A staff member demonstrates the e-CNY payment system during the 2024 China International Fair for Trade in Services in Beijing. (Li Xin / Xinhua via Getty Images)

Implications of Alternative Payment Methods in a China-Taiwan Confrontation

Gavin Moore

Introduction

In March 2024, former U.S. Indo-Pacific Command Adm. John Aquilino testified to the Senate Armed Services Committee that "all indications point to the PLA (the People's Liberation Army) meeting President Xi Jinping's directive to be ready to invade Taiwan by 2027."[1] Aquilino's assertion was based on the PLA's buildup "occurring across land, sea, air, space, cyber and information domains" on a scale "not seen since World War II."[2] At the time of writing, forecasters have given an 8.6 percent probability of a lethal confrontation occurring between China and Taiwan before Oct. 1.[3] The prospect of China invading the island – potentially on a shorter timeline than Xi's directive – is one U.S. policymakers must take seriously.

How can we cut through the noise and make sense of the timing of a possible confrontation between China and Taiwan? Analysis and attention have reasonably focused on the actions of the PLA and the "anaconda strategy."[4] However, the impact of warfare plays out across many sectors, including some that may appear indirectly related to the conflicts themselves. Witness the worldwide volatility in the price of sunflower oil[5] [6] after the Russian invasion of Ukraine in February 2022 or the impact on international trade of al-Houthi rebels targeting oil tankers in the Red Sea in September 2024.[7] While these events occurred after conflict had begun, we can look for early warning signals that would indicate a China-Taiwan confrontation is more likely to occur.

One such signal is China's role in the development of alternative payment methods (APMs). APMs are defined as financial modalities, including payment, settlement and reserve holdings, that either take place outside of Western financial institutions, such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT) or are performed without the use of the U.S. dollar (USD) as the main currency of transaction. This includes the use of other fiat currencies like the Chinese renminbi (RMB), as well as the use of digital currencies, like cryptocurrencies or Central Bank Digital Currencies (CBDCs).[8]

A Pivot in China's APM Strategy

China's APMs strategy to date has focused on undermining USD hegemony through a process of diversifying its own position, for example by buying up more gold over the previous decade to reduce reliance on USD in its reserves. Despite this, China is the world's largest foreign exchange holder, with $3 trillion of its reserves in a foreign currency, a majority of which is in USD.[9] Holding USD in reserve has made sense from an international trade perspective for China: USD reserves make trade easier to execute, as the dollar's hegemony means most trading continues to take place in dollars. Nonetheless, China has also made great efforts to promote the RMB[10] among its allies and trading partners, for example by incentivizing the use of RMB in crude oil transactions.[11,12]

Policymakers should be alert to a potential pivot in China's APMs strategy as an early warning signal of a possible China-Taiwan confrontation. Rather than diversifying holdings or promoting RMB, China's APMs strategy is becoming more targeted, using de-dollarization[13] to blunt the effectiveness of U.S. economic sanctions. This strategic pivot has been spurred by the events following Russia's invasion of Ukraine in 2022. During the conflict, we have seen a noticeable acceleration in the development of APMs by both Russia and China for the purpose of blunting sanctions, although with some subtle and crucial differences. Russia's approach can be viewed as rapidly reactive to an unprecedented level of economic sanctions from Western governments, while China has been cautiously proactive, laying the groundwork in anticipation of future sanctions should it invade Taiwan, but not yet embracing APMs with the same enthusiasm as Russia.

As China pivots its APM strategy, U.S. policymakers will need to consider the implications of this for (a) maintaining USD's position as the world's reserve currency,[14] a key part of President Donald Trump's election policy platform,[15] and (b) the effectiveness of sanctions as a foreign policy lever in the event of an invasion of Taiwan. A priority among several recommended actions for this administration would be the creation of an APM Strategic Coordination Unit to monitor early warning signals that would point to an increased probability of an invasion. The unit's remit would be to ensure information-gathering and rigorous scrutiny of these signals, and to serve as a convening body for departments, working groups , and agencies across government. This will ensure the U.S. is unified, coordinated, and prepared to respond to APM developments that would indicate an increased probability of invasion.

APM Landscape After Russia's Invasion of Ukraine

Following Russia's invasion of Ukraine in February 2022, the level of economic sanctions imposed by Western governments has been described as unprecedented and is significantly above those imposed following Russia's 2014 occupation of Crimea. Since the more recent invasion, over 18,300 sanctions designations have been made against individuals, entities, vessels, and aircraft with ties to the Russian state.[16] Sanctions have not been limited to Russian targets either, with the U.S.'s "secondary sanctions" regime[17] targeting Chinese firms supplying "dual use" items,[18] as well as firms with direct involvement in arms supplies to Russia's war effort.[19]

The Russian and Chinese response to these sanctions has shifted the APMs landscape in a way that U.S. policymakers may look back on as a turning point in efforts to de-dollarize the international financial system. Of course, de-dollarization itself is not a novel concept.[20,21,22] Predictions of the impending demise of the USD as the world's pre-eminent currency have a long history[23] and have regularly made the predictors look foolish.[24,25] So why might this time be different?

