



DIGITAL MONEY, STABLECOINS & MONETARY SOVEREIGNTY

A Strategic Guide for Bangladesh & South Asia

SIRAJUS SALEKIN

2026

Fintech Strategy • Digital Currency • South Asia Policy

DIGITAL MONEY, STABLECOINS & MONETARY SOVEREIGNTY

A Strategic Guide for Bangladesh & South Asia

Sirajus Salekin

Fintech Strategy Professional

2026

Preface: Why This Book Matters

This book was developed from a structured learning conversation and research session, with writing and editorial assistance from Claude (Anthropic's AI). All strategic analysis, professional judgement, and subject matter direction by Sirajus Salekin.

The financial world is undergoing its most fundamental transformation since the abandonment of the gold standard in 1971. Stablecoins, blockchain networks, central bank digital currencies, and crypto exchanges are no longer fringe technology experiments. They are reshaping how money moves across borders, how capital evades controls, and how monetary sovereignty itself is contested.

This book grew out of a structured learning conversation exploring these concepts from first principles: How does money get its value? What backs a stablecoin? Why do millions of people in Bangladesh, Pakistan, and Nepal use USDT despite regulatory restrictions? What does a CBDC actually change? And crucially, what should Bangladesh and South Asia do about all of this?

The answers are neither simple nor purely technical. They sit at the intersection of macroeconomics, geopolitics, regulatory design, and everyday financial behaviour. This guide attempts to make that intersection comprehensible, analytical, and actionable, for fintech professionals, policymakers, researchers, and curious minds across the region.

Each chapter builds on the previous one. Read sequentially for the fullest picture, or dip into individual chapters as standalone primers. Case studies are drawn from real global events and grounded in South Asian market realities throughout.

Table of Contents

Preface: Why This Book Matters

Chapter 1: The Evolution of Money

Chapter 2: From Gold Standard to Fiat Currency

Chapter 3: The Birth of Cryptocurrency

Chapter 4: How Blockchain Works

Chapter 5: Stablecoins — The Digital Dollar

Chapter 6: How Stablecoins Maintain Their Peg

Chapter 7: How Crypto Exchanges Work

Chapter 8: The Shadow FX Market — P2P & OTC in South Asia

Chapter 9: Capital Flight in the Digital Age

Chapter 10: How Regulators Detect Crypto Flows

Chapter 11: CBDC vs Stablecoin — A Structural Comparison

Chapter 12: e-Money, Digital Banks, PSPs and CBDC — Where is the Line?

Chapter 13: Can CBDC Stop Hawala?

Chapter 14: What Bangladesh Should Prioritise

Chapter 15: The Future of Monetary Power

Closing Reflection

Chapter 1: The Evolution of Money

1.1 What Is Money, Really?

Money is not a thing. It is a technology — one of the oldest and most consequential technologies humanity has ever invented. Money is any widely accepted medium that enables exchange, stores value, and provides a common unit of account. At various points in history, that technology has taken radically different forms: shells, beads, gold coins, paper receipts, and now digital tokens.

Understanding money's evolution is not merely academic. It explains why USDT is trusted by millions of users who have never heard of Tether Limited, why Bitcoin has value despite having no physical backing, and why governments are simultaneously threatened and fascinated by stablecoins. The logic of trust, scarcity, and legitimacy runs unbroken from the first gold coin to the latest blockchain.

1.2 The Four Phases of Monetary Evolution

Money has evolved through four broad phases, each building on — and eventually replacing — the limitations of the previous one.

Phase 1: Commodity Money

In the earliest economies, money was a physical commodity with intrinsic value. Gold, silver, copper, salt, and grain all served monetary functions across different civilisations. Their value was self-evident: gold could be used as jewellery, silver had industrial applications, grain could feed people.

The advantage was simplicity and universality — anyone could accept gold because anyone could use gold. The disadvantage was portability and divisibility. Carrying a bar of gold to buy vegetables was impractical, and splitting it into small enough pieces for everyday transactions was difficult.

Phase 2: Gold-Backed Paper Currency

The solution was paper receipts. Goldsmiths in medieval Europe would store gold on behalf of merchants and issue paper receipts for the deposit. Over time, these receipts began circulating as money themselves, since anyone could redeem them for the underlying gold.

This was the prototype for modern banking. Governments eventually centralised this system, creating national currencies backed by gold reserves. The paper note was a promise, not a commodity — but a promise backed by something physically tangible. This gave it credibility beyond the issuing institution.

Phase 3: Fiat Currency

The defining shift came in 1971, when US President Nixon suspended the convertibility of dollars into gold. After this, the US dollar — and by extension most world currencies — became fiat money. Fiat is derived from the Latin for 'let it be done'. Fiat money has value simply because a sovereign government declares it legal tender and backs it with the full power of its economic and institutional machinery.

This was not merely a technical change. It represented a fundamental renegotiation of monetary trust: from a trust in physical metal to a trust in institutions, governance, and economic competence.

Phase 4: Digital and Programmable Money

The phase we are now entering is the digitalisation and programmabilisation of money itself. Money is no longer just a number in a bank account — it can carry instructions, expire, be restricted to specific uses, and settle across borders in seconds without intermediaries. Bitcoin, stablecoins, and central bank digital currencies are all expressions of this phase, each with different philosophies about who should control money and how trust should be established.

1.3 Case Study — Bangladesh and the Informal Economy

Bangladesh offers a useful lens for understanding monetary evolution in practice. Taka (BDT) has historically faced inflationary pressure and periodic FX scarcity. For much of the population, formal banking infrastructure has been inaccessible. This created fertile ground for informal monetary systems: hawala networks for cross-border transfers, mobile financial services for domestic transactions, and increasingly, USDT as a digital dollar substitute.

The pattern is not unique to Bangladesh. Pakistan, Nepal, Sri Lanka, and parts of Sub-Saharan Africa show similar dynamics. When formal money fails to serve people's needs — in terms of stability, accessibility, or cross-border utility — informal substitutes emerge. Understanding why this happens, and what replaces what, is the core challenge for monetary policy in the digital age.

Key Insight: Money earns trust through utility, not declaration. When official money fails to deliver stability or accessibility, alternatives fill the void — whether physical gold, hawala networks, or digital stablecoins.

Chapter 2: From Gold Standard to Fiat Currency

2.1 The Bretton Woods Agreement (1944)

At the end of World War II, the economic order was in ruins. European currencies were collapsed or unreliable, and global trade needed a stable monetary anchor. In 1944, representatives from 44 Allied nations gathered at Bretton Woods, New Hampshire, and agreed on a new international monetary system.

The framework was elegant: the US dollar would be convertible to gold at a fixed rate of USD 35 per troy ounce. All other currencies would be pegged to the dollar. In effect, the world moved onto a dollar-based gold standard. The International Monetary Fund and the World Bank were established as institutional pillars of this new order.

This system brought two and a half decades of remarkable monetary stability and global trade expansion. It also placed the United States at the centre of global finance in a way it has never fully relinquished.

2.2 The Nixon Shock (1971)

By the late 1960s, the United States was running significant trade deficits and financing an expensive war in Vietnam. Confidence in the dollar's gold backing began to erode. Foreign central banks, particularly France under de Gaulle, began redeeming their dollar holdings for gold, draining US reserves.

On 15 August 1971, President Richard Nixon announced the suspension of dollar-gold convertibility in a televised address. This was a unilateral act that dismantled the Bretton Woods system almost overnight. The dollar floated freely from 1973 onwards, and the world entered the era of pure fiat currency.

2.3 What Backs the Dollar Today?

The question students and newcomers ask most often is: if the dollar is not backed by gold, what gives it value? The answer is multidimensional, and understanding it is essential for understanding why stablecoins work, and where they are vulnerable.

