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From Petrodollar to Petro yuan: Global Macroeconomic Transformation and Pakistan's Economic Stability

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EXECUTIVE SUMMARY

This knowledge brief examines the ongoing structural shift in the global monetary and energy-pricing system from the long-standing U.S. dollar-based petrodollar regime toward the emerging Petroyuan framework. Drawing on historical analysis, theoretical insights, and empirical data from 1970 to 2026, it explores how oil pricing shapes global liquidity, inflation, exchange rates, capital flows, and financial stability.

The petrodollar system historically reinforced U.S. dollar dominance and enabled the large-scale recycling of oil revenues into global financial markets. Recent structural changes — geopolitical fragmentation, China's rise, Western sanctions on Russia and Iran, and the diversification of energy trade — have begun to erode these relationships. The emerging Petroyuan introduces a more multipolar monetary landscape, though structural constraints including China's capital controls, the managed yuan, and deep dollar network effects mean the transition is gradual rather than abrupt.

For oil-importing economies such as Pakistan, currency diversification may offer marginal but meaningful benefits, yet external vulnerabilities remain binding constraints. Pakistan's structural deficit with China — $9.5 billion in imports versus $1.2 billion in exports in H1 FY2025–26 — combined with $29–31 billion in Chinese bilateral debt, creates a paradoxical yet compelling case for a calibrated yuan-based settlement strategy that could reduce dollar dependence without deepening single-counterparty risk.

The brief concludes that this transition will be gradual and potentially destabilising in the absence of coordinated domestic and multilateral policy responses. For Pakistan, proactive strategic positioning — rather than passive adjustment — will be the prerequisite for macroeconomic resilience in the emerging multipolar monetary order.

1. INTRODUCTION

Since the collapse of the Bretton Woods system in 1971, the global economy has been profoundly shaped by the pricing of oil in U.S. dollars — the petrodollar system. This mechanism was not merely a technical feature of trade; it became a foundational pillar of the global macroeconomic architecture. By requiring oil-importing countries to hold dollar reserves, it entrenched the dollar as the dominant reserve and transaction currency. Equally significant was petrodollar recycling, through which oil-exporting countries reinvested surplus revenues into U.S. Treasury securities and Western banking systems, thereby expanding global liquidity, lowering interest rates, and facilitating international credit expansion.

Figures 1 and 2 illustrate the evolution of the relationship between oil prices (West Texas Intermediate, WTI) and the U.S. dollar index. In the earlier period (pre-2000), the correlation appears weak and inconsistent. From the 2000s through the mid-2010s, a pronounced inverse relationship emerged: rising oil prices generally coincided with a weaker dollar, reflecting classical petrodollar dynamics. Since 2015, particularly around the 2020 COVID-19 shock and the 2022 Russia–Ukraine conflict, this relationship has become increasingly unstable and nonlinear — signalling a structural breakdown in traditional oil-dollar dynamics and a transition toward a more fragmented global monetary environment.

This knowledge brief traces the historical evolution of the petrodollar system, analyses the structural drivers behind the emergence of the Petroyuan, examines macroeconomic implications across key channels — exchange rates, interest rates, inflation, and global liquidity — and situates Pakistan's specific vulnerabilities and strategic options within this evolving landscape.

Figure 1: WTI Oil Price vs. U.S. Dollar Index (1970–2015)

