

Greater Action Needed to Prepare Nations for Stablecoin Era

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As the global financial system moves rapidly toward digital integration, stablecoin cryptocurrencies backed by fiat currencies or assets are gaining traction as a serious component in international finance. While they offer speed and cost advantages in transactions, stablecoins also raise significant questions about currency sovereignty and national monetary stability. Governments must act decisively to balance innovation with national interests.

Stablecoins, unlike traditional cryptocurrencies such as Bitcoin, maintain a steady value by being pegged to fiat currencies like the United States dollar. Major issuers such as Tether (USDT) and USD Coin (USDC) rely on assets like short-term U.S. Treasury bonds and repurchase agreements to maintain their price stability. Their blockchain-based design allows instant, low-cost peer-to-peer transactions, making them attractive for cross-border payments and settlement systems.

In the United States, legislative momentum has picked up with the recent Senate passage of the **Guarding United States Against Illicit and Unlawful Stablecoins Act (GENIUS Act)**. If enacted, this law would establish a federal framework for regulating stablecoins. This initiative aligns with Washington's broader objectives of modernising dollar-based payments, reinforcing the U.S. dollar's global position, and increasing demand for U.S. Treasury debt. In effect, it turns the digital currency trend into a strategic extension of the American monetary system.

However, the growing influence of stablecoins cannot be seen as a signal of a post-sovereign currency era. Currency sovereignty remains an essential element of national governance, granting countries full control over issuing and regulating their currencies. While stablecoins do not threaten this authority directly, their enhanced role in international payments may erode the utility of sovereign currencies if left unchecked.

China, for example, is adopting a two-pronged strategy. Domestically, it continues to promote the global use of the renminbi through trade agreements, payment systems like the **Cross-border Interbank Payment System (CIPS)**, and regional financial initiatives. Externally, it is exploring stablecoins tied to offshore renminbi, particularly leveraging Hong Kong's financial position. The **Stablecoins Ordinance**, passed by the Hong Kong Special Administrative Region, is the world's first legislation specifically targeting fiat-referenced stablecoins and is set to take effect on August 1.

Despite regulatory risks, the integration of stablecoins, central bank digital currencies (CBDCs), and traditional finance appears inevitable. Countries that act with foresight, modernising their financial infrastructure and strengthening monetary sovereignty, will be better positioned to navigate this digital transformation. Stablecoins are not replacing national currencies, but their strategic management is essential for long-term economic resilience and security.