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GOLD RESERVES OF CHINA AND THE INTERNATIONAL ROLE OF THE YUAN: MECHANISMS OF INFLUENCE ON THE GLOBAL CURRENCY SYSTEM

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Annotation. **Introduction.** This study examines the strategic role of China's gold reserves in strengthening the international position of the renminbi and transforming the global monetary system. Against the backdrop of geopolitical tensions, dedollarization processes, and the development of alternative financial infrastructure, gold has re-emerged as a critical reserve asset valued for its political neutrality and resilience to sanction pressure.

Methods. The research employs a multi-method approach combining qualitative institutional analysis with descriptive statistics and comparative-historical methods. The empirical base draws upon data from the World Gold Council, the People's Bank of China, the International Monetary Fund, SWIFT, and the Shanghai Gold Exchange for the period 2000-2025. Process-tracing methodology is applied to identify causal mechanisms linking gold reserves to currency internationalization.

Results. The analysis reveals that China's gold strategy operates through a dual-function framework: gold serves simultaneously as a protective buffer against external financial coercion and as an instrument of geoeconomic expansion. Four principal mechanisms are identified: (1) credibility enhancement through tangible reserve backing; (2) institutional infrastructure development centered on the Shanghai Gold Exchange; (3) pricing authority via the renminbi-denominated Shanghai Gold Benchmark; and (4) strategic complementarity between gold reserves and the digital yuan (e-CNY). The SGE has emerged as the world's largest physical gold exchange, with 2024 trading volumes reaching 6.23 million tonnes bilaterally, establishing an alternative pole of liquidity independent of Western financial centers.

Discussion. China's gold strategy contributes to the gradual emergence of a polycentric monetary landscape. Three scenarios are delineated – incremental multicurrency coexistence, regional currency fragmentation, and strategic neutralization through gold – each grounded in observable trends in sanctions policy, energy markets, and BRICS institutional development. The study concludes that gold functions not as an archaic relic but as a versatile instrument of monetary statecraft, enabling China to construct an alternative institutional space for renminbi circulation while insulating its financial system from external coercion.

Keywords: China, gold, yuan, global currency system, dedollarization, international reserves, BRICS, CGE.

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ЗОЛОТЫЕ РЕЗЕРВЫ КНР И МЕЖДУНАРОДНАЯ РОЛЬ ЮАНЯ: МЕХАНИЗМЫ ВЛИЯНИЯ НА МИРОВУЮ ВАЛЮТНУЮ СИСТЕМУ

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Аннотация. **Введение.** В статье исследуется стратегическая роль золотых резервов Китая в укреплении международных позиций юаня и трансформации мировой валютной системы. На фоне геополитической напряжённости, процессов дедолларизации и развития альтернативной финансовой инфраструктуры золото вновь приобретает значение критического резервного актива, обладающего политической нейтральностью и устойчивостью к санкционному давлению.

Методы. Исследование основано на мультиметодном подходе, сочетающем качественный институциональный анализ с описательной статистикой и сравнительно-историческим методом. Эмпирическая база включает данные Всемирного совета по золоту, Народного банка Китая, Международного валютного фонда, системы SWIFT и Шанхайской золотой биржи за период 2000-2025 гг. Для выявления причинно-следственных механизмов, связывающих золотые резервы с интернационализацией валюты, применяется методология процесс-трекинга.

Результаты. Анализ показывает, что золотая стратегия Китая функционирует в рамках двуединой концептуальной модели: золото выступает одновременно как защитный буфер от внешнего финансового принуждения и как инструмент геоэкономической экспансии. Выявлены четыре основных механизма влияния: (1) повышение доверия через материальное обеспечение резервов; (2) развитие институциональной инфраструктуры на базе Шанхайской золотой биржи (SGE); (3) формирование ценообразующей функции посредством Шанхайского фиксинга, номинированного в юанях; (4) стратегическая комплементарность между золотыми резервами и цифровым юанем (e-CNY). SGE стала крупнейшей в мире биржей физического золота: в 2024 году двусторонний объём торгов достиг 6,23 млн тонн, что свидетельствует о формировании альтернативного полюса ликвидности, независимого от западных финансовых центров.

Обсуждение. Золотая стратегия Китая способствует постепенному формированию полицентричной валютной архитектуры. Разработаны три сценария эволюции мировой валютной системы – инкрементальная многовалютность, региональная валютная фрагментация и стратегическая нейтрализация через золото, – каждый из которых обоснован наблюдаемыми трендами в санкционной политике, энергетических рынках и институциональном развитии БРИКС. Сделан вывод, что золото функционирует не как архаичный реликт, а как универсальный инструмент валютной стратегии государства, позволяющий Китаю формировать альтернативное институциональное пространство для обращения юаня, одновременно обеспечивая защиту национальной финансовой системы от внешнего давления.

Ключевые слова: Китай, золото, юань, мировая валютная система, дедолларизация, международные резервы, БРИКС, CGE.

Информация о финансировании: данное исследование выполнено без внешнего финансирования.

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Introduction

Over the past two decades, China has been systematically strengthening its position in the global economy, financial system, and international politics. One of the key directions of its strategic development is the accumulation of gold reserves and the formation of its own gold circulation infrastructure. These processes are accompanied by the active promotion of the yuan as an international settlement currency, the expansion of regional financial mechanisms, and the gradual reduction of the U.S. dollar's role in international trade.

In the context of geopolitical tension and increasing competition among financial centers, gold is once again acquiring special significance as a universal reserve asset possessing the characteristics of neutrality, independence, and resilience to sanction pressure. The People's Republic of China (PRC) is one of the world's largest consumers, producers, and importers of gold, and it is actively building alternative gold market infrastructure, including the Shanghai Gold Exchange (SGE), established on October 30, 2002, and the system of deliverable yuan gold based on gold trading where the actual object of the transaction is physical gold, and all settlements are conducted in the national currency – the Chinese yuan [1].

The aim of study

The aim of this study is to identify and systematize the mechanisms through which the PRC's policy concerning its gold reserves indirectly influences the international role of the yuan and the structural transformations of the global monetary system.