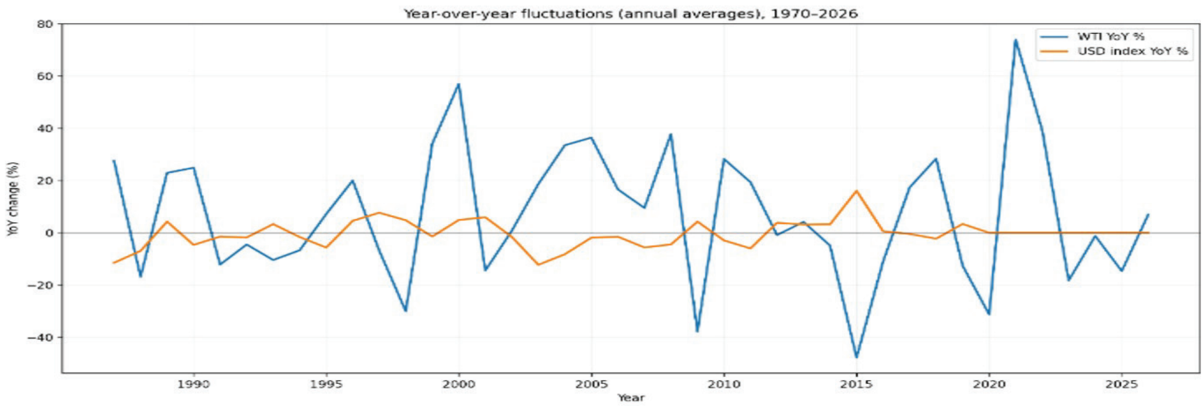
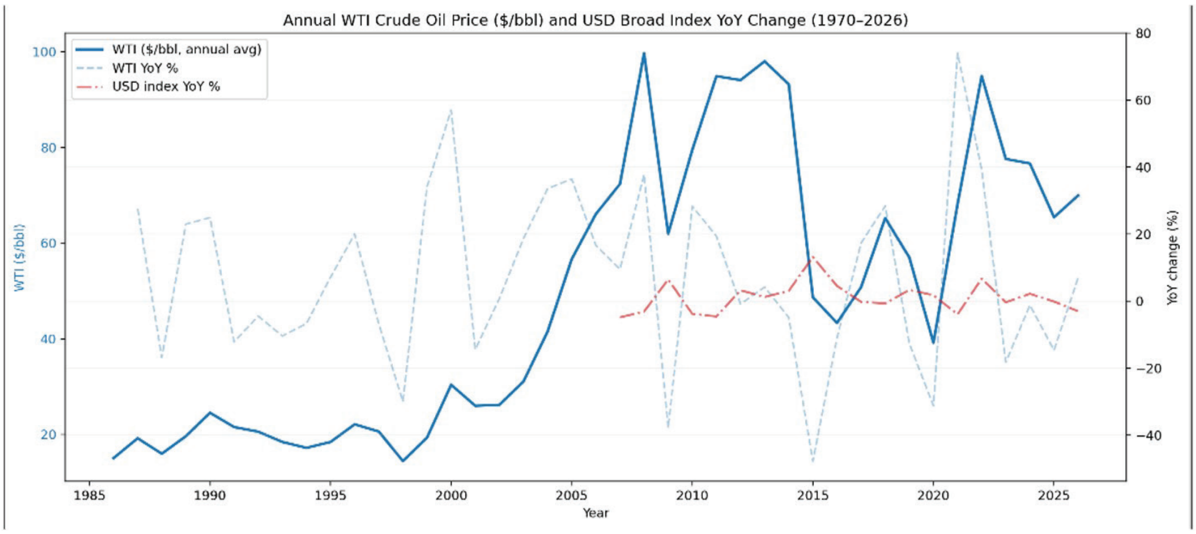


Figure.2: WTI Oil Price vs. U.S. Dollar Index (2015–2026):
Breakdown of Inverse Relationship(when it is in PDF it cant)



2. HISTORICAL EVOLUTION OF THE PETRODOLLAR SYSTEM

The development of the petrodollar system can be understood across four broad phases, each shaped by distinct geopolitical and macroeconomic conditions.

Phase 1: Formation (1970s–1980s)

Following the breakdown of Bretton Woods, the United States entered into agreements with major oil producers — anchored by the pivotal 1974 U.S.–Saudi arrangement — to ensure that oil would be priced and settled in dollars. The oil shocks of 1973 and 1979 generated massive surpluses for oil-exporting countries, which were recycled into global financial markets. While this expanded liquidity and credit globally, it also contributed to inflationary pressures, the developing-world debt crisis of the 1980s, and structural adjustment programmes (Sachs, 1989; McKinnon, 1979; Krugman, 1984).

Phase 2: Consolidation (1990s–2008)

The system became deeply institutionalised during this period. Oil-importing countries accumulated dollar reserves as a matter of prudent reserve management; oil exporters invested heavily in U.S. Treasury securities and Western equities — contributing to the so-called 'global saving glut' (Bernanke, 2005) that compressed global interest rates. The petrodollar system served as a stabilising mechanism, enabling persistent U.S. current account deficits without triggering currency crises (Caballero et al., 2008; Kilian, 2009).

Phase 3: Transformation (Post-2008)

The global financial crisis exposed structural vulnerabilities in dollar-centric intermediation. Petrodollar recycling became increasingly linked to global imbalances and financial fragility. Sovereign wealth funds from oil-exporting countries began diversifying beyond traditional U.S. assets, reshaping global capital allocation (Eichengreen, 2011, 2019). The U.S. shale revolution and declining import dependence further weakened the structural incentive to maintain the dollar-oil nexus.

