

## OPINION

## How China Took Latin America



AMERICAS  
By Mary  
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It was chilling to read Beijing's warning to House Speaker Nancy Pelosi that if she goes ahead with her planned trip to Taiwan this week, it will "have a severe negative impact" on relations between the U.S. and China.

For a half-century, the West has been trying to bring China into the coalition of the civilized. Beijing has responded by beefing up its military, murdering students in Tiananmen Square in 1989, and, more recently, snuffing out liberty in Hong Kong. Now it is rattling sabers at Taiwan.

Closer to the U.S., Chinese expansionism is equally troubling. The Middle Kingdom now has a strong presence in the Western Hemisphere, where it actively supports antidemocratic regimes while posing as a benevolent sugar daddy.

The State Department has been asleep at the switch, missing years of opportunities to correct the Chinese narrative that it is somehow in the region to "help" countries.

Sri Lanka learned about Chinese development assistance the hard way. It borrowed nearly \$12 billion from Beijing in the first two decades of this century. As the Washington Post's Ishaan Tharoor reported in July, that money went "largely for a slate of major infrastructure

projects that turned into white elephants—including a costly port facility" in Hambantota, hometown of the powerful Rajapaksa family, "which was effectively ceded to Chinese control half a decade ago after Sri Lankan authorities recognized they could no longer pay off the loans."

Beijing is using the same kind of bait-and-switch all over Latin America. In Venezuela, China lent Hugo Chávez some \$50 billion backed by oil. Judging from the train wreck that the country has become, it's pretty clear that money wasn't used for development. Venezuelan oil production has collapsed but the state-owned petroleum company still dutifully sends regular shipments to China to repay the loan.

Ecuador is working to restructure \$5 billion in Chinese debt due in the next three years. The country is also coming to terms with the substandard Chinese construction of a hydroelectric plant in the north of the country that cost some \$2 billion.

Argentina is especially notable for its open-arms policy toward China. Writing in February 2021, U.S. Army War College Latin America research professor Evan Ellis observed that "Argentina offers [China] a combination of benefits and access that no other populist (or non-populist for that matter) regime in the hemisphere can match."

The appeal of Chinese financing for bankrupt Buenos Aires is obvious. As Mr. Evans pointed out, "Chinese re-

sources and other support decrease the degree" to which the country has to pay attention to the demands of "Western investors, banks, multilateral institutions and governments, as it consolidates power in increasingly undemocratic ways, and undermines the U.S. agenda in the region—to China's commercial and strategic benefit."

### The Inter-American Development Bank opened doors all over the region for Beijing.

The Inter-American Development Bank, which is 30% owned by the U.S. and made China a member in 2009, has the most to answer for when it comes to explaining how China made deep inroads into the region in the last decade.

For the most part, China didn't know how to do business in Latin America prior to its hookup with the bank. Desperate for capital in the aftermath of the 2008 financial crisis, the IDB escorted Beijing around, opening doors, teaching it how to structure deals and helping it establish itself as a major lender. Annual business summits, hosted by the bank, were designed to introduce Chinese state-owned companies to the locals. The IDB became a conduit for Chinese money, serving a bilateral function between members in the hemisphere and Beijing.

According to IDB data, be-

tween 2013 and May 2022 the bank put up \$6.1 billion in co-financing for 91 projects with China. Beijing is only a 0.004% IDB shareholder but on top of that co-financing, according to an IDB official, "Chinese state-owned companies got \$1.7bn worth of IDB-funded procurement contracts between 2010 and 2020, making it the top non-borrower recipient of such contracts. American companies won contracts worth \$249 million."

China is not a good development partner. Sure, it brings financing to poor countries. But it doesn't hire or train a local workforce; it imports Chinese labor. Its workmanship and materials are often shoddy. It encourages overborrowing and overbuilding and it leaves a trail of tears as large debt burdens cannot be serviced. Its motives in the region are about gaining greater influence and not about development.

This is why the bank is trying to cultivate new partners, including Taiwan. China, predictably, is outraged. In a May email to the bank's president and several IDB staff members, after a press release announced a project in Belize with Taiwanese backing, the Chinese representative to the IDB wrote: "My authorities see this as a very severe situation and reserve all the rights of further action."

