US dollar is losing it position of a reserve currency: How the BRICS development bank can ensure the soft landing

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ABSTRACT

The current process of moving away from the US dollar as a reserve currency will cause the outflow of capital from the US, leading to the depreciation of the dollar and/or increase in the interest rates that will cause costly real restructuring – reallocation of resources from less competitive to more competitive export-oriented industries accompanied by an increase in unemployment. This paper makes parallels with the decline of the British pound after the Second World War, arguing that the loss of competitiveness and the stop-go policies in Britain in the 1950s-70s can well be an indicator of what is going to happen in the US.

One of the new features of the current situation, however, is the freezing of reserve assets of many developing countries (Syria, Libya, Iran, Venezuela, Afghanistan, Russia) and the danger of freezing assets of other countries (China and Saudi Arabia included) – this can make the run away from the US dollar an uncontrolled process. Whereas in the long term this process may be beneficial for the US and the world economy, short- and medium- term adjustment costs can be extremely high. To ensure a soft landing the New Development Bank of BRICS countries can issue bonds that would be sold to developing countries, whose assets have been frozen or may be frozen by the West, so that they can store their foreign exchange reserves in these bonds. The Bank will invest the proceeds from the sale of these bonds in the traditional financial instruments for storing foreign exchange reserves - US and EU treasury bills and bonds denominated in the same dollars and euros. Bonds of the Bank would be considered safe because the US and EU will not risk freezing the assets of the Bank, as this would mean a major conflict with all BRICS countries and the Global South.

For the Western countries, 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 the Bank, ensuring the soft landing.

Keywords: Pound and dollar as reserve currencies, outflow of capital, accumulation of foreign exchange reserves (FOREX), BRICS, New Development Bank

JEL: F31, F32, F33, F63, N14, O19.

US dollar is losing it position of a reserve currency: How new BRICS development bank can ensure the soft landing

Vladimir Popov[1]

As recently as 1940 nearly 70% of the world foreign exchange reserves (FOREX), excluding gold, were kept in British pound and only less than 30% in the US dollars. By 1960 the share of pound denominated FOREX fell to 35% and by 1980 – to only 2% (fig. 1). The position of the British pound was taken by the US dollar and, after the collapse of the Bretton Woods currency system in 1971, – also by other European currencies and Japanese yen.

The same process today is unfolding with regards to the US dollar. From the peak of 85% of total world FOREX in 1970-75, the share of dollar reserves has fallen to 47% in 1990, then increased temporarily to 71% in 2000 before falling again to 58% in 2022.

There is no straightforward correlation between the share of the of the particular country in the world economy and the share of is currency in total reserves. The share of Chinese yuan in total world FOREX today is still below 3%, even though the share of China in gross world product (PPP) is close to 20%. Together with the size of the country, other factors, such as inertia (measured by lagged currency shares), policy credibility (measured by inflation and currency depreciation), international arrangements (Bretton Woods system existence and collapse) play an important role and get significant coefficients in the regressions (Eichengreen, 2017). But the experience with the British pound shows that the de-crowning of the major reserve currency can occur very quickly, if the conditions are ripe (whatever these conditions are). The story of the British pound decline could provide some important insights into the into the currently unfolding process of the decline of the dollar.