Phase 4: Emerging Transition (2020–2026)

Recent years have seen accelerated experimentation with non-dollar oil trade — most visibly between China and Russia, and increasingly with Gulf producers. Declining U.S. dependence on imported oil, the global energy transition toward renewables, and the weaponisation of dollar-based financial sanctions have collectively accelerated a shift toward a fragmented, multipolar global monetary order. The increasing adoption of the Chinese yuan in oil trading — known as the 'Petroyuan' — signifies not an abrupt break but a gradual move toward monetary multipolarity.

3. STRUCTURAL SHIFTS: THE RISE OF THE PETROYUAN

3.1 Structural Drivers

The petrodollar system faces mounting challenges from several converging sources. China, as the world's largest energy importer, possesses both the capacity and the strategic incentive to encourage energy trade settlement in yuan. Western financial sanctions — particularly against Russia following the 2022 invasion of Ukraine, and against Iran — have redirected significant volumes of energy trade into non-dollar channels, with China acting as the principal alternative clearing hub. The 2024 BRICS+ expansion to include Saudi Arabia, UAE, Iran, Egypt, and Ethiopia has brought major oil producers into an institutional framework that explicitly endorses local-currency settlement (BRICS Summit, Johannesburg, 2023).

Three structural forces underpin this shift. First, geopolitical fragmentation: the use of dollar-based sanctions as a foreign policy instrument has incentivised sanctioned and sanction-averse states to develop alternative payment infrastructure. Second, China's Belt and Road Initiative (BRI) has created a network of bilateral trade and financing relationships in which yuan denomination is increasingly normalised. Third, the development of China's Cross-Border Interbank Payment System (CIPS) and the multi-CBDC mBridge platform provides functional technical infrastructure for non-SWIFT settlements.

3.2 Evidence of Petroyuan Expansion

Empirical evidence confirms a gradual but discernible shift. SWIFT data indicate that the yuan's share of global payments increased from approximately 2% in 2015 to 4–5% in 2023–24. Bilateral trade between China and Russia now settles over 80% in yuan and rubles. By 2023, approximately 20% of worldwide oil transactions were settled in currencies other than the dollar, with the Chinese renminbi and Indian rupee holding the largest non-dollar shares (BRICS Policy Review, 2025).

The mBridge multi-CBDC platform — developed in collaboration with the Bank for International Settlements, the Hong Kong Monetary Authority, the Bank of Thailand, and the UAE central bank, with Saudi Arabia subsequently joining — reached its Minimum Viable Product (MVP) stage in June 2024 and processed transactions exceeding $55 billion by November 2025 (BIS, 2025). In 2023, Brazil and China established a bilateral currency swap framework worth 150 billion yuan, eliminating dollar intermediation in their bilateral trade.

3.3 Constraints on Petroyuan Expansion

The slow pace of Petroyuan expansion reflects structural constraints rather than lack of intent. China's capital controls and limited yuan convertibility restrict the currency's global circulation — individual annual foreign exchange conversions are capped at $50,000, and foreign investor access to Chinese financial markets remains regulated. The deep global entrenchment of dollar-based oil market infrastructure — where pricing benchmarks (WTI, Brent), derivatives contracts, and financial clearing mechanisms remain dollar-denominated — creates powerful network effects that are difficult to dislodge. Furthermore, the yuan's managed exchange rate limits its appeal as a reserve asset for countries seeking freely tradable currency buffers.

The yuan's share of global FX reserves has grown from approximately 1% in 2016 to nearly 3% in 2025 (IMF COFER, 2025) — meaningful growth, but far short of the dollar's 57–58% share. Exchange rate management, capital account restrictions, and the absence of deep, liquid yuan-denominated sovereign bond markets comparable to U.S. Treasuries represent the binding constraints on yuan internationalisation for the foreseeable future.

4. MACROECONOMIC IMPLICATIONS OF THE PETROYUAN

Table 1.1: Indicators of the Global Currency Shift (USD vs. Yuan)

Indicator	USD Position (2025–26)	Yuan (RMB) Position	Trend / Implication
Global Payments Share	~40–45%	~4–5%	Yuan rising but remains secondary; dollar entrenched in trade finance
FX Reserves Share (IMF COFER)	~56–58%	~2.5–3%	Gradual diversification under way; dollar share down from 71% in 2000
China–Russia Energy Trade	Minimal	>80% (with ruble)	Strong de-dollarisation in sanctioned corridors
Trade Invoicing — Global	~50–60%	Increasing in Asia	Regional multipolarity emerging, especially Belt and Road corridors
Non-Dollar Oil Settlement	~80% of global trades	~20% non-dollar (yuan + rupee + ruble)	Growing alternative corridors; structural shift, not temporary
mBridge CBDC Transactions	N/A	>$55 billion (Nov 2025)	Functional parallel infrastructure; Saudi Arabia a participant
CIPS Annual Transactions	N/A	$12–15 trillion	Parallel to SWIFT; growing in Belt and Road economies