Changes in Russia's Approach to Digital Assets

As recently as January 2022, the Central Bank of Russia had been pushing for a complete ban on cryptocurrencies, with support from the Russian Security Services.[26] The situation now couldn't be more different. Cryptocurrencies have become part of the war effort, with Russia reportedly using crypto to pay for dual use goods from Chinese companies due to sanctions causing difficulties in transacting in rubles.[27] Pro-Russian groups with links to the state have also been raising crypto donations for the state's war effort,[28] although the amount of crypto that has been raised has been vastly exceeded by crypto donations to Ukraine.[29]

The Russian government enacted two crypto-related bills on international payments and mining in August 2024,[30] and Russian lawmakers – like their U.S. counterparts – are considering a Bitcoin national reserve.[31] Russia has also accelerated development of its own CBDC, referred to as the "robot ruble." In October 2024, the Central Bank of Russia revealed a mass rollout date for the currency by July 1, 2025, although there were reports of pushback by retailers[32] and slower-than-anticipated uptake by banks during a pilot program.[33] There are also rumors the Central Bank of Russia plans to use tokenized assets, such as gold and other commodities, on Russia's alternative to the SWIFT payment platform.[34] This rapid pivot in its APMs strategy was encapsulated in July 2024 by President Vladimir Putin, who called cryptocurrencies "a very dynamic and promising direction of the modern economy." [35]

This embrace of digital assets – whose timeline parallels the Russian invasion of Ukraine – is clearly an attempt to negate the effectiveness of Western sanctions by reducing Moscow's reliance on Western financial institutions.

Russian Alternatives to SWIFT

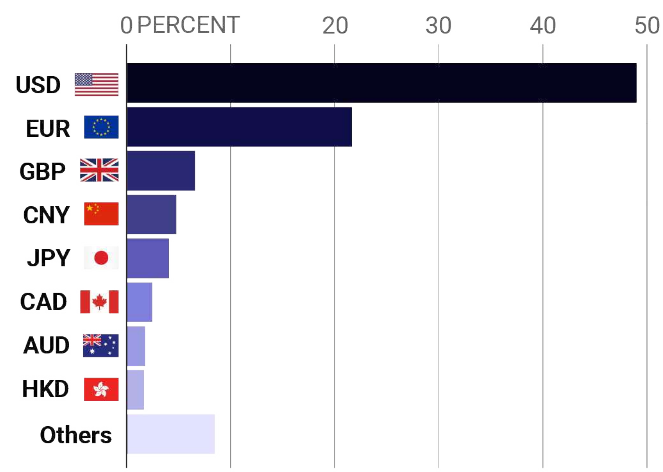
Recent sanctions are also impacting Russia's desire to develop an alternative to SWIFT. Take the global payment network as a case study. Created in 1973, SWIFT has long been the "global financial artery" that allows the smooth and rapid transfer of money across borders.[36] SWIFT links 11,000 banks and institutions in more than 200 countries and sends more than 40 million messages a day as trillions of dollars change hands. The USD dominates payments on SWIFT, which accounts for around 49 percent of the system's payments, compared to 4.7 percent for the yuan.[37]

The USD's historic dominance of SWIFT has been challenged by Russian and Chinese alternatives, both of which predate Russia's invasion of Ukraine. Russia developed the System for Transfer of Financial Messages (SPFS) in 2014 after the U.S. and its allies threatened it with expulsion from SWIFT because of its invasion of Crimea – a threat they made good on in March 2022 following the full-scale invasion of Ukraine.

The success of these SWIFT alternatives has, until now, been mixed. The use of SPFS has reportedly tripled in 2023 since 2022,[38] although Russia has had little alternative following its expulsion from SWIFT. In any event, this growth in the use of the SPFS is starting from a low base.[39] Only a fraction of organizations and countries are operating on SPFS compared to SWIFT. In June 2024, the EU outlawed the use of SPFS by EU entities operating outside of Russia,[40] which is likely to curtail any further growth of the platform. Russia

Currencies of SWIFT

Shares processed on global payment network SWIFT



Source: Statista

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APMs of BRICS

BRICS Cross-Border Payments Initiative (BCBPI)	A voluntary and non-binding initiative that aims to strengthen corresponding banking networks within BRICS and enable settlements in local currencies of BRICS members. Seen as a potential alternative to SWIFT and sometimes referred to as BRICS Pay.
BRICS Bridge	Inspired by mBridge (see below), the BRICS Bridge aims to let countries conduct cross-border settlements using digital platforms runs by BRICS members' central banks, including a combination of CBDCs, blockchain, and tokens.
BRICS Clear	An independent securities depository and settlement system available only to BRICS members and seen as an alternative to Western entities such as the Depository Trust and Clearing Corporation and Euroclear.
mBridge (outside of BRICS)	Coordinated by the Bank for International Settlements, mBridge is a collaboration between the central banks of the UAE, China, Hong Kong and Thailand. mBridge is a platform that allows for real-time, cross-border payments and foreign exchange transactions using CBDCs.

Source: Gavin Moore

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knows that it cannot go it alone; the success of a SWIFT alternative relies on convincing other countries.

Enter BRICS

The BRICS[41] countries are geographically dispersed across three continents. They seek cooperation on a diverse and growing range of priorities that often conflict with the West. They are ambitious about expansion to include more members, and they are pushing for further institutionalization as a counterweight to the IMF and World Bank. In January 2024, BRICS saw the accession of four new countries, the largest expansion in the organization's history. The addition of Egypt, Ethiopia, Iran, and the United Arab Emirates takes the bloc's share of global gross domestic product (at purchasing power parity) from 32 percent to 36 percent and population from 41 percent to 46 percent.[42] A further 13 countries were offered partnership status at an October 2024 summit in Kazan, Russia.[43]

Until now, BRICS has been united more in what it opposes than in what it supports. While BRICS members have considered APMs initiatives before, like the New Development Bank and BRICS Bridge, proposals at the 2024 Kazan summit[44] represent a significant acceleration in the institutionalization of APMs among its membership. This was most evident in proposed alternatives to SWIFT such as the BRICS Cross-Border Payments Initiative (BCBPI).

