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CHINA–VENEZUELA ECONOMIC RELATIONS:

Hedging Venezuelan Bets with Chinese Characteristics

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Venezuela's President Nicolas Maduro, right, walks with Chinese President Xi Jinping during a welcome ceremony at the Great Hall of the People in Beijing, China Wednesday, Jan. 7, 2015. Source: AP Photo/Andy Wong, Pool

Development holds the master key to solving all problems. In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries and achieve economic integration and interconnected development and deliver benefits to all.

–President Xi Jinping, Belt and Road Forum for International Cooperation, May 2017

The Trump administration critiqued President Xi Jinping's rosy development rhetoric, suggesting that "debt-trap diplomacy" is at the heart of China's flagship foreign policy program, the Belt and Road Initiative (BRI).[1] The BRI is designed to invest between $500 billion and $1 trillion (or 3 to 7 percent of China's 2018 gross domestic product, or GDP) in long-run infrastructure financing across more than 60 neighboring Asian, European, and African countries. China considers Latin America to be a "natural extension" of its BRI,[2] with 19 Latin American and Caribbean countries signing BRI agreements since Panama first inked its deal in November 2017.[3] After its policy banks (i.e., the Chinese Development Bank and China Export-Import Bank) invested more than $140 billion in Latin American loan commitments over their first decade in Latin America (which amounts to $12.8 billion annually, or 5.4 percent of total regional foreign direct investment, or FDI), China's financing spigots are likely to stay open.[4] By 2025, China has also pledged to invest an additional $250 billion, which, if realized, would push this annual figure above $20 billion (or 8.5 percent of total regional FDI).

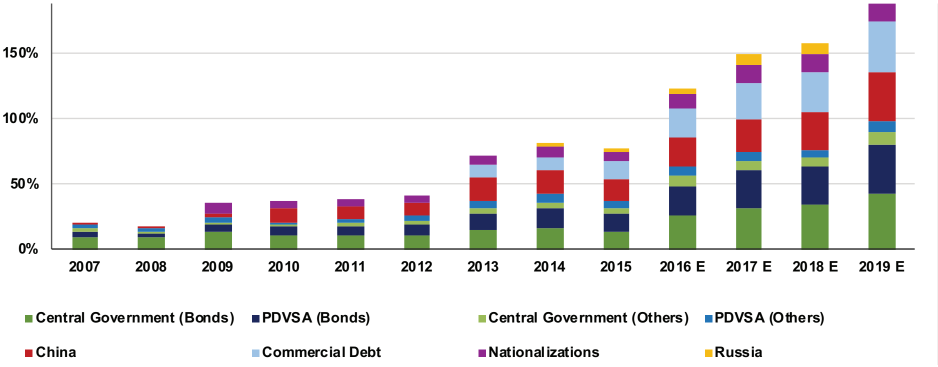
The considerable size of the investments has caught the United States' attention, particularly against the backdrop of rising US-China trade tensions and heightened technological competition. In October 2018, Vice President Mike Pence remarked that "China uses so-called 'debt diplomacy' to expand its influence," offering unsustainable infrastructure loans that mire borrowers in a growing debt burden until they must repay China with key strategic assets.[5] Pence explicitly censured China's loans to Venezuela, saying they "saddle" the Venezuelan people with debt, even as their "democracy vanishes."[6] The 2018 US National Defense Strategy similarly accuses China of using "predatory economics."[7]

In the Western Hemisphere, Venezuela has been at the center of these growing global tensions between China and the United States, particularly after tens of thousands of Venezuelans raised their hands toward the sky on January 23, 2019, to offer solidarity to legislative leader, Juan Guaidó, who declared himself interim president of Venezuela during a rally demanding President Nicolás Maduro's resignation. Refusing to recognize the legitimacy of Maduro's May 2018 reelection, Guaidó cited his constitutional duty as the head of the National Assembly to fill the presidential vacancy until new elections were called. Working hand and hand with Guaidó, the United States unequivocally supported his declaration, recognizing him as Venezuela's head of state. Backed by many different Latin American nations, President Trump said he would "use the full weight of United States economic and diplomatic power to press for the restoration of Venezuelan democracy." Other European countries also recognized Guaidó as interim president after Maduro failed to accept the convening of new presidential elections.

The United States put some economic muscle behind its position, imposing sanctions on Venezuela's state-owned oil company, Petróleos de Venezuela, SA (PdVSA). The January 28, 2019, sanctions declared that all PdVSA's assets, including its oil sale proceeds, would be frozen in US jurisdictions. Throughout 2019, the US government applied further pressure by imposing secondary sanctions on countries doing business with this crude-rich nation, something that heavily affected Russian, Chinese, Indian, Spanish, and even US firms still doing business in the oil sector.

In light of these patterns, how did these sanctions affect countries not aligned with the United States, particularly those powers, such as China and Russia, with a major financial interest in Venezuela? China and Russia are Venezuela's two main bilateral creditors, accounting for one-quarter of the nation's foreign debt (see figure 3.1). However, to what extent do these nations share geopolitical ends in the Western Hemisphere? To date, the two countries have offered distinct political reactions to the crisis prompted by Guaidó's effort to displace Maduro and convoke free and fair elections. Russia's Foreign Ministry warned the United States against meddling in Venezuela, saying "the cynical, overt interference in the internal affairs of a sovereign state continues. It must stop."[8] Russia's foreign policy response fell along enduring Cold War fault lines, an ideological response similar to Cuba's, whose Foreign Ministry expressed "its unwavering solidarity" with the Maduro government. Russia's strong support of Maduro's fully authoritarian regime has proven decisive in helping him maintain iron-clad control over the military. And, as Vladimir Rouvinski argues in chapter 2 of this volume, Russian support has been crucial for the regime to survive, including by bypassing international sanctions. That said, the departure of its state oil firm, Rosneft, from Venezuela in March 2020 raises uncertainties about Russia's ability to sustain this role.

Figure 3.1: Composition of Venezuela's Foreign Debt (% GDP)



Sources: Kaplan and Penfold 2019.

China may have benefited from Russia's operations to evade sanctions, reportedly receiving some obfuscated oil shipments, but it has also been more pragmatic and subdued than Russia. China has provided unconditional support to Maduro, with its Foreign Ministry saying that "we respect Venezuela's efforts to uphold its sovereignty, independence, and stability." However, it has also called on "all parties to remain rational and keep calm, and reach a political settlement through peaceful dialogue."[9] What explains China's more cautious reaction to the crisis? What are China's hemispheric motivations? Do the country's Venezuelan investments reflect President Xi's development discourse or the Trump administration's geopolitical portrayal? Or are both perspectives missing some nuance? This chapter argues that, though China may be interested in geopolitical influence and South-South development, its commercial objectives have historically motivated much of China's hemispheric investment.

In Venezuela, China has too often prioritized commercial relations over macroeconomic evaluation, leading to a mispricing of investment risk. Venezuela's indebtedness to China is thus more a product of its creditor learning curve than geopolitical entrapment. Fostering Venezuela's sustainable development eluded China as a creditor because its foreign economic policy necessitated deemphasizing more objective risk assessments. As a rising "developing country" creditor, China's lack of conditionality differentiated it from Western lending, helping to promote its South-South cooperation in the developing world. Rather than mitigating sovereign risk with policy conditions, China's policy banks instead used commercial considerations to approve these loans. In Venezuela, China's policy banks secured their lending with loan-for-oil-deals, wagering that the country's oil production capacity was a sufficient guarantee for debt repayment. China also hoped to gain a foothold in the Latin American energy sector by offering Venezuela cheap loans, development financing, and the autonomy to massively expand its state balance sheet.

China is currently Venezuela's largest bilateral lender, but Beijing has reassessed its sovereign risk evaluation. Its policy banks have been actively unwinding their financial ties with Venezuela since President Nicolás Maduro's succeeded Hugo Chávez in 2013. Adorned in its state-to-state "sisterhood" rhetoric, Beijing continues to offer diplomatic support for the regime. However, given its long-standing concerns about Venezuela's economic mismanagement and political instability, China has steadily dissolved its Venezuelan financial links over the last half decade. At its peak, Venezuela accounted for an average of 64 percent of China's new approved lines of credit to Latin America between 2010 and 2013. By contrast, between 2014 and 2017 Venezuela represented only 18 percent of China's total new lines of credits to the region. China has been lending defensively, or offering Venezuela limited new funds to keep the country afloat so that it can repay its debts. In other words, China has moved from privileging commercial ties to more carefully evaluating its investment risk.[10]

Table 3.1: China's Lines of Credits to Venezuela

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Original Tranches (A, B, C, Great Fund) (Billions USD)*	**4.0**	**0.0**	**4.0**	**8.9**	**11.4**	**0.0**	**5.0**	**0.0**	**0.0**	**0.0**	**0.0**	**33.3**
Renewed Tranches (A, B, C, Great Fund) (Billions USD)	0.0	0.0	0.0	0.0	4.0	4.0	0.0	4.0	5.0	0.0	0.0	17.0
Total Central Government Financing**	**4.0**	**0.0**	**4.0**	**8.9**	**15.4**	**4.0**	**5.0**	**4.0**	**5.0**	**0.0**	**0.0**	**50.3**
Direct Joint-Venture Financing	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0	0.0	2.2	0.0	6.2
Other Bilateral Credits	0.0	0.0	1.5	1.1	1.5	0.5	1.1	0.0	0.0	0.0	0.0	5.7
Total Bilateral Financing**	**8.0**	**0.0**	**9.5**	**18.8**	**32.3**	**8.5**	**15.1**	**8.0**	**10.0**	**2.2**	**0.0**	**62.1**
Amount (% of Total for LatAm)**	83.3%	0.0%	35.0%	41.1%	87.5%	64.3%	72.1%	40.0%	20.3%	10.4%	0.0%	**41.4%**
No. of Loans	1	0	3	2	3	2	4	1	1	1	0	17

Sources: Rodriguez, Torino Capital; Venezuela's Official Gazettes; Gallagher and Myers Database, The Interamerican Dialogue.
*Adjusted for Tranche Renewals (i.e. Roll-overs), **Not Adjusted for Roll-overs.

Importantly, the structure of these loan-for-oil deals involved two separate contracts: a financial agreement in which Chinese policy banks lend Latin American governments money, such as Venezuela; and a commercial agreement in which Chinese importers purchase oil from PdVSA. The commercial agreement secured the loans, as

PdVSA uses its daily oil proceeds from its China sales to steadily repay the loans to Chinese policy banks over time until maturity. However, the success of China's efforts to hedge its Venezuelan risk with oil collateral was contingent on PdVSA's ability to sustain its oil production. Without steady or increasing oil production, PdVSA was in a financial catch-22. Complying with the terms of these oil-for-loan deals meant funneling an increasing share of its export proceeds to China, rather than reinvesting in the company's operations. Ironically, as PdVSA's struggled to finance its operations, the state oil company jeopardized its production, and ultimately its ability to repay the government's loan-for-oil debts.

