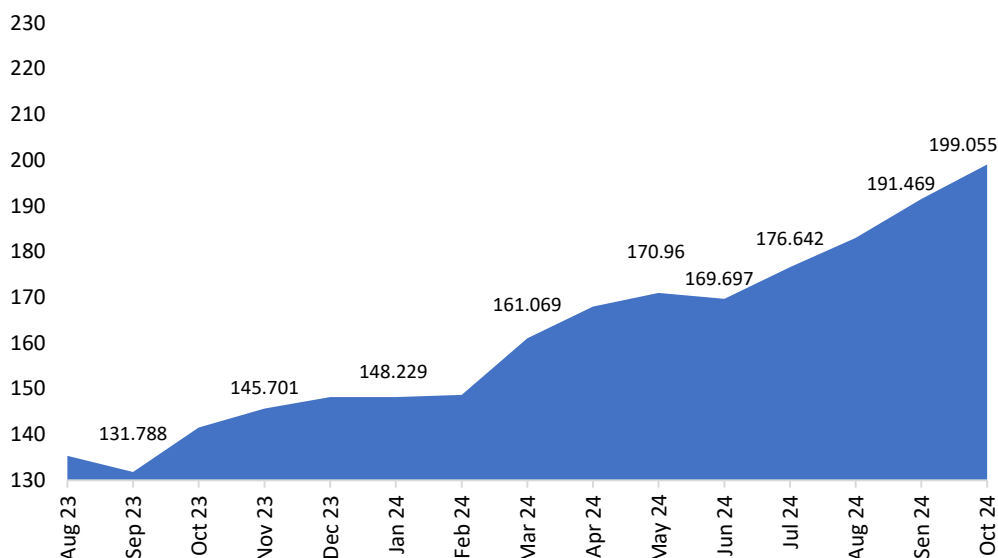
⁸⁷ The State Administration of Foreign Exchange Published Data on China's External Debt at the End of 2023 (in Chinese: 2024国家外汇管理局公布2023年末中国全口径外债数据) // State Administration of Foreign Exchange of the People's Republic of China. April 2, 2024. URL: <https://www.safe.gov.cn/zhejiang/2024/0402/2021.html>

⁸⁸ SAFE Releases China's External Debt Data at the end of March 2024 // State Administration of Foreign Exchange. June 28, 2024. URL: <https://www.safe.gov.cn/en/2024/0628/2217.html>

⁸⁹ US Dollar Dominance in the International Reserve System: Updated Data // International Monetary Fund. June 11, 2024.
URL: <https://www.imf.org/ru/Blogs/Articles/2024/06/11/dollar-dominance-in-the-international-reserve-system-an-update>

⁹⁰ China Gold Reserves // CEIC Data. 2024. URL: <https://www.ceicdata.com/en/indicator/china/gold-reserves>

⁹¹ Is China Going to Devalue the Yuan? // Hinrich Foundation. May 28, 2024.
URL: <https://www.hinrichfoundation.com/research/article/us-china/is-china-going-to-devalue-the-yuan/>

Figure 4. China's gold reserves, billion USD

Source: CEIC Data⁹²

The Digital Yuan. The digital currency launched in 2021 under PBOC control — the digital yuan (crypto yuan, e-CNY) — may play a significant role in accelerating the yuan's international adoption, particularly within BRICS and East Asia.⁹³ Through e-CNY, Beijing aims not only to boost digital payments but also to introduce new government-backed virtual money that can be deposited directly into digital wallets, bypassing commercial banks.⁹⁴ The widespread adoption of the digital yuan will also greatly enhance the ability to collect real-time data on monetary transactions, which will be useful for overall capital flow control. In this context, it is worth noting China's complete ban on all cryptocurrencies implemented in September 2021.⁹⁵

A key advantage of the digital yuan is that it enables cross-border financial operations without relying on existing financial systems like SWIFT. It allows payments to be made through traditional bank accounts as well as via mobile phones or fingerprint authentication. This makes e-CNY significantly easier to use for bilateral cross-border trade and investment transactions. Since 2021, China's mBridge (Multiple CBDC Bridge) project has allowed Beijing to test multi-currency trans-

⁹² China Foreign Exchange Reserves // CEIC Data.

URL: <https://www.ceicdata.com/en/indicator/china/foreign-exchange-reserves>

⁹³ E-CNY certain to promote renminbi's internationalization // China Daily. July 29, 2021.

URL: <https://global.chinadaily.com.cn/a/202107/29/WS610201faa310efa1bd66528b.html>

⁹⁴ Digital Currencies // Hoover Institution. 2022. Pp. 24-26.

