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# China's Strategy in Global Commodity Markets

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## Executive Summary

China's Shanghai International Energy Exchange (INE) was established in March 2018 with objectives that extend well beyond commercial price discovery. When the exchange launched, many Western analysts and traders expected it to be dominated by retail speculation and prone to the kind of volatility that characterized China's domestic equity and agricultural futures markets. That early assumption proved largely incorrect. The INE has become the world's third-largest crude oil futures market[1], a structurally functional exchange that nonetheless remains absent from the daily consciousness of most global speculative traders. When a market participant in New York checks prices at 3 a.m., they check NYMEX or ICE. They do not check the INE.

This brief assesses China's objectives in establishing the INE, examines its current market role and limitations, evaluates the trajectory of the Petroyuan, and offers a candid assessment of whether the exchange poses a credible medium- or long-term challenge to dollar-denominated oil pricing. The conclusion is calibrated: the INE is not positioned to displace Brent or WTI through market competition in the near term. It has significant structural obstacles that prevent it from functioning as a true global benchmark. However, its strategic relevance is not primarily a function of market quality but a function of geopolitics. And on that dimension, the risk is more consequential than most Western analysis acknowledges.

## I. China's Strategic Objectives for the INE

China's decision to establish the INE was driven by a clearly articulated strategic vulnerability: as the world's largest crude oil importer, China purchases nearly all of its imported oil in U.S. dollars, priced against benchmarks governed by Western exchanges under Western regulatory frameworks.[2] Beijing views this dependence as a structural vulnerability to U.S. financial sanctions: the risk that Washington could freeze Chinese dollar reserves, restrict access to SWIFT, or cut Chinese institutions off from dollar-clearing networks, tools it has deployed against Russia, Iran, and Venezuela with demonstrated effect. The INE is, in this context, a hedge: an institutional mechanism to reduce China's energy import exposure to U.S. financial jurisdiction.

The limits of that hedge were visible almost immediately. The largest volatility jump in INE's first 40 trading sessions occurred on May 8, 2018 — the day President Trump announced U.S. withdrawal from the Iran nuclear agreement. A renminbi-denominated contract on a Chinese exchange, settled through Chinese infrastructure, moved sharply in response to a decision made in Washington. The irony is instructive: the INE can reduce China's transactional exposure to dollar-clearing infrastructure, but it cannot insulate Chinese energy markets from the geopolitical forces that dollar dominance reflects.[3]

Scholars have situated this within the broader framework of financial statecraft — the intentional use of financial capabilities to achieve foreign policy objectives.[4] The INE's contract design reflects this logic directly with the underlying crude contract as medium-sour with an API gravity approximately 32, sulfur content 1.5%. This was deliberately chosen to serve the specific refining needs of Asian buyers and to avoid direct competition with the light-sweet grades underpinning Brent and WTI. Physical delivery is settled into bonded warehouses along China's coast, anchoring the contract to real physical flows. State-owned enterprises including Sinopec and PetroChina actively purchase the grades deliverable to that contract which include Dubai, Oman, Upper Zakum, Iraqi Basra Light. This provides the INE contract a stable physical base.

[1] INE Shanghai. (2023). Shanghai Crude Oil Futures 2023 Annual Report.

[2] Goghie, A.-S. (2025). "From Pricing Power to Autonomy: The Geopolitics of RMB-Denominated Oil Futures Benchmark." Journal of Contemporary China

[3] Ji, Q. & Zhang, D. (2019). "China's crude oil futures: Introduction and some stylized facts." Finance Research Letters, 28, 376–380.

[4] Petry, J. (2025). "China's Quest for Pricing Power: Financial Hierarchy, Autonomy and Commodity Futures Markets." International Affairs, 101(5), 1747

> *"Introducing a crude oil futures benchmark is strategically important because benchmarks organize global markets. They determine how prices are calculated, how risks are hedged, and which currencies and financial infrastructures sit at the center of these transactions." — Goghie (2025)*

China's assessment of pricing power as a strategic vulnerability is explicit in official policy discourse. The *Economic Daily* in 2016 stated that developing domestic commodity futures markets was essential to enhancing China's 'discourse power' in commodity pricing. The INE is the most consequential expression of that objective.