Today, the US dollar is backed by five interlocking factors. First, the full faith and credit of the United States government — the government's commitment to honour its obligations, backed by its constitutional power to tax. Second, the size and productivity of the US economy, the largest in the world, which generates enormous demand for dollars in trade, investment, and lending. Third, the US military, which provides geopolitical stability and enforces international contracts. Fourth, the deep liquidity of US Treasury markets, which makes the dollar the preferred reserve

asset for central banks worldwide. Fifth, network effects: because everyone uses dollars for international trade, it is rational for each new participant to also use dollars, creating a self-reinforcing loop.

Oil is often mentioned as a source of dollar backing — the so-called Petrodollar theory. While it is true that oil has historically been priced in dollars on global markets, this is a consequence of dollar dominance rather than a cause of it. The dollar is not legally or mechanically backed by oil.

2.4 Relevance to South Asia

For Bangladesh, Pakistan, Nepal, and India, understanding fiat money's foundations matters enormously. These countries hold US dollar reserves not because they trust the physical paper, but because they trust the institutional machinery behind it. Their own currencies — taka, rupee, rupee, rupee — derive value from the same institutional logic applied at a smaller and less powerful scale.

When confidence in those institutions weakens, as happens during political crises, high inflation, or FX shortage, citizens rationally seek alternatives. The fact that this alternative is increasingly USDT rather than gold under the mattress reflects the phase-four shift described in Chapter 1.

Monetary Era	What Backed Money	Trust Source	Key Risk
Gold Standard	Physical gold	Tangible commodity	Supply limitation
Bretton Woods	USD pegged to gold	US credibility	US reserve drain
Fiat (post-1971)	Government authority	Institutional trust	Inflation / credibility
Stablecoins	USD + Treasury reserves	Corporate + regulatory	Issuer insolvency
Bitcoin	Mathematical scarcity	Network consensus	Volatility + adoption

Key Insight: The shift from gold to fiat was not the end of monetary evolution — it was one step in an ongoing negotiation between states, markets, and technology over who controls the money supply.

Chapter 3: The Birth of Cryptocurrency

3.1 Satoshi Nakamoto and the 2008 Whitepaper

On 31 October 2008 — mere weeks after Lehman Brothers collapsed and the global financial system teetered on the edge — an individual or group using the pseudonym Satoshi Nakamoto published a nine-page document titled 'Bitcoin: A Peer-to-Peer Electronic Cash System'. It proposed something that had never existed: digital money that could transfer value between strangers without any trusted intermediary.

The timing was not coincidental. The 2008 financial crisis had exposed the fragility of a system built on institutional trust: banks that were deemed too big to fail, had nonetheless failed; rating agencies had certified toxic assets as safe; central banks had bailed out private institutions with public money. Bitcoin was, in part, a political statement as much as a technical innovation.

3.2 What Bitcoin Is — and Is Not

Bitcoin is a decentralised digital currency that operates on a peer-to-peer network. There is no central bank, no company, and no single server. Transactions are validated and recorded by a global network of computers running open-source software. The supply is algorithmically capped at 21 million coins, making inflation theoretically impossible.

Bitcoin is NOT backed by any government, commodity, or institution. It derives its value from four sources: mathematical scarcity enforced by code; cryptographic security that makes forgery impossible; the collective belief of its user network; and the real-world energy and hardware investment required to create new coins through a process called mining.

Crucially, Bitcoin is not ideal as a currency for daily commerce. Its price has ranged from less than one dollar to over sixty thousand dollars, often within the same year. You cannot reliably price coffee or pay salaries in Bitcoin without exposing yourself to enormous volatility. This fundamental limitation created the conditions for stablecoins.

3.3 Case Study — The Rise of Crypto in South Asia

Despite regulatory restrictions in Bangladesh, Nepal, and Pakistan, cryptocurrency adoption in South Asia has grown steadily. India, which imposed a 30% flat tax on crypto gains in 2022, still has one of the largest retail crypto user bases in the world. Pakistan, where crypto is officially discouraged, has consistently ranked in the top ten globally for peer-to-peer Bitcoin and USDT volumes.

The drivers are structurally consistent across the region: a large young population comfortable with smartphones; limited access to foreign investment accounts; significant FX restrictions; and

a deep remittance culture that makes cross-border value transfer a daily financial need. Crypto, and especially stablecoins, fills gaps that formal financial infrastructure has left open.

3.4 The Broader Crypto Ecosystem

Bitcoin spawned an entire ecosystem. Ethereum, launched in 2015, introduced programmable smart contracts — code that executes automatically when conditions are met, enabling not just currency but decentralised applications. Thousands of alternative coins followed, each attempting to solve some perceived limitation of Bitcoin. Most failed. The handful that survived created the infrastructure on which stablecoins now operate.

Key Insight: Cryptocurrency was born from distrust of financial institutions. In South Asia, where that distrust is often well-founded, its appeal is not irrational — it is a rational response to structural gaps in the formal financial system.

Chapter 4: How Blockchain Works

4.1 The Core Innovation

Blockchain is the distributed ledger technology that underlies Bitcoin, Ethereum, and the stablecoins built on them. To understand stablecoins deeply, you must understand the infrastructure on which they run. The best analogy for someone with a banking background is this: imagine a Google Sheet that is shared simultaneously by thousands of computers worldwide, where every row is permanently timestamped, every entry is cryptographically signed, and no single person — not even Google — can delete or alter a past entry.

That is blockchain. It is not magic. It is a clever combination of existing computer science techniques: cryptographic hashing, distributed computing, and economic incentives.

4.2 Blocks, Chains, and Hashes

Transactions on a blockchain are grouped into batches called blocks. Each block contains a fixed number of transactions, a timestamp, and — crucially — a cryptographic hash of the previous block. A hash is a mathematical fingerprint: any input, no matter how large, produces a fixed-length output, and changing even one character of the input produces a completely different output.

Because each block contains the hash of the previous block, they form a chain. If you alter any historical block, its hash changes — which breaks the hash embedded in the next block, which breaks the block after that, cascading through the entire chain. Modifying history requires recalculating every subsequent block faster than the rest of the network can add new ones. For a large, well-established blockchain like Bitcoin or Ethereum, this is computationally infeasible.

4.3 Nodes, Consensus, and Decentralisation

The blockchain runs on a network of computers called nodes. Full nodes store the complete history of all transactions. Validator or miner nodes have the additional task of proposing and validating new blocks.

Since there is no central authority, the network must agree on which new blocks are valid. This agreement process is called consensus. Bitcoin uses Proof of Work: validator nodes compete to solve a computationally difficult puzzle, and the winner gets to add the next block and earn a Bitcoin reward. This makes fraud expensive — attacking the network requires spending enormous computational resources.

Ethereum switched to Proof of Stake, where validators lock up their own Ethereum as collateral. If they behave honestly, they earn rewards; if they attempt fraud, their collateral is automatically destroyed. This achieves security without the massive energy consumption of Proof of Work.

4.4 Why This Matters for Stablecoins and Remittance

Stablecoins like USDT and USDC exist as smart contracts on public blockchains. When someone sends USDT from Dubai to Bangladesh, the transaction broadcasts to the Ethereum or Tron network, is validated by nodes worldwide, and achieves finality within seconds to a few minutes — without any bank, SWIFT message, or correspondent relationship required.

Compare this to the traditional remittance path: Dubai exchange house to correspondent bank to SWIFT to Bangladesh Bank to local bank to recipient — a journey of one to three days costing three to seven percent of the principal. The blockchain compresses that entire chain into a single step, settling globally in minutes.

4.5 Case Study — Nagad and bKash as Centralised Contrast

Bangladesh's own mobile financial services, Nagad and bKash, illustrate the contrast between centralised and distributed systems. Both operate on centralised databases: a single authorised entity controls the ledger, can reverse transactions, can freeze accounts, and requires regulatory approval for every new feature. This makes them controllable — and therefore regulatable — but also dependent on institutional integrity and vulnerable to single points of failure.

