PRINCETON Sovereign Finance Lab

Currency Shift, Legal Continuity: Dispute Resolution in RMB Sovereign Bonds

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Image source: China-Pakistan Economic Corridor

Summary: *The growing use of RMB-denominated debt instruments has not been accompanied by a similar level of diffusion of Chinese dispute settlement institutions. In practice, the designation of Chinese arbitral centers for sovereign bond disputes is confined to panda bonds sold to China-based investors. As a result, RMB-denominated sovereign bonds do not yet pose a systemic challenge to the dominance of New York and London in sovereign debt litigation. While RMB internationalization is advancing, legal authority in sovereign debt remains path dependent and resistant to institutional displacement. The development of RMB bond markets therefore reflects a shift in the currency of issuance rather than in the underlying legal and institutional framework, and is better understood as complementary to, rather than substitutes for, the existing sovereign bond infrastructure.*

China's push to internationalize the renminbi (RMB, or yuan) since 2008 has contributed to a growing (albeit still small) share of RMB-denominated bonds in the international bond market. So-called "panda bonds" are onshore RMB debt, issued in China by entities domiciled outside mainland China. Overseas issuers use the panda bond market to raise capital, with domestic Chinese investors as the main buyers. "Dim sum bonds" are RMB-denominated bonds issued and settled outside mainland China, mainly in Hong Kong, and are typically held by offshore investors. Dim sum bond issuance tripled over the past three years, totaling RMB 475 billion

($66.3 billion) by August 2025. Panda bond issuance also has surged since 2023 due to China's regulatory reforms and cheaper funding costs, hitting a record high of RMB 195 billion ($27 billion) in 2024.

Figures 1 and 2 summarize recent trends in panda and dim sum bond issuance, including both sovereign and corporate/financial offerings. The dim sum bond market is currently larger than that for panda bonds. Panda bond issuers are predominantly corporates, while there are significant dim sum bond issuances by financial institutions. Dim sum bond listings are more aligned with global norms, offering a potentially more streamlined process for issuers familiar with international markets. Despite these differences, both dim sum bonds and panda bonds play important roles in RMB internationalization and provide options for issuers and investors. The average coupon rate for offshore RMB debt issued last year was 1.83 per cent, compared with 4.99 per cent for dollar debt.

Figure 1. Dim sum bond issuance trend from 2014 to 2025. Source: Financial Times.

Foreign governments have tapped into the growing RMB bond market. In December 2025, Russia issued RMB 20 billion (approximately $2.8 billion) of government bonds listed in the Moscow Exchange. Hungary issued an RMB 5 billion panda bond in September 2025, and the emirate of Sharjah issued an RMB 2 billion panda bond in October 2025. Brazil, Pakistan, and Slovenia also have stated recently that they were planning to issue RMB bonds. Kenya, Angola, and Sri Lanka also made deals to refinance dollar loans from Chinese banks into RMB last year.

Figure 2. Panda bond issuance trend from 2015 to 2025. Source: Financial Times.

As sovereign borrowers experiment with RMB-denominated debt, questions have emerged about whether China is also building an alternative legal infrastructure for sovereign finance—one that could challenge the dominance of New York and London courts and arbitral tribunals. Thus far, however, the diffusion of RMB-denominated debt instruments has not been accompanied by a similar level of growth in the use of Chinese dispute settlement institutions. The dispute resolution clause in a bond prospectus or offering document specifies the governing law and forum for adjudicating potential disputes: while panda bonds embed dispute resolution clauses that shy away from New York and London courts and favor Chinese courts and arbitral centers, dim sum bonds still predominantly align with the standardized practice of choosing New York or London courts and arbitral institutions.[1]

As a result, RMB-denominated sovereign bonds do not yet pose a systemic challenge to the dominance of New York and London in sovereign debt litigation. At the same time, the localization of governing law and forum in panda bonds reflects the Chinese government's effort to absorb sovereign debt disputes into the domestic legal order and to internalize the mechanisms of capital markets enforcement.