## II. China's Ability to Influence Global Benchmarks

China's current capacity to influence global benchmarks such as Brent and WTI is limited, though the direction of travel is measurable.[5] Studies examining which markets set prices and which follow show that WTI and Brent continue to originate price signals that the INE then reflects, not the reverse.[6] In practical terms: Shanghai watches London and the U.S., not the other way around.

That said, the INE exercises meaningful regional price discovery. Research demonstrates cointegration between INE futures and the spot prices of multiple Asian crude streams, including Saudi Arabia's medium grade to Asia, Kuwait crude, and Iranian Foroozan.[7] During Asian trading hours, INE increasingly sets the marginal price for the medium-sour grades that Asian refiners purchase. This is commercially significant for a large volume of barrels, even if it has not yet been translated into broader benchmark authority.

The transparency deficit compounds these dynamics in ways that are underappreciated in Western analysis. China does not publish strategic petroleum reserve (SPR) levels, and its commercial inventory data is widely regarded as unreliable and infrequently updated. When China conducts large-scale SPR releases or builds inventory aggressively, global price signals are distorted without explanation. Market participants in London and New York must incorporate an unknowable variable into their price formation — a variable that Beijing controls unilaterally. For global benchmarks that depend on transparent inventory data, this represents a structural and ongoing distortion.

Independent commodity intelligence firms such as Kpler partially fill this gap through satellite monitoring of Chinese crude storage facilities. Floating-roof tanks — the most common storage vessel for crude oil — are measurable from orbit because the roof position indicates fill level, allowing analysts to estimate inventory volumes at individual tank farms across China's coastline. This provides market participants with a materially better picture than official Chinese data alone. However, the method has inherent limits: not all storage infrastructure uses floating-roof design, underground strategic reserves are invisible to satellite observation, and transfers into government-controlled SPR facilities cannot always be distinguished from commercial stock movements. For global benchmarks that depend on transparent inventory data, this represents a structural and ongoing distortion that satellite intelligence can narrow but not eliminate without official Chinese cooperation.

## III. Market Adoption, Price Discovery, and Impediments to Scale

By end of 2023, the INE had attracted participants from 31 countries across six continents, with overseas traders accounting for more than 30% of both daily trading volume and open interest.[8] Major oil companies and trading houses — including BP, Shell, and Mercuria — registered and traded on the exchange from its inception. Shell's decision on the first day of trading to sign a forward agreement indexed to the INE reference price was widely noted as a commercially significant development.

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[5] Sun, C. et al. (2023). "The Role of China's Crude Oil Futures in the World Oil Futures Market and China's Financial Market." Energy Economics, 120, 106619.

[6] Sun, C. et al. (2023). "The Role of China's Crude Oil Futures in the World Oil Futures Market and China's Financial Market." Energy Economics, 120, 106619.

[7] Yu, L. et al. (2023). "Price Discovery in China's Crude Oil Futures Markets: An Emerging Asian Benchmark." Journal of Futures Markets, 30(3), 291-330.

8 INE Shanghai. (2023). Shanghai Crude Oil Futures 2023 Annual Report.

Nonetheless, the INE has not entered the mainstream of global speculative or commercial trading. The physical market references it for Asian sour crude transactions; it does not yet function as the benchmark of first resort for any significant category of international crude trade. The reasons are structural and well-documented.