A blockchain-based system has no such single point of failure. Its resilience comes from distribution. But that same distribution makes it harder to regulate, freeze, or control — a property that is a feature for some users and a threat for policymakers.

Key Insight: Blockchain is not primarily about cryptocurrency — it is about trustless settlement infrastructure. Its relevance for emerging markets is that it offers a way to compress correspondent banking chains into a single, instant, global transaction.

Chapter 5: Stablecoins — The Digital Dollar

5.1 The Volatility Problem and its Solution

Bitcoin solved the trust problem but created a new one: volatility. If 1 BTC equals USD 20,000 one month and USD 60,000 three months later, it cannot serve as a reliable store of value or medium of exchange for everyday commerce. Businesses cannot price contracts in it. Workers cannot accept salaries in it. Vendors cannot hold it as cash reserves.

Stablecoins were designed to capture the technological advantages of cryptocurrency — instant global transfer, permissionless access, programmability — while eliminating price volatility by pegging their value to a stable reference asset, typically the US dollar.

5.2 USDT (Tether): The Liquidity King

Tether, launched in 2014 under the symbol USDT, is the world's largest stablecoin by both market capitalisation and trading volume. It runs on multiple blockchains including Ethereum, Tron, and Solana, enabling it to be transferred cheaply and quickly across different ecosystems. Tether Limited, the company behind it, claims to hold equivalent dollar-denominated reserves for every USDT in circulation.

USDT's dominance in emerging markets is extraordinary. In Bangladesh, Pakistan, Vietnam, Turkey, and across Sub-Saharan Africa, it functions as the de facto digital dollar of choice for P2P trade, remittance, and informal capital storage. Its dominance stems from first-mover advantage, deep exchange liquidity, and the network effect: because everyone uses USDT, it is rational for new participants to also use USDT.

USDT's historical weakness has been transparency. For years, Tether was criticised for inadequate reserve disclosures. It has improved substantially, now publishing quarterly reserve breakdowns, though it does not yet provide full GAAP-standard audits comparable to a regulated bank.

5.3 USDC (USD Coin): The Compliance-First Challenger

USD Coin was launched in 2018 by Circle, a US-based financial technology company, in partnership with Coinbase. From inception, USDC was designed to be institutionally credible: reserves consist exclusively of cash and short-term US Treasury bills, held by regulated US financial institutions, with monthly attestations by leading accounting firms.

USDC is the preferred stablecoin for institutional participants, DeFi protocols that prioritise regulatory safety, and US-regulated financial intermediaries. However, a critical moment in March 2023 revealed that even compliant stablecoins carry systemic risk: when Silicon Valley Bank — one of Circle's reserve custodians — failed, USDC briefly traded as low as USD 0.88 before

recovering after FDIC intervention. This event demonstrated that stablecoin safety is contingent on the safety of the banking infrastructure that holds its reserves.

5.4 Other Stablecoin Types and The Terra Collapse

Beyond fiat-backed stablecoins, two other categories exist. Crypto-backed stablecoins, like DAI, are backed by other cryptocurrencies rather than dollars, using over-collateralisation and algorithmic rebalancing to maintain their peg. Algorithmic stablecoins attempt to maintain the peg purely through code-controlled supply adjustments without any reserve backing.

The dangers of algorithmic stablecoins became painfully clear in May 2022, when TerraUSD (UST) collapsed catastrophically. TerraUSD maintained its peg through a complex mechanism involving a sister token called Luna. When confidence wavered and large holders began selling, the algorithm entered a death spiral: UST fell below USD 1, Luna was minted to compensate, which inflated Luna's supply, crashed its price, further undermined UST, and so on. Within 72 hours, USD 40 billion in value had been destroyed. The event triggered a broader crypto market crash and heightened regulatory scrutiny worldwide.

Stablecoin	Issuer	Reserve Type	Transparency	Best Use Case
USDT	Tether Limited	Mixed (T-bills, cash, loans)	Moderate	Emerging market liquidity
USDC	Circle	Cash + US Treasuries only	High	Institutional / DeFi
DAI	MakerDAO	Crypto-backed	On-chain	Decentralised finance
UST (Terra)	Terraform Labs	Algorithmic (failed)	N/A	Now defunct

Key Insight: The stablecoin is not backed by the US government. It is backed by a private company's promise and reserve quality. This distinction — corporate liability versus sovereign liability — is central to understanding all the risks that follow.

Chapter 6: How Stablecoins Maintain Their Peg

6.1 The Mint-and-Burn Mechanism

The foundational mechanism for maintaining a USD 1.00 peg in a fiat-backed stablecoin like USDT or USDC is the mint-and-burn cycle. When an institutional client deposits USD 10 million with Tether or Circle, the issuer mints exactly 10 million new tokens and places them into circulation. The corresponding USD goes into the reserve account. When a client redeems 10 million tokens, the issuer burns them and returns USD 10 million. Supply always matches the dollar value of reserves, keeping the peg mechanically sound.

This mechanism only functions with institutional clients. Retail users cannot directly mint or redeem — they buy and sell on exchanges, where supply and demand set the market price. The institutional mint-and-burn provides the backstop that keeps exchange prices anchored to USD 1.

6.2 Arbitrage as the Stabilising Force

The mechanism that keeps market prices at USD 1 even when supply and demand fluctuate is arbitrage. Arbitrage is the practice of exploiting price differences across markets to earn risk-free profit. In stablecoin markets, it works as follows.

If USDT falls below USD 1 on exchanges — say to USD 0.98 — professional traders can buy large quantities at the discounted price and redeem them directly with Tether for USD 1, pocketing the USD 0.02 per token difference. This buying pressure pushes the market price back toward USD 1. Conversely, if USDT rises above USD 1, traders can mint new tokens at USD 1 and sell them on exchanges at the premium, earning the difference. Their selling pressure pushes the price back down.

This self-correcting mechanism requires one critical condition: credible, accessible reserves. If traders doubt that Tether will honour redemptions, they will not arbitrage a discount — they will sell, accelerating the depeg. Trust is not soft. It is the load-bearing pillar of the entire structure.

6.3 The Business Model — How Issuers Profit

Stablecoin issuers have discovered one of the most profitable business models in financial history. When 100 billion dollars of USDT are in circulation, Tether holds 100 billion dollars in reserves. In a 5% interest rate environment, those reserves earn USD 5 billion per year in interest income. Tether pays no interest to USDT holders — the tokens themselves are non-interest-bearing. Operational costs are modest. The net result is billions in annual profit from what is essentially a narrow bank without the regulatory burden of being one.

This business model has important implications for South Asian markets. The interest income that Tether earns on reserves corresponding to USDT held by Bangladeshi, Pakistani, and Nigerian users represents a transfer of value from emerging market populations to a US Virgin Islands-registered private company. It is, in miniature, a form of financial seigniorage.

6.4 Bank Run Risk

Stablecoins are structurally analogous to narrow banks: they hold reserves and issue liabilities. Like banks, they are vulnerable to runs. If confidence falters and many large holders attempt to redeem simultaneously, the issuer must liquidate reserves rapidly to meet demands. If those reserves include less liquid assets — long-term securities, commercial paper, or secured loans — forced liquidation may occur at a discount, creating a reserve shortfall that triggers further redemption panic.

The 2023 USDC episode illustrates this precisely. SVB held a portion of Circle's reserves. When SVB was placed into FDIC receivership, it was momentarily unclear whether those reserves could be accessed. Rational holders began selling USDC, driving the price to USD 0.88. Only the FDIC's decision to guarantee all deposits — announced the following day — restored confidence and returned the peg. Without that intervention, a genuine depeg cascade would have been possible.

