The establishment of the New Development Bank (NDB) announced at the recent summit of the BRICS (Brazil, Russia, India, China and South Africa) and the Contingent Reserve Agreement (CRA) to assist members facing financial difficulties raises more questions than answers. For some analysts, the new bank represents an initial step in creating a global financial alternative to the World Bank and International Monetary Fund (IMF), long dominated by the U.S. and other Western nations. Others have argued it is a step in the process of reforming the existing global economic governance model. Still others point to Vladimir Putin's quip that the new fund is intended to protect member countries whose foreign policies run counter to American and European interests from any "harassment." Mr. Putin's rationale strikes a cord in some Latin American capitals. **A Superabundance of Capital** The $50 billion in capital for the NDB and $100 billion for the CRA reflects the growth of regional and national banks already loaning sums in excess of the World Bank's $53 billion last year. For example, Brazil's BNDES loaned $88 billion in 2013, and the China Development Bank loaned over $240 billion. The last few decades have recorded a significant increase in the availability of capital on global markets. A 2012 study conducted by Bain and Co. points to a superabundance of capital available for investment. In fact, the report argues that as "financial markets in China, India and other emerging economies continue to develop their own financial sectors, total global capital will expand by half again, to an estimated $900 trillion by 2020 (measured in prevailing 2010 prices and exchange rates). More than any other factor on the horizon, the self-generating momentum for capital to expand—and the sheer size the financial sector has attained—will influence the shape and tempo of global economic growth going forward." Meanwhile, the Bain report cautions that: "As it has for more than the past two decades, the large volume of global financial assets will continue to sit on a small base of global GDP (totaling $90 trillion by 2020 versus $63 trillion in 2010). At that level, total capital will remain 10 times larger than the total global output of goods and services—just as it is today—and three times bigger than the base of nonfinancial assets that help to generate that expanded world GDP." With China's capacity to absorb capital productively diminishing, for instance, its "capital reserve balance—a dividend from the nation's export-led growth—has expanded tenfold over the past decade to more than $2 trillion in 2010." This, in turn, means a growing Chinese capital footprint: "Based on International Monetary Fund data, we project that China will add $87 trillion (calculated at fixed 2010 exchange rates) to the growth of total global financial assets by 2020. That is more than four times the amount of capital that will be generated by the Japanese economy and will surpass both the US and EU by some $25 trillion. From just $39 trillion in 2010, China's contribution to the growth of global capital will increase at a 12% annual rate compounded to some $125 trillion through the balance of the decade, a threefold increase in its share." The report's title, "A World Awash in Money," suggests that while capital is plentiful, a far more critical question is an economy's ability to

productively use assets to generate real output of goods and services. This reflects the divide between a rapidly expanding financial economy and the underlying real economy. **China's Example** A central lesson from China's unparalleled economic prosperity is to be found in the battle between relatively free versus statist elements in the expanding economy. In China, where economic liberalization has most advanced real wealth creation has thrived and led to rising standards of living affecting hundreds of millions of people. In contrast, those areas where central planning and a government sector predominate continue to weigh down China's economy. Unproductive and unprofitable state-owned enterprises, a financial sector largely manipulated by central authorities, government spending leading to bubbles in real estate and other sectors, are included in any list of the Chinese economy's weaknesses subject to further reform by the country's central leadership. Even large GDP growth tends to overestimate the role of consumption, sending the erroneous message that government spending is somehow the same, or on par, with productive private investment and increased output of goods and services. The misallocation of resources resulting from such an assumption is plain throughout many areas of China. **China and the Americas** As China's capital supply grows it will reach beyond its borders. Divining China's political, military and economic motivations in Latin America is a matter of conjecture. What is clear, however, is that despite China's best intentions events in the region are taking place in an acerbic ideological context predating China's entry. Populist elements in the region have every interest in using China's resources to bankroll their regimes and in dragging China into disputes with the U.S. Populist regimes in Latin America – Venezuela, Ecuador, Bolivia, Nicaragua and Argentina – with increasing state interventions, animosity to private initiative and markets, expansionary spending have lead inevitably to pervasive shortages, growing inflation and capital flight. Collapse has been averted largely because they have parlayed their commodity boom into cheap credit and easy terms. Moreover, the superabundance of capital and other financial assets raises the possibility of large, politically motivated donors becoming creditors of last resort for statist economic basket cases incapable of unleashing economic dynamism and prosperity. As the BRICS were meeting to establish the NDB, for example, China extended another $4 billion in loans to prop up Venezuela's failing economy. Russia announced it would forgive $32 billion in debt owed it by Cuba's stagnant economy. Argentina once again defaulted on its debt and likely will mortgage its commodity exports as collateral. Making capital available to politically friendly regimes can work against reforms necessary to generate real economic prosperity. The availability of capital is not a guarantee of economic prosperity. Legal and institutional conditions (e.g. secure property rights, respect for contracts, freedom to enter the market) are indispensable to fight the arbitrariness and greed of political actors. Absent such institutions capital is easily squandered. It befits China to focus on trade instead of ideology and to promote real

prosperity rather than bankrolling populists whose policies inevitably lead to capital consumption and poverty.