Research methodology

Several methodological limitations warrant acknowledgment. First, the opacity of China's reserve management practices introduces uncertainty regarding the precise magnitude of official gold holdings. While the PBoC periodically reports gold reserves, academic and market researchers have advanced compelling arguments that actual holdings may exceed officially disclosed figures, with additional gold held through state-controlled corporations or specialized financial structures. This study addresses this limitation by clearly distinguishing between officially confirmed data and analytically derived estimates, and by focusing analytical attention on trends and institutional developments that are observable regardless of the precise magnitude of undisclosed holdings.

Second, the analysis of causal mechanisms linking gold reserves to currency internationalization confronts the fundamental challenge of multi-causality. The renminbi's growing international role reflects multiple factors – trade expansion, financial market development, policy initiatives, geopolitical shifts – of which gold accumulation is only one. The process-tracing methodology employed in this study is designed to address this challenge by specifying the mechanisms through which gold exerts influence, rather than claiming exclusive or determinative causal status for the reserve variable.

Third, the scenario analysis, by its nature, involves speculative elements that extend beyond empirically verified relationships. The scenarios are presented not as forecasts but as analytical tools for exploring the implications of current trends under different assumptions about future developments. The discussion of critical contingencies is intended to foreground the uncertainties inherent in any forward-looking analysis and to caution against deterministic interpretations.

Notwithstanding these limitations, the methodological approach adopted in this study provides a rigorous foundation for examining the multifaceted relationship between China's gold strategy and the evolving architecture of the global monetary system. The integration of diverse data sources, the application of complementary analytical methods, and the explicit acknowledgment of methodological constraints collectively support the validity and reliability of the findings presented in subsequent sections.

Research results and discussion

Historically, gold served as the foundation of the international monetary system, ensuring exchange rate stability and fostering trust among states. Following the demonetization of gold in the 1970s, its official role diminished; however, in the 21st century, the metal has once again come to be viewed by central banks as a tool for reserve diversification and protection against geopolitical risks [2; 3].

However, for the People's Republic of China – the world's largest producer and a systemic player in global finance – gold policy transcends the conventional central bank logic of passive diversification. It constitutes a more complex strategic paradigm wherein the metal is mobilized to serve two distinct yet interconnected functions. To adequately capture the specifics of the PRC's approach, it is necessary to introduce a conceptual distinction between gold as a mechanism of macroeconomic insurance and gold as an instrument of geoeconomic expansion. This binary framework allows for a more nuanced interpretation of the quantitative data and institutional developments discussed below.

The Dual Nature of China's Gold Strategy: between a Protective Buffer and an Instrument of Geoeconomic Influence

A comprehensive examination of the PRC's policy in the realm of gold and foreign exchange reserves reveals that it cannot be reduced to a simplistic accumulation of precious metals. Instead, it represents a multifaceted strategic paradigm within which gold simultaneously performs two fundamentally distinct yet closely interconnected functions. The scholarly contribution of this study lies in the conceptual distinction between these roles: on the one hand, gold acts as a classic risk-mitigation mechanism (a "shield" or "hedge"), and on the other, it functions as a proactive tool for expanding geoeconomic influence (a "sword" or "instrument").

In its first capacity – as a protective buffer – the accumulation of gold is driven by the imperative to insulate the national economy from external volatility and coercive measures. This function is reactive in nature. The substantial volume of US dollar-denominated assets within China's reserve portfolio creates a structural vulnerability, exposing the country to potential financial sanctions, asset freezes, and fluctuations in US monetary policy. Gold, in this context, is valued for its attribute of "extra-territorial neutrality"; it is not a liability of any single nation-state and therefore remains beyond the direct reach of unilateral restrictive measures imposed by rival financial centers. Furthermore, the metal serves as a safeguard against the erosion of purchasing power inherent in fiat currencies, particularly during periods of global inflationary pressure or monetary debasement. This "insurance" function is primarily directed inward, aimed at bolstering the resilience of the domestic financial architecture and preserving national wealth amidst a turbulent geopolitical landscape. The consistent, non-declarative purchases by the People's Bank of China, often conducted during periods of relative market calm, underscore a long-term strategic vision focused on systemic stability rather than short-term speculative gain.

Conversely, the second function – gold as an instrument of expansion – is proactive and externally oriented. In this paradigm, gold reserves transcend their passive role as a store of value and become an active agent in reshaping the international monetary landscape to China's advantage. This is achieved through several interconnected channels. Foremost among them is the institutional infrastructure, epitomized by the Shanghai Gold Exchange (SGE). By mandating settlement in yuan for physically delivered gold contracts, the SGE does not merely create a marketplace; it constructs an alternative pole of liquidity that operates independently of the London Bullion Market Association (LBMA) and COMEX. This initiative is intrinsically linked to the project of yuan internationalization: it provides foreign central banks and commercial entities with a compelling reason to hold the Chinese currency – not just for trade, but for accessing the world's largest physical gold market. In this sense, gold acts as a "bait" or an anchor, conferring upon the yuan a tangible, commodity-backed utility that other fiat currencies lack. The metal thus becomes a lever to encourage the adoption of the yuan in international settlements and reserve accumulation by third parties, effectively extending the institutional reach of China's financial system.

The synergy between these two functions is what lends China's strategy its unique coherence. The accumulation of gold as a shield against dollar-centric risks simultaneously provides the firepower for its use as a sword. A substantial reserve base enhances the credibility of the SGE's pricing mechanism and reassures international partners of the yuan's fundamental stability, thereby facilitating its expanded use in bilateral trade – for instance, in energy transactions with the Russian Federation, the Kingdom of Saudi Arabia, or the United Arab Emirates. Consequently, the binary nature of China's gold policy creates a self-reinforcing dynamic: the pursuit of security (insurance) inadvertently generates new instruments of influence (expansion), which in turn may provoke further geopolitical friction, reinforcing the original need for insurance.

This duality allows us to refine the analytical framework for understanding China's role in global monetary transformations. It moves the discussion beyond a zero-sum game of "dedollarization" and towards a more nuanced appreciation of how a state can leverage a traditional reserve asset to construct the institutional scaffolding for a more multipolar, or at least polycentric, financial order. The strategy does not seek an outright replacement of the dollar in the short term but aims to carve out a self-sufficient and increasingly attractive domain for the yuan, underpinned by the tangible and politically neutral asset of gold.

