

The Sino – Venezuelan relationship at the beginning of the post-chávez era

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Abstract:

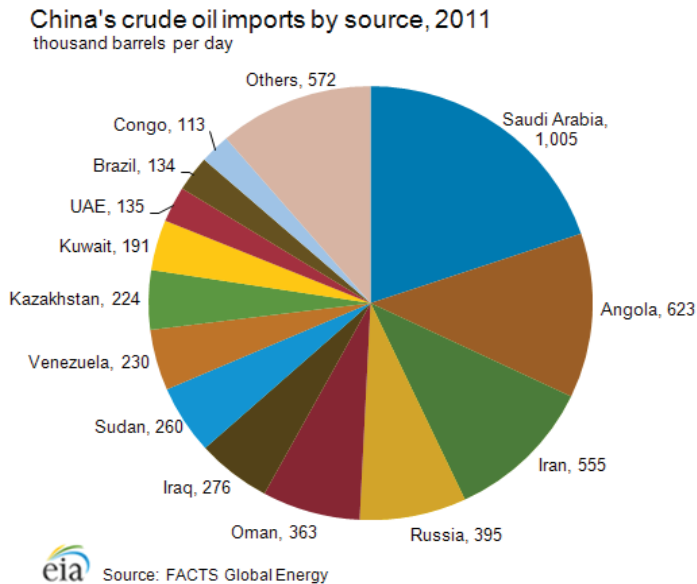
It has become clear in the past decade that the relationship between the People's Republic of China and Venezuela has moved on from a formal diplomatic alliance towards a substantial strategic cooperation, as Venezuela has officially become one of China's four "Strategic Partners" in Latin America¹. The strengthened economic ties have mutually benefitted both countries. For China, they resulted in an ensured access to Venezuela's resources and markets, while Chinese investments were crucial for Venezuela to stabilize the populist regime's position in the country. Accordingly, many analyses have been written in order to study the recently tightened relationship and its possible consequences on the two countries and the global economy. Nonetheless, all of these studies have been based on the assumption that Hugo Chávez's unique form of hybrid regime in Venezuela will remain intact and continuous. The unexpected death of the charismatic leader and the turbulent transition of power leading to the victory of Nicolas Maduro have brought to the surface the multiple distortions of Venezuela's political system, questioning its sustainability in the long term. This paper (1) briefly introduces the nature of the Sino-Venezuelan cooperation established during the Chávez regime, then (2) reveals the structural dysfunctions of the Venezuelan system that could undermine Maduro's position in the fragile period of power transition, and finally (3) evaluates the probability of a systemic crisis in Venezuela through three possible scenarios and their expected effects on the two countries' relationship. The three different scenarios are:

1. The state of affairs in Venezuela remains the same.
2. The Venezuelan government takes the path of further radicalization.
3. The Venezuelan government will be overthrown.

The dynamics of the Sino-Venezuelan relationship during Chávez:**The Chinese side:**

Since the end of the '70's China has been gradually integrated into the world economy, by now becoming the second largest economy in the world. While searching for non-traditional trading partners and political allies, China has turned towards Latin America, Venezuela in particular. Although the fact that the Chávez regime and the Chinese Communist Party share similar features in their political convictions might suggest that the reason for strengthened cooperation is of an ideological nature, indeed China's motivation for incentivizing the alliance is overwhelmingly pragmatic². During China's unprecedented economic boost in the last decades, it has become completely clear to the Chinese leadership that domestic resources will not be sufficient for sustaining the enormous economic expansion. Therefore, the search for economic allies with vast natural resources has become a priority in China's foreign policy³. It is therefore of no surprise that Venezuela, possessing the world's largest oil reserves,⁴ has drawn the attention of Chinese oil companies and investors. Consequently, from 1999 onward trade agreements and investment commitments have been radically increasing between the two countries. As a result, the two countries have signed more than 300 bilateral agreements and they have initiated over 80 major projects⁵. Evidently, China has been mainly focusing on the oil industry in the context of the Sino-Venezuelan relations, as in 1993 it became dependent on oil imports in order to keep pace with the rapid industrialization and technological development of its economy⁶. Chinese oil companies have been present in Venezuela since 1997⁷, and with the discovery of the extensive oil and natural gas reserves in the Orinoco Tar Belt, the number of joint ventures and other projects has multiplied and is expected to further increase. The US Geological Survey estimates that the Orinoco Tar Belt is underlain by a mean volume of 513 billion barrels of technically recoverable heavy oil⁸. China contributes to the extraction of Venezuelan oil in several different ways, from direct investments through oil-for-loan accords to joint ventures focusing on transport and refinement. In the Chinese province of Guangdong PetroChina Co. and Venezuela have started the construction of an \$8 billion refinery aimed mainly to process Venezuelan crude⁹. The reinforced trade between the two countries reached \$10 billion in 2009 and continues to steadily grow. Figure 1.1 shows that even though Venezuela is still lagging behind China's main oil