6.5 Bangladesh Relevance: Corporate vs Sovereign Risk

For a resident of Dhaka holding USDT as a dollar savings vehicle, the key risk is not understood: they are not holding US dollars. They are holding a claim on Tether Limited, incorporated in the British Virgin Islands. If Tether Limited became insolvent, their USDT would be worthless. There is no FDIC. There is no deposit guarantee scheme. There is no central bank backstop.

This is not an argument against USDT — for many users, the practical utility of holding digital dollars outweighs this risk. But policymakers, financial educators, and fintech professionals in the region have a duty to ensure this distinction is clearly communicated.

Key Insight: A stablecoin's USD 1.00 peg is maintained by reserves, arbitrage, and trust. Remove any one of these, and the peg breaks. Reserve quality and issuer credibility are not secondary concerns — they are the foundation of the entire system.

Chapter 7: How Crypto Exchanges Work

7.1 The Exchange as Financial Infrastructure

Crypto exchanges are the market infrastructure through which stablecoins, cryptocurrencies, and fiat currencies are converted. Functionally, they combine the roles of a foreign exchange brokerage, a clearinghouse, a custody institution, and in many cases an unregulated bank. Understanding how they work is essential because they are the primary mechanism through which USDT enters and exits South Asian economies.

7.2 Centralised Exchanges (CEX)

The dominant model is the centralised exchange. On a centralised exchange like Binance, Coinbase, or Kraken, the operator maintains an internal order book — a real-time list of buy and sell orders at various prices. When a buyer's bid matches a seller's ask, the exchange automatically executes the trade and updates internal ledgers. The actual blockchain transactions only occur when users deposit funds into the exchange or withdraw them.

This model has significant implications. When you trade on Binance, you are not trading on the blockchain — you are trading inside Binance's private database, trusting Binance with custody of your assets. This is why the FTX collapse in 2022 was so catastrophic: FTX was not merely a trading platform, it was a custodian of its users' assets, and when it misused those assets, users lost everything.

7.3 Why USDT Is the Base Currency of Crypto

The most important trading pairs on every major exchange are denominated in USDT, not in US dollars. BTC/USDT, ETH/USDT, SOL/USDT — this is the standard. The reason is structural. Most users globally do not have easy access to US dollar banking. A user in Bangladesh, Turkey, or Nigeria cannot simply wire US dollars to Binance. But they can acquire USDT through P2P markets and trade freely.

USDT thus became the dollar of the crypto world: a widely accepted numeraire for pricing, a universally liquid base currency for trading pairs, and a store of value between trades. This dominance creates a self-reinforcing network effect: the more people use USDT, the more liquid it becomes, making it more useful, attracting more users.

7.4 P2P Markets: The Fiat On-Ramp

Peer-to-peer markets, offered by exchanges like Binance, are the critical fiat on-ramp for users in countries without easy USD banking or where crypto exchanges cannot offer direct bank

connections due to regulatory restrictions. On Binance P2P, a seller lists USDT for sale at a quoted BDT rate. A buyer places an order, transfers BDT via bank transfer or mobile money, and marks the payment as sent. The seller confirms receipt, and Binance releases the USDT from escrow.

Binance does not set the exchange rate. The market sets it, through competition between sellers. This creates a real-time informal FX market that, in countries with capital controls, often reflects true dollar demand more accurately than official exchange rates.

7.5 Decentralised Exchanges (DEX)

Decentralised exchanges like Uniswap operate without a central operator or order book. Instead, they use liquidity pools: users deposit pairs of tokens (for example, ETH and USDC in equal dollar value). When someone trades, they swap against the pool rather than a counterparty. The price is set by an algorithm — typically $x \times y = k$, where x and y are the token quantities — that automatically adjusts prices as trades shift pool balances.

DEXes are more censorship-resistant and do not require KYC. They are more commonly used by sophisticated users comfortable with blockchain wallets. For the South Asian context, CEXes and P2P markets remain the dominant access point.

7.6 Case Study — Binance in South Asia

Binance has become the dominant crypto exchange across South Asia partly by aggressively developing its P2P market for local currencies. BDT, PKR, INR, and NPR are all available on Binance P2P. The platform effectively created a substitute foreign exchange market for populations previously unable to access dollar-denominated assets.

This has created regulatory friction. Bangladesh Bank has issued warnings against crypto trading. Pakistan's State Bank has expressed concern about unregulated P2P FX activity. India has imposed tax obligations. Yet volumes persist and grow, because the user demand — for dollar access, for remittance alternatives, for savings diversification — is real and deep.

Key Insight: Crypto exchanges are not just trading platforms — they are shadow FX markets and informal banking infrastructure for populations underserved by the formal system. Their regulation is, at its core, a question about who controls access to dollar-denominated financial services.

Chapter 8: The Shadow FX Market — P2P & OTC in South Asia

8.1 The Anatomy of a P2P Ecosystem

The informal USDT market in South Asia is not a single platform or a homogeneous network. It is a layered ecosystem with distinct roles, risk profiles, and profitability at each level.

At the retail level, small-scale users buy and sell USDT on Binance P2P for personal needs: receiving freelance payments from overseas clients, sending money to a family member abroad, or simply storing savings in digital dollars. Volumes are typically USD 100 to USD 5,000 per transaction.

At the intermediary level are what practitioners call agents or sub-dealers — individuals who maintain standing buy and sell offers on P2P platforms, manage small USDT inventories, and earn income from the spread between their buy and sell prices. They are the retail interface of the system.

At the wholesale level are distributors or OTC desks — entities that maintain large USDT inventories of USD 500,000 or more, maintain offshore wallets or exchange accounts in UAE, Malaysia, or Singapore, and supply the agents below them. These are the real market makers of the informal digital dollar economy.

8.2 How the Price Is Set

USDT prices in P2P markets do not track official exchange rates mechanically. They reflect actual supply and demand for dollars in the local economy. In Bangladesh, where the official BDT/USD rate is managed by Bangladesh Bank, P2P USDT rates frequently trade at a premium — reflecting the real scarcity of dollar access and the pent-up demand from importers, freelancers, students paying foreign university fees, and capital-seeking businesspeople.

This spread between the official rate and the P2P rate is a direct signal of monetary repression: the formal system is not clearing the market, so an informal market emerges to do so. The spread is also the profit margin of the entire distribution chain.

8.3 The Dubai-Bangladesh Corridor

One of the most active USDT corridors in South Asia runs between the UAE (particularly Dubai) and Bangladesh. The flow logic is elegant. Bangladeshi workers in Dubai earn AED, need to send money home, but want to avoid the cost and delay of official remittance channels. Bangladeshi importers and businesspeople want USD to pay for goods or invest abroad. Both sides can be satisfied simultaneously through USDT.

In practice, the corridor operates through distributed ledger netting: a Dubai-based trader holds USDT; a Dhaka-based distributor holds BDT. Rather than physically moving money across borders, they match flows — the Dubai trader's client gets USDT credited to their wallet, while the Dhaka distributor pays BDT to the recipient's family directly. The ledger balances settle periodically between the two traders. No international wire transfer occurs. This is digitised hawala.

8.4 Case Study — The Freelancer Economy

Bangladesh has a rapidly growing freelance economy, with hundreds of thousands of professionals earning in USD through platforms like Upwork, Fiverr, and Toptal. Officially, these earnings must be received through the banking system and converted to BDT. In practice, many freelancers receive payment in USDT, either directly from clients who pay in crypto or by converting their Payoneer/PayPal balances to USDT through intermediaries.

USDT allows freelancers to hold their earnings in dollars without the forced BDT conversion, to spend directly on international purchases (domains, cloud services, software subscriptions), and to transfer to family members abroad. The informal market emerged precisely because the formal system imposed friction — mandatory conversion, unfavourable rates, bureaucratic delays — that the technology could circumvent.