During the Chávez era (1998–2013), China had some project-level commercial successes in Venezuela in the mining and energy sectors, but it failed by far to meet the lofty goals of the BRI in other sectors because of its inability to temper moral hazard in Venezuela.[11] In a country where oil revenues represent 96 percent of gross income, China's hope of separating commercial from macroeconomic risk was virtually impossible. The health of the state oil company was integrally tied to the vitality of both the state and the economy. Venezuelan leaders gladly borrowed from China, using the state oil company's future oil sales as collateral. To spend on the government's political and social agenda today, they leveraged the health of Venezuela's prized asset, tomorrow. With PdVSA already struggling from commodity volatility after the 2008–9 financial crisis and a loss of managerial expertise earlier in the decade, transferring proceeds from the state oil company to repay the central government's debts stunted it reinvestment and profitability.

...the success of China's efforts to hedge its Venezuelan risk with oil collateral was contingent on PdVSA's ability to sustain its oil production.

Perhaps most important, China's commodity guarantees were unable to check the Venezuelan sovereign risk problem under President Maduro's leadership. By the beginning of Maduro's 2013 term, China had extended more than $40 billion to Venezuela through its loans-for-oil facilities (and other bilateral credits), and about $30 billion of that amount was still outstanding. Given ongoing uncertainty about President Maduro's economic management credentials, however, China's policy banks relented from deepening their financial relationship with new state-to-state loan facilities. Instead, they renewed $9 billion in previous loan tranches to help Maduro navigate the commodity correction during 2014–15. Soon Beijing realized that Maduro gladly borrowed from China, using the state oil company's future oil sales as collateral, but he did not heed the advice of his own cabinet about the importance of reforming economically. As the central government's spending expanded without bounds, Maduro was increasingly killing the preverbal goose that had long laid Venezuela's golden egg.

A Venezuelan debt spiral and a deep governance crisis were casting a shadow over China's South-South development discourse.

Despite their positive state-to-state rhetoric, the two countries began moving in different directions. After internalizing the extent of Venezuela's macroeconomic and governance problems, Chinese policy banks started reducing their credit risk exposure. By 2016, China's defensive lending had entered a new stage, as it extended some temporary debt relief to Venezuela, negotiating a two-year moratorium on the country's bilateral loans, which was recently renewed in response to the global COVID-19 pandemic. To the extent that China has lent Venezuelan new money, such as a reported $5 billion loan during the summer of 2018, it has been linked to the direct financing of joint-ventures in the oil industry to help boost production, and, hence, to recovering China's outstanding oil collateral under its loan-for-oil deals. By contrast, the Venezuelan government has deepened its governability crisis by refusing to change its economic model, leading the country into the worst economic depression and migration crisis in Latin America's modern history. With the collapse of Venezuela's oil industry, the Maduro government increasingly had difficulty getting new credit from anywhere, let alone China.

Over time, China's creditors deleveraged their financial position, not only because of their economic exposure but also because of the government's concerns about soft power optics throughout the rest of the region. A Venezuelan debt spiral and a deep governance crisis were casting a shadow over China's South-South development discourse. China had deep investment and trade ties in many major Latin American countries, including Argentina, Brazil, Ecuador, Panama, and Peru; and these countries increasingly criticized Nicolás Maduro's autocratic turn and economic mismanagement in Venezuela. Most recognized Juan Guaidó as interim president and called for free and fair elections, and have also been acutely affected by the migration crisis that has followed Venezuela's economic and social collapse. As a result, neighboring nations have been openly promoting regime change, demanding to restore democracy and seeking international funds to mitigate the humanitarian crisis on the borders with Venezuela. Factoring in both these costs, China has been pursuing a defensive lending strategy over the last half decade that runs counter to the claims of the more offensive-minded debt-trap diplomacy.

China's Commercial Relations in Latin America

To provide background to these creditor–debtor relations, let us turn the clock back to the mid-2000s, when China made its initial investment foray into Latin America under the umbrella of its "go global" strategy. During this time, China's leadership, guided by the stewardship of Hu Jintao, had embraced Deng Xiaoping's circumspect view of international relations: "Hide your strength, bide your time, never take the lead."[12] In first expanding its Latin American investment, China had emphasized its "peaceful rise" in the hemisphere by prioritizing its bilateral relationship with the United States, and carefully avoiding any direct geopolitical challenges. For example, during a 2011 state visit to the United States, President Hu emphasized that "we do not engage in arms races or pose a military threat to any country; China will never seek hegemony or pursue an expansionist policy."[13]

China has been pursuing a defensive lending strategy over the last half decade that runs counter to the claims of the more offensive-minded debt-trap diplomacy.

China's accompanied this peaceful rise theme with its "go global" strategy. First articulated by President Jiang Zemin in 1998, the "go global" strategy aims to promote the interests of the Chinese state globally by internationalizing Chinese investment and lending, and securing long-term access to energy and raw materials. China's policy banks are a key instrument in achieving these foreign policy goals. Charged by the government to finance infrastructure and trade, policy bank loans often headline broad infrastructure-led investment packages. Such bilateral lending is an important pillar of the East Asian model of foreign aid, which aims to promote infrastructure development and FDI as key drivers of longer-term growth.[14]

Building on these foreign policy foundations, President Xi Jinping more recently incorporated these policy tools under the banner of the Belt and Road Initiative. Initially crafted to invest as much as 7 percent of China's GDP in infrastructure across more than 60 neighboring countries, China recently signed BRI agreements with 18 Latin American countries to also join this initiative. Taking a page from China's domestic playbook, where infrastructure spending and trade promotion helped spur growth during its miracle years, many Chinese leaders today see infrastructure investment as a catalyst for overseas development. For example, in a 2017 interview, a sovereign risk director from one of China's policy banks underscored the benefits of financing infrastructure investments internationally: "One of the deciding factors between a developed and a developing country is the level of infrastructure; the world needs a new way of infrastructure building; the developing world has a most urgent need, and for the rest time in history, China is willingly supporting these activities because China now is a capital exporting country."[15]

Cloaked within these development objectives is China's commercial goal of promoting its firms internationally. China hopes to catalyze finance in risky credit environments to bolster global trade and investment, creating opportunities for Chinese firms and goods globally. To improve their global competitiveness, Chinese firms are often hoping to gain cheap assets, build their market share, gain valuable overseas experience in marketing and distribution, and improve key logistical skills and local engineering capabilities.

China's strategic interest in Venezuela has been primarily commercial, but also accommodative of President Hugo Chávez's political goal of economic diversification from the United States.

Several other commercial factors have also helped catalyze China's outward investment. Faced with rising wages and inflation domestically, China today is finding it more difficult to move incrementally in its global economic relations. Capital is flowing abroad for both sanctioned and unsanctioned reasons. They include exporting domestic overcapacity in such sectors as infrastructure, construction, steel, and energy, acquiring foreign technology under "Made in China 2025," but also unplanned private-sector capital flight. China's investment overseas also reflects its loss of comparative advantage in labor-intensive manufacturing. Its outward FDI is in part meant to keep a foothold in this sector, which has become a crucial part of its global win-win development strategy.

In this regard, China's 2016 White Paper on Latin America and the Caribbean lists manufacturing among its six priority cooperation areas.[16] Compared to Africa, however, Latin American labor costs are relatively high, helping explain why to date only one-tenth of China's regional FDI has been oriented toward manufacturing. The White Paper expects this trend to change, suggesting that China will foster "industrial cooperation in such fields as automobiles, new energy equipment, motorcycles and chemical industry, which will cover the whole industrial chain."[17]

China's strategic interest in Venezuela has been primarily commercial, but also accommodative of President Hugo Chávez's political goal of economic diversification from the United States. Commercially, China's policy bank lending to Venezuela helps defray operational costs, encouraging companies to position themselves in global energy and commodity markets that are vital to meeting the demands of China's rising middle class. Since the first Venezuelan loan deals were negotiated in 2007, the China Development Bank (CDB) and the China Export-Import Bank have mainly supported investment in the energy and mining sectors, including power stations, oil refineries, and pipelines. They have helped some of China's largest state-run enterprises develop a local presence in Venezuela, including the China National Petroleum Company (CNPC), the China Petroleum and Chemical Company (Sinopec), and the Sinohydro Group.

Rather than imposing such policy conditions, China tends to underwrite credit risk with commercial conditions embedded in its loan contracts.

However, the initial discretionary nature of these policy bank loans also meant that Venezuela used the proceeds for infrastructure projects in a variety of other economic sectors, including agriculture, transportation, and real estate. Although it receives less attention because of its lower headline numbers compared with China's billion-dollar energy agreements, Venezuela has also quietly attracted $800 million (or about two-fifths of its total Chinese FDI) in manufacturing investment in the automotive and consumer electronics industry by private firms like Huawei Technologies and Chery Automobile.[18] Notably, three-quarters of this investment took place during the Chávez regime when economic conditions were more favorable.

China's investment thus tended to reflect its stated foreign policy economic objectives for Latin America, funneling finance and investment resources into energy, infrastructure, and manufacturing.[19] But do China's creditors and investors behave any differently compared with the West?

Latin American Risk Management: China versus the West

Chinese policy banks historically approached sovereign risk evaluation with a different set of metrics compared with Western capital. In structuring their loan contracts, China has avoided policy conditionality, or credit being contingent on a country's macroeconomic performance. Chinese bankers operate under an official doctrine of nonintervention in domestic affairs, as stipulated in the country's Five Principles of Peaceful Coexistence.[20] For example, China's State-Owned Assets Supervision and Administration Commission considers "respect for the laws and policies of the country being invested in and respect for local customs" as primary principles in its foreign investment guidelines.

Whereas Western creditors often place a big emphasis on the macroeconomic and institutional environment (i.e., the budget framework, the extent of indebtedness, the rule of law, transparency, and governance quality), Chinese investors have tended to view such institutional metrics as political. Rather than imposing such policy conditions, China tends to underwrite credit risk with commercial conditions embedded in its loan contracts.[21] Chinese scholars, officials, and practitioners all tend to emphasize this distinctly commercial, non-Western approach. For example, Chinese scholars have illustrated this point in the Chinese Academy of Social Sciences' (CASS) *Journal of Latin American Studies*, the government think tank's premier regional studies publication: "The primary reason that the World Bank and other developmental financial institutions overlook Venezuela and other such countries is that they are so-called high-risk nations. This type of judgment is based upon a political perspective and not an economic perspective. In reality, Venezuela is South America's largest oil exporter and maintains a relatively strong ability to repay debts."[22] CASS's Latin American Institute, which publishes the *Yellow Book of Latin America and the Caribbean* that details China's foreign affairs strategy for Latin America, concurs with this scholarly assessment of the oil industry: "Latin America is the realistic choice of Chinese resources diversification. In recent years in Latin America, mineral resources reserved has constantly escalated, the large size oil fields have been discovered, which offers good condition for China resources diversification strategy."

Finally, Chinese investors responsible for external investment decisions also share these viewpoints about Latin American risk. For example, a former executive member of the loan approval committee of one of China's major policy banks sees its role as creating credit space and spurring economic activity in risky operational environments: "A lot of people say Venezuela is so risky, you shouldn't give more loans to this country! Some critics even say Exim Bank and China Development Bank should stop giving money to Venezuela. But, for these two banks, we are OK. We have different metrics than you. We think Venezuela is OK. ICBC or China Construction Bank they may say that Venezuela is too risky, but Exim Bank or CDB say OK, because these banks have different tastes for risks, and they also have different skills toward risk management. Exim Bank and CDB, they are so good at playing in developing countries, especially Africa and Latin America. These two banks set very strong guarantees. They set up different risk management structures."[23] Compared with market-based creditors, which often want short-term policy assurances to ensure higher near-term financial returns, Chinese creditors seek to promote long-term commercial opportunities by tying their investments to guaranteed contracts for its state-owned firms, Chinese content requirements to stimulate machinery exports, or commodity guarantees.[24]

From a political perspective, China has a long-history of cross-ideological relationships in Latin America but little tolerance for political instability.