suppliers, such as Saudi Arabia or Iran, there has been a fivefold increase in oil deliveries within 6 years, from 39,000 bbl/d in 2005 to 230,000 bbl/d in 2011¹⁰.



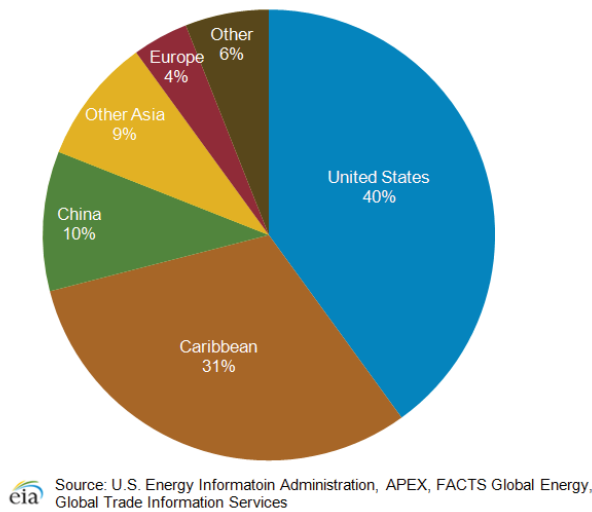
Apart from the oil agreements crucial to the Chinese economy, the significant market opportunities provided by the economic cooperation with Venezuela are also of high importance to China. In the fields of telecommunications, military goods and aircraft industry, the Venezuelan government under Chávez have conceded privileged positions and large subsidies to Chinese enterprises so that they could fill the gap left by the deterioration of the local manufacturing base. China's regional interest in Latin American markets, especially in the high value-added sectors, coincides with the intention of Venezuela to boost its non-oil trade between the members of the Bolivarian Alliance of the Americas (ALBA). In addition, Chinese companies have expanded their business into the service sector of Venezuela, including such infrastructural projects as the construction of 1159 kilometers of railroad by China Railway Engineering¹¹ and 2000 kilometers of fiber optic lines by Huawei¹²

The Venezuelan side:

When Hugo Chávez took office in 1999, he initiated a major reform program including radical economic and political changes. Chávez established a *hybrid regime*, that is, a political system with seemingly democratic institutions and norms – elections, division of power, etc. – which in