**Table 1: Crude Oil Futures Exchange Comparison — NYMEX (WTI), ICE (Brent), and INE (SC)**

| Feature | NYMEX / WTI | ICE / Brent | INE / SC |
|---|---|---|---|
| **Exchange** | NYMEX (CME Group) | ICE Futures Europe | INE Shanghai |
| **Contract** | WTI Crude Oil | Brent Crude Oil | SC Crude Oil |
| **Currency** | USD | USD | RMB (CNY) |
| **Crude Grade** | Light Sweet (API ~39, 0.4% S) | BFOET blend (light/sweet) | Med. Sour (API ~32, 1.5% S) |
| **Settlement** | Physical — Cushing, OK | Cash / EFP | Physical — bonded warehouses |
| **Lot Size** | 1,000 barrels | 1,000 barrels | 1,000 barrels |
| **Price Limit** | Dynamic circuit breaker | Interval price limit | +/-4% hard daily cap |
| **Trading Hours** | ~24 hrs (Sun-Fri) | ~24 hrs (Mon-Fri) | 3 sessions incl. 21:00-02:30 |
| **Intl. Access** | Unrestricted | Unrestricted | QFI channels; capital controls |
| **Regulator** | CFTC (U.S.) | FCA (UK) | CSRC / SHFE (China) |
| **2023 Volume** | ~204 million lots | ~268 million lots | ~50 million lots |
| **Global Rank** | #2 (WTI) | #1 (Brent) | #3 |
| **Benchmark Status** | Established global benchmark | Established global benchmark | Regional / emerging |
| **Capital Controls** | None | None | Yes — RMB restricted |
| **Transparency** | High — CFTC mandatory public reporting | High — FCA public reporting | Limited — CSRC oversight with minimal public disclosures |

*Sources: CME Group; ICE Futures Europe; INE Annual Report 2023; Sun et al. (2023); Goghie (2025).*

## Is There Room for a Third Benchmark?

A threshold question is whether the global crude oil futures market has capacity for a third benchmark. The answer is unambiguous: NYMEX and ICE together cleared in excess of 400 million lots in 2023; INE's 50 million lots represents a modest fraction of global volume.[9] There is no crowding-out dynamic. The more consequential question is whether a third benchmark is needed and here too the answer is affirmative. Medium-sour crude constitutes approximately 44% of global supply[10] and had no dedicated futures benchmark prior to the INE's establishment. Asia now consumes more oil than North America and Europe combined, yet Asian buyers priced their purchases against a North Sea basket or a West Texas pipeline contract. Asian buyers have historically paid

[9] Zhang et al. (2025). "Linkages Between Shanghai and Global Crude Oil Futures Markets." Journal of Futures Markets, 45, 2403-2433

[10] Goghie, A.-S. (2025). "From Pricing Power to Autonomy: The Geopolitics of RMB-Denominated Oil Futures Benchmark." Journal of Contemporary China.

what the energy literature terms an 'Asian Premium' — a structural price disadvantage attributable in part to the absence of a regional benchmark reflecting Asian supply and demand fundamentals. The INE addresses a genuine structural gap[11].

The relevant historical comparison is cautionary. TOCOM's Dubai crude contract, launched in 2001 with ambitions of creating an Asian benchmark, but it never achieved meaningful traction. The volumes lagged Brent and WTI by orders of magnitude, and the cash-settled design severed the link between futures prices and physical market reality. Tapis, once the regional reference for Malaysian crude, became effectively obsolete after 2008 as production declined and spot market activity dried up. The pattern in both cases: a benchmark requires not just the right contract design, but the right ecosystem: liquidity, transparency, and a participant base of commercial hedgers who use it because it reliably reflects the price of physical barrels.

## Primary Impediments

The following structural impediments currently prevent the INE from functioning as a true global benchmark:

**PRICE LIMIT.** The +/-4% daily price cap which is borrowed from China's equity market circuit breaker framework, is the single most significant structural flaw for international hedgers. In April 2020, when WTI futures settled at negative $37.63 per barrel, INE prices remained within their daily band, decoupling from physical market reality. A hedging instrument that cannot track the market in a crisis provides inadequate protection precisely when protection is required.

**CAPITAL CONTROLS.** Foreign participants accessing the INE face a constraint with no equivalent on NYMEX or ICE: they cannot freely repatriate renminbi. China's capital controls limit how much currency can leave the country, through what channels, and on what timeline — a serious operational problem for trading firms that need to move capital rapidly. Getting money into China is straightforward; getting it back out is not.