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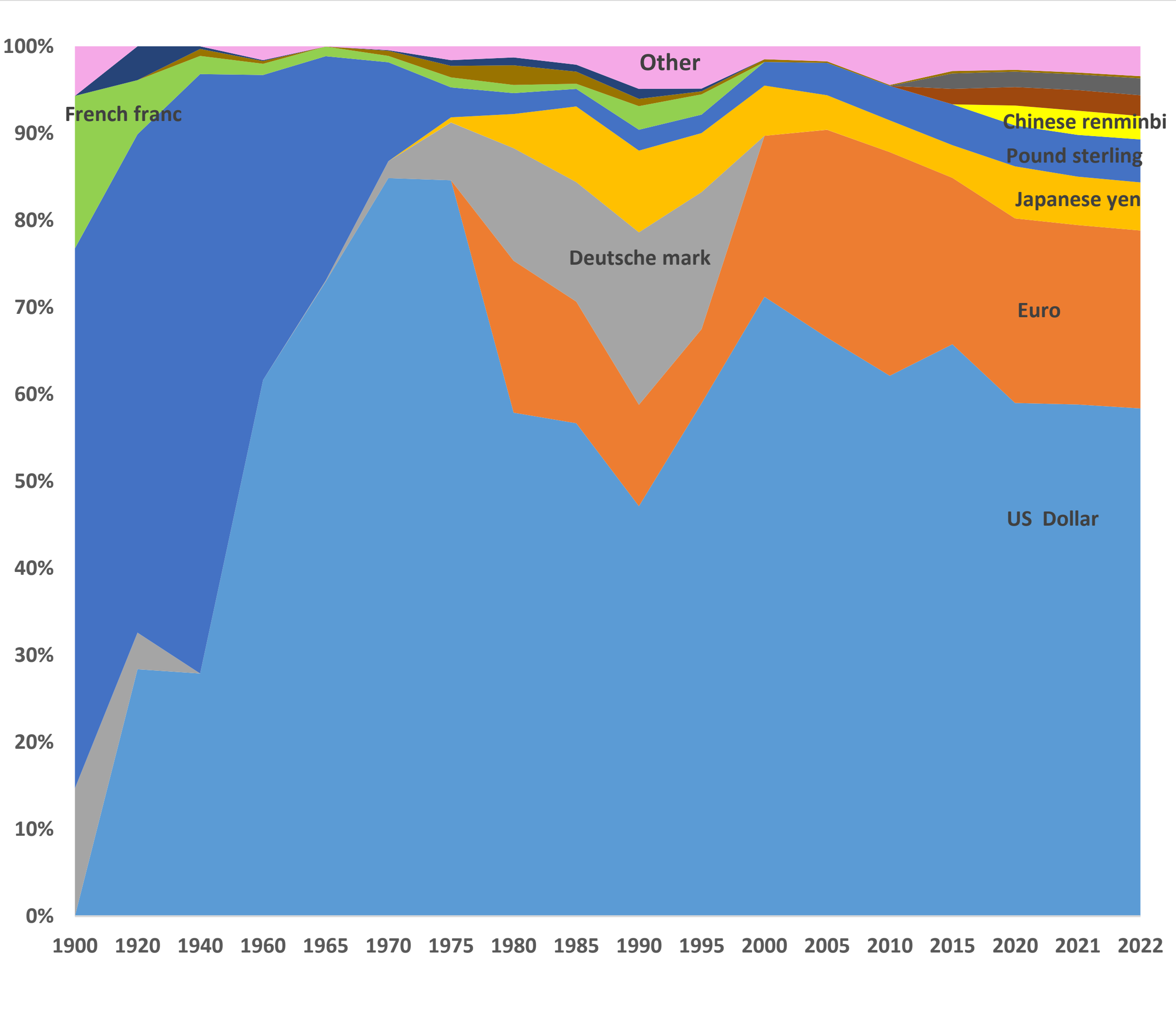
Fig. 1. Share of different currencies in the world FOREX in 1900-2022, %



*In 1975-99 data for euro are for European Currency Unit – unit of account used by the European Economic Community and composed of a basket of member currencies; replaced by euro in 1999.
Source: Eagle, James (2021); IMF (2023).

British disease – stop-go policies

If there is a negative terms of trade or financial shock leading to the deterioration in the balance of payments, there are two basic options for a country that has limited foreign exchange reserves. First, a country can maintain a fixed exchange rate (or even a currency board) and wait until the reduction of foreign exchange reserves leads to the reduction of money supply: this will drive domestic prices down and stimulate exports, raise interest rates and stimulate the inflow of capital, and finally will improve the balance of payments (so called internal devaluation). Second, the country can allow the devaluation of national currency – falling exchange rate will automatically bring the balance of payments back into the equilibrium by making exports more profitable and imports more expensive and by attracting the inflow of capital to buy less expensive in foreign currencies national assets. Because national prices are less flexible than exchange rates, the first type of adjustment (internal devaluation) is associated with the greater reduction of output.

The empirical evidence on East European countries and other transition economies for 1998-99 period (outflow of capital after the 1997 Asian and 1998 Russian currency crises and slowdown of output growth rates) suggests that the second type of policy response (devaluation) was associated with smaller loss of output than the first type (monetary contraction). The collapse of the Argentinian currency board in 2001 and later – the outflow of capital during the Great Recession of 2008-09 from East European countries provided additional evidence for this pattern (Popov, 2011; 2012).

In late 2008 Latvia, a small Baltic state (former Soviet republic) with less than 2.5 million people, a member of the EU since 2004, like many other developing and transition economies, faced the outflow of capital. Unlike many other countries, however, Latvia had a de facto (although not formal) currency board arrangement (its currency was pegged to the SDR since 1994 and to euro since 2004) and a huge current account deficit – over 20% of GDP in 2006-07 – financed by the inflow of capital.

The slowdown of the capital inflows in 2008 led to the reduction of foreign exchange reserves from $6.6 billion in May to $3.4 billion in November; money supply contracted by over 10% in 2008, GDP growth rates fell from 11-12% in 2006-07 to -10% in the fourth quarter 2008, unemployment grew. On Dec. 15, 2008 Paul Krugman in an Op-Ed in New York Times compared Latvia to Argentina and later made a strong argument for the devaluation. “This looks like events repeating themselves, – he wrote, – the first time as tragedy, the second time as another tragedy”.[2]

More recently, since 2012, the problem was discussed with respect to *Grexit* – possible exit of Greece from the Eurozone due to the outflow of capital. The arguments at that time were similar – if Greece would have its own currency instead of euro, devaluation would be possible, and this

[2] Krugman, P. “Latvia is the new Argentina (slightly wonkish)”. NYT, December 23, 2008 (http://krugman.blogs.nytimes.com/2008/12/23/latvia-is-the-new-argentina-slightly-wonkish/). It was G.F.W. Hegel who argued that history repeats itself twice, whereas Karl Marx added: “the first time as tragedy, the second time as farce.” (“Hegel remarks somewhere that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce.” Marx, K. 18th Brumaire of Louis Bonapatre, Chapter 1).

option would be less painful in terms of output reduction than the internal devaluation – reduction of prices and wages to the point of making Greek economy competitive again.

