

CIGI Paper No. 332 – August 2025

How Can Stablecoins Work in a Tariff World?

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67 Erb Street West
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About the Author

Sharat Chandra is the founder of EmpowerEdge Ventures, a Bengaluru, India-based firm dedicated to accelerating start-up growth. As a blockchain and emerging tech evangelist, he specializes in guiding deep-tech and fintech early-stage ventures through their zero-to-one journey, facilitating market access and securing investment opportunities. Sharat is also a founding member of the India Blockchain Forum, India's prominent blockchain association. With more than a decade of experience, he has mentored start-ups through platforms such as the GIFT International Fintech Innovation Hub and the Government of Karnataka's FinTech Centre of Excellence.

Acronyms and Abbreviations

AML	anti-money laundering
APAC	Asia-Pacific
ARTs	asset-referenced tokens
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China and South Africa
CBDCs	central bank digital currencies
DAS	Digital Assets Strategy
ECB	European Central Bank
EMTs	electronic money tokens
EURC	euro-backed stablecoins
FCA	Financial Conduct Authority
FSB	Financial Stability Board
FTAs	free trade agreements
ISO	International Organization for Standardization
MiCA	Markets in Crypto-Assets
MiCAR	Markets in Crypto-Assets Regulation
PSA	Payment Services Act
SGD	Singapore dollar
SWIFT	Society for Worldwide Interbank Financial Telecommunications
VA	virtual asset
VARA	Virtual Assets Regulatory Authority

Executive Summary

This paper explores stablecoins' role in addressing geoeconomic fragmentation and rising tariffs projected for 2025. As protectionist policies and regional alliances disrupt global trade, stablecoins offer solutions for enhancing trade efficiency. The United States is leveraging stablecoins to reinforce dollar dominance, with the Trump administration and Treasury Secretary Scott Bessent promoting dollar-backed stablecoins through the GENIUS Act (2025). This legislation enforces strict reserve and anti-money laundering (AML) rules, aiming to compete with the European Union's Markets in Crypto-Assets (MiCA) framework and Hong Kong's regulations, potentially driving \$2 trillion¹ in US Treasury demand by 2030. As a result, concerns about monetary sovereignty are growing, with Pierre Gramegna, director of the European Stability Mechanism, warning of financial stability risks, and Zhang Ming, deputy director at the Institute of Finance and Economics and the National Finance and Development Laboratory, noting dollar reinforcement via stablecoins.

Globally, rising tariffs and de-dollarization trends boost demand for non-dollar denominated and commodity-backed stablecoins such as gold, especially among BRICS (Brazil, Russia, India, China and South Africa) nations wary of US monetary policy. Euro-backed stablecoins (EURC), with more than €200 million in circulation, are gaining EU traction under MiCA. Digital euro and euro-backed stablecoins can collectively pose a challenge to US dollar hegemony.

Regulatory frameworks, including the European Union's Markets in Crypto-Assets Regulation (MiCAR), the US Stablecoin TRUST Act, and rules in Hong Kong and Singapore, emphasize reserve backing and consumer protection. Stablecoins could streamline trade within alliances, create mechanisms to bypass tariffs and significantly reduce cross-border payment costs. Balancing innovation, financial stability risk mitigation and global consensus on regulation is key to ensuring stablecoins' viability amid trade and geopolitical challenges.

¹ All dollar figures in US dollars.

Introduction

Geoeconomic fragmentation and rising tariffs will cause major disruptions to global trade in 2025 as countries put protectionist measures and regional alliances ahead of multilateral cooperation. Stablecoins, or digital currencies linked to real-world assets such as fiat money or commodities, are becoming more popular as a possible means of reducing trade inefficiencies and maintaining financial stability in the face of this volatility.