fact operates as an electoral autocracy, completely neglecting the principle of institutional checks and balances¹³. The so-called Bolivarian Revolution consolidating the power of the Chávez regime, while stemming from leftist ideology, has its unique characteristics, most importantly the intention to counter the United States' presence in Latin America and to drift away from western institutions. The term *chavismo* implies a certain kind of hybrid regime, with the main distinctive features being: the high representation of military personnel in the government and its related institutions, the outstandingly severe regulatory restrictions in the field of economic policy debilitating private business, and the already mentioned determination to decrease the country's dependence on the United States and to promote a quite radical anti-American political ideology across the region¹⁴. The political and economic transformation was only viable due to the broad electoral support, which can be understood through the lenses of populism. The powerful charisma of Chávez contributed enormously to the consolidation of the new regime and the feasibility of the reforms. The other main political instrument of the populist regime was the channeling of high incomes from oil into social policy programs, such as the Bolivarian Missions. The key factor in the growth and development of the Venezuelan economy, ensuring the extensive social policy, was undoubtedly oil. Venezuela owns the largest oil reserves in the world; however, production and export rates significantly declined during the Chávez regime¹⁵. Recent statistics show that Venezuela's petroleum export dropped by almost 50 percent, since peaking at 3.06 million bbl/d in 1997¹⁶. Nevertheless, the government could easily take on the role of the generous redistributor by taking total control over the country's national oil company, *Petróleos de Venezuela S.A. (PDVSA)* in 1992. In the name of *chavismo*, Venezuelan foreign policy concentrated on looking for alternative trading partners, other than the United States. Hence, China proved to be a perfect solution for the diversification of export markets. As figure 1.2 shows, by 2011 China absorbed 10% of Venezuelan oil exports, surpassed only by the Caribbean region and the United States¹⁷.

Venezuelan crude oil exports by destination (2011)



The tightened Sino-Venezuelan economic cooperation benefits Venezuela in numerous other ways. First, the huge amount of capital injections from China constitutes short-term funds indispensable for financing the revolutionary activities of the Chávez regime. With an estimated total of 1.359 \$ millions of FDI in 2011, China ranks as the seventh largest foreign investor in Venezuela¹⁸. Furthermore, the costly technology brought in by Chinese companies is essential for the extraction of Venezuela's own resources. In short, Chinese investments and joint projects in the country help the populist government maintain its electoral support and camouflage its deficiencies on a short-term basis. Nevertheless, the nature of the Sino-Venezuelan relations entails a high dependence of the Venezuelan leadership on China and an increasingly growing indebtedness, endangering the country's economic and political stability in the future.

Risks and Challenges for the new leadership:

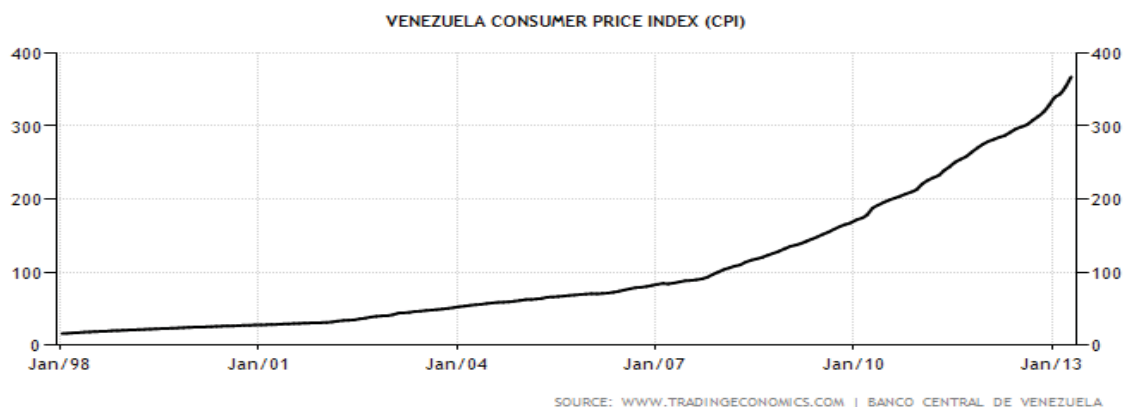
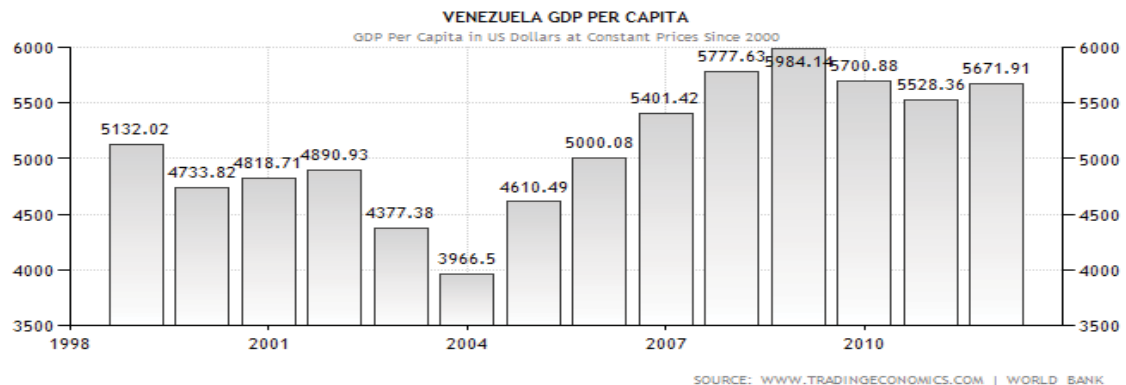
Destabilizing forces that Maduro will have to overcome in order to consolidate his power.