The debates about stop-go policies in Britain in the 1950s-60s in many ways preceded these discussions and were no less instructive. These stop-go policies were initiated under the conservative British prime minister Harrold MacMillan (1957–63), but continued into the 1960s under labor prime minister Harrold Wilson. Other factors notwithstanding, the mere shift of foreign countries from pounds into dollars via sales of British short-term securities and purchases of dollar denominated securities meant that there was an outflow of capital from Britain[3]. Faced with the balance of payments deterioration the Bank of England was supposed to allow devaluation of the pound and/or to "press the breaks" – tighten monetary policy to reduce or at least to slowdown the growth of prices/wages. "Stop regime" was associated with the real restructuring because prices and wages were rigid, so the adjustment was occurring not only through relative prices, but through real economy as well.

In a paper that generated quite a bit of discussion A.P. Thirlwall (1979) argued that growth can be demand constrained by the balance of payments because it is output, not relative prices, that adjusts the balance of payments, contrary to the neoclassical orthodoxy. "If a country gets into balance of payments difficulties as it expands demand, before the short term capacity growth rate is reached, then demand must be curtailed; supply is never fully utilised; investment is discouraged; technological progress is slowed down; and a country's goods compared to foreign goods become less desirable so worsening the balance of payments still further, and so on. A vicious circle is started" (Thirlwall, 1979).

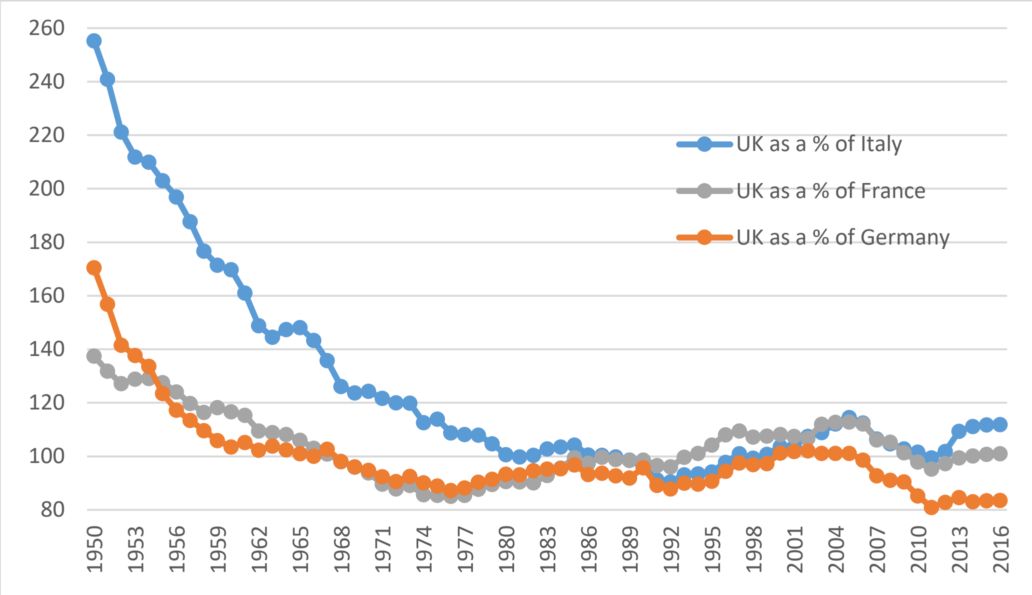
The approach was inspired by the British experience with the stop-go policies in 1951-73 associated with balance-of-payments crisis. As output grew, current account deteriorated because import was increasing rapidly, whereas export was growing at a constant rate determined by world demand (Thirlwall, 1979; McCombie, 2013).

Even though the period of the 1950s-60s is sometimes called the British Economic Golden Age (1951 to 1973) because unemployment was low (only 2% most of the period) and Britain enjoined

[3] Britain also tried to use political pressure over its former colonies to make sure they do not get rid of the pound assets right away. It negotiated Sterling Agreements with official sterling holders in 1968. These agreements limited the pace of diversification in return for a US dollar exchange rate guarantee (Singleton, Schenk, 2015).

the fastest growth rates in its economic history, the UK was in fact falling behind continental Europe in terms of productivity and per capita income (Crafts, 2018; fig. 2).