Source: SWIFT BI Watch (2024); IMF COFER (2025); BIS Triennial Survey (2025); BRICS Policy Review (2025)

4.1 Exchange Rates

Empirical evidence indicates a gradual shift toward a multipolar currency system, with the yuan gaining relevance alongside the dollar. The yuan's share of global payments has risen from approximately 2% (2015) to 4–5% (2023–24), while its share of global FX reserves has grown from about 1% (2016) to nearly 3% (IMF COFER, 2025). Exchange rates are no longer anchored to a single dominant currency; multiple centres of liquidity increasingly shape them. This structural multipolarity has significant implications for countries — particularly Pakistan — whose currencies have been managed almost entirely relative to the dollar.

For emerging market economies, exchange rate multipolarity introduces both opportunity and complexity. The opportunity lies in a reduced sensitivity to U.S. monetary policy cycles: historically, Federal Reserve tightening has triggered capital outflows and currency depreciation in dollar-dependent economies. A more diversified currency exposure could dampen this transmission. The complexity lies in managing multiple currency risks simultaneously — particularly for economies with both dollar-denominated debt and growing yuan-denominated trade obligations.

4.2 Interest Rates

The People's Bank of China (PBoC) maintains policy rates at significantly lower levels than those in advanced economies. The one-year Loan Prime Rate (LPR) stood at approximately 3.0% in 2025–26, and the 7-day reverse repo rate was near 1.4% (Trading Economics, 2026). China's benchmark rates have fallen from approximately 5.77% in 2014 to around 3%, reflecting a sustained easing stance aimed at supporting domestic economic activity. Unlike freely floating currencies, the yuan does not respond to interest rate differentials as the dollar does — China employs coordinated interest rate and exchange rate policy to maintain stability, limiting but not eliminating the yuan's international role.

Table 1.2: Interest Rate Dynamics — Yuan System vs. USD System

Indicator	China (Yuan System)	USD System	Implication
Policy Rate (2025–26)	~3.0% (LPR)	~4.25–4.5% (Fed funds)	Divergence reflects multiple monetary anchors globally
Short-Term Rate	~1.4% (7-day repo)	~4.5–5%	China: controlled liquidity; US: market-driven
Historical Trend	5.77% (2014) → 3.0%	Cyclical hikes and cuts	China follows gradual easing; US responds to inflation
Exchange Rate Regime	~7.1–7.3/USD (managed)	Freely floating	Stability is policy-determined, not market-revealed
IR–ER Linkage	Weak / state-managed	Strong / market-based	Limits interest rate passthrough to exchange rate
Capital Mobility	Partially controlled ($50K annual limit)	Highly open	Key constraint on yuan's reserve currency role

Source: People's Bank of China Monetary Policy Report Q4 2025; Trading Economics (2026); Federal Reserve Statistical Release.

4.3 Inflation

In the conventional dollar-focused system, global inflation is heavily influenced by U.S. monetary policy, dollar liquidity, and oil price shocks, all of which transmit rapidly to domestic prices worldwide. China has maintained inflation at an average of 1–2% over the past decade — markedly lower than the volatility observed in advanced economies, where U.S. CPI inflation exceeded 8% in 2022. The increasing use of the yuan in trade settlements — especially in energy and bilateral trade — has begun to attenuate the immediate impact of dollar fluctuations on import prices for some counterpart economies, producing a fragmentation of global inflation transmission patterns.

This has direct relevance for Pakistan. Dollar-denominated oil prices feed into domestic inflation through fuel, transport, and electricity tariff channels. A partial shift to yuan-settled energy imports would not eliminate this exposure — oil prices remain globally quoted in dollars — but could reduce conversion costs and PKR-to-USD liquidity pressures during stress episodes, providing marginal relief on the inflation passthrough mechanism.

4.4 Global Liquidity

Global liquidity has long been governed by petrodollar recycling. Although the U.S. dollar still accounts for approximately 88% of global foreign exchange transactions (BIS, 2025), its share of international reserves has declined from 71% in 2000 to around 56–58% in 2025 (IMF COFER, 2025). China's CIPS handles $12–15 trillion in transactions annually, supporting the yuan's growing influence in bilateral trade finance. The yuan-based system operates within a more administered financial environment, producing a global liquidity landscape that is increasingly less centralised and more regionally segmented — with Asia, the Middle East, and parts of Africa forming a distinct yuan liquidity zone.