The Rise of RMB Bonds

The increase in sovereign borrowers' issuance of dim sum bonds and panda bonds reflects both China's efforts at RMB internationalization and borrowing governments' preferences regarding

[1] Although some dim sum bonds designate Hong Kong or Singaporean courts and arbitral centers, they do not represent a departure from the prevailing Anglo-American legal infrastructure of sovereign debt. Hong Kong and Singapore operate within the same common law tradition.

borrowing. China has taken steps to increase the use of RMB globally. It has persuaded some of its emerging market trading partners to use the RMB for invoicing or trade and investment settlement. According to Chinese customs data, about 30 percent of China's trade and more than half of its cross-border transactions are now settled in RMB, up from 14 percent in 2019 and less than one percent in 2010. In addition, China has encouraged foreign central banks to hold RMB reserves. It has also set up currency swap lines with 32 central banks around the world, including Argentina, Belarus, and Iceland. With respect to RMB-denominated bonds, China has implemented regulatory reforms that streamline issuance processes, clarify the use of proceeds, and facilitate foreign exchange hedging. The secondary market for panda bonds is characterized by high liquidity, allowing investors to buy and sell the bonds relatively easily after the initial issuance.

For borrowing governments, RMB-denominated issuances offer an alternative to dollar-denominated borrowing. While many governments have increased their use of domestic (versus external) debt instruments, foreign currency borrowing remains attractive to many issuers. Governments may be unwilling or unable to pay the higher interest rates associated with domestic debt, and some may even prefer the discipline imposed by foreign currency borrowing. In recent years, RMB-denominated bonds often have offered lower financing costs than dollar-denominated instruments. Since 2022, China's ten-year government bond yield has consistently been lower than the United States', with the gap steadily widening. This reflects changes in the US financial environment, as well as the People's Bank of China (PBoC)'s interest rate cuts and reduced bank reserve requirements. RMB-denominated bonds can lower governments' financing costs. These bonds also offer a means of diversifying sovereigns' investor base, attracting funding from China's domestic capital markets.

Due in part to China's growing economic role and the benefits it provides to its economically and politically-aligned partners, the increasing popularity of RMB-denominated bonds also evidences some emerging economies' ambivalence and grievances about a US-led global economic order. To the extent that governments are frustrated with the Bretton Woods financial institutions, they may be more willing to follow China's lead in global finance. More broadly, especially given the United States' recent actions regarding trade and interstate cooperation, the dominance of the US dollar is under threat. As the United States has intensified its use of financial sanctions to gain leverage, targeted economies and would-be targets are investing in building durable alternative financial infrastructures outside of dollar channels, including China's RMB settlement system (CIPS). Indeed, the CIPS has grown into a "partial SWIFT alternative" connecting more than 4,900 institutions in 187 jurisdictions.

Decoupling from US-led financial structures—and by implication, from the use of the dollar in international transactions—is facilitated by the emergence of China-led economic institutions. China's financial internationalization is a form of institutional and monetary statecraft rather than simple market expansion. As Beijing promotes the use of its currency in international trade and finance, it seeks to gain global influence and reduce dependence on the dollar amid rising US-China tension. To defend against the United States' attempt to weaponize the dollar, China has opened more channels for foreign investors to buy RMB-denominated bonds, and has

focused on boosting RMB's role in trade. The Cross-Border Interbank Payment System, established by China in 2015, represents a collective effort of BRICS countries to reduce their reliance on the dollar. Nonetheless, international RMB use still lags far behind the US dollar, and its use in global trade settlement remains low.

In October 2014, the UK government issued the first non-Chinese sovereign offshore RMB bond. Hungary followed in April 2016, becoming the first continental European sovereign issuer to issue an RMB bond. The Development Bank of Kazakhstan (DBK) sold an RMB 2 billion offshore bond in September 2025 under its Medium Term Note Program. Indonesia raised RMB 6 billion through its first-ever dim sum bond in October 2025. A search on the financial market database, Cbonds, shows that non-Chinese sovereign issuers of RMB-denominated bonds include: Belarus, Canada, Egypt, Hungary, Indonesia, Mongolia, Philippines, Poland, Russia, and the United Kingdom. The Cbonds database lists twenty-one RMB-denominated, non-Chinese sovereign bonds offered by ten sovereign issuers as of the end of 2025, totaling RMB 60,915,000,000, including those already redeemed and those still outstanding.