URL: https://www.hoover.org/sites/default/files/research/docs/duffie-economy_digitalcurrencies_web_revised.pdf

⁹⁵ A few years earlier, China had become a sort of "paradise" for bitcoin mining, which was difficult for central banks to control, and which Chinese people viewed as a tool for U.S. financial speculation. According to Chainalysis, \$50 billion in cryptocurrency was moved out of China in 2020. See: Digital Central Bank Currencies: A Study of China's Experience in Developing and Launching the Digital Yuan // RCC CE. 2023. P. 10.

actions between several financial institutions (including central banks, commercial banks, companies and exchanges) and participate in wholesale cross-border deals with Hong Kong, Thailand and the UAE. The UAE's participation means that any of the participating country digital currencies can be used to pay for oil imports.⁹⁶ The groundwork for digital yuan adoption has also been laid in BRI partner countries, especially in Southeast and Central Asia. Today, e-CNY is used in several countries for everyday currency transactions by individuals: for example, since December 2023, the PBOC and the Monetary Authority of Singapore have been running a pilot program for cross-border digital yuan use, allowing tourists from both countries to make purchases using the digital yuan.⁹⁷ Nevertheless, e-CNY's accessibility is unlikely to lead to a significant increase in international yuan usage, mainly due to China's closed capital account and the yuan's limited convertibility. However, the main potential risk remains Chinese authority control over foreign e-CNY users, which not all countries are willing to accept.

De-dollarization Trends and the Yuan's Major Reserve Currency Potential

There are several main methods today for evaluating both the de-dollarization of China's economy and the internationalization of the renminbi. First, this can be done using the SWIFT RMB tracker. According to the report, in March 2024 the yuan maintained its position as the fourth most active currency in global payments with a 4.69% share. Overall, yuan-denominated payments increased by 25.44% compared to February 2024. For international payments excluding the Eurozone, the yuan ranked fifth in March 2024 with a 3.18% share.^{98, 99} By July, there was a slight increase in the share of yuan payments to 4.74% and 3.32% respectively.

The graph below (see Fig. 5) shows the growing global importance of the yuan as a settlement currency: from an average of 1.9% in July 2019, its share increased to 4.5% by the first half of 2024.

A key indicator of the yuan's internationalization is its position and weight in Special Drawing Rights (SDR). In May 2022, the IMF conducted its first review of the SDR currency basket since the yuan's inclusion in 2016. The yuan's weight in the SDR basket increased from 10.92% to 12.28%. The currency now ranks third after the U.S. dollar and euro. By the end of 2022, global central banks held yuan reserves totalling \$298.4 billion (2.69%), which was 1.62 percentage points higher than 2016's starting results. As of 2022, more than 80 foreign central banks or monetary authorities had included the yuan in their foreign exchange

⁹⁶ Prospects, limitations and challenges of digital yuan internationalization (in Chinese: 2024 数字人民币国际化的前景, 制约因素与挑战) // Mpaypass. June 13, 2022. URL: <https://m.mpaypass.com.cn/news/202206/13104401.html>

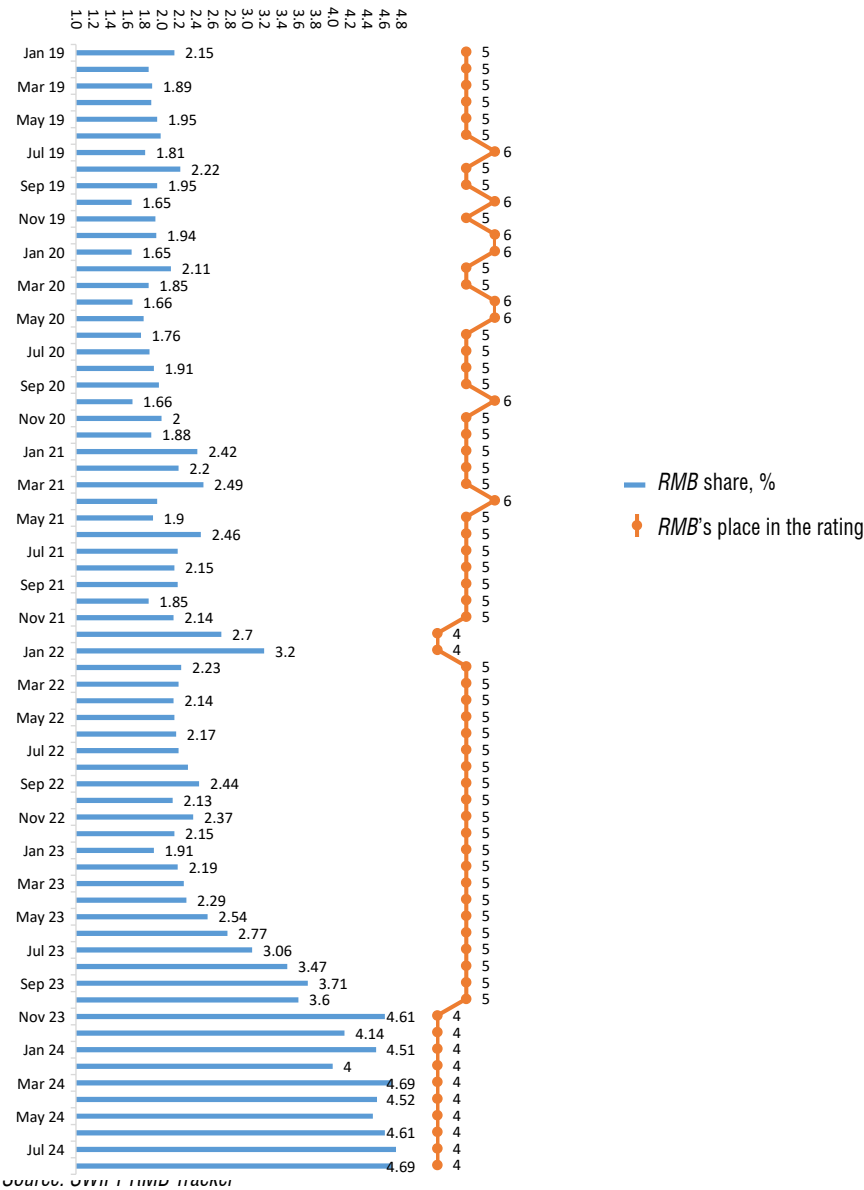
⁹⁷ China and Singapore join forces to enable tourists to use digital yuan (in Chinese: 2024 中国和新加坡合作允许游客使用数字人民币) // Binance. December 11, 2023. URL: <https://www.binance.com/en-NG/square/post/1215618487594>

