MITRE | Center for Data-Driven Policy

THE U.S. DOLLAR, EMERGING TECHNOLOGY AND GEOPOLITICAL RISK, AND THE FUTURE OF THE FINANCIAL SYSTEM

Technology and intensifying geopolitical competition are transforming the global financial system.

As digital currencies and new payment systems offer faster, cheaper, and more secure payment options, China and other nations are capitalizing on these emerging technologies to challenge the U.S. dollar's (USD's) traditional leading role. Without strong U.S. leadership and steps to secure our innovative edge, these new systems could undermine U.S. national and economic security by reducing the central role of the USD and related banking infrastructure. Reversing such concerning global trends will require U.S. leadership at home and abroad.

The Case for Action

The USD has been the cornerstone of the global financial system since the Bretton Woods system was established in 1958. However, the rapid development and adoption of digital currencies and new payment systems are challenging this status quo. Cryptocurrencies, stablecoins, central bank digital currencies (CBDCs), and related technologies have revolutionized the financial landscape. Stablecoins, especially those that are USD pegged and asset backed, offer instantaneous cross-border payments and significantly decrease costs due to the elimination of intermediaries. Though commercial adoption of cryptocurrencies or stablecoins is limited to date, their popularity as alternatives to the incumbent payment system is rising, especially in the Global South and in countries with weak banking infrastructures. In response to such global trends, the U.S. government is trying to shape the development of digital currencies and new payment systems through various standards bodies, such as the International Organization of Securities Commissions, Financial Stability Board, Bank of International Settlements, Organisation for Economic Co-operation and Development, and G7 and G20 working groups. Nevertheless, China, Russia, and Iran are developing rival financial infrastructures to decrease their reliance on the USD and to avoid enforcement of sanctions and mechanisms to monitor transactions, such as SWIFT (the largest and most widely used financial messaging system for international transactions).

Key Challenges and Opportunities

While the Federal Reserve Board has been cautious in its approach,[1] in recent public testimony and news releases, several U.S. agencies have called for increased "voluntary experiments" with private industry. Within these agencies, there are existing innovation offices focused on responsible fintech innovation and collaboration with industry. Commercial banks and other financial players are developing hybrid

Recommendations for Future of the Financial System

Focus on financial stability and security

Streamline U.S. regulatory burden

Encourage public-private collaboration

Capitalize on U.S. as host of the G20 in 2026

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tokenization systems in the face of CBDC and cryptocurrency competition. The future payments landscape will likely integrate central bank money, commercial bank money, and private money as it evolves from analog to digital in a "Finternet" ecosystem.[2] In the meantime, even though the United States has comparative advantages—such as global leadership in many technologies, the strength of the U.S. fintech ecosystem, and the prominence of U.S. payment companies—we lag behind much of the world in the adoption, integration, and management of new technologies that will define the future of financial systems.

Despite the benefits these new technologies introduce, there are also risks. China's CBDC is widely considered another tool of its surveillance state. Countries like China, Iran, and Russia are responding to a perceived "weaponization of the dollar" by embracing the buildout of new payment rails to evade sanctions. China has created a SWIFT rival, the Cross-Border Interbank Payments System, which as of May 2024 included more than 1,500 participants in 115 countries.[3] Indeed, U.S. reliance on economic statecraft tools like sanctions, while important to advancing foreign policy priorities, likely poses secondary risks to the USD-based payment system. Moreover, cyber threat actors have exploited the cryptocurrency ecosystem to advance money-laundering and terrorism-financing activities and to stage crypto-enabled ransomware attacks across every sector of commerce and governments. In response to cryptocurrency and constituents' demands for faster payments, central banks around the world are turning to CBDCs. Global pilots of wholesale CBDCs, used for large payments between financial institutions, are gaining momentum and may pose the greatest long-term threat to the dollar's broad usage if they erode the dominant role of either the U.S. dollar or traditional payment systems like SWIFT in the settlement of international financial transactions.

So far, the USD has remained resilient because of our deeper investor pools, more efficient financial markets and cheaper financing costs, well-respected judicial system, and large and dynamic economy. However, in an increasingly competitive geopolitical landscape and technologically fluid environment, the United States must skillfully manage the conflicting priorities of leveraging USD dominance to protect national security, spurring the adoption of safe and efficient financial technologies, and ensuring the continued broad appeal of the USD in global transactions. Otherwise, it risks losing one of its most enduring strategic advantages.

> The United States needs to accelerate its engagement with central banks, commercial banks, other financial market infrastructure entities, and standards bodies on the digital assets ecosystem.

Data-Driven Recommendations

To preserve the benefits that accrue from the USD's widespread use, the United States should accelerate its engagement with central banks, commercial banks, other financial market infrastructure entities, and standards bodies on the digital assets ecosystem; safeguard financial stability and cyber infrastructure; regulate in a way that promotes innovation and reduces consumer risk; experiment through private sector and financial regulator collaboration; and lead internationally. MITRE recommends the following actions:

SAFEGUARD

Focus on the safety and soundness of these new products while the private sector develops novel means to move value.

While the new financial technologies have advantages, stability and security need to remain central to U.S. considerations.

