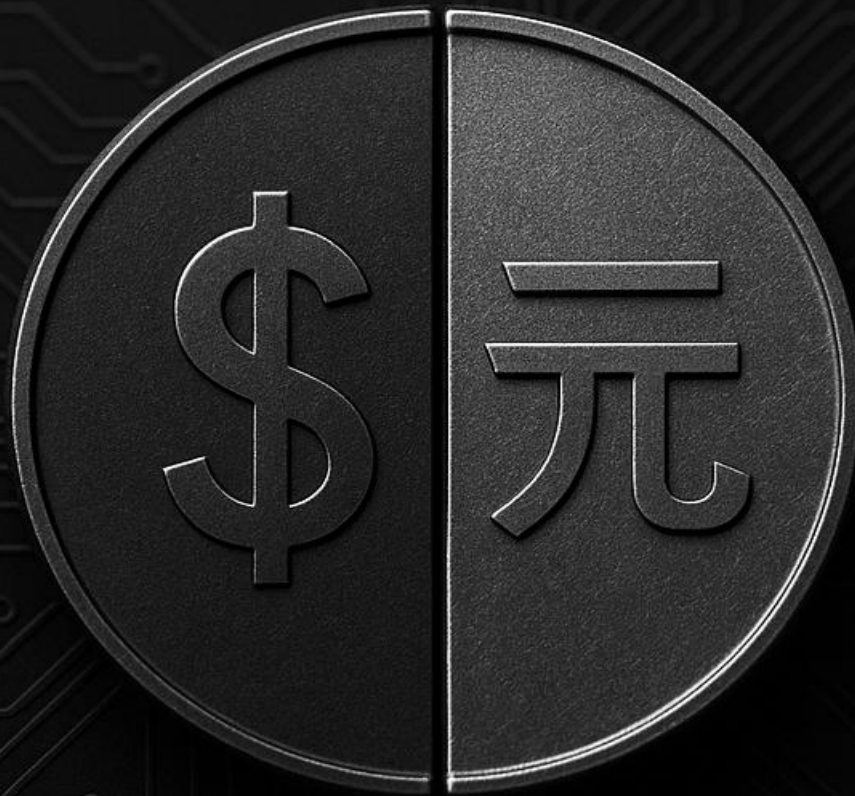




InsightForward

The Geopolitics of Stablecoins



STABLECOINS AS GEOPOLITICAL INFRASTRUCTURE

The global stablecoin ecosystem has [rapidly evolved](#) into one of the most transformative forces in international finance, reshaping cross-border payments, monetary policy, and the balance of economic power. As of mid-2025, the total [market capitalization](#) of stablecoins exceeds \$255 billion, with daily transaction volumes rivaling those of several national payment systems.

This growth is fueled by three core dynamics:

- Accelerating institutional adoption.
- Deeper integration with traditional financial infrastructure.
- Intensifying geopolitical competition between U.S.-backed, China-backed, and decentralized systems.

The rise of stablecoins has introduced a structural shift in global liquidity dynamics. Private stablecoin issuers are now effectively functioning as systemically important financial institutions, managing reserves comparable to those of mid-sized nation-states. Tether's Treasury holdings, for instance, exceed the reserves of many central banks and have begun influencing short-term yields, saving the U.S. government an [estimated \\$15 billion](#) annually in financing costs. Meanwhile, as institutional players increasingly adopt stablecoins for trade financing, remittances, and real-time settlement, U.S. dollar liquidity is becoming even more entrenched in global markets, reinforcing its centrality despite mounting geopolitical competition.

WESTERN STABLECOINS

At the center of this [transformation](#) are two dominant U.S. dollar-pegged stablecoins, [Tether](#) (USDT) and USD Coin (USDC). Tether leads the market with a capitalization of approximately \$114 billion and commands roughly 70% of global trading volume. It is heavily utilized in emerging markets and by offshore exchanges due to its deep liquidity and ease of transfer. Tether's growing influence extends beyond the crypto economy. By Q1 2025, it held nearly \$98.5 billion in U.S. Treasury bills, over 1% of total outstanding short-term Treasuries, making it a significant player in global sovereign debt markets. USD Coin, issued by U.S.-based Circle, ranks second with a market capitalization of roughly \$32 billion and is widely preferred by institutional investors and fintech platforms. Known for its transparency and regular third-party audits, USDC has secured partnerships with major payment processors like Visa and Stripe, positioning itself at the intersection of traditional finance and digital settlement infrastructure.

