

2026-6-25

china

WSJ Print Edition

A petrochemical industrial park of Hengli Group in northeastern China in 2024.



Two tankers made a transfer of Iranian oil off the Malaysian coast last year. CHARLIE BROWN/ UNITED AGAINST NUCLEAR IRAN/ AP

China Is Building Up the Yuan, Hobbling Western Sanctions

Iran and Russia have used the currency to carry out oil sales and other trade, evading controls on dollar transactions

By Rory Jones, Austin Ramzy and Costas Paris

The White House has entered talks with Iran over a new nuclear deal, relying on a traditional strength: the promise of sanctions relief and access to some of roughly \$100 billion in frozen assets.

Yet, that leverage is waning. Tehran has blunted the U.S. sanctions campaign in recent years by successfully using China's financial architecture—built on the yuan—that operates beyond Washington's reach.

The shift was evident in late April when the U.S. escalated its “Economic Fury” campaign against Iran, sanctioning a major Chinese refinery it said bought billions of dollars’ worth of Iranian oil. The refiner, Hengli Petrochemical, said its supplier had guaranteed the oil wasn’t Iranian.

But it also put the U.S. on notice. Future oil purchases, Hengli said, would be settled in

yuan instead of U.S. dollars, the energy market’s main currency—making it harder for outsiders to track the flows.

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It was the latest sign of a troubling new development for Washington. More of the world's illicit activity to evade sanctions is being handled in yuan, as China builds an alternative financial system aimed at weakening Washington's power to dictate world affairs.

The dominance of the U.S. dollar, currently used in roughly 80% of international trade finance, has historically given Washington a big advantage in policing global business. Most international transactions denominated in U.S. dollars must be settled by American banks, giving Washington the ability to monitor them—and cut off users' dollars if necessary, crippling their operations.

But when U.S. adversaries use yuan to run their businesses, the transactions don't enter the U.S.-led banking system, neutering Washington's powers.

The U.S. has cleared the way for Iran to resume its oil sales, and even be paid in dollars, during the negotiation period. But even under U.S. sanctions meant to block the sales, Iran earned up to \$43 billion in oil revenue in 2024, before accounting for unspecified discounts, according to the U.S. Energy Information Administration. The discounts vary but in 2025 averaged about 13%, according to U.S. lawmakers. Most of the sales were paid for in yuan, according to the U.S. Treasury.

Tehran uses the money to buy Chinese car parts, solar panels and other goods and services, as well as dual-use inputs—materials purportedly for civilian use that could also be used for weapons—all beyond U.S. jurisdiction.

Boats seeking safe passage through the Strait of Hormuz during the conflict were told to pay Tehran in yuan or cryptocurrencies, which are also hard for Washington to control. Iranian and Chinese partners have set up secretive intermediaries and front companies in Hong Kong and elsewhere to help facilitate more trade in yuan, Treasury officials say.

CIPS system

Some of the transactions are settled on China's Cross-Border Interbank Payment System, or CIPS, a yuan-denominated alternative to the Swift messaging network. It was set up by China in 2015 and can't easily be monitored by the U.S.

Although still small, volume on the network jumped after the U.S.-Iran conflict started. It has averaged roughly 790 billion yuan, or around \$115 billion, a day in the three months since the end of February, according to the Atlantic Council think tank, compared with a daily average of 680 billion yuan, or around \$100 billion, last year.

The Belgium-based Swift messaging network is immensely larger, facilitating an estimated more than \$5 trillion a day, including some messages that move across CIPS. But the fast expansion of CIPS activity means it is becoming a more global system, the Atlantic Council says.

A similar pattern played out with Russia when its war in Ukraine started in February 2022. After the U.S. tightened sanctions, more Russian oil exports and other trade with China were settled in yuan. Total daily transactions on CIPS have doubled and the number of financial institutions operating on the platform has more than doubled from the beginning of the war to mid-2025, according to Chinese central bank data and CIPS.

Today, Russian officials say more than 90% of trade between Russia and China is settled in yuan and Russian rubles. A total prewar figure couldn't be determined, but for comparison, the yuan was used in 2% of Russian trade in February 2022, according to the Centre for Eastern Studies, a Polish think tank.

Overall, the yuan's share of global trade finance tripled over the past five years to 6% in April, according to data from Swift. It has been the second most-used currency in such financing for most of this year, ahead of the euro and behind the dollar.

About half of China's crossborder transactions are now denominated in its own currency, compared with almost nothing 15 years ago, according to Chinese central bank data.

China also is rapidly expanding a program launched in 2021 called mBridge, a platform that uses digital versions of the yuan and other currencies to execute cross-border payments, settled between central banks without the money passing through U.S. financial institutions.

All the yuan-based systems “make it easier to work around U.S. sanctions,” said Josh Lipsky, a former International Monetary Fund staffer now at the Atlantic Council. “They cloud the U.S. intelligence community’s ability to see financial flows.”

China’s Foreign Ministry in a statement said it was “unaware of the situation” regarding oil trade between China and Iran. The two countries’ relations “have always been conducted within the framework of international law,” it said.

China has no intention of fully replacing the dollar with the yuan worldwide. A more dramatic increase in global yuan adoption would require Beijing to make painful changes to its economy, such as giving up capital controls and allowing its currency to freely float, which could spark capital flight and destabilize the country.

