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The new BRICS development bank will keep foreign exchange reserves of countries that do not trust the West

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Abstract

Only in recent years Western countries have frozen foreign exchange reserves of Libya (2011), Iran (2012), Venezuela (2019), Afghanistan (2021), and Russia (2022). Other countries could be also targeted under many different pretexts - from violations of human rights and lack of democracy to insufficient support of sanctions against Russia and other countries. Where to store foreign exchange reserves now, if not in dollars and euros? Only in yuan and gold? Yes, but there is another option as well.

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The new international Bank of the Global South, and in the future – of the whole world, created from scratch or on the basis of the BRICS New Development Bank or the Asian Infrastructure Investment Bank with the possible participation of the World Bank, and all other financial institutions that wish to participate, will issue its bonds. These would be sold to all countries, but most importantly to member countries, mainly developing countries, and especially those whose assets have been frozen or may be frozen so that they can store their foreign exchange reserves in these bonds. The Bank will invest the proceeds from the sale of these bonds not only into the securities of the BRICS countries and other countries of the global South, but also in the traditional financial instruments for storing foreign exchange reserves - US and EU treasury bills and bonds denominated in the same dollars and euros. The US and EU will not risk freezing these assets of the Bank, as this would mean a major conflict with all the BRICS countries and the global South.

For the US and the EU, this option is not only acceptable, but also desirable: the new Bank will transfer the current direct holding of Western securities by developing countries into the holdings of the same Western financial instruments through an intermediary – the Bank would play this role of the intermediary. Otherwise, the process of transferring international foreign exchange reserves into yuan financial instruments and gold will cause a significant drop in the prices of American and European financial assets, which is fraught with a financial crisis that no one needs.

Later, together with a new international organization, whose members will agree to refrain from unilateral sanctions, the Bank will be able to begin building a new world economic order that promotes the development of the countries of the global South and their transformation into developed ones.

The list of countries in the global South against which the United States and other Western countries have imposed and are imposing sanctions is expanding all the time - the United States, the EU, and other Western countries have imposed sanctions against almost three dozen countries, most of them against Russia (more than 5000), Iran (more than 3000), Syria and North Korea (more than 2000 against each), Venezuela, Myanmar, Cuba (several hundred against each). Other countries not yet subject to Western sanctions are under constant threat as well – any time they can be accused of violating democracy and human rights and/or of helping sanctioned countries circumvent these sanctions.

So, what is needed today (and in fact was needed yesterday) is the new international organization whose members will commit themselves not to impose sanctions and embargoes unilaterally and not to freeze each other's assets. Such actions would be possible only by decision of the council of this organization, adopted by a qualified majority of votes.

This is the first step. It will pave the way for long overdue reforms to democratize all international economic relations in order to reduce the gap in the levels of economic development between developed and developing countries. To name a few areas, these are the rules of international trade and industrial policy, accumulation of foreign exchange reserves, and the regulation of exchange rates, transfer of technology and intellectual property rights, foreign direct investment, the accumulation of debt, the movement of capital, creation of funds for stabilizing prices of raw materials and energy, and international migration flows, development assistance, resource use and pollutant emissions (Montes and Popov, 2001; Polterovich and Popov, 2006; Popov and Dutkiewicz, 2017).

But the first step is the creation of the Bank of the Global South and a new international economic organization, ready to build a world economy without unilateral sanctions and freezes of assets.

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