The balance established under Chávez can be easily offset in the turbulence of power transition combined with economic uncertainty and growing social discontent. The destabilizing factors, challenging the new leadership, derive from three different, although heavily interconnected fields: economic, social and political.

Economic:

The Venezuelan economy is suffering from a wide range of difficulties, from extreme poverty and inequality to one of the world's highest inflation rates¹⁹. While the Sino-Venezuelan bilateral agreements might bring great profits to a privileged group of people, the average population sees little benefit from Chinese investments. According to surveys conducted in 2011 by the Chilean non-profit organization Latinobarómetro, only 37% of the Venezuelan population thinks that the country has progressed over the last years, while 31% thinks that the redistribution of state revenues is righteous²⁰. The path of economic development chosen by the Chávez regime is inevitably leading towards a state of severe indebtedness and dependency, further deteriorating the situation. First of all, the country's overreliance on oil makes the whole economy exposed to the fluctuations in oil prices and causes the decline of essential economic sectors. The problem is stemming from the combination of the overreliance on oil and the strongly statist economic policy, including the fact that national oil production is controlled by the state-owned company *Petróleos de Venezuela S.A.* Consequently, when oil prices fall, the overall economy has to bear the negative consequences²¹. Second, the massive capital injections into the Venezuelan oil sector correspond to the expectation of similarly increased oil deliveries in the near future. The three main loans provided by the China Development Bank to the Venezuelan Heavy Investment Fund since 2007 include an \$8 billion agreement in June 2010²² and another \$20 billion contract signed in April 2010²³. The gradual decline of the oil industry and decreasing oil production, questioning the viability of future reimbursements, is one of the main challenges for the newly elected president to tackle²⁴. In order to secure the repayment of the Chinese loans, the economic policy pursued by the Chávez regime was disproportionately focused on the oil sector, while leaving other crucial economic sectors to decay. Some of the worst consequences of such a strongly biased economic strategy – amongst them the rising inflation and the crumbling infrastructure – have been transferred to the population. On top of that, electricity and food shortages have become more frequent, occasionally depriving thousands of people of their basic needs²⁵. The indebtedness towards China and the overreliance on oil are not the only aspects of the Sino-Venezuelan cooperation that contribute to the further decadence of the Venezuelan economy and the deepening social problems. The strong presence of Chinese companies in the high value-added sectors, especially in telecommunications, appliances, military supplies and the aircraft industry, together with their privileged market positions ensured by the Venezuelan government

further exacerbate the situation of local entrepreneurs. The ensured access to currency at favorable exchange rates, the direct subsidies and the promotion of certain items by Hugo Chávez himself are some of the instruments used to stimulate the purchase of Chinese products in the country. Furthermore, as a result of the policies pursued by Chávez, local manufacture in Venezuela has been almost completely wiped out, making the country dependent on imports of manufactured goods. The sharp rise in consumer prices stemming from increasing inflation combined with the exposure to import products affects negatively a substantial part of the population, questioning the credibility of the widely propagated economic indicators that show an increasing GDP rate and improving living standards since 1999²⁶. As the charts show below, the rising GDP per capita rates were accompanied by an exponentially increasing consumer price index²⁷.



