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RESEARCH PAPER

Stablecoins as Statecraft: Reclaiming US Financial Sovereignty in the Eurodollar Market

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Executive Summary

The bipartisan GENIUS Act has put the United States in a unique position to address an offshore dollar system that, although it helps US citizens avoid the government overreach of a central bank digital currency (CBDC), leaves the country in an unacceptable governance deficit. The US government is unable to monitor risk in the offshore dollar system, resulting in several emergency liquidity operations by the Federal Reserve since 2007. Countries are free riding on the offshore dollar system, not only by profiting from financial intermediation, but by simply utilizing the legal and security apparatus surrounding the dollar. China's construction of alternatives, the prominence of Tether as an unregulated entity, and the introduction of European digital currency standards present the United States with urgency to harden its regulatory framework, while the country must also rise to meet the present and future global demand for dollars as a savings vehicle. Specifically, China's successful development of an interest-bearing digital yuan and early track record of cross-border digital currency settlement networks mandate immediate attention from United States policymakers.

Stablecoins offer an opportunity to simultaneously address failures of the offshore dollar system and mitigate risks that arise from a changing monetary landscape. Reliance on the legacy offshore dollar system will persist, but the country can support the proliferation of regulated stablecoins that extend governance perimeters. GENIUS Act stablecoins will boost Treasury demand by introducing a new form of dollars to the world that does not increase the externally held liabilities of the United States. The differentiated proposal within this paper is to scaffold a new type of global capital flow, specifically the exporting of stablecoins when the United States engages in the importing of goods and services. When traditional importers are compensated, they either invest dollars back into the United States which has created imbalances in foreign ownership of domestic securities, or they store dollars in the offshore dollar system which escapes the governance perimeter, enables free riding, and has contributed to past financial crises.

Exporting stablecoins to trade partners addresses imbalances in foreign ownership of US Treasuries and can reduce offshore dollar leverage that takes place entirely outside of the scope of American regulators. Stablecoin proliferation importantly helps the United States project soft power around the world and pushes back on Chinese efforts to challenge dollar supremacy. The balance sheet mechanics of this fundamental shift in capital flows are explored in Sections 3 and 4. Next steps for the United States include driving regulated stablecoins onto the market and into the hands of global dollar system participants via GENIUS Act implementation, engaging in new ways to settle international trade, building structural demand for Treasuries and Treasury repo via the stablecoin channel, and continuing dollar internationalization in the digital era.

Background: Concepts and Definitions

Offshore Dollar System

Included: Offshore bank dollar liabilities and claims, including Eurodollar deposits and loans; FX swaps as synthetic dollar borrowing; offshore USD securities issuance such as Eurobonds; global benchmarks that transmit offshore funding conditions; and central bank swap lines as the crisis-liquidity channel connecting offshore and onshore dollar markets.

Excluded: Fully onshore USD deposit funding at US-chartered banks; US-regulated money market funds; purely domestic payment rails including Fedwire, ACH, and FedNow.

Why the Boundary Matters: The policy proposals in this paper target the governance perimeter: the set of dollar liabilities over which US regulators can impose prudential, transparency, and market-structure rules. Instruments inside the perimeter can be subjected to reserve requirements, disclosure obligations, and supervisory oversight. Instruments outside it cannot, yet may still generate demands on US crisis-liquidity facilities. The central strategic question is how to expand this perimeter by converting offshore dollar demand from the Eurodollar system's fractional-reserve model to the stablecoin system's fully reserved model without destabilizing the global dollar architecture on which American allies and trading partners depend.

Stablecoins Scope and Limitations

Stablecoins under the GENIUS Act must be issued by regulated entities and be 100 percent backed by reserves consisting of Treasuries, Treasury repo, or insured deposits.[1] The Act prohibits stablecoin issuers from paying interest, yield, or any other financial return to holders solely for holding, using, or retaining the stablecoin. This prohibition preserves the fundamental distinction between stablecoins, which are payment instruments designed to move value, and bank deposits, which are credit instruments that compensate depositors for lending their money to the bank. The current market size of US dollar stablecoins globally is about $300 billion.[2]

Stablecoins Can:

- Address the retail and savings margin of offshore dollar demand, where hundreds of millions of individuals already seek dollar-denominated instruments and extend American financial governance to populations that the Eurodollar system never reached.
- Reduce the offshore credit multiplier on marginal dollar demand.
- Create structural Treasury demand that reduces federal borrowing costs.
- Redirect the marginal growth of foreign dollar demand from claims on the US government to claims on private, domestically regulated US issuers, slowing the accumulation of externally held sovereign debt.
- Offer a pathway to AML/CFT and sanctions enforcement capabilities that exceed what the offshore Eurodollar system's opacity currently permits.

1 U.S. Congress, Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025 (GENIUS Act), S.1582, 119th Cong. (2025), https://www.congress.gov/bill/119th-congress/senate-bill/1582/text.

2 International Monetary Fund, Monetary and Capital Markets Department, "Understanding Stablecoins," IMF Departmental Papers, no. 2025/009 (December 2025).

Stablecoins Cannot:

- Fully address the wholesale margin of offshore dollar demand, where existing Eurodollar leverage operates at a scale that fully reserved payment instruments cannot currently substitute for.
- Eliminate the structural current account deficit, which is determined by the savings-investment balance.
- Reverse the capital account surpluses that are a proximate driver of dollar overvaluation and declining industrial capacity, absent capital account restrictions that this paper does not propose.
- Guarantee exchange rate depreciation, since the FX effects are multifactorial and depend on substitution patterns that are empirically uncertain.
- Prevent the development of offshore stablecoin credit markets that could replicate the Eurodollar credit multiplier on blockchain rails if inadequately governed.

Section 1: The Emergence of the Offshore Dollar System

1.1 Origins of the Eurodollar Market

The offshore dollar system did not emerge by design but was the product of Cold War geopolitics, domestic regulatory constraints in the United States, and the entrepreneurial instincts of European bankers. Soviet-bloc governments, having accumulated dollar reserves through trade and commodity sales, were reluctant to hold those dollars in American banks for fear of seizure. In the late 1950s, they began depositing dollars in European banks, initially in London and Paris, where the funds remained dollar-denominated but sat outside US jurisdiction.[3] This created the first pool of what came to be called Eurodollars: dollar-denominated deposits held at banks outside the United States.

Two domestic American policies acted as accelerants for dollars leaving the country. Regulation Q, enacted as part of the Banking Act of 1933, capped the interest rates that American banks could pay on deposits.[4] When US interest rates rose in the late 1950s, the ceiling prevented domestic banks from competing effectively for dollar deposits. European banks, not subject to Regulation Q, could offer higher rates, attracting dollar funds offshore. Capital controls introduced in the 1960s, specifically the Interest Equalization Tax of 1963 and the Voluntary Foreign Credit Restraint program of 1965, further pushed American banks' international lending activities offshore as they sought to escape the regulatory and tax burden on domestic lending to foreign borrowers.[5]

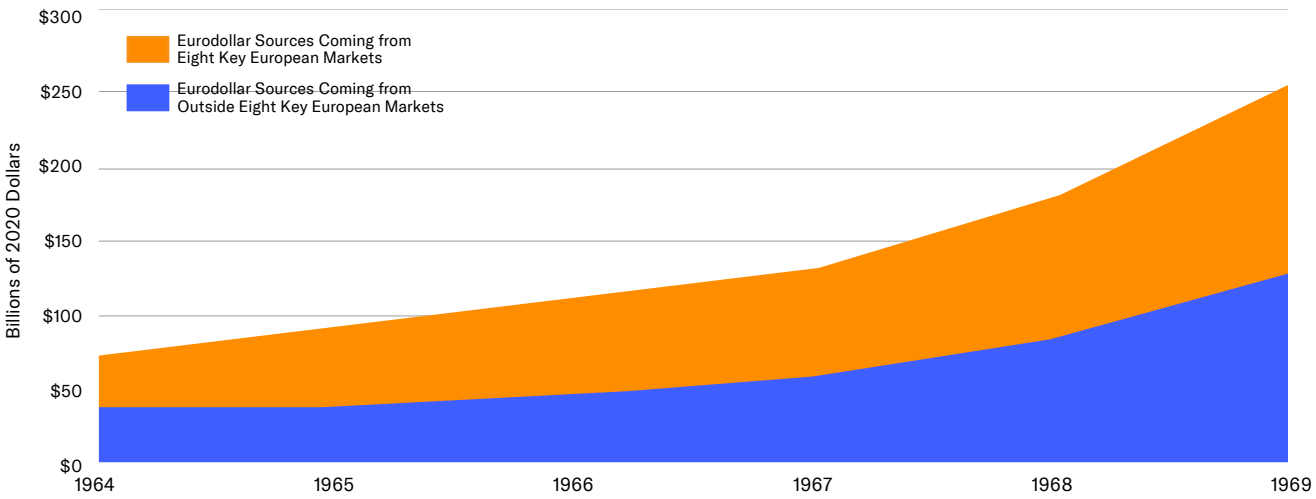
3 Catherine R. Schenk, "The Origins of the Eurodollar Market in London: 1955–1963," Explorations in Economic History 35, no. 2 (1998): 221–238.

4 Board of Governors of the Federal Reserve System, "Regulation Q (Prohibition Against Payment of Interest on Demand Deposits)," Federal Reserve History, https://www.federalreservehistory.org/essays/regulation-q.

5 John Hewson and Eisuke Sakakibara, "The Impact of U.S. Controls on Capital Outflows on the U.S. Balance of Payments: An Exploratory Study," IMF Staff Papers 22, no. 1 (1975): 645–674.

Figure 1: Growth of Eurodollar Market After Introduction of US Capital Controls

European and Non-European Markets, 1964–1969



Source: Federal Reserve Bank of St. Louis

The result was a powerful incentive structure: regulatory arbitrage drove dollar intermediation out of the United States and into European financial centers, primarily London. Before these regulatory constraints took hold, American banks had been the world's primary international dollar lenders. US institutions dominated cross-border dollar finance in the 1950s, handling the majority of trade finance and sovereign lending through their domestic balance sheets under Federal Reserve oversight. The combined effect of Regulation Q, capital controls, and the Interest Equalization Tax shifted this activity offshore within a single decade, transferring the intermediation profits and the governance of international dollar lending from New York to London and Switzerland.[6] The United States went from being the world's banker to being the backstop for a banking system it no longer controlled.