For decades, international trade has served as a key driver of global economic growth, but recent geopolitical shifts and tariff-driven inflation have caused a slowdown. Against this backdrop, the role of stablecoins in maintaining financial dominance has garnered significant attention. Bessent recently emphasized the Trump administration's intention to leverage stablecoins to preserve the dollar's status as the world's reserve currency. The US Department of the Treasury's report on stablecoins acknowledges the implications of stablecoins for the monetary supply (Treasury Borrowing Advisory Committee 2025). For example, stablecoins can catalyze a potential shift of funds away from M1/M2,² which translates into increased flows to the US money supply (ibid.). The strategic push by the United States for stablecoin legislation, known as the GENIUS Act, reflects the exigency to counter potential challenges posed by gold-backed alternatives. According to a Cointelegraph (2025) post on X, "Tokenized gold trading volume tops \$1B for first time since 2023 banking crisis as Trump's tariffs drive flight to safe-haven assets." This "gold rush" is fuelling the rise of commodity-backed tokens.

² M1 and M2 are important indicators used to assess the money supply and liquidity within an economy. M1 includes the most liquid assets, such as currency in circulation, demand deposits (such as chequing accounts), traveller's cheques and certain savings accounts accessible via automated teller machines. These funds are readily available for everyday transactions. M1 is a key measure of cash and near-cash resources used directly in purchases. M2 expands on M1 by including less liquid financial instruments, such as time deposits and other near-money assets. Though not instantly accessible, these can be converted to cash relatively quickly, offering a broader view of monetary resources.

The Trump Administration's Embrace of Stablecoins

The recent shift in the US approach to digital currencies is bound to have significant implications for global financial markets. According to Gramegna, "The US administration is favorable toward cryptocurrencies and especially dollar-denominated stablecoins, which may raise certain concerns in Europe" (Bloomberg 2025). He added that the changed US stance on digital currencies "could eventually reignite foreign and US tech giants' plans to launch mass payment solutions based on dollar-denominated stablecoins. And if this were to be successful, it could affect the euro area's monetary sovereignty and financial stability" (ibid.).

Ming also expressed similar concerns: "Once the US dollar stablecoin links the international credit of the US dollar with the application scenarios of the virtual world more closely, it may greatly consolidate the hegemony of the US dollar" (Adejumo 2025). In mainland China, cryptocurrencies are prohibited, but stablecoins are finding a favourable response from local policy makers. There is a surge in dollar stablecoin usage among Chinese exporters. Hong Kong's stablecoin licensing rules will come into effect on August 1, 2025, and a renminbi stablecoin issued offshore through licensed Hong Kong entities seems viable. Renminbi stablecoins can potentially disrupt the dependency on dollars. Counterparties across the globe can trade a digital token that represents a claim on renminbi, yet the underlying currency itself would remain in China, safeguarding Beijing's capital controls (Yoon 2025).

The second Trump administration's pro-crypto policies are bound to accelerate the pace of consensus building on global regulation for digital assets, including stablecoins. Countries, including those that are part of regional alliances such as BRICS, will be forced to act on central bank digital currencies (CBDCs) or stablecoins to safeguard their monetary sovereignty and leverage these tools to streamline cross-border transactions.

The US Strategy for Stablecoin Dominance

The United States is strategically utilizing stablecoins to strengthen the dollar's position as the world's primary reserve currency. Bessent underscored the importance of sustaining the dollar's dominance, emphasizing its role as a cornerstone of the nation's economic stability. The United States is taking proactive measures to maintain its financial leadership. Stablecoin legislation is one of the primary tools in the country's arsenal intended to strengthen the dollar's dominance. Bessent is of the opinion that stablecoins could create \$2 trillion of demand for US treasuries and treasury bills. According to a report by Citigroup, "a US regulatory framework for stablecoin could drive net new demand for US Treasuries, making stablecoin issuers among the biggest holders of US Treasuries by 2030" (Ghose et al. 2025).

A significant step in this direction is the introduction of the bipartisan GENIUS Act (2025), which enforces stringent reserve requirements and robust AML regulations for stablecoin issuers. By establishing a trustworthy framework for dollar-backed stablecoins, the act positions them as secure and credible payment instruments on the global stage. This regulatory clarity is intended to offer a better alternative to competing financial frameworks such as the European Union's MiCAR and Hong Kong's stablecoin regulation. The United States is pulling no punches and doing everything possible to ensure that the dollar remains a dominant force in the evolving landscape of digital finance.

