

Research on Legal and Regulatory Mechanisms for Digital Yuan Cross-border Payments from the Perspective of Financial Law

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Abstract:

With the acceleration of global digitalization, the research on Central Bank Digital Currencies (CBDCs) as innovative payment tools has increasingly become a hot topic among financial scholars and policymakers. Particularly, China's digital yuan (e-CNY), as one of the world's first CBDCs to be implemented on a large scale, has not only advanced the internationalization of the RMB but also exerted a profound impact on the global financial system. From a financial law perspective, this study analyzes the legal and regulatory mechanisms of cross-border payments involving the digital yuan. The findings suggest that digital yuan cross-border payments offer significant advantages in promoting international trade, reducing transaction costs, and enhancing financial transparency. However, challenges remain in areas such as compliance, privacy protection, and international legal coordination. This study systematically examines the legal and regulatory mechanisms of digital yuan cross-border payments from the perspective of financial law, providing theoretical frameworks and policy recommendations for scholars and policymakers at home and abroad. This contribution holds substantial academic value and practical significance.

Keywords: CNY, Cross-border Payments, Financial Law, Legal Regulation, International Cooperation

1. Introduction

With the rapid advancement of global digitalization, digital currencies have become a critical topic in international finance. As China's legal digital currency, the digital yuan (e-CNY) has drawn attention from

international academia and policymakers due to its cross-border payment functions and potential. As a core aspect of China's monetary policy modernization, the digital yuan not only promotes the internationalization of the RMB but also strengthens the competitiveness of the international financial market.

Although research and development on the digital yuan have made progress, studies on its legal and regulatory framework for cross-border payments remain relatively scarce. With the increasing complexity of the global financial system and growing demand for cross-border payments, the central question is how the digital yuan can penetrate and integrate into international payment markets under strict international legal and regulatory frameworks.

2. Literature Review

As the cross-border payment functions of the digital yuan gradually unfold, the focus of academic research has shifted to how to establish an inclusive legal and regulatory framework on a global scale. Domestic and foreign scholars have conducted multidimensional analyses focusing on the legal compliance, regulatory coordination mechanisms, and risk prevention of digital yuan cross-border payments.

Lisa Li and Wendy (2022) analyzed the legal mechanisms of cross-border payments using the digital yuan, arguing that such payments require the coordination and adaptation of multiple national legal systems. Due to significant differences in financial legal systems across countries, constructing a unified legal framework to ensure compliance has become a critical challenge for cross-border payments. They suggested promoting collaboration among international financial regulatory organizations to establish unified legal standards to resolve legal conflicts in cross-border payments^[4].

Jiajia Wang and Kunrong Shen (2021) discussed the regulatory pathways for cross-border payments of the digital yuan from a financial regulatory perspective, emphasizing that as a central bank digital currency, the digital yuan must comply with global regulatory requirements, particularly in anti-money laundering (AML) and counter-terrorism financing (CTF). They argued that the regulation of the digital yuan is not solely a domestic issue but part of the global financial regulatory framework. Strengthening international regulatory coordination and information sharing will be prerequisites for its successful implementation^[5].

Hui Chen (2021) examined regulatory issues in cross-border payments, particularly focusing on how to balance the differences in financial regulatory policies among countries. She suggested that a global consensus should be reached in the future to establish legally binding digital currency payment regulations to reduce legal friction in cross-border payments^[6].

3. Theoretical Analysis and Research Hypotheses

The digital yuan, as the legal digital currency issued by the People's Bank of China, reflects the intersection of financial law and digital currency in its legal and regulatory mechanisms for cross-border payments.

The challenges are mainly reflected in three aspects: 1. Different countries' recognition of the legality of digital currencies varies. 2. International financial regulatory standards, such as anti-money laundering requirements, must be adhered to. 3. The digital yuan may disrupt existing financial systems.

Based on the above analysis, this paper proposes the following hypotheses:

H1: The higher the legal compliance of the digital yuan's cross-border payments, the greater the potential transaction volume.

H2: Reasonable regulatory policies can enhance market transparency and security, thereby increasing the transaction volume of digital yuan cross-border payments.

To deeply study the legal and regulatory mechanisms of digital yuan cross-border payments, this paper constructs a comprehensive analytical model.

$$\begin{aligned} \text{TransactionVolume}_{it} = & \beta_0 + \\ & \beta_1 \cdot \text{LegalCompliance}_{it} + \\ & \beta_2 \cdot \text{RegulatoryStrength}_{it} + \\ & \beta_3 \cdot \text{MarketAcceptance}_{it} + \\ & \beta_4 \cdot \text{InternationalCooperation}_{it} + \\ & \beta_5 \cdot \text{TradeVolume}_{it} + \\ & \beta_6 \cdot \text{ExchangeRateVolatility}_{it} \end{aligned}$$

4. Model and Methodology

The legal compliance score measures the adaptability of each country's legal framework to digital yuan cross-border payments; the higher the compliance, the stronger the feasibility and security of payments. Hypothesis: $\beta_1 > 0$, meaning that higher compliance leads to greater cross-border payment transaction volumes. The intensity of regulatory policies reflects the regulatory requirements and transparency for digital yuan cross-border payments in each country; stricter regulation makes the payment market safer. Hypothesis: $\beta_2 > 0$, meaning stricter regulation promotes the development of payment markets. The market acceptance score measures the degree of acceptance of the digital yuan in each country's market; higher acceptance means broader application of the digital yuan. Hypothesis: $\beta_3 > 0$, meaning higher market acceptance increases cross-border payment volumes. The level of international cooperation reflects the degree of collabo-

ration between China and other countries in digital yuan cross-border payments; closer cooperation enhances interoperability. Hypothesis: $\beta_4 > 0$, meaning closer international cooperation increases usage volumes. International trade volume and cross-border investment flows affect the demand for the digital yuan; higher trade volume increases payment demand. Hypothesis: $\beta_5 > 0$, meaning higher international trade volumes increase cross-border payment demand. Exchange rate fluctuations affect the cost of cross-border payments; the digital yuan may have advan-

tages under significant fluctuations. Hypothesis: $\beta_6 < 0$, meaning higher exchange rate fluctuations increase usage volumes.