Fig. 2. UK PPP GDP per capita as a % of Germany, France and Italy



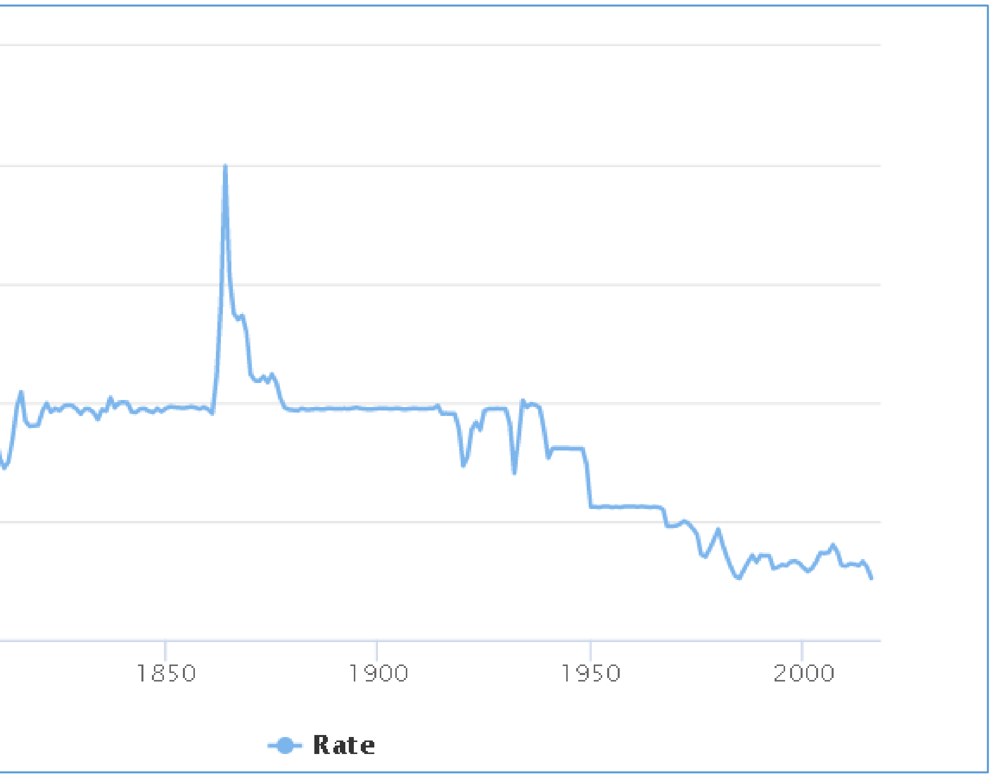
Source: Popov, 2022.

The restructuring problem was postponed because of the devaluation – in the 1950s and 1960s Britain coped with the outflow of capital mainly through the devaluation of the pound (from 5 to 2.5 per dollar – fig.3), so the current account was roughly in balance (fig. 4). The price to pay, however, was the slower than elsewhere growth of productivity and growing backlog of low competitive industries.

In a sense, the price of preserving high employment was the lack of restructuring due to protectionism and the lack of integration with the European Communities (EC). British industry was oriented more towards the former colonies (British Commonwealth), where quality and the competitiveness standards were lower than in the world market.

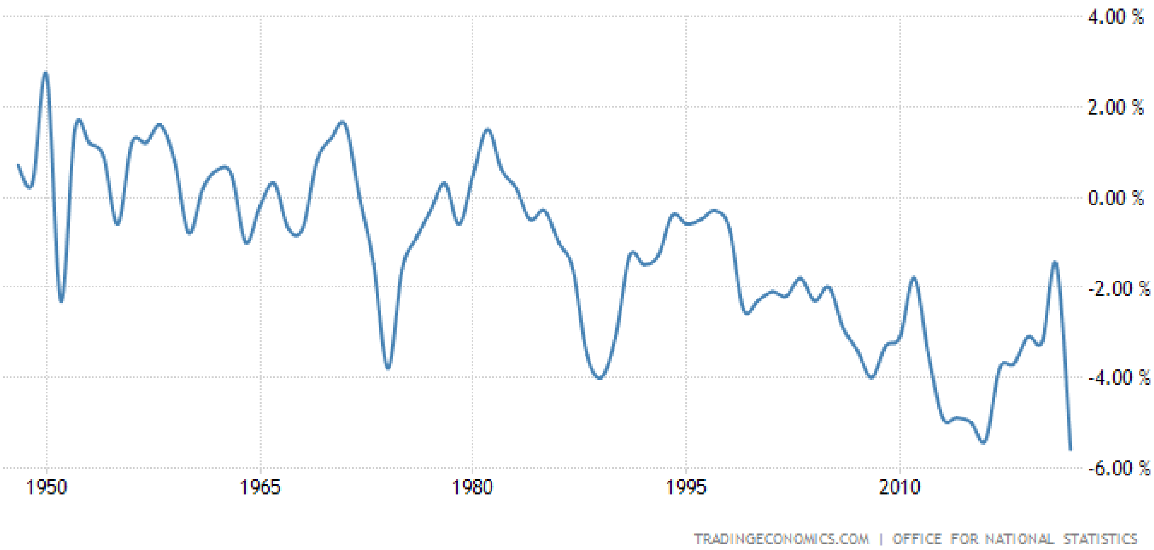
After Britain entered the EC in 1973 and abolished trade barriers with EC by mid-1977, restructuring started in earnest. The Thatcher government came to power in 1979 and abandoned stop-go policies, pressing the breaks decisively. Unemployment rate shot up from 4% in 1971-74 to 12% in 1984, and stayed in the 1980s at a higher level than in the US, whereas in the 1950-60s it was generally lower than in the US. After the pound hit the low of $1.05 in 1985, depreciation stopped (fig. 2), and the adjustment was carried out via real restructuring and the accumulation of the debt. The decline of the UK per capita income as compared to the continental Europe has also stopped in the 1980s, but there was no return to the past superiority (fig. 2).