This conceptual duality is not merely an analytical abstraction; it is empirically traceable in the structural dynamics of China's reserve management and institutional construction. The quantitative expansion of the PRC's official gold holdings, as well as the qualitative development of market infrastructure like the Shanghai Gold Exchange, can be interpreted through the lens of these two paradigms. The following analysis of statistical data (see Tables 1 and 2) and institutional mechanisms seeks to substantiate this dual-function thesis, demonstrating how the pursuit of protective autonomy simultaneously cultivates the instruments of systemic influence.

The data presented in Table 1 indicate an increase in the share of gold in global official reserves after 2008, pointing to a structural but not revolutionary shift towards a more diversified reserve model.

Table 1. Estimated structure of gold and global foreign exchange reserves (percentage of total reserve volume, approximate data) [compiled by the authors according to the World Gold Council]*
Таблица 1. Оценочная структура мировых золотовалютных резервов (% от общего объёма резервов, данные приблизительные) [составлено авторами по данным World Gold Council]**

Year	Gold	Dollar assets	Euro	Other currencies, SDR, etc.др.
1980	55-60	30-35	–	10-15
1990	15-20	50-60	–	25-30
2000	8-12	50-55	15-20	15-25
2010	12-15	45-50	20-25	15-20
2020	9-12	40-45	20-21	25-30
2024	20	46 %	16	18

** Note: data on currencies (dollar, euro) are given as a percentage of the currency part of reserves, gold – as a percentage of total reserves*
*** Примечание: данные по валютам (доллар, евро) приведены в процентном соотношении к валютной части резервов, золото – к общему объёму резервов*

At the turn of the century, gold accounted for approximately 10 % of global reserves, while the dollar constituted about 70 % of the currency portion, the euro emerged. Following the global crisis of 2008-2009, interest in gold intensified; according to BIS/IMF estimates, gold constitutes around 14 % of international reserves. The dollar's share in the currency portion decreased to 60-65 %, with the euro remaining stable at about 20 % [4].

The 21st century has witnessed a new surge of interest in gold, particularly among countries seeking to reduce their dependence on the dollar and enhance reserve resilience against sanctions and geopolitical risks.

As estimated by the ECB, in 2024, gold has become the second most significant reserve asset, reaching approximately 20 % of global official reserves; the dollar's share is about 46 %, the euro's is 16 %, and other currencies account for 18 %. Global central bank gold reserves are approaching 36,000 tonnes. China has been at the forefront of this process, becoming one of the world's largest gold holders and establishing a robust institutional framework for its circulation.

In the 21st century, central banks of developing countries have been actively increasing their gold holdings, viewing the metal as a hedge against sanctions, currency risks, and geopolitical shocks [5].

Against this backdrop, China has emerged as one of the leading players in the global gold market, considering it not only a financial resource but also an instrument of strategic influence.

The growth dynamics of China's gold reserves indicates a strategic approach to this resource. Over the years of economic ascent, the nation's official reserves have multiplied, and according to several researchers, actual volumes may significantly exceed official figures, as a portion of the gold is held via state corporations and specialized financial structures. Based on open data from the People's Bank of China, the country has increased its official gold reserves more than fivefold since the 2000s [6; 7].

Table 2. Official Gold Reserves of China [compiled by the authors according to the World Gold Council]
Таблица 2. Официальные золотые резервы Китая [составлено авторами по данным World Gold Council]

Year	Volume of gold, t	Place in the world
2000	395	9
2010	1054	6
2020	1948	6
2024	2235	5

The active accumulation of gold reserves by China results from a combination of domestic and external factors linked to the transformation of the country's financial system, the changing conditions of the global monetary architecture, and the PRC's aspiration to reduce its vulnerability in the sphere of international finance.

A key factor driving this trend is China's intention to reduce the share of dollar-denominated instruments in its international reserve structure. Increasing financial and political tensions in relations with the United States, the risk of applying sanction mechanisms, and the high concentration of reserves in US government bonds create a need for diversification. In this model, gold functions as an asset unlinked to the obligations of any specific state and thus impervious to blocking risks [8; 9].

Internal factors include the structural peculiarities of the Chinese economy, given the persistent imbalance within the PRC's financial sector – namely, high leverage, instability in the real estate market, and the limited availability of alternative savings instruments for the population – which render gold an important element of domestic economic policy. Against the backdrop of stock market restrictions and the risk of deflationary trends, gold serves as a safe-haven asset for both the state and private investors.

The growth in gold reserves is also attributed to the need to enhance the resilience of the financial system in the face of potential sanctions and crises.

The Institutional Architecture of China's Gold Strategy: The Shanghai Gold Exchange as a Counter-Hegemonic Platform

The conceptual duality of China's gold policy – functioning simultaneously as a protective buffer and an instrument of geoeconomic expansion – finds its most tangible institutional expression in the infrastructure of the Shanghai Gold Exchange (SGE). Established in 2002, the SGE has evolved from a domestic platform serving local industrial and investment demand into a systemic node within the global precious metals architecture, increasingly capable of rivaling the traditional Western trading hubs. A comparative analysis of trading volumes, contract specifications, and settlement mechanisms across the three dominant global platforms – the London Over-the-Counter (OTC) market (LBMA), the New York Commodities Exchange (COMEX), and the Shanghai Gold Exchange – reveals a profound structural realignment of global gold liquidity and pricing dynamics.

Contemporary market data substantiates the emergence of a tripartite global gold trading system. According to the World Gold Council, the London OTC market, the U.S. futures complex, and the Shanghai Gold Exchange collectively account for over 90 percent of global gold transaction volumes. However, the distribution of influence within this triad is undergoing a noticeable transformation. The London market, while still preeminent in terms of international transaction flows – estimated to constitute approximately 70 percent of global OTC turnover – has witnessed a gradual erosion of its relative share as Eastern markets gain prominence. Concurrently, COMEX maintains its position as the dominant venue for gold futures and options, registering approximately 28.9 million tonnes in combined futures and options volume during 2024, positioning it as the world's largest on-exchange derivatives market by turnover – a stark contrast to the primarily OTC structure of the London Bullion Market Association. Yet, it is the Shanghai Gold Exchange that presents the most compelling evidence of a shifting center of gravity.