Those who care about development can only hope that action might be for China to quit the bank and leave Latin America.

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BOOKSHELF | By Adrian Woolfson

## Stinging Reputation

### Endless Forms

By Seirian Sumner  
(Harper, 387 pages, \$28.99)

At a moment when the tribunes of progress celebrated human exceptionalism while at the same time marginalizing all other living things, the Victorian poet Thomas Hardy, in "An August Midnight" (1899), formulated an idiosyncratic notion of our relationship with less complex species. His disruption, while writing one summer night, by a procession of insects that included a "sleepy fly" that rubbed "its hands," provoked him to conjecture that the boundaries between man and beast were illusory. As such, the alien intelligences of his diminutive insect "guests" were not inferior to humans, so much as different.

Had one of Hardy's inquisitive nighttime visitors been a wasp, it seems unlikely that they would have been greeted with such benevolence and solicitude. Such is the unfortunate reputation of these much-maligned beasts. In her thought-provoking, joyous and ebullient "Endless Forms," the author, Seirian Sumner, sets the record straight and illuminates some of the esoteric mysteries and unexpected

competences of these enigmatic insects. In so doing Ms. Sumner, an entomologist and behavioral ecologist, and a professor at University College London, charms her readers into realizing that the pesky, whirring, anxiety-provoking yellow jackets and other species of wasps that scuttle our picnics and torment our summer afternoons, are not mischievous villains so much as highly underestimated and misunderstood philanthropists.

While the occasional prodigious use of their sting riles many, the principal reason that wasps came to be viewed as the unlovable relatives of their industrious counterparts, the bees, was the notion that wasps lack a purpose. Whereas bees are necessarily busy, pollinating flowering plants and manufacturing honey, early scientists found it difficult to ascribe such productive functions to their skittish and apparently idle wasp cousins. One might, as a result, be forgiven for believing that wasps have been placed on Earth for no other reason than to irritate.

Were that the case, it would be hard to comprehend why there are so many of them. "While there are at least 100,000 known species of wasps," the author asserts, "there are probably several million undescribed species waiting in the taxonomists' wings." Their variability is dazzling. Some are so large, Ms. Sumner notes, that on their approach you can hear their wings "helicopter-humming."

The philosopher Aristotle's underhanded and unjust statement that wasps were "devoid" of the "extraordinary features" found in bees and had "nothing divine about them" dates our collective antipathy to these errant aeronauts to at least as far back as antiquity. In Shakespeare's "Taming of the Shrew," Katherine warns Petruchio that "if I be waspish, best beware my sting."

Yet, as is often the case, even the most unclimbable individuals may attract enthusiasts. It is perhaps reasonable at this point to mention that Ms. Sumner does not like wasps so much as adore them. She is enthralled by them, hypnotized, even mesmerized by them. She will travel almost anywhere in the world to study them and, on occasion, this boundless enthusiasm results in her enlisting the services of her children for "wasping" expeditions designed to track and chase the creatures.

### Illuminating some of the esoteric mysteries of wasps, often viewed as the unlovable relatives of their industrious counterparts, bees.

This manifestation of unbridled love for nature recapitulates the devotion and eccentricity of the 19th-century "wasp whisperers," as Ms. Sumner calls them, such as Sir John Lubbock, the author of "Ants, Bees, and Wasps" (1882), who were among the first to meticulously document wasp morphologies and behavior. Ms. Sumner's own invocations of wasp characteristics, behavior, social life and culture sparkle with curiosities and insights. In her description of the "nonchalant taunting" of a spider by the wasp hunting it, for example, she details how the "carefree wasp skips around the spider as if she is wearing an invisibility cloak and pokes her head out just for fun every so often."

The biology of these formidable flying machines is equally horrifying and fascinating. One species, the Emerald jewel wasp, converts its cockroach prey into living zombies by injecting a neurotoxic cocktail into its brain. Charles Darwin was so disgusted by the existence of parasitic wasps that inhabited the bodies of living caterpillars that they challenged his belief in a beneficent and omnipotent supernatural entity.