Initiatives like BCBPI are being driven by Moscow,[45,46] but the motivation behind the latest SWIFT alternative is primarily as a means of avoiding economic sanctions rather than challenging USD hegemony. In Putin's post-summit news conference, he called the Kazan Declaration "a comprehensive conceptual document" that "reaffirms the commitment of all BRICS countries to building a more democratic, inclusive, and multipolar world order" and "underscores our collective determination to oppose the practice of imposing unlawful sanctions and attempts to erode traditional moral values."[47] The West's sanctions response to the invasion of Ukraine is clearly a significant motivating factor in Russia's recent APMs push multilaterally.

BRICS members who continue to rely on SWIFT and are not subject to U.S. sanctions now, or would not anticipate being subject to sanctions in the future, are less enthusiastic about the proposal and may have different goals.[48] In August 2023, South African Finance Minister Enoch Godongwana said BRICS would not be looking to replace international payment systems like SWIFT but that a BRICS payment system is instead important for "strengthening trade" in local currencies.[49]

The effectiveness of these SWIFT alternatives and their impact on the USD's status as the world's reserve currency remains to be seen. Nevertheless, the Kazan Declaration does represent a much more sustained APMs drive than we have seen previously. U.S. policymakers will want to monitor concerted attempts by BRICS countries to reduce the overall USD share of global reserves. They will also want to pay close attention to any shifts in Moscow's APMs strategy, for example, if the lifting of economic sanctions forms part of a deal to end the war in Ukraine.[50]

China's APMs Strategy

In headline terms, Russia and China's APMs strategies have been on similar recent trajectories in the pursuit of de-dollarization to provide a bulwark against sanctions. But if we scratch beneath this surface, more subtle differences in approach appear.

Raising the Renminbi's Profile

China's initial APMs approach was focused on increasing the use and economic heft of the RMB, a policy that has borne fruit. For instance, the share of RMB in all cross-border transactions of Chinese non-bank entities with foreign counterparts was close to zero in 2010, but by late 2023, this had risen to around 50 percent.[51] In contrast, the USD share in these transactions has declined from around 80 percent in 2010 to 50 percent in 2023.[52] Thanks in part to the development of its own SWIFT alternative in 2015, the Cross-Border Interbank Payment System (CIPS),[53] 25-30 percent of China's goods-and-services trade is now settled in its own currency.

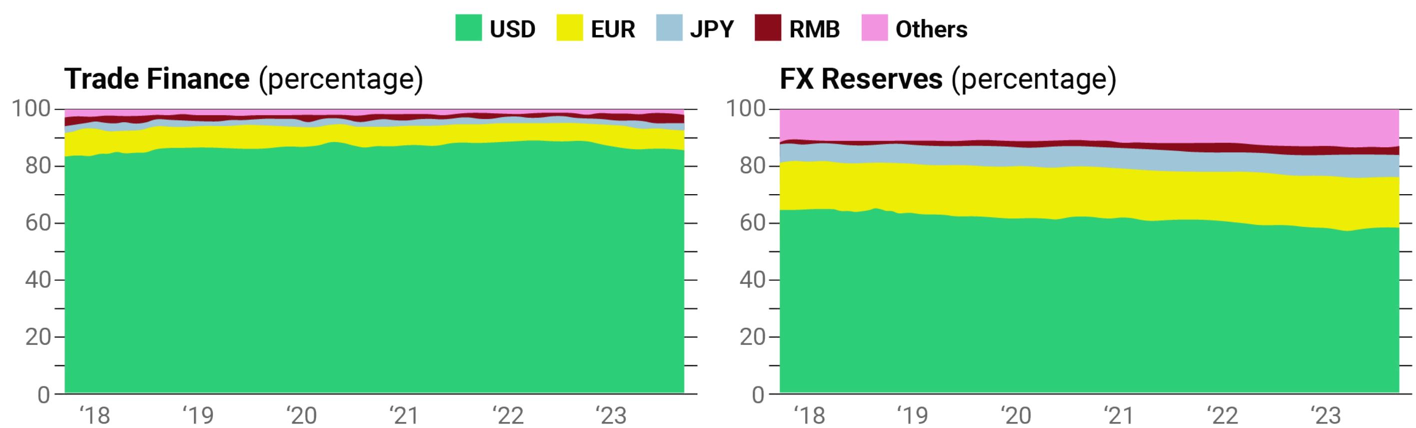
China has been able to leverage the RMB in partnership with countries hit by sanctions, such as Iran and Russia. For example, Iran and China signed a 25-year cooperation plan to facilitate trade in 2022. In May 2023, Russian authorities were reportedly considering using RMB to facilitate their own bilateral trade with Iran.[54] While the RMB is on the rise, it is starting from a low base compared to USD as both reserve currency figures and its use on SWIFT demonstrate.

Like Russia, China's own SWIFT alternative has delivered mixed results. While it has helped to promote RMB in goods-and-services trade, CIPS still relies on SWIFT for translating messages between China and its business partners, with around 80 percent of CIPS payments estimated to use SWIFT messaging systems. This gives the U.S. leverage over private entities that continue to rely on SWIFT and the dollar in their transactions with China.[55] There is scope to grow the influence of CIPS through the recent expansion of BRICS membership. Of the new members, only the United Arab Emirates contains a direct CIPS participant within its borders.[56] China may also look to the 13 countries that received BRICS partner status in Kazan to further expand adoption of CIPS.