The United States is scripting a new playbook for global dollar dominance, and stablecoin is the latest chapter. According to Antonio Lanotte (2025):

Stablecoins act as a kind of Trojan horse for U.S. dollar dominance in a world increasingly looking for alternatives. While countries like China and Russia push for de-dollarization, stablecoins keep the dollar relevant in global commerce — even outside U.S. banking rails. With stablecoins, the United States doesn't need to force other nations to use the Society for Worldwide Interbank Financial

Telecommunications [SWIFT] or traditional banking channels to maintain dollar hegemony. Instead, cryptocurrency-native financial systems end up reinforcing the dollar's reach organically. It's an elegant solution: Embrace stablecoins, regulate them to keep them within the U.S. framework, and let the free market do the rest. That's why the United States isn't outright banning stablecoins but rather working to bring them under its regulatory umbrella. The real game isn't about stopping crypto — it's about ensuring the dollar remains the backbone of global finance, no matter what form it takes.

The United States' aggressive stablecoin strategy is leading to an unintended consequence: de-dollarization. Emerging-market economies and bigger blocks such as the European Union are apprehensive about the imminent digital dollarization risk posed by dollar-denominated stablecoins and are actively exploring alternatives such as CBDCs and commodity-backed stablecoins.

De-dollarization, Gold-Backed Stablecoins and Euro Stablecoins

Trump tariffs have led to treasury sell-off and the massive acquisition of gold by central banks across the globe. China's holdings of US treasuries have fallen to the lowest levels since 2009 (Alim, Leng and Clarfelt 2025). UBS forecasts the price of gold to touch \$3,500 in 2025 and expects the gold rally to continue in 2026 (UBS Editorial Team 2025a).

"Central banks continue to diversify reserves away from US dollars," according to UBS (UBS Editorial Team 2025b). When combined with demand for exchange-traded funds, "2025 could mark one of the strongest years for gold investment flows on record. In real terms, the metal has now surpassed its inflation-adjusted peak from the 1970s oil shock. Yet, as a share of global money supply, it remains well below historic highs — offering further room for appreciation" (ibid.).

These macro-tailwinds are helping the cause of gold-backed stablecoins, such as Pax Gold and Tether Gold, which are becoming more popular as a hedge against the unpredictability of fiat money. In periods of currency fluctuation, the intrinsic value of gold offers stability. This benefit is especially appealing to nations that are dubious of US monetary policy, such as BRICS members that are looking into alternatives to relying solely on the dollar.

Despite Trump's threat of imposing a 10 percent tariff on countries aligned with BRICS, these countries are likely to trade more in local currencies. At the BRICS Business Forum 2025, held in July in Rio de Janeiro, Malaysian Prime Minister Anwar Ibrahim highlighted the Association of Southeast Asian Nations' (ASEAN's) efforts to enhance inter-ASEAN trade and experiment with financial settlement systems using local currencies. He noted specific bilateral initiatives between Malaysia and Indonesia, between Malaysia and Thailand, and between Malaysia and China, emphasizing that while full de-dollarization is not yet feasible, starting with 10 to 20 percent of local currency usage is a significant step. Anwar stressed the importance of proactive implementation of this approach among ASEAN nations and friendly neighbours rather than merely complaining. Stablecoins pegged to a basket of BRICS nations' currencies can potentially improve trade economics. Stablecoin fees are typically 0.1 percent or less of the transaction value, regardless of the amount or destination, compared to traditional fees that can reach up to five percent (Dixon 2025). Stablecoins will be instrumental in achieving the Group of Twenty's target of reducing the global average cost of cross-border retail payments, including remittances, to one percent by 2027. A 10 percent tariff on countries aligned with BRICS will accelerate the adoption of stablecoins for cross-border trade.

The popularity of gold-pegged digital assets has grown in 2025 due to the spike in gold prices brought on by intensifying trade tensions and aggressive central bank gold acquisitions. These tokens are seen as a trustworthy store of value by both governments and investors. However, there are significant obstacles that gold-backed stablecoins must overcome, such as the practical difficulties of storing gold and the requirement for open audits.