Initially, the arrangement served US interests in ways that made it politically convenient to overlook. Eurodollar banking facilitated the export of dollars necessary for European reconstruction and international trade finance, supported American banks' international expansion, and helped satisfy global dollar demand without requiring the Federal Reserve to explicitly expand its balance sheet. Crucially, European-domiciled dollar banking absorbed dollar demand that might otherwise have been presented to the US Treasury as requests to convert dollars to gold at the official rate of $35 per ounce. As long as foreign governments and institutions were recycling surplus dollars into Eurodollar deposits rather than demanding gold, the Bretton Woods system could continue functioning.

6 Schenk, "Origins of the Eurodollar Market in London," 221–238; International Monetary Fund, "The Development of the Euro-currency Market," Finance & Development 12, no. 3 (1975): 13–16.

1.2 The Triffin Dilemma

In 1959, Belgian-American economist Robert Triffin testified before the Joint Economic Committee of Congress and articulated what became the defining constraint of the postwar monetary order. The Triffin Dilemma states that a country whose currency serves as the global reserve must supply that currency to the world through persistent balance-of-payments deficits, but those very deficits eventually undermine confidence in the currency's convertibility.[7]

The causal sequence between current account deficits and capital account surpluses must be understood. Foreign demand for dollar-denominated reserves comes first. When foreign governments, central banks, and corporations seek to hold dollars as a store of value, a trade settlement medium, or a reserve asset, they must acquire those dollars. The primary mechanism for acquiring them is selling goods and services to the United States, which means the United States must, in aggregate, buy more from the world than it sells. The current account deficit is not the cause of dollar internationalization; it is the consequence of foreign demand for and accumulation of dollar assets.

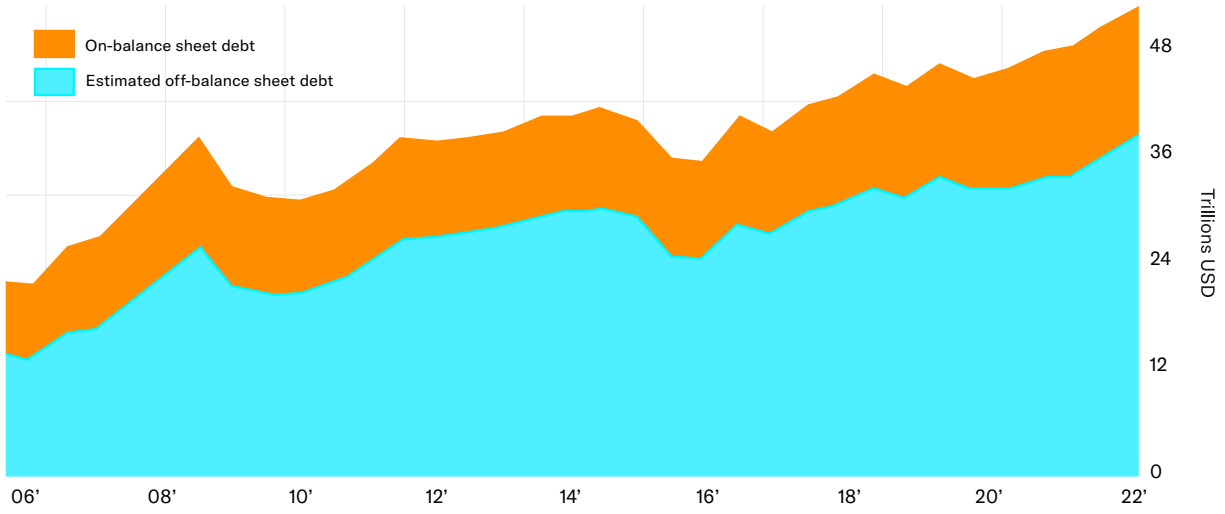
The Triffin Dilemma did not disappear with the end of gold convertibility but shifted form. Under Bretton Woods, foreign dollar demand expressed itself as a gold drain: governments accumulated dollars and converted them to gold, depleting the US stockpile, which fell from approximately 20,000 metric tons in 1950 to 8,133 metric tons by 1971.[8] After the Nixon administration suspended gold convertibility, the same underlying dynamic—persistent foreign demand for dollar assets—expressed itself through structural current account deficits, disadvantaging American industrial labor. The Eurodollar system, no longer tethered to any external anchor, was free to expand exponentially, and the current account deficits required to feed it faced no natural limit.

7 Robert Triffin, Gold and the Dollar Crisis: The Future of Convertibility (New Haven: Yale University Press, 1960).

8 U.S. Department of the Treasury, "Status Report of U.S. Treasury-Owned Gold," Fiscal Data, https://fiscaldata.treasury.gov/datasets/status-report-government-gold-reserve/; Board of Governors of the Federal Reserve System, Annual Report, 1950 and 1971 editions, FRASER, https://fraser.stlouisfed.org.

Figure 2: On- and Off-Balance Sheet Debt for Non-US Banks

Non-Bank Financial Intermediaries, 2006-2022



Today, financial innovation has further amplified the offshore system. Current BIS data documents on-balance-sheet dollar claims by non-US banks at $12 to $15 trillion, a figure[9] that substantially understates reality.[10] These banks, which do not have access to the Federal Reserve's Discount window for dollars, had an off-balance-sheet dollar obligation of $39 trillion in 2022.[11] The FX swap market alone creates approximately $75 trillion in synthetic dollar obligations not captured in conventional debt statistics, functioning as a shadow funding system that operates largely outside regulatory visibility.[12]

1.3 The LIBOR-to-SOFR Transition: Precedent for Governance Reset

The Federal Reserve's approach to the offshore dollar system amounted to informed acquiescence. It monitored the Eurodollar market but consistently chose not to extend regulatory reach. The governance consequence was LIBOR—a daily survey of rates at which London banks said they could borrow dollars, which became the reference rate for an estimated $400 trillion in notional financial contract exposure worldwide.[13] For three decades, US consumer credit markets were priced via an unsecured rate set by a panel of

9 Bank for International Settlements, "Statistical Release: BIS International Banking Statistics and Global Liquidity Indicators at End-March 2025," July 31, 2025, https://www.bis.org/statistics/gli2507.pdf.

10 Borio, Claudio, Robert McCauley, and Patrick McGuire. "Dollar Debt in FX Swaps and Forwards: Huge, Missing and Growing." BIS Quarterly Review, December 2022. https://www.bis.org/publ/qtrpdf/r_qt2212h.pdf.

11 Borio, McCauley, and McGuire, "Dollar Debt in FX Swaps and Forwards."

12 Nenova, Tsvetelina, Andreas Schrimpf, and Hyun Song Shin. "Global Portfolio Investments and FX Derivatives." BIS Working Papers No. 1273. Basel: Bank for International Settlements, June 2025. https://www.bis.org/publ/work1273.pdf.

13 Andreas Schrimpf and Vladyslav Sushko, "Beyond LIBOR: A Primer on the New Benchmark Rates," BIS Quarterly Review (March 2019), https://www.bis.org/publ/qtrpdf/r_qt1903e.pdf.

14 U.S. Commodity Futures Trading Commission, "CFTC Orders Barclays to Pay $200 Million Penalty for Attempted Manipulation of and False Reporting Concerning LIBOR and Euribor Benchmark Interest Rates," Press Release 6289-12, June 27, 2012, https://www.cftc.gov/PressRoom/PressReleases/6289-12.

London banks over which US regulators had no direct authority. As investigations beginning in 2012 revealed, panel banks systematically manipulated submissions to benefit derivatives positions.[14]

The structural fragility of LIBOR became visible years before on August 9, 2007, when BNP Paribas suspended redemptions from three funds holding US subprime mortgage-backed securities.[15] European banks had extensively borrowed short-term dollars in the Eurodollar interbank market to fund long-term structured credit products; when confidence evaporated, funding markets froze.

The Fed responded by establishing the Term Auction Facility domestically and simultaneously opened swap lines with the ECB and Swiss National Bank, becoming the lender of last resort to the entire global dollar system. The September 2008 crisis following Lehman's failure demonstrated the full scale of that responsibility. At peak utilization, the Fed extended more than $580 billion in dollar liquidity to fourteen foreign central banks through swap lines—more than it had lent domestically.[16] The offshore dollar system had generated liabilities the US had not supervised, at a scale it had not measured, and when it failed, the Federal Reserve bore the burden of resolution. The precedent was established: the offshore dollar system could generate liabilities of unlimited scale, confident the Fed would prevent collapse.

The subsequent investigation into LIBOR manipulation, which produced settlements totaling more than $9 billion from major banks, including Barclays, Deutsche Bank, UBS, and Citigroup, accelerated the search for a replacement benchmark.[17] The Federal Reserve Bank of New York took the lead in designing a replacement, the Secured Overnight Financing Rate, or SOFR.

SOFR was designed to correct every structural flaw that LIBOR embodied. Where LIBOR was a survey-based estimate, SOFR is a transaction-based rate, derived from actual overnight repurchase agreement transactions secured by US Treasury collateral. Where LIBOR was administered by a private organization in London, SOFR is published daily by the Federal Reserve Bank of New York. Where LIBOR reflected the unsecured credit risk of London banks, SOFR reflects the secured overnight funding cost in the US Treasury repo market, a market so deep and liquid that it is virtually impossible to manipulate. The SOFR rate is anchored to the Federal Reserve's policy framework in a way that LIBOR never was.

The stablecoin reserves required under the GENIUS Act—Treasury bills, qualifying repos, and insured deposits—dock onto the same secured, Treasury-collateralized architecture that SOFR established. The LIBOR-to-SOFR transition established a precedent that the United States can and should restructure the governance of dollar markets when the existing architecture generates systemic risk, even when the transition involves enormous complexity and years of international coordination. The shift carries a secondary structural consequence. Because SOFR is derived from Treasury-collateralized repo transactions,

15 Financial Crisis Inquiry Commission, The Financial Crisis Inquiry Report (Washington, DC: Government Printing Office, 2011), https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf.

16 Federal Reserve Bank of New York, "The Federal Reserve's Foreign Exchange Swap Lines," Current Issues in Economics and Finance 16, no. 4 (2010), https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci16-4.pdf.

17 Council on Foreign Relations, "Understanding the Libor Scandal," Backgrounders, accessed April 2, 2026, https://www.cfr.org/backgrounders/understanding-libor-scandal.

offshore institutions benchmarking dollar funding to SOFR now have a stronger operational incentive to hold US Treasuries as collateral, tightening the link between offshore dollar intermediation and the US Treasury market.