Beijing’s goal instead is to build up specific lanes of trade that work outside the U.S. dollar. The push is driven in part by Beijing’s desire to undermine U.S. authority and assist its allies, former Treasury officials say. China says it rejects sanctions imposed by the U.S.

Beijing also hopes to insulate China from the type of economic assault that the U.S. and other Western nations have launched on Iran and Russia, and would also likely unleash if Beijing ever made a move on Taiwan.

Global finance is evolving into a system where “a few sovereign currencies coexist and compete,” said China’s central bank chief, Pan Gongsheng, in a speech last summer. Change from a dollar-centered world is required, because “in times of geopolitical tensions, national security concerns, or even wars, the global dominant currency tends to be instrumentalized or weaponized,” he said.

Sanctions still give the U.S. leverage over Tehran. The measures have increased the cost of selling Iranian oil and disrupted the regime’s access to those revenues. Iran’s economy has suffered under U.S. sanctions, and a long-term deal could free up billions in much-needed frozen assets for the Iranian regime.

The nuclear-deal talks have already proved bumpy, and the outcome is uncertain. Iran “has the ability to play for time, to obfuscate, to make trouble,” said Steve Yates, a former White House national security official. But, “it has been profoundly degraded militarily, it has been profoundly degraded economically.”

Iran-China pact

China began taking steps to use the yuan for more international financial transactions after the 2008 global financial crisis.

China’s yearslong trade surplus meant it had accumulated some \$2 trillion in foreign reserves, much of it in U.S. dollars. Beijing leaders were increasingly concerned that China’s savings were at the whim of the U.S. government and Federal Reserve, whose decisions could weaken the value of China’s holdings or, in a crisis, cut the country off from dollars more broadly.

Beijing began using its excess dollars to make loans in the developing world, boosting its clout. It then began offering yuan-denominated swap lines via its central bank to indebted countries, effectively making China a lender of last resort to poorer nations.

Then, Beijing introduced CIPS in 2015 to help internationalize the yuan. Three years later, it launched yuan-denominated oil contracts traded in Shanghai. That allowed China to settle oil it buys in yuan.

China also successfully began encouraging global firms, including U.S. banks, to issue bonds in its currency.

China’s yuan efforts were still young when the first Trump administration in 2018 launched a campaign to cut Iranian oil exports to zero and force Iran to negotiate over its nuclear program and support for militias across the Middle East. Iran’s sales collapsed as countries, fearful of U.S. penalties, stopped buying. Tehran turned to Beijing. The two sides

signed a 25-year strategic pact in March 2021 to deepen economic and security ties. A draft published in Iranian media noted Iran would trade oil for Chinese investments in ports, railroads and other infrastructure.

Still, Beijing was wary that buying Iranian oil exposed Chinese companies to the risk of being banned from the U.S.-dollar-led financial system. Iran worked with customers in China to set up a clandestine system for oil purchases, Treasury officials say, giving Beijing plausible deniability about its purchases of sanctioned oil.

Iran's military, including the Islamic Revolutionary Guard Corps, set up covert trading units, which in turn established hundreds of shell companies to work with middlemen to sell to Chinese refiners and disguise the origin of the crude. The effort included the expansion of a shadow fleet of tankers to move sanctioned oil between Iran and China in ways that disguise the oil's origin, such as by switching off the ships' location devices.

Although Iran priced its oil sales in dollars, Treasury officials say the transactions with Chinese buyers were mostly settled in yuan. By the end of 2022, China had become Tehran's financial lifeline, buying more than 90% of its crude, according to U.S. lawmakers.

Instead of transferring yuan payments to Iran, Chinese oil buyers would park the money with an entity known as Chuxin, The Wall Street Journal has previously reported. Chuxin would then deliver the funds to Chinese contractors that perform engineering work in Iran on projects such as airports and refineries.

Another way involved moving yuan-denominated payments from Chinese refiners through a special-purpose-vehicle to Chinese exporters, who then transport goods such as automotive parts to Iran, current and former Western officials say.

Some Iranian oil sales still involve dollars. Iran has established a network of exchange houses and quasi banks, known as rahbars, that control front companies in Hong Kong, the U.A.E. and Turkey, according to Treasury officials. These companies set up accounts at Chinese banks to pay for goods in China and also to convert oil payments from yuan into dollars and euros, Treasury and other officials say.

Typically, the money moves through small Chinese financial institutions. That helps shield China's larger banks, which are more deeply enmeshed in the global financial system, from any penalties if the transactions raise red flags.

Still, the amount involving dollars is small compared with the overall Iran-China oil trade. Treasury says that front companies linked to Iran moved nearly \$4 billion, or around 10% of Iran's estimated 2024 oil sales, through the U.S. financial system in 2024 by using Chinese bank accounts in Hong Kong.

"The bulk of this money is just staying in China," said Kerri Bitsoff, a former Treasury official.

China's mBridge platform, launched in 2021, began as a collaboration involving the Switzerland-based Bank for International Settlements, China, the U.A.E., Thailand and Hong Kong. Saudi Arabia, China's biggest oil-trading partner, later joined. The system employs some elements of cryptocurrencies but is controlled by governments. The platform, which uses blockchain technology for commercial banks to transfer digital versions of the yuan and other currencies for their customers, was initially designed as a way of settling international transactions instantly, which would be faster than the current Swiftbased system.

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