China's Complicated History with Digital Assets

China was an early adopter of CBDC technology, gaining an advantage over its counterparts, including

USD Dominance in Global Trade Finance and FX Reserves



Source: IMF

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Russia, with the introduction of a digital yuan (e-CNY) in 2014. The digital yuan is directly issued by the People's Bank of China (PBOC) as a digital currency to individuals. Unlike a wholesale CBDC, which is usually intended for banks and financial institutions, the digital yuan is a retail CBDC designed for everyday transactions.[57] It is pegged 1:1 with the physical yuan and does not bear interest. The PBOC reported around 180 million individual wallets in use as of July 2024,[58] assisted by integration into the hugely popular WeChat app.[59]

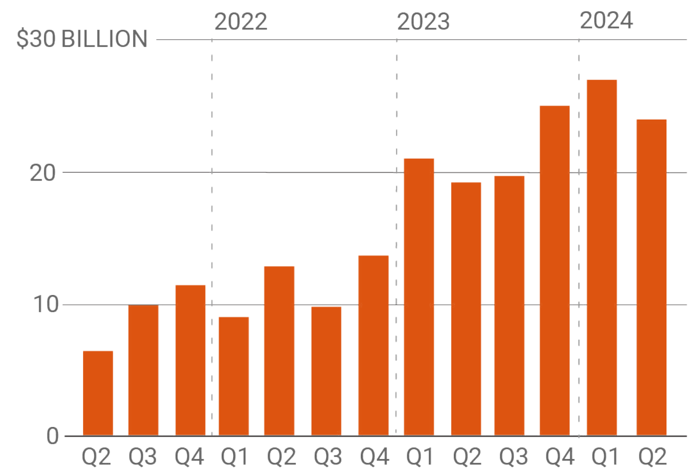
China is also actively seeking to promote e-CNY on the international stage, including on platforms like mBridge,[60] which is built on distributed ledger technology to enable instant cross-border payments and settlement for multiple CBDCs.[61] China was one of the prime movers in building the infrastructure behind mBridge. As a proof of concept, the UAE's central bank sent 50 million in digital dirhams ($13.6 million) to China in a single transaction on the platform in January 2024.[62]

While China has been an enthusiastic proponent of the CBDC technology, this enthusiasm has not extended to cryptocurrencies outside of PBOC control. While cryptocurrency is often perceived to be banned in China,[63] the reality is more complex. In 2017, China banned initial coin offerings and clamped down on exchanges operating from its territory. China's foreign exchange regulator has recently introduced new rules on the country's banks to monitor and flag risky trades involving cryptocurrencies.[64] However, individual holdings and cryptocurrency transactions are not strictly illegal. Despite this, digital currencies do not have the same status as fiat currencies, and digital currency-related business activities were made illegal financial activities in a swath of 2021 restrictions.[65] The PBOC said these measures were necessary as cryptocurrency "seriously endangers the safety of people's assets"[66] due to its highly speculative nature, and for its use in facilitating financial crime.[67] Ironically, China has become the world's second-largest holder of Bitcoin (behind the U.S.), which it has acquired through asset seizures linked to illegal activities.[68]

The perception that it is impossible to transact in cryptocurrencies in China is inaccurate, even if the barriers to entry are high. For example, blockchain

Crypto Exchanges in China

Total value received from select over-the-counter exchanges in China



Source: Chainanalysis © 2025, The New Lines Institute for Strategy and Policy

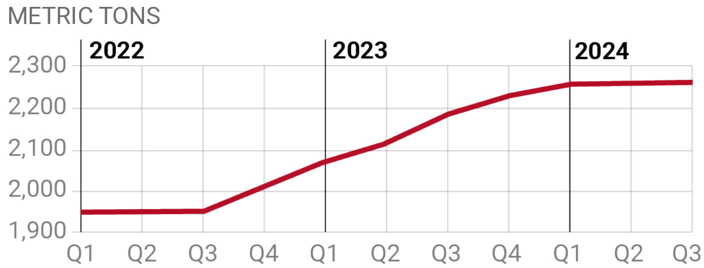
analytics firm Chainalysis' 2024 Global Crypto Adoption Index ranks China as high as 20th out of 151 countries in terms of cryptocurrency adoption (the U.S. is ranked 4th and Russia 7th).[69] As China's economy struggles and the value of the property market declines, wealthy Chinese individuals are increasingly turning to crypto through over-the-counter platforms.

While the rapidly reactive approach to digital assets represent a clear and recent shift in Russian APMs policy, for China the picture is more complicated. Some commentators are suggesting China is taking a "long bet" that payments technology, not a creditors' rebellion or armed conflict, will reduce the power the U.S. gets from being at the center of global finance.[70] But at least at the official level, China has not embraced cryptocurrencies to the same extent Russia has.

China's Cautiously Proactive Strategy

The long-term aim of China's APMs strategy has been to develop a currency order that is less dependent on USD. President Xi Jinping has been critical of the current order and how it has underwritten the use of sanctions. Xi told a BRICS Business Forum meeting in June 2022 that members should oppose "unilateral sanctions and abuse of sanctions, and reject the small

China's Increasing Gold Reserves



Source: World Gold Council © 2025, The New Lines Institute for Strategy and Policy

circles built around hegemonism."[71] We may now be seeing signs of a pivot – in alignment with Russia – from promoting the RMB toward providing a bulwark against future possible sanctions.