The QFI channels introduced in 2022 solved the wrong problem. They reduced friction on market entry — foreign firms could access INE more directly without routing through a domestic intermediary. But the repatriation constraint remained entirely intact. The result is that a firm hedging Basra Light on the INE is simultaneously managing commodity price risk, RMB/USD exchange rate risk, and currency repatriation risk — three exposures where NYMEX or ICE would require them to manage only one. That calculus consistently resolves in favor of Brent or WTI.

**OPACITY.** China's SPR data is not published. Commercial inventory data is unreliable and infrequently released. The exchange sits within an information environment that international traders regard with justified skepticism. Contract design quality is insufficient to compensate for broader market opacity.

**REGULATORY RISK.** The CSRC retains broad authority to modify market rules. International participants who operate on NYMEX under CFTC oversight and on ICE under FCA oversight do so within predictable regulatory frameworks backed by independent judicial systems. The INE's regulatory environment, however improving, carries sovereign intervention risk that Western exchanges do not.

**TRANSACTION COSTS.** INE's transaction fees are noticeably higher than those on WTI and Brent contracts, adding a direct cost disadvantage for international participants already navigating capital controls and currency risk. For a trading firm comparing execution costs across venues, higher fees on the INE compound the other structural frictions rather than offsetting them.[12]

[11] Ji, Q. & Zhang, D. (2019). "China's crude oil futures: Introduction and some stylized facts." *Finance Research Letters*, 28, 376–380.

[12] Ji, Q. & Zhang, D. (2019). "China's crude oil futures: Introduction and some stylized facts." *Finance Research Letters*, 28, 376–380.

**RETAIL MARKET STRUCTURE.** China's futures markets attract a substantially higher proportion of retail participation than their Western counterparts — a structural characteristic that reduces price signal reliability for the commercial hedgers that benchmark status requires. Retail investors in Chinese markets are well-documented to trade on momentum, hold losing positions too long, and participate for speculative rather than hedging purposes, introducing noise into price formation that institutional participants find unreliable as a reference.[1] INE's own data shows corporate clients representing just over 50% of open interest — a meaningful improvement over Chinese equity markets, where retail accounts for approximately 80% of daily volume, but still well short of the commercial-hedger dominance that characterizes NYMEX and ICE, where price signals reflect the aggregated judgment of producers, refiners, and trading houses moving physical barrels.[13]

The global oil market needs what the INE is attempting to provide, but the INE is not there yet. It functions as a regional hedging tool for Asian sour crude and a vehicle for incremental RMB internationalization — both of which are strategically meaningful — but it does not yet generate the price signals under all market conditions that global benchmark status requires.

## IV. The Petroyuan: Progress and Constraints

China has made measurable progress in increasing renminbi use in oil transactions, and the INE has functioned as a meaningful institutional vehicle for that effort.[14] Prior to the INE's launch in 2018, the renminbi accounted for approximately 10% of China's cross-border trade settlement. By the fourth quarter of 2024, that figure had reached 40%.[15] The mechanism is direct: oil exporters selling to China through INE-referenced contracts accumulate renminbi, which can then be deployed to purchase Chinese goods, invest in RMB-denominated bonds, or held in swap facility accounts.

Russia's post-2022 reorientation toward yuan settlement for China-bound oil exports has been the Petroyuan's most significant proof of concept — and importantly, it was driven by U.S. policy decisions rather than by any merit of the INE as a market. This matters because the Petroyuan's growth trajectory is substantially a function of geopolitical pressure rather than of investor preference or exchange quality. Saudi Arabia's reported consideration of yuan-denominated oil sales elevated the concept from academic discussion to strategic concern.[16]

The constraints are equally significant. The renminbi is not freely convertible, and oil exporters accumulating yuan face a constrained range of deployment options. The petrodollar system's structural power derives not merely from invoicing conventions but from the depth, liquidity, and institutional reliability of U.S. capital markets — the recycling loop through which petrodollars flow into U.S. Treasuries, equities, and real assets. The Petroyuan has no equivalent mechanism. Until China opens its capital account in a meaningful way, the renminbi's role in global oil settlement will remain a managed and structurally limited alternative rather than a competitive substitute.