⁹⁸ RMB Tracker. Document Centre // Swift. March 21, 2024. URL: <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/rmb-tracker-document-centre?category%5B0%5D=168711>

⁹⁹ Yuan payments in the Eurozone are not included in SWIFT's yuan tracker since the tracker only monitors yuan's share in international payments, not intraregional ones; additionally, most Eurozone payments are processed within a single payment system, while the tracker only accounts for interbank settlements.

reserves,¹⁰⁰ and by 2023 this number had grown to 92.

Figure 5. Share of the Yuan in International Settlements



¹⁰⁰ RMB Internationalization Report 2023 (in Chinese: 2023 年人民币国际化报告) // People's Bank of China. October 7, 2023. P. 18. URL: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5114765/2023102720175126516.pdf>

¹⁰¹ RMB Tracker. Document Centre // Swift. 17.04.2024. URL: <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/rmb-tracker-document-centre?category%5B0%5D=168711>

Another positive development was the extension of interbank foreign exchange market hours in January 2023 to 3:00 AM Beijing time, bringing total trading hours to 20 per day. This allows the yuan to cover all major trading periods across Asian, European, and North American markets, making it more convenient for global investors to manage exchange rate risks between the yuan and domestic foreign currencies.^{102, 103}

The actual use of the yuan in international economic activity can also be objectively assessed using the Cross-border RMB Index (CRI) published by the PBOC. In the last quarter of 2023, the CRI reached 364, seven points higher than the previous quarter and four points above the projected value.¹⁰⁴ The share of yuan used in China's cross-border payments increased by 48.7%, which is 6.2 percentage points higher than in 2022. In 2023, cross-border yuan receipts and payments were recorded in 161 countries: besides Hong Kong, several other countries emerged as regional payment hubs, with the United Kingdom, Germany, Luxembourg, Switzerland, South Africa, and Singapore taking leading positions.

The scale of money transfers continues to grow: in South America, volume increased by 251.5% (with Brazil seeing a threefold increase); in the Middle East and Central Asia it grew by 99.5% and 135.3% respectively. However, Europe saw a 1.8% decline in yuan usage.¹⁰⁵

Direct cross-border investments in yuan also grew to approximately 1.99 trillion yuan, up 13.4% from 2022 (when inflows reached 910 billion yuan, showing a 9.7% annual growth, and outflows hit 1.07 trillion yuan, increasing 16.8% year-on-year). Cross-border portfolio investments showed even more rapid growth — in the fourth quarter of 2023, the settlement amount reached approximately 7.07 trillion yuan, up 28.1% from 2022.

A more comprehensive assessment can be found in the RMB Internationalization Index (RII) from the Renmin University of China, which considers the Chinese currency's measures of value, circulation, savings, and payment.¹⁰⁶ The RII readings for 2023 showed quarterly values of 5.21, 7.13, 6.42, and 6.32, averaging 6.27 for the year and marking a 22.9% increase from the previous year. Over the past five years, the global political and economic landscape has changed signifi-

¹⁰² PBOC State Administration of Foreign Exchange Announcement No. 17 (2022) (in Chinese: 中国人民银行国家外汇管理局公告 (2022) 第17号) // State Administration of Foreign Exchange. March 12, 2024. URL: <https://www.safe.gov.cn/shanghai/2024/0312/2093.html>

¹⁰³ Since December 2023, interbank currency exchange hours have been set from 7:00 AM to 3:00 AM. See: Notice from the Foreign Exchange Trading Center Regarding the Extension of Market Operation Hours for Interbank Foreign Currency Pairs and Foreign Currency Markets (in Chinese: 外汇交易中心关于延长银行间外币对及外币货币市场交易时间有关事项的通知) // National Interbank Funding Center. December 15, 2023. URL: <https://iftp.chinamoney.com.cn/chinese/scggwhscggscgtz/20231215/2772891.html>