4.5 Financial Markets

Global financial markets have traditionally centred on dollar-denominated assets — particularly U.S. Treasuries — as the bedrock of international collateral and safe-haven demand. China's bond market, now exceeding $20 trillion in size, ranks as the world's second-largest. The CIPS system handles $12–15 trillion in yuan-based transactions annually. However, the yuan's influence in global financial markets remains circumscribed by capital controls that prevent foreign investors from freely accessing Chinese assets. Until China meaningfully liberalises its capital account, the yuan's role as a financial-market anchor will remain limited relative to its growing role in trade settlement.

5. PAKISTAN's MACROECONOMIC EXPOSURE

Pakistan provides a clear case study of how the structural shift from petrodollar to Petroyuan affects vulnerable, energy-dependent emerging markets. As a significant oil importer with one of the most asymmetric bilateral trade deficits globally — concentrated in a single partner that is simultaneously its largest creditor — Pakistan's vulnerabilities are compounded. Its dollar-based energy costs are sensitive to both currency depreciation and U.S. monetary policy, while its yuan-denominated debt from CPEC links it to China's monetary policy irrespective of any Petroyuan engagement strategy.

5.1 Dollar Dependency and Reserve Vulnerability

Pakistan's foreign exchange reserve management remains overwhelmingly anchored to the U.S. dollar. As of early 2026, the State Bank of Pakistan holds gross reserves of approximately $11–13 billion — sufficient for less than three months of import cover — with the vast majority denominated or valued in dollars. This creates a structural feedback loop: as energy import bills rise in dollar terms, the SBP must either draw down reserves or access emergency credit lines, each option compressing the liquidity buffer available for broader macroeconomic stabilisation.

Dollar dependency manifests along three channels. First, oil is globally priced in dollars; every unit of PKR depreciation against the USD directly inflates the domestic cost of energy. Second, a significant portion of Pakistan's public external debt beyond the Chinese bilateral component is dollar-denominated, generating debt-service outflows that compete with import payments for scarce reserves. Third, Pakistan's sovereign credit ratings are sensitive to the adequacy of dollar reserves, creating a pro-cyclical dynamic in which reserve stress triggers rating downgrades, which in turn raise borrowing costs and reduce access to international capital markets. A calibrated shift toward yuan-based settlement of China-related imports — the single largest import corridor — has the potential to reduce marginal dollar demand, freeing reserves for other obligations.

5.2 Energy Import Costs and Current Account Pressure

Energy imports constitute one of the largest single components of Pakistan's import bill, encompassing crude oil, refined petroleum products, liquefied natural gas (LNG), and coal. The dollar-denominated nature of global energy pricing means that Pakistan's current account is simultaneously exposed to two volatility sources: international commodity price fluctuations and the PKR–USD exchange rate. During the 2022–23 currency crisis, the PKR depreciated sharply against the dollar, causing the effective rupee cost of energy imports to surge disproportionately — directly feeding into CPI inflation through fuel, transport, and electricity tariff channels.

CPEC energy projects — including coal-fired power plants and hydropower facilities — have added incremental domestic generation capacity but have not insulated Pakistan from global energy price volatility, given that thermal generation fuel inputs remain import-dependent. Furthermore, capacity payment obligations under CPEC's Independent Power Producer (IPP) agreements introduce a fixed-cost yuan-denominated liability that amplifies exchange rate sensitivity. Settling a proportion of energy-related imports directly in yuan — particularly those transacted with Chinese state-linked entities — could reduce PKR-to-USD-to-CNY conversion friction, providing modest but meaningful relief on transaction costs and liquidity timing. However, the dollar basis of global oil pricing means yuan settlement restructures the currency dimension of risk without eliminating the underlying price exposure.

5.3 Bilateral Debt Service and Systemic Concentration Risk

Pakistan's bilateral debt to China, estimated at $29–31 billion as of 2025, represents approximately 22–30% of total external debt (IMF, 2024; SBP, 2025). This concentration constitutes a systemic vulnerability independent of any Petroyuan considerations. Unlike multilateral creditors — which operate under transparent, rules-based debt restructuring frameworks such as the G20 Common Framework — bilateral debt renegotiation with China has historically proceeded through discrete diplomatic engagement rather than institutionalised processes, creating uncertainty around relief timelines and conditionality.