Take the PBOC's recent gold-buying spree as an example.[72] The PBOC bolstered its gold purchases by 30 percent over the course of 2023.[73] The IMF reports that China's share of gold in total reserves has increased from less than 2 percent in 2015 to 4.3 percent in 2023. During the same period, the value of China's holdings of U.S. Treasury and Agency bonds relative to currency reserves declined from 44 percent to about 30 percent.[74]

China and Russia have not been alone in buying up gold as a reserve asset. However, the share of gold in FX reserves of countries aligned with the United States has been broadly stable. The IMF therefore concludes that "gold purchases by some central banks may have been driven by concerns about sanctions risk."[75] China's gold purchases correspond to the Russian invasion of Ukraine, particularly when economic sanctions began to bite in the third and fourth quarters of 2022, leading some to speculate that China is learning from what happened to Russia in the aftermath.[76]

Despite this acceleration, China remains the world's sixth-largest holder of gold reserves, with Russia fifth and the U.S. first.[77] China's purchases of gold paused when prices reached an all-time high of $2,450 per ounce in July 2024. However, the PBOC has now resumed buying the reserve, reporting its third consecutive monthly gold purchase in January 2025, despite gold prices continuing to rise.[78] There likely is a geopolitical dimension behind the recent gold buying spree.

Some commentators have argued that initiatives like the BCBPI could undermine China's patient efforts to increase the market share of RMB[79] and therefore question the long-term viability of these proposals. However, it is highly unlikely China would have given its backing to the Moscow-led initiatives if they were not serving its strategic interests. This could suggest a cautiously proactive shift in emphasis in China's APMs policy from promoting the RMB first, toward measures that provide a bulwark against future economic sanctions.

We may be seeing further evidence of this in China's contributions to the mBridge platform and how a BRICS Bridge might develop. Putin has been pushing for the BRICS countries to back BRICS Bridge. Coordination of the mBridge platform has been provided by the Swiss-based Bank of International Settlements, of which Russia is not a member. As such, Russia was not part of the original quartet of central banks (China, Hong Kong, Thailand, and the United Arab Emirates) on mBridge.[80] The Bank of International Settlements announced its decision to withdraw from its coordinating role in the mBridge platform in October 2024.[81] It is speculated that the bank withdrew due to fears mBridge could be used to evade sanctions.[82]

As a leading contributor to its technological development, China is now poised to take a leading role on mBridge. Policymakers will want to monitor both how mBridge further develops under China's stewardship (e.g., if the number of central bank participants expand beyond the current quartet) and whether China allows mBridge to be subsumed by BRICS Bridge or maintains the former as a distinct entity outside of Russian influence.

Given that China's APMs strategy on gold, the BCBPI, and mBridge can be interpreted as beginning to build resilience to possible future sanctions in the event of a confrontation with Taiwan, policymakers will want to identify further signals of shifts within its APMs strategy.

Signals That Increase the Probability of a Chinese Invasion of Taiwan

This section looks at further possible early warning signals of a more decisive shift in China's APMs approach toward protecting itself from the impact of future economic sanctions. These should be seen as relatively weak signals, which in and of themselves would not indicate a conflict is imminent and may not appear to be directly linked to a confrontation with Taiwan. This contrasts with something like the PLA's military buildup identified by Aquilino, which we can clearly see as more directly related. However, when viewed as a direction of travel regarding China's APMs strategy, these signals could be part of a much bigger picture, indicating that an invasion is more likely. As such, they deserve greater attention from policymakers.

The following signals and evidence to support them are non-exhaustive. Nevertheless, these illustrative examples give a sense to policymakers of the varied ways in which China's APMs strategy could evolve. The evidence in each case points to potentially key indicators that could be monitored and tracked by the recommended APMs Strategic Coordination Unit explored in the next section.

Deeper integration of BRICS countries

The long-term effectiveness of the APMs specified in the 2024 Kazan Declaration are difficult to assess in the short term. BCBPI and BRICS Clear hold promise of a more sustained effort to move from a dependency on the USD and the Western-led international financial system. Aside from developments at the BRICS institutional level, an early warning signal of a shift in China's APMs strategy could see accelerated efforts by China to leverage its influence over other BRICS members and partners, encouraging them to reduce reliance and usage of USD and move further within the orbit of the RMB and CIPS.

Evidence:

1. New bilateral swap lines between the PBOC and other BRICS members or partners.
2. Additional use of the CIPS within BRICS countries or partner countries.
3. Further regulatory harmonization among BRICS members, such as the realization of BCBPI.

Russian President Vladimir Putin and representatives of 30 countries gather for a photo session during the BRICS Leader's Summit, October 24 2024, in Kazan, Tatarstan Republic, Russia. (Getty Images)

Chinese authorities turn a blind eye to use of non-Know Your Customer (KYC) digital asset exchanges

Chinese government policy limits transactions of cryptocurrencies. Chinese authorities have been vocal in highlighting their crackdowns on illicit crypto activity.[83] However, another early warning signal would see the growing use of non-KYC exchanges in China, which, while still officially illegal, would nonetheless be tolerated by a lack of enforcement action by state authorities. KYC checks are a due-diligence procedure that helps verify the identity backgrounds of customers, clients, and suppliers, reducing the opaqueness of financial transactions and are part of compliance with global anti-money laundering/terrorist financing standards.