## V. Futures Markets as Commodity Access and Supply Security Strategy

China's approach to commodity futures markets extends beyond the INE and reflects a coherent multi-commodity strategy to embed Chinese pricing infrastructure into global supply chains.[17] By August 2023, China had internationalized 24 commodity futures and options contracts across its exchanges. The Dalian Commodity Exchange's iron ore contract — internationalized in 2018 — became the pricing reference for the world's four

[13] Retail and Institutional Investor Trading Behaviors in China, 2024, Annual Review of Financial Economics; INE Annual Report 2023

[14] Kamel, M. & Wang, H. (2019). "Petro-RMB? The Oil Trade and the Internationalization of the Renminbi." International Affairs, 95(5), 1131.

[15] Goghie, A.-S. (2025), "From Pricing Power to Autonomy," Journal of Contemporary China

[16] Bracarense, N. & Berthonnet, I. (2024). "From Petrodollar to Energy-Yuan: Currency Internationalization in the Light of Original Institutional Economics." Journal of Economic Issues, 58(1), 112.

[17] Petry, J. (2025). "China's Quest for Pricing Power: Financial Hierarchy, Autonomy and Commodity Futures Markets." International Affairs, 101(5), 1747.

largest iron ore producers within four years. By 2022, Vale, Rio Tinto, BHP, and Fortescue had all established Chinese trading entities to sell directly into RMB-denominated markets.[18]

The strategic logic is consistent across commodities: by making Chinese futures the reference price for physical deliveries, Beijing embeds Chinese financial infrastructure into the supply chains of its import partners, creates recurring transactional demand for renminbi, and insulates Chinese importers from dollar-denominated sanctions exposure. The design reflects a lesson Beijing drew explicitly from the 2022 freezing of Russian dollar reserves: holding assets in the currency of a potential adversary entails sovereign risk that is not adequately priced in normal conditions.

Looking to the next decade, the INE's strategic trajectory is less a function of its contract design than of the geopolitical environment. India, the world's third-largest crude importer, represents the most consequential variable. Any material shift in Indian crude import pricing toward INE-referenced contracts, driven by discount economics on Russian crude or by rupee-yuan bilateral arrangements, would significantly alter the INE's global relevance. ASEAN nations increasingly navigating between U.S. and Chinese spheres of influence present a parallel dynamic.

## VI. Emerging Policy Signals and the 15th Five-Year Plan

China is actively addressing the structural weaknesses that have constrained the INE's growth through deliberate regulatory reform.[19] In January 2025, the Central Financial Work Commission and five government departments jointly released a plan to direct long-term institutional capital (commercial insurance funds, national social security funds, and annuity funds) into Chinese capital markets. The explicit objective is to reduce retail dominance and improve the stability and quality of market participation. For the INE specifically, institutional participation reduces the behavioral noise that currently deters sophisticated international hedgers.

Simultaneously, the China Securities Regulatory Commission signaled it is studying the feasibility of multi-asset ETFs and interbank market transferable index funds.[20] The 15th Five-Year Plan, expected to be formalized in 2025-2026, is anticipated to sustain the 'high-quality development' framework with explicit emphasis on financial market reform, commodity pricing autonomy, and RMB internationalization. The direction of reform is consistent and clear: Beijing is systematically building the institutional architecture that a credible global benchmark requires. The timeline is multi-year, but the commitment appears durable.

## VII. Key Trends for Commission Monitoring

**The Commission should maintain active monitoring of the following developments:**

**India's positioning on INE participation and RMB settlement.** India is the most consequential swing variable. A material shift in Indian crude import pricing toward INE-referenced contracts — for any combination of economic, diplomatic, or geopolitical reasons — would significantly alter the INE's global standing. This is the single highest-priority variable for ongoing monitoring.

**Gulf sovereign wealth fund reallocation.** Saudi Arabia's U.S. Treasury holdings rank 17th globally — a notable decline for the world's swing oil producer. Gulf sovereign wealth funds are increasingly directing oil revenues toward global equities rather than U.S. Treasuries, weakening the traditional petrodollar recycling mechanism. Any shift toward RMB-denominated instruments warrants close attention.