The SGE's operational scale underscores its systemic importance. During 2024, the Exchange recorded a total bilateral trading volume of 6.23 million tonnes across all gold products (3.11 million tonnes on a unilateral basis), representing a year-on-year increase of 49.90 percent. The corresponding transaction value reached 34.65 trillion yuan bilaterally (17.33 trillion yuan unilaterally), marking an 86.65 percent surge. More recent data for 2025 indicates a continuation of this growth trajectory, with cumulative unilateral trading volume reaching 3.14 million tonnes in the first eleven months alone. These figures establish the SGE as the world's largest physical gold exchange, a distinction conferred by its unique focus on deliverable contracts rather than primarily financial settlement.

A critical differentiator of the SGE model lies in its emphasis on physical delivery and its integration with the real economy. Whereas the London market operates predominantly as a wholesale OTC venue for "loco London" gold – with ownership transferred via unallocated accounts and physical movement occurring infrequently – the SGE mandates that a substantial proportion of its traded volume result in physical withdrawal from its designated vaulting system. This structural feature aligns the Exchange with China's position as the world's foremost producer, consumer, and importer of gold, creating a self-reinforcing ecosystem wherein domestic fabrication demand and investment appetite underpin liquidity. The robustness of this physical channel has, in recent years, contrasted with emerging vulnerabilities in Western market infrastructure. Reports of delivery delays in the London market extending from the standard T+2 settlement to as long as 92 days during periods of stress, coupled with growing skepticism regarding the fungibility between paper claims and allocated metal, have precipitated a gradual migration of liquidity toward jurisdictions offering more reliable access to physical gold.

The SGE's strategic significance is further amplified by its function as the primary vehicle for establishing a renminbi-denominated pricing benchmark. The introduction of the "Shanghai Gold Benchmark Price" in 2016 represented a direct challenge to the century-old dominance of the London Gold Fixing, offering a price discovery mechanism rooted in Asian trading hours and settled in China's national currency. The Shanghai Benchmark Price is determined through a centralized auction process involving major domestic and international participants, with the resulting quotation serving as the reference for physically delivered gold in the world's largest bullion market. Empirical observations indicate that the spread between the Shanghai Benchmark and international benchmarks such as the LBMA Gold Price AM remains within a narrow band under normal conditions, typically ±0.3 percent after accounting for exchange rate fluctuations and import costs. However, episodes of divergence – such as the 1.2 percent premium observed in the third quarter of 2024 – underscore the influence of domestic demand-supply dynamics, seasonal consumption patterns, and capital controls, affirming the existence of a distinct price formation process within the Chinese market.

The institutional completeness of China's gold infrastructure extends beyond the SGE to encompass the Shanghai Futures Exchange (SHFE), which provides a complementary venue for risk transfer and speculative positioning. During 2024, the SHFE recorded a bilateral trading volume of 18.22 million tonnes in gold futures and options (9.11 million tonnes unilaterally), with a corresponding transaction value of 83.96 trillion yuan. The futures exchange operates in tandem with the SGE, offering market participants the ability to arbitrage between physical and paper markets while facilitating hedging for industrial consumers and producers. This dual-exchange architecture, unique among the major gold trading jurisdictions, affords China a comprehensive ecosystem for price discovery, risk management, and physical distribution that operates largely autonomously from Western financial centers.

The cumulative effect of these institutional developments is the gradual formation of an alternative pole of gold market liquidity and pricing authority. While the London Bullion Market Association remains the primary reference for interbank trading and central bank operations, and COMEX continues to dominate speculative positioning, the SGE has established itself as the definitive venue for physical gold transactions in the Eastern hemisphere. This tripartite structure, wherein trading activity is distributed across distinct time zones and institutional logics, suggests an evolving market architecture characterized by polycentric liquidity rather than a single dominant hub. Within this emerging configuration, the Shanghai Gold Exchange functions not merely as a regional marketplace but as a strategic instrument for extending the international role of the renminbi, anchoring confidence in China's monetary sovereignty, and providing a tangible foundation for the broader project of dedollarization.

The development of its own gold market infrastructure creates the necessary institutional conditions for further strengthening China’s position in the global precious metals circulation system. However, the full realization of this strategy is impossible without ensuring stable access to the raw material base. Therefore, an active external expansion by the PRC into the gold mining market – aimed at controlling the resource component of the global gold chain – naturally follows the formation of its domestic exchange and financial space [11].

Chinese companies are actively investing in gold mining across various regions: Africa (Ghana, Ethiopia, Sudan), Central Asia (Kyrgyzstan, Kazakhstan), and South America (Peru, Bolivia). This reduces the country’s dependence on imported gold supplies and strengthens its control over global resources.

The growth in gold reserves primarily establishes a foundation for enhancing the stability of the yuan and expanding its use in international settlements, as the presence of large gold reserves fosters greater confidence in the currency, reduces the need for foreign exchange interventions, and strengthens the country’s capacity for external trade settlements in its own currency [12].

The Synergy between Gold Reserves and the Digital Yuan: Macroeconomic Foundations and Institutional Credibility

The relationship between China's accumulated gold reserves and the developmental trajectory of its central bank digital currency (CBDC) – the digital yuan, or e-CNY – constitutes one of the more frequently oversimplified propositions in contemporary financial discourse. A cursory reading might suggest a direct, quasi-metallic backing of the digital currency by physical gold, analogous to historical commodity-money standards [13; 14]. Such an interpretation, while superficially appealing, misrepresents both the operational logic of the e-CNY and the actual function of gold within China's monetary architecture. A more analytically rigorous formulation posits that gold reserves perform a foundational, albeit indirect, role in supporting the e-CNY project by enhancing the overall credibility and macroeconomic stability of the renminbi ecosystem, within which the digital currency operates as a specialized transactional layer.