There are parallels with the use of the sanctioned Garantex exchange in Russia,[84] which has allowed funds connected to crime and from high-risk services such as mixers (which obscure the origins and identity of crypto funds) and low-KYC checks on its platform. Users of Garantex attempt to use crypto exchanges like these to withhold key information about the transactions of individuals and entities. If the use of non-KYC exchanges in China grows, it could indicate a growing tolerance of these platforms, with the intention of helping entities with links to the state in evading future sanctions.

Evidence:

1. The increased use of Chinese-language marketplaces, such as Huione Guarantee, for illicit activity paid for by cryptocurrencies. Huione Guarantee continues to receive and send funds from Garantex, despite the sanctions imposed on the latter.[85]
2. Blockchain analytics firms like Chainalysis seeing increased transactions on mixers and non-KYC exchanges by users to and from China.

Financial Action Task Force (FATF) downgrades China

The FATF – an intergovernmental organization that sets international standards to prevent money laundering and terrorist financing – regularly reports on each country's efforts to comply with these standards. This reporting is known as the Mutual Evaluation Framework. China's next report is due around August 2026. Any evidence of backsliding from the previous reporting period (2019-2021)[86] based on inadequate regulatory compliance, particularly around its KYC reporting obligations, may indicate an increased willingness to tolerate sanctions evasion activities such as those identified above and a disregard for international financial norms. To note, Russia has been suspended from FATF since February 2023 in response to the invasion of Ukraine.

Evidence:

China's next mutual evaluation report demonstrates a rise of partial compliance or noncompliance with money laundering, terrorist financing and the proliferation of weapons of mass destruction standards determined by FATF.

China removes legislative restrictions to crypto trading in its territories

There are some indications that the Chinese government may enact legislation to "unban Bitcoin" and remove the most restrictive effects of the 2017 and 2021 cryptocurrency legislation.[87] We are already starting to see moves to legitimize the sector. In August 2024, China's supreme court and public prosecutor revised their interpretation of the country's anti-money laundering laws to recognize "digital asset" transactions.[88] Bringing cryptocurrencies into the scope of the law may encourage further adoption as there would be a firmer regulatory underpinning.

There is also speculation that the Trump administration's perceived favorability[89] toward crypto may cause China to rethink its position,[90] such as building a strategic Bitcoin reserve if the U.S. moves first.[91] [92] Trump appears receptive to this issue, responding to a question about a possible U.S. reserve by saying: "We're gonna do something great with crypto, 'cause we don't want China, or anybody else, not just China, others are embracing it, and we want to be the head."[93] A conversion by the Chinese government from crypto-skeptic to crypto-enthusiast may not be too far-fetched, with China taking a long bet on payments technologies as a lever to undermine the power of the USD.

Looking at Hong Kong may also be instructive. Hong Kong is something like a crypto hub in East Asia, experiencing the largest year-on-year growth of crypto adoption in the region (at 85.6 percent), with regulators' openness and legislative framework fostering this environment.[94] The Hong Kong government announced plans in November 2024 to exempt private equity funds, hedge funds, and other investment vehicles from paying tax on gains from cryptocurrencies,[95] a stark contrast from mainland China's approach. Under the "one country, two systems" model, it is speculated that China may be using Hong Kong to test policies related to crypto.[96] As such, developments the regulatory landscape for cryptocurrencies in Hong Kong could indicate the start of a change in approach in China.

Evidence:

1. Future legislation to reduce the barriers to entry for cryptocurrency use in China and reverse the 2017 and 2021 restrictions or setting up a strategic cryptocurrency reserve.
2. Increased "on-ramping" (conversion of fiat currency to crypto assets) and "off-ramping" (conversion of crypto assets back to fiat) would indicate China is rapidly moving funds out of conventional banking systems.
3. Regulatory initiatives on cryptocurrencies implemented in Hong Kong are "imported" to mainland China.

Sustained re-acceleration of PBOC purchasing of gold or other non-fiat currencies

The PBOC has been increasing its purchases of gold in recent years to diversify reserve holdings away from USD and potentially blunt the impact of future sanctions. While China paused purchases of gold in 2024 when prices hit record levels, the PBOC since reported its third consecutive monthly gold purchase in January 2025. This despite the price of gold exceeding 2024 levels.[97] An early warning signal here would see China continue to significantly increase its gold reserves over a sustained period, potentially tokenizing gold assets as proposed by the Central Bank of Russia, or further diversify to other non-fiat reserves like silver.

Evidence:

1. The World Gold Council reports show a significant uptick in the PBOC's purchasing of gold reserves over a sustained period.
2. The PBOC announces plans to tokenize these gold assets, potentially for use on both mBridge and the BRICS Clear platforms.

A growing number of entities that normally trade in RMB pre-emptively switching to other currencies

China has been moderately successful in increasing the prevalence of the RMB in international financial transactions. However, the RMB's use in payments worldwide remains limited, with its global market share increasing to 2.5 percent as of May 2023, from 1.1 percent at the end of 2013.[98] If these numbers were to decrease and there was a diversification away from the RMB, this could indicate market predictions that this was not a currency to be handled , hedging against future economic sanctions that could impact these transactions. The signal should be taken even more seriously if we were to see a concentration of this happening with entities based in states considered to be allied to China. This could even suggest some intelligence within these states that a conflict between China and Taiwan was imminent.