- **Financial stability.** Digital assets and other new payments technologies could impact our financial system in novel ways, affecting Treasury liquidity, banks' balance sheets, Federal Deposit Insurance Corporation coverage, and even how fractional reserve lending is currently distributed through commercial banks. MITRE recommends the next administration within 30 days direct the Financial Stability Oversight Council, Office of Financial Research, and other regulators to stress-test these new systems to limit adverse effects and develop responsive regulation downstream of legislation.

- **Cybersecurity.** Financial Services is already one of the country's Critical Infrastructure Sectors.[4] Greater reliance on online banking and distributed ledgers increases the attack vector for users, institutions, and central banks. Public-private partnerships (PPPs) are great vehicles to share threat data, patch weaknesses, and mitigate hacks. MITRE recommends the next administration within 60 days launch a process to evaluate existing PPPs and invite private companies to meaningfully engage with these PPPs, while offering a commensurate level of indemnification for companies proactively contributing.

ENABLE
Streamline and reduce the domestic U.S. financial regulatory burden.

This includes eliminating overlapping regulations, clarifying authorities, ensuring consumer protections, and assessing new vectors for systemic risk.

- **Digital assets legislation.** The future of the dollar is dependent on joint legislative and executive branch leadership. While the United States has no federal stablecoin legislation, U.S. stablecoin issuers are using their international arms to offer USD stablecoins to international audiences. Within 90 days, MITRE recommends the White House partner with Congress to introduce bipartisan stablecoin and broader digital assets legislation to delineate which regulator should have oversight of stablecoins, establish clear guidelines for stablecoin issuers, and ensure consumer protections.

EXPERIMENT
Encourage public-private collaboration by promoting experimentation.

Given the rapid pace of digital asset innovation, it is challenging for regulators to keep up with the latest product and service offerings.

- **Financial innovation sandboxes.** MITRE recommends the White House work with the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency, Securities and Exchange Commission (SEC), and Commodity Futures Trading Commission (CFTC) to announce initiatives that deepen regulators' ability to collaborate with the private sector and showcase new proof-of-concept solutions. MITRE recommends that entities such as the SEC's Strategic Hub for Innovation and Financial Technology,[5] CFTC's Office of Technology Innovation,[6] and the Federal Reserve's New York Innovation Center[7] become focal points for experimentation and the development of sandboxes to enable hands-on experience for regulators, regulatory insights for private sector participants, and real-world lessons prior to broader public releases.

- **Work with private sector for public observation.** MITRE recommends the next administration within 30 days announce an initiative with the Department of the Treasury and the Federal Reserve to expand their role as technical observers for various private sector initiatives.

LEAD INTERNATIONALLY
Capitalize on the U.S. role as host of the G20.

The G20 facilitates economic cooperation among the world's leading developed and emerging economies. As such, the U.S. role as host of the G20 in 2026 is an opportunity to ensure the future of the financial system is aligned with U.S. values and interests.

- **Elevating engagement.** As part of U.S. development of the G20 agenda for the 2026 summit, MITRE recommends the White House and relevant departments and agencies elevate our engagement in the G20 working groups and raise the profile of the future of the financial system in the summit itself, with a focus on high-level standards and interoperability that will benefit the United States and the global economy.

MITRE Resources and Support

Building on more than 65 years' experience working across government and as an operator of federally funded research and development centers (FFRDCs),[8] MITRE is stimulating new ways of thinking and action to tackle national and global challenges, including emerging threats and opportunities in the financial sector.

Financial Innovation Lab (FINLab)

- In response to the need for more sophisticated tools and techniques to support rapid changes in the financial sector, MITRE established FINLab, a purpose-built innovation environment to support the robust analysis of large data sets in a secure manner and produce deep insights into components of the financial system. FINLab does this through its suite of novel analytics; rich data sets; and deep expertise in complex systems, computational finance, and macro-prudential supervision. FINLab can be leveraged to support multiple financial regulators on use cases spanning contentious rulemaking, unforeseen risk and novel stress-testing scenarios, and experimentation with disruptive technologies such as blockchain and digital assets.

"Stablecoin Regulatory Design: A Logic Model-Based Approach to Drive Public-Private Collaboration," https://www.mitre.org/news-insights/publication/stablecoin-regulatory-design-logic-model-based-approach

- This paper introduces a logic model–based approach to provide stakeholders greater transparency into the interdependencies, ambiguities, and conflicting authorities that might need to be resolved prior to promulgating new legislation and subsequent regulation of stablecoins.

"Financial Stability in Crypto-Assets," https://www.mitre.org/news-insights/publication/financial-stability-crypto-assets

- This primer focuses on the need for better risk controls, which necessitates more granular and frequent assessments of liquidity flows between the crypto and traditional financial markets.

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Connect with us at policy@mitre.org.

Endnotes

[1] https://www.federalreserve.gov/central-bank-digital-currency.htm

[2] https://www.bis.org/publ/work1178.htm

[3] https://www.cips.com.cn/en/index/index.html

[4] https://www.cisa.gov/topics/critical-infrastructure-security-and-resilience/critical-infrastructure-sectors/financial-services-sector

[5] https://www.sec.gov/about/divisions-offices/office-strategic-hub-innovation-financial-technology-finhub

[6] https://www.cftc.gov/OTI/index.htm

[7] https://www.newyorkfed.org/aboutthefed/nyic

[8] https://www.mitre.org/sites/default/files/2023-07/PR-23-1546-FFRDC-Overview-Factsheet_July-2023.pdf