¹⁰⁴ Cross-border RMB Index (in Chinese: 跨境人民币指数) // People's Bank of China. February 8, 2024. URL: <https://pic.bankofchina.com/bocappd/rareport/202402/P020240208725267876804.pdf>

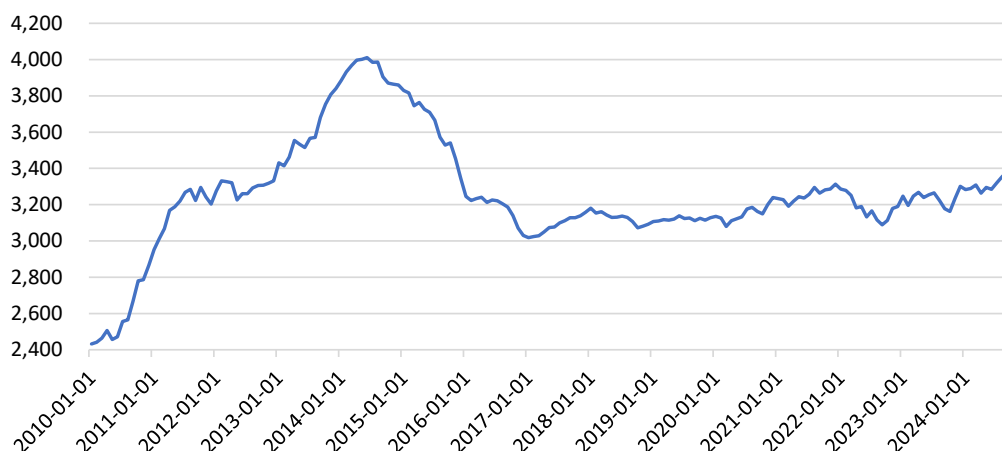
¹⁰⁵ Bank of China Releases Cross-border RMB Index for Fourth Quarter 2023 (in Chinese: 中国银行发布2023年四季度跨境人民币指数) // Bank of China. February 8, 2024. URL: https://www.boc.cn/aboutboc/bi1/202402/t02040208_24576095.html

¹⁰⁶ Modern Bankers | National People's Congress. Tu Yonghong and others: New Developments and Proposals for Advancing Yuan Internationalization (in Chinese: 当代金融家 | 人大 涂永红 等: 人民币国际化的新亮点新动能及重点推进建议) // Modern Bankers. July 24, 2024. URL: <https://mp.weixin.qq.com/s/BWMPfqZJbKMUGzFaRd52w>

cantly, causing RII fluctuations, with an average annual compound growth rate of 16.56%. Among the index components, “international financial transactions” showed particularly strong performance, with yuan-denominated investments and loan financing driving a 28.80% increase in the quarterly average compared to 2022. This component alone accounted for nearly 80% of the overall RII change. Regarding “international reserves,” the yuan’s share has gradually declined to 2.29% since 2022 — this has somewhat affected overall RII indicators.

Despite the growth of several indicators in recent years, China will face numerous challenges in the short and medium term that directly stem from Beijing’s aspirations for deeper internationalization of its currency and moving away from the dollar.

Figure 6. China’s foreign currency reserves, trillion USD



Source: FRED Economic Data¹⁰⁷

First, due to its foreign trade structure, China’s foreign exchange reserves are held in currencies of countries and groups of countries that are currently most likely to impose sanctions against China – namely dollars, pounds, yen, and euros. As of late 2023, China had the largest foreign exchange reserves of any country: over \$3 trillion (for comparison, Japan, which ranks second in this indicator, has about \$1.1 trillion in foreign exchange reserves).^{108, 109} The average for the first half of 2024 was \$3.23 trillion, with a peak of \$3.26 trillion as of July 2024.¹¹⁰ Consequently, any weakening of the dollar could lead to significant losses for China,

¹⁰⁷ Total Reserves excluding Gold for China // Federal Reserve Economic Data.
URL: <https://fred.stlouisfed.org/series/TRESEGCNM052N>

¹⁰⁸ The Dollar: The World’s Reserve Currency // Council on Foreign Relations. July 19, 2023.
URL: <https://www.cfr.org/background/dollar-worlds-reserve-currency>

¹⁰⁹ Moreover, the US itself holds \$244 billion in reserve assets, of which \$36 billion is in foreign currencies. See: The Inevitability of Bipartisan Consensus on US Foreign Trade Policy // Russia and America in the 21st Century. 2024. Issue 5.
URL: <https://rusus.jes.su/s207054760031183-8-1/>

¹¹⁰ China Foreign Exchange Reserves // Trading Economics. October 10, 2024.
URL: <https://tradingeconomics.com/china/foreign-exchange-reserves>

which it cannot afford. Furthermore, the U.S. and China remain closely linked through trade relations and are each other's largest partners in goods trade: out of the total U.S. export volume of \$2.1 trillion in 2022, approximately \$150.4 billion was with China (after Canada and Mexico), while in terms of imports, China holds first place with record figures of \$536.3 billion.¹¹¹

Second, whether in traditional or digital form, the yuan remains under Chinese regulatory control, which creates various risks for businesses trading with China and hinders its global advancement.