Evidence:

1. In a short-term sell-off situation, we could see strong downward pressure on the RMB. The PBOC may intervene to stabilize the currency by selling USD assets.
2. In a longer-term decoupling situation, we would see institutional and other investors introducing policies to stop purchases of RMB-denominated assets, attempts to retrieve their investments in China, and not lending to China.
3. The non-renewal or cancellation of various RMB-denominated trade deals or swap lines.

Recommendations for Policymakers

This section provides four key recommendations to policymakers on how the U.S. can both monitor and influence the development of APMs to leverage its geopolitical interests on the international stage. These recommendations are solely focused on actions the U.S. could take prior to a Chinese invasion of Taiwan, rather than recommendations on post-invasion measures.

Establish an APMs Strategic Coordination Unit

U.S. policymakers should establish an APMs Strategic Coordination Unit to monitor the development of China's APMs strategy, developments that occur in Russia and groupings like BRICS. The unit would be led by officials from the U.S. State Department and report to senior decision-makers at the State Department. The unit would be made up of key stakeholders across government departments, embassies, intelligence agencies, the Commodity Futures Trading Commission and the Securities and Exchange Commission. It would seek input from, and work with, Trump's Working Group on Digital Asset Markets,[99] chaired by new crypto czar David Sacks.[100] The coordination unit would develop its own list of early warning signals, with regular reporting updates on these signals and potential risks to U.S. geopolitical interests. The unit would flex its membership composition depending on the signals being discussed and the levels of confidentiality required.

The six warning signals identified in this policy report, are highlighted in the graphic below.

Early Warning Signals for a Potential Chinese Invasion of Taiwan

1. **BRICS integrates further into other countries***
   Responsible Lead: U.S. State Department
   Composite Members: U.S. Treasury, Central Intelligence Agency
2. **Chinese authorities turn a blind eye to use of non-Know Your Customer digital asset exchanges**
   Responsible Lead: Office of Foreign Assets Control
   Composite Members: U.S. State Department, U.S. Department of Justice, Office of Terrorist Financing and Financial Crimes, U.S. Securities and Exchange Commission, the working group on digital asset markets, blockchain analytics firms **
3. **The Financial Action Task Force (FATF) downgrades China**
   Responsible Lead: Office of Terrorist Financing and Financial Crimes
   Composite Members: U.S. State Department, Office of Foreign Assets Control, U.S. Treasury
4. **China removes legislative restrictions to crypto training in its territories**
   Responsible Lead: U.S. State Department
   Composite Members: U.S. Treasury, Securities and Exchange Commission, the working group on digital asset markets
5. **PBOC purchasing of gold and other non-flat currencies reaccelerates**
   Responsible Lead: U.S. Treasury
   Composite Members: U.S. Federal Reserve, U.S. State Department, Commodity Futures Trading Commission, Securities and Exchange Commission
6. **A growing number of entities that normally trade in RMB pre-emptively switching to other currencies**
   Responsible Lead: U.S. State Department
   Composite Members: U.S. State Department, U.S. Treasury, Commodity Futures Trading Commission, Securities and Exchange Commission

* This should be broken down into smaller individual signals under the BRICS umbrella e.g. the implementation of BCBPI.
** Pending sensitivity of the discussions, external stakeholders, like blockchain analytics firms in this case, could be invited to participate in the coordination unit.

Source: Gavin Moore

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The unit's remit would ensure information-gathering and rigorous scrutiny of these signals and serve as a convening body for departments, advisory councils and agencies across government to facilitate a unified, coordinated, and prepared U.S. response to developments in APMs.

Monitor Global CBDC Developments

While it would be for the coordination unit to determine its priority early warning signals, policymakers should closely monitor CBDCs. Trump's "Agenda 47" policy platform explicitly opposed the creation of a U.S. CBDC,[101] with the president also issuing an executive order to prohibit a CBDC being established.[102]

While political appetite for a U.S. CBDC is low, the U.S. must remain vigilant to China's plans for e-CNY on mBridge and potentially a BRICS Bridge. Any contribution China's CBDC could make in reducing other countries' reliance on the USD, and therefore nullify potential future sanctions, will need to be guarded against. Monitoring would also include developments elsewhere, for example a possible European Union CBDC,[103] and how this may impact U.S. interests. Policymakers also should consider alternatives to a CBDC that may achieve similar outcomes. For example, the U.S. could advocate for further reforms to SWIFT, such as the quicker settlement of transactions, to help maintain its position of dominance and confer some of the advantages a U.S. CBDC could offer.

Explore Stablecoins as a Means of Maintaining USD Hegemony

Another area policymakers and the coordination unit will want to pay attention to is the growth of stablecoins , a type of cryptocurrency that aims to maintain a stable value over time, usually by pegging its value to a currency or commodity. The largest stablecoins by market capitalization are currently Tether (USDT) and Circle's (USDC) offerings, which both peg to the USD.[104] Tether itself may have a key ally in the Trump administration: Secretary of Commerce Howard Lutnick, has now stood down from a financial services firm he ran that is the main custodian for Tether's U.S. Treasury bills.[105]

There is bipartisan support for measures that create a more stable regulatory environment for stablecoins in the U.S., such as the introduction of The Guiding and Establishing National Innovation for U.S. Stablecoins, or GENIUS Act.[106] Bank of America CEO Brian Moynihan has also indicated the bank will launch a USD-pegged stablecoin if relevant legislation is passed.[107]

Policymakers may want to consider how a more hospitable regulatory environment in the U.S. could increase the use of USD-backed stablecoins elsewhere. The growth in stablecoin usage outside the U.S. reflects a broader trend in which international markets,[108] which faced with currency volatility, are turning to USD-denominated stablecoins to preserve value and facilitate faster, cheaper transactions.[109]

There has been some pushback. In Europe, the market cap of USDT itself fell as several European exchanges delisted USDT in response to the EU's Markets in Crypto-Assets Regulation entering into force on January 2025.[110] Tether had earlier discontinued support for its euro-pegged stablecoin (EURt) in response to this Regulation.[111,112] Nonetheless, some commentators suggest that stablecoins will be a key factor in USD's continued dominance[113] and should be viewed as a proxy for the dollar's strength as the world's reserve currency. Their performance globally should be monitored closely by the coordination unit, with a particular focus on BRICS members.