CPEC-related debt carries an average interest rate of approximately 3.7%, denominated in yuan. While this rate appears modest in absolute terms, any appreciation of the yuan against the PKR directly increases the real debt-service burden in domestic currency terms. Between July 2021 and March 2022, over 80% of Pakistan's bilateral debt-service payments were directed to Chinese creditors — a period that coincided with acute reserve stress, demonstrating how debt-service concentration amplifies the impact of any temporary disruption in liquidity. Managing this exposure requires a dual-track approach: actively deploying the SBP–PBoC swap line as a liquidity buffer for scheduled yuan-denominated debt service, while ensuring that any expansion of yuan-settled trade does not inadvertently deepen net yuan liability positions beyond what export earnings and swap-line capacity can service.

5.4 CPEC, Trade Flows, and Yuan Exposure

The China-Pakistan Economic Corridor (CPEC), with total committed investment of approximately $62 billion, represents Pakistan's largest source of bilateral infrastructure and energy financing. CPEC-related energy projects contribute substantially to Pakistan's installed generation capacity and involve yuan-denominated debt obligations. Pakistan already carries yuan exchange rate exposure even without a formal Petroyuan policy. The expansion of the SBP–PBoC currency swap line to CNY 40 billion in 2025 establishes a direct mechanism for yuan-based settlements. If deployed systematically for oil and energy payments, this could provide an estimated $3–5 billion in annual liquidity relief.

Table 1.3: Pakistan's Key Macroeconomic Vulnerability Indicators (2025–26)

Vulnerability Indicator	Latest Value / Status	Trend	Petroyuan Relevance
Gross FX Reserves (SBP)	~$11–13 billion (early 2026)	Fragile, recovering	Low reserves heighten dollar dependency; yuan swap line provides partial buffer
Import Cover	<3 months	Below threshold	Direct yuan settlement frees marginal dollar reserves for other obligations
Current Account Deficit / GDP	~1–2% (FY2025)	Narrowing but volatile	Energy-driven; yuan settlement reduces FX friction but not price risk
Energy Import Bill (annual)	~$15–18 billion	Rising	Largest single pressure point; partially addressable via yuan routing
PKR Depreciation (peak, 2022–23)	~40% against USD	Stabilised	Illustrates cost of dollar-anchored energy imports during stress episodes
External Debt / GDP	~38–42%	Elevated	Constrains fiscal space; limits capacity to absorb currency shocks
Chinese Debt / Total External Debt	~22–30% (~$29–31B)	Stable	Concentration risk; existing yuan exposure regardless of Petroyuan policy
SBP–PBoC Swap Line	CNY 40 billion (~$5.5B), expanded 2025	Expanded	Primary liquidity tool for yuan-denominated settlements and debt service

Source: IMF Country Report (2024); SBP Annual Report (2025); State Bank of Pakistan Bilateral Trade Statistics (2026) ; Authors' compilation.

5.5 Exchange Rate Dynamics

Pakistan's Real Effective Exchange Rate (REER) has fluctuated significantly, driven primarily by dollar-denominated debt payments and oil import costs. The Pakistani rupee saw a steep decline during the 2022–23 crisis and continues to face long-term depreciation pressures rooted in structural current account deficits and low export competitiveness. Moving a portion of energy transactions to yuan terms could lessen Pakistan's REER volatility in response to U.S. dollar fluctuations. Nonetheless, this advantage is contingent on yuan stability — which is policy-determined rather than market-driven. Pakistan would exchange one form of managed currency risk for another, underscoring the importance of robust hedging strategies and institutional preparedness at the SBP level.

5.6 Inflation Transmission

Oil price shocks affect Pakistan's inflation primarily through fuel, transport, and electricity tariff channels. PKR depreciation against the dollar exacerbates this impact, as global oil prices are quoted in dollars. Shifting to yuan-settled energy imports would not eliminate this exposure — the dollar basis of oil pricing persists — but could reduce conversion costs and liquidity pressures during stress episodes. The 2026 Gulf tensions have further exposed the vulnerability of dollar-dependent energy contracts: maritime disruptions can freeze dollar liquidity precisely when energy imports are most critical, creating a compound shock. Diversification of settlement currency, even partial, reduces the concentration of this vulnerability.