8.5 Risks in the P2P Ecosystem

Participants at every level of this system face significant risks. At the retail level, the primary risks are fraud (counterparties who receive BDT but do not release USDT), exchange account freezes from compliance triggers, and stablecoin depeg risk. At the agent and distributor level, risks multiply to include BDT/USD rate volatility, large-counterparty fraud, regulatory enforcement actions, bank account freezes, and exchange-level compliance escalations.

The regulatory risk is existential. Unlike a licensed FX dealer, no P2P USDT distributor in Bangladesh has a legal framework that protects their business model. A change in enforcement priority — or a directive to banks to flag and freeze accounts receiving structured USDT-related transfers — could shut down their operation overnight.

Key Insight: The P2P USDT ecosystem in South Asia is not criminal in its motivation — it is a rational market response to structural FX gaps. But its informality creates real risks for participants, and its scale creates real macroeconomic implications for central banks.

Chapter 9: Capital Flight in the Digital Age

9.1 Defining Capital Flight

Capital flight is the large-scale movement of financial assets out of a country, typically driven by fear of currency depreciation, political instability, punitive taxation, regulatory overreach, or expected capital controls. It is distinct from normal capital outflows — foreign investment or import payments — because it is motivated primarily by risk avoidance rather than economic opportunity.

The consequences of capital flight are severe. As money leaves, the domestic currency depreciates under selling pressure. Foreign exchange reserves decline. The central bank may be forced to raise interest rates to attract capital back, choking domestic investment. Government bond yields rise. The feedback loop between capital flight and macroeconomic deterioration can be vicious and self-accelerating.

9.2 Traditional Capital Flight Channels

Before digital assets, capital flight required significant institutional infrastructure. Common channels included trade misinvoicing: overstating import values to transfer excess foreign exchange to overseas suppliers who then remit back to offshore accounts; under-invoicing exports to leave dollar receipts abroad. Offshore bank accounts in Switzerland, Panama, or Singapore. Property purchases abroad. Hawala networks for those without bank access.

These channels shared important characteristics: they required trusted intermediaries, involved significant friction and cost, and left documentary traces that sophisticated AML enforcement could detect and prosecute. They were not frictionless.

9.3 How Stablecoins Lower the Friction of Capital Flight

Stablecoins have dramatically reduced the friction of capital movement across borders. The flow can now be: convert BDT to USDT through P2P exchange; move USDT to a self-custody wallet or offshore exchange account; the capital has effectively exited the domestic financial system. No correspondent bank, no wire transfer, no documentary evidence of an international transaction in the domestic banking record.

This does not mean the transaction is invisible — blockchain is a permanent public record. But it does mean that domestic regulators, working from bank transaction data alone, cannot see the outflow. The evidence exists but requires blockchain forensics capabilities that most South Asian financial intelligence units are only beginning to develop.

9.4 The Macro Impact on Bangladesh

Bangladesh has faced intermittent FX pressure over the past decade, with the taka depreciating significantly against the dollar. Foreign exchange reserves, which peaked above USD 46 billion in 2021, fell sharply in 2022-2023. While the primary drivers were the global commodity price surge after Russia's Ukraine invasion and post-COVID import recovery, informal capital outflows through crypto channels added incremental pressure.

Quantifying the stablecoin-related capital flight component is methodologically difficult — it requires blockchain analytics capabilities, P2P transaction data, and correlation with domestic FX metrics. Anecdotal evidence from banking sector sources and exchange volume data suggests the phenomenon is real and growing, even if its exact magnitude is uncertain.

9.5 Case Study — Venezuela and Turkey as Cautionary Models

Venezuela and Turkey offer instructive case studies of stablecoin adoption accelerating in the context of currency crises. In Venezuela, following the hyperinflation of the bolivar, citizens adopted USDT as a de facto transactional currency and store of value. Businesses priced goods in USDT. USDT balances became more reliable than bolivar balances. The central bank effectively lost its currency's utility function to a private stablecoin.

Turkey saw similar dynamics as the lira depreciated sharply between 2021 and 2023. Turkish retail crypto adoption surged, primarily in USDT, as citizens sought dollar protection. Turkish crypto exchange volumes spiked precisely during lira depreciation episodes — a clean natural experiment demonstrating the stablecoin's role as a currency hedge.

Bangladesh is not Venezuela or Turkey. Its institutional framework is stronger and its currency, while under pressure, has not entered crisis territory. But the structural preconditions — currency depreciation pressure, capital controls, large informal economy, young tech-savvy population — create the conditions under which the Venezuelan or Turkish pattern could emerge if monetary policy diverges significantly from what is needed.

Key Insight: Digital stablecoins have lowered the friction cost of capital flight to near zero for anyone with a smartphone and a P2P exchange account. This is not primarily a technology problem — it is a monetary policy and institutional credibility problem that technology has made more acute.

Chapter 10: How Regulators Detect Crypto Flows

10.1 The Pseudonymity Misconception

A widespread misconception is that crypto transactions are anonymous and therefore invisible to regulators. This is incorrect. Crypto transactions are pseudonymous: every transaction is permanently recorded on a public blockchain, visible to anyone with an internet connection, including the sender's wallet address, receiver's wallet address, amount, and timestamp. What the blockchain does not directly reveal is the real-world identity behind each wallet address. That is the investigative gap regulators work to close.

10.2 Layer 1: Bank-Level AML Detection

The first detection layer for domestic regulators is the domestic banking system. P2P USDT transactions require fiat settlement — someone pays BDT via bank transfer or mobile money (bKash, Nagad) to buy USDT. Bank AML systems are programmed to detect patterns inconsistent with normal account behaviour: multiple small transfers just below reporting thresholds from many different senders to the same account (a classic structuring pattern); high velocity of incoming and outgoing transfers; a mismatch between the account profile and transaction behaviour.

When banks detect such patterns, they file Suspicious Transaction Reports (STRs) with Bangladesh's Financial Intelligence Unit (BFIU). The STR system is the primary mechanism through which regulators become aware of large-scale P2P operators.

10.3 Layer 2: Exchange KYC and Surveillance

Regulated exchanges like Binance and Coinbase are required by the financial intelligence standards of the jurisdictions they operate in to collect KYC documentation — government ID, proof of address, facial verification — from all users. They also deploy sophisticated transaction monitoring: device fingerprinting to identify accounts operated by the same person, IP geolocation to flag unusual access patterns, behavioural analytics to identify structured trading designed to evade detection, and linked account analysis to identify coordinated networks.

Exchanges can freeze accounts unilaterally on suspicion of AML violations and report to regulators in their home jurisdictions. Under FATF's Travel Rule — which now applies to major exchanges — they must also share sender and receiver information for transactions above certain thresholds.

10.4 Layer 3: Blockchain Analytics

The most powerful tool in the regulatory arsenal is blockchain analytics, offered by specialised firms including Chainalysis, Elliptic, and TRM Labs. These companies have built proprietary databases that map real-world identities to wallet addresses by aggregating KYC data from hundreds of exchanges worldwide, clustering wallet addresses that have transacted together using graph analysis, and labelling wallet clusters by entity type (exchange, mixer, darknet market, government, sanctions target).

When a regulated exchange receives a transfer from an unlabelled wallet, blockchain analytics can often determine, with high probability, the transaction history of that wallet: where the funds originated, what other wallets they have interacted with, and whether any of those wallets are associated with known illicit entities or sanctioned parties.

10.5 Layer 4: International Regulatory Cooperation

For large-scale cross-border flows, domestic regulators cooperate through the Egmont Group of Financial Intelligence Units, bilateral FIU MOUs, and FATF mutual evaluation processes. A Bangladesh STR related to a crypto transaction can trigger a mutual legal assistance request to Singapore, UAE, or the US, leading to exchange account freezes, wallet blacklistings, and potentially prosecution.