[18] Petry, J. (2025). "China's Quest for Pricing Power: Financial Hierarchy, Autonomy and Commodity Futures Markets." International Affairs, 101(5), 1747.

[19] Xinhua. (January 22, 2025). "China Moves to Attract Long-Term Funds to Capital Market." english.gov.cn.

[20] Financial Times / Ignites Asia. (2025). "China Explores Relaxing Rules to Allow Multi-Asset ETFs."

**Integration of CIPS and digital RMB with commodity settlement.** China's Cross-Border Interbank Payment System and the digital renminbi are being piloted in commodity settlement contexts. Integration with INE settlement infrastructure would meaningfully reduce the friction currently constraining Petroyuan adoption at scale.

**INE night session volume trends.** The 21:00–02:30 Beijing time trading session overlaps with Western market hours and is where international participation is concentrated. Acceleration in night session volumes would indicate that international participants are beginning to use INE for primary price discovery rather than supplementary hedging. This pattern was visible from the exchange's earliest days — high-frequency data from INE's inaugural 40 trading sessions documented a statistically significant spike in volume at 22:31 Beijing time, corresponding precisely to the New York market open, suggesting U.S. investor participation from the outset.[21] That early signal has since grown: by 2023, overseas traders from 31 countries represented more than 30% of both daily trading volume and open interest, with night session activity accounting for a disproportionate share of that international participation. The metric to watch is not simply whether foreign participation grows in aggregate — it is whether night session volumes begin to dominate the contract's overall price formation, which would signal that the INE has crossed from regional hedging tool to genuine global benchmark.

**Progress of China's institutional capital market reform.** The CSRC's implementation of multi-asset ETF regulations and the pace of institutional reallocation into commodity derivatives will determine how quickly the INE's participant base shifts away from retail-dominated activity. This is the structural precondition for improved price signal quality.

**U.S. sanctions actions and their unintended effects.** Each application of dollar-clearing infrastructure as a foreign policy instrument generates incremental demand for dollar alternatives among countries with no ideological preference for the Petroyuan but a practical interest in managing sanctions exposure. The Commission should track U.S. sanctions actions not only for their intended effects but for their unintended contribution to INE adoption.

## VIII. Policy Recommendations for Legislative Action

The following recommendations are offered in the spirit of competitive strategy rather than financial restriction. The dollar's structural role in global energy markets is not served by reducing the openness or attractiveness of American financial markets — it is served by making them more indispensable. Each recommendation below is calibrated to that objective.

### Immediate Legislative Actions

**Mandate inventory transparency as a condition of clearing access.** Require that Chinese financial institutions seeking access to U.S. clearing infrastructure provide quarterly public disclosure of China's strategic and commercial petroleum reserve levels, consistent with the reporting standards expected of IEA member states. China's SPR opacity introduces a structural distortion into global benchmark pricing that disadvantages all market participants pricing against an undisclosed variable.

**Expand CFTC foreign market surveillance authority.** Authorize and adequately fund the Commodity Futures Trading Commission to formally monitor INE trading activity, with particular attention to participant concentration, state-owned enterprise positioning, and coordination among SOE buyers. Current CFTC jurisdictional limits leave this activity unmonitored.

**Require disclosure of U.S. financial institution exposure to INE.** While Dodd-Frank reporting captures U.S. derivatives activity on domestic and CFTC-registered foreign exchanges, the INE falls outside this framework and it has not sought CFTC registration as a Foreign Board of Trade, meaning U.S. firms can trade on it without that activity being systematically captured in CFTC reporting. Congress should direct the CFTC to close this gap by requiring U.S.-registered financial firms to report positions, open interest, and RMB-denominated settlement activity on any foreign commodity exchange on which they trade, regardless of that exchange's registration status. Systemic risk assessment requires visibility into the degree to which U.S. institutions are already embedded in Chinese commodity pricing infrastructure — visibility that does not currently exist.

21 Ji, Q. & Zhang, D. (2019). "China's crude oil futures: Introduction and some stylized facts." Finance Research Letters, 28, 376–380.