Table 1.4: Pakistan–China Trade and Debt Dynamics (2025–26)

Indicator	Value / Status	Trend	Implication
Pakistan Imports from China (H1 FY26)	$9.47 billion	+25.61% YoY	Dollar demand surges; yuan settlement would reduce FX drain
Pakistan Exports to China (H1 FY26)	$1.22 billion	-5.59% YoY	Structural deficit; export diversification urgently needed
Trade Deficit with China (H1 FY26)	~$8.25 billion	Widening	Dominant driver of reserve stress; largest single bilateral imbalance
Total Bilateral Trade (FY2023)	~$23 billion	Growing	China is Pakistan's largest trade partner
Pakistan External Debt to China	~$29–31 billion	~22–30% of total	Existing yuan exposure must be managed strategically
CPEC Average Interest Rate	~3.7% (fixed)	Fixed	Yuan-denominated debt service amplifies exchange rate risk
SBP–PBoC Swap Line	CNY 40B (~$5.5B)	Expanded 2025	Liquidity buffer for yuan settlements and debt service

Source: Source: State Bank of Pakistan (2026); IMF (2024); Modern Diplomacy (2025); Gulf News (2026).

6. POLICY IMPLICATIONS AND RECOMMENDATIONS

The expansion of BRICS+, the mBridge multi-CBDC platform, and China's e-CNY strategy have made the Petroyuan a practical, if partial, reality. The 2026 Gulf tensions have demonstrated that dollar-dependent energy contracts carry concentration risk that is no longer merely theoretical. The following recommendations focus on Pakistan's institutional frameworks to reduce external vulnerability in a structured and calibrated manner.

R1

Accelerate Panda Bond Issuance for Yuan Reserve Accumulation

The Ministry of Finance can accelerate the issuance of Panda Bonds — sovereign securities denominated in renminbi — to build Pakistan's yuan liquidity beyond the CNY 40 billion swap line. This demonstrates commitment to yuan settlements while creating an organic yuan reserve base. Issuance targets should be matched to China-bound import volumes to prevent unhedged yuan exposure from exceeding settlement needs. A target of CNY 15–20 billion in initial issuance over FY2026–27 is recommended, with quarterly reviews tied to import volumes.

R2

Establish a Phased CPEC Energy Settlement Target in Yuan

A joint task force between the State Bank of Pakistan and the Ministry of Energy can establish a phased target of 30–40% of CPEC energy project settlements in yuan by FY2027. This aligns the payment currency with existing yuan-denominated debt obligations, reduces cross-currency exposure, and operates within the established CIPS framework. Progress can be benchmarked against measurable reductions in dollar demand for the China import corridor, with a formal review mechanism at the Ministry of Finance level.

R3

Pursue mBridge Participation via the Virtual Assets Framework

Pakistan's Virtual Assets Bill (2026) establishes a legal framework to connect with China's e-CNY Operations Centre. The Pakistan Virtual Assets Regulatory Authority (PVARA) can prioritise cross-border interoperability with e-CNY as a strategic objective. Formal participation in the mBridge multi-CBDC platform — which had processed over $55 billion by November 2025 and includes Saudi Arabia — would enable near-instant yuan energy settlements, materially reducing the liquidity disruptions that cause fuel shortfalls during reserve stress episodes.

R4

Negotiate Partial Local-Currency Oil Agreements with Gulf Producers

Saudi Arabia's openness to non-dollar oil deals since Q4 2024, and the UAE's role as both a mBridge participant and Pakistan's largest remittance source, present a concrete opportunity. Pakistan can negotiate partial local-currency oil purchase agreements with Gulf producers, leveraging existing GCC diplomatic ties. This diversifies settlement risk beyond reliance solely on the yuan and creates a Gulf Corridor complementary to the yuan channel. The SBP can explore denominating remittance inflows and oil payments via a Gulf Corridor connected to mBridge, potentially settling in a basket of dirham, yuan, and rupee.

R5

Lead a Regional Energy Clearing House via SCO and CAREC

Pakistan can pursue the establishment of a Regional Energy Clearing House through the Shanghai Cooperation Organisation (SCO) and the Central Asia Regional Economic Cooperation (CAREC) framework, to settle intra-regional energy trade in a basket of local currencies — including the yuan, dirham, rupee, and ruble. With Russia settling over 90% of BRICS trade in national currencies in 2024, the regional infrastructure is demonstrably feasible. This would diversify settlement risk, reduce transaction costs, and position Pakistan as a strategic hub in the emerging multipolar energy payment architecture.

R6

Anchor Currency Strategy in Structural Export and Fiscal Reform

Currency diversification cannot substitute for structural reform. All five preceding recommendations will yield limited benefit unless accompanied by: (i) a clear, resourced strategy to grow Pakistan's exports to China — currently declining at 5.59% year-on-year — to generate organic yuan income and convert one-way yuan dependency into two-way trade flows; (ii) sustained domestic revenue mobilisation to ease fiscal deficit pressure on the current account; (iii) energy efficiency improvements and demand-side management to reduce oil import volumes regardless of settlement currency; and (iv) robust REER hedging instruments to prevent the substitution of CNY for USD as the dominant source of exchange rate volatility. A target of 20–30% of energy trade settled in yuan by 2027 is feasible — but must be explicitly conditioned on export-side progress to prevent a deepening of the structural Pakistan–China asymmetry.

