
China Engages Latin America

Tracing the Trajectory

edited by

Adrian H. Hearn

José Luis León-Manríquez



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China and Venezuela: oil, Technology, and Socialism

Gonzalo Sebastián Paz

AT THE END OF 2008, VENEZUELAN PRESIDENT HUGO CHÁVEZ Frías achieved a long-cherished goal: to enlist the support of an external power in his confrontation with the United States. Yet contrary to his own plans and expectations, this support came not from China, but Russia. Shortly after Venezuela's regional elections in November 2008, the flagship of the Russian northern fleet, the *Pyotr Velikiy* (Peter the Great), anchored at the port of La Guaira near Caracas. For the first time since the days of the Cuban Missile Crisis of 1962, Moscow's fleet sailed the Caribbean, led by one of the biggest nuclear-powered missile warships in the world. Russian president Dimitri Medvedev visited Caracas to establish a binational bank and attend a state banquet for member countries of the Bolivarian Alternative for the Americas (ALBA) economic cooperation program.¹ The occasion served as a diplomatic platform for inviting Russia to become a permanent observer of ALBA.

In the second half of 2008, Russia and China were both central to Venezuela's foreign policy, illustrating the priority given by President Hugo Chávez to alliances with powerful countries other than the United States. Moscow's angry reaction to what it perceived as Washington's support to Georgia during the August 2008 Russian-Georgian war over the status of South Ossetia and Abkhazia opened a window of opportunity for Chávez. On September 8, it was announced that the *Pyotr Velikiy*, the *Admiral Chabanenko*, and two other warships would soon depart for Venezuela. On September 10, two Russian Tu-160 "Blackjack" long-range bombers, the *Alexander Molodchi* and the *Vasili Senko*, landed in Aragua, Venezuela. Chávez felt empowered, and the following day expelled the US ambassador to Venezuela, Patrick Duddy, and recalled the Venezuelan ambassador in Washington, Bernardo Alvarez.²

Five days after Duddy's expulsion, Jiang Yu, a spokesperson for the Chinese foreign minister, announced that Chávez would visit Beijing, stressing

that “our cooperation is based on the principle of equality, mutual benefit, and joint development, and is not against any third party.”³ Chávez left for China just as the *Pyotr Velikiy* was setting sail for Venezuela. The visit coincided, not by accident, with the annual meeting of the General Assembly of the United Nations in New York, where the previous year he had taken the podium after President George W. Bush and famously stated that he could still smell “the evil sulfur.” Arriving in China, Chávez announced that “Venezuela is no longer the backyard of the United States,” and that it is “more important to be in Beijing than New York.”⁴ On September 24, he met with President Hu Jintao, and while spokesperson Liu Jianchao diplomatically asserted that “I did not hear any exchange of views on cooperation in military technology or trade,” Chávez immediately announced Venezuela’s intention to buy eighteen to twenty-four Chinese K-8 military training planes (six of which were in operation in Venezuela by January 2010).⁵ It was evident to observers and analysts around the world that Chávez was trying to drag China into Venezuela’s conflict with Washington and that the Chinese were trying to avoid this at any cost, particularly in the context of the US presidential campaign.

Several Latin American heads of state visited China and met with President Hu in 2008, including Chile’s president Michelle Bachelet (April), Brazil’s president Luiz Inácio Lula da Silva (July), and Mexico’s president Felipe Calderón (July). Chávez, however, was invited to visit only *after* the 2008 Olympic Games, China’s biggest public diplomacy effort in years. It was his fifth visit to China since taking power in 1999, but President Hu has never reciprocated with a visit to Caracas.⁶ In November 2008, Hu visited Costa Rica, Cuba, and Peru. A high-ranking Chinese official informed the author that Venezuela was not on the itinerary because of the latter’s regional elections that month.

Russian president Dimitri Medvedev visited Caracas immediately after the elections, and as noted above, initiated military exercises between the Russian fleet and the Venezuelan navy. The exercises culminated in Venezuela’s purchase of Russian arms to the tune of US\$6.5 billion. The purchase included twenty-four Sukhoi SU 30-Mk2 fighter planes (the first two delivered in November 2006), one hundred thousand Kalashnikov AK-103 assault rifles (to be constructed in Venezuela by Venezuelan defense manufacturer CAVIM), an unspecified number of Dragunov 7.62mm sniper rifles, thirty-eight M17 helicopters, and other advanced weapons systems. The two countries also agreed on a general framework for nuclear energy cooperation, laying the foundation for an October 2010 accord to build a two-unit (1,200 MW each) nuclear power plant. For Chávez these initiatives symbolically countered the reemergence of the US Fourth Fleet, based in Mayport, Florida, which was dismantled after World War II but reinstated on July 1, 2008.

China has been more cautious than Russia in its dealings with Venezuela, steering clear of nuclear cooperation to avoid inciting anxiety in Washington.

Hu Jintao's April 2010 itinerary included the Summit on Nuclear Safety in Washington, the second Summit of the BRICS (Brazil, Russia, India, China, and South Africa) in Brasilia, and, at long last, a planned trip to Caracas. Nature intervened, however, when a powerful earthquake in Yushu (Qinghai, China), on April 14, caused him to cut his trip short and return home after Brazil. Venezuela would have to wait.