Fig. 3. Exchange rate of the British pound in the US dollars since 1800



Source: Housten, 2023.

Fig. 4. UK current account balance as a % of GDP since 1950



Source: Trading economics. [Https://tradingeconomics.com/united-kingdom/current-account-to-gdp](https://tradingeconomics.com/united-kingdom/current-account-to-gdp)

Today, in the case of the US dollar, there are at least two major differences with the UK story. First, Britain was still a net creditor in the 1980s – its international investment position was still positive, so it was able to attract capital from abroad in other forms to cushion the outflow of funds from the short-term financial instruments in which foreign countries kept their FOREX. Even today British net international debt is only 26% of GDP, whereas in the US it is already nearly 80% – more than in any other G20 country (table 1).

Table 1. Net international investment position (NIIP) of G20 countries as a % of GDP

Countries	Date	NIIP (%GDP)
Argentina	2019	26.3
Australia	2021	−41.1
Brazil	2019	−39.6
Canada	2021	58.7
People's Republic of China	2021	12.9
France	2021Q1	−32.7
Germany	2021Q1	78.4
India	March 2020	−14
Indonesia	2019	−30.4
Italy	2021Q4	7.4
Japan	2021	62.8
Mexico	2019	−51.4
Russia	2021	26.8
Saudi Arabia	2021	73.0
South Africa	2021	29.5
South Korea	2021	26.4
Spain	2023Q1	−60.7
Turkey	2021	−35.3
United Kingdom	2021	−25.7
United States	2022Q4	−79.8

Source: Net international investment position. Wikipedia. Https://en.wikipedia.org/wiki/Net_international_investment_position

Second, recent US decisions to freeze FOREX of a number of countries (Syria, Libya, Iran, Venezuela, Afghanistan, Russia) undermines the credibility of the US dollar, so there is an additional reason for developing countries to look for the alternative financial instruments to keep FOREX. In fact, because most rich countries (virtually all OECD) joined the sanctions game, including the freezing of the assets, the number of reasonable alternatives for developing countries for holding FOREX is very much restricted, the two major options being Chinese yuan and gold. China obviously cannot keep its foreign exchange reserves in yuan, but is already moving away from US dollars anyway: the share of dollar denominated instruments in its total reserves fell from 79% in 2005 to 59% in 2016 to 25% in 2023. The rest is probably (official statistics is lacking) invested into euros, Japanese yens and British pounds,

The conversion of the FOREX into yuan and gold that is already going on can well become self-sustaining and hardly controllable process at any moment. It will be ruinous and costly not only for the developed countries, but also for developing countries – the Global South.

Global imbalances, "capital flowing uphill", and the interests of the Global South

"Global payments imbalances are bad for the health of the world economy. They give rise to huge, volatile and speculative capital flows; they contribute to currency instability and the need for countries to hold large foreign exchange reserves to intervene in currency markets when necessary, and they lead to an arbitrary reallocation of resources between surplus and deficit countries, often from poor countries to rich countries. Today, for example, there is something perverse about poor Chinese transferring resources to Americans ten times richer than themselves" (Thirlwall, 2011).

This is a popular view in the literature sometimes discussed in terms of "capital flowing uphill" – not from rich to poor countries, but on the contrary – from poor to rich, which seems to be very counter-intuitive. In fact, countries that managed to achieve high growth rates were mostly net creditors, not net borrowers; their current accounts were positive, i.e. they were saving more than they were investing (fig. 5). Even controlling for the level of development, PPP GDP per capita in the middle of the period, 1975, the relationship between the current account surplus and growth rates in 1960-2000 is still positive and significant[4] (Popov, 2010 a).