The e-CNY, as currently designed and piloted by the People's Bank of China (PBoC), is a liability of the central bank and derives its value from the same source of sovereign authority as physical banknotes and reserve balances. It is not, and has never been presented as, a gold-backed currency in the classical sense of direct convertibility. To argue otherwise would be to fundamentally misunderstand the nature of modern fiat money and the operational parameters of CBDC architecture. The digital yuan functions within the existing two-tier monetary system, distributed by commercial banks to end-users, and its value stability is maintained through the conventional instruments of monetary policy – interest rates, reserve requirements, and open market operations – rather than through any promised redemption into precious metal.

However, to dismiss any meaningful connection between gold reserves and the e-CNY would be equally simplistic. The relationship operates at a more fundamental, structural level, wherein gold accumulation contributes to the creation of an environment conducive to the successful internationalization and adoption of China's digital currency. This mediating function operates through three distinct channels.

First, and most significantly, substantial gold holdings enhance the credibility of the renminbi as a store of value over extended time horizons. For international observers, foreign central banks, and multinational corporations considering the integration of e-CNY into their settlement practices or reserve portfolios, the size and stability of China's official reserves – including their gold component – serve as a tangible signal of the issuing country's capacity to maintain macroeconomic stability even under conditions of systemic stress. In an international monetary system characterized by heightened geopolitical competition and periodic sanctions-related disruptions, the presence of a large, physically settled gold reserve, insulated from the jurisdictional reach of rival financial centers, provides a form of reassurance that purely fiat-based arguments cannot supply. This reassurance, in turn, lowers the psychological and institutional barriers to adopting e-CNY for cross-border transactions, particularly among jurisdictions seeking to diversify their exposure to dollar-based payment infrastructure.

Second, the institutional infrastructure developed to support China's gold market strategy, particularly the Shanghai Gold Exchange (SGE) and its renminbi-denominated pricing mechanisms, creates complementary use cases for the digital currency. As argued in the preceding section, the SGE's emphasis on physical delivery contracts settled in yuan establishes a tangible, commodity-anchored demand for the Chinese currency. The potential integration of e-CNY into this ecosystem – for instance, through the settlement of gold transactions using digital currency wallets – would enhance the programmability and traceability of such payments while reducing settlement friction. Conversely, the existence of a deep and liquid gold market provides a natural domain within which the e-CNY can demonstrate its transactional utility beyond the domestic retail space. This symbiotic relationship between the digital currency and the physical commodity market strengthens both institutional complexes without necessitating any formal convertibility link.

Third, gold reserves contribute to the strategic autonomy of China's monetary policy, thereby creating the policy space within which experimentation with CBDC can proceed without external constraints. A central bank whose balance sheet is heavily concentrated in foreign currency-denominated assets, particularly US Treasury securities, remains exposed to the monetary policy decisions of the issuing jurisdiction and vulnerable to asset freezes or other coercive measures. By diversifying its reserve composition toward gold – an asset with no counterparty risk and no issuer jurisdiction – the PBoC insulates itself from such external pressures. This insulation affords Chinese policymakers greater latitude to pursue innovative monetary initiatives, including the phased introduction of a CBDC, without the constant risk that adverse geopolitical developments could compromise the viability of such experiments. In this sense, gold functions as a strategic buffer that enables monetary sovereignty, within which the e-CNY project can develop according to domestic priorities rather than external dictates.

The cumulative effect of these channels is to establish a relationship of structural complementarity rather than direct causation between China's gold reserves and its digital currency initiative. The gold stock provides the macroeconomic ballast and institutional credibility that render the e-CNY a more attractive and credible proposition for international users, while the digital currency, in turn, offers a technologically advanced vehicle for expanding the transactional domain within which the renminbi – supported by its gold-backed credibility – can circulate. This interpretation aligns with the broader conceptual framework advanced in this study, wherein gold functions simultaneously as a protective buffer (insulating monetary policy from external pressures) and as an instrument of expansion (facilitating the international adoption of renminbi-denominated assets, including their digital form).

Consequently, the relationship between gold and the e-CNY should be characterized not as one of metallic backing or formal convertibility, but as a form of synergistic coexistence within a diversified monetary strategy. The gold reserves enhance the fundamental soundness and geopolitical resilience of the renminbi system; the e-CNY extends the operational frontiers of that system into the digital domain. Neither element is reducible to the other, yet each reinforces the conditions necessary for the other's success. This nuanced understanding avoids both the analytical error of positing a direct gold-e-CNY link and the opposite mistake of dismissing any meaningful connection between the two pillars of China's contemporary monetary statecraft.

According to SWIFT data, the share of yuan in global payments has increased from 0.6% in 2013 to 4.6% in 2024, placing it among the top five world currencies. The strengthening role of the yuan is particularly evident in such areas of international trade as oil transactions within cooperation with Saudi Arabia and UAE, settlements for LNG and coal supplies, as well as expanding currency use within BRICS countries [15].

Thus, the growth of the yuan's share in the SWIFT system is primarily driven by expanded trade settlements, energy contracts, and regional agreements (BRICS). Gold reserves play a supporting function in this context, mitigating currency risks and enhancing trust but are not direct causes of increased yuan usage. However, gold serves as an instrument for insuring against currency risks when countries transition to yuan-denominated settlements.

Therefore, China's increase in gold reserves follows a systemic pattern reflecting its strategy of diversifying official assets. Key factors include high concentration of reserves in dollar-denominated instruments, sanctions-related risks, and the need to enhance financial system resilience. It should be emphasized that increasing gold reserves alone does not automatically lead to an expansion of the yuan's international role, yet they create background macroeconomic stability reducing vulnerabilities in Chinese monetary policy.

The mechanisms discussed allow us to identify the internal logic of how China's gold and foreign exchange reserves policies influence the reinforcement of the yuan's position. However, the impact of this strategy extends beyond national currency systems: its effects manifest globally, affecting the structure and dynamics of today's international monetary system. This can be seen in the acceleration of dedollarization, which becomes increasingly apparent in both international trade and state reserve policies. Many states reduce their dollar holdings while increasing gold reserves. China actively encourages Asian, African, and Latin American countries to adopt transitions towards using yuan-based settlements, linking contracts to gold, and utilizing CIPS instead of SWIFT [16; 17].

