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Will Stablecoins Combat Hyper-Dollarization or Reinforce It?



Background

Stablecoins are digital tokens designed to maintain a stable value, typically pegged to the US dollar. Their primary utility lies in offering a reliable store of value and unit of account within the volatile world of digital assets. In 2024, stablecoins facilitated \$27.6 trillion in transfers, surpassing Visa and Mastercard combined.¹ As of early May 2025, the total stablecoin market capitalization was approximately \$245 billion, and the 24-hour trading volume exceeded \$150 billion, which is on pace to surpass 2024's total transfers.² USDT remains the largest and most actively traded stablecoin, accounting for a market capitalization of \$150 billion and a 24-hour trading volume exceeding \$115 billion.³ USDC, issued by Circle and governed by Coinbase under the Centre Consortium, is the second largest stablecoin by market capitalization, currently at about \$60 billion and with a 24-hour trading volume of \$14 billion.⁴

Given their scale and their quasi-fiat functionality, stablecoins have primarily served as liquidity tools for DeFi platforms (i.e., cryptocurrency exchanges) and as base currencies for trading pairs, collateral, and settlement without the need for actual USD cash reserves in banks exposed to regulatory and geopolitical risks. This cross-collateralization system has allowed decentralized finance to deploy capital efficiently across lending, derivatives, and yield markets and across borders without touching traditional banking rails, effectively creating a parallel liquidity system denominated in synthetic dollars. Despite further experimentation with algorithmic and crypto-collateralized models, the market has converged on a custodial, USD-pegged design backed by short-duration, low-risk assets like U.S. Treasuries. This model of a dollar-based system operating independently of traditional financial rails has led to the growth of USDT and USDC, which together account for over 85% of market capitalization.⁵ With more than 99% of stablecoins denominated in USD, stablecoins may catalyze the process of “future-proofing” the dollar, moving it from a bank-based to a blockchain-based infrastructure.⁶

Hyper-Dollarization

This concentration, while efficient, does raise concerns around centralization and systemic risk to global monetary sovereignty, particularly during times of geopolitical and economic tensions. For example, the perceived weaponization of the U.S. dollar,

under the “America First” doctrine, deliberately intends to reinforce dollar supremacy through sanctions, tariffs, and capital controls. Aside from tariffs, the U.S. has historically leveraged the SWIFT network, used for global interbank messaging, to enforce economic exclusion by way of sanctions and disconnecting targeted countries, entities, or individuals from the international financial system. By restricting access to SWIFT and the broader dollar-based infrastructure, the U.S. can and has effectively isolated adversaries, limited their ability to conduct cross-border trade, and pressured them into compliance with geopolitical or economic objectives.

The use of the U.S. dollar, SWIFT network, and correspondent banking system to exert economic pressure exposes the fragility of nations whose monetary systems rely heavily on USD liquidity. For many countries, the risks became clear: being dollar-dependent is not just an economic liability, but a political one. Lebanon, for example, saw its banking sector collapse in part due to dollar shortages and capital flight, exacerbated by its inability to manage monetary policy independently within a dollarized system. Amid this backdrop, a number of countries may turn to stablecoins not merely as a tool for financial inclusion or digital efficiency but as a critical pillar in reclaiming monetary control.

Growth Opportunities for Stablecoins

The opportunity to bring non-USD stablecoins and foreign exchange (FX) markets on-chain remains largely untapped. In traditional finance, the U.S. dollar remains dominant, accounting for 60% of global foreign exchange reserves and 85% of FX transaction volume, though it is slowly declining.^{7,8} This dominance is mirrored and even exaggerated in crypto. Yet, for blockchain to fulfill its promise of global accessibility and inclusivity, enabling efficient, liquid, and interoperable on-chain markets for other fiat currencies remains a priority.

For example, there are instructive parallels between stablecoins and Eurodollars, particularly regarding their offshoring dynamics and regulatory arbitrage. Just as Eurodollars evolved to serve geopolitical and financial needs outside U.S. jurisdiction, stablecoins could undergo a broader transformation, and the decentralization of global financial infrastructure may emerge in response to a growing resistance against U.S.-led hyper-dollarization. Notably, we may start to witness a proliferation of stablecoins pegged to local currencies, whether privately issued or supported by central banks, signaling an intent to de-risk from the global dollar system. For example, Abu Dhabi’s top institutions, sovereign wealth fund ADQ, First Abu Dhabi Bank (FAB), and International Holding Company (IHC), recently announced their partnership to develop a dirham-backed stablecoin, subject to approval by UAE regulators.⁹ The stablecoin will be regulated by the UAE Central Bank and operate on the ADI blockchain, a platform designed to modernize traditional financial systems through blockchain. The initiative aims to position the UAE as a global leader in blockchain innovation, marking a significant step toward diversifying the global stablecoin landscape.