Third, significant internationalization of the yuan may take decades rather than years, as it would require major reforms such as reducing capital controls and liberalizing exchange rates — steps that Chinese authorities are reluctant to take.

When comparing the dollar and yuan as reserve currencies (and more broadly as primary international currencies), several key factors must be considered, including: national economic size, share in international trade, financial market size, depth and openness, currency convertibility, GDP share pegged to the currency, domestic macroeconomic policy, and others.¹¹² The main challenges for the yuan in its pursuit of international influence are its limited convertibility and restricted financial market openness. There is evidence that currency management and capital controls were tightened following speculative attacks in 2015-2016. The capital outflow that occurred amid yuan devaluation and stock market decline led to a speculative attack through massive sales of yuan-denominated assets and a sharp rise in mergers and acquisitions. Combined with household dollar transfers to overseas accounts, capital flight reached approximately one trillion dollars by the end of 2015.¹¹³ In 2016, Chinese authorities imposed an annual limit of 100,000 yuan on foreign ATM cash withdrawals, restricted underground transfers, and strengthened capital controls for private and state-owned companies, resulting in a decline in outbound merger and acquisition values. Beijing has not just reverted to a currency system with a non-volatile exchange rate but has implemented a floating exchange rate system instead of the strict dollar peg of the early 2000s. Despite China's statements about de-dollarization and internationalization, Beijing isn't yet ready to abandon capital controls, fearing destabilization of the national economy. While such controls make local financial markets more crisis-resistant, they also make them less efficient, limiting foreign company business operations like receiving payments from Chinese clients and paying dividends and royalties to Chinese shareholders. Some investors continue to work with the Chinese market through approved programs like QDII and others,¹¹⁴ but without commitments to free capital movement, China won't be able to achieve all its de-dollarization goals or further multiply the size of its yuan payment market. Consequently, to realize its

¹¹¹ Countries & Regions // Office of the United States Trade Representative. URL: <https://ustr.gov/countries-regions>

¹¹² Report to Congress on International Economic and Exchange Rate Policies // U.S. Department of the Treasury. October 15, 2009. URL: <https://home.treasury.gov/system/files/206/FXReportFINALOctober152009.pdf>

¹¹³ China Capital Outflows Rise to Estimated \$1 Trillion in 2015 // Bloomberg. January 25, 2016. URL: <https://www.bloomberg.com/news/articles/2016-01-25/china-capital-outflows-climb-to-estimated-1-trillion-in-2015>

¹¹⁴ QDII (Qualified Domestic Institutional Investor) licenses are issued to domestic institutional investors for investing in securities outside the country.

ambitious yuan internationalization strategies, China needs to tackle the following challenge: how to strike a balance between maintaining a stable exchange rate without domestic inflation, control capital flows to prevent speculative inflows and outflows, and open the external use of the yuan.¹¹⁵

Over the past decade, China has developed effective fiscal, trade and investment policy tools to promote the Chinese yuan. The active use of the yuan as a unit of account for international transactions and as a financial market instrument reduces Chinese trade and investment activity dependence on the U.S. dollar. In the coming years, we can also expect a moderate increase in the yuan's share in global trade and reserves, especially among China's trading partners. We can confidently predict the further development of Beijing's financial projects (CIPS and e-CNY) and its expanding participation in regional initiatives (RCEP, partially BRICS). However, reducing dollar usage in China's economy and international operations is unlikely to affect the dollar's dominance as the global reserve currency in the near term. The Chinese government, realistically assessing the balance of power, is not actually aiming, contrary to popular belief, to transform the yuan into a global reserve currency at this stage but rather seeks to increase its role as a tool for bilateral trade settlements and investments of interregional significance.

The main objective for the current period is to gain greater freedom of action within the priority strategy of China's technological recovery and dual circulation of Chinese currency. For these reasons, yuan internationalization effectively remains limited to encouraging its international use without full convertibility. For China, the de-dollarization strategy currently serves largely as a risk management measure and limits potential damage to the Chinese economy from possible U.S. sanctions. Beijing will certainly take advantage of the current global trend toward currency diversification and continue developing measures for further de-dollarization, aligning them with its geopolitical and purely economic interests as a major world power.

¹¹⁵ In addition to the problems described above, confidence in yuan-denominated assets is being undermined by real estate risks and local government debt pressure, combined with global risk aversion.

Conclusions

China's strategy for yuan internationalization, through its layered framework of policies and directives, is increasingly reshaping various aspects of domestic policy and prompting significant adjustments in financial, monetary, and investment governance. Aligning well with the global de-dollarization trend, it contributes to diversifying the world's currency system and could serve as a model for other developing nations and transition economies looking to transform their currency policies in the long term. The most significant implications of these Chinese initiatives can be observed at the macroeconomic level.