EURC is gradually gaining popularity: it breached €200 million in supply, and active euro stablecoin

addresses have reached the 30,000 mark (Coinmetrics 2025). The European Union recently approved 10 companies to issue stablecoins pursuant to its MiCAR, which had previously led to the delisting of many prominent stablecoins on crypto platforms in the European Union. Approved issuers include Banking Circle, Crypto.com, Circle and Fiat Republic, among others (FT Partners 2025).

While stablecoin adoption is exploding in Europe, the European Central Bank (ECB) is moving slowly on digital euro implementation. A political deal is expected by 2026, and it will take at least two to three years to launch the digital euro. The ECB is aggressively driving discourse around the euro as an alternative to the US dollar.

ECB President Christine Lagarde is bolstering that narrative: “Today, the euro is the second global currency, accounting for around 20% of foreign exchange reserves, compared with 58% in the case of the US dollar. Increasing the international role of the euro can have positive implications for the euro area. It would allow EU governments and businesses to borrow at a lower cost, helping boost our internal demand at a time when external demand is becoming less certain” (ECB 2025a). The euro’s positioning as an alternative to the US dollar is bound to give a boost to euro stablecoins, but it is premature to assess if a digital euro and euro-backed stablecoins can collectively prove to be effective in countering dollar dominance. A lot will depend upon market forces and consensus on global stablecoin regulation. The European Parliament ensures that units are not sold on the premise of the digital euro’s effectiveness in protecting Europe’s monetary sovereignty.

The European Parliament’s recent paper, titled “US digital asset strategy and the European response,” explored the possible effects of the US administration’s Digital Assets Strategy (DAS) on the United States and Europe. It states that “if pursued consistently over time, DAS would tend to weaken the Fed’s payments oversight and monetary control mechanisms, with possible adverse consequences including for the dollar’s international role. Europe’s monetary sovereignty is unlikely to be affected. To ensure that it is indeed the case, the EU crypto markets regulation (MiCA) and the euro’s legal tender status may need strengthening. While wholesale CBDCs would benefit the cross-border payment infrastructure, the digital euro in itself would not

contribute significantly to protecting Europe’s monetary sovereignty” (Angeloni and Tille 2025).

Given the rapidly changing geopolitical risks and fragmentation in the international monetary system, it is uncertain how a digital euro or euro-denominated stablecoins could collectively address the dollarization risk.

The Digital Euro: A Countermeasure to US Dollar Stablecoins?

Lagarde has publicly advocated for the digital euro to counter the rise of US dollar stablecoins in the European region. Philip R. Lane, member of the ECB executive board, in his keynote speech at the University College Cork Economics Society Conference on March 20, 2025, highlighted several potential challenges and risks associated with stablecoins. For example, they could undermine the current two-tier monetary system involving central bank money and commercial bank money. Since stablecoins are often linked to foreign currencies such as the US dollar, their stability could be affected by exchange rate fluctuations, potentially leading to price changes and shifts in sentiment among users. There is also a concern that stablecoins could create liquidity and solvency risks for the banking sector. From a geopolitical perspective, a rise in foreign digital currencies and widely adopted foreign currency stablecoins could undermine monetary sovereignty (ECB 2025b).

In this context of increasing digitalization and the emergence of new forms of private money such as stablecoins, the ECB’s decision to leverage the digital euro as a countermeasure may not yield the desired results because the global uncertainty unleashed by US tariff tantrums needs a multipronged response: faster implementation of a digital euro coupled with interchangeability standards between EU and non-EU stablecoins.

Stablecoins and Geopolitics: The Trump Effect

The US dollar has been under increasing pressure due to protectionist US policies, a ballooning budgetary deficit (thanks to the “Big Beautiful Bill”) and rising trade tensions. The European Union is putting more emphasis on the euro to claim payment sovereignty, where American companies handle roughly two-thirds of payment volumes. Curiously, stablecoins are becoming a new front in attempts to challenge the dollar’s dominance and US-based financial infrastructure, such as card networks and SWIFT, even though they are frequently motivated by the desire for exposure to the US dollar. While less than one percent of the market is currently occupied by stablecoins tied to non-US currencies, several non-US jurisdictions are moving forward with plans to issue stablecoins in other currencies in order to preserve their monetary independence. Société Générale-Forge, for example, has introduced a stablecoin backed by the euro. Furthermore, other nations are investigating complementary tactics such as CBDCs and tokenized deposits (Jhanji et al. 2025).