SOFR restructured the benchmark, the rate at which dollar funding is priced. Accordingly, stablecoins can begin to restructure the instrument, the medium through which offshore dollar demand is satisfied. Both transitions move the architecture of global dollar markets from offshore (opaque and privately governed) to onshore (transparent and publicly governed).

Section 2: Structural Failures and Risks of the Current System

There are four overlapping failures and risks of the offshore dollar system as it is constructed today that present a significant challenge to the United States in its efforts to reassert governance over its currency and economic destiny.

First, there is a failure of governance in which the United States is viewed as the lender of last resort for offshore dollar banking without any direct oversight of dollar activity abroad.

Second, offshore banks and their associated national governments are free riding off the dollar infrastructure's public good even if no emergency lifelines are extended.

Third, increased levels of competition have arisen from China, which presents a dual-front currency hegemony challenge as the United States' primary economic rival; from unregulated stablecoins that currently dominate the market; and from Europe, which is constructing its own GENIUS Act equivalent framework.

Fourth, trillions of dollars of existing global demand for stable dollar-denominated savings vehicles could move to offshore instruments or foreign financial products if active policy does not direct regulated stablecoin adoption.

2.1 Governance and Accountability Deficits

Offshore dollar creation occurs beyond the US regulatory perimeter. In crises, the Federal Reserve has provided dollar liquidity abroad primarily through central bank swap lines, which function as an emergency stabilizer for offshore dollar funding markets. The governance problem is not that the Fed loses money on these operations—it does not. Federal Reserve swap lines have been consistently profitable. During the 2008 crisis, the Fed earned approximately $4 billion in interest income on swap line lending, and no counterparty central bank has ever failed to repay.[18]

But profitability does not suffice as compensation for the inherent risks to the country. The United States provides a global public good, emergency dollar liquidity that prevents offshore dollar markets from collapsing, and earns a modest return for doing so. What it does not receive is any corresponding authority to set rules for the offshore dollar creation that makes emergency facilities necessary in the first place. There are no conditions imposed before crises occur that would require offshore dollar creators to hold adequate reserves, limit their leverage, or submit to American supervisory standards. Foreign banks create dollar risk in good times without American oversight, and the Federal Reserve absorbs that risk in bad times without American authority to have prevented it.

The distribution of benefits and costs is asymmetric. Foreign banks, offshore borrowers, and foreign financial centers capture the intermediation benefits of dollar access, including net interest margins, fee income, and financial center employment. The United States bears the monetary policy constraints, crisis-response obligations, and political accountability gaps inherent in backstopping a system over which it exercises incomplete governance. The BIS' Basel Committee on Banking Supervision, which sets the international capital and liquidity standards that national regulators implement, operates by consensus among its member

18 Federal Reserve Bank of New York, "The Federal Reserve's Foreign Exchange Swap Lines."

central banks, a structure in which American interests are one voice among many, and in which the specific risks of offshore dollar creation are addressed only insofar as they manifest as general banking risks. The result is a governance architecture in which the currency is American, the regulation is foreign, the standards are set by international committee, and the lender of last resort is the Federal Reserve. The benefit accrues abroad, while the contingent liability resides in Washington.

Embedded in the governance problem is a risk accelerant in the form of the Eurodollar credit multiplier. Any multiplier above 1 creates offshore dollar liabilities at a scale exceeding underlying flows, generating contingent claims on Federal Reserve liquidity facilities that the US cannot govern before the fact. In March 2023, the crisis at Credit Suisse confirmed that the offshore dollar system's structural vulnerability and dependence of non-US systemically important institutions on short-term dollar funding they cannot generate domestically remain fully intact.

Stablecoins do not eliminate this vulnerability in the short run, primarily because fully reserved, non-fungible stablecoins cannot substitute for the wholesale dollar funding that supports existing Eurodollar leverage. The existing stock of Eurodollar obligations will not disappear if regulated stablecoins increase in offshore circulation, but at the margin, as new dollar demand is met through stablecoin channels, the structural vulnerability from offshore leverage declines. Regulated stablecoins offer the United States a mechanism to place domestically domiciled financial instruments in the world's hands instead of providing the world with fuel for the proliferation of dollar liabilities that escape the American legal apparatus.

2.2 Free Riding on the Dollar Public Good

In his April 2025 Hudson Institute address, Stephen Miran described the dual public good that the United States provides to the world: security guarantees and use of the dollar as the global reserve currency.[19] The dollar's reserve status means that the United States bears the cost of maintaining the financial, legal, and institutional infrastructure that makes the dollar worth holding globally. Deep capital markets, rule of law, property rights protections, and liquidity backstops are central to the dollar system's robustness and hegemony. The infrastructure suite is expensive and requires a sophisticated regulatory apparatus, a credible central bank, functional democratic governance, and a military capable of protecting the global trade routes that dollar-denominated commerce depends upon.

Additionally, this decades-old, offshore apparatus allows foreign financial centers to intermediate dollar credit and thereby capture profits, while relying on American institutional infrastructure without contributing to the cost of maintaining it and without submitting to the prudential framework that governs domestic dollar intermediation. This paper extends Miran's framework to the Eurodollar system specifically, where the free-riding problem is broader than simply financial crisis management.

The Eurodollar system is a particularly acute dimension of this broader free-riding problem. SOFR did not change the underlying structure of Eurodollar banking. European banks still

19 Stephen Miran, "CEA Chairman Steve Miran Hudson Institute Event Remarks," The White House, April 7, 2025, https://www.whitehouse.gov/briefings-statements/2025/04/cea-chairman-steve-miran-hudson-institute-event-remarks/.

20 Afonso, Gara, Gonzalo Cisternas, Brian Gowen, Jason Miu, and Joshua Younger. "Who's Borrowing and Lending in the Fed Funds Market Today?" Liberty Street Economics (blog), Federal Reserve Bank of New York, October 10, 2023. https://libertystreeteconomics.newyorkfed.org/2023/10/whos-borrowing-and-lending-in-the-fed-funds-market-today/.

fund dollar assets in wholesale short-term markets. Notably, they use Federal Home Loan Bank advances as a source of relatively cheap, secured dollar funding. European banks with US branches and subsidiaries are eligible borrowers in the Federal Funds market, to which the Federal Home Loan Bank system is the dominant funding source. While the mechanism by which foreign banks access onshore dollar funding is indirect, there is a funding chain between US government-sponsored enterprises lending dollars to foreign-owned banks via access to the Federal Reserve, a concrete subsidy that should be considered in a national security strategy context.[20]

Whether foreign banking organizations should retain eligibility for government-sponsored dollar funding on the same terms as domestic institutions is a question that stablecoin policy alone cannot resolve, but that the broader framework of burden-sharing demands the United States address. Stablecoins offer a mechanism for addressing the free-riding dynamic. By channeling offshore dollar demand through regulated, Treasury-backed channels, the United States reasserts governance over the terms on which its public good is consumed, and creates a mechanism by which offshore dollar users contribute to American fiscal sustainability through their Treasury demand.

2.3 Geostrategic Competition and the Cost of Inaction

The dollar's international role comprises three functions that are analytically distinct but operationally interdependent: the dollar as currency, the unit of account and medium of exchange in international trade and finance; US Treasuries as the dominant global reserve dollar-denominated asset; and the dollar as rails, the settlement and payment infrastructure through which dollar-denominated transactions clear. These three functions reinforce each other in a virtuous cycle that constitutes the dollar's true structural advantage. Countries price trade in dollars because dollar financial markets are the deepest and most liquid. They hold Treasuries as reserves because dollar-denominated assets are the safest and most liquid. They settle transactions through dollar rails because the infrastructure is the most developed and the most widely accepted, built of course around the currency and reserve asset functions. Of the three pillars, rails represent the most contested and potentially vulnerable dimension today, and the one where inaction carries the highest strategic cost. This is why stablecoin policy implementation is crucial for the dollar's future international role.

Tether

Tether, the world's largest stablecoin by market capitalization at approximately $184 billion in circulation as of early 2026, is an offshore entity domiciled in El Salvador following its relocation from the British Virgin Islands.[21] It does not face any United States regulatory bodies. Tether's direct US Treasury holdings exceeded $122 billion, with total Treasury exposure reaching $141 billion, making it a larger holder of Treasuries than many sovereign nations.[22] Its reach spans an estimated 400 million wallets concentrated in emerging markets.[23]

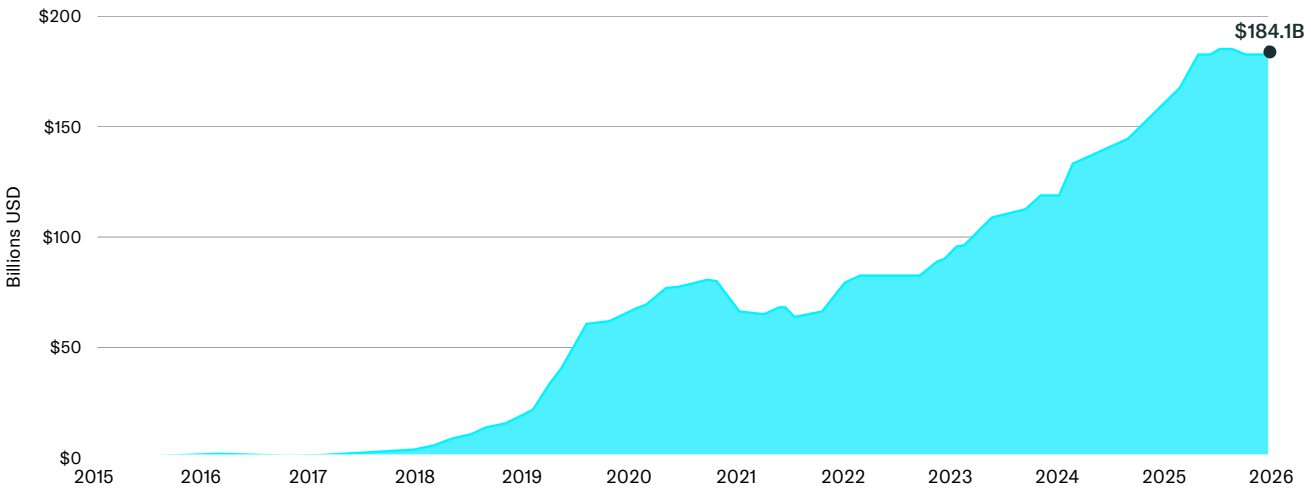
21 Tether, "USDT Q4 2025 Market Report," Tether.io, accessed April 2, 2026, https://tether.io/news/usdt-q4-2025-market-report/.