Trajectories of Global Monetary Transformation: Scenario Analysis Grounded in Contemporary Trends

The preceding analysis has demonstrated that China's gold-anchored currency strategy operates within a complex and rapidly evolving geopolitical and geoeconomic landscape. Any attempt to project the future trajectory of the global monetary system must therefore move beyond abstract theoretical speculation and engage with the concrete empirical trends that are currently reshaping the architecture of international finance. Drawing upon the conceptual framework developed in this study – wherein gold functions simultaneously as a protective buffer and an instrument of geoeconomic expansion – this section delineates three distinct yet interrelated scenarios for the evolution of the global currency order. Each scenario is grounded in observable dynamics pertaining to sanctions policy, the role of the US dollar in energy markets, and the institutional development of alternative financial mechanisms.

Scenario A: Incremental Multicurrency Coexistence

The first scenario envisions a gradual, non-disruptive transition toward a more diversified global reserve system, wherein the US dollar retains its primacy but coexists with an expanding set of alternative currencies – most notably the renminbi – and gold as a supplementary reserve asset. This trajectory assumes the absence of systemic shocks capable of precipitating a sudden collapse of dollar dominance, coupled with the continued, measured expansion of China's financial infrastructure and the incremental internationalization of the yuan.

Empirical support for the viability of this scenario derives from the current structure of global energy markets. As of early 2026, notwithstanding sustained rhetoric regarding dedollarization, more than 80 percent of global oil transactions continue to be denominated and settled in US dollars. The United States' transformation into a major energy exporter – driven by the shale revolution and liquefied natural gas (LNG) capacity expansion – has, paradoxically, reinforced the petrodollar system. American LNG and crude oil supplies to Europe and Asia are overwhelmingly priced in dollars, creating sustained demand for the currency even as alternative payment mechanisms emerge. Furthermore, the dollar's share of global foreign exchange transactions remains dominant at approximately 88-89 percent, underscoring the depth and liquidity of dollar-denominated markets.

Within this scenario, China's gold reserves and the Shanghai Gold Exchange perform a complementary rather than substitutive function. The existence of a robust renminbi-denominated gold market provides an alternative for jurisdictions seeking to diversify their reserve composition or settlement practices, but it does not actively displace the dollar from its central position. The renminbi's share in global payments – approximately 4.6 percent as of 2024 – continues to grow, yet remains substantially below levels necessary to challenge dollar hegemony. Gold, in this context, functions primarily as a stabilizing buffer for the Chinese financial system and a credibility-enhancing signal for international users of the yuan, rather than as an instrument of systemic transformation.

The incremental scenario is also consistent with the observed behavior of major energy-producing states. Saudi Arabia, despite periodic signals of openness to yuan-denominated oil sales to China, maintains its currency's peg to the US dollar and has not materially altered its pricing practices. Any fundamental shift in Riyadh's position would require commensurate security guarantees from Washington – a condition unlikely to be satisfied in the absence of a profound deterioration in US-Saudi relations. Similarly, the Gulf Cooperation Council states continue to conduct the overwhelming majority of their energy exports in dollars, reflecting the entrenched institutional complementarity between dollar pricing, US security provision, and regional financial stability.

Scenario B: Regional Currency Fragmentation

The second scenario posits a more pronounced fragmentation of the global monetary landscape into distinct currency blocs, each organized around a dominant regional currency and supported by dedicated payment infrastructure, settlement mechanisms, and – crucially – gold reserves as a foundational anchor. This trajectory presupposes the intensification of geopolitical competition, the weaponization of financial connectivity, and the consequent impetus for states to insulate themselves from extraterritorial sanctions.

The empirical foundations for this scenario are increasingly evident in contemporary developments. The imposition of comprehensive sanctions on the Russian Federation following its 2022 invasion of Ukraine, and the subsequent freezing of approximately $300 billion in Russian central bank assets, demonstrated the vulnerability of dollar-denominated reserve holdings to geopolitical coercion. This event catalyzed a systematic reorientation of Russian trade and financial flows away from Western jurisdictions and toward alternative partners. By late 2025, approximately 90-95 percent of Russia's bilateral trade with China and India was conducted in national currencies – primarily the yuan and ruble – rather than dollars. The share of ruble and yuan settlements in Russian export earnings reached 57.4 percent and 33.5 percent respectively by September 2025, marking a fundamental realignment of the country's external financial relations.

Parallel developments are observable in the Middle East and Asia. Iran, subjected to intensified US sanctions, has emerged as a pioneer of dedollarization in the energy sphere, actively employing barter arrangements, national currency settlements (notably with China), and digital payment mechanisms to circumvent financial restrictions. Chinese imports of Iranian crude, estimated at approximately 2.04 million barrels per day as of late 2025, are settled predominantly in yuan, with the resulting proceeds posing complex repatriation challenges for Tehran but simultaneously reinforcing the renminbi's role in regional energy trade. Saudi Arabia's accession to the mBridge project – a multilateral platform for central bank digital currency-based cross-border payments initiated by the People's Bank of China – further suggests a gradual institutional realignment, even in the absence of immediate shifts in pricing practices.

The institutional architecture supporting regional fragmentation is rapidly maturing. The BRICS grouping, now accounting for approximately 35 percent of global GDP, has intensified efforts to develop alternative payment systems and financial infrastructure. The proposed BRICS grain exchange, slated for development by mid-2026, envisions direct commodity trading in national currencies, bypassing Western pricing benchmarks and settlement channels [18; 19]. The BRICS Pay initiative, facilitating QR code-based settlements in local currencies without SWIFT intermediation, is undergoing progressive scaling across member states. Russia's development of the "North-South" transport corridor and the Northern Sea Route as alternatives to traditional maritime chokepoints further underscores the material basis for regional economic integration independent of Western-controlled infrastructure.