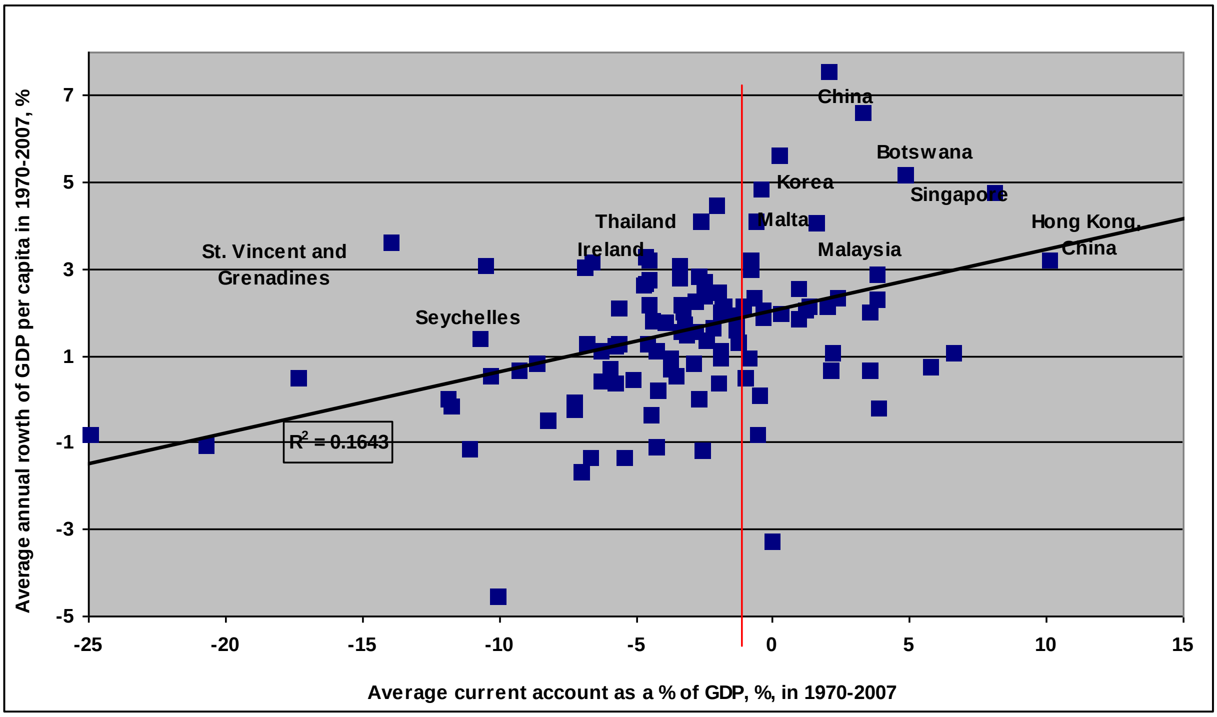
[4] $GROWTH = 0.68^{*}\ Ycap + 0.12^{***}CA + 0.05$,

$\qquad\qquad(1.80)\qquad\quad(3.44)$

N=91, $R^2 = 0.23$, robust standard errors, T-statistics in brackets below,
where *GROWTH* –annual average growth rates of per capita GDP in 1960-99, %,
Ycap – logarithm of per capita PPP GDP in 1975,
CA – average current account to GDP ratio in 1960-99, %.

The problem is also known as the Feldstein-Horioka puzzle – high correlation between domestic savings and investment even among countries with relatively open capital accounts, contrary to the prediction of the theory that capital should flow to countries with better investment climate and rates of return on investment. With high domestic savings rate comes high investment rate, which usually, although not always, leads to faster growth.

Fig. 5. Average current account as a % of GDP and growth of GDP per capita, %, in 1970-2007



Source: *World Development Indicators.*

In the words of Paul Krugman, since the early 1980s there have been three big waves of capital inflows to developing countries, but none of them resulted in a growth miracle. "The first wave was to Latin American countries that liberalized trade and opened their markets in the wake of the 80s debt crisis. This wave ended in grief, with the Mexican crisis of 1995 and the delayed Argentine crisis of 2002.

The second wave was to Southeast Asian economies in the mid-90s, when the Asian economic miracle was all the rage. This wave ended in grief, with the crisis of 1997-8.

The third wave was to eastern European economies in the middle years of this decade. This wave is ending in grief as we speak.

There have been some spectacular development success stories since 1980. But I'm not aware of any that were mainly driven by external finance. The point is not necessarily that international capital movement is a bad thing, which is a hotly debated topic. Instead, the point is that there's no striking evidence that capital flows have been a major source of economic success"[5].

In view of this evidence, the developing countries' policy choices to rely on external financing are ironic. It is also ironic that while development economists are preoccupied by "capital flowing uphill" problem (from developing to developed countries), the best growth record is exhibited exactly by countries with positive current accounts and large foreign exchange reserves accumulation that are generating this uphill movement of capital.

Marshal plan for Western Europe right after the Second World War may have been the first and the last success story of foreign financing contributing substantially to economic revival. But even in this case it could be argued that without appropriate domestic (European) institutions and mobilization of domestic savings, the (relatively) rapid growth would not happen. Foreign financing of Japan after the Second World War was insignificant, whereas Japanese postwar growth was more impressive than European. Economic miracles happened only in countries that relied on mobilization of domestic savings, not in countries that were seeking to bridge the financing gap through borrowing abroad, as development economists suggested.

FOREX accumulation and growth

There is an argument (Polterovich, Popov, 2004**;** Rodrik, 2008**;** Popov, 2010b, 2013,2019; 2020; Popov, Jomo, 2020) that breathtaking Chinese growth in the 1980s-2010s, quite like the rapid growth of Japan, South Korea, Taiwan, and a number of ASEAN countries, has been driven by deliberate exchange rate undervaluation through rapid accumulation of FOREX, promoting exports and discouraging imports.

Management of the exchange rate is an important tool of non-selective industrial policy (Popov, 2020) – the maintenance of the undervalued real exchange rate via accumulation of foreign exchange reserves (above the normal amount needed to ensure smooth trade and capital account

[5] Krugman, Paul (2009). Finance mythbusting, third world edition. Nov 10, 2009. – Paul Krugman's blog: http://krugman.blogs.nytimes.com/2009/11/09/finance-mythbusting-third-world-edition/

transactions) is the important instrument of promoting economic growth based on export of tradable goods, although at the expense of non-tradables (Polterovich, Popov, 2004).

