The Two Faces of Digital Dollarization: Stablecoins as a Lifeline and a Liability in Economies in Transition

The owner of a small textile shop in Lagos, Nigeria, faces a daily battle against currency volatility. The local naira loses value while the cost of imported raw materials rises relentlessly. Sending money abroad to pay a supplier in China through a traditional bank takes days and drains a significant portion of the transaction in fees. This reality, however, is changing. The shop owner, and millions like them, has found a new way to move money: stablecoins. These digital assets, pegged to stable fiat currencies like the U.S. dollar, offer a lifeline. Yet, this same lifeline poses a profound challenge to the very governments struggling to manage their economies. Stablecoins present two faces: one of financial empowerment and one of systemic risk.

The Lifeline: Stability in a Volatile World

Stablecoins have rapidly become a cornerstone of daily financial life for people in Africa, Latin America, and Southeast Asia. These regions suffer from currency devaluation and foreign exchange shortages, making traditional currencies unreliable as a store of value. Citizens and businesses are turning to dollar-backed stablecoins like USDT and USDC to protect their savings and conduct business across borders.[1]

The data on this adoption is compelling. Stablecoins now constitute 43% of all cryptocurrency transaction volume in Sub-Saharan Africa. Ethiopia experienced a 180% rise in stablecoin transfers following a 30% devaluation of its currency, becoming the region’s fastest-growing adopter of these transfers. People use stablecoins for various purposes beyond simply trading cryptocurrencies: 69% of survey respondents in countries like Nigeria, Brazil, and India convert local currencies into stablecoins, while 39% use them for purchasing goods or sending money internationally to relatives.[1]

Stablecoins specifically address the inefficiencies of traditional cross-border payments. The old system, built on a web of correspondent banks, is slow and expensive. A remittance from New York to Manila can take three to five business days and incur fees of 8-12% of the total amount. This system often breaks down entirely in regions with underdeveloped financial infrastructure, forcing transfers through multiple intermediaries that each add time and cost. Stablecoins bypass this entire chain. When someone sends USDT or USDC, the transaction settles on a blockchain within minutes, and the recipient can convert it to local currency on a local exchange platform. This process costs 2-3% of the transaction value, a dramatic improvement.[1]

Furthermore, stablecoin payments empower populations underserved by the traditional banking system. An individual needs only a digital wallet and an internet-connected device to send and receive money; a bank account is not required.[2] This removes a major barrier to financial inclusion and makes services previously out of reach now accessible to millions. Small businesses, like our hypothetical textile shop, can also pay overseas suppliers quickly and cheaply, improving their cash flow and enabling them to operate more efficiently on a global scale.[1]

The table below contrasts the limitations of legacy payment systems with the advantages of stablecoin solutions, highlighting the direct impact on individuals and businesses.

Feature	Traditional Payments (e.g., SWIFT)	Stablecoin Payments (e.g., USDC, USDT)	Human-Centric Benefit
Speed	3-5 business days, restricted by banking hours [1]	Seconds to minutes, 24/7/365 settlement [2]	Families receive remittances instantly, and businesses improve their cash flow.[2]
Cost	8-12% in fees due to multiple intermediaries [1]	2-3% in fees, fewer intermediaries [1]	More money reaches its intended destination.
Accessibility	Requires a bank account and physical branch access [2]	Requires only an internet-connected device and a digital wallet [2]	Empowers the unbanked and underbanked populations.
Transparency	Opaque, difficult to track in transit [3]	Transparent, verifiable on a public blockchain ledger [4]	Real-time visibility and a clear audit trail.[2]

The Liability: A New Challenge to Fiscal Health

While stablecoins offer undeniable benefits to individuals, their widespread adoption creates a complex set of problems for national governments. This trend is often called "digital dollarization," where dollar-backed stablecoins replace local currencies as the preferred store of value and medium of exchange. This shift erodes the demand for a country’s fiat currency, which directly impacts a crucial source of government revenue called seigniorage.[5]

Seigniorage is the profit a government makes from issuing currency. In many developing economies, this non-tax revenue can exceed 2% of a nation's GDP.[5] The rise of stablecoins is likely to shrink this revenue stream, weakening public finances in countries that are already struggling to fund development and pay down debt.[5]

Furthermore, the quasi-anonymous nature of certain stablecoin transactions can facilitate tax evasion, posing a direct threat to a country's ability to collect revenue.[5] With many African countries already having a tax-to-GDP ratio below the recommended 15% threshold for sustained development, the expansion of stablecoin use could narrow the taxable base for income and capital gains, reversing recent progress.[5]

The geopolitical consequences of this trend are equally significant. The main fiscal beneficiary of digital dollarization is not the local economy but the United States.[5] Dollar-backed stablecoins are often backed by high-quality, liquid assets like U.S. Treasury bills. The global demand for stablecoins therefore drives a corresponding demand for U.S. debt, effectively funding a substantial share of the U.S. budget deficit and lowering its borrowing costs.[5] In essence, a portion of the seigniorage revenue from economies in transition flows to the U.S. Treasury, further eroding the tax base of countries already in a difficult fiscal position.[5]

A Delicate Balance

Stablecoins are a powerful and transformative technology. They provide a critical financial tool for citizens and businesses to navigate unstable economic conditions, offering speed, affordability, and accessibility that traditional systems cannot match. At the same time, they introduce new complexities for national governments, challenging monetary sovereignty and fiscal stability. This dual nature means that the future of stablecoins will depend on a delicate balance. Finding a way to harness the benefits of these digital assets while establishing regulatory frameworks to manage the risks remains one of the most pressing challenges in global finance.

Works Cited

1. *The Stablecoin Opportunity: How Businesses Can Capture Value in Emerging Markets, Bitpowr* https://bitpowr.com/blog/the-stablecoin-opportunity-how-businesses-can-capture-value-in-emerging-markets
2. *How Stablecoins Could Further Weaken Africa's Public Finances, Center for Global Development* https://www.cgdev.org/blog/how-stablecoins-could-further-weaken-africas-public-finances
3. *The stable door opens: How tokenized cash enables next-gen payments, McKinsey & Company* https://www.mckinsey.com/industries/financial-services/our-insights/the-stable-door-opens-how-tokenized-cash-enables-next-gen-payments
4. *Cross-Border Payments with Stablecoins: Faster and Cheaper Than SWIFT, Transfi* https://www.transfi.com/blog/cross-border-payments-with-stablecoins-faster-and-cheaper-than-swift
5. *Stablecoin payments infrastructure, Circle* https://www.circle.com/use-case/payments