22 Tether, "Tether Attestation Reports Q1–Q3 2025," Tether.io, accessed April 2, 2026.

23 Tether, "Tether Leads in the Emerging Markets," Tether.io, accessed April 2, 2026.

Figure 3: Growth of USDT Market Cap

Total Market Cap, 2015–2026 (Billions USD)



Source: TradingView / CoinGecko

Tether has demonstrated that the rise in dollar stablecoin usage around the world does accrue benefits to the United States through Treasury demand. But its offshore nature presents governance and accountability risks comparable to the Eurodollar system's deficits. Within the stablecoin system dominated by Tether, which satisfies over half the market, the United States receives the Treasury demand but cannot supervise the issuer, cannot enforce AML/CFT requirements, and cannot freeze or seize tokens in sanctions compliance actions. Tether's January 2026 launch of USAT, a US-regulated stablecoin, signals industry recognition that onshore issuance offers commercial advantages, but the offshore legacy book remains outside US jurisdiction. Tether's continued dominance of the dollar stablecoin market presents a risk to the United States that can only be addressed if regulated stablecoins start circulating internationally at competitive scale and on terms superior to what Tether offers. These ideas are explored in Section 4.2.

China's Alternative Architecture

China occupies a dual position in the global dollar system and is actively working to compete with the United States on reserve currency status. It is simultaneously a major beneficiary and a deliberate disruptor, exploiting offshore dollar funding for its global infrastructure initiatives while building alternative settlement infrastructure designed to reduce its vulnerability to dollar-system leverage wielded by the United States.

Since its launch in 2013, China's Belt and Road Initiative has channeled more than $1 trillion in infrastructure financing to developing economies across Asia, Africa, the Middle East, and Latin America.[24] A substantial portion of this financing has been channeled through Chinese state banks operating in the Eurodollar market. This first dimension of China's BRI engagement with the dollar system, using the existing Eurodollar infrastructure to extend

24 Council on Foreign Relations, "China's Massive Belt and Road Initiative," Backgrounders, accessed April 2, 2026, https://www.cfr.org/backgrounders/chinas-massive-belt-and-road-initiative.

Chinese geopolitical influence, is possibly the starkest example of the free riding problem. The United States is arguably subsidizing the infrastructure through which China is building its sphere of influence.

The second dimension is China's parallel digital currency architecture. The country's digital currency, e-CNY, has evolved from central bank pilot to commercial bank integration for retail and wholesale payments, with transaction volumes growing steadily.[25] China is also directly targeting dollar stablecoin adoption by introducing interest-bearing features on e-CNY, heightening the urgency of United States policymakers to not only clear up regulation surrounding stablecoin fees and rewards but accelerate global adoption of regulated dollar stablecoins.[26] Belt and Road Initiative financing is increasingly channeled through digital settlement infrastructure that positions the renminbi as a settlement currency for participating economies. Usage of China's Cross-Border Interbank Payment System, CIPS, a messaging and settlement network for renminbi-denominated cross-border transactions, grew at 43 percent in 2024[27] and 3 percent in 2025.[28] CIPS participation includes approximately 1,766 financial institutions across 190 countries and regions, with major participation from Southeast Asian banks, Middle Eastern institutions, and Russian banks that have been excluded from SWIFT.

The mBridge project, a multi-central-bank digital currency platform originally involving Hong Kong, Thailand, and the UAE, represents an attempt to build wholesale cross-border settlement infrastructure that bypasses dollar rails entirely.[29] Saudi Arabia joined the project in 2024.[30] According to recent reports by Reuters, mBridge adoption is accelerating, transactions are being executed almost exclusively in digital yuan, and the new policy of paying interest on e-CNY holdings is likely to make the Chinese digital currency more attractive to the international community.[31] The mBridge development and growth represents a proof of concept, that credible wholesale cross-border settlement can occur outside the dollar system, and that willing participants exist. American policymakers cannot afford to ignore China's pursuit of providing the world with alternatives to dollar banking, US Treasuries, dollar stablecoins, and networks of dollar settlement.

The Euro-Stablecoin Competitive Dimension

The competitive landscape extends beyond the dollar-Eurodollar comparison to include euro-denominated stablecoins. The European Union's MiCA regulation, Markets in Crypto-Assets, which came into full force in 2024, provides a comprehensive regulatory framework for euro-denominated stablecoins. If the EU successfully builds a competitive euro-stablecoin ecosystem, some of the offshore dollar demand this paper assumes will flow to US-regulated stablecoins could instead flow to euro instruments, particularly in European

25 State Council of the People's Republic of China, "China to Enhance Digital Yuan Management with Deposit Features Starting 2026," English official portal, December 29, 2025, https://english.www.gov.cn/news/202512/29/content_WS69526d4ec6d00ca5f9a08511.html.

26 "China's Digital RMB: Trillion Dollar Shift in Payment and Crypto Rails," Forbes, January 22, 2026, https://www.forbes.com/sites/digital-assets/2026/01/22/chinas-digital-rmb-trillion-dollar-shift-in-payment-and-crypto-rails/.

27 Cross-Border Interbank Payment System, "Introduction," CIPS official website, accessed April 2, 2026, https://www.cips.com.cn/en/about_us/about_cips/introduction/index.html.

28 Zhou, Lanxu. "MNCs Drive Expansion of China's CIPS." China Daily, March 3, 2026. https://global.chinadaily.com.cn/a/202603/03/WS69a642bea310d6866eb3b485.html.

29 Bank for International Settlements, "Project mBridge: Connecting Economies through CBDC," BIS Publications, accessed April 2, 2026, https://www.bis.org/publ/othp59.htm.

30 Bank for International Settlements Innovation Hub. "Project mBridge Reached Minimum Viable Product Stage." Updated November 11, 2024. https://www.bis.org/about/bisih/topics/cbdc/mcbdc_bridge.htm.

31 Reuters, "China-Led Cross-Border Digital Currency Platform Sees Surge," January 16, 2026, https://www.reuters.com/world/asia-pacific/china-led-cross-border-digital-currency-platform-sees-surge-2026-01-16/.

trade settlement, in economies within the EU's sphere of influence, and in countries seeking to diversify away from dollar dependence. MiCA's implementing regulations are arguably further along than those of the GENIUS Act, giving euro-denominated stablecoins a potential first-mover advantage in regulatory clarity. Dollar advantage is not guaranteed and must be operationalized through better regulation and faster deployment than the euro alternative offers. Stablecoin policy must operationalize institutional advantages of the United States at digital speed before the window to set global standards closes.

2.4 Demand-Side Structural Drivers

The competitive threats from China, Tether, and Europe provide a case for urgency, but the demand-side case is equally compelling and operates on a faster timeline. Research from surveys and observations from blockchain data consistently demonstrate that the dominant use case for stablecoins in emerging markets is savings, not payments.[32] In economies experiencing high inflation or currency instability, stablecoin holders are using dollar tokens as digital vaults to preserve purchasing power rather than as payment instruments, similar to the dynamic in which Federal Reserve notes flow out of the country due to the demand for savings instruments abroad.[33] Merchants in these economies accept stablecoins not primarily for transaction efficiency but to retain earnings in dollars. This behavioral reality suggests the United States is not merely offering a trade settlement modernization tool to emerging markets but managing an already-occurring informal dollarization driven by the survival instincts of hundreds of millions of individuals.

Importantly, the trade settlement use case operates on a different adoption curve than the savings use case, wherein the demand side for stablecoins is observable and present. Savings adoption is driven by individual choice and requires no counterparty coordination, but trade settlement adoption requires both parties to agree on the instrument and both to have access to the technology infrastructure. The incentives for trade settlement adoption must be operationalized through bilateral trade policy encouragement and demonstrated cost savings. This idea is explored in Section 4.3.

The United States' private-sector approach offers global participants who are skeptical of owning a digital instrument directly controlled by a foreign central bank a superior choice to CBDCs being developed in other countries. In this way, dollar stablecoins act both as a counterweight to the digital yuan and digital euro, reinforcing their importance to maintaining dollar supremacy around the world, and an offensive tool, helping the country project soft power into the burgeoning financial realm of digital currency and reach corners of the financial system that were previously inaccessible.

32 International Monetary Fund, "Understanding Stablecoins," IMF Departmental Papers, no. 2025/009 (December 2025); Chainalysis, "The 2025 Geography of Crypto Report," October 2025, https://www.chainalysis.com/wp-content/uploads/2025/10/the-2025-geography-of-crypto-report-release.pdf.

33 Board of Governors of the Federal Reserve System, "Demand for U.S. Banknotes at Home and Abroad: A Post-Covid Update," International Finance Discussion Papers, https://www.federalreserve.gov/econres/ifdp/demand-for-us-banknotes-at-home-and-abroad-a-post-covid-update.htm.

Section 3: Balance Sheet Architecture and the Structural Case for Stablecoins

3.1 The Fundamental Accounting Identity

The balance of payments framework requires careful clarification before analyzing stablecoin impacts. The current account primarily captures trade in goods and services, and a current account deficit means the country is spending more abroad than it earns abroad. By accounting identity, a current account deficit must be matched by a financial account surplus, meaning foreigners are accumulating claims on the deficit country.

The Eurodollar market is part of the financial account, and its $12 to $15 trillion in offshore dollar claims are a subset of the broader stock of foreign claims on dollar-denominated assets.[34] These claims are the mechanism through which dollar-denominated value circulates globally, and their governance properties differ critically from onshore claims. Stablecoins are not a mechanism for eliminating the trade deficit or reversing the capital account surpluses that contribute to dollar overvaluation, but they change the composition of persistent capital account surpluses in ways that can reduce secondary amplification and importantly restructure the governance of those flows.

These offshore dollar claims are predominantly wholesale obligations, including interbank lending, FX swap funding, and institutional credit lines. Stablecoins, as fully reserved payment instruments prohibited from lending, cannot substitute for this wholesale funding. The addressable margin for stablecoins is the retail and savings segment of offshore dollar demand. The balance sheet analysis that follows demonstrates why capturing this margin is structurally significant, but readers should understand that the framework proposed in this paper operates alongside, not as a replacement for, the existing wholesale dollar architecture.