Tether and Circle have both demonstrated willingness to blacklist wallet addresses at law enforcement request — blocking all further transactions from those addresses at the protocol level. This programmable compliance capability fundamentally challenges the notion that stablecoins are censorship-resistant.

10.6 Why Retail Users Feel Safe

Given these surveillance capabilities, why do so many retail P2P users feel they operate without detection? The answer is resource allocation. Regulators in South Asian countries have limited capacity for blockchain forensics. They prioritise large-scale operators, sanctions evasion, and identifiable criminal networks over small retail users. A person making a few USDT transactions a month is below any enforcement threshold. But this does not mean the transactions are untraceable — it means they have not yet been traced.

Key Insight: Crypto creates a permanent, public audit trail that is more traceable than cash in the long run. The apparent regulatory gap is a resource and capacity gap, not a permanent structural blind spot. As surveillance technology matures, that gap will narrow.

Chapter 11: CBDC vs Stablecoin — A Structural Comparison

11.1 What Is a Central Bank Digital Currency?

A Central Bank Digital Currency (CBDC) is a digital form of a country's legal tender issued directly by the central bank. It is not a cryptocurrency — it does not require mining, it does not have a fixed supply algorithm, and its value is determined by the same monetary policy mechanisms that determine the value of physical notes. A CBDC is simply the central bank's liability in digital form.

CBDCs can be designed in many ways. Retail CBDCs are accessible directly to individuals and businesses, functioning as digital cash. Wholesale CBDCs are accessible only to financial institutions, used for interbank settlement. The technology architecture can vary: some CBDCs use distributed ledger technology similar to blockchain; others use centralised databases. The technology is secondary to the governance structure.

11.2 The Fundamental Difference

The fundamental difference between a CBDC and a stablecoin is not technical. It is about who owes you the money.

When you hold USDT, you hold a liability of Tether Limited — a private company. If Tether Limited becomes insolvent, your USDT may become worthless. You have no sovereign guarantee, no deposit insurance, no lender of last resort.

When you hold a CBDC — a Digital Taka, a Digital Rupee, a Digital Yuan — you hold a direct liability of the central bank. This is the safest possible form of money in that currency area. The central bank cannot become insolvent in its own currency (it can always print more), and its liabilities are backed by the full taxing and borrowing power of the state.

11.3 Case Study — The Digital Yuan (e-CNY)

China's Digital Currency Electronic Payment system (DCEP or e-CNY) is the world's most advanced retail CBDC deployment. It has been piloted in dozens of cities with tens of millions of transactions processed. The e-CNY operates through a two-tier system: the People's Bank of China issues digital yuan to commercial banks, which then distribute it to customers through existing banking apps.

The e-CNY illustrates both the promise and the concerns surrounding CBDCs. On the positive side, it enables instant, fee-free domestic transfers, gives the central bank real-time visibility into money velocity, and extends financial access to unbanked populations. On the concerning side, it gives the government unprecedented visibility into individual transactions and, theoretically, the

ability to freeze specific wallets, set expiry dates on funds, or restrict spending to certain categories.

11.4 Global CBDC Landscape

As of 2025, over 130 countries are researching or piloting CBDCs. The Bahamas, Jamaica, and Nigeria have launched retail CBDCs. The Eastern Caribbean Currency Union operates a multi-country CBDC. India's Digital Rupee is in controlled pilot. The European Central Bank is in the design phase of the Digital Euro.

Bangladesh Bank has expressed interest in CBDC research but has not committed to a timeline. Given Bangladesh's existing MFS penetration through bKash and Nagad, the urgency for retail CBDC is moderate — the infrastructure gap that CBDCs typically address has already been partially filled by private mobile money.

Dimension	Stablecoin (USDT/USDC)	Retail CBDC (Digital Taka)
Issuer	Private company	Central bank
Liability	Corporate liability	Sovereign liability
Default risk	Issuer insolvency	Effectively zero
Currency	US Dollar denominated	BDT denominated
Cross-border use	Unrestricted globally	Depends on agreements
Monetary sovereignty	Undermines it	Strengthens it
Capital control effect	Circumvents controls	Reinforces controls
Interest bearing	No	Policy choice
Programmability	Yes (smart contracts)	Policy choice

Key Insight: CBDC and stablecoin are not competing payments technologies — they are competing monetary philosophies. Stablecoins represent market-driven dollar access. CBDCs represent state-controlled digital sovereignty. Emerging markets need to navigate both.

Chapter 12: e-Money, Digital Banks, PSPs and CBDC — Where Is the Line?

12.1 A Question of Hierarchy

Bangladesh already has one of the most advanced mobile financial services ecosystems in the developing world. bKash has over 65 million registered accounts. Nagad, launched by Bangladesh Post Office in partnership with a private operator, has become the country's largest mobile money platform by transaction volume. Digital banks are licensed and operating. Multiple payment service providers facilitate merchant payments, utility bills, and government disbursements. If all this digital infrastructure exists, why is CBDC being discussed at all?

The answer requires understanding a fundamental hierarchy in monetary systems that is often invisible to users but deeply consequential to policymakers.

12.2 The Liability Hierarchy

In any modern economy, not all digital money is equal. At the apex sits central bank money: physical notes and, for financial institutions, reserves held at the central bank. This is the safest, most liquid, most absolutely guaranteed form of money. Below it sits commercial bank deposits: liabilities of individual banks, guaranteed up to a limit by deposit insurance schemes, but carrying bank credit risk. Below that sits PSP e-money: digital balances held at payment companies, not a bank deposit, not directly guaranteed by deposit insurance in the same way, carrying the operational and credit risk of the PSP.

When you hold BDT 10,000 in bKash, you hold a claim on bKash (Bangladesh) Limited. That company holds an equivalent pooled balance in a commercial bank. Your risk is the combined credit risk of bKash and its banking partner. This is multiple steps removed from central bank money.

A CBDC would create a new layer: central bank digital money accessible directly to individuals, not mediated through PSPs or commercial banks. Your Digital Taka wallet balance would be a direct claim on Bangladesh Bank — the safest possible claim in the domestic currency.

12.3 Is Blockchain the Only Difference?

No. This is a common misconception. The difference between e-money and CBDC is not about blockchain or any other technology. Both e-money and CBDC can run on centralised databases or distributed ledgers. The difference is about who owes you the money and under what regulatory framework.

bKash balance: private company liability. CBDC: central bank liability. That difference has profound implications for financial stability, monetary policy transmission, and sovereign control over the payments system.

12.4 The Two-Tier CBDC Model and the PSP's Role

Most CBDC design proposals recognise that central banks should not operate retail banking infrastructure directly — they lack the customer relationships, technology platforms, and service delivery capacity. Instead, most modern CBDC designs propose a two-tier model: the central bank issues CBDC to licensed financial intermediaries (banks and PSPs), who distribute it to end users through their existing apps and networks.

Under this model, bKash and Nagad would not be displaced by a CBDC — they would become distribution channels for it. A user's bKash app might show two balance types: their existing e-money balance (a bKash liability) and their CBDC balance (a Bangladesh Bank liability). The PSP earns fees for distribution and value-added services. The central bank gains a direct digital currency instrument without needing to build consumer-facing infrastructure.

12.5 Do We Need Retail CBDC if MFS is Strong?

This is the genuinely difficult policy question for Bangladesh. The standard arguments for retail CBDC — financial inclusion, modernising payments, reducing cash — are weaker in Bangladesh than in most countries, because bKash and Nagad have already made significant progress on all three dimensions.

The stronger arguments for CBDC in Bangladesh are defensive: protection against digital dollarisation through USDT, maintaining central bank relevance in an increasingly digital payment landscape, and creating a foundation for future interoperability with other countries' CBDCs for cross-border settlement. These are medium-to-long-term strategic arguments rather than immediate operational needs.