In Venezuela, China's policy banks have tended to use commodity guarantees that secure their loans with oil. While these financial vehicles are popularly understood as exchanging loans for oil, they are a bit more complicated in their execution. They are based on two different transactions. Chinese policy banks lend Latin American governments money, while Chinese importers simultaneously establish a daily purchasing agreement with PdVSA. The company then uses the cash it earns from its daily sales to Chinese importers to incrementally repay the policy bank loans over time until maturity. PdVSA's daily inflow of income from Chinese oil purchases thus serves as collateral for policy banks' loans to the national government.

These types of loans deliver policy flexibility, but at the potential cost of long-run commercial competitiveness. For example, former Venezuelan president Hugo Chávez lauded the lack of conditionality, saying, "it differs from other multilateral loans because it comes with no strings attached, unlike the scrutiny of international finances."[25] However, both types of financing come at a price. The commodity guarantees embedded in loans-for-oil agreements risk eroding commodity proceeds that could otherwise be channeled toward domestic spending or reinvestment in state energy firms.

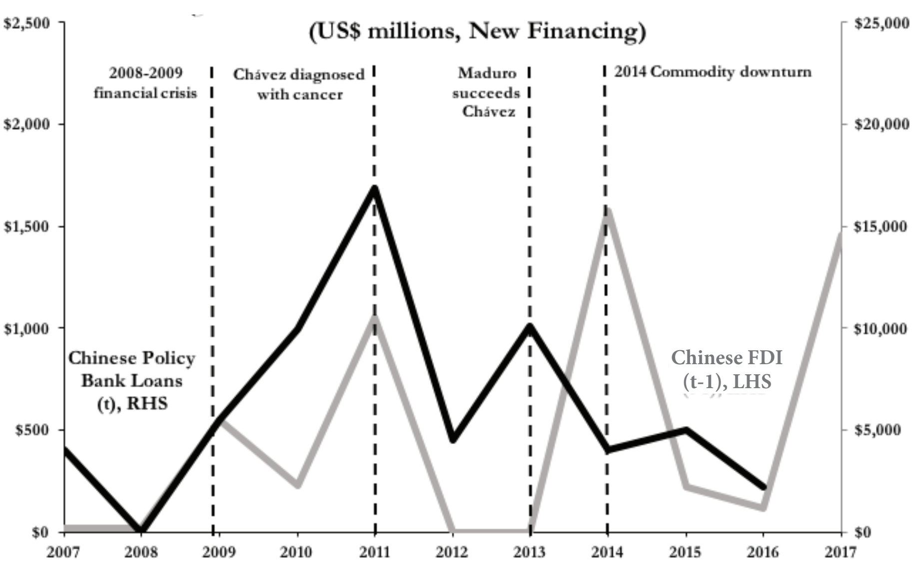
How China's Sovereign Risk Assessment Changed in Venezuela

This growing opportunity cost of borrowing from China has encapsulated the China–Venezuela lending relationship since oil production began to falter in 2013–14. Mired in its historically devastating crisis, Venezuela has struggled to repay its outstanding Chinese debts because of its dwindling state oil production. China has consequently questioned whether its commercial approach to lending is sufficient, while increasingly incorporating a more traditional macroeconomic approach to sovereign risk. For example, China reportedly conditioned its recent $5 billion in joint-venture financing on the government's currency devaluation—a far cry from nonintervention in Venezuelan affairs.[26] What has prompted China's about-face as a creditor?

Given the importance that China places on state-to-state relations, its shifting creditor position reflects politics as much as economics. China views its state-to-state cooperation as the diplomatic entryway into new creditor–debtor relations; but the administrative channel is also a lifeline for resolving investor disruptions and commercial disputes. From a political perspective, China has a long-history of cross-ideological relationships in Latin America but little tolerance for political instability.[27] For instance, Argentina's regime stability has allowed China to forge business deals across the political aisle with both Mauricio Macri, a center-right president, and Néstor Kirchner, a former leftist president. It also has not shied away from doing business in Brazil since the presidential victory of far-right candidate, Jair Bolsonaro. According to a Chinese Foreign Ministry spokesperson, Lu Kang, "China congratulates Brazil on a smooth presidential election and congratulates Mr. Bolsonaro for his election… . China has always aimed to develop the China-Brazil relationship from a strategic and long-term perspective. We are willing to maintain and further develop our current partnership with Brazil in order to better serve the people of our countries, as well as striving to maintain regional peace and stability for the world."[28]

China was more circumspect regarding Venezuela's political transition. For more than a decade, China had extended new financial commitments to Venezuela, even during periods of volatility such as the 2008 global financial crisis and the 2014 commodity downturn. However, the scale of its new financial commitments eased over time, particularly after former president Hugo Chávez was first diagnosed with life-threatening cancer in 2011 and then was succeeded by Nicolás Maduro in 2013 (figure 3.2). Chinese FDI and trade finance continued with news of a successful transition. However, public bankers have been more skeptical about Maduro's ability to manage the economy and repay Venezuela's debts, particularly as Venezuela's cash crunch stymied repayments on both its "loan-for-oil" deals and the financing of its $7.5 billion high-speed railway project.

Figure 3.2: China's Finance and Investment into Venezuela (US$ millions, New Financing)



Note: Policy bank loans include financial commitments that are rolled-over in any given year (see *Total Bilateral Financing* from Table 3.1).
Sources: Calculated from Torino Capital data; China-Latin American Finance Database (Inter-American Dialogue), CEIC data, MOFOMM, SEC, China Global Investment Tracker, AID data, and the Atlantic Council.

Policy banks have not lent the central government any new funds directly since 2015, instead channeling funding toward joint ventures (table 3.1). Policy banks have also conditioned such new funding on "monitoring" oil production and economic reforms. Beyond these financial institutions, state-owned insurance firms, such as Sinosure, have increasingly adopted macroeconomic risk metrics that are similar to Western investment banks and multilateral institutions in their project evaluations.

In summary, Chinese lenders have become more circumspect about their Venezuelan lending, which reflects their learning curve as a creditor. After mispricing Venezuelan investment risk, China appears to be placing a growing emphasis on macroeconomic assessment relative to commercial project evaluation. Notably, the bulk of China's Venezuelan lending occurred during the leadership of President Hu Jintao, who publicly prioritized China's global commerce above its geopolitics. Between 2010 and 2013, Venezuela accounted on average for close to two-thirds of China's credit lines to Latin America. By contrast, between 2014 and 2017, Venezuela represented less than one-quarter of new lines of credits to the region. In recent years, China's current president, Xi Jinping, has taken a more assertive foreign policy posture internationally. However, Xi's shift in diplomatic tone has aligned with a period when China has been further unwinding its financial commitments to Venezuela, a pattern that contradicts the premise of the debt escalation associated with debt-trap diplomacy.

The Limits of Venezuela's Chinese Courtship

Sitting atop the Caracas congestion is Venezuela's treasured Avila National Park, the verdant central coast mountain range that is full of fauna. According to local lore, a flower-picker named Pacheco, who hailed from the nearby mountain-town of Galipán, once traveled the long-winding road to Plaza Bolivar in Caracas to sell his flower harvest annually. His arrival tended to coincide with winter, spawning the provincial expression "Llegó Pacheco," or "Pacheco has arrived," meaning that bleaker, dreary days of Venezuelan hardship were approaching. Nine thousand miles around the globe, where winters are much colder, China's historical wisdom for surviving the seasonal chill is rooted in nutrition. To reduce illness, the age-old proverb favors eating "carrots in winter, and ginger in summer," to boost immunity.

In the current era of globalization, China has cultivated its roots in Venezuela, growing its financial and commercial ties over the last decade. When Venezuela's economy first arrived at its long, arduous winter after the global financial crisis, China offered carrots to boost Venezuela's health, strengthening state-to-state ties to sustain its economic vitality. Venezuelan leaders considered China to be a key foreign policy ally, helping the country finance the expansion of the Venezuelan state, and diversify its economic relations from the West.

The tendency of Chinese policy banks to mitigate credit risk with commercial rather than macroeconomic conditions had left them exposed to Venezuela's governance failures.

As the Venezuelan winter turned darker amid the country's historic crisis, China balked at being Venezuela's lender of last resort. Despite Venezuela's desire to further deepen its state-to-state relationship during its crisis, China increasingly reduced its financial commitments against the backdrop of President Maduro's economic mismanagement, the state oil company's collapse, and the consequent political instability. However, they avoided completely cutting financial ties to Venezuela.

The tendency of Chinese policy banks to mitigate credit risk with commercial rather than macroeconomic conditions had left them exposed to Venezuela's governance failures. Without policy conditionality on the loans, President Maduro could spend without bounds even after the commodity bust. Given that Chinese loans were instead tied to oil production, Chinese bankers were compelled to lend defensively in hopes of boosting Venezuelan oil output, and recovering their oil collateral. In the following pages, we explore China–Venezuela ties in further detail, first examining Venezuela's foreign policy objectives toward China, before assessing the risks that prompted China to partially recoil to from the relationship.

Venezuela's Foreign Policy Objectives Toward China

After Hugo Chávez's successful 1998 presidential bid in Venezuela, he entered office as a neoliberal critic, but also as the head of a country with a long history of economic alignment with the United States, the global exporter of market capitalism. How could Chávez craft the policy space to pursue heterodox governing solutions if he was constrained by the financial and trade architecture established by the United States?

Chávez's foreign policy had two principal goals. First, he hoped to leverage oil revenues to counterbalance the United States' influence in Latin America. Second, he aimed to build international support from non-Western state actors. Early on in his tenure, he identified China's emergence on the global economic stage as a potential opportunity to help Venezuela gain autonomy from the United States. In a conference at the University of Beijing, during his first official visit to China, Chávez publicly declared: "We have already begun to pursue a world policy aimed at restoring our autonomy, our independence from any other world power, and in that sense, we are very much like China."[29]

By the time Chávez died in 2013, the first objective had been undercut by the 2008 global financial crisis. Providing subsidies to other allies internationally through such programs as PetroCaribe, a Venezuela–Caribbean alliance, was hampered by the postcrisis oil volatility. At the same time, Venezuela's economic implosion mitigated the ideological appeal of *chavismo* as a political option for the Latin American left. Collapsing oil production, mounting foreign debt, the expropriation of private-sector assets, and distortionary exchange rate, and price controls hamstrung economic activity. Finally, the ebbing of Latin America's pink tide—with a shift away from left governments in Argentina, Brazil, Peru, and Chile—further eroded the appeal of leftist regional messaging.