First, while the internationalization of the yuan and China's active de-dollarization policy will reduce reliance on the U.S. dollar for international transactions, the dollar will maintain its position as the world's primary reserve currency. The expanding use of the yuan and other national currencies will, in turn, enhance the stability and resilience of the global financial system as it gradually moves away from dollar dominance.

Second, the increasing role of the yuan in international settlements and investments will enable businesses and individuals to conduct cross-border transactions directly in yuan, eliminating the need for intermediate currencies and thereby reducing transaction costs and streamlining operations. Moreover, conducting transactions in yuan will shield parties from exchange rate volatility associated with third-country currencies, including fluctuations in the dollar's spot rate. The reduction in currency risks will be particularly relevant for countries whose trade and economic relations with the U.S. are heavily influenced by non-economic factors, including Russia and Iran.

Third, as the yuan becomes more international, more yuan-denominated financial products and services will emerge on the global financial market, including bonds, stocks, and currency derivatives, giving global investors expanded investment and hedging options. As yuan-based payments and currency operations increase, China's role in the international financial system will strengthen, potentially leading to reforms in international financial organizations and institutions, including the IMF.

At the multilateral level, certain changes can be expected within the Belt and Road Initiative and BRICS+ framework. For BRICS countries, de-dollarization is a crucial component of their economic strategy and a deliberate choice. Reducing dependence on the dollar and SWIFT will give developing countries more flexibility in responding to financial risks and international sanctions, while settlements in national currencies will boost regional economic and investment integration by cutting intermediate costs.

As a leading technological and economic force within BRICS, China's policies will help shape the development path of other member countries and showcase effective management approaches; the push toward de-dollarizing cross-border payments may gain strong support at the interregional level. For instance, the shared commitment to de-dollarization between key members like Russia and China has

already led the BRICS New Development Bank to revise its financial strategy, including a new three-year plan to increase national currency lending by 30%.¹¹⁶

As a pioneer in developing and piloting the digital yuan, China has launched the mBridge project with the UAE, Saudi Arabia, and Hong Kong to streamline cross-border payments through digital currencies, and BRICS countries are already exploring the possibility of using blockchains to create a unified payment system.¹¹⁷ In July 2024, the creation of an international BRICS blockchain-based clearing system was officially announced.¹¹⁸ The system is currently in its conceptual development phase, with Russia proposing to base it on the central bank digital assets (CBDA) of BRICS countries, drawing from mBridge experience.¹¹⁹ The launch is expected to be a turning point in the de-dollarization process for Russia and China. Furthermore, following China's example, many BRICS+ countries have begun developing their own digital currencies as another tool for de-dollarization. Specifically, in 2023, the digital ruble successfully completed its pilot phase.¹²⁰ The main challenges in implementing digital currencies remain the security of digital transfers, differences in national legislation, and the scalability of this technology. BRICS governments are paying special attention to overcoming these challenges.

The BRICS international agenda and member state active de-dollarization efforts — particularly China's — are playing a key role in attracting new members. Malaysia and Thailand, for example, have expressed interest in joining BRICS, motivated partly by opportunities to increase their national currency transactions through this platform.¹²¹ BRICS membership expansion and the acceleration of their de-dollarization process is also driven by several geopolitical factors. Primary among these is the intensifying economic and technological competition between China and the U.S., and the sanctions pressure placed on Russia — which could lead to restrictions on financial technology exports to BRICS countries, payment system blockades, etc.

The internationalization of the yuan and other local currencies is strengthening individual BRICS state autonomy in the global economy while enhancing their international standing. Through bilateral currency swap agreements and yuan trading in financial markets, BRICS nations are successfully reducing their dollar dependence and exposure to its exchange rate fluctuations. Moreover, the use of local currencies, including the yuan, in bilateral transactions between member countries — such as in energy trade between Russia and China — is fostering stronger interregional economic ties within BRICS.

¹¹⁶ NDB President Dilma Rousseff: New Development Bank to Increase Its Share of Lending in National Currencies to 30% over 5 Years // CGTN. August 19, 2023. URL: <https://russian.cgtn.com/news/2023-08-19/1692857270655983618/index.html>

¹¹⁷ Project mBridge Reached Minimum Viable Product Stage // BIS. November 11, 2024. URL: https://www.bis.org/about/bisih/topics/cbdc/mcdbc_bridge.htm

¹¹⁸ BRICS Announces Creation of SWIFT Alternative // TRT in Russian. July 28, 2024. URL: <https://www.trtrussian.com/novosti/briks-obuyavil-o-sozdanii-analoga-swift-18188560>

¹¹⁹ BRICS Blockchain: What's the Economic Rationale for Cross-border CBDAs? // Roscongress Foundation. July 23, 2024. URL: <https://roscongress.org/materials/blokcheyn-briks-v-chem-ekonomicheskii-smysl-transgranichnykh-tsfa/>