3.2 Balance Sheet Architecture: A First-Principles Analysis

To understand what stablecoins actually change, and why the change is structurally significant rather than merely compositional, requires examining the balance sheets involved from first principles. Consider three scenarios in which a foreign entity acquires $1,000 in dollar-equivalent value. Each scenario produces the same economic function for the holder, access to dollar-denominated purchasing power, but the balance sheet consequences diverge radically.

Scenario A: Traditional Reserve Accumulation

A corporation earns $1,000 by selling goods to the United States. Those dollars are deposited at the exporter's domestic bank, which sells them to the central bank. To purchase those dollars, the central bank creates new local currency by expanding its own balance sheet. This is active currency intervention: by absorbing dollar inflows and issuing local currency against them, the central bank prevents its currency from appreciating, keeping its exports competitively priced. When practiced systematically, this intervention is a direct contributor

34 Borio, Claudio, Robert McCauley, and Patrick McGuire. "Dollar Debt in FX Swaps and Forwards: Huge, Missing and Growing." BIS Quarterly Review, December 2022. https://www.bis.org/publ/qtrpdf/r_qt2212h.pdf.

to structural dollar overvaluation, because it suppresses the market signal of currency appreciation that would otherwise reduce the foreign country's trade surplus and narrow the US deficit. The central bank now holds dollars and invests them in Treasury securities.

Step 1: US company imports $1,000 of goods from foreign country; dollar payment flows abroad

US COMPANY ASSETS	US COMPANY LIABILITIES
−$1,000 dollar cash	

FOREIGN EXPORTER ASSETS	FOREIGN EXPORTER LIABILITIES
+$1,000 dollar cash	

Step 2: Foreign exporter sells dollars to central bank; central bank buys Treasury securities

FOREIGN CENTRAL BANK ASSETS	FOREIGN CENTRAL BANK LIABILITIES
+$1,000 US Treasury security	+$1,000 local currency (newly created monetary base, held by exporter)

US TREASURY ASSETS	US TREASURY LIABILITIES
+$1,000 cash (from T-bill sale)	+$1,000 US Treasury (held by foreign government)

Net effect: +$1,000 in externally held sovereign debt. Dollars flow back to the United States. The foreign government holds a direct, liquid claim on the US government that it can sell or use as financial leverage at any time. The central bank's balance sheet has expanded. It now holds dollar reserves as an asset, funded by newly created local currency as a liability. When conducted at scale, this intervention cycle is a primary mechanism through which foreign governments sustain the current account imbalances that the Triffin Dilemma describes. Every dollar of global reserve demand requires a dollar of US sovereign liability held offshore.

Scenario B: Eurodollar Deposit

A foreign corporation deposits $1,000 at a London-based bank after a sale to a US buyer. The offshore bank's balance sheet records a $1,000 liability, the deposit, and marks cash as an asset. The bank then engages in fractional reserve lending, creating new dollar deposits

(Eurodollars) by issuing a loan. The borrower spends those funds, and the proceeds are deposited at another bank. That bank lends again. This is the Eurodollar credit multiplier, constrained by Basel capital requirements, but generating credit expansion nonetheless.

Step 1: Foreign corporation deposits $1,000 at a London-based bank

LONDON BANK (OFFSHORE) ASSETS	LONDON BANK LIABILITIES
+$1,000 dollar funds (cash)	+$1,000 deposit owed to foreign corporation

Step 2: Bank A creates a loan

When Bank A extends a $800 loan to Borrower A, it does not hand over physical cash. It credits Borrower A's account with $800, simultaneously creating a new deposit liability and a new loan asset. This is balance sheet expansion through credit creation, the defining feature of fractional-reserve banking.

Bank A (London) at the moment of loan creation:

ASSETS	LIABILITIES
$1,000 cash $800 loan to Borrower A Total: $1,800	$1,000 deposit (original, owed to foreign corporation) $800 deposit (newly created, owed to Borrower A) Total: $1,800

Bank A's balance sheet has expanded from $1,000 to $1,800. The original $1,000 deposit remains intact. The $800 is new money created by the act of lending. It is not transferred from the original depositor's account.

Step 3: Borrower A spends the $800; Bank B receives and lends again

Borrower A spends the $800, which is deposited at Bank B. The $800 deposit leaves Bank A's books and settles at Bank B. Bank A retains the loan asset and its original deposit liability:

Bank A (London) after Borrower A spends:

ASSETS	LIABILITIES
$200 cash $800 loan to Borrower A Total: $1,000	$1,000 deposit (original) Total: $1,000

Bank B (Offshore) receives $800 deposit and then creates a $640 loan:

ASSETS	LIABILITIES
$800 cash $640 loan to Borrower B Total: $1,440	$800 deposit (owed to Borrower A) $640 deposit (newly created, owed to Borrower B) Total: $1,440

Bank B's balance sheet has expanded from $800 to $1,440 at the moment of credit creation. The cycle repeats. Each bank retains reserves against capital requirements and lends the rest, creating new deposits with each loan. This is a simplified overview of how credit expands in the offshore dollar system.

Offshore Banking System — Cumulative Effect (two lending rounds):

ASSETS	LIABILITIES
$2,440 in dollar loans and cash (All originated from a single $1,000 inflow)	$2,440 in dollar deposits across offshore banks (All outside the US regulatory perimeter)

Net effect: $2,440 in offshore dollar liabilities created from a single $1,000 deposit. Dollars stay abroad. The illustration shows two lending rounds for simplicity. Each round of lending creates new dollar-denominated deposits that did not previously exist, outside any US jurisdiction. Zero US governance over the credit creation. Zero reserve requirements imposed by US regulators. The Federal Reserve stands as implicit backstop via swap lines for a system it does not supervise. The dollar stock offshore increases without an increase in current account deficit.

Scenario C: Dollar Stablecoin Acquisition

A foreign individual earns $1,000 and wishes to hold dollar stablecoins instead of cash for convenience. The individual gives $1,000 to a US-regulated stablecoin issuer. The issuer purchases a $1,000 Treasury bill and issues 1,000 digital tokens.

Step 1: Foreign user sends $1,000 to US-regulated stablecoin issuer

US TREASURY ASSETS	US TREASURY LIABILITIES
+$1,000 cash (from T-bill sale)	+$1,000 T-bill outstanding (held by domestic regulated issuer)

STABLECOIN ISSUER (US-REGULATED) ASSETS	LIABILITIES
+$1,000 Treasury bill	+1,000 stablecoin tokens outstanding

FOREIGN HOLDER ASSETS	LIABILITIES
+1,000 stablecoin tokens (claim on issuer, not on US government)	

Net effect: $1,000 in Treasury demand, held domestically under full US jurisdiction instead of externally, and dollars flow back to the United States. Zero offshore credit creation. The token circulates globally, changing hands indefinitely, without generating a single additional entry on the US balance of payments or any offshore bank's balance sheet. Once in circulation, the stablecoin functions as a new form of digital dollar cash: non-government-issued, requiring no bank intermediation, and settling directly between two parties. This is the property that distinguishes it from every prior form of dollar internationalization. A conventional offshore dollar payment requires four balance sheet entries—two parties and their two banks. A stablecoin transfer requires two, the sender and receiver. Bank balance sheets are absent from the transaction entirely.

3.3 Comparative Summary

DIMENSION	SCENARIO A: RESERVE ACCUMULATION	SCENARIO B: EURODOLLAR DEPOSIT	SCENARIO C: DOLLAR STABLECOIN
External sovereign liability	+$1,000 (direct foreign claim on US govt)	Indirect (via asset purchases by offshore banks)	$0 (T-bill held by domestic issuer)
Offshore credit multiplication	None	Yes	None
US governance authority	None (foreign sovereign controls asset)	None (offshore banks outside US regulatory perimeter)	Full (US-regulated issuer, domestic reserves, GENIUS Act authority)
Crisis-liquidity obligation	Foreign holder can liquidate on secondary market	Fed swap lines required to prevent systemic collapse	Issuer holds liquid T-bills
Triffin dimension	Sovereign liability held externally	Sovereign-adjacent	Sovereign liability held domestically

3.4 Structural Consequences: Four Dimensions

The structural consequences of Scenario C differ from Scenarios A and B in four dimensions:

First, the external sovereign liability is domesticated. Unlike Scenario A, where a foreign government holds a direct claim on the US Treasury that it can liquidate at any time, the T-bill in Scenario C is held by a domestic, regulated entity. This addresses the external vulnerability dimension of the Triffin Dilemma in which the world gains access to dollar-equivalent instruments without the United States issuing sovereign debt to foreign holders who could weaponize it. Importantly, the T-bill is still issued. The fiscal dimension of Triffin is not avoided, but the external vulnerability dimension is substantially restructured. Traditional reserve accumulation in Scenario A can contribute to marginal dollar strength when foreign central banks create local currency reserves, thus providing a specific example of how restructured capital flows due to stablecoin proliferation could mitigate risks to the American industrial sector and its labor force. The redemption risk remains externally driven, a vulnerability addressed by the backstop architecture proposed in Section 4.2.

Second, the credit multiplier using the traditional banking system is eliminated. Unlike Scenario B, where the offshore bank deploys the deposit into credit creation that multiplies dollar liabilities across the offshore system, the stablecoin issuer holds 100 percent reserves. No lending occurs. No secondary deposits are created. No FX swap chains are initiated from

the credit channel, although FX hedging may still be required. There is a risk of credit multipliers developing within the stablecoin system, however, a concern that is discussed in Section 4.5.

Third, a new liability tier is created outside both systems. Given the backdrop of digital yuan, digital euro, and Tether, the United States must without question respond to natural, growing, and fundamental global demand for a digital dollar. The United States is choosing stablecoins over a CBDC issued by the Federal Reserve, a wise decision based in the private sector foundation of the American economy that also mitigates the privacy concerns of the government having undue influence over financial flows between US citizens. The stablecoin token is not a Federal Reserve liability and does not appear on the Fed's balance sheet. In this way, a proliferation of stablecoins abroad helps the United States continue to utilize the private sector for monetary transactions. It is not a Treasury security and does not appear on the US Treasury's balance sheet. Foreign holders do not own a T-bill. Instead of one digital dollar issued and controlled by the government or central bank, digital dollars will take many forms, allowing for technological competition to flourish. The stablecoin token is not a Eurodollar deposit. It does not exist on an offshore bank's balance sheet. It is a new category of dollar-equivalent liability: a regulated, domestically supervised, fully reserved instrument that functions as dollar-denominated value in global commerce but occupies a structurally distinct position in the monetary system. Importantly, stablecoins are not banking deposits and therefore not fungible with deposits throughout the dollar banking system, both onshore and offshore. This non-fungibility—the fact that stablecoins cannot be lent, rehypothecated, or multiplied through the banking system—is the specific architectural property that gives the United States a new policy instrument.