Key Insight: The difference between e-money and CBDC is not technology — it is liability structure and sovereign backing. Bangladesh's strong MFS ecosystem reduces the urgency for retail CBDC, but the strategic case for CBDC as a monetary sovereignty tool remains compelling in a world of growing stablecoin adoption.

Chapter 13: Can CBDC Stop Hawala?

13.1 Understanding Hawala

Hawala is a centuries-old informal value transfer system originating in South Asia and the Middle East. Its operation is elegantly simple. A sender in Dubai contacts a hawala broker (hawaladar) and hands over AED 1,000 with a code. The broker calls a partner hawaladar in Dhaka, who pays BDT equivalent to the recipient when they present the code. No money physically crosses the border. The two hawaladars settle their mutual debt periodically through trade goods, gold, or formal banking transfers disguised as trade payments.

Hawala persists because it is genuinely better than formal alternatives for many transactions: faster (same-day settlement versus one to three days), cheaper (commission typically 1-2% versus 3-7%), and more accessible (operates in remote areas without banking infrastructure). It is not used primarily by criminals — the overwhelming majority of hawala volume represents legitimate remittance from migrant workers to their families.

13.2 Why Technology Alone Cannot Kill Hawala

The history of anti-hawala policy is largely a history of failure. Bangladesh Bank, the State Bank of Pakistan, and the Reserve Bank of India have all implemented mandatory remittance reporting, bank account monitoring, and at various points, criminal penalties for hawala operators. The effect on volumes has been modest. Hawala persists because the demand it serves — cheap, fast, accessible cross-border money transfer — is not being met by the formal system.

A CBDC cannot change this fundamentally. A Digital Taka is a BDT instrument. It can improve domestic payments efficiency and reduce the role of cash in Bangladesh. But the hawaladars' advantage is in the cross-border corridor — the ability to settle between Dubai and Dhaka quickly and cheaply. A Digital Taka, without cross-border integration with a UAE digital currency, does not compete on the same corridor.

13.3 What Would Actually Reduce Hawala

The evidence from countries that have successfully reduced hawala volumes — such as the Philippines' domestic remittance corridor improvements, and India's UPI-based formalisation of domestic transfers — suggests five conditions are necessary: competitive official remittance cost at parity with or below hawala rates; real-time settlement in both sending and receiving currencies; good FX rates that reflect actual market conditions rather than administered rates; simple, frictionless customer experience requiring no more steps than hawala; and trust in monetary stability so there is no incentive to hold foreign currency.

Technology is a means to these ends, not an end in itself. A CBDC that achieves real-time settlement and good FX conversion will reduce hawala on the corridors it covers. One that does not will not.

13.4 The Role of Regulated Stablecoin Corridors

An alternative path to hawala reduction that does not require CBDC infrastructure — which requires bilateral central bank cooperation and years of development — is a regulated stablecoin settlement corridor. Licensed payment institutions in Bangladesh could be authorised to use USDC as a backend settlement rail for cross-border transactions, with mandatory BDT conversion at the receiving end.

Under this model, the user in Dubai sends money via a licensed app. The app converts AED to USDC. USDC settles instantaneously to the Bangladesh licensed entity. The Bangladesh entity converts USDC to BDT and credits the recipient's bKash or bank account within minutes. The user never touches crypto — they just experience a fast, cheap transfer. This model is operational in several corridors worldwide and could be piloted in the UAE-Bangladesh corridor relatively quickly under the right regulatory framework.

Approach	Hawala Reduction Potential	Implementation Complexity	Timeline
CBDC (domestic only)	Low — doesn't address cross-border	Medium	3-7 years
CBDC cross-border links	High — if corridor integration achieved	Very High	7-10 years
Regulated stablecoin corridors	High — if pricing is competitive	Medium	1-3 years
Improved formal remittance (SWIFT/MFS)	Medium — incremental improvement	Low	Ongoing

Key Insight: Technology does not eliminate hawala. Competitive pricing and frictionless user experience do. CBDC and stablecoin corridors are tools to achieve this — but only if they make formal remittance genuinely cheaper and faster than the informal alternative.

Chapter 14: What Bangladesh Should Prioritise

14.1 The Strategic Context

Bangladesh enters this decade with a distinctive fintech landscape. It has strong domestic digital payments infrastructure, with over 200 million MFS accounts across bKash and Nagad, a growing digital banking sector, and an interoperability framework under development. Remittances, which exceeded USD 21 billion in fiscal year 2023, are the second-largest source of foreign exchange after exports. The FX reserve position has faced pressure. Crypto is officially restricted but informally widespread.

The question for Bangladesh is not whether digital currencies and stablecoins will affect its economy — they already are. The question is how to position the country to capture the benefits while managing the risks, across a realistic timeframe.

14.2 The Core Objectives

Bangladesh's monetary and financial policy has four core objectives that should guide its digital currency strategy. First, protect FX reserves and prevent excessive capital outflow. Second, increase formal remittance inflows and reduce the remittance cost burden on workers. Third, strengthen AML/CTF compliance and reduce the informal economy's share of financial flows. Fourth, modernise the payments infrastructure without creating new systemic vulnerabilities or undermining monetary policy effectiveness.

14.3 A Two-Track Strategy

Meeting these objectives simultaneously requires a two-track approach rather than a single bet on either CBDC or stablecoin regulation.

Track A is CBDC for domestic monetary control and efficiency. Bangladesh should develop a wholesale CBDC — a digital settlement instrument for interbank and government payments — as its primary CBDC focus in the near term. This strengthens the settlement infrastructure that underpins all digital payments, creates a foundation for future cross-border CBDC links, and improves monetary policy transmission without the risks of retail dollarisation. Retail CBDC should be explored but is not urgent given existing MFS penetration.

Track B is regulated stablecoin corridors for cross-border remittance. Bangladesh should establish a regulatory sandbox permitting licensed payment service providers to use regulated stablecoins (specifically USDC, given its reserve quality and US regulatory oversight) as backend settlement rails for inward remittance. The user experience should be entirely in BDT — conversion must happen at the institutional level, with no retail dollar holding permitted. This

makes formal remittance competitive with hawala on cost and speed, without creating retail dollarisation risk.

14.4 What Bangladesh Should Avoid

Two paths carry unacceptable risk. The first is permitting retail USDT wallets — allowing citizens to hold USDT balances domestically. This would accelerate informal dollarisation, increase capital flight pressure, weaken BDT credibility, and create a large population with a personal financial interest in continued stablecoin adoption against which any future regulatory action becomes politically difficult. The second is a pure ban-and-restrict approach without providing competitive alternatives. The evidence from Pakistan, where crypto restrictions have been tightened repeatedly without reducing P2P volumes, is clear: banning the tool without addressing the demand only drives the activity underground, reducing visibility and increasing AML risk.

14.5 The Phased Roadmap

Phase One, covering years one and two, focuses on the remittance sandbox. Bangladesh Bank authorises a small number of licensed PSPs to pilot USDC-based inward remittance settlement on the UAE-Bangladesh corridor. Hard caps on transaction volumes and values apply. Full KYC, mandatory BDT conversion, and transaction reporting are requirements. Volume and price data are monitored to assess impact on hawala rates and official remittance costs.

Phase Two, covering years two through four, involves CBDC domestic pilots. Bangladesh Bank develops and tests a wholesale CBDC for interbank settlement. A controlled retail CBDC pilot is run in partnership with bKash and Nagad. The Digital Taka is positioned as a complement to, not a replacement for, PSP e-money.

Phase Three, from year four onwards, involves optional cross-border CBDC links. If the UAE, Saudi Arabia, or other major corridor countries develop compatible CBDC infrastructure, Bangladesh explores interoperability agreements. Otherwise, the regulated stablecoin corridor from Phase One is maintained and expanded.