China's careful approach to Venezuela clearly exhibits a concern with protecting its own status as a rising power. It has begun to answer, at its own style and pace, the 2005 invitation by US deputy secretary of state Robert Zoellick to become a "responsible stakeholder." Beijing has kept Chávez at arm's length, but almost certainly for reasons of self-interest, including Venezuela's huge oil reserves, it has not abandoned him.⁷ While the Chinese government wants to avoid being used by President Chávez in his confrontation with the United States, it has cooperated with Venezuela in a number of key areas, and in this respect, the bilateral relationship has bloomed.

This chapter explores the most important recent aspects of Sino-Venezuelan engagement through data collected during extensive field research in Venezuela, China, and the United States, and numerous interviews with high-ranking officers, diplomats, and analysts. I outline the financial and legal instruments that have institutionalized the bilateral relationship and discuss the significance of oil and telecommunications collaboration in light of the global financial crisis. I then consider the China-US-Venezuela "triangle," and conclude with some reflections on the prospects and pressures conditioning the future trajectory of this unique trans-Pacific relationship.

The Broad Parameters of China-Venezuela Cooperation

The development of China-Venezuela relations over the past decade has been nothing less than impressive. Alluding to projects ranging from oil exploration to the creation of Venezuela's first satellite, President Chávez frequently points out that Sino-Venezuelan cooperation extends "del subsuelo a la estratósfera" (from under the ground to the stratosphere). Other important sectors of Chinese involvement include finance, telecommunications, housing construction, railways, oil tankers, a much-needed power plant in the state of Miranda, and agriculture (including a national "Bolivarian Aqueduct" irrigation system).

In 1998, when Chávez won the presidential election, annual bilateral trade amounted to some \$200 million. As indicated in Chapter 1, in 2003 China reported that trade had jumped to \$741 million; in 2004, it almost doubled to \$1.33 billion; in 2005, it was \$2.14 billion; in 2006, it doubled again to \$4.34 billion; in 2007, it reached \$5.85 billion; and in 2008, it mushroomed to \$9.93 billion.⁸ The global financial crisis reduced trade to \$7.15 billion in 2009, still an impressive figure compared to a decade earlier. Reliable data on Chinese

investment in Venezuela is difficult to gather, but according to the Chinese embassy in Caracas, in 2006 Venezuela was home to the most important stocks of Chinese investment in Latin America.⁹

Bilateral planning and management is overseen by the Venezuela-China High Level Commission, created on May 24, 2001, and directed on the Venezuelan side by the minister of planning and development, Dr. Jorge Jordani (a key architect of Venezuelan cooperation with China); and on the Chinese side by the chair of the State Development and Reform Commission, Ma Kai. The commission convenes in Beijing and Caracas, and held its seventh meeting during President Chávez's visit to Beijing in September 2008. The eighth meeting took place in Caracas in December 2009, and the ninth in Beijing in late 2010. From its outset, the commission has given high priority to energy and agriculture cooperation, and according to Venezuelan sources, more than 305 agreements have been signed between the two countries up to December 2009, over 85 percent of them during Chávez's mandate.

To finance cooperative ventures, the two countries established a Heavy Strategic Fund of \$6 billion, consisting of a \$4 billion soft loan from China and a \$2 billion investment by the Venezuelan government. During the presidential meeting of September 2008, a further \$4 billion was injected into the fund, and in early 2009 China's vice president Xi Jinping announced in Caracas that the fund would grow to \$12 billion. The increase was confirmed during President Chávez's April 2009 visit to Beijing and expanded once again shortly afterward to \$16 billion, with an injection of Chinese capital in return for commitments of Venezuelan oil. In the context of the economic crisis of 2009, this was interpreted in Caracas as an important gesture. Smaller but similar initiatives created by Venezuela with Russia and Iran have been beset by complications, but the Chinese fund, despite initial difficulties, is now supporting a range of projects in the energy, telecommunications, and transport sectors.

Technical cooperation between China and Venezuela was propelled forward by the visit of the Chinese vice president Xi Jinping in February 2009 to Caracas and President Chávez's visit to Beijing in April. Besides the expansion of collaboration in the oil and communication sectors (discussed below), an important recent development is a railway project undertaken by the China Railway Group Ltd., appointed by the Venezuela Railway Authority to design and build a 468-km railway through the Los Llanos tropical grasslands. The railway, called Ferrocarril de los Llanos Emilio Arévalo Cedeno, will unite the states of Guárico, Aragua, Anzoátegui, and Cojedes. The line, also known as the Tinaco-Anaco, will transport six million passengers and ten million tons of cargo per year and is scheduled to be operative in 2011. Contracted to the tune of \$7.5 billion, the project will dramatically improve the existing railway infrastructure in Venezuela, while helping the Chinese company and its parent (China Railway Engineering Corporation) to continue overseas expansion. Venezuela's largest steel company, Sidor (nationalized in mid-2008), will pro-

vide rails and other hardware. Chinese railway design and construction has recently become popular in other Latin American countries, with a series of projects already carried out in Argentina. Mexico is currently negotiating Chinese participation in several rail projects, and Bolivia has requested Chinese cooperation in building a high-speed train service.

The legal framework for technical cooperation is usually established through joint venture companies, in which Venezuela keeps a majority of shares (in the case of railways, the proportion is Venezuela 60 percent and China 40 percent). Such infrastructure projects are generally overseen at the ministerial level. Under Jorge Giordani, minister for planning and development, collaboration with China continues to expand and now engages almost every economic and infrastructure sector.

Another area in which Venezuela has sought Chinese cooperation is electricity production. In