

The Unspoken Geopolitics of Digital Currency: How Stablecoins Reshape Monetary Power

For centuries, a nation's monetary power has been rooted in its ability to control its currency. Tools like seigniorage—the profit a government makes from printing money—and the capacity to levy taxes have served as the foundational pillars of fiscal sovereignty. These are the quiet levers of influence that underpin national power and stability. But a new form of digital asset, the stablecoin, is now quietly challenging this established order. The seemingly benign use of these digital dollars to send money or save against inflation is creating new geopolitical fault lines. The widespread adoption of stablecoins is eroding the very tools governments have long used to manage their economies, while creating a powerful and unexpected fiscal beneficiary: the United States.

The Quiet Erosion of National Monetary Sovereignty

Stablecoins, particularly those pegged to the U.S. dollar, are gaining significant traction in economies with volatile local currencies, from Africa to Latin America. People and businesses are turning to them as a reliable store of value and a medium of exchange, a phenomenon often referred to as "digital dollarization." This shift, while empowering for individuals, presents a direct threat to a nation's monetary sovereignty by eroding three key pillars of state power.

The first is **seigniorage**. In many developing economies, seigniorage—the revenue from issuing currency—can represent a significant portion of a government's non-tax income, sometimes exceeding 2% of a nation's GDP.[3, 2] As stablecoins replace local

currency for savings and transactions, the demand for local currency shrinks. This, in turn, is likely to diminish this revenue stream, weakening public finances in countries that are already struggling to fund development and service debt.

The second pillar being challenged is **taxation**. The pseudo-anonymous nature of some stablecoin transactions, which operate more like cash, can make it easier to evade taxes on income and capital gains.[3] This is a serious concern for countries, especially those in regions where the tax-to-GDP ratio has stagnated below the recommended threshold for sustained development. This trend could reverse recent progress in tax collection and undermine a country's ability to finance its most fundamental public goals.

Third, stablecoins can facilitate **capital flight**. In economies with exchange controls designed to prevent money from leaving the country, stablecoins provide a bypass. They offer a simple, digital mechanism for individuals and businesses to move value across borders without relying on traditional financial institutions, further impacting the country's financial stability.

The Unintended Fiscal Beneficiary

While many developing nations contend with the financial drain of "digital dollarization," a powerful geopolitical consequence emerges. The primary fiscal beneficiary of this trend is not the local economy but the United States.[3]

Dollar-backed stablecoins are typically backed by high-quality, liquid assets, most notably U.S. Treasury bills.[3] As the global demand for these stablecoins increases, so does the demand for the U.S. government's debt. This dynamic effectively funds a substantial share of the U.S. budget deficit and lowers its borrowing costs.[3] In essence, a portion of the seigniorage revenue from economies around the world is

redirected to the U.S. Treasury, creating a powerful, albeit subtle, form of economic influence.[3]

This new reality is not going unnoticed. The Bank for International Settlements (BIS) has warned that the widespread use of foreign currency–denominated stablecoins could undermine a nation's monetary sovereignty and the effectiveness of its foreign exchange regulations.[13]

The Global Regulatory Chessboard: Competing Philosophies

Governments are not standing still in the face of this new challenge. A global regulatory framework is beginning to take shape, though with competing philosophies. The European Union's Markets in Crypto-assets Regulation (MiCA) has emerged as a comprehensive, unified approach to stablecoin oversight, creating a passport system that allows licensed issuers to operate across 30 countries.[8]

In the United States, the GENIUS Act (Guaranteeing Essential National Infrastructure in US-Stablecoins) has been passed, creating the country's first federal framework for stablecoins. The act limits who can issue stablecoins to insured depository institutions and requires a 1:1 reserve, along with regular audits and compliance with anti-money laundering (AML) and counter-financing of terrorism (CFT) measures.[8] This approach aims to integrate compliant stablecoins into the federal payment infrastructure.

These regulatory efforts are not happening in a vacuum. Major economic powers are also exploring Central Bank Digital Currencies (CBDCs) as a direct response to the rise of stablecoins and as a strategic tool for geopolitical influence. China's digital yuan initiative, for example, is widely seen as a strategic move to reduce reliance on the U.S. dollar in global trade and strengthen the renminbi's position in international

finance.[14, 15] This dual strategy of regulating private stablecoins while exploring sovereign CBDCs highlights a global competition for the future of digital currency.

The table below provides a clear, at-a-glance comparison of traditional monetary tools and the new challenges posed by the rise of stablecoins.

Traditional Monetary Power	New Challenge from Stablecoins	Geopolitical Implication
Seigniorage	Reduced demand for local currency and seigniorage loss	Weakened public finances, difficulty funding development.
Tax Policy	Potential for tax evasion via untraceable transactions	Narrowed tax base, reversal of progress in revenue collection.
Capital Controls	Facilitation of capital flight in regulated economies	Increased financial instability and currency weakness.
Monetary Dominance	Reinforcement of U.S. dollar power through stablecoin backing	U.S. benefits from lower borrowing costs and a strengthening of its global financial position.

The Path Forward: Balancing Innovation and Stability

The rise of stablecoins forces a critical conversation about the future of global finance. These digital assets offer undeniable benefits, such as financial inclusion and faster, cheaper payments for underserved populations. At the same time, they challenge long-standing government control over monetary policy, fiscal health, and national security. The path forward will depend on a concerted, coordinated policy response that is both thoughtful and balanced. Governments must establish regulatory frameworks that can harness the power of this innovation for the public good while managing the systemic risks it introduces. The question is not whether this

new reality will take hold, but whether nations can work together to shape it in a way that fosters stability rather than new forms of financial fragility.

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