14.6 Case Study — How Singapore and UAE Did It

Singapore's Monetary Authority (MAS) offers a model for navigating digital currency innovation without sacrificing monetary stability. MAS established the world's first comprehensive crypto regulatory framework, licensed exchanges and stablecoin issuers under clear capital and reserve requirements, and participated in multiple central bank blockchain pilots including Project Dunbar for cross-border CBDC settlement. Singapore did not ban crypto — it regulated it, captured the economic activity and talent, and maintained monetary control throughout.

The UAE, particularly Dubai and Abu Dhabi, has taken an even more aggressive approach, establishing the Virtual Asset Regulatory Authority (VARA) as a world-first dedicated crypto regulator, and licensing major exchanges and stablecoin operations. The UAE's motivation is partly to capture crypto-driven economic activity and partly to position its dirham-pegged stablecoins for influence in the regional financial system.

Bangladesh cannot replicate Singapore or UAE's approach wholesale – its institutional capacity, regulatory history, and macroeconomic vulnerabilities differ. But the underlying logic is applicable: regulate with clear rules, require reserve transparency and AML compliance from licensed operators, protect retail users from unregulated exposure, and build the capacity to monitor and enforce.

Key Insight: Bangladesh's optimal strategy is a two-track approach – CBDC for domestic monetary sovereignty, regulated stablecoin corridors for competitive remittance. The goal is not to eliminate stablecoins but to channel their use toward nationally beneficial purposes under transparent oversight.

Chapter 15: The Future of Monetary Power

15.1 Three Forces Reshaping Money

The monetary landscape of the coming decade will be shaped by three intersecting forces: central banks asserting digital sovereignty through CBDCs; private companies expanding dollar influence through regulated stablecoins; and decentralised protocols challenging both through permissionless crypto networks. The outcome will not be the triumph of any one model but an uneasy coexistence that varies by corridor, use case, and regulatory jurisdiction.

15.2 Dollar Hegemony in the Digital Age

Stablecoins may seem like a challenge to dollar hegemony, but they are more accurately understood as its digital extension. The dominant stablecoins — USDT and USDC — are dollar-denominated. When a Nigerian, Pakistani, or Bangladeshi user adopts USDT as their preferred digital money, they are not escaping dollar dominance — they are deepening it, voluntarily, in preference to their own currency. The US Treasury and Federal Reserve, by maintaining the institutional credibility of the dollar, are the ultimate beneficiaries of every USDT transaction settled globally.

The US Stablecoin GENIUS Act and other regulatory proposals under consideration as of 2025 would create a federal licensing framework for stablecoin issuers, requiring reserve quality, consumer protection, and AML compliance. This would essentially institutionalise USDT-style instruments as a regulated extension of the US monetary system — preserving dollar dominance while eliminating the transparency risks that have historically characterised Tether.

15.3 The BRICS Challenge and Digital Currency Multipolarity

The BRICS nations — Brazil, Russia, India, China, South Africa, and their expanding membership including several Middle Eastern and African countries — have discussed the creation of a BRICS payment system or digital currency to reduce dependence on dollar-denominated settlement. Russia's exclusion from SWIFT following its invasion of Ukraine created strong motivation for such alternatives.

China's e-CNY, if internationalised through bilateral agreements, could create a credible non-dollar digital settlement layer, particularly within the Belt and Road corridors. This is the context in which Bangladesh — geographically between India and China, deeply integrated into both — must consider its digital currency strategy. Aligning too closely with either dollar stablecoin infrastructure or Chinese CBDC infrastructure carries geopolitical implications.

15.4 The Programmable Money Frontier

The most profound long-term implication of digital currencies is programmability. Physical cash and current commercial bank money are inert — a dollar is a dollar, usable for anything, by anyone. Programmable digital money can carry instructions: it can expire if not spent by a certain date, be restricted to specific merchant categories, be frozen automatically when a regulatory flag is triggered, or be released conditionally when a contract condition is met on-chain.

Central banks are exploring this power cautiously. Programmable conditional payments could improve social welfare transfer efficiency, reduce subsidy leakage, and enable faster execution of monetary policy. But they also create instruments of financial control that, in authoritarian hands, could be used for population surveillance and political coercion. The governance design of CBDCs will determine whether they become tools of inclusion or tools of control.

15.5 What Emerging Markets Must Do

For Bangladesh and South Asia, the strategic imperative is clear: build the capacity to participate in the digital monetary system on your own terms, rather than being a passive recipient of others' designs. This means investing in financial intelligence and blockchain forensics capabilities. It means developing a clear, permissive-but-regulated framework for crypto and stablecoins that provides certainty to legitimate businesses while protecting consumers. It means engaging seriously with CBDC design, not as a box-checking exercise but as a genuine investment in monetary infrastructure. And it means participating actively in international forums — BIS, IMF, FATF — where the standards that will govern this space are being written.

Countries that move early and thoughtfully will shape the rules. Countries that move late will live under rules shaped by others.

Key Insight: The future of money is digital, programmable, and contested. For emerging markets, the question is not whether to engage with digital currencies but how to do so in a way that preserves monetary sovereignty, captures efficiency gains, and protects citizens from the risks of unregulated private money.

Closing Reflection

This book began with a question: what is USDT, and why does it matter for Bangladesh?

The answer required tracing a line from Bretton Woods to Bitcoin, from the Nixon Shock to the Terra collapse, from Dhaka's informal USDT markets to Dubai's regulated crypto exchanges, and from Bangladesh Bank's FX reserve pressures to the IMF's CBDC policy guidance.

The through-line of that journey is trust. Every monetary system — gold standard, fiat currency, stablecoin, CBDC — is ultimately a trust architecture. Its resilience depends not on the technology platform it runs on but on the quality of the institutions, reserves, governance mechanisms, and human behaviour that maintain it. When trust breaks, peg breaks. When institutions weaken, currencies depreciate. When formal systems fail to serve people's needs, informal alternatives emerge.

For fintech professionals, policymakers, and students in Bangladesh and South Asia, this is the fundamental insight to carry forward. The digital currency transition is not a technical event — it is a monetary and political event with profound implications for financial inclusion, capital mobility, monetary sovereignty, and geopolitical alignment.

The decisions made in the next five to ten years — on stablecoin regulation, CBDC design, remittance infrastructure, and AML frameworks — will shape the financial architecture of South Asia for decades. Making those decisions well requires exactly the kind of foundational understanding this book has attempted to build.

Stablecoins are not just crypto. They are digital correspondent banking. CBDCs are not just apps. They are digital sovereignty tools. The key question for emerging markets is not: Should we allow crypto? It is: How do we modernise without losing control?

— End of Book —

ABOUT THIS BOOK

The financial world is undergoing its most fundamental transformation since the abandonment of the gold standard in 1971. Stablecoins, blockchain networks, and central bank digital currencies are reshaping how money moves across borders, how capital evades controls, and how monetary sovereignty is contested.

This book traces that transformation from Bretton Woods to Bitcoin, from Dhaka's informal USDT markets to Dubai's regulated exchanges — and asks what Bangladesh and South Asia must do to modernise without losing monetary control.

WHAT YOU WILL LEARN

- How USDT & USDC work — and what backs them
- Why stablecoins dominate South Asian P2P markets
- How blockchain enables instant cross-border settlement
- The mechanics of capital flight via crypto channels
- How regulators detect and trace crypto flows
- CBDC vs stablecoin — the structural difference
- Why e-money (bKash/Nagad) is not the same as CBDC
- Bangladesh's optimal two-track digital currency strategy

ABOUT THE AUTHOR

Sirajus Salekin

Fintech strategy professional with experience across Bangladesh and South Asia, including roles at Nagad and DigiPay Nepal. Focused on digital payments, mobile financial services, and emerging market monetary policy.