Within this fragmented architecture, gold assumes heightened strategic significance. For states operating outside the dollar-based system – or seeking to reduce their exposure to it – gold reserves provide a neutral, jurisdiction-free asset capable of supporting currency stability and underpinning bilateral settlements. China's accumulation of 2,235 tonnes of official gold reserves, supplemented by substantial unofficial holdings, positions the renminbi as the anchor currency of an emerging Eurasian financial space. The Shanghai Gold Exchange's role in establishing a renminbi-denominated physical gold price creates the institutional precondition for gold-backed settlements within this bloc, while the digital yuan offers a technologically advanced vehicle for executing such transactions with enhanced programmability and reduced friction.

Scenario C: Strategic Neutralization and the Resurgence of Gold

The third scenario envisions a more fundamental transformation, wherein gold reemerges not merely as a supplementary reserve asset but as a central component of a reconfigured global monetary order. This trajectory does not presuppose a formal return to the Bretton Woods system of dollar-gold convertibility, but rather a gradual "neutralization" of currency competition through the elevation of gold to the status of a universal, politically neutral reference point for international settlements and reserve composition.

The plausibility of this scenario derives from two interconnected dynamics: the geopolitical weaponization of financial connectivity and the structural evolution of the global energy system. The former dynamic, as discussed above, has demonstrably eroded trust in dollar-denominated assets among states perceiving themselves as potential targets of US sanctions. The latter dynamic – the accelerating energy transition – introduces a more fundamental, long-term challenge to the petrodollar system. China's dominance in the electric vehicle (EV) ecosystem, encompassing battery production, critical mineral processing, and final vehicle assembly, represents a structural transformation of global energy demand with profound implications for the currency architecture underpinning energy trade. To the extent that the energy transition diminishes the relative importance of oil in global commerce, it correspondingly erodes the material foundation of dollar hegemony.

In this context, gold's attributes of political neutrality, absence of counterparty risk, and historical resonance as a store of value render it uniquely suited to function as a stabilizing anchor in a multipolar and potentially conflictual international system. Central bank gold purchases, which accelerated following the 2008-2009 global financial crisis and intensified after 2022, reflect a secular shift toward reserve diversification motivated by precisely these considerations. The World Gold Council's estimate that gold constituted approximately 20 percent of global official reserves by 2024 – a substantial increase from the 8-12 percent range prevailing at the turn of the century –attests to the materiality of this trend.

Within this scenario, China's gold strategy assumes paradigmatic significance. By combining substantial reserve accumulation with the development of renminbi-denominated physical gold market infrastructure, China positions itself at the center of an emerging monetary order wherein gold and currency are institutionally integrated rather than separated. The Shanghai Gold Exchange's benchmark price, determined during Asian trading hours and settled in yuan, offers an alternative reference point for gold-denominated transactions that operates independently of London and New York. The potential integration of the digital yuan with this gold market infrastructure – facilitating programmable, traceable settlements for physical gold transactions –would further enhance the institutional completeness of this alternative financial ecosystem.

Synthesis and Contingencies

The three scenarios delineated above should not be interpreted as mutually exclusive or deterministically inevitable. The actual trajectory of the global monetary system will likely incorporate elements of each, with the relative weight of competing dynamics determined by a constellation of political, economic, and technological factors. Several critical contingencies warrant particular attention.

First, the prospective normalization of US-Russia relations in the context of a negotiated settlement to the Ukraine conflict introduces significant uncertainty regarding the future trajectory of dedollarization. Internal Kremlin documents circulated in early 2026 reportedly outline a comprehensive economic partnership with the Trump administration, encompassing joint energy projects, critical mineral cooperation, and – most strikingly – a potential Russian return to dollar-based settlement systems, including for energy transactions. Should such a realignment materialize, it would represent a profound reversal of Russia's post-2022 financial strategy and would substantially complicate the dedollarization agenda within the BRICS framework. Western officials remain skeptical that Moscow would ultimately jeopardize its strategic alignment with Beijing, yet the very existence of such discussions underscores the contingent and reversible nature of currency realignments.

Second, the trajectory of US sanctions policy will materially influence the pace and direction of dedollarization. The aggressive application of extraterritorial sanctions – exemplified by proposed legislation authorizing tariffs of up to 500 percent on nations purchasing Russian oil – creates powerful incentives for targeted states to develop alternative payment mechanisms. Yet simultaneously, the threat of secondary sanctions constrains the capacity of third-country actors to engage with sanctioned jurisdictions, limiting the practical scope of dedollarization. The net effect of sanctions on dollar dominance is therefore ambiguous: they demonstrate the currency's coercive utility while simultaneously motivating efforts to circumvent it.

Third, the institutional development of BRICS financial architecture will shape the feasibility of currency diversification. The proposed expansion of local currency settlement mechanisms, the development of BRICS Pay, and the potential establishment of a BRICS clearing union would incrementally reduce dependence on dollar-based infrastructure. However, the absence of a common BRICS currency, the diversity of members' economic structures and policy preferences, and the continued depth and liquidity of dollar markets impose binding constraints on the pace of transformation.

In synthesis, the future of the global monetary system is best understood as an open-ended process of contestation and adaptation, wherein China's gold strategy constitutes one significant variable among many. The dual-function framework advanced in this study – gold as protective buffer and as instrument of expansion – provides analytical leverage for interpreting this process, revealing how the accumulation of a traditional reserve asset can simultaneously serve defensive and offensive purposes within a broader strategy of monetary statecraft. The eventual outcome will depend not only on China's continued execution of its gold strategy but on the interaction between that strategy and the evolving policies of the United States, the European Union, and other major monetary powers, as well as on the structural transformations – geopolitical, technological, and environmental – that are reshaping the foundations of global economic order.

Conclusions

The preceding analysis has sought to elucidate the multifaceted relationship between China's accumulation of gold reserves and the evolving international role of the renminbi, situating this relationship within the broader context of structural transformation in the global monetary system. The evidence marshaled throughout this study supports a conception of China's gold strategy not as a monolithic or unidimensional policy but as a sophisticated, multilayered project that operates simultaneously on domestic, regional, and global levels. In synthesizing the findings, several overarching conclusions emerge that bear directly upon the research questions initially posed.