But as we rapidly learn, wasps themselves are innocents. "The problem with wasps," Ms. Sumner notes, is not wasps so much as "people," or to be specific, our imperfect knowledge of these evasive and punctilious beings, some of which around 100 million years ago "lost their wings to make ants, or turned vegetarian to become bees." Living either individually or in complex societies that rival the most raucous soap operas, these "aeronautical champions," with powerful memories and an ability to recognize individual human faces, turn out to be quite adept and useful.

The predatory nature of wasps keeps pest-insect populations under control, and, contrary to popular misunderstanding, they function as efficient pollinators. Their tiny insect brains, powered by a paltry 1 million neurons as compared with the 86 billion of human brains, enable them to learn associatively, to hunt with acrobatic skill, to fashion "exquisite clay pots" that resemble Roman vases, and to construct nests reminiscent of the architectural splendor of the finest Frank Gehry structure. Wasps are, in some ways, a little like us.

"Endless Forms" suggests, in an entertaining manner, that we need to re-examine our relationships with nature, and the multitude of critters it comprises. Doing so would have profound consequences in an age when technological innovations continue to displace and disrupt the lives of wasps and other species. Seirian Sumner's compelling account of nature's coherent beauty teaches that it is time for the utilitarian attitude toward nature to be replaced with appreciation and conservation, something long overdue.

Mr. Woolfson is the author of "Life Without Genes" and "An Intelligent Person's Guide to Genetics."

## You'd Be Stupid Not to Evaluate Risk



INSIDE  
VIEW  
By Andy  
Kessler

Before the 2008 financial crisis, one of my neighbors took out a home-equity loan from Wachovia, paying around 5%. Wachovia never sent an appraiser to the house, but that isn't the weirdest part of the story. My neighbor asked his financial adviser what to do with the money left after he'd paid some expenses. The adviser suggested a money manager who guaranteed 12% returns, explaining "you're borrowing at 5% and getting paid 12%—you'd be stupid not to do this."

It was stupid, all right. The money manager was buying homes and hockey teams, and his Ponzi scheme soon collapsed. No warning label said: "The more enticing the interest rate, the higher the risk." Risk is often nebulous, hazy, unmeasurable—so it is usually ignored. Years of zero interest rates have caused havoc, but with the Federal Reserve raising short-term rates, investors should be extra careful shuffling money around.

Bernie Madoff promised an 11% average annual return and faked brokerage statements before he made off with investors' money. You can almost hear the cocktail-party

conversations in New York and Palm Beach: "You'd be stupid not to do this."

Same for the crypto scheme known as Anchor Protocol, which offered 19.5% yields—practically screaming risk—with tokens backed by nothing but hot air. It soon imploded. So did crypto hedge fund Three Arrows Capital whose founder told the Journal, "The Terra-Luna situation caught us very much off guard." The word lunatic is too kind.

Recently, bankrupt crypto lender Celsius was offering interest of up to 18.6% annually to attract deposits. Celsius' assets reached \$25 billion last October. You would have been stupid not to invest—except, well, the company now has \$4.3 billion in assets and \$5.5 billion in liabilities, mostly owed to depositors.

It reminds me of July 2007, when Citigroup CEO Chuck Prince told the Financial Times, "As long as the music is playing, you've got to get up and dance. We're still dancing." His job was to assess risk, and he didn't do it. Citigroup should have sat out the next 18 months.

When you buy high-yield debt, junk bonds with ratings of BB+ and lower, there is a default risk, though it's rarely noted. The best junk bonds today pay 6%. In January it was 4%. In November 2008, as Lehman Brothers and others

were imploding, it was 16%. Higher yields imply higher risk. A recession (yes, we're in one) accelerates defaults.

Risk is also built into stock dividends, which might be cut. A famous example: In September 2017 General Electric declared a quarterly dividend of 24 cents for a 4% yield with its stock around \$190. Three months later, as the stock slid to \$135, GE cut the quarterly dividend to 12 cents for a still-respectable

### As the crypto crash showed, guarantees of high returns are never really certain.

2.8% yield. By late October 2018, with the stock around \$70, GE cut the dividend to a penny. That 4% yield in 2017 was enticing but dangerous. Dividends are a false signal. Ignore them.