¹²⁰ Digital Ruble: Pilot Launch // Bank of Russia. August 9, 2023. URL: <https://cbr.ru/press/event/?id=16991>

¹²¹ Kremlin Reports 30 Applications to Join BRICS // TASS. June 25, 2024. URL: <https://tass.ru/politika/21192067>

When discussing China's experience in de-dollarization with individual countries, its cooperation with Russia deserves special attention. In the 2010s, Russia was the undisputed leader in de-dollarization: in 2014, under EU and U.S. sanctions following the annexation of Crimea, the country quickly developed its own Mir payment system and financial information exchange system (SPFS), which became the foundation of its financial infrastructure. That same year, 38 energy agreements were signed with China, along with a three-year currency swap deal worth 150 billion yuan (approximately \$24.5 billion),¹²² which was later extended for another three years.

Russia and China gradually moved away from using the dollar in bilateral trade, with 2018 marking a new phase as anti-Russian sanctions intensified, and tariffs were simultaneously imposed on Chinese goods. In response, Moscow reduced the share of U.S. dollars in its national reserves from 43.7% to 21.9%, while increasing its holdings in euros (to 32%) and yuan (to 14%).¹²³ China, in turn, recognizing the high risk of financial sanctions from the U.S., quickly modelled Russia's strategy of de-dollarization and currency diversification, which in 2019 paved the way for a new agreement between the countries to replace the dollar with national currencies in bilateral settlements. This financial coordination helped Russia reduce its dollar-denominated exports from 80% in 2013 to 50% in 2020.

In 2021, the Central Bank of Russia revealed plans to remove the dollar from its National Wealth Fund and increase holdings in yuan and gold. From the second half of 2021 through early 2022, the share of dollar reserves decreased from 16.4% to 10.9%, while yuan holdings increased to 17.1%.¹²⁴ In the early 2020s, the pace of de-dollarization in Russia and China had roughly equalized, but the 2022 crisis in the European security architecture and subsequent EU and U.S. sanctions against Russia created an imbalance in how quickly Moscow and Beijing could implement their de-dollarization strategies.

In the winter of 2022, the yuan trading volume on the Moscow Exchange was only 0.32%, while the dollar held the dominant position. However, after Russia was denied access to dollar and euro transactions and had its corresponding accounts frozen, Moscow intensified its use of the yuan by increasing its share in foreign exchange reserves and switching to direct ruble-yuan operations. Over the year leading to March 2023, the yuan trading volume grew to 53%, reaching a peak of 53.6% in the first half of 2024. However, when the Moscow Exchange was added to the sanctions list and suspended dollar and euro trading in response in June 2024, the yuan's share in Russia's foreign exchange market surged to an unprecedented 99.6%.¹²⁵

¹²² Russia and China Sign Agreements on "Power of Siberia" and Currency Swaps // RBC. October 13, 2014.
URL: <https://www.rbc.ru/economics/13/10/2014/543bc2b8cbb20fe185d5f92e>

¹²³ Central Bank Warned about Risks of Completely Excluding the Dollar from Foreign Exchange Reserves // Interfax. October 14, 2019. URL: <https://www.interfax.ru/business/680290>

¹²⁴ Russian Rainy-Day Fund to Get Out of All U.S. Dollar Assets // Reuters. June 4, 2021.
URL: <https://www.reuters.com/article/us-russia-reserves-idUSKCN2DF1R9/>

¹²⁵ Russia's Foreign Exchange Trading Is Now Almost 100% in Yuan // Bloomberg. July 10, 2024.
URL: <https://www.bloomberg.com/news/articles/2024-07-09/russia-s-foreign-exchange-trading-is-now-almost-100-in-yuan>

While Russia and China share similar policies toward de-dollarization and face comparable geopolitical pressures driving this process, they pursue different ultimate goals, and the yuan's internationalization and its adoption as the main foreign currency by certain countries brings its own challenges and risks.

First, despite the switch to national currencies in mutual settlements and the trade turnover between Russia and China reaching new heights annually, its growth rate is gradually slowing down. For instance, in 2023 trade volume increased by 26.3%, while from January to May 2024 it grew by only 2.9% year-on-year (compared to 15% with ASEAN countries, 4.1% with the EU, and 6.6% with the U.S.).¹²⁶ The trade volume remains rather modest compared to China's other major partners, and its conversion to national currencies accounts for only a small fraction of the overall growth in yuan-based international transactions.

Second, many countries, including Russia, are betting on the greater stability of the PBOC-controlled yuan compared to the dollar, but this carries risks of Beijing managing the yuan exchange rate against local currencies in its own interests. Equally dangerous for both sides are the currency swap lines between central banks, which Russia uses in part to build up yuan reserves, as these expose Chinese financial institutions to the risk of U.S. secondary sanctions, while Russia faces the threat of China abandoning the swap lines and blocking yet another settlement instrument.