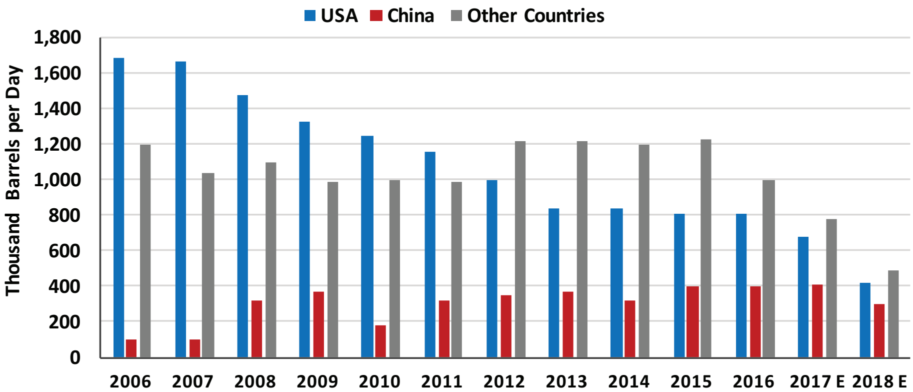
Although Chávez failed to counterbalance US influence in the region, the Bolivarian Revolution did secure its other foreign policy objective: obtaining support from non-Western global powers that might prove more sympathetic to Venezuela's socialist project. On this front, Chávez succeeded in building strong state-to-state ties with Cuba, China, and Russia. During the last two decades, each of these countries has played a pivotal but very different role for Venezuela's foreign policy. India and Turkey have also increased their Venezuelan presence recently, but to a lesser extent than these three nations. India has mainly deepened ties commercial ties with Venezuela since 2013, becoming the third-largest purchaser of Venezuelan before oil sanctions were enacted by the United States. After oil sanctions were issued in 2017, its importance soared even further. By comparison, Turkey has been more comfortable stepping into the geopolitical limelight as a key provider of humanitarian aid to the Venezuela government and as vehicle to bypass sanctions through its financial system.

In the geopolitical realm, not only has Cuba been an ideological partner with *chavismo* but the island has also helped the Venezuela regime develop key intelligence capacities for repressing dissent, particularly within the armed forces. As noted by Brian Fonseca and John Polga-Hecimovich in chapter 4, these intelligence capabilities have become instrumental to regime survival, as the Bolivarian Revolution has become more authoritarian in recent years. In turn, Russia has evolved into Venezuela's most important security ally.[30] Leveraging this alliance, Venezuela has circumvented the United States' sanctions to purchase military equipment. Russia's state-owned enterprises have also emerged as key investors in the natural gas and oil sectors, with Rosneft and Gazprom providing valued short-term financing to Venezuela's crumbling oil-state giant, PdVSA. However, as the United States strengthened international compliance over secondary sanctions against third parties doing business with PdVSA, Rosneft opted to leave the country in March 2020 in order to reduce its global exposure.[31]

In the case of China, Venezuela's foreign policy has consisted of a complex juxtaposition of geopolitical, commercial, and financial considerations.[32] First, recall that President Hugo Chávez prioritized diversification from its economic reliance on the United States. Given China's abundant capital and its foreign policy goal of securing oil access, it represented the most expedient commercial route for diversifying oil markets.

Early in his tenure, President Chávez formalized this bilateral relationship with Chinese president Jiang Zemin through the creation of the High-Level China–Venezuela Commission. In a 2001 white paper, the two governments fixed the framework for energy cooperation for the next decade, helping reduce the barriers to entry in Venezuela's oil sector for China's state-owned oil companies, China National Petroleum Corporation, China Petroleum and Chemical Cooperation (Sinopec), and China National Offshore Oil Corporation.[33] In line with Venezuela's strategic objective of oil independence from the United States, Chávez oversaw a threefold increase in its oil exports to China: from less than 90,000 barrels per day in 2005 to more than 320,000 in 2014 (figure 3.3).

Figure 3.3: Venezuela's Oil Exports



Source: Calculated from PDVSA, EIA, ITC–TradeMap.

In addition to these geopolitical goals, the Venezuelan government also sought foreign financing to both expand the size of the state in strategic sectors and fund public infrastructure and social investment projects. Multilateral institutions, such as the World Bank and the Inter-American Development Bank (IDB), were not willing to finance a development plan that they deemed to be fiscally and technically unsustainable. In fact, the World Bank stopped financing new projects in the country and the IDB reduced its credit portfolio in Venezuela compared with other Latin American countries. In line with these assessments, the World Bank moved its regional office from Caracas to Bogotá in 2001, leaving just a representative office; and the IDB reduced its Venezuelan staff. Without much of a multilateral presence in Venezuela, Chávez increasingly courted Chinese financing to expand his development plan and social reforms, known as "Socialism of the 21st Century."

Chinese financing helped endow Chávez with the capacity to expand the Venezuelan state's economic reach, beyond the resource-abundant oil and mining sectors. In 2007, China and Venezuela created a development fund, dubbed the China–Venezuela Joint Fund (FCCV), that would be managed by their national development banks. The FCCV was jointly capitalized with $4 billion from the China Development Bank and $2 billion from Venezuela's Development Fund (FONDEN).

Rather than conditioning lending on macroeconomic targets, China instead employed commercial means to mitigate credit risk. In Venezuela's case, this meant using commodity guarantees to collateralize its policy bank loans. Each time, China injected fresh funds into the FCCV, PdVSA would sign a simultaneous contract to sell oil through an international subsidiary of CNPC. For example, China's first $4 billion FCCV tranche was collateralized by 100,000 barrels per day in oil sales, which the Venezuelan government would then use to repay Chinese policy banks during the three-year loan maturity. As the China Development Bank extended new loans to Venezuela, or rolled over existing three-year tranches (table 3.1), PdVSA would commit to sending new oil shipments to China. By the end of 2016, Venezuela's oil shipments to China had surpassed 400,000 barrels per day (or almost one-fifth of total exports), helping the Venezuelan government's goal of oil diversification.

Chinese financing helped endow Chávez with the capacity to expand the Venezuelan state's economic reach, beyond the resource-abundant oil and mining sectors.

Ironically, if the lack of conditionality was not sufficient, these loan agreements further fueled state spending through their accounting schemes, which obfuscated the government's debt obligations. In structuring these deals, Chávez and Maduro had both agreed to register these loans as sovereign debt for the central government, which enabled the government to discretionally use these loans.[34] PdVSA would repay the central government's outstanding loans to China with oil sales, yet these debt-servicing expenditures were not included in the national budget, opening fiscal space for other types of spending. In other words, the government could finance additional public expenditures by leveraging the balance sheet of PdVSA.

By 2013, China had provided the Venezuelan government with more than $30 billion in oil-backed loans (table 3.1), which enabled sectoral investments on state priorities beyond the most economically-important oil and mining industries, including infrastructure, construction, agriculture, telecommunications, housing, and forestry. For example, China helped finance sugar refineries, cellphone assembly, electricity generation, cattle ranches, egg farms, transportation systems, and massive housing projects.[35] Several of these projects were never completed, and if built, failed to be commercially viable, including controversial investments in a home-appliance factory and high-speed railway.

Although the Chinese financial relationship was embedded in oil, it also empowered the Venezuelan state. For Chávez, China's "no strings-attached" loans helped facilitate the expansion of the state into non-oil sectors that had been previously the purview of the private sector.[36] During the decade-long commodity boom (2004–14), the size of the Venezuelan state expanded to more than 40 percent of GDP.[37] Notably, however, more than two-thirds of this public balance sheet expansion occurred during the boom's final few years just as Chinese lending to Venezuela reached its peak (table 3.1).

While China extolled the merits of nonintervention and ideological flexibility in its commercial dealings, its lack of conditionality implicitly gave creditor consent to Chávez's nationalization spree that would have been far more challenging under the stewardship of Western multilateral creditors.[38] After his successful 2006 reelection, Chávez began to more swiftly march the country along the path of his "Socialism of the 21st Century." He first leveraged an oil windfall to help propel an initial series of oil and gas nationalizations between 2004 and 2006, before launching a second wave in early 2007. The second wave included both nationalizations and expropriations in the mining, electricity, financial, telecommunications, agriculture, and industrial sectors. Simultaneously, China's investments in hundreds of projects helped expand the presence of the Venezuelan state in the non-oil economy, through deals with Venezuela's state-owned enterprises that operated outside the energy or mining sectors.

Chronicle of a Crisis Foretold: How China Mispriced Venezuelan Credit Risk

In the classic novel *Chronicle of a Death Foretold*, by Gabriel García Márquez, two brothers from a small Colombian town plan to murder fellow townsman, Santiago Nasar, for deflowering their sister, Angela Vicario, before her wedding night. As news spreads from the butcher's shop to the milk market, the entire village soon learns of the Vicario brothers' plans, yet few townfolks attempt to stop Nasar's foreseen murder. Neighboring Venezuela's story over the last decade has been a calculable descent into a historic crisis, yet few Chinese economic spectators have attempted to change the country's course. Akin to the Colombian villagers' lack of intervention in Nasar's butchery, China failed to stop Venezuela's slow economic death. Of the slew of reasons offered for the town's negligence in warning Nasar, perhaps the most common theme was a diffusion of responsibility. Colombian townsfolk fail to intervene in part because they assume that other villagers will act. Similarly, because China conducts its foreign affairs through the prism of nonintervention, the Chinese government places faith in its state-to-state relations, leaving the burden of local governance with the Venezuelan authorities.

For this reason, the passing of the Bolivarian baton from Chávez to Maduro was a key inflection point for China's public bankers. High oil prices and Chávez's more pragmatic governing posture had buttressed their favorable risk assessment of Venezuela's ability to repay its debt. For example, in the fallout from the global financial crisis in 2010, Chávez did not hesitate to devalue the currency despite the risk it posed to his popular support base. The devaluation placated creditors by preserving the government's fiscal stability, and facilitating debt repayment. It lined government coffers with new cash by yielding more local bolivars from its dollar-based oil revenues. However, the devaluation also essentially levied an inflation tax on the poor by raising the import prices of items such as food and electronic goods.

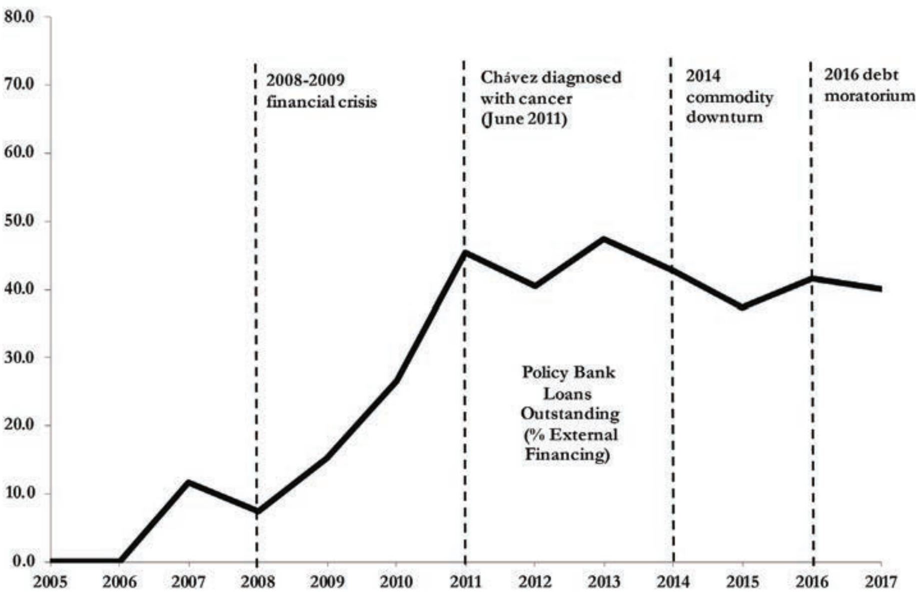
However, with Chávez's death in 2013, Maduro had to assure Chinese creditors of his governance capabilities. Their lending might lack policy conditions, but their faith in the state-to-state relationship was instrumental to sustaining an open financing spigot (figure 3.2). Unfortunately for Maduro, Chávez's demise had coincided with the end of the largest oil windfall in Venezuela's modern history along with the beginning of the most dramatic economic depression in Latin America's recent past.