Geopolitics will play an important role in shaping regional alliances and global stablecoin regulation. The European Union has been progressive in establishing regulations for stablecoins under MiCA. In the absence of a global consensus on stablecoin regulation, it is important to understand the current regulatory landscape to objectively assess the adoption of stablecoins in the new world order and risks pertaining to financial stability.

The Global Stablecoin Landscape: A Patchwork of Emerging Regulations

Stablecoins are under intense scrutiny worldwide, prompting regulators to race to establish clear standards. This global focus reflects a turning point for the digital asset industry, with regulatory clarity paving the way for broader participation and innovation. The European Union, Hong Kong and Singapore have the most comprehensive stablecoin regulation. Regulatory certainty in these jurisdictions will aid stablecoin payment flows and usher in efficiencies of instant payments and lower transaction costs, especially among nations that are impacted by steep tariffs.

The European Union

The European Union has placed stablecoins firmly within its regulatory scope under MiCAR. The regulation, which became fully operational in December 2024, provides a uniform framework for crypto-assets, including asset-referenced tokens (ARTs) and electronic money tokens (EMTs), which largely cover stablecoins. Issuers of ARTs and EMTs face rigorous regulatory requirements, including authorization, transparency, consumer protection and market integrity rules. Significant tokens may face even stricter requirements, with oversight from the European Banking Authority. While MiCAR is in effect, a transitional period allows existing firms to operate under national rules until mid-2026, though some EU countries have set earlier deadlines, creating temporary inconsistencies.

The United States

In the United States, stablecoins remain central to crypto-asset markets, driving federal and state regulatory actions. The United States is witnessing a shift toward clearer rules for digital assets, moving away from a “regulation by enforcement” approach. Proposals such as the Stablecoin TRUST Act aim for a federal framework requiring issuers to maintain high-quality reserves and undergo regular audits. Federal agencies such as the Federal Reserve and the Office of the Comptroller of the Currency are increasing their involvement, especially for payment-focused stablecoins. Stablecoins with investment-like

features are being evaluated by the Securities and Exchange Commission and could be classified as securities, triggering additional oversight. States such as New York and Texas have already implemented strict stablecoin requirements, but federal legislation could unify standards. A finalized framework is anticipated by late 2025.

The United Kingdom

The United Kingdom is also advancing its regulatory framework, with plans to bring a broad range of crypto-asset and stablecoin activities into the regulated financial services perimeter. The government intends to regulate fiat-backed stablecoin activities, particularly when used for payments. Requirements will include maintaining reserve assets equivalent to circulating supply and adequate safeguarding arrangements.

The United Kingdom's Financial Conduct Authority (FCA) released a consultation paper outlining proposed regulations for qualifying stablecoin issuers and crypto-asset custodians. The FCA aims to balance fostering innovation and international competitiveness within the crypto-asset sector with providing appropriate consumer protections.

Key proposals include requirements for stablecoin issuers to maintain one-to-one backing of their stablecoins with liquid assets held in a statutory trust, offer prompt redemption to holders, and make clear disclosures about their operations and backing assets. For custodians, the rules focus on segregating client crypto-assets and establishing robust safeguarding arrangements to protect assets in the event of firm failure. These regulations are part of the FCA's broader "Crypto Roadmap" to create a clearer regulatory framework for various crypto-asset activities in the United Kingdom.

Hong Kong

Across Asia, several jurisdictions are stepping up their frameworks. The Hong Kong government passed the stablecoins bill on May 21, 2025, to establish a licensing regime for fiat-referenced stablecoin issuers in Hong Kong, to further enhance Hong Kong's regulatory framework on virtual-asset (VA) activities, thereby fostering financial stability and encouraging financial innovation (Hong Kong Monetary Authority 2025). Taking effect on August 1, 2025, Hong Kong's Stablecoins Ordinance follows the "same activity, same risks, same regulation" principle.