Such economic strategy creates an impression that instead of providing support and impetus to national companies, the government prioritizes its strategic relations with Chinese businessmen, which is interpreted by many Venezuelans as “enriching Chinese companies instead of nationals” or as “selling out the country to the Chinese”²⁸.

Altogether, the overall perception of the Chinese presence in Venezuela is rather negative, therefore fueling the already rough sentiments of the opposition and its adherents towards the country's leadership.

Social:

Venezuela has outstandingly severe social problems, with a considerably high percentage of the population living in extreme poverty and one of the highest per capita homicide rates in the world being the most pressing issues. The high inequality amongst the country's population has engendered widespread aggression and a significant social tension. Although, the substantial decrease of poverty and unemployment rates under Chávez is an admittedly impressive achievement, a closer look to the actual data will prove that these improvements were counterbalanced by equally worsening social problems. According to calculations based on data from the World Bank, United Nations, US Department of Energy and the Venezuelan Violence Observatory, the percentage of the population above the poverty line has increased from 50.6% in 1999 to 70.5% in 2011, while the unemployment rate has fallen from 15.0% in 1999 to 8.6% in 2010. On the other hand, the homicide rate has radically increased from an initial 19.4 per 100 000 inhabitants in 1998 to an astonishing 73 per 100 000 inhabitants in 2010²⁹. With this figure, Venezuela ranks as one of the most violent countries of the western hemisphere³⁰. While widespread poverty and unemployment might be regarded as the principal social problem in most countries, the Venezuelan population has a distinct standpoint. According to the Latinobarometro surveys conducted in 2011, 82% of the population considers delinquency a more pressing issue than economic deficiencies, and 61% claims that elevated crime rates are the major problem of the country³¹. The main strategy of the Chávez regime to handle social threats was to camouflage economic inefficiencies and political distortions with high redistributions based on substantial profits from the oil industry³². One of the instruments of the populist regime to implement this type of social policy was the establishment of the Bolivarian Missions, a series of social programs operating in several fields from education to health care. The government's engagement in the Sino-Venezuelan bilateral agreements meant an ensured flow of capital from China that could be used to uninterruptedly pursue the extensive social policy. Apart from this, the high-visibility joint projects in the infrastructural sector served as symbolic initiatives asserting the regime's successful policies. Most importantly, both of China's main

telecommunication firms, Huawei and ZTE, have established cell phone manufacturing plants in Venezuela in 2009 and 2010³³, accompanied shortly by the Chinese appliance manufacturer, Haier³⁴. In addition, the two countries have signed an agreement in April 2010 ensuring that a new national airline, the “Línea Área Bolivariana Socialista”, would be financed with \$300 million by Chinese banks on the condition that the new aircrafts will be purchased from Chinese companies³⁵. Thus, the continuity of the economic cooperation with China is of crucial importance for the Venezuelan government in order to maintain its electoral support and legitimacy. Nevertheless, this populist “tactic” cannot be pursued forever, as the obvious dysfunctions of the unequal and imprudent economic policy and of the oppressive political system are becoming more and more visible, until they cannot be hidden anymore, not even by the fiercest populist rhetoric.

Political:

There is no need for better proof of the increasing dissatisfaction with the country’s leadership than the result of the disputed presidential election that has led to the victory of Nicolas Maduro. The outstandingly low margin of victory – 1.5% - clearly demonstrates how strongly polarized the Venezuelan population is. In the turbulent aftermath of the election, clashes broke out on the streets of Caracas and other parts of the country resulting in 7 casualties and at least 60 people injured³⁶. The considerable proportion of the Venezuelans demanding regime change and the establishment of more democratic institutions constitutes a great threat to the incumbent government. In addition, there are obvious signs of political factionalism and distrust within the government as can be concluded from the allegedly leaked recording between Chávez’s main propagandist, Mario Silva and a Cuban intelligence officer³⁷. It seems that the distorted political system infected by corruption and the discretionary decisions of the ruling party have provoked the indignation of the people, who have often been the victims of the government’s mismanagements. The growing discontent with the antidemocratic political behavior of the leadership and the unsustainable economic policies are fueled by a strong revulsion towards the Chinese presence in the country. Although, it appears to be highly unlikely that Venezuela would step on the path of democratic transition in the near future, the growing popularity of the opposition leader, Henrique Capriles, and the fact that democratic political culture is not at all