Fourth, governance is repatriated. In Scenario A, the foreign central bank controls the asset. In Scenario B, the offshore bank controls the credit creation process. In Scenario C, the issuer is a US-regulated entity. The reserves are held domestically. The compliance infrastructure, AML/KYC, and sanctions screening, under the GENIUS Act, is American.

3.5 Treasury Market Dynamics

From a standard balance-of-payments perspective, stablecoins backed by T-bills appear functionally equivalent to short-term foreign portfolio investment in US government securities. Foreign entities hold a claim on a US-regulated entity whose assets consist of Treasury obligations, and under standard BOP accounting, this is a capital account inflow that supports the dollar. The aggregate stock of external sovereign obligations does not increase dollar-for-dollar with global dollar demand under the stablecoin model. This restructuring of the form of US liabilities, from sovereign debt held offshore to private claims on regulated domestic issuers, may prove more consequential over the long run than uncertain exchange rate effects which are challenging to forecast and driven by multiple macroeconomic and geopolitical factors.

The stablecoin reserves required under the GENIUS Act, featuring Treasury bills, qualifying repos, and insured deposits, create structural demand for short-duration government obligations. The Treasury Borrowing Advisory Committee's 2025 quarterly reports identify stablecoin-driven T-bill demand as an emerging structural factor in short-duration markets. Stablecoin reserves weighted toward T-bills could represent a significant portion of the

outstanding T-bill market, thus the marginal impact on short-term Treasury yields would be material within the Federal Reserve's policy corridor, possibly compressing rates toward the lower bound without displacing the Fed's rate-setting authority.

A critical constraint must be understood clearly. The Federal Reserve's interest rate corridor, enforced through the Interest on Reserve Balances rate as the anchor and the Reverse Repo Facility rate as the floor, bounds the yield compression that stablecoin demand can achieve. When T-bill yields fall toward the RRP rate, money market funds will substitute RRP usage for T-bill purchases rather than accept below-floor returns. Stablecoin-driven T-bill demand can potentially compress yields to the lower bound of the Fed's target range, but not below it under current monetary policy objectives and mechanics. This is not a limitation on the framework's fiscal benefit. Yield compression to the lower bound still reduces borrowing costs. But it means the mechanism operates within the Fed's existing policy corridor rather than displacing it.

There are significant knock-on effects from stablecoins on the entire Treasury complex, including the Treasury repo market and Treasury securities. The GENIUS Act identifies Treasury repo as part of the investible universe for stablecoin issuers because of the instrument's collateralized safety and role in the intermediation of Treasury securities through the financial system. Not only could Treasury bill yields fall on increased demand from stablecoin issuers, but Treasury repo yields could also decline as well. With marginally lower financing rates, Treasury dealers will face easier conditions in carrying an inventory of government securities, which could improve liquidity for the entire Treasury market. The impact is at the margin and once again must be understood through the lens of the Federal Reserve's desired policy rate corridor.

Finally, in emerging markets where stablecoins serve as a medium of exchange, a significant fraction of outstanding stablecoins may circulate indefinitely without triggering issuer redemption. This could make stablecoin-driven Treasury demand structurally stickier than comparable demand from traditional foreign Treasury holders and money market funds, because tokens circulating as a medium of exchange in emerging market commerce face lower redemption pressure than money market fund shares rebalancing against short-term yield differentials or being utilized in economic transactions.

Section 4: Policy Proposals

4.1 Strategic Objectives

The policy framework pursues five interconnected objectives.

First, reassert US governance over the terms on which dollars are created and circulated globally, bringing the fastest-growing segment of dollar liabilities—stablecoins—inside the regulatory perimeter.

Second, reduce free riding associated with crisis-liquidity provisions to offshore dollar intermediaries. The framework creates market incentives that pull offshore dollar demand into regulated channels and establishes governance cooperation terms under which foreign jurisdictions that assist in stablecoin oversight receive preferential treatment in the broader financial relationship. The terms of international financial cooperation should reflect whether counterpart jurisdictions are contributing to, or undermining, the governance of the shared dollar system. While decisions about emergency liquidity facilities remain within the Federal Reserve Board's authority, a link between crisis-liquidity provisions for offshore banks and free riding must be explored. This exploration draws on the Fed's leadership in driving LIBOR out of the global dollar system in favor of SOFR over a multiyear timeline.

Third, channel global dollar demand into US capital markets, particularly Treasury securities and regulated repo markets, creating a mechanism for reducing federal borrowing costs within the Federal Reserve's policy corridor. This demand inherently reinforces the network effects surrounding the dollar's world reserve currency status and improves funding conditions across the Treasury market, including repo rates, which directly affect overall market liquidity.

Fourth, modernize dollar settlement infrastructure without sacrificing financial stability or monetary policy transmission, ensuring that the United States sets standards for digital dollar architecture rather than inheriting them from offshore competitors, and meets current and future global demand for digital dollars.

Fifth, enhance the national security of the United States by reducing adversaries' ability to exploit the dollar system's governance gaps to advance their own strategic interests, specifically by building cryptographic dollar rails that operate under American legal authority and cannot be co-opted by rivals.

These objectives are mutually reinforcing. Onshoring stablecoin issuance simultaneously expands the governance perimeter, reduces free riding, increases Treasury demand, and positions the United States as the standard-setter for digital dollar rails. The mechanism operates primarily through market incentives, although administrative direction on cross-border trade policy can significantly contribute to offshore stablecoin adoption. This paper makes stablecoin policy recommendations to the legislative body for GENIUS Act hardening, regulatory agencies for implementation, and the country's leadership for strategic influence.

The framework importantly must avoid destabilizing global trade finance or triggering disorderly deleveraging in offshore dollar markets. Offshore dollar financing for productive purposes, trade finance, project finance, and legitimate corporate borrowing must continue to be available while the United States explores the role it wants offshore dollar financing to take going forward. The question is not whether to permit offshore dollar activity but

whether to govern it, and under what terms. Cooperative relationships with allied financial centers, particularly London and the EU, must be maintained, but allies must recognize that the United States faces a governance gap on offshore dollar banking and be willing to engage in financial crisis risk mitigation by acknowledging dollar-system free riding.

Cooperative relationships with emerging economies must be strengthened as well. These countries require access to dollar credit to finance imports of capital goods, including the machinery, technology, and equipment required to build productive capacity and increase standards of living. Foreign producers require access to dollar credit that stablecoins, as fully reserved payment instruments, cannot directly provide. Traditional dollar credit markets and offshore banking must continue to serve these global economic needs even as the stablecoin framework restructures the margin of new dollar demand. This paper does not directly engage with whether offshore dollar financing holistically is to the advantage of the United States over the coming decades, or whether the country should enact policies that reinvigorate international lending by domestic financial institutions.

This paper also acknowledges that stablecoins do not provide a clear path to directly combat structural dollar overvaluation or trigger reindustrialization. What they introduce is a necessary ingredient to reassert governance over crucial and nationally strategic segments of the global financial system. A common critique of stablecoin proliferation abroad is that demand requires initial dollar purchases, which is dollar-strengthening at the margin and appears to contradict the country's reindustrialization objective. The framework's core contributions (governance repatriation, fiscal sustainability through structural Treasury demand, and strategic positioning of digital dollar rails) are independent of whether the dollar strengthens or weakens in the near term. Reindustrialization admittedly requires a different toolkit.

4.2 Accelerate and Harden GENIUS Act Implementation

The GENIUS Act, signed July 18, 2025, establishes the first comprehensive federal framework for payment stablecoin issuance. Its strong bipartisan support stemmed from stablecoin regulation's unique intersection of interests that crosses traditional party lines. Republicans saw an opportunity to establish a private-sector alternative to a government-issued CBDC and to solidify dollar dominance in digital finance; Democrats saw consumer protection, AML enforcement, and financial inclusion benefits from bringing a rapidly growing and largely unregulated sector under federal oversight. Congress as a whole recognized the geostrategic importance of establishing the legal framework for the dollar's next embodiment.

The GENIUS Act's core provisions require that payment stablecoin issuers be regulated entities, either federally chartered through the OCC, supervised by the Federal Reserve, or licensed under qualifying state frameworks, and hold 100 percent reserves in Treasury bills with maturities up to 93 days, Treasury repo, or FDIC-insured bank deposits. It prohibits interest payments on stablecoins held for their own sake, preserving the distinction between payment instruments and deposit instruments. It establishes AML/KYC requirements, customer disclosure obligations, and redemption rights.[35]

Critically, the Act creates an enforcement perimeter through its intermediary compliance requirements. US-regulated exchanges, payment processors, custodians, and banking institutions are prohibited from listing, facilitating transactions in, or providing on- and

35 U.S. Congress, *GENIUS Act*, S.1582, 119th Cong. (2025).

off-ramp services for stablecoins issued by entities that have not been approved as permitted payment stablecoin issuers. The enforcement mechanism operates through the same chokepoint logic as existing sanctions compliance. A foreign stablecoin that cannot be traded on US exchanges and cannot be converted to dollars through US-regulated payment processors should face a liquidity and utility discount that makes it commercially inferior to compliant alternatives. This paper identifies two specific aspects of GENIUS Act implementation on which the United States should focus.

Redemption and run risk

Reserve segregation and redemption rights must be legally robust, but legal robustness alone is insufficient. A confidence shock triggering mass simultaneous redemptions across one or more major issuers is the single most dangerous risk within the stablecoin architecture, and the existing regulatory toolkit is not yet adequate to address it.

The run dynamics of fully reserved stablecoin issuers differ from but are not less dangerous than those of fractional-reserve banks. A bank run drains reserves that are a fraction of deposits, while a stablecoin run forces liquidation of reserves that are 100 percent of outstanding tokens, meaning the issuer must necessarily sell a portion of its T-bill portfolio to meet redemptions. Two backstop mechanisms deserve analysis on the way to build a legitimizing regulatory structure around regulated stablecoins. These mechanisms appear at first glance to be emergency liquidity sources, but their larger impact is seen when the market differentiates GENIUS Act stablecoins from non-regulated alternatives.