Dispute Resolution in RMB Bond Issuances

As sovereign borrowers increasingly tap RMB markets, shifting away from dollar-denominated issuances, a key question is whether the legal infrastructure governing the bonds is also shifting away from Western courts and arbitral centers. Dispute resolution provisions in bond prospectuses and offering documents determine where and how potential legal disputes may be brought against issuers. These provisions define the range of procedural tools (e.g., discovery and summary judgment) and remedies (e.g., *pari passu* injunctions) available to bondholders. While not all of the prospectuses and offering documents for the RMB-denominated sovereign bond transactions—which include a mix of panda bonds and dim sum bonds—are publicly available, the four available[2] suggest that panda bonds tend to choose arbitral centers in China as the forums, while dim sum bonds opt for New York or English courts.

This dichotomy is reasonable because panda bonds are issued within the domestic Chinese market, and Chinese investors are more familiar with and proximate to Chinese forums. Studies examining a broader sample of RMB bond offering documents from ChinaMoney, a restricted-access database maintained by the China Foreign Exchange Trade System, suggest that dispute resolution for panda bonds is based on the "Chinese model," whereby Chinese law is the governing law for the bonds, and arbitration in China is the mechanism for dispute resolution. The China International Economic and Trade Arbitration Commission, or CIETAC, is usually chosen as the arbitral tribunal. In contrast, dim sum bonds are offered to international investors

[2] While this sample is small, covering three non-Chinese sovereign issuers, Tang (2019) examines the RMB bond offerings of four additional sovereigns. Taken together, seven out of the ten foreign sovereigns that have issued RMB bonds are accounted for, which helps mitigate concerns about the limited sample size. Moreover, dispute resolution clauses in a given sovereign issuer's offering documents tend to be highly standardized and stable across issuances over time, reducing the likelihood that unobserved prospectuses would exhibit systematically different forum choices.

and align with market standards, which predominately adopt common-law templates opting for New York or English law, with dispute settlement outside mainland China.

The 2024 panda bond manual published by China's National Association of Financial Markets Institutional Investors (NAFMII) notes that, where arbitration is the dispute resolution mechanism, "it shall be clearly stated that disputes will be submitted to an arbitral tribunal within the People's Republic of China; where the enterprise chooses litigation as the dispute resolution mechanism, the enterprise shall clearly state that the disputes will be submitted to a court within the People's Republic of China." An IMF publication also notes that when a dispute arises in a panda bond transaction, it is arbitrated in China by default, where Chinese arbitration rules and related judicial procedures apply. Similarly, a 2019 Baker McKenzie report suggests that based on panda bond issuance precedents, Chinese regulators usually require that the offering and transaction documents for panda bond issuances be governed by Chinese law, and the parties usually agree to submit relevant disputes to the CIETAC.

Egypt's 2023 panda bonds, guaranteed by the Asian Infrastructure Investment Bank and African Development Bank, are governed by Chinese law and provide that disputes "arising from or in connection with the Bonds and/or Guarantee shall be submitted to CIETAC for arbitration to be conducted with the CIETAC Arbitration Rules." This provision deviates from the standardized choice of forum clauses choosing New York or London courts, or arbitration at the London Court of International Arbitration (LCIA) or the International Chamber of Commerce (ICC). Poland, Hungary, and the Philippines have all incorporated arbitration clauses designating CIETAC in their offering circulars for panda bonds. In contrast, Indonesia's 2024 dim sum bonds (CNY 3.5 billion 2.50% bonds due 2030 and CNY 2.5 billion 2.90% bonds due 2035) are governed by New York law, with the choice of forum clause choosing New York courts. Mongolia's 2015 dim sum bonds, issued under its Global Medium Term Note Program, are governed by New York law, with the choice of forum clause choosing the Singapore International Arbitration Centre (SIAC), which operates within a common law procedural ecosystem.