There are important differences between import duties and devaluation of the exchange rate. "Exchange rate protectionism" is more efficient policy to stimulate growth because decisions on import duties and government taxes/spending are affected by a poor quality of institutions (corruption and low efficiency of implementation), whereas low exchange rate policy is indiscriminate and nonselective by nature: it cannot be captured and "privatized" by particular interest groups – this makes it especially efficient growth promoting instrument in poor and middle income countries that generally suffer from corruption (Polterovich, Popov, 2004).

As it is stated in the UN flagship report (UN WESP, 2016), "reserve accumulation can have positive externalities on the production and export of tradables and industrial development and can thus be a feature of the country's development model. Undervaluation of the exchange rate can increase the competitiveness of exports, without the need for sector- or firm-specific subsidies or interventions".

As Griffith-Jones and Ocampo (2010) observe, the rationale for the accumulation of foreign exchange reserves "is usually found in either one of two explanations: the "competitiveness" (or, in more pejorative terms, "mercantilist") and the "self-insurance" motives. This mercantilist view that undervaluation of exchange rate via accumulation of foreign exchange reserves is in fact an industrial policy, aimed at promoting export-oriented growth by benefiting the producers of tradables and exporters at the expense of the producers of non-tradables and importers, is gaining support in the literature (Dollar, 1992; Easterly, 2001; Rodrik, 2008; Bhalla, 2012; Greenwald, Stiglitz, 2013). If there are externalities from export and production of tradables (industrialization, development of high-tech sectors), undervaluation of the exchange rate resulting from the accumulation of reserves is an efficient way to provide a subsidy to these activities and this subsidy is automatic, i.e. does not require a bureaucrat to select possible beneficiaries.

In short, this is a non-selective industrial policy promoting export and production of tradables that seems to be quite efficient especially in countries with high corruption and poor quality of institutions. The formal model demonstrating how the accumulation of reserves can spur growth, as well as the empirical evidence, is presented in Polterovich and Popov (2004). It is also shown that accumulation of reserves leads to disequilibrium exchange rate, which in turn causes the increase in export/GDP and trade/GDP ratios, which stimulates growth.

The policy of reserve accumulation is often considered to be self-defeating because in order to avoid inflation (that would eat up the impact of devaluation on real exchange rate) it is necessary for the monetary authorities to carry out sterilization policy, i.e. to sell government bonds in order to neutralize the impact of purchases of foreign currency on ballooning money supply. But sales of government bonds lead to higher interest rates that in turn attract capital from abroad that contribute to increase in foreign exchange reserves that again should be sterilized, which creates a vicious circle. That is why economists talk about "impossible trinity": a country cannot maintain at the same time an open capital account, managed exchange rate and independent monetary policy.

But many developing countries exercise control over capital flows (China and India would be the prime examples) and even without such a control, capital mobility – especially for large economies – cannot be considered perfect. In practice, as the statistics shows, the accumulation of foreign exchange is financed through government budget surplus and debt accumulation, but not through money printing (Polterovich, Popov, 2004). That is to say, most countries that accumulated reserves rapidly exhibited low inflation and low budget deficit (or budget surplus), but increasing holdings of government bonds by the public (see Polterovich, Popov, 2004).

Accumulation of reserves means that the country saves more than it invests, produces more than it consumes, providing its savings to finance investment and consumption in other countries. It is often argued that capital should flow from rich to poor countries because K/L ratios are lower in developing countries and hence the returns on capital are greater. However, there may be crowding out of domestic savings by the foreign savings, so the national debt grows, but investment does not increase and economic development does not accelerate.

Besides, this is only one effect, the other effect is a dynamic one and it works in a completely opposite direction: if a country manages somehow to become competitive in the world markets (either via higher productivity or through lower wages or via low exchange rate), it starts to export more than it imports and develops a trade surplus. If this surplus is stored in the form of foreign exchange reserves, the exchange rate gets undervalued and the trade surplus persists. That is why countries that develop faster than the others usually have a trade surplus (United States since the Civil War of 1861-65 and until the 1970s, Japan and Germany after the Second World War, East Asian Tigers and Dragons and China, of course, more recently). Accumulation of reserves (that are invested in reliable short-term government securities and yield very low interest rates) implies losses to the national economy, but every policy has costs – this is a price to pay for promoting growth.

There are fears that "exchange rate protectionism" can result in "beggar-thy-neighbor policies": obviously all countries cannot exercise these policies at the same time to achieve undervaluation of their exchange rates. If all countries use these policies, all will lose, and, on top of that, for developed countries this policy does not work (Polterovich, Popov, 2004), so their losses would be the greatest. But for developing countries it works, and there are good reasons, why these countries should have sufficient policy space to use this tool to promote catch up development.

True, trade surpluses resulting from undervaluation of the exchange rate due to reserve accumulation may lead to what is now called "global imbalances", driving the other countries into debt, but there is some room for such a scenario that in a sense will only reverse the opposite trend of the 19-20th centuries (US enjoyed a trade surplus for nearly 100 years after the Civil War of the 1860s driving many developing countries into debt – see Popov, 2010 a, b; 2011 for details).