Further, Japanese banking giant SMBC partnered with Ava Labs, Fireblocks, and IT provider TIS in Q2 2025 to explore the commercialization of stablecoins in Japan.¹⁰ The collaboration aims to create a framework for issuing and circulating stablecoins, assess regulatory requirements, and identify real-world use cases. A key focus is the potential use of stablecoins for settling tokenized assets, including government bonds, corporate debt, and real estate. We believe these partnerships, while representing a small sample size, mark significant steps toward blockchain-based sovereign financial infrastructure. Broader stablecoin projects denominated in local currency pegs are increasingly dominating headlines and hint toward the emergence of a potential trend.

A Word of Caution

Before elevating expectations of decentralization, it is worth noting that non-USD stablecoins, such as those pegged to the euro, have historically struggled to gain meaningful traction, and the core issue is liquidity. Regulatory progress, including the EU’s MiCA framework and efforts in jurisdictions like Singapore and Switzerland, has created clearer compliance paths for stablecoin assets. However, regulation alone does not drive adoption. Without deep, sustainable liquidity, these assets cannot scale, regardless of how well-regulated they are. Non-USD stablecoins suffer from low trading volumes, minimal DeFi integration, and limited market participation. Centralized market makers also lack the incentive to support them because the returns have been weak, making it harder to allocate capital. This creates a circular reference of poor liquidity limiting use cases and broader adoption (and limited use cases create

poor liquidity).

To become viable alternatives, non-USD stablecoins must offer compelling financial incentives. This means developing mechanisms that drive consistent, attractive returns for liquidity providers, such as deeper USD/non-USD pools and more efficient automated market maker (AMM) algorithms.¹¹ Regulation can open the door, but only economics will drive meaningful adoption. If the liquidity puzzle can be solved, non-USD stablecoins could carve out a meaningful role in global finance.

Closing Thoughts

There may be an emerging and compelling case for non-USD stablecoins. As global momentum builds toward de-dollarization, countries and enterprises are exploring alternatives that reduce reliance on the U.S. dollar. Region-specific stablecoins could support localized payments, cross-border settlements, decentralized lending, on-chain forex markets, and multi-currency treasury strategies. This trend would not just be monetary modernization; it could be an intentional decoupling from the dollar system.

Enter the “GENIUS Act”

We think the United States faces a pivotal choice to either embrace this multipolar trend or to actively work to reassert dollar dominance in a new form. The GENIUS Act, introduced in Congress in early 2024, may suggest that the U.S. has chosen the latter. The U.S. Senate advanced the Act with a 66–22 vote, proposing streamlined regulatory clarity for stablecoin issuers, including reserve requirements, bankruptcy protections for currency holders, and anti-money laundering compliance.¹² It garnered bipartisan support after revisions addressed earlier concerns around national security and aims to cement a federal framework for trust-chartered, fiat-redeemable tokens. Further, the Act seeks to retain geopolitical leverage in a world where stablecoins may soon become the primary medium of cross-border settlement. The U.S. sees this issue as a national security imperative, ensuring that the future of money remains anchored in the dollar, even as financial rails modernize. In that sense, the dominance of USD stablecoins is not just a nice-to-have for American policymakers; it may soon be a must-have amid a battleground for monetary power. Whether the future is multipolar for nations deploying their economic interests or still dollar-dominated, one thing is clear: technology is no longer the question, but political will is.

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- ⁹<https://www.reuters.com/world/middle-east/abu-dhabi-sovereign-wealth-fund-teams-up-with-fab-ihc-launch-new-stablecoin-2025-04-28/>
- ¹⁰<https://www.coindesk.com/business/2025/04/02/japanese-banking-giant-smbc-explores-stablecoin-use-with-ava-labs-fireblocks>
- ¹¹<https://www.moonpay.com/learn/defi/what-is-an-automated-market-maker-amm>
- ¹²<https://www.chainalysis.com/blog/senate-advances-genius-stablecoin-act/>

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