Leverage the Deterrent Effect of Sanctions

That sanctions have been effective in weakening Russian GDP[114] or the value of the ruble[115] at all is due to the dominance of USD in the international financial system. Although this has not deterred Russia from persisting with its war in Ukraine,[116] the economic impact of sanctions will help deteriorate its longer-term warfighting capacities. It is paradoxical that the strength of USD in underwriting the effectiveness of these sanctions could ultimately lead to a weakening of USD. The more effective sanctions are, the more they encourage moves away from the dollar by Russia and China to try to blunt their effectiveness. This tension was recognized by former U.S. Treasury Secretary Janet Yellen during testimony to the House Finance Services Committee in July 2024.[117]

How then should policymakers ensure that possible future sanctions remain effective without undermining the USD's position? One way out of this apparent paradox is to recognize the different role sanctions could play in a possible China-Taiwan confrontation. The unprecedented sanctions imposed on Russia since February 2022 have been reactive measures in response to conflict. In the China-Taiwan context, the U.S. should leverage the threat of similar sanctions as a deterrent before conflict has occurred.

This approach would be two-pronged. First, the U.S. could threaten to impose sanctions on China itself. Earlier sections have explored the extent to which China continues to rely on the USD (e.g., its main foreign currency reserve holding) and Western institutions (e.g., CIPS' ongoing reliance on the SWIFT system). China recognizes the impact sanctions could have on its sluggish economy. Chinese banks have been reluctant to do business with sanctioned Russian entities because of the executive orders issued by the Biden administration and determinations from the Office of Foreign Assets Control.[118] Sanctions have clearly had an impact on behavior.

Second, the U.S. should exert diplomatic pressure on countries increasingly under China's influence. This would involve leveraging the threat of secondary sanctions[119] on countries trading with China, were China to invade Taiwan. Or it could involve punitive tariffs for countries thinking about de-dollarization. Trump has already imposed tariffs on China directly in relation to alleged drug trafficking,[120] and has also threatened the use of this policy lever in relation to de-dollarization, stating that if "you leave the dollar, you're not doing business with the United States because we're going to put 100% tariffs on your goods." [121] In either scenario, not only would China suffer from direct sanctions and tariffs but partner countries would also be incentivized to weaken ties, inflicting a further blow to China's APMs strategy.

As noted previously, other members of BRICS have different motivations with respect to China and Russia, such as the ability to easily trade in their local currencies rather than evade sanctions. The U.S. State Department should, through its network of embassies, seek to apply diplomatic pressure, particularly on BRICS-aligned but less enthusiastic supporters of China-Russia led initiative s. Policymakers will therefore want to consider diplomatic levers to isolate China economically from these partners prior to an invasion of Taiwan.

The U.S. may also exert influence over its allies to implement more coordinated sanctions measures. Western governments' secondary sanctions approach on Russia became more aligned at the end of the Biden administration. The U.K. has recently introduced legislative amendments to its sanctions regime, which are thought to create the possibility of secondary sanctions for the first time.[122] The EU has been more reluctant but is reportedly considering moves in the direction of secondary sanctions.[123] [124] Notwithstanding the possibility of the U.S. lifting sanctions on Russia as part of a deal to end the war in Ukraine,[125] the benefits of a coordinated approach would be to increase the deterrent effect of sanctions on China and its economic partners as more jurisdictions implement similar measures to the U.S.

Conclusion

Policymakers should pay greater attention to China's role in the development of APMs, as these provide insight into its intentions for a China-Taiwan conflict. Wars are now fought on many complex and interconnected fronts. Analyzing a specific subsector of conflict, however indirect, can be an illuminating indicator for when a potential conflict becomes a real conflict.

APMs are not the only factor that would indicate an invasion is more likely. However, economic sanctions are now one of the most important levers in warfare shy of direct military involvement. Signals that the potential targets of these sanctions are attempting to reduce their potency – in advance of confrontation – should be taken seriously.

Russia's invasion of Ukraine could mark a turning point in the development of the APMs landscape. The unprecedented Western sanctions that followed may have the paradoxical impact of undermining the USD hegemony on which their effectiveness relies. There has been a noticeable change in Russia's approach to APMs since the invasion to a strategy that is more clearly targeted at blunting the effectiveness of present and future sanctions. Policymakers will want to closely monitor developments at BRICS, driven by Moscow, as a potentially credible alternative to the Bretton Woods institutions.

There are several signs that China is beginning to shift its approach to APM strategy, U.S. policymakers must assess the implications for two critical areas: (a) maintaining the USD's status as the global reserve currency, and (b) maintaining the effectiveness of sanctions as a foreign policy tool, particularly in the context of an invasion of Taiwan. The four recommendations outlined seek to address to these challenges. These recommendations will ensure that the U.S. is fully prepared to for any APMs developments that indicate an increased likelihood of a China-Taiwan confrontation.

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