Today the debt of the rich countries is not that high. Australia, France, Greece, Portugal, Spain the UK and the US are net international debtors (US – the largest – nearly 80% of GDP), but Canada, Germany, Japan, the Netherlands, Norway, South Korea, Switzerland are net creditors (table 1), so there is some room for these countries to maintain a current account deficit and to finance it via debt accumulation.

On the contrary, for developing countries FOREX accumulation can work as a powerful industrial policy development tool. Theoretically, every externality could be taken care of through taxes, but in practice selective policies rarely work. And because protectionism is currently *de facto* outlawed by WTO anyway, exchange rate protectionism is the only available tool for promoting catch up development, in a way – the instrument of last resort.

Reserve accumulation in poor countries will not continue forever, it will come to an end, once they will catch up with the West. Meanwhile, developed countries get a chance to consume more than they produce. Why not go into debt to help the Global South catch up with the West sooner?

Acceptance by the West of global imbalances (current account deficits leading to debt accumulation) would help to overcome the major disproportion of our times – income gap between developed and developing countries. This gap was widening for 500 years and only now, after the Second World War, there are some signs that this gap is starting to close (Popov, 2015). Chances to eliminate this gap sooner rather than later would be better, if the West would go into debt allowing developing countries to have trade surpluses that would help them develop faster. Previously, in 16-20th century, it was the West that was developing faster, accumulating surpluses in trade with "the rest" and using these surpluses to buy assets in developing countries, while "the rest" were going into debt. Now it is time for "the rest" to accumulate assets and for the West to go into debt.

US sanctions further undermine the position of the dollar, but soft landing is still possible

Only in recent years Western countries have frozen foreign exchange reserves of Syria (2011), 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 countries that are already sanctioned. Where to store foreign exchange reserves in the future, if not in dollars and euros? Only in yuan and gold? Yes, but there is another option as well.

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 into 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 purchases of Western securities by developing countries into the holdings of the same Western financial instruments through an intermediary, i.e. through the Bank, that 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 and costly real restructuring that no one needs.

The scale of such a maneuver is huge: in the 1960s, before the collapse of the Bretton Woods system, the world FOREX amounted to about $50 billion, about 2% of the world gross product, whereas today they exceed $12 trillion – over 10% of the word gross product. ¾ of FOREX are in developing countries, mostly in developing East Asia and Middle East. Out of about $12 trillion world FOREX, China (including Taiwan, Hong Kong and Macau) has $4.4 trillion, 10 ASEAN countries –$1.1 trillion, Persian Gulf states (Saudi Arabia, Iraq, Iran and 5 small Gulf states) nearly $1 trillion, India and Russia – about $0.6 trillion each, Brazil – $0.3 trillion. The smooth restructuring of FOREX of these countries, ensuring the soft landing of the Western and world economy, should be considered as a top priority.

Conclusions

British loss of competitiveness and stop-go policies of the 1950s-70, during the transition from pound to dollar as a reserve currency, provide important insights into the current process of moving away from the US dollar. The outflow of capital from the US can lead to the depreciation of the dollar and/or increase in the interest rates that will cause costly real restructuring – increase in unemployment and reallocation of resources from less competitive to more competitive export-oriented industries. Besides, the ongoing process of the decline of the role of the dollar in the international financial system (in trade and capital flows transactions, as well as in the stock of FOREX) can speed up and become a self-perpetuating process that is difficult to control due to the sanctions and freeze of assets, including FOREX, of growing number of countries.

Whereas in the long term this process may be beneficial for the US and the world economy, short- and medium-term adjustment costs of real restructuring in Western countries can be high. For developing countries, the rapid conversion of FOREX, denominated in Western currencies, into gold, yuan and other currencies of the Southern countries is also not desirable.

So, what is urgently needed, is the new reliable financial instrument for the placement of FOREX of developing countries. This could be the new securities, issued by the is the Bank of the Global South (possibly BRICS New Development Bank and/or Asian Infrastructure Investment Bank). These new securities would be purchased by developing countries that look for alternative financial instrument, whereas the revenues from sales of securities would be invested by the Bank into US dollar and EU euro treasury bills. The Bank's securities would be considered more reliable because Western countries would not dare to freeze the assets of the Bank that is representing the interests of the whole Global South.

Later the whole policy of *unilateral* sanctions should be reconsidered. 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) – (Popov, 2023). 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.

"For decades America cheered on the globalisation of trade and capital, which brought vast benefits in terms of enhanced efficiency and lower costs for consumers. But in a dangerous world, efficiency alone is no longer enough. In America, and across the West, China's rise is bringing other aims to the fore. Understandably, officials want to protect national security, by limiting China's access to cutting-edge technology that could enhance its military might, and to build alternative supply chains in areas where China maintains a vice-like grip" (Economist, Aug. 10, 2023). If this policy is not reconsidered, the world economy may face a disruption of the world trade and a depression similar to the one experienced in the 1930s.

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. 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.

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, accumulation of debt, movement of capital, funds for stabilizing prices of raw materials and energy, 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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