First, requiring stablecoin issuers to maintain committed two-way repo lines with primary dealers would create steady access to overnight liquidity and a private-sector first line of defense in redemptions beyond regulated overnight liquidity buffers. A stablecoin issuer with a two-way repo line can participate in Treasury repo as a lender and as a borrower. Should stablecoin issuers expect temporary downside volatility in token supply due to redemptions, they must be prepared as an investor with sufficient overnight Treasury repo holdings so that redemptions can be funded on a daily basis—this is participation in the repo market as a lender. This is activity common to onshore regulated government money market funds and would be wise for stablecoin issuers to emulate. Simultaneously, issuers must secure access to borrow funds in the repo market in case redemptions exceed their prepared overnight liquidity. This access to borrow in the repo market would allow sizable redemptions to be funded on a short-term basis until the issuer can issue new tokens or ultimately liquidate securities. Primary dealer two-way repo lines provide a liquidity buffer that can smooth issuance and redemption volatility for stablecoin issuers.

If primary dealer repo fails, a second line of defense could be the Federal Reserve's Standing Repo Facility, through which the Fed provides overnight repo lending against Treasury collateral. The SRF is currently available only to primary dealers and depository institutions eligible to transact with the New York Fed. Stablecoin issuers are not SRF-eligible counterparties. The Federal Reserve should develop and publish guidance on stablecoin liquidity backstop architecture, including SRF eligibility criteria, systemic importance thresholds, supervisory preconditions, and competitive implications before the stablecoin market reaches a scale at which these decisions become crisis-driven.

The backstop architecture should be understood not only as crisis management but as competitive strategy. The framework's governance objectives are served when compliant stablecoins enjoy structural advantages that non-compliant alternatives cannot replicate. If

GENIUS Act-compliant issuers have access to the Standing Repo Facility, maintain committed repo lines with primary dealers, and operate under a transparent and predictable supervisory regime that includes published stress-testing results, those features function as a form of government endorsement that makes compliant stablecoins commercially superior to unregulated offshore alternatives. The result is a tiered system in which the most trustworthy dollar stablecoins are the ones operating inside the American governance perimeter, and the market price of operating outside that perimeter is reduced access to the institutional infrastructure that makes a stablecoin commercially viable at scale.

This is the competitive logic that the framework's enforcement mechanisms alone cannot achieve. Chokepoints and intermediary restrictions can make non-compliant stablecoins harder to use, but they cannot make compliant stablecoins better. The backstop architecture, combined with the interoperability standards, constitutes the affirmative case for compliance and gives the United States a fundamentally better product than opaque offshore alternatives operating without a safety net. To the extent that this framework succeeds, it succeeds because the governed architecture is the one the market prefers, not merely the one the market is compelled to use.

Fed master account access

Whether and under what conditions permitted stablecoin issuers may access Federal Reserve master accounts remains unresolved and requires definitive guidance. Master account access would allow stablecoin issuers to hold reserves directly at the Fed, improving settlement finality and eliminating counterparty risk on the reserve portion of their balance sheets. The tradeoffs, implications for Fed balance sheet composition and systemic risk concentration, require careful analysis, but the question must be resolved before the industry can mature. If stablecoins achieve a market size in the trillions of dollars, stablecoin issuers will utilize a higher percentage of the system's reserves, which are the only instrument in the global balance sheet eligible for settlement on the other side of US Treasury auctions. Issuers' access to master accounts must be considered in the context of this relationship between two Fed liabilities, reserve balances held at the Fed and the Treasury General Account.

Interoperability and standards

Dollar-denominated stablecoins issued by different regulated entities must be able to move across platforms, settle against each other, and integrate with existing payment rails without sacrificing AML/CFT and sanctions compliance. Standards for message-level and asset-level interoperability must be developed, either through a designated standards body or through regulatory guidance that specifies minimum requirements. Establishing these standards is essential to the framework's success and will require sustained coordination between private-sector technologists and public-sector regulators. Stablecoin issuers will inevitably pursue divergent technological approaches, making cooperation essential to ensure that global participants can move seamlessly between regulated tokens. Which Layer 1 blockchain networks stablecoins will use for settlement is another relevant standard for the United States. The United States has a strategic interest in ensuring that the dominant settlement networks for dollar stablecoins are not controlled by adversaries or concentrated in jurisdictions that could affect American access. With interoperability standards created or consensus built in the United States, the country reaffirms its position as the global leader in financial technology in addition to preserving the dollar's reserve currency status.

4.3 The Tiered Payment Architecture: Exporting Stablecoins Instead of Eurodollar Deposits

Within the GENIUS Act's outline, this paper recommends specific regulatory measures that are critical to the introduction of regulated stablecoins ready for the world stage. Policy recommendations in Section 4.2 are directed toward legislators and regulators across agencies from the OCC to the Federal Reserve and beyond. But this section's recommendations take this new stablecoin policy tool and present a strategy for the country's leadership to utilize it to the country's strategic benefit.

The United States currently exports dollars that become Eurodollar deposits when a foreign bank receives a bank wire on behalf of an exporter. These offshore deposits support offshore credit creation outside the governance perimeter. The proposed framework exports stablecoins instead, fully reserved digital instruments that channel Treasury demand back onshore. Michael Every of Rabobank has argued that exporting stablecoins instead of banking dollars gives the United States an unprecedented opportunity to address the Triffin Dilemma—specifically, the structural buildup of externally held sovereign debt.[36]

This matters because stablecoins are not fungible with the banking system. When a foreign entity holds a Eurodollar deposit, that deposit sits on an offshore bank's balance sheet and supports credit creation constrained only by Basel capital ratios as opposed to any US governance. When a foreign entity holds a dollar stablecoin, the underlying Treasury bill sits on a regulated US issuer's balance sheet, fully reserved, available for redemption but not for lending. The dollar-equivalent value circulates globally, while the reserve stays home, a novel monetary structure.

Trade Settlement Example

Consider a US electronics retailer purchasing $1 billion in consumer electronics from a South Korean manufacturer. This transaction is a US import, the type of transaction that generates the current account deficit the Triffin Dilemma describes. Under the current system, this payment exports dollars that enter the offshore banking system. Under the stablecoin framework, it exports stablecoins instead. The difference is structural.

Current Path: Eurodollar Banking

Step 1: US retailer pays through correspondent banking

US RETAILER ASSETS	US RETAILER LIABILITIES
+$1B electronics inventory −$1B bank deposit	

36 Every, Michael and Christian Lawrence. "Stablecoins in an Unstable System." Rabobank Research, 2025. https://www.rabobank.com/knowledge/q011495057-stablecoins-in-an-unstable-system.

US BANK (CORRESPONDENT) ASSETS	LIABILITIES
−$1B reserves (wired to Korean bank's correspondent)	−$1B deposit (US retailer's account debited)

Step 2: Korean manufacturer's bank receives dollars

KOREAN BANK ASSETS	KOREAN BANK LIABILITIES
+$1B dollar funds (held at correspondent or as Eurodollar deposit)	+$1B deposit owed to Korean manufacturer (dollar-denominated or converted to won)

Step 3: Korean bank deploys dollar funds into offshore lending

The Korean bank now holds $1 billion in dollar funds. Under fractional-reserve banking constrained by Basel capital requirements, it retains a fraction against capital ratios and lends the rest into the Eurodollar market. The credit multiplication cycle described in Section 3.2, Scenario B, begins. From this single $1 billion trade payment, the offshore system can generate $3 to $5 billion in dollar-denominated liabilities across multiple bank balance sheets, none under US regulatory authority, all implicitly backstopped by Federal Reserve swap lines.

Stablecoin Path: Direct Settlement

Step 1: US retailer acquires stablecoins from regulated issuer (if not already holding)

STABLECOIN ISSUER (US-REGULATED) ASSETS	LIABILITIES
+$1B Treasury bill	+$1B stablecoin tokens outstanding

US TREASURY ASSETS	LIABILITIES
+$1B cash (from T-bill sale)	+$1B T-bill outstanding (held by domestic regulated issuer)

US RETAILER ASSETS	LIABILITIES
−$1B cash +$1B stablecoin tokens	

Step 2: US retailer pays Korean manufacturer in stablecoins

US RETAILER ASSETS	LIABILITIES
−$1B stablecoin tokens +$1B electronics inventory	

KOREAN MANUFACTURER ASSETS	LIABILITIES
−$1B electronics inventory +$1B stablecoin tokens	

No correspondent bank is involved. No Eurodollar deposit is created. Dollars never leave the United States, only tokens do. No offshore credit multiplication occurs.

Step 3: Korean manufacturer uses stablecoins

The Korean manufacturer now holds $1 billion in dollar stablecoins. Three paths are available, and none generates offshore credit creation:

Option A: Hold as dollar-denominated working capital. No further balance sheet entries anywhere. The issuer's T-bill reserves remain in place.

Option B: Pay a supplier in stablecoins. The tokens transfer peer-to-peer. The issuer's reserves are unchanged. No bank balance sheet is impacted.

Option C: Sell on a local exchange for Korean won. The manufacturer sells stablecoins to a won-denominated buyer on a local exchange. The stablecoins transfer to the new holder; they are not redeemed. The issuer's T-bill reserves remain intact. An FX transaction occurs at this point, won for dollar stablecoins, but the dollars themselves never enter the offshore banking system.

Net comparative effect: The same $1 billion in US imports produces the same current account deficit entry under both paths. What differs is the financial account: the correspondent banking path creates a Eurodollar deposit that supports fractionally reserved offshore dollar liabilities outside US jurisdiction. The stablecoin path creates $1 billion in stablecoin tokens backed by a T-bill held by a US-regulated issuer. The United States has exported the same dollar-equivalent value but retained governance over the instrument, eliminated the credit

multiplier potential, and generated structural Treasury demand. Instead of the Eurodollar system inheriting cash from this US import, the US Treasury ends up with the cash, and the exporter receives a stablecoin.

Note on FX exposure: If the Korean manufacturer holds stablecoins but has won-denominated liabilities, the underlying FX exposure persists and the manufacturer will hedge it. The stablecoin changes the instrument for holding dollar value, not the economic FX exposure of the business. Hedging demand may persist even as Eurodollar positions decline.