### Medium-Term Strategic Recommendations

**Establish a Petroyuan Monitoring Office within the Department of the Treasury.** Create a dedicated analytical unit within Treasury's Office of International Affairs to track renminbi share in global oil settlement, CIPS transaction volumes, digital currency integration in commodity markets, and Gulf sovereign wealth fund allocation trends. This unit should deliver an annual classified assessment to relevant Congressional committees.

**Develop a structured engagement program with Gulf sovereign wealth funds.** The informal understanding that Gulf states will maintain dollar-denominated oil pricing in exchange for U.S. security guarantees and market access has never been codified and is showing signs of strain. Congress should direct the State Department and Treasury to formalize this arrangement — developing explicit bilateral frameworks with key Gulf producers that tie defined levels of dollar-denominated pricing to specific U.S. commitments on defense cooperation, Treasury market access, and energy transition co-investment. An implicit arrangement that has worked for fifty years is not adequate insurance against a geopolitical environment that is actively testing it.

**Pursue a market-led Asian crude oil benchmark in partnership with allied nations.** Engage Japan, South Korea, and Australia to explore a jointly supported, physically deliverable benchmark for medium-sour crude operating under transparent, independently audited regulatory standards equivalent to CFTC and FCA frameworks. If Asia's energy consumption is to be reflected in a regional benchmark (and this is a real market need) that benchmark should not be the INE. A credible alternative competes on market merit rather than geopolitical necessity.

### Structural and Legislative Actions

**Clarify the legal framework governing dollar substitution in sovereign energy contracts.** Consider legislation that establishes clear parameters and disclosure obligations for financial institutions that facilitate the substitution of RMB settlement for dollar settlement in sovereign-to-sovereign energy contracts, with appropriate waiver authority vested in the Treasury Secretary. The erosion of petrodollar recycling flows warrants a legislative response that is proportionate and clearly defined.

**Appropriate dedicated research funding for Chinese commodity futures market analysis.** Direct funding through the National Science Foundation or the Department of Energy's Office of Policy to support independent academic research on INE price discovery dynamics, RMB settlement trends, and Chinese SOE behavior in commodity futures markets. The academic literature on this topic is growing but underfunded relative to its policy relevance.

**Expand CFIUS mandatory review categories to include commodity infrastructure.** The Committee on Foreign Investment in the United States (CFIUS) — the interagency body that reviews foreign acquisitions of U.S. assets for national security implications — should explicitly include domestic petroleum storage facilities, pipeline infrastructure, and commodity clearing entities in its mandatory review categories. Currently these assets fall into discretionary review territory, meaning they are examined only if flagged rather than as a matter of course. China's strategy with the INE is instructive: by anchoring the exchange in a network of bonded delivery warehouses along its coastline, Beijing gave the contract physical credibility that reinforced its financial benchmark status. Control of the physical infrastructure preceded and enabled the financial influence. Congress should ensure that pathway is not available on U.S. soil — particularly as Chinese-linked entities have shown increasing interest in U.S. energy and agricultural infrastructure in recent years.

## Conclusion

The INE is not the threat that the most alarmist accounts suggest, nor is it the irrelevance that complacent analysis implies. It is a structurally functional but significantly constrained exchange, operating in the third tier of global crude oil futures markets, with five material obstacles: price limits, capital controls, opacity, regulatory risk, and retail market structure. These prevent it from fulfilling the benchmark role its architects designed for.

The more important analytical point is this: the INE's strategic significance is not primarily a market question. A market question can be answered by examining liquidity, price discovery efficiency, and participant composition. The INE's significance is a geopolitical question — specifically, whether the trajectory of U.S. sanctions policy, Gulf state realignment, Indian import diversification, and Chinese institutional reform converges in a direction that makes dollar-denominated oil pricing optional rather than obligatory for a material share of global crude trade. On that question, the current trajectory warrants more serious attention than it has received.

*The INE does not need to outcompete NYMEX or ICE to be consequential. It needs to be a viable, operational alternative when geopolitics makes one necessary. Beijing has constructed that alternative with patience and precision. The question for U.S. policy is whether the response is commensurate with the trajectory.*