CONCLUSION

The shift from petrodollar to Petroyuan marks a structural evolution in the global monetary order rather than an abrupt systemic rupture. Three principal uncertainties shape the trajectory of this transition. First, the pace of de-dollarisation remains contested: dollar reserves have declined from 71% in 2000 to approximately 57–58% in 2025, but dollar dominance in trade invoicing, financial contracting, and safe-haven demand may persist for decades. Second, the long-term macroeconomic impact of the global energy transition — as renewable energy progressively displaces hydrocarbons — will fundamentally alter the petrodollar flows that have underpinned global liquidity since the 1970s, creating new structural uncertainties. Third, the stability of a genuinely multipolar currency system faces coordination risks, increased exchange rate volatility across corridors, and institutional gaps that existing multilateral bodies — the IMF, BIS, World Bank — were not designed to manage.

Pakistan faces urgent yet nuanced challenges within this transition. Its $8.25 billion trade deficit with China in H1 FY2025–26, $29–31 billion in bilateral debt, and declining export performance together argue for a managed engagement with yuan settlement. Yet the structural asymmetry of this relationship demands caution: strategic yuan engagement must be paired with equally serious export promotion, fiscal consolidation, and reserve diversification. The multipolar landscape — encompassing mBridge, BRICS Pay, Gulf currency corridors, and India's rupee-oil model — affords Pakistan a range of options beyond a binary dollar-yuan choice.

The emerging global monetary landscape will be characterised not by the replacement of one dominant system with another, but by the coexistence of multiple, intersecting currency and payment regimes. Multipolarity may reduce reliance on any single currency, but it demands enhanced policy coordination, institutional resilience, and strategic adaptability. For Pakistan, macroeconomic stability will no longer be an inherent feature of the international system — it must be proactively constructed through deliberate policy choices made now, while the architecture of the new order is still being determined.

The payment infrastructure built today is the foundation for economic security and sustainability tomorrow.

NOTES

Geopolitics and the Petroyuan

Geopolitics has been central to both the push for and the structural limits on the rise of the Petroyuan. China actively uses energy trade partnerships — particularly with Russia and Iran — and Belt and Road Initiative linkages to advance yuan adoption in trade settlement. U.S. sanctions on Russia and Iran have incentivised those states to accept yuan for oil exports and to reduce reliance on dollar-clearing systems. However, the Petroyuan remains largely confined to politically aligned or sanctioned states and their immediate trading partners, limiting its systemic reach. The critical test of yuan internationalisation will be whether major non-sanctioned oil exporters — particularly Saudi Arabia — make a sustained structural commitment to yuan pricing.

China's Capital Controls

Capital controls are government-imposed restrictions on cross-border financial flows. China limits individual annual foreign exchange conversions to $50,000, requires regulatory approval for large outbound transfers, and restricts foreign investor access to Chinese financial markets through controlled channels (QFII, Bond Connect, Stock Connect). These controls maintain domestic financial stability and preserve the PBoC's monetary policy autonomy, but they structurally constrain the yuan's role as a freely usable international reserve currency. Without meaningful capital account liberalisation — which carries its own domestic financial stability risks — the yuan's reserve share is likely to grow only gradually.

mBridge Platform

mBridge is a cross-border digital payments platform developed by the Bank for International Settlements Innovation Hub with the central banks of China, Hong Kong, Thailand, and the UAE — later joined by Saudi Arabia — to enable direct transactions using central bank digital currencies (CBDCs) without relying on SWIFT. It reached its Minimum Viable Product stage in June 2024 and had processed over $55 billion in transactions by November 2025 (BIS, 2025). For Pakistan, participation in mBridge would provide direct access to real-time, low-cost yuan settlement infrastructure, reducing both transaction costs and the dollar liquidity bottlenecks associated with conventional SWIFT-routed payments.

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During the preparation of this work, the author used Artificial Intelligence (AI) tools to improve grammar, sentence structure, clarity, and readability. After using the AI tool, the author reviewed and edited the content as necessary and takes full responsibility for the originality, accuracy, and integrity of the final content. The research idea, conceptualisation, methodology, empirical analysis, interpretation of results, and conclusions are entirely the author's own.

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