By the end of 2018, Venezuela's economy was in a death-spiral. Venezuela had lost more than half of its GDP, and was struggling with an annual hyperinflation that according to the International Monetary Fund had reached over 1 million percent.[39] If that were not a sufficient nail in Venezuela's economic coffin, the country had no access to financial capital markets, the economy was subject to international sanctions, and the Central Bank had less than $1 billion in liquid international reserves to cover basic imports.

After succeeding Chávez in 2013, Maduro was unable to stop the economy's bleeding. Rather than addressing Venezuela's severe macroeconomic imbalances, Maduro doubled-down on public spending, with the government's fiscal deficit reaching double digit levels as a share of GDP.[40] He also unsuccessfully attempted to solve the country's woes with expensive fuel subsidies, costly nationalizations, exchange rate and price controls, and strengthening the military's role in the management of state-owned enterprises.

At the same time, Maduro's was unable to turn the tide in Venezuela's oil industry, with oil production collapsing from 2.4 million barrels per day when he took office in 2013 to less than 1.2 million by the end of 2018. By the middle of 2020, PdVSA was exporting less than 350,000 barrels per day. The historic collapse reflects a variety of factors, including the 2014 oil price crash, stunted investment, waning technology acquisition, a loss of public managerial expertise, massive corruption, and the government's long-standing practice of redirecting oil revenue toward social spending. Because it was dependent on oil for 95 percent of its foreign exchange earnings, the economy receded along with the oil wells. Maduro could not even turn to global capital

Figure 3.4: Venezuela's Oustanding Debt to China (2005-2017)



Note: Policy bank loans outstanding annually are adjusted for roll-overs of traunches, and debt repayment.
Sources: Kaplan 2021; China-Latin American Finance Database (Inter-American Dialogue, CEIC data, SEC, AID data.

markets, Venezuela's historic fail-safe financier, to help revive the oil industry after the United States sanctioned any new financing for PdVSA in 2017.

Why did China not cut its credit lines or craft a clear exit strategy from Venezuela, particularly once the economy soured under Maduro? As discussed above, China sustained state-to-state relations, but deleveraged from its peak financial commitments to Venezuela when first confronted with Chávez's illness (figures 3.2 and 3.4). However, China was willing to renew some commitments under President Maduro in hopes of recovering its initial investments. In other words, China's creditors lent defensively to secure Venezuela's oil collateral. It was reluctant to be a sole lender of last resort, but willing to maintain some financial linkages in hopes of expanding its long-term commercial presence in the oil sector.[41] For example, notwithstanding the commodity downturn, China renewed $9 billion in financing for the crisis-ridden country between 2014 and 2015 (table 3.1). With this refinancing, Venezuela's total outstanding debt remained high, at about $25 billion, accounting for almost one-half of Venezuela's external debt (figure 3.4), or about 10 percent of GDP. Notably, this calculation of outstanding debt is well below some widely cited, but inflated, estimates because it adjusts the outstanding loan amount for both financing renewals and debt repayment.

China had to lend defensively, providing new funds to Venezuela in hopes of securing debt repayment, despite the country's growing economic dysfunction.

China's lack of conditionality, and its willingness to refinance during downturns, helped advance its soft power diplomacy of South-South Cooperation and developing country empowerment. For example, President Xi frequently emphasized these values within his foreign economic policy: "We uphold fairness and justice and advance the democratization of international relations. In many major international and local issues, we share a common voice with emerging markets and developing countries."[42] "China's development, within world development, is also for the common development of each country in the world, adds more energy, and brings about more opportunities."[43]

However, this approach to finance in developing countries also placed the burden of governance on local governments. An emphasis on policy autonomy could be a positive development for South-to-South cooperation, if Latin American governments use this money to promote sustainable growth and address long-standing socioeconomic inequalities. But the Venezuelan government's failure to reach such lofty goals left China exposed to considerable macroeconomic risk as a creditor, with little recourse except for approving a 2016 debt moratorium.

PdVSA's Collapse and Venezuela's Debt Hangover

China's growing reluctance to provide Venezuela with new financing reflected the collapse of Venezuela's oil sector and national credit quality. Ironically, China attempted to leverage its lack of policy conditionality to diplomatically and developmentally entice a region with a long-standing frustration with austerity.[44] By lending without policy conditions, however, China became exposed to Maduro's mismanagement of the oil sector, and of the economy more broadly. China's commercial approach to mitigating sovereign risk with oil collateral could not sufficiently protect its creditor interests in Venezuela. China had to lend defensively, providing new funds to Venezuela in hopes of securing debt repayment, despite the country's growing economic dysfunction.

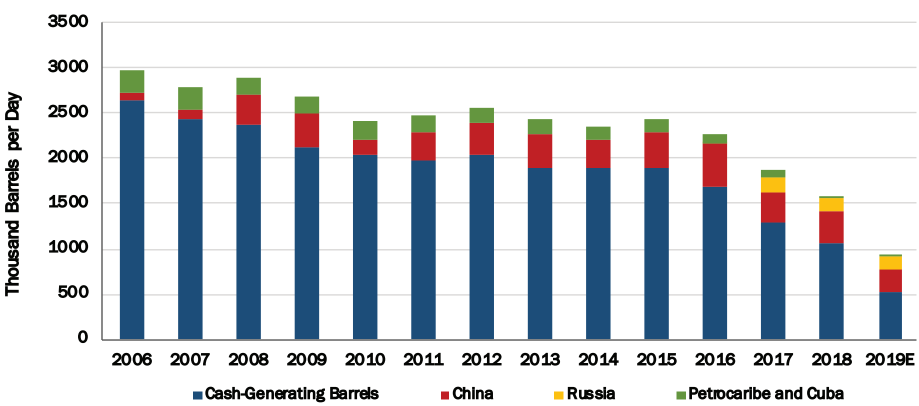
Mired in a vicious cycle of collapsing oil production, feeble investment, and a crashing economy, Venezuela's foreign debt became unsustainable after the commodity downturn. The ratio of foreign debt to GDP had increased from a mere 21 percent in 2007 to more than 200 percent by 2019 (figure 3.1).[45] In addition to borrowing from China, the Maduro government also raised money from global capital markets and new bilateral creditors. For instance, global bondholders steadily financed more than half of Venezuela's external debt over the last decade. In May 2017, Goldman Sachs bought PdVSA bonds, drawing the rebuke of Julio Borges, then the National Assembly president, for its decision to "aid and abet Venezuela's dictatorial regime."[46] Russia also entered the financial scene during this time, providing more than $6 billion in new funds through its state-owned oil enterprise, Rosneft, to PdVSA between 2016-17. In exchange, PdVSA agreed to provide 49.9 percent of CITGO's total shares as its US collateral to Rosneft in order to guarantee any future payments.

Theoretically, the influx of new funds should have provided Venezuela with some relief, but they also created a financial quandary. Under the structure of these loan-for-oil deals, Chinese policy banks lend Latin American governments money, but there is a separate commercial agreement where Venezuela sells its oil to Chinese importers. PdVSA then takes these export proceeds and puts them in an account with the policy banks, to repay the loans. Hence, a certain amount of PdVSA sales is precommitted to China for debt repayment.

In other words, these loans are collateralized by PdVSA's daily income, yet as mentioned above, the liability was registered as sovereign debt for the central government. The Venezuelan government's debt repayments to China were paid with income from PdVSA's export sales to China, meaning that the Venezuelan government could leverage PdVSA's balance sheet to boost its public expenditures. The viability of these oil-for-loan deals was then contingent on PdVSA's current cash flow, and ultimately the state-oil company's ability to sustain consistent oil production and future export sales.

However, the once world-class state oil company was teetering on the edge of solvency, struggling to finance its basic operations and service its own foreign debt obligations. Under these conditions, complying with the terms of these oil-for-loan deals meant funneling an increasing share of its export proceeds to China rather than reinvesting in the company's operations. Export sales to China have represented a growing share of PdVSA's dwindling exported oil sales, rising from a 3 percent share in 2006 to 18 percent in 2016 (figure 3.5).

Figure 3.5: Composition of Exported Barrels



Source: Calculated from Kaplan and Penfold 2019; PDVSA, EIA, OPEC, ITC.

Venezuela debt payments to Russia, related to the aforementioned $6 billion, further squeezed the state oil company's export margins. Of PdVSA's total export sales, only the proceeds from the United States and India were not fully earmarked for debt repayment and, hence, generated a positive cash flow. Saddled with this export-linked debt servicing, PdVSA increasingly struggled to invest in its operations and boost oil production. For example, in 2006, PdVSA exported over 2.5 million barrels per day that supported its cash flow. However, by 2013, oil production plummeted below the critical 2-million-barrel-per-day threshold and PdVSA increasingly encountered debt repayment difficulties.

Fearing creditor litigation and overseas asset seizures, including key refineries owned by CITGO in the United States, Venezuela requested a debt moratorium with China so that it could repay its international bondholders. China relented, offering an interest-only grace period on Venezuela's debt repayment, in part because PdVSA was already in arrears with its export-linked debt repayments (which had declined by 48,000 barrels per day in 2016).

The 2017 financial sanctions imposed by the United States further strained PdVSA's balance sheet, which limited Venezuela's ability to issue, refinance, or restructure its foreign debt. Without the policy space that would come from a restructuring, PdVSA was left with a stark choice that pitted debt repayment against investment in oil production. The state oil company chose debt repayment, sacrificing its ability to stabilize production. By 2018, it had about 600,000 cash-generating barrels, or a mere one-quarter of its 2006 income, that it could invest back into the operations of the state oil company (figure 3.5).

China Lends Defensively to Protect Its Commercial Interests

In the early days of the China–Venezuelan economic courtship, Chinese bilateral financing had offered Venezuela a development opportunity. However, the broad-based development focus beyond the oil sector left Chinese creditors exposed to the health of the entire Venezuelan economy. They hoped to avoid the failings of other historic creditors in Latin America by circumventing policy conditionality with commercial conditions. As discussed above, Chinese policy banks thought securing their policy loans with oil collateral could sufficiently mitigate credit risk. However, this time was not any different, and growing debt obligations once again hampered investment and productivity, albeit on the balance sheet of the state oil company rather than the central government.

Not only did China underestimate Venezuela's ability to sustain oil production—and, hence, economic activity—but also successfully manage several commercial projects that were spread across broad sectors of the economy. Similar to any investment portfolio, China's investments in Venezuela's commercial landscape are populated with both successes and failures. According to one Chinese policy bank official responsible for risk assessment, some projects will "generate high profits, other less than zero."[47] Chinese firms successfully invested in a number of projects in the energy, mining, manufacturing, and electronics sector in Venezuela, but the price tag of some of the largest failures, such as a Haier home-appliance factory and a China Railway Engineering high-speed railway across Venezuela's plans, captured local headlines. While China has invested in more than 50 combined FDI and construction projects in Venezuela, these two failed projects alone accounted for 12 percent of total inward FDI, and one-third of total Chinese construction contracts, respectively.[48]

Chinese policy banks were thus willing to renew tranches under the original joint-development financing plan (FCCV) to foster debt repayment, but did not offer Venezuela any new funding facilities.