While dollar-pegged stablecoins dominate, alternative tokens are beginning to emerge. In Europe, Circle's EURC and Tether's EURT [represent early efforts](#) to tokenize the euro, though they currently account for less than 1% of global market capitalization. Adoption of euro-pegged tokens is expected to accelerate as the European Union finalizes the Markets in Crypto-Assets Regulation (MiCA) framework, creating regulatory certainty for issuers and institutional users. Other projects, such as PAX Gold and Tether Gold, are experimenting with commodity-backed tokens tied to precious metals. While these remain niche, they are increasingly attracting sovereign wealth funds and institutional investors seeking hedges against currency volatility. Decentralized stablecoins such as DAI, issued by MakerDAO, maintain their pegs through overcollateralized crypto reserves rather than centralized backing. Although DAI represents only about 3% of global stablecoin supply, its importance within decentralized

finance (DeFi) highlights growing demand for systems that operate independently of both governments and large financial institutions.

Central banks are also beginning to converge stablecoin infrastructure with central bank digital currencies (CBDCs), creating hybrid models that blend state-issued money with privately backed settlement tokens. Hong Kong, for example, is positioning itself as a testing ground for CNH-pegged yuan stablecoins designed to circulate globally while supporting Beijing's goal of promoting yuan internationalization. Similarly, Singapore, the United Arab Emirates, and Brazil are experimenting with tokenized interbank settlement frameworks that leverage stablecoin infrastructure to improve cross-border payments.

STABLECOINS AND CHINA

China's consideration of a [yuan-backed stablecoin](#) is an important development for the battle over the future of global finance, with implications for monetary sovereignty, international trade, and geopolitical power dynamics. The move comes as the U.S. accelerates its own [digital currency strategy](#) under the GENIUS Act, which authorizes regulated U.S. banks to issue dollar-backed stablecoins. For Beijing, this poses both an existential economic threat and a strategic challenge. China has historically relied on strict capital controls to maintain financial stability, channel domestic savings into state-directed investment, and preserve elite loyalty by controlling access to capital. Widespread adoption of U.S. dollar stablecoins would undermine that system, allowing Chinese citizens and companies to bypass the state's financial architecture entirely, accelerating capital flight and eroding the Chinese Communist Party's control over monetary flows. The failed rollout of the e-CNY, China's central bank digital currency, has added urgency to Beijing's response. Despite years of state-backed promotions, the e-CNY has seen sluggish adoption, in part because private digital payment systems like WeChat Pay and Alipay already dominate everyday transactions. Facing competitive pressure from the U.S. and waning domestic enthusiasm, China is now turning toward a more pragmatic strategy of authorizing renminbi-pegged stablecoins, likely beginning in Hong Kong as a controlled testing ground.

Unlike U.S. dollar stablecoins, a Chinese stablecoin would not embrace decentralization or anonymity. Instead, it would likely be fully integrated into China's digital identity ecosystem, combining blockchain-based transaction records with real-name verification and even biometric data. This design enables programmable money, and Beijing could embed spending restrictions, expiration dates, sector-specific quotas, or geographic limits directly into the currency code. At scale, this creates a dual system of offshore CNH-based stablecoins circulating globally to promote yuan internationalization, while domestic flows remain tightly monitored and regulated.

If China successfully launches a widely adopted yuan-backed stablecoin, it could begin chipping away at U.S. dollar hegemony, especially across Asia, Africa, and Belt and Road Initiative markets where China dominates trade flows. Reduced reliance on SWIFT and other U.S.-controlled payment infrastructure would diminish Washington's ability to use financial sanctions as a geopolitical weapon, reshaping the balance of power in global commerce. At the same time, China's move raises the stakes in a digital currency arms race. U.S. dollar stablecoins promise open, frictionless movement of capital, while Beijing offers a state-controlled alternative designed to hardwire influence into financial infrastructure. The outcome will define not just future trade flows but also the architecture of global finance, determining whether money itself remains a tool of state power or shifts toward programmable, borderless networks.

ECONOMIC DYNAMICS AND IMPLICATIONS

Stablecoins' rapid expansion introduces complex economic dynamics and significant systemic risks. Tether's unprecedented demand has suppressed yields and effectively saved the U.S. government billions, but this concentration of liquidity also magnifies vulnerabilities. Nobel laureate Jean Tirole warns that a run on stablecoins with fragile or opaque collateral structures could [destabilize financial systems](#), potentially forcing taxpayer-funded bailouts if issuers holding riskier assets fail to maintain their pegs. The Bank for International Settlements and the European Central Bank echo these concerns, cautioning that heavy reliance on privately issued tokens threatens monetary sovereignty and exposes economies to abrupt liquidity shocks.

Despite these risks, many analysts argue that stablecoins function less as disruptors and more as modernization tools for global finance. Goldman Sachs labeled 2025 the "[Summer of Stablecoins](#)," projecting deeper integration with legacy payment rails such as Visa and Mastercard. The focus is shifting toward improving cross-border payment efficiency, tokenizing settlement infrastructure, and reducing transaction costs rather than replacing traditional banking entirely. In advanced economies, stablecoins are increasingly leveraged for high-value transfers, instant settlements, and global trade flows, with platforms like Stripe now enabling merchants to accept stablecoin payments and convert them into local currencies at lower fees than traditional processors. This integration demonstrates their role as complementary infrastructure rather than an outright alternative to regulated banking systems.