China's new sovereign immunity law marks an important development in dispute settlement for panda bonds. In January 2024, the Foreign State Immunity Law (FSIL) came into effect in China, representing a change in China's foreign state immunity doctrine from absolute immunity to restrictive immunity, which had already been adopted by many jurisdictions. The FSIL allows foreign countries to be sued in Chinese courts in relation to their commercial activities, permitting parties to enforce judgments against foreign states' commercial assets. Foreign states are no longer immune from suit in arbitration-related court proceedings that arise out of commercial activities or investment disputes. China's adoption of the restrictive immunity doctrine has broadened the scope of actions and proceedings against foreign states with respect to their commercial transactions. With the rising popularity of RMB bonds, the FSIL grants Chinese bondholders more leverage to litigate against foreign sovereign issuers. By enhancing the justiciability and enforceability of bondholder claims against foreign sovereigns, the FSIL has increased the practical significance of dispute resolution design in RMB bonds.

The localization of forum choice is not unique to panda bond contracts but extends to China's sovereign lending practices more broadly. Indeed, the designation of the CIETAC as the choice of forum extends to Chinese loans to sovereigns, such as those made by the Export-Import Bank of China (China ExIm) and the China Development Bank (CDB) Corporation. The China ExIm generally insists on its domestic governing law and dispute resolution in China (generally at the CIETAC). For example, the 2015 Buyer Credit Loan Agreement between Kenya and the China ExIm was governed by Chinese law, with dispute resolution at the CIETAC. Similarly, the 2014 Preferential Buyer Credit Loan Agreement between Kenya and the China ExIm is governed by Chinese law with dispute resolution at the CIETAC.

Nonetheless, as with dim sum bonds, some of the Chinese loan agreements depart from this practice, including some involving the China ExIm (such as the 2014 Buyer Credit Loan Agreement with Ecuador, governed by English law, with dispute resolution at the LCIA). With respect to CDB lending, Gelpern et al. (2021) note that it largely follows the practice of selecting non-China-based arbitral institutions such as the LCIA and the ICC. The 2016 Facility Agreement between Ecuador and CDB Corporation was governed by English law (the finance documents, other than the settlement account agreement) and Chinese law (the settlement account agreement), with dispute resolution at the LCIA.

The Political Nature of Legal Choices

The legal choices of designating dispute resolution in Chinese courts and arbitral institutions are not merely technical—but inherently political. The determination of where litigants can sue carries downstream distributional consequences through defining the range of legal mobilization strategies available to litigants. As initially noted by Zemans (1983), legal mobilization is a form of political participation: dispute settlement determinations shape who can credibly challenge the state regarding its commercial activities, and under which conditions. In other words, from an international political economy perspective, the legal design choices surrounding dispute settlement shape the distribution of power between creditors, sovereign borrowers, and adjudicatory institutions; they also affect restructuring and default by determining the number of options available to issuers and bondholders.

Since panda bonds cater to Chinese domestic investors, keeping potential disputes arising from these bonds within the Chinese domestic legal system allows China to internalize capital markets enforcement. It is rare for onshore sovereign bonds to be governed by foreign law, with dispute settlement in foreign courts and tribunals. Not only does the choice of foreign courts and arbitral institutions symbolize subordination to foreign judicial authority, but it may also lead to legal precedent-building that would be adverse to Chinese interests. Indeed, New York

and English courts and arbitral institutions generally publicize case decisions and adopt a system of *stare decisis* (i.e., the use of prior rulings as binding or persuasive authority).[3]

In contrast, it does not appear to be the case that arbitration in Chinese forums facilitates a similar level of precedent-building. Disputes could therefore be kept isolated from one another, preventing any given case from gradually reshaping the entire landscape of sovereign bond jurisprudence. In addition, unlike litigation in New York or English courts, arbitration in China is a "binding, nonjudicial, and private means" of settling disputes. Arbitration takes place in a relatively neutral, private, confidential, and technical forum, shielding disputes and case progress from public scrutiny. The specialized nature of arbitration may also allow for more efficient and flexible dispute resolution. The more private nature of arbitration fits well with China's longstanding international legal posture, characterized by its caution about submission to foreign jurisdiction.