If Venezuela's economic and resource management were not sufficiently suspect, these commercial failures prompted China to balk at its lending relationship, particularly as arrears accrued on the $7.5 billion high-speed cargo railway investment. When Chinese project managers finally left in 2015, railroad factories along the construction corridor were ransacked for their power generators, computers, metal siding, and copper wiring.[49] Venezuela's opposition leaders have lamented these bad investments. For example, former Caracas mayor Antonio Ledezma denounced Maduro's botched governance of these two projects, saying: "We ran a debt with China to build a railroad from Valencia and Caracas, and that was never concluded… . We have a large debt to China (and Russia) for public works that were contracted, and never built, and with China because we give them more oil in exchange for televisions, etc. That's unheard of!"[50]

China's emphasis on local governance had also left it exposed to President Maduro's economic mismanagement. Maduro had delayed reforms in the oil sector and foreign exchange market that were aimed at economic stabilization. For instance, the Venezuelan president dismissed internal pressures from his own economic cabinet about eliminating foreign exchange controls that were seen as intensifying the oil sector's operational problems. In late 2014, Vice President Rafael Ramírez, who was also the head of PdVSA, unsuccessfully advocated for such reforms before eventually leaving his government post. In the face of a sharp decline in global oil prices that was the spark for Venezuela's economic woes, Ramírez proposed removing some of the economy's worst distortions, including exchange rate and price controls.[51] He also wanted to cut gasoline subsidies and instead help the most vulnerable sectors with targeted cash transfers.[52]

Without reform, China was walking a delicate financial tightrope in Venezuela. If Chinese policy banks had cut their financing to Venezuela out of concern that the country's historic crisis would jeopardize its debt servicing capacity, a likely default would have impeded the flow of Venezuela's oil shipments to the Middle Kingdom. Chinese policy banks were thus willing to renew tranches under the original joint-development financing plan (FCCV) to foster debt repayment, but did not offer Venezuela any new funding facilities.[53]

President Xi Jinping's July 2014 visit during his Latin American tour had marked the beginning of China's defensive lending phase in Venezuela. Xi's visit was a symbolic gesture about Venezuela's importance as a long-term political and economic partner, even after Chávez's 2013 death. However, China's policy banks relented from deepening their financial relationship amid ongoing uncertainty about President Maduro's economic management credentials. Shortly after his visit, the China Export-Import Bank and China Development Bank replenished tranches A and B respectively (totaling $9 billion) of the China–Venezuela Joint Fund (FCCV). This financing was vital to helping Venezuela cover its financing shortfalls and avoid a balance-of-payments crisis. From 2014 to 2015, Chinese funds provided nearly one-third of Venezuela's total financing needs, often directly padding its international reserves.[54] Beyond these credit renewals, however, China's policy banks did not offer any new loan-for-oil deals because they first wanted to recover their oil collateral on previous bilateral debts before extending any new funds.

China's Financiers Also Tread Cautiously Because of Political Instability

China's reluctance to extend new credit lines to Venezuela may have also reflected its concerns about political stability in the post-Chávez era. In December 2015, the Venezuela opposition won a two-thirds supermajority in the National Assembly, and immediately initiated a recall referendum. Faced with the threat of democratic removal from the presidency, Maduro used his political control of the judiciary to block the referendum. The Supreme Court then stripped the National Assembly of its constitutional powers. This governability crisis catalyzed four months of massive street protests, which were violently repressed by the armed forces. To further undermine the opposition, Maduro illegally held elections for a National Constituent Assembly to bypass the National Assembly in July 2017. In response, the United States, imposed financial sanctions on Venezuelan former and current government officials, while 12 other hemispheric countries refused to recognize the Constituent Assembly and formulated the Lima Group to "condemn the breakdown of democratic order in Venezuela."[55]

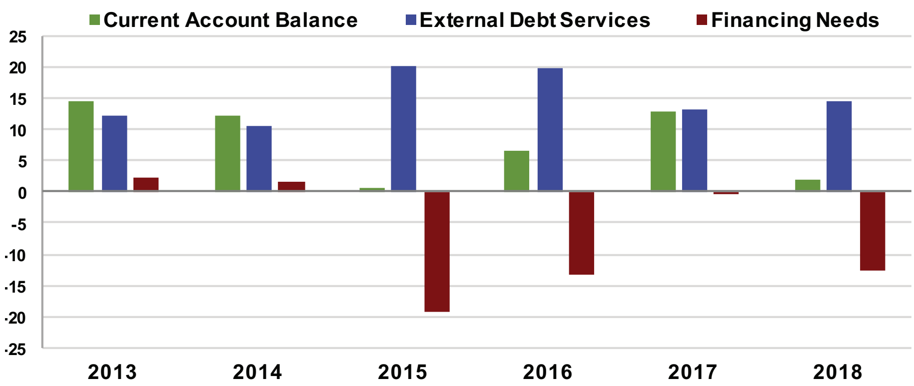
The dismantling of the National Assembly also cast a cloud over Venezuela's debt-servicing capacity. Without formal approval from the National Assembly, a potential opposition-led transition could question the legality and repudiate any new debt. In fact, the National Assembly formally conveyed to Venezuela's creditors that any new debt would be considered illegal without its legislative approval, sending letters to international banks (i.e., Goldman Sachs, JPMorgan Chase, and Nomura),[56] multilateral institutions (i.e., the CAF Development Bank of Latin America),[57] and Chinese creditors. For example, a cautionary missive was delivered to China's Embassy in Caracas, underscoring the legal perils of extending new credit without the National Assembly's consent.[58]

To hedge this growing political risk, Beijing courted Venezuela's opposition leaders and reinforced its long-standing willingness to deal with governments from across the political spectrum.[59] For example, during the 2012 presidential election campaign, Chinese leaders had similarly met informally with opposition candidate Henrique Capriles. In its latest political overture to Venezuela's opposition, Beijing extended invitations to key opposition leaders to visit China, including Julio Borges, who was going to be the parliament's president in 2017.[60] The opposition's message resonated with Chinese officials, who appeared sensitive to the legality question surrounding any new debt issues. In private conversations with the Maduro government, Chinese officials had ostensibly linked Venezuela's access to new credit lines to formal approvals from the National Assembly.[61]

Defensive Lending and the Debt Moratorium

Notwithstanding China's efforts to lend defensively, Venezuela's foreign debt was too large for China alone to make much of a dent by 2016. Venezuela's current account was earning too little in income to cover the country's debt service, meaning that its external financing needs averaged more than $15 billion between 2015 and 2016 (figure 3.6).

Figure 3.6: External Account Barrels ($USD Billions)



Source: Calculated from BCV, ITC–TradeMap, IMF, Authors' estimations.

To address these severe balance of payment imbalances, Maduro balked at economic reform, instead opting to cut imports to avoid further aggravating Venezuela's indebtedness problem. Venezuela's imports plummeted to $13 billion by the end of 2017, a mere one-fourth of its 2013 total of $54 billion. However, exports also continued to fall due to lackluster oil production, eroding Venezuela's current account surplus to virtually nil by 2018. Without new financing, repaying its debt became an uphill battle for Venezuela. Multilateral institutions and capital markets were reluctant to be Venezuela's lender of last resort. At the same time, China and Russia had little appetite for this risk, particularly given Venezuela's depleted oil production.

It was in this broader context that China's defensive lending had initially entered into a new stage in 2016. At that time, China's policy banks had cut their discretionary loans, and increasingly linked any new financing to boosting oil production and, hence, to debt repayment under loans-for-oil deals. For example, China Development Bank's loan to Venezuela that year was broadly geared toward improving oil production through upgrading and reform (table 3.1).[62] However, the spigot for new financing beyond the oil sector had run dry. As part of its defensive lending strategy, China shifted to temporary debt relief rather than refinancing. At Venezuela's request, China negotiated a two-year moratorium on the South American country's state-to-state debt. China reportedly loosened the terms on Venezuela's outstanding loans, allowing the country to only pay interest and defer its principal payments, and also the underlying collateral, removing minimum oil shipment quantities and extending repayment deadlines.

China was also extremely careful in not seeking an open confrontation with the United States with respect to Venezuela's contentious political conflict, especially after Guaidó emerged as interim president in January 2019.

The moratorium served a few strategic interests for China. First, it helped improve PdVSA's cash flow without extending significant fresh funds to Venezuela. In other words, China could mitigate its financial risk while still forging a long-term commercial presence in the oil sector. Second, it allowed Chinese creditors to walk a political middle ground in Venezuela. They extended a grace period to endow the Venezuelan government with more financial flexibility, but the lack of new financing also signaled "goodwill" toward the Venezuelan opposition. China would not provide fresh financing without legislative approvals. In the event of political turnover, such "goodwill" would help smooth a pathway for China's sustained commercial relations in Venezuela. Recently, China doubled-down on this financial strategy. In late 2018, after Maduro's second official visit to Beijing, according to several unofficial sources, the moratorium was extended for an unknown period of time, amid Venezuela's deepening historic crisis.[63]

The debt moratorium also likely reflected China's need to manage its soft power optics of South-to-South cooperation and developing country empowerment. Failed investments would undermine those optics, along with a complete cessation of lending, particularly as regional leaders focused more attention on the Venezuelan crisis. Historically, Latin American governments had been reluctant to criticize one another's internal situations, but major economic powers like Argentina and Brazil had become more critical of Maduro's autocratic turn, as illustrated by Mercosur's eventually condemnation of the Constituent Assembly in 2017. More recently, five members of the Lima Group (Argentina, Colombia, Chile, Paraguay and Peru) requested that the International Criminal Court launch a preliminary investigation of the Venezuelan government for crimes against humanity.[64] Against this contentious backdrop, a debt moratorium allowed China to occupy the sidelines domestically in Venezuela, but also regionally in Latin America.

China was also extremely careful in not seeking an open confrontation with the United States with respect to Venezuela's contentious political conflict, especially after Guaidó emerged as interim president in January 2019. Beijing remained loyal to Maduro—and defended the regime during the debates in the United Nations Security Council—although it avoided engaging in any public diplomacy campaign against Guaidó.[65] This position was distinct from Moscow's more partisan support for the *chavista* regime, which included offering technical military assistance to Caracas, despite Washington's explicit opposition to such aid.[66] In fact, China publicly issued several statements calling both the opposition and the *chavista* regime to engage in political negotiations; and even strongly backed the negotiations mediated by Norway that started in May 2019 and collapsed three months later.[67]

China's diplomatic caution continued to be an important theme throughout 2019. After the United States issued secondary sanctions against foreign companies doing business with PdVSA in August 2019, China became increasingly reluctant to directly finance Maduro, or even help him indirectly bypass these sanctions. For example, in its *2019 Foreign Investment Guide for Venezuela*, the Chinese Embassy labeled Venezuela as one of the "riskiest countries in the world," saying that "increased financial sanctions on Venezuela by the US and other Western countries means greater operating risks."[68]

While China balked at these risks, Russia's state-owned oil company, Rosneft, was instrumental in helping Venezuela's state oil company divert exports to alternative markets such as India. For example, after the United States enacted oil sanctions on

PdVSA in January 2019, Rosneft's role evolved from being a heavy producer and short-term oil financier to becoming the fulcrum of Venezuela's efforts to circumvent US sanctions. Rosneft, which had a minority ownership stake in the Indian firm Reliance, used the multinational conglomerate to channel commercial exchanges through third parties in Singapore and Malaysia, thereby obfuscating PdVSA's trading patterns. Reliance soon became PdVSA's most important client, benefiting from its attractive crude prices, which in some cases were discounted by as much as 40 percent. Notably, however, Reliance was protected because as the final client, it was not subject to sanctions under US law. Rosneft therefore did not petition the US Treasury for a waiver.