Stock prices are based on a company's profits, growth rate and risk. What risk? No one knows for sure. Risks might come from competition, obsolescence, CEO turnover, inflation, Fed rate increases, recessions, wars, pandemics. But the risk can be implied. Investors often look at a stock's price-earnings multiple to judge its value. The S&P 500 today

sells at 20 times earnings. That PE multiple was 33 in the 1999 dot-com boom and as low as 7 in 1980.

Stocks with a high PE multiple have an interest-rate risk embedded. How? Lower interest rates mean investors are willing to pay more for a company's future earnings, meaning a high multiple. A company growing at 10% may have a PE of 16, but one growing at 25% could have a PE of 60 or more. Then there are companies that are losing money, and investors pay a high PE on the "potential" for future earnings, as they did with Rivian and Carvana. But when interest rates rise, PE multiples collapse and investors flee, which explains the recent rout of high-multiple tech stocks.

Fed surveys say the inflation expectation over the next three years is 3.6%, and over five years it is 2.8%. That means short-term rates need to be around 4% to 5% to maintain a normally growing global economy. That might be the new baseline for short-term rates soon.

There is a lesson in all this. Do your homework, even if you are buying an S&P 500 index fund. Study the fundamentals, assess future risk, and never fall for the siren call of high yields, especially "guaranteed" returns you'd be stupid not to take.

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## Why I Support Reform Prosecutors

By George Soros

Americans desperately need a more thoughtful discussion about our response to crime. People have had enough of the demagoguery and divisive partisan attacks that dominate the debate and obscure the issues.

Like most of us, I'm concerned about crime. One of government's most important roles is to ensure public safety. I have been involved in efforts to reform the criminal-justice system for the more than 30 years I have been a philanthropist.

Yet our system is rife with injustices that make us all less safe. The idea that we need to choose between justice and safety is false. They reinforce each other: If people trust the justice system, it will work. And if the system works, public safety will improve.

We need to acknowledge that black people in the U.S. are five times as likely to be sent to jail as white people. That is an injustice that un-

dermines our democracy.

We spend \$81 billion every year keeping around two million people in prisons and jails. We need to invest more in preventing crime with strategies that work—deploying mental-health professionals in crisis situations, investing in youth job programs,

### Justice or safety? It's a false choice. They reinforce each other.

and creating opportunities for education behind bars. This reduces the likelihood that those prisoners will commit new crimes after release.

In recent years, reform-minded prosecutors and other law-enforcement officials around the country have been coalescing around an agenda that promises to be more effective and just. This agenda includes prioritizing the resources of the criminal-justice system to protect people

against violent crime. It urges that we treat drug addiction as a disease, not a crime. And it seeks to end the criminalization of poverty and mental illness.

This agenda, aiming at both safety and justice, is based on both common sense and evidence. It's popular. It's effective. The goal is not defunding the police but restoring trust between the police and the policed, a partnership that fosters the solving of crimes.

Some politicians and pundits have tried to blame recent spikes in crime on the policies of reform-minded prosecutors. The research I've seen says otherwise. The most rigorous academic study, analyzing data across 35 jurisdictions, shows no connection between the election of reform-minded prosecutors and local crime rates. In fact, violent crime in recent years has generally been increasing more quickly in jurisdictions without reform-minded prosecutors. Murder rates have been rising fastest in some

Republican states led by tough-on-crime politicians.

Serious scholars researching causes behind the recent increase in crime have pointed to other factors: a disturbing rise in mental illness among young people due to the isolation imposed by Covid lockdowns, a pullback in policing in the wake of public criminal-justice reform protests, and increases in gun trafficking. Many of the same people who call for more-punitive criminal-justice policies also support looser gun laws.

This is why I have supported the election (and more recently the re-election) of prosecutors who support reform. I have done it transparently, and I have no intention of stopping. The funds I provide enable sensible reform-minded candidates to receive a hearing from the public. Judging by the results, the public likes what it's hearing.

Mr. Soros is founder of Soros Fund Management and the Open Society Foundations.