Third, several major Chinese banks are either refusing to serve Russian counterparties or are slowing down bilateral transactions due to their broad interpretation of sanctions against Russia. Some regional Chinese banks are following similar policies, despite the PBOC not imposing any restrictions on yuan-denominated settlements with Russia. As the Russia-Ukraine conflict continues and EU and U.S. sanctions policies tighten, new obstacles keep emerging that hinder the restoration and maintenance of bilateral payment channels.

Fourth, the internationalization of the yuan faces certain limitations, such as the insufficient supply of financial assets, lack of convenient risk hedging and financial investment options, restricted access to Chinese financial markets, and generally the risk of increased dependence on Beijing for countries with smaller economies.

Nevertheless, with the advancement of BRI and BRICS+ initiatives, the use of the yuan in international trade and investment continues to expand, with Russia, Central Asian countries, Southeast Asia, and Africa becoming the regions with the highest yuan internationalization, forming gradually expanding yuan trading markets.

¹²⁶ China / Russia Trade // The Observatory of Economic Complexity.
URL: <https://oec.world/en/profile/bilateral-country/chn/partner/rus>

Recommendations

Three potentially effective directions for developing Russia's de-dollarization policy are: a) strengthening information exchange and cooperation with China; b) promoting initiatives through intergovernmental and interstate associations; c) raising awareness among Russian export-oriented companies and relevant organizations.

The following are other specific practical measures worth noting:

- Study tools and mechanisms used in China to reduce dollar dependency, including analyzing their effectiveness and the possibility of implementing successful Chinese practices in the Russian context.
- Establish exchange mechanisms with Chinese experts, like organizing specialized conferences, roundtables, and business visits for information and opinion sharing.
- Build cooperation with relevant Chinese departments to discuss de-dollarization strategies, including creating bilateral working groups with business representatives to improve foreign trade transaction mechanisms.
- Propose initiatives to establish new financial institutions aimed at supporting international trade and investment that are not controlled by the U.S.
- Actively participate in international organizations and promote de-dollarization ideas in forums such as BRICS, SCO, ASEAN, as well as develop coordinated positions between Russia and China within these multilateral frameworks.
- Develop a specialized unified de-dollarization portal to provide up-to-date information on alternative currencies, financial mechanisms, and best practices from other countries, while also offering consulting services to Russian companies in selecting optimal de-dollarization mechanisms and working with alternative currencies.

About the Authors

Mekhri Aliev, Director of the Sino-Russian Research Centre for the Digital Economy at Lomonosov Moscow State University.

Yu Xiao, Ph.D. in Political Science and Associate Professor and Distinguished Researcher at the Tsinghua University Technology Innovation Research Centre, and Executive Secretary of the Sino-Russian Research Center for the Digital Economy at Lomonosov Moscow State University.

Sofya Ryazanova, Research Fellow at the Sino-Russian Research Center for the Digital Economy at Lomonosov Moscow State University.

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The Russian International Affairs Council (RIAC) is a non-profit organization focused on conducting research on international relations and offering practical advice on foreign policy and international affairs for Russian government agencies, businesses, non-profit organizations and other institutions. The Council was established by its board of trustees, pursuant to the Order of the President of the Russian Federation No. 59-rp of February 2, 2010, "On Establishing the Russian International Affairs Council Non-profit Partnership."

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Sino-Russian Research Centre for the Digital Economy

The Sino-Russian Research Centre for the Digital Economy (中俄数字经济研究中心) is a bilateral cooperation platform between Russia and China, jointly established in 2021 by the Xiamen Municipal People's Government, Lomonosov Moscow State University, and Xiamen University as part of the BRICS Partnership on New Industrial Revolution (PartNIR).

The Centre operates as a state-funded institution in Xiamen and functions as a research institute, a new-type university think tank, and a technological innovation incubator. The Russian division is based at Moscow State University's National Centre for the Digital Economy.

The Centre's main activities focus on strategic coordination, digital economy workforce training, and project development. The priority is to attract Russian technology companies from emerging economic sectors to Xiamen for incubation and commercialization, and to develop joint Russian-Chinese knowledge-intensive projects. The Centre also conducts research on the digital economies of Russia, China, and other BRICS countries, provides industry analytics, and offers consulting services to Russian and Chinese companies.

The Centre implements a Russian-Chinese system of director responsibility under the general guidance of the Supervisory Board. The Chairman is Xiamen Vice Mayor Zhuang Rongliang, with Moscow State University Vice Rector Yuri Mazei and Xiamen University Vice President Yu Yancheng serving as deputy chairs. The Centre's Scientific Director is Igor Sokolov, Dean of the Faculty of Computational Mathematics and Cybernetics at Moscow State University and Academician of the Russian Academy of Sciences.

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Russian International Affairs Council
Sino-Russian Research Centre for the Digital Economy

**CHINA'S DE-DOLLARIZATION MECHANISMS WITHIN
THE YUAN INTERNATIONALIZATION STRATEGY**

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Tel.: +7 (495) 225 6283
Fax: +7 (495) 225 6284
welcome@russiancouncil.ru

119049, Moscow,
8, 4th Dobryninsky pereulok

russiancouncil.ru