China has been unwinding its financial ties in Venezuela since 2014, which suggests that its economic woes are not a product of debt-trap diplomacy or an intentional effort to bankrupt Venezuela to seize the country's assets.

Russia's commercial triangulation was thus the cornerstone of Venezuela's efforts to bypass the United States' initial sanctions. Under this program, Rosneft was able to control more than 40 percent of PdVSA oil exports, and even reportedly helped mask Venezuelan oil shipments to China.[69] However, in August 2019, the United States activated secondary sanctions, covering any firms trading PdVSA-produced oil globally, with the exception of those operating in domestic joint ventures or internal trading partnerships within Venezuela, such as China's CNPC.

Fearing it would be penalized by the more comprehensive secondary sanctions imposed by the United States, Rosneft decided to exit Venezuela.[70] Given that Rosneft is a publicly traded company, it did not want to be targeted by the US Treasury, particularly given that the firm held a stake in US-based CITGO as Venezuelan loan collateral. Notably, Rosneft was not alone in its decision to leave Venezuela. Chevron, the US multilateral firm, also decided to disinvest from the country, announcing its planned departure by the end of 2020.[71]

By contrast, CNPC had decided to remain in Venezuela, but limited its exposure to the few hundred thousand barrels per day that the Chinese oil firm directly produced in its PdVSA joint venture. Recall that China's policy banks were using such joint ventures as a vehicle for recovering their oil collateral from Venezuela. China's strategy in

Venezuela was thus not to increase investment in the oil sector but rather to protect its financial and commercial position through an extension of its debt moratorium in August 2020. Under the moratorium, Maduro negotiated another bilateral agreement with Chinese policy banks, extending a grace period on almost $19 billion of outstanding debt until the end of 2020.[72]

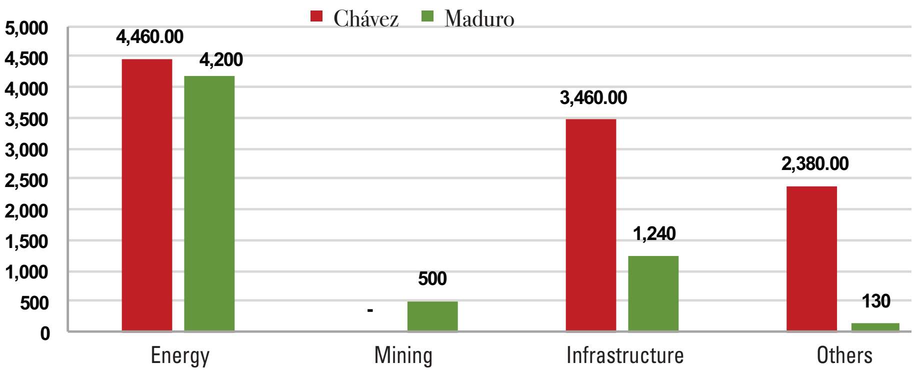
Hedging Mispriced Risk Administratively and Commercially

China has been unwinding its financial ties in Venezuela since 2014, which suggests that its economic woes are not a product of debt-trap diplomacy or an intentional effort to bankrupt Venezuela to seize the country's assets. Venezuela's outstanding debt to China has retreated from its 2010–11 highs (figure 3.4). By contrast, Venezuela's overall foreign debt has expanded during the same time (figure 3.1), in large part due to the collapse of GDP, but also to the government's and PdVSA's ongoing willingness to finance a fiscally unsustainable public balance sheet expansion with global bond issuance.

Chinese officials thus began to walk a delicate tightrope between adhering to their foreign policy framework of nonintervention, inching toward greater "collaboration in the formulation of policies," including advising the Venezuelan government on the need to reform the economy.

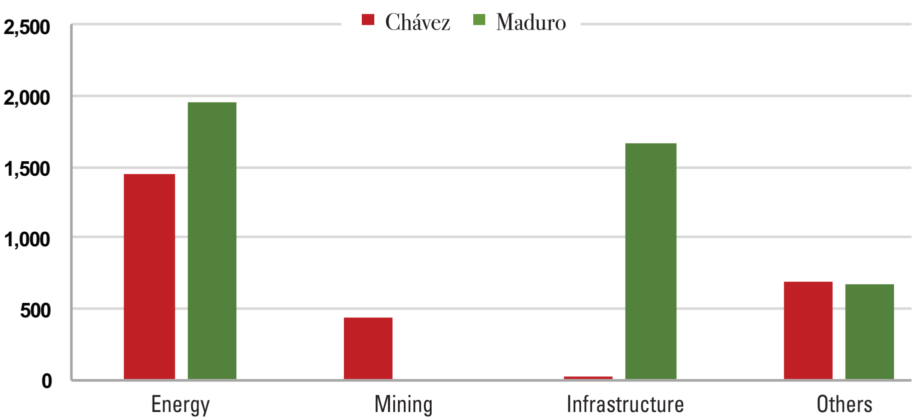
Beyond reducing its financial ties with Venezuela, China also increasingly employed administrative and commercial measures to help hedge its sovereign risk. Initially, China's policy banks had extended loans for oil in Venezuela, leaving the central government considerable discretion in the design of its development projects. Recall that projects had targeted a wide range of economic sectors from agriculture and manufacturing to transportation and real estate. After the Maduro transition, however, China became more selective in its investments, favoring more projects in the strategically-important oil and energy infrastructure sectors, where it hoped to maintain a long-term commercial presence. Under Maduro, China was significantly more reluctant to invest in other areas. Figures 3.7 and 3.8 show how China's inward investment became increasingly

Figure 3.7: Chinese Construction Contracts in Venezuela ($USD Millions)



Source: Calculated from Atlantic Council, China Global Investment Tracker (CGIT), RED-ALC China.

Figure 3.8: Chinese FDI in Venezuela ($USD Millions)



Source: Calculated from Atlantic Council, China Global Investment Tracker (CGIT), RED-ALC China.

concentrated in oil and energy infrastructure.

To further hedge its commercial risk, China had also tied new lending directly toward boosting oil production in Venezuela. Whereas past bilateral financing from China was often used discretionally, China is increasingly using joint-venture financing arrangements, where it lends directly to the China-Venezuelan joint-venture firm and the loan is eventually repaid from the joint venture's production (table 3.1). While Maduro reportedly secured a new loan from China that was as large as $5 billion during the summer of 2018, the Chinese Ministry of Commerce stated that it would be used to improve the country's oil production, implying it is likely to follow the joint-venture financing model rather than the Chinese–Venezuelan cooperation fund, which features direct state-to-state lending.[73]

China's headline oil investment in Venezuela is Sinovensa, China's joint venture with PdVSA in the heavy Orinoco oil belt, which is home to the world's largest petroleum reserves. China has also invested in smaller greenfield projects, such as Petrozumano, that have yielded a considerably smaller oil outputs than Sinovensa. The Sinovensa project, which had recently been operating below its output of 100,000 barrels per day oil, has been directly linked to China's new financing.[74]

Shortly after Maduro's visit, China's state oil company, CNPC, announced that it had increased its stake in Sinovensa to 49.9 percent. Against the backdrop of China's ongoing efforts to recover its oil payment arrears from Venezuela, the equity stake likely made China a more willing investor, albeit with some controversy. Venezuela's Hydrocarbon Law caps foreign ownership participation at less than 50 percent, meaning that a change above that amount would have likely required approval from the disbanded National Assembly.[75] China has previously been careful not to roil the Venezuelan opposition, but the equity transfer may invite some long-run legal challenges.

Beyond the Sinovensa joint venture, China is also exploring the possibility of exchanging existing debt for equity participation elsewhere in the oil sector. The refining industry, which was operating at less than 30 percent of its capacity due to a lack of investment and maintenance, has been a key target. In 2017, local oil unions reported that Chinese and Russian officers conducted a two-month due diligence assessment of the large refinery complex in Paraguaná.[76] In the service sector, China links it lending to purchases of Chinese drilling equipment and guaranteed contracts for Chinese logistics firm, but it may want to foster a longer-term presence. In the mining sector, the Venezuelan government outsourced the operational management of its most important state-owned producer of iron-ore to a Chinese firm.

Complementing these commercial activities, China has also employed administrative measures to help mitigate its sovereign risk. For example, in August 2015, President Maduro made his first state visit to China. One of Maduro's most important objectives during his official tour was to solicit further financing. While China was willing to renew tranche B of the China–Venezuela Joint Fund (see table 3.1), it also began to offer cooperation assistance to Venezuelan authorities. After that official visit, a commission of Chinese economic experts was sent in 2016 to meet with the minister of planning and the Central Bank in Venezuela in order to discuss the current macroeconomic imbalances in the country and exchange views on how to address these problems.[77] Chinese officials thus began to walk a delicate tightrope between adhering to their foreign policy framework of nonintervention, inching toward greater "collaboration in the formulation of policies,"[78] including advising the Venezuelan government on the need to reform the economy.[79]

...in many ways, China was entangled in a creditor trap more than Venezuela was captured in a debt trap.

While the China–Venezuela relationship has primarily been characterized by economic cooperation assistance over the last few years, the Chinese have also deepened political cooperation. Under the leadership of the Chinese telecommunications company, ZTE, the Chinese helped the Maduro regime design a sophisticated electronic card for its citizens, while reportedly also exporting surveillance technology to Venezuela.[80] In hopes of building political loyalty for the May 2018 elections, the government openly used the card to offer cash transfers and heavily subsidized public services to the Venezuelan population in exchange for votes and refraining from protesting. After these elections, China affirmed its state-to-state cooperation with Venezuela, with the Chinese ambassador, Li Baorong, saying that China is willing to "deepen pragmatic cooperation, and push the comprehensive strategic partnership to a higher level."[81]

In addition, Beijing also has extended vital assistance to President Maduro to cope with the COVID-19 crisis, providing Venezuela with almost 2 million rapid testing kits, more than 6.5 million surgical masks, and medical equipment ranging from ventilators and thermometers to protective suits and gloves.[82] These efforts are part of a broader $2 billion pandemic aid effort, launched at the May 2020 World Health Assembly.[83]

Despite such rosy state-to-state rhetoric and development aid, however, Chinese officials have also cautioned investors about Venezuelan risk. In the Chinese Ministry of Commerce's 2017 report *Foreign Investment Directory—Venezuela*, Ji Xianzheng, the Chinese economic and business counselor to Venezuela, issued this warning for companies seeking out business in Venezuela: "Venezuela has been regarded as a high-risk market. Apart from political instability and high social risks, Venezuela also has a tight control on foreign exchange… . Additionally, strong unions, labor complications, and security threats all pose significant risks and costs for doing business in Venezuela. If Chinese companies wish to enter the Venezuelan market, they need to have a deep understanding of the Venezuelan political scene, macroeconomic trend, industry insights and the potential risks involved. Do not enter blindly."[84]

China is likely to sustain its current approach to Venezuelan risk, deepening state-to-state relations, while increasingly targeting its financial assistance toward boosting oil production, recovering oil collateral, and growing its long-term commercial presence in the Venezuelan energy sector.