Nonetheless, the alignment of dim sum bonds with the standardized practice of designating New York or English courts and arbitral bodies is undergirded partly by the pressures of international investor perception and preferences, and partly by China's growing receptivity to foreign jurisdiction—a trend in line with the amendment of its sovereign immunity law discussed earlier.

A Threat to New York and London Dominance in Sovereign Bond Litigation?

Arbitration at the CIETAC differs from arbitration at the LCIA (commonly chosen in English law governed bonds allowing for arbitration) in several regards: the CIETAC requires greater institutional oversight regarding draft awards, whereas the LCIA allows for greater party autonomy with less direct intervention. The CIETAC uses *ad valorem* fees and requires full payment upfront, while the LCIA uses time-based or hourly rates. At the CIETAC, arbitration costs are in principle borne by the unsuccessful party, although the tribunal has discretion to allocate costs. Summary procedure is mandatory at the CIETAC if the amount in dispute is below RMB 5,000,000, and summary procedure is available in limited circumstances even above this amount—a feature that could meaningfully affect smaller bondholder claims. In addition, the CIETAC Commission rather than individual arbitral tribunals has the power to determine the existence and validity of arbitration agreements. In contrast, the LCIA rules grant sole power to the arbitral tribunal to determine the existence or validity of an arbitration agreement. The CIETAC imposes a time limit (six months) for rendering awards, and CIETAC tribunals may render interim awards on any issues before the final award. While technical, these procedural differences may matter politically by shaping creditor coordination and holdout leverage.

[3] While arbitration in New York and London is not formally subject to the *stare decisis* requirement, legal precedent matters in arbitration, since arbitrators create precedent that guides the future behavior of disputants, lawyers, and adjudicators.

Should practitioners in New York and London be concerned about panda bonds selecting the CIETAC as the forum for dispute settlement? Probably not. While foreign sovereigns are increasingly issuing bonds in RMB, they do not necessarily rely on Chinese dispute settlement institutions to govern these instruments, suggesting that China's influence over the legal infrastructure of sovereign bond markets remains limited. In addition, CIETAC rules do not differ from other arbitral bodies' rules in many procedural respects that would be salient to most commercial parties, and the CIETAC is also gradually taking on a more transnational character. The competitive pressures among arbitral bodies will also lead to institutional isomorphism, rendering the arbitral bodies more alike in terms of procedural rules. Indeed, the CIETAC 2024 Arbitration Rules have seen a continued trend of alignment with international arbitration standards, including the ability for parties to seek conservatory measures from non-Chinese courts and prior to the service of the Notice of Arbitration. There are also virtues for making dispute resolution more accessible to China-based investors. The remaining variable is the extent to which CIETAC proceedings might be politicized—particularly in disputes involving foreign sovereigns during periods of heightened geopolitical tension.

Conclusion

To date, we have only seen panda bonds opting for the CIETAC, and CIETAC-administered arbitration has not emerged as a functional substitute for the kind of creditor-driven litigation that has shaped sovereign debt jurisprudence in New York and London. The bottom line, therefore, is that Chinese arbitral bodies such as the CIETAC are unlikely to pose a systemic challenge to the market share of New York and London courts and arbitral bodies anytime soon. While RMB internationalization is advancing, legal authority in sovereign debt is path dependent and resistant to institutional displacement. For policymakers and market participants, this suggests that RMB bond markets primarily represent a shift in the currency of issuance, rather than in the underlying legal and institutional framework. They are therefore better understood as complementary to, rather than substitutes for, the existing sovereign bond infrastructure.