First, the binary conceptual framework introduced in this study – distinguishing between gold as a protective buffer and gold as an instrument of geoeconomic expansion – provides analytical leverage for interpreting the apparent contradictions in China's reserve policy. The defensive function of gold reserves is manifest in the imperative to diversify away from dollar-denominated assets, insulate the national financial system from extraterritorial sanctions, and provide a stable store of value capable of withstanding geopolitical turbulence. The offensive function, by contrast, is evidenced in the institutional infrastructure developed around the Shanghai Gold Exchange, the establishment of a renminbi-denominated physical gold price, and the progressive integration of gold market mechanisms with broader initiatives for yuan internationalization. These two functions, far from being mutually exclusive, operate in a mutually reinforcing dynamic wherein the pursuit of defensive autonomy generates the institutional capacity for offensive projection, while the expansion of yuan-denominated gold circulation creates new constituencies with a stake in the stability and credibility of China's monetary order.

Second, the analysis has identified and systematized four principal mechanisms through which China's gold strategy influences the international position of the renminbi and the broader architecture of global finance:

Mechanism 1: Credibility Enhancement. Gold reserves function as a tangible signal of monetary stability and geopolitical resilience, reducing the perceived risk associated with holding and transacting in renminbi-denominated assets. This credibility effect operates primarily at the level of central banks and institutional investors, for whom the composition of China's reserve portfolio serves as a proxy for the country's capacity to maintain macroeconomic stability under conditions of systemic stress.

Mechanism 2: Institutional Infrastructure. The Shanghai Gold Exchange, with its emphasis on physically delivered contracts settled in yuan, creates a distinct institutional space for gold circulation that operates independently of Western financial centers. This infrastructure provides foreign central banks, commercial entities, and investors with a compelling use case for holding renminbi – namely, access to the world's largest physical gold market – thereby generating structural demand for the currency that transcends conventional trade and investment flows.

Mechanism 3: Pricing Authority. The establishment of the Shanghai Gold Benchmark Price, determined during Asian trading hours through a centralized auction process, challenges the historical dominance of London and New York in gold price discovery. While the Shanghai price remains influenced by international benchmarks under normal conditions, episodes of divergence – reflecting domestic demand-supply dynamics, seasonal consumption patterns, and capital controls – attest to the emergence of a distinct price formation process rooted in the world's largest physical gold market. This pricing authority, in turn, enhances the attractiveness of the renminbi as a currency for commodity transactions and reserve composition.

Mechanism 4: Strategic Complementarity. The relationship between gold reserves and the digital yuan (e-CNY) exemplifies a broader pattern of structural complementarity within China's monetary strategy. Gold provides the macroeconomic ballast and geopolitical insulation that enable experimentation with CBDC; the digital yuan extends the operational frontiers of the renminbi system into the programmable, traceable domain of next-generation payment infrastructure. Neither element is reducible to the other, yet each reinforces the conditions necessary for the other's success, creating a synergistic dynamic that enhances the overall resilience and reach of China's currency architecture.

Third, the analysis has demonstrated that the influence of China's gold strategy on the global monetary system is mediated through these mechanisms rather than operating as a direct, determinative force. The growth of the renminbi's share in global payments – from 0.6 percent in 2013 to approximately 4.6 percent in 2024 – reflects a confluence of factors, including expanded trade settlements, energy contracts with major producers, and regional financial integration within the BRICS framework. Gold reserves contribute to this trajectory by mitigating currency risk, enhancing trust among international counterparties, and providing the institutional infrastructure for yuan-denominated commodity transactions. Yet the pace and direction of renminbi internationalization remain constrained by structural factors – most notably the limited convertibility of the Chinese currency, the depth and liquidity of dollar-denominated markets, and the geopolitical contestation surrounding financial connectivity – that lie beyond the ambit of gold policy alone.

Fourth, the scenario analysis developed in this study underscores the contingent and contested nature of global monetary transformation. The incremental multicurrency scenario, the regional fragmentation scenario, and the strategic neutralization scenario each derive plausibility from observable trends – the persistence of dollar pricing in energy markets, the weaponization of financial infrastructure, the accelerating energy transition, and the institutional development of alternative payment mechanisms. The actual trajectory of the global monetary system will depend upon the interaction between China's continued execution of its gold strategy and the evolving policies of the United States, the European Union, and other major monetary powers, as well as upon structural transformations – geopolitical, technological, and environmental – that are reshaping the foundations of international economic order. Critical contingencies, including the prospective normalization of US-Russia relations, the trajectory of sanctions policy, and the institutional evolution of BRICS financial architecture, introduce substantial uncertainty regarding the pace and direction of change.

Finally, an overarching conclusion emerges regarding the role of gold within China's broader strategy of monetary statecraft. The argument advanced throughout this study is that gold functions not as an archaic remnant of a bygone monetary era but as a uniquely versatile instrument adapted to the exigencies of twenty-first-century geopolitical and financial competition. Its attributes – political neutrality, absence of counterparty risk, resistance to extraterritorial jurisdiction, and historical resonance as a store of value – render it singularly suited to serve as both a defensive shield against the coercive potential of dollar-based financial infrastructure and an offensive sword for extending the institutional reach of the renminbi into new domains of international commerce and finance.

In this sense, China's gold strategy embodies a distinctive form of monetary statecraft that transcends the conventional dichotomy between market-based integration and geopolitical autonomy. It seeks not to dismantle the existing monetary order but to construct, alongside it, an alternative institutional space within which the renminbi can circulate and gain acceptance on terms increasingly independent of Western financial centers. The gold reserve, in this configuration, functions as both foundation and frontier – anchoring the stability and credibility of the domestic currency system while simultaneously extending the outer perimeter of China's monetary influence into the contested terrain of global economic governance.

The cumulative effect of these developments, as this study has sought to demonstrate, is not the imminent displacement of the dollar from its position of global primacy but the gradual emergence of a more complex, polycentric monetary landscape wherein multiple currencies, payment systems, and reserve assets coexist and compete. Within this evolving architecture, gold – that most ancient of monetary instruments – has been strategically repurposed to serve the most modern of geopolitical objectives: the construction of a financial order capable of sustaining China's rise as a global power while insulating it from the coercive potential of the system it seeks to transform.

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