

Opinion **Currencies**

Why sinodollars outweigh the petroyuan

China's currency is becoming a more important part of the global financial system but the dollar is still in control

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Published YESTERDAY

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A “petrodollar” carries a certain sense of power. Combine oil, a commodity few have but all need, with the dollar, currency of the world’s most powerful country, and you have a monetary force to reckon with. It is no surprise, therefore, that talk of the replacement of these dollars by a Chinese “petroyuan”, as a result of the US-Israel war on Iran, has prompted a sense of unease about fundamental changes in the balance of economic and political power.

China's currency is slowly becoming a bigger part of the global financial system. Yet for now, it lacks a fundamental aspect of what made the petrodollar so important, and remains far from threatening the US currency's role as a reserve asset. That is because China's economic model depends on its own relentless accumulation of dollar assets and it is these "sinodollars", not any kind of petro-currency, that dominate finance today.

The petrodollar, as an idea, is often traced back to a 1974 deal struck by Henry Kissinger with Saudi Arabia in the wake of the first oil shock and the abandonment of the dollar's link to gold. Kissinger was then secretary of state to US President Richard Nixon. The essence of his deal was that the Saudis would sell their oil for dollars and the US would provide security guarantees in return. Smaller buyers and sellers of oil followed suit.

That basic bargain held for around 50 years. Now it is under question. China wants to buy oil in its own currency, the yuan, and has been building out the infrastructure to do so, such as its own cross-border payment system, Cips. Russia, under heavy sanctions, is agreeable. Iran, too, would rather not sell oil in the currency of its enemy. The US, replete with domestic shale oil, is no longer a net importer and so the currency it wants to pay is no longer an issue. Hence the rise of a "petroyuan".

What mattered about Kissinger's deal, however, was less the use of dollars to pay for oil than the implicit agreement that the Saudis would hold on to the dollars so earned. It was the reinvestment of these Middle Eastern dollars that created the flood of international dollar liquidity that began in the 1970s and continues to this day: dollars to finance aircraft, to finance trade, to finance nations. A petrodollar is best thought of not as a dollar handed over to buy a barrel of oil, but as a dollar of oil profits in search of a home.

The same conditions do not exist today for a petroyuan. Russia promptly turns the yuan it earns from selling oil to China into imports of drones and all-terrain vehicles. To rebuild, Iran will need to spend every dollar or yuan it can earn on imports. Gulf oil producers no longer have such huge trade surpluses either, and so any yuan they earn is most likely to be spent on imports from China. This is a good backdrop to increase the use of the yuan in trade settlements, which is happening fast, but not to create a pool of offshore petroyuan. Yuan settlement of China's goods trade reached a record high of 33.5 per cent of the total in March-April 2026, according to People's Bank of China data reported by Citi.

To the extent that Gulf investors do end up with surplus yuan, they will struggle to deploy them. China is glutted with domestic savings. Bond yields are low and China's onshore financial markets are hard to access anyway because of capital controls. Issuance of so-called dim sum bonds, which allow offshore borrowing and lending in yuan, has risen rapidly but the market is not yet deep or liquid.

The modern equivalent of petrodollars from Saudi Arabia is not the earnings of oil exporters. Rather, it is dollars earned from the massive trade surpluses of east Asian manufacturers such as China, South Korea and Taiwan, which must be recycled back into the global financial system at a pace of more than \$1tn a year. Maintaining such a surplus is central to the economic model of these countries. The supply of these "sinodollars" dwarfs any plausible volume of petroyuan.

The so-called Triffin dilemma or paradox, named after the economist Robert Triffin, says that the only way to provide a reserve currency is to run a trade deficit, which will undermine the currency's status as a safe reserve. The US continues to do so nonetheless. What is wildly implausible is for China to supply a reserve asset while running a massive trade surplus.

China's sinodollars shape the global financial system just as petrodollars did in the 1970s.

One of the main influences on the price of gold, for example, has been China building up its bullion reserves in exchange for its dollars. The accumulated and unremitted dollar earnings of Chinese exporters slosh around international banks. For the US, buying the goods of the world and paying for them with dollar deposits, Treasury bills and SpaceX stock at a \$2tn valuation is still a pretty good deal.

“Who controls money can control the world” is a quote often attributed to Kissinger, although there is no evidence he ever said it, and it seems unlikely a man so familiar with hard power would believe it. What is true is that there is little sign of the dollar losing control of the global financial system. For as long as China is determined to maintain its trade surplus and its capital controls, no amount of payments in yuan, whether for oil or anything else, will change that reality.

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