[Regulatory frameworks](#) are [evolving quickly](#) to manage these dynamics. In the United States, the GENIUS Act imposes strict reserve requirements, independent audits, and dual federal-state oversight, boosting institutional confidence and accelerating adoption of bank-issued dollar-pegged stablecoins. Similarly, Europe's MiCAR framework and Hong Kong's licensing regime, which will fully roll out by 2026, seek to balance innovation with financial stability by enforcing anti-money laundering standards and tightening governance structures. These moves create clearer pathways for regulated growth while positioning jurisdictions to compete strategically in the global stablecoin race.

For developing and emerging economies, the [effects are more complex](#). Stablecoins dramatically reduce remittance costs, particularly for regions like South Asia, where fees on \$500 transfers can exceed 3.5%, making blockchain-based transfers an attractive alternative. In Sub-Saharan Africa, USDT and USDC now [represent up to 43%](#) of total crypto transaction volume, reflecting their role as a hedge against local currency volatility and weak banking infrastructure. However, this growing dependence on dollar-pegged stablecoins accelerates digital dollarization, eroding domestic currency demand, shrinking government revenues from seigniorage, and undermining fiscal autonomy. While companies like Visa highlight opportunities for financial inclusion, expanding access to digital dollars and payment infrastructure, the lack of strong regulatory frameworks in many emerging markets creates openings for illicit flows and heightened financial fragility. The IMF's Gita Gopinath and the BIS have both warned that widespread stablecoin adoption could exacerbate capital flight, amplify inflationary pressures, and destabilize already vulnerable economies.

SCENARIOS

The future trajectory of Stablecoins will depend on regulatory frameworks, institutional adoption, competitive dynamics between the U.S., China, and emerging digital payment ecosystems. Three scenarios for the future of Stablecoins:

Scenario 1: U.S. Dollar Stablecoin Supremacy

This scenario envisions a future where U.S.-backed stablecoins and tokenized bank deposits under the GENIUS Act become the dominant architecture of global finance. The integration of these tokens into traditional systems like Visa, Mastercard, and SWIFT alternatives enables near-instant settlement, lower cross-border remittance costs, and deeper U.S. liquidity penetration worldwide. Dollar hegemony is strengthened, as global commerce becomes increasingly dependent on U.S. regulatory infrastructure and Treasury-backed reserves. However, this concentration of influence introduces systemic fragilities such as a depeg event, regulatory misalignment, or cyberattack on major issuers could ripple across global markets.

Scenario 2: China's Yuan-Linked Stablecoin Ecosystem

In this future, Beijing executes a strategic counteroffensive by positioning Hong Kong as a global fintech hub, rolling out yuan-pegged stablecoins optimized for cross-border settlements in Asia, Africa, and Latin America. By tying CNH stablecoin adoption to Belt and Road infrastructure financing, energy trade, and partnerships with U.S.-sanctioned economies like Russia and Iran, China builds an alternative financial network insulated from U.S. influence. The programmable design allows Beijing to embed spending restrictions, expiration dates, and identity-based controls directly into the token infrastructure. While this architecture could accelerate yuan internationalization, its surveillance-heavy design risks limited adoption among Western economies, multinational corporations, and privacy-conscious users.