Singapore

Singapore has finalized a stablecoin framework, treating them generally as digital payment tokens under the Payment Services Act (PSA), with a specific framework for Singapore dollar (SGD)/Group of Ten-pegged stablecoins requiring reserve and prudential standards.

In Singapore, stablecoin innovation is intensifying, driven by clarity from the Monetary Authority of Singapore's regulatory frameworks. Examples include the Visa Digital Treasures Card (converting stablecoins to fiat), StraitsX's partnership with Standard Chartered (reserve management) and Grab's collaboration with StraitsX (digital wallet top-ups).

There are multiple local stablecoin projects and initiatives in the Asia-Pacific (APAC) region, including those backed by the Indonesian rupiah, the South Korean government's work with Ground X, a stablecoin pegged to the SGD developed by StraitsX, and a one-to-one Hong Kong dollar-pegged stablecoin involving IDA and The Bank of East Asia.

Japan

Japan has amended its PSA to define legal currency-denominated stablecoins, limiting issuers to regulated entities such as banks and requiring intermediaries to register and follow strict AML/know-your-customer rules.

Bahrain

Bahrain has become the first Gulf nation to introduce a comprehensive stablecoin regulatory framework that mandates a full reserve backing and stringent cybersecurity measures.

Below is a list of other countries that are also addressing stablecoins through various approaches:

- Canada is willing to allow trading of single fiat-pegged stablecoins (value-referenced crypto-assets) under exemptive relief, inviting public comment on long-term regulation.
- The Cayman Islands classifies stablecoins as VAs under the Virtual Asset (Service Providers) Act, requiring issuers to register and comply with AML regulations.
- Gibraltar's stablecoin issuers may fall under Financial Services (Distributed Ledger

Technology) Regulations or Proceeds of Crime Act 2015 (Relevant Financial Business) (Registration) Regulations, depending on their activities and structure, potentially also triggering broader financial services regulations.

- The Isle of Man considers stablecoins as electronic money, requiring a specific licence for related payment services.
- Kenya has no specific regulation for stablecoins, though the central bank acknowledges their importance.
- Liechtenstein, as a European Economic Area member, will implement MiCAR rules for stablecoins (asset-referenced tokens and e-money tokens).
- Mauritius issued draft guidance notes defining and classifying stablecoins, noting they may be treated as VAs under the Virtual Asset and Initial Token Offering Services Act, potentially requiring licensing based on activity.
- Norway considers stablecoins intended for retail customers as e-money, and the regulatory regime will change with MiCAR implementation.
- Qatar's framework focuses on investment tokens and explicitly excludes digital representations of fiat currencies or those used as currency substitutes from its main "permitted tokens," though Dubai's Virtual Assets Regulatory Authority (VARA) has specific rules for "fiat-referenced virtual assets" and prohibits algorithmic stablecoins.
- South Africa considers stablecoins as crypto-assets under its financial intelligence laws (Financial Intelligence Centre Act) and highlights the risks, with the intention to introduce a specific regulatory framework, including capital treatment. South Africa's crypto regulatory framework is evolving, with initiatives under the Financial Sector Conduct Authority's three-year regulatory plan continuing until 2027, potentially addressing gaps such as regulations for token issuers and stablecoins.
- Switzerland classifies stablecoins based on their economic function, applying different financial market laws accordingly.

- Ukraine's pending VA law includes secured VAs backed by currency values (stablecoins), regulated by the national bank.
- The United Arab Emirates has distinct stablecoin rules under VARA in Dubai (for fiat-referenced VAs) and the central bank's Payment Token Services Regulation (for dirham-pegged tokens), regulating issuers and service providers.

Stablecoins have become a central feature of the digital asset market, promising stability in a volatile landscape. As their use grows, policy makers worldwide are intensifying their scrutiny and racing to establish clear standards. This global trend reflects a balance that policy makers are striving to achieve: fostering innovation while ensuring investor protection, financial stability and market integrity

Global consensus on stablecoin regulation is necessary to harmonize regulations to ensure financial stability and money-laundering risks are addressed effectively. Stablecoins are here to stay. Bilateral and free trade agreements (FTAs) between countries will be a test bed for stablecoin adoption in cross-border trade. The paper now turns to key future trends and how they might unfold in the coming years.