5 Empirical Results and Analysis

5.1 Descriptive Analysis

The descriptive statistics of the main variables in this study are as follows.

Table 1 Descriptive Statistics of Main Variables

Variable Name	Mean	Std. Dev.	Min	Max
Cross-Border Payment Transaction Volume/Payment Amount (million USD)	58,384.35	38,269.99	20,500	150,230
Legal Compliance Score	7.64	1.26	5	10
Regulatory Policy Intensity	7.11	1.31	4	10
Market Acceptance Score	7.42	1.26	6	10
International Cooperation Level	9.12	6.55	2	30
International Trade Volume/Cross-Border Investment Flows (million USD)	2,567,983.25	1,587,619.49	300,000	6,200,000
Exchange Rate Fluctuations (Annual Average Rate, %)	4.44	1.09	2.30	6.20
Digital Payment Penetration Rate (%)	71.74	11.75	50	90
Financial Infrastructure Construction Index	7.73	0.98	5	10

As shown in the table, the mean of cross-border payment transaction volumes is USD 58,384.35 million, with a large standard deviation, indicating significant differences in transaction volumes between countries. The mean scores for legal compliance, regulatory policy intensity, and market acceptance are all close to 8, suggesting that the legal and regulatory environment for the digital yuan

is relatively mature globally.

5.2 Regression Analysis

Based on the theoretical model described above, this study employs a fixed-effects regression model to analyze the data. The results are as follows.

Table 2 Fixed-Effects Regression Results

Variable	Coefficient	Std. Error	t-Value	p-Value
Legal Compliance Score	4.52	0.72	6.28	0.000
Regulatory Policy Intensity	3.95	0.66	5.98	0.000
Market Acceptance Score	2.72	0.55	4.96	0.000
International Cooperation Level	1.03	0.42	2.45	0.015
International Trade Volume	0.000014	0.000004	3.58	0.001
Exchange Rate Fluctuations	-0.34	0.11	-3.09	0.003
Digital Payment Penetration Rate	0.76	0.21	3.62	0.002
Financial Infrastructure Construction Index	1.92	0.59	3.26	0.004

According to the regression analysis results, legal compliance, regulatory policy intensity, market acceptance scores, and the level of international cooperation all have significant positive effects on cross-border payment trans-

action volumes. Among them, the regression coefficient of legal compliance is the largest (4.52), indicating that the improvement of the legal framework has the most significant impact on cross-border payment transaction volumes.

The regression coefficients for international cooperation and financial infrastructure construction indices are also high, at 1.03 and 1.92, respectively, further demonstrating that international cooperation and improved financial infrastructure promote the cross-border payments of the digital yuan. The regression coefficient for exchange rate fluctuations is negative (-0.34), as expected, indicating that exchange rate fluctuations negatively impact cross-border payments.

5.3 Robustness Test

In this study, cross-border payment transaction volume is the dependent variable, while legal compliance score, regulatory policy intensity, market acceptance score, international cooperation level, international trade volume, exchange rate fluctuations, digital payment penetration rate, and financial infrastructure construction index are the independent variables. Table 3 presents the regression results under the fixed-effects and random-effects models.

Table 3 Robustness Test: Comparison of Regression Model Results

Model	Legal Compliance Score	Regulatory Policy Intensity	Market Acceptance Score	International Cooperation Level	International Trade Volume	Exchange Rate Fluctuations	Digital Payment Penetration Rate	Financial Infrastructure Construction Index
Fixed-Effects Model	4.52 (p=0.000)	3.95 (p=0.000)	2.72 (p=0.000)	1.03 (p=0.015)	0.000014 (p=0.001)	-0.34 (p=0.003)	0.76 (p=0.002)	1.92 (p=0.004)
Random-Effects Model	4.48 (p=0.000)	3.91 (p=0.000)	2.67 (p=0.000)	1.07 (p=0.012)	0.000013 (p=0.002)	-0.33 (p=0.004)	0.75 (p=0.003)	1.89 (p=0.005)
Stepwise Regression Model	4.50 (p=0.000)	3.92 (p=0.000)	2.70 (p=0.000)	1.02 (p=0.018)	0.000014 (p=0.001)	-0.32 (p=0.004)	0.74 (p=0.004)	1.91 (p=0.005)

As shown in Table 3, the regression coefficients and significance levels under the fixed-effects model, random-effects model, and stepwise regression model are broadly consistent. Regardless of the regression method used, variables such as legal compliance, regulatory policy intensity, market acceptance score, and international cooperation level have a significant positive impact on cross-border payment transaction volume, with regression coefficients remaining relatively stable. The negative impact of exchange rate fluctuations on cross-border payments has also been validated across all models. The positive effects of digital payment penetration rate and financial infrastructure construction are equally robust.

6 Conclusion

The empirical analysis results show that the economic conditions and financial system characteristics of various countries influence the efficiency and acceptance of digital yuan cross-border payments to varying degrees. Countries with strong economies and well-developed financial infrastructure demonstrate better cross-border payment capabilities and higher acceptance of the digital yuan. In contrast, middle- and low-income countries, due to a lack of financial infrastructure and lower market acceptance, have not fully realized the potential of the digital yuan for cross-border payments. This finding highlights the critical role of national economic strength and financial system

development in advancing the internationalization of the digital yuan.

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