Scenario 3: Dual-Track, Fragmented Financial Bloc System

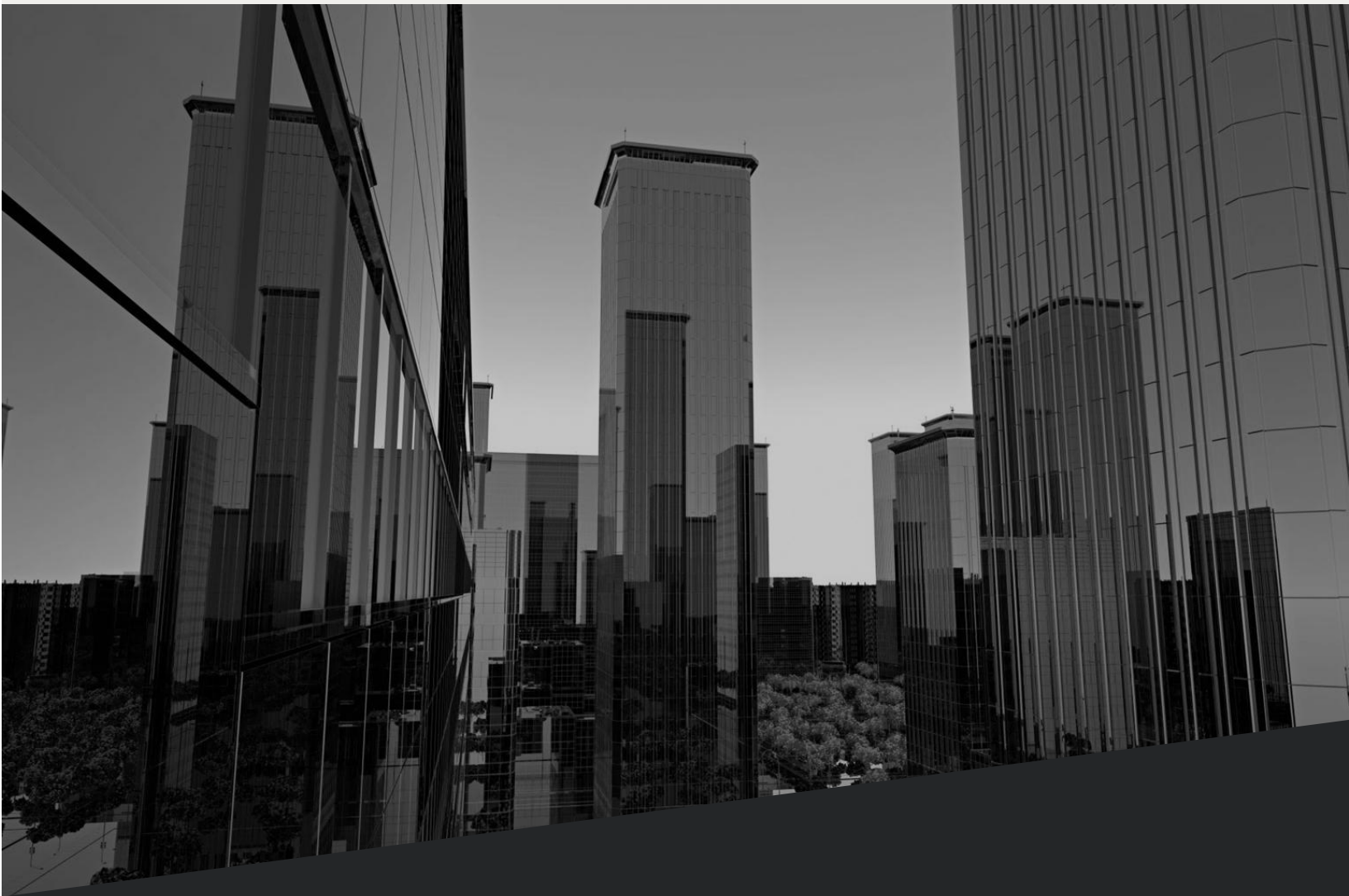
The most likely medium-term outcome is a bifurcated digital economy. U.S. stablecoins dominate in advanced economies, international finance, and dollar-settled trade, while China's yuan-backed tokens capture BRI markets, energy producers, and resource-rich developing economies. This results in two competing liquidity networks with limited interoperability, requiring multinational corporations, banks, and sovereign wealth funds to invest in multi-rail infrastructure to bridge the divide. Over time, global capital flows become less efficient, raising transaction costs and fragmenting trade finance. Smaller states and emerging markets unable to integrate seamlessly into either system face growing exclusion from global commerce.

CONCLUSION

Stablecoins are rapidly reshaping the architecture of global finance, driving innovation in payments, banking, and cross-border settlement while introducing new risks to financial stability and sovereignty. Dollar-pegged stablecoins currently reinforce U.S. monetary dominance, deepening global reliance on dollar liquidity and embedding private issuers into the core of sovereign finance. However, the rise of non-USD alternatives, particularly state-controlled yuan-backed tokens, poses a credible challenge in strategically aligned regions, especially across Belt and Road markets and energy trade corridors. If both ecosystems achieve widespread

adoption, the result could be a bifurcated financial system, with U.S.-backed stablecoins dominating advanced economies and China-aligned networks expanding across the Global South, fragmenting global trade architecture and financial interoperability.

To navigate this transformation, developed economies must prioritize robust regulatory frameworks that enforce reserve standards, transparent audits, and systemic risk mitigation, while emerging economies must strengthen monetary institutions and explore CBDCs or regulated tokenization as strategic complements rather than replacements for stablecoins. At the global level, multilateral organizations such as the IMF, BIS, and Financial Stability Board must lead in establishing common standards for cross-border settlement, promoting transparency, and safeguarding monetary sovereignty. The choices made now will determine whether stablecoins drive an interoperable and resilient digital financial system or accelerate the emergence of competing monetary enclaves that increase fragmentation, raise transaction costs, and redefine the balance of geopolitical power.



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