

# Digital Currencies and their Future Role in Cross-Border Trade

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**Abstract:** *The international trade landscape is undergoing a fundamental shift as digital currencies—comprising Central Bank Digital Currencies (CBDCs), stablecoins, and decentralized cryptocurrencies—emerge as viable alternatives to the traditional "correspondent banking model." This paper examines how these digital assets address existing inefficiencies in cross-border payments, such as high costs, slow transaction speeds, and a lack of transparency (Sigurðsson et al., 2023). Through an analysis of current trends in 2024–2026, including the rise of multi-CBDC (mCBDC) arrangements and tokenized assets, this research highlights the potential for digital currencies to reshape global monetary systems while addressing significant regulatory, security, and privacy hurdles.*

**Keywords:** *Central Bank Digital Currencies.*

## I. INTRODUCTION

Cross-border payments are the backbone of global commerce, facilitating over \$140 trillion in annual transfers—a figure exceeding 150% of global GDP (University of Michigan Law School, 2026). However, the current system relies on an antiquated framework of pairwise banking relationships that often leads to fragmented and opaque transaction chains. Digital currencies, powered by distributed ledger technology (DLT), offer a decentralized or state-managed alternative capable of streamlining these flows (Ren, 2024).

## II. THE EVOLUTION OF DIGITAL CURRENCIES IN TRADE

Digital currencies are no longer limited to speculative assets; they are increasingly integrated into formal financial services (Frontiers, 2026).

- **Central Bank Digital Currencies (CBDCs):** Over 90% of central banks are now exploring CBDCs, with wholesale CBDCs (wCBDCs) leading the way for interbank and large-scale commercial settlements (Bank for International Settlements, 2025).
- **Stablecoins:** Often pegged to fiat currencies like the USD, stablecoins provide the liquidity and stability necessary for commercial transactions without the volatility typical of early cryptocurrencies.
- **Interoperability:** The future of trade relies on multi-CBDC (mCBDC) arrangements, where different national digital currencies interoperate directly to bypass traditional intermediaries (Bank for International Settlements, 2021).

## III. IMPACT ON TRADE EFFICIENCY AND COSTS

The integration of digital currencies into international trade offers several transformative benefits:

| Benefit             | Description  |
|---------------------|--|
| Cost Reduction      | Eliminates intermediary fees and reduces the "exchange production" costs for enterprises (Ren, 2024).                                      |
| Speed               | Moves away from "relay-baton" passing in correspondent banking to near-instantaneous settlement (University of Michigan Law School, 2026). |
| Financial Inclusion | Lowers entry barriers for Small and Medium Enterprises (SMEs) in developing economies (Alqarni, 2024; Ogunmola et al., 2024).              |



|              |  |
|--------------|--|
| Transparency | Blockchain provides a "trustless" environment where transactions are traceable and immutable (Kellaf, 2024). |
|--------------|--|

#### IV. CHALLENGES AND REGULATORY HURDLES

Despite their potential, widespread adoption faces critical obstacles:

- Monetary Sovereignty: Decentralized peer-to-peer (P2P) transactions can undermine a state's ability to control monetary policy and manage inflation (Taylor & Francis, 2026).
- Regulatory Fragmentation: Approximately 55% of industry stakeholders cite the lack of a harmonized international regulatory framework as a primary barrier to adoption (Alqarni, 2024).
- Privacy Concerns: Retail CBDCs, in particular, raise alarms regarding the extent of government surveillance over individual financial data (Taylor & Francis, 2025).
- Financial Stability: Foreign CBDCs acting as "safe assets" could lead to domestic disintermediation and volatile capital flows in smaller economies (IMF, 2022).

#### V. FUTURE OUTLOOK (2026 AND BEYOND)

The financial landscape is pivoting toward asset tokenization. Financial institutions are now developing "permissioned" blockchain systems that combine the programmability of digital assets with the compliance requirements of traditional finance (Frontiers, 2026). This hybrid approach—combining CBDCs for settlement and tokenized bonds or equities—is expected to define the next decade of cross-border trade (Taylor & Francis, 2026).

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