Conclusion

On the eve of the global financial crisis in 2008, President Chávez and President Hu laid the foundations of the China–Venezuela state-to-state relationship when they crafted the China–Venezuela Joint Fund (FCCV). The timing was good for both governments. For Venezuela, President Chávez was able to court a creditor to help expand the Venezuelan state, particularly his development plan and social reforms under the banner of "Socialism of the 21st Century." For China, Venezuela's abundant natural resources and energy supplies could help China secure long-term access to these vital national assets.

The relationship worked, even during hard times, given President Chávez's willingness to pragmatically manage the economy when necessary. In contrast, Maduro was more ideological than Chávez, refusing to reform the Venezuelan economy when it buckled under the weight of the global commodity correction in 2014.

Maduro wanted an ideological partner in China, but China was first and foremost a commercial partner. While China's foreign policy emphasized nonintervention in sovereign affairs, it also placed the onus of economic decisionmaking on local governance choices. From China's perspective, even if its policy banks have been willing financiers of Venezuela, the Bolivarian nation carries the burden of engineering its own economic crisis. For this reason, China has been steadily unwinding its financial ties over the last half decade.

In US policymaking circles during the Trump administration, many practitioners had viewed China as more culpable, suggesting that China's foreign economic policy reflects the pernicious pattern of debt-trap diplomacy.[85] According to this perspective, China's financial sirens shipwrecked the Venezuelan economy. In other words, China—which emerged as a major Latin American financier for energy, mining, and infrastructure projects—used its financial might to entice Venezuela to accumulate large and costly loans. In exchange for these financial offerings, China increased its economic and political leverage by trapping the oil-rich nation in an unsustainable debt spiral.

However, in many ways, China was entangled in a creditor trap more than Venezuela was captured in a debt trap. China's tendency to bank unconditionally has a diplomatic appeal throughout Latin America, but it left Chinese creditors exposed to moral hazard risk in the case of Venezuela.[86] Pursuing unconditional lending meant that China's policy banks had to eventually lend defensively to help overcome the errs of Chávez's and Maduro's governance deficit. They provided debt relief to a political regime that was gravely mismanaging the economy in hopes of eventual debt repayment.

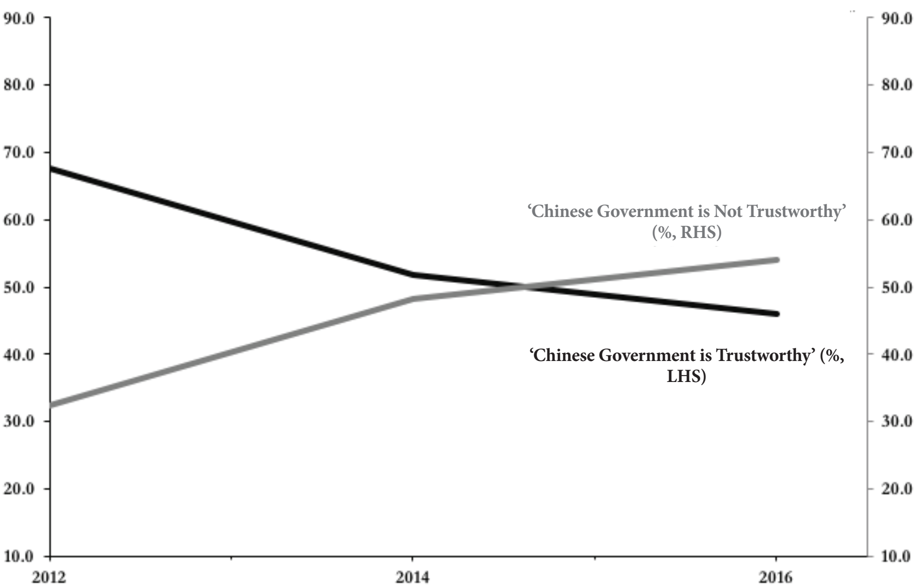
Basically, China's lack of policy conditionality had meant a tacit acceptance of Venezuela's massive balance sheet expansion during China's decade-long presence from 2004 to 2014. Rather than imposing policy conditionality on debtor governments, China's public bankers attempted to secure their Venezuelan loans commercially with commodity guarantees. China's policy banks thus based their overseas lending to Venezuela on a non-Western interpretation of sovereign risk, which emphasized expending credit in developing countries to create commercial opportunities. By deemphasizing conditionality, it also limited the extent to which China's economic consultations were heeded by the Venezuelan government. According to one former policy bank official, "Venezuela did not accept enough outside advice. Not from China. Not from the US."[87]

As Venezuela experienced an unprecedented institutional and economic collapse, China nonetheless became a reluctant, defensive lender. China had paid a high cost for its creditor learning curve in Venezuela as the country fell into arrears on both its oil collateral and its financing of its transportation infrastructure. From China's perspective, Venezuela never adopted "the soul of planning. They tried to build up society but did not learn from China."[88]

To mitigate their high exposure during the Maduro years, China's policy banks thus steadily tempered new state-to-state lending. However, they also had to incur a series of costs to facilitate debt repayment, including providing temporary debt relief, restructuring the terms of the country's outstanding loans, reducing required oil shipments, and relaxing repayment deadlines.

In response to these costs, policy banks have increasingly reoriented their hemispheric strategy toward equity rather than debt financing, and they have also encouraged Chinese businesses to progressively concentrate their Venezuela investment in the energy sector. To mitigate the *chavista* regime's discontent with China's defensive lending strategy, Beijing has been favoring more technical and political cooperation. In the meantime, China continues to deepen its diplomatic ties with Venezuela on both

Figure 3.9: Venezuelans Say 'Chinese Governement is Trustworthy' (2012-2016)



Source: Latin American Public Opinion Project (LAPOP), Venezuelan Survey, 2012, 2014, 2016 sides of the political divide, with the aim of fostering its long-term commercial interests beyond the current crisis.

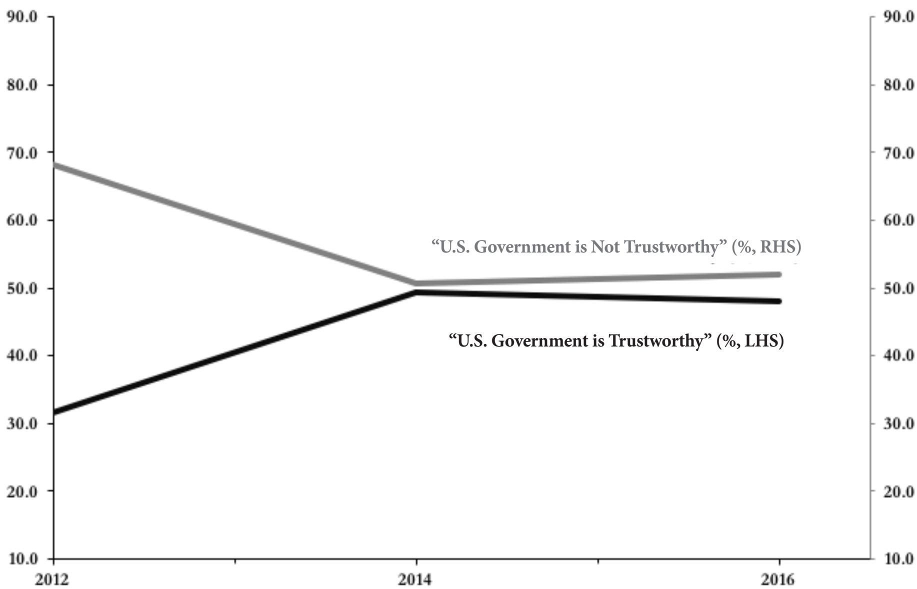
Notwithstanding China's political hedge in Venezuela, has China's soft power rhetoric paid dividends in the country, or has its reputation suffered from its creditor woes? We have seen a marked deterioration in China's political influence in Venezuela. A mere third of the Venezuelan population deemed China "untrustworthy" in 2012, but more than half the population mistrusted China by 2016 (figure 3.9). We expect China to further contain the political fallout by treading carefully in Venezuela, particularly during the current crisis. For example, during the political conflict between Maduro and Guaidó, China did not actively resist the United States' efforts to destabilize the increasingly authoritarian *chavista* regime. At the same time, President Xi has reiterated China's reluctance to pursue global hegemony, saying that China would not develop "at the expense of other countries' interests."[89]

China continues to deepen its diplomatic ties with Venezuela on both sides of the political divide, with the aim of fostering its long-term commercial interests beyond the current crisis.

Indeed, why would China intentionally invite debt problems in the developing world when the appeal of China's South-to-South cooperation is its development rhetoric? Why would Beijing allow for such a debt spiral in Caracas, its flagship state-to-state lending case in Latin America, after investing billions in its soft power image?[90] We think the answer is that it was unintentional—a product of China, as a creditor, mispricing Venezuelan risk.

Ultimately, China's creditor mishaps create an opportunity for the United States, which has seen its image improve in Venezuela over the last half decade (figure 3.10). By contrast, China has not gotten much political leverage from its investments in Venezuela, which, at its peak, accounted for three-quarters of China's Latin American portfolio. To the extent that the US government remains concerned about China's ability to gain hemispheric influence through its economic ties, it should strive to compete economically with China. The state-to-state model is floundering in Venezuela, creating a window of opportunity for alternative development ideas. While Venezuela's political crisis limits near-term opportunities, the United States could bolster its regional capital by articulating a strategic vision for helping improve Latin American development. The BUILD Act, a bipartisan bill which created a new US development agency in the summer of 2018, could be a step in the right direction.[91] Leveraging private investment, the new development agency aims to support developing countries' transitions toward market economies, using loans, loan guarantees, equity capital, insurance, and technical assistance. The United States will gain little regional capital through its ongoing critiques of China's "predatory economics" given that much of the region still views China as offering a development opportunity. However, presenting the region with a competing development vision could help restore US economic and political leadership.

Figure 3.10: Venezuelans Say 'U.S. Governement is Trustworthy' (2012-2016)



Source: Latin American Public Opinion Project (LAPOP), Venezuelan Survey, 2012, 2014, 2016

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1 We would like to thank Cindy Arnson and Robert Daly for their insightful commentary about China–Latin American relations; Austin Lai, Marcin Jerzewski, Beverly Li, Giorgos Morakis, Camilla Wang, Sara Torres, and David Wiesley for their superb research assistance; and Orlando Ochoa, Francisco Monaldi, and Francisco Rodríguez for invaluable conversations about the current state of the Venezuelan economy and oil sector. This chapter draws on our previous study, "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," February 2019, https://www.wilsoncenter.org/publication/china-venezuela-economic-relations-hedging-venezuelan-bets-chinese-characteristics.

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