foreign to Venezuelan society, suggest that the probability of democratization is not a mere illusion. However, a deepening political turmoil and the loss of electoral support are more alerting threats to the leadership, especially in the fragile period of filling in the power vacuum left by the decease of Chávez.

The perspectives of the Sino-Venezuelan relations:

Depending on the outcome of the ongoing struggle for political power in Venezuela, there are three possible scenarios regarding the country's relationship with China and the future viability of the economic cooperation.

The status quo remains:

The most advantageous scenario for both countries is the one in which the political and economic system of Venezuela remains practically intact, in the name of preserving the Chávez legacy. For this, Maduro has to be able to efficiently tackle the destabilizing factors endangering the power transition process, while consolidating his political power and legitimacy. As a political leader, he has to gain trust and credibility by proving to be as charismatic as his predecessor. In order to do so, after managing the factionalism within his own government, he needs to ensure a firm electoral support while simultaneously weakening the opposition forces. Following in the footsteps of Chávez, he must make all efforts to complete one of the ultimate purposes of the Bolivarian Revolution, which is to isolate the country from the United States and instead make China the primary market of Venezuelan exports³⁸. Regarding the economy, the oil-centered economic strategy would be carried out without major changes so that the firm base of the revolutionary foreign policy remains ensured by the profit from Chinese investments. Thus, trade agreements and joint ventures would continue to increase in number, contributing to the further strengthening of the strategic cooperation between the two countries. As to the popular dissatisfaction and growing social tension, the ruling party would pursue the same populist tactic of high redistributions in the form of social programs and humanitarian aid. Undoubtedly, China would be highly pleased with this state of affairs, as oil deliveries would continue to flow into the country building a firm basis for the rapid economic expansion and industrialization, the main

priority of the Chinese government. However, even if despite all difficulties Maduro managed to stabilize the situation on the short term, the eventual collapse of the current system appears to be inevitable due to the “unsustainable cycle of indebtedness and dependency”³⁹.

The Venezuelan government takes the path of further radicalization:

Most likely, the several underlying controversies in the Venezuelan political system will engender some sort of alteration in the current status quo. The changes could point in two different directions: either the ruling party intends to consolidate its power through further radicalization, or the new leadership will be unable to sustain its position and will therefore be overthrown by strengthening opposition forces. In the former case, the political factionalism would be contested by further centralization of power in the hands of Maduro and his most loyal adherents. This would imply a reallocation of power positions within the government and the intensification of autocratic political measures so as to debilitate the opposition. Ensuring that all the key positions are occupied by loyalists of Maduro would facilitate the smoother functioning of the administration, while abolishing the last remains of democratic practices would undermine the power of social discontent. Hence, a shift from electoral autocracy towards unconcealed dictatorship based on the discretionary control over military forces could be a possible reaction to the present instability. As Anti-American ideology is one of the main causes of popularity of the regime, radicalization would be reflected not only in the internal affairs of the country but also in the rhetoric concerning foreign policy issues, implying an even more hostile attitude towards the United States and western institutions. China would probably take into account that strengthened ties with a country representing such a fierce anti-American rhetoric might have negative effects on its prioritized strategic relationship with the United States. The loss of trust of Chinese investors would have severe consequences for the Venezuelan regime, as it would negatively affect the inflow of capital, on which revolutionary activities are based. In addition, in case of a gravely deteriorating relationship with China, Venezuela would not even be capable of extracting its own natural resources. Hence, a much deeper crisis would become inevitable.