Future Trends

In a multipolar world, the future of global finance is likely to be shaped by the integration of stablecoins into FTAs, signalling their growing role in cross-border commerce. As market volatility and geopolitical instability persist, gold's appeal as a safe-haven asset is resurging. This trend is reinforced by the development of gold-backed stablecoins, which combine digital asset efficiency with the intrinsic value of gold. Simultaneously, the integration of digital assets into the SWIFT International Organization for Standardization (ISO) 20022 messaging standard is laying the groundwork for interoperability and regulatory compliance — key factors for the mass adoption of stablecoins in mainstream financial systems across borders.

Important trends to watch for are listed below.

→ **Stablecoins as part of FTAs:** Emerging-market countries such as India may choose to integrate stablecoins into FTA discussions with the United Kingdom, the United States and others.

India and the United Kingdom concluded an FTA on May 6, 2025. The India-UK FTA unlocks substantial export potential for labour-intensive industries such as textiles, marine products, leather, footwear, sports equipment and toys, as well as key sectors such as engineering goods, auto components and engines, and organic chemicals. It also provides a major boost to service trade, including information technology and information technology-enabled services, financial and professional services, other business services and educational services.

The FCA's annual work program for 2025–2026 has budgeted £7.8 million under the “Cryptoasset Stablecoins and Wider Regime” to develop and implement a proportionate and safe regulatory regime for crypto activities in the United Kingdom, promoting a competitive and innovative sector (Vasileva 2025).

India is revisiting its stance on crypto and stablecoins, and a discussion paper on crypto is in progress. This move augurs well for both Indian as well as UK businesses. Once stablecoin legislation is harmonized between these two countries, business-to-business cross-border transactions will become more efficient and cost-effective. In a CNBC-TV18 article, India's Department of Economic Affairs Secretary Ajay Seth stated, “We have done a discussion paper on cryptocurrency, with senior level participation from the Reserve Bank of India” (Bhan 2025). However, the article continued, “Before its release, a number of global jurisdictions changed their position on crypto assets, particularly in terms of their use in cross-border payments and stablecoin adoption” (ibid.).

India and the United States were expected to conclude a bilateral trade agreement by the end of July 2025. Trump's decision to impose a 25 percent tariff on India has derailed trade discussions. As a result, the resurgence of Russia-India-China connectivity and the Shanghai Cooperation Organisation has taken on renewed importance in light of the broad tariffs introduced by the Trump administration. Shifts

in global trade patterns are prompting Russia, India and China to strengthen collaboration via strategic trilateral forums and the development of alternative transportation routes.

→ **Stablecoins in a Bilateral FTA:** An FTA between two countries typically eliminates or reduces tariffs on qualifying goods and services, creating a preferential trade environment. Stablecoins could enhance trade efficiency within this framework in the following ways.

- **Streamlined cross-border payments:** Under an FTA, Country A and Country B agree to eliminate tariffs on specific goods (for example, electronics from A, agricultural products from B). Exporters and importers use a stablecoin such as USDC for payments.
 - **Benefit:** Stablecoins enable near instantaneous settlement, reducing the time and cost of traditional bank transfers. For example, an exporter in Country A can receive payment in USDC from Country B within minutes, avoiding SWIFT delays and fees.
 - **FTA advantage:** Since tariffs are minimal or non-existent under an FTA, stablecoins can focus on optimizing payment efficiency rather than navigating tariff-related complexities. This benefit is particularly useful for small and medium enterprises that lack access to sophisticated banking services.
- **Support for rules-of-origin compliance:** FTAs require goods to meet “rules of origin” (for example, a certain percentage of value must originate in Country A or Country B) to qualify for tariff exemptions. Stablecoin transactions can include metadata or integrate with smart contracts to document the supply chain.
 - **Benefit:** Blockchain-based stablecoins can embed provenance data, helping customs authorities verify that goods qualify for FTA benefits. For instance, a smart contract could release payment in a stablecoin only after verifying that the goods meet origin criteria, reducing disputes.
 - **FTA advantage:** The bilateral nature of the rules of origin simplifies documentation compared to a multilateral trade

environment. Stablecoins can standardize this process, enhancing trust between the two countries' customs authorities.