4.4 Develop the Fee and Rewards Framework

The Current Prohibition and Its Rationale

Under the GENIUS Act as enacted, stablecoin holders do not receive yield. The issuer captures the return on underlying Treasury reserves. This structure is appropriate for the current stage of the market's development. It establishes a clear regulatory boundary, prevents stablecoins from competing directly with bank deposits for yield-seeking capital, and ensures that stablecoin adoption is driven by utility as a payment and settlement instrument rather than by interest rate arbitrage in contrast with a Eurodollar system that flourished originally in part due to arbitrage trading. For institutional and corporate users with access to wholesale dollar markets, the lack of interest is a meaningful adoption barrier. The expectation of holding Eurodollar deposits is for a return to compensate the investor for assisting the Eurodollar bank in profit generation.

Regulatory Framework for Fee and Reward Programs

The current interest prohibition reflects the market's early stage but should not become a permanent feature. As the market matures, issuers will develop commercial structures that provide economic benefits to holders without constituting direct interest payments on holdings. These will likely take the form of transaction fee rebates, payment processing discounts, rewards funded by issuer commercial revenues, or simply customer acquisition incentives. Regulators should issue guidance that confirms the statutory prohibition on reserve income pass-through and establishes clear criteria for permissible commercial reward programs, applying the same standards to all holders regardless of geography.

The uniform application of standards matters, because if foreign holders receive economic benefits unavailable to American holders of the same instrument, the political sustainability of the framework erodes. Concerns about disguised interest payments should be addressed through disclosure and monitoring rather than a blanket prohibition on all economic benefits, which would cripple the stablecoin architecture's ability to compete with Eurodollar deposits for the marginal dollar holder.

In a low-rate environment, the opportunity cost of holding non-yielding stablecoins is small and easily offset by commercial rewards. In a high-rate environment, the gap widens and more substantial commercial compensation is required. Issuers with large payment networks and diversified revenue streams will be better positioned, which may reinforce concentration dynamics that warrant regulatory attention and resolution planning for dominant-issuer failure.

4.5 The DeFi Credit Multiplication Risk: A Critical Governance Gap

The most significant long-run risk to the entire stablecoin framework is regulatory arbitrage that recreates the credit multiplier on cryptographic rails. Decentralized finance, or DeFi, refers to lending, borrowing, and trading that operate through software programs called smart contracts running on public blockchains, with no bank or intermediary in the middle. The GENIUS Act's reserve requirements, AML/KYC requirements, and sanctions obligations apply to regulated issuers, not to the downstream protocols that use those stablecoins as the basis for credit creation or other financial activity. A GENIUS Act-compliant dollar stablecoin, once issued, can flow into an offshore DeFi protocol and become the reserve base for leveraged lending that is completely outside US regulatory authority.

But DeFi protocols are not the only source of concern. Protocol operators and token issuers, such as Tether, may decide against using decentralization features altogether. Tether itself is used as collateral for DeFi activity, but that does not mean the issuance of Tether is decentralized in any way. Over the past few years, Tether has demonstrated a desire to quell concerns of fractional reserves against tokens issued by increasing disclosures on Treasury holdings. There is no guarantee, however, that future competitors will display such voluntary cooperation. It can be argued that Tether disclosing Treasury holdings contributes to its credibility in the market, but voluntary disclosure is a governance gap for dollar instruments. This dynamic is as much an argument for the passage of the GENIUS Act as it is a going concern—the US government is proceeding with a framework for regulated stablecoins precisely to challenge non-GENIUS stablecoins such as Tether.

This is not meant to dismiss Tether's contribution to the proliferation of dollar stablecoins around the world, especially because there are some aspects of its operations that mimic GENIUS Act requirements, such as a heavy allocation to Treasury bills. However, there is no guarantee that future dollar stablecoins issued outside of the GENIUS Act will maintain 100 percent reserve ratios or hold extremely high-quality and liquid assets such as T-bills and Treasury repo. Herein lies the risk of credit multiplication occurring through DeFi and offshore protocol operators and token issuers.

There is nothing to stop an offshore entity from accepting GENIUS Act stablecoins as collateral, issuing a new non-GENIUS token with a promise of convertibility, maintaining just enough reserves to satisfy small- to medium-sized withdrawals, and ultimately operating as a fractionally reserved dollar stablecoin issuer. Market dynamics might price such non-GENIUS stablecoins accordingly, presumably applying a lower price relative to GENIUS Act stablecoins, but that does not stop lower quality, fractionally reserved dollar tokens from entering the market. The governance mismatch that this paper identifies as the core problem of the Eurodollar system is reproduced on cryptographic rails within the stablecoin framework itself, unless active countermeasures are taken.

Recommended Regulatory Response

Treasury should require that regulated stablecoin issuers implement smart contract-level restrictions that limit token flows to addresses associated with unregulated DeFi lending protocols, as well as protocols that host activity in unregulated dollar stablecoins. This is technically feasible, as most regulated stablecoins already have smart contract-level freeze

capabilities. Issuers should be required to maintain and update lists of known unregulated DeFi lending protocols and restrict large token transfers to those addresses. Regulators should prioritize limiting exposure to the highest-risk credit multiplication vectors.

To counter a rise in non-GENIUS stablecoins, outside of Tether which currently represents a majority of the market, the GENIUS Act must bring a level of legitimacy, tied to stringent reserve requirements and a comprehensive backstop. Offshore dollar banking and offshore dollar stablecoin issuance are realities that the United States should address together instead of independently, a sobering reminder that complete governance over the global dollar system is a highly complex endeavor that risks the dollar's effectiveness as the world reserve currency. The dollar is deeply embedded within the global financial system outside of the United States, and much of that is due to offshore dollar banking that is implicitly allowed to operate based on decades of precedent and accrued financial infrastructure. Stablecoin regulation offers the United States not only the opportunity to establish precedents for digital dollar usage abroad but also to revisit how the world accesses dollars through the Eurodollar channel.

The GENIUS Act's restriction on US persons and US service providers transacting in non-compliant foreign stablecoins creates domestic chokepoints—a strong starting point for addressing this risk. The alternative, inaction, guarantees offshore dominance by default. This is precisely the dynamic that allowed Tether to grow to $184 billion without US regulatory oversight. If US payment processors, exchanges, and financial institutions are prohibited from facilitating non-compliant stablecoins, and if allied jurisdictions face consequences for harboring non-compliant issuers, the economics shift toward compliance. Tether's launch of USAT, a US-regulated stablecoin, demonstrates that the market recognizes onshore issuance offers commercial advantages when the regulatory framework is credible.

4.6 Stablecoins and Foreign Currency Sovereignty

An important and underappreciated constraint on this framework is the preservation of foreign nations' sovereign monetary systems. The stablecoin architecture provides a dollar-denominated payment and settlement layer; it cannot and should not replace foreign currency issuance or domestic credit creation. Nations should retain their ability to conduct monetary policy, manage domestic financial conditions, and denominate domestic transactions in their own currencies without fear that the United States is trying to replace every local currency around the world.

Policymakers must acknowledge that not all countries can achieve these monetary and financial objectives, which increases the risk of informal dollarization. Dollar cash in paper form, or Federal Reserve notes, has been extraordinarily popular abroad for decades. Approximately 45 percent of all Federal Reserve notes in circulation are estimated to be held outside the United States, including two-thirds of all $100 bills, primarily in developing economies with histories of high inflation or political instability.[37] Dollar stablecoins are a digitally native evolution of this phenomenon, but with properties that are both more powerful and more accessible than physical cash. A mobile phone user in an economy

37 Neely, Christopher J. "The Innocent Greenbacks Abroad: U.S. Currency Held Internationally." On the Economy (blog). Federal Reserve Bank of St. Louis, October 18, 2022. https://www.stlouisfed.org/on-the-economy/2022/oct/innocent-greenbacks-abroad-us-currency-held-internationally.

experiencing inflation can hold dollar stablecoins directly, at effectively no cost, with full divisibility and immediate transferability, without ever interacting with a bank, government institution, or paper money.

This creates a genuine tension. The United States benefits from stablecoin adoption in emerging markets because it deepens dollar network effects, generates Treasury demand, and makes dollar rails indispensable to daily commerce in dozens of countries. But if stablecoin adoption erodes a government's ability to exercise monetary sovereignty—by allowing citizens to readily exit the local currency for a dollar instrument—the diplomatic and political consequences can be severe. A government that cannot influence what money its citizens hold cannot fully manage its domestic economy.

The appropriate policy response is to support local currency system resilience alongside stablecoin adoption, rather than to suppress stablecoin adoption to protect local monetary systems. This means providing technical assistance for emerging market central banks to improve the quality of their monetary policy and the stability of their currencies; developing frameworks for stablecoin-local currency interoperability that allow stablecoins to complement rather than replace local payment infrastructure; and supporting the development of local capital markets that give citizens an alternative to dollar instruments for long-term savings. Emerging market central bank cooperation is essential for the framework to succeed, and that cooperation requires demonstrating that the United States views stablecoin adoption as a tool of shared economic development rather than financial dominance.

Conclusion

The dollar system that the United States built in the twentieth century has not disappeared, but it is no longer a true reflection of how money moves around the global financial system. Hundreds of millions of individuals now seek dollar-denominated value directly, to hold it on their mobile phones and to send it across borders without intermediaries. China is building settlement infrastructure to route those flows away from dollar rails, bringing an urgency to GENIUS Act implementation that can spread US governed, regulated dollar stablecoins abroad. Stablecoins simultaneously defend the dollar's reserve currency status and help the United States rise to the challenge of China's yuan internationalization policy objective. The United States' choice of stablecoins over a CBDC is itself a statement of values. Where China offers the digital yuan as a state-controlled instrument with full surveillance capability, the American model distributes issuance across regulated private-sector entities, preserving the market competition and individual privacy that have always distinguished the American financial system.

Benefits of stablecoins to the United States are wide ranging and groundbreaking, but this paper's policy proposals stop short of suggesting wholesale shifts that could damage alliances or rupture the existing financial system. Stablecoins project American financial architecture into markets that legacy banking infrastructure has never reached, a soft power of a kind that no military deployment or trade agreement can replicate. The argument presented in this paper is that the United States possesses, for the first time, a policy instrument capable of reshaping the margin of global dollar demand in ways that simultaneously strengthen governance, reduce systemic risk, deepen Treasury markets, and extend American financial influence into the digital era. The country that controls the rails on which the world's savings move will shape the next century of international finance. That country should be the United States.

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