The Venezuelan government will be overthrown:

The other possible outcome of the uncertain power transition and political struggle is that the government of Maduro will be overthrown, which could be carried out in two different ways, either by the distrustful members of the cabinet or by the opposition forces. In the Latin-American region, coups d'état have a long tradition and they constitute a viable political instrument in regime change. According to the leaked recording, the national military forces – whose members had been designated to important political positions by Chávez – are now becoming divided and the control over them is slipping out of Maduro's hands. Therefore, if internal discord within the government continues to grow, it could easily reach the extent where the use of military power with the aim of executing a putsch becomes a feasible option. This would presumably provoke the development of a chaotic situation that could even escalate into a state of civil war in the country. The other possibility is that the opposition forces, led mainly by Henrique Capriles, manage to strengthen themselves enough in order to overthrow the chávista regime and take over control. A regime change without coercive elements would establish a firmer legitimacy for the new government. Nevertheless, due to the strongly polarized society, clashes amongst the supporters of Chávez and the opposition would probably be worsened by chaos and aggression. Although with a new right-wing government propagating democratic principles there would be major shifts in both the political and the economic attitude of the governance, the path to democratization would be a quite long and difficult one. Even taking into consideration that according to him, Capriles claims not to have the intention of changing the strategic relationship with China, the Sino-Venezuelan economic cooperation would be seriously endangered by the turbulence caused by the attempt of a democratic transition. The unpredictable and chaotic situation would definitely hinder the long-term investments made by Chinese companies. Consequently, it would be reasonable to expect the weakening of the economic cooperation. This scenario is the most unlikely and yet the most complicated one, given the fact that the democratization process would have to overcome more than a decade of autocratic practices and an ideology-based revolutionary foreign policy.

In short, any change in the current status quo would be contrary to the economic and political interests of both countries. Therefore, they are expected to make all efforts in order to preserve the present state of affairs.

Conclusion:

Since the first election of Chávez, Venezuela has been a country of controversies, radicalism and polarization. The peculiar hybrid regime, operating with autocratic practices regarding internal affairs while representing an aggressive anti-American rhetoric in its foreign policy, divided the Venezuelan population into two antagonistic blocks. The thriving of the Sino-Venezuelan bilateral agreements can be associated with the emergence of the new political ideology. By now, the strategic cooperation between China and Venezuela has become a crucial element of both countries' economic policy; however, the harmful effects of the prioritized Chinese investments in Venezuela have provoked strong dissatisfaction amongst its population. Nevertheless, the charismatic personality of General Hugo Chávez as the leader of the revolutionary movement was able to keep the system from falling apart. His decease and his succession by Nicolas Maduro, the former vice-president, struck the Venezuelan system and questioned its sustainability in the future. Maduro will hardly be capable of taking over the role of Chávez and overcome the destabilizing forces with the same efficiency. Apart from the already existing complications, he now has to face an increasingly popular opposition leader, Henrique Capriles, along with the gradual loss of his party's electoral support. Furthermore, according to a leaked recording, it is to be suspected that members of his own government have turned their back against him. The government, generating great tension amongst the population, has not yet solved the political turmoil caused by the possibly illegitimate presidential election and its repercussions in the Venezuelan society. The current situation might easily be interpreted by China as a phase of instability taking over the Venezuelan political system, which would constitute an immense threat to the Chinese investments and loans. Nevertheless, since both countries' leaderships are highly interested in preserving the strong economic cooperation with its main focus on the oil sector, they would most likely further enhance the tightening of the Sino-Venezuelan relations. If Venezuela will experience a transition process in the near future due to the highly polarized society and the growing social discontent from the supporters of the opposition, the consequences on the Sino-Venezuelan relations, and also on the world economy, would be determining. In any of the three scenarios detailed above, the long-term perspectives of the economic cooperation point to a dead end.

Either way the situation in Venezuela is going to become more and more unstable until the critical point where crisis is inevitable. Even if the status quo remains for now, it is only a matter of time until the bubble will burst and then China will find itself in the middle of an extremely complex situation.

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