- **Gold's comeback:** Commodity-backed tokens might see increased traction if trade tensions and tariff conflicts escalate. Geopolitical instability will fuel the flight of capital to gold.
- **Robust networks:** Stablecoins can function as a payment instrument as well as a payment infrastructure. They could facilitate seamless trade within regional alliances, bypassing the impact of tariffs. The Bank for International Settlements states that ISO 20022 can be adopted as a standard messaging protocol for digital asset transactions, including stablecoins. ISO 20022 is a new messaging standard adopted by SWIFT to enable transactions involving digital currencies, e-money, stablecoins and CBDC. ISO 20022 is the bridge that fintechs need for true mass adoption of stablecoins.

Stablecoins make up one percent of global US dollar M2 money supply. M2 currently stands at \$21.76 trillion (Vasileva 2025). Stablecoins are gradually becoming an integral part of the global monetary system, offering two benefits in a fragmented global economy: they facilitate cross-border payments effectively and get around protectionist policies. According to a report by Payments & Commerce Market Intelligence (2025, 15), for cross-border payments, "a 1% shift to stablecoins could save \$23 billion in annual fees, while a 5% shift could save \$116 billion. For retail cross-border payments, from \$5 billion to \$24 billion [saved] annually." The report continued, "APAC is leading stablecoin adoption, accelerating corporate payments, remittances and trade settlements" (ibid., 14).

Stablecoins have become a critical financial infrastructure, and new stablecoin products are being launched by leading payment companies. Airtm, Félix Pago and Remote are leveraging stablecoins for payroll, inflation hedging and treasury operations. Stablecoin financial accounts, launched by Stripe, enable businesses to send, receive and hold US dollar-denominated balances in more than 100 countries. For an agentic economy fuelled by AI agents, stablecoins provide the native payment rails for 24/7 global operations, instant settlement and programmability.

However, deposit tokens are emerging as an alternative to stablecoins. For example, J. P. Morgan's Kinexys has introduced a US dollar deposit token proof-of-concept on a public blockchain, serving as an alternative to stablecoins for native cash settlement and payment applications for the company's institutional clients. Market forces will determine whether deposit tokens can beat stablecoins in the adoption curve.

Conclusion

CBDCs, tokenized deposits, stablecoins (dollar-denominated, commodity-backed) will coexist and cater to specific use cases in the global economy. There is no binary choice as to which payment ecosystem stakeholders can choose to exercise.

Gold-backed alternatives could potentially provide a remedy for countries that are cautious of the dollar, even as the United States aims to maintain dollar dominance through regulated stablecoins. Stablecoins can prove to be essential in maintaining cost efficiency in cross-border trade in the face of growing tariffs as international agreement on legislation governing digital assets develops. Countries exploring bilateral agreements and FTAs can leverage stablecoin payments and infrastructure to bring down the cost of cross-border trade.

Stablecoins are not bereft of problems; therefore, it is important to address the financial stability risks associated with them. Financial Stability Board (FSB) Chair Klass Knot has voiced his concerns, primarily regarding the growing reliance on short-term money market instruments as reserves for stablecoins. For example, if a stablecoin fails, triggering rapid sales of these short-term bills, it could destabilize the broader financial system.

The FSB chair recently outlined how such a failure might occur: "Without strict oversight, could these reserves fund riskier ventures, with stablecoins acting as conduits for leveraging the financial system? This scenario is not hypothetical. We have seen how loosely regulated financial instruments can amplify risks rather than mitigate them" (Ledger Insights 2025).

Integration of stablecoins in the new monetary order would require finding a delicate balance between innovation, mitigating financial stability risks and building a global consensus on regulation — a task that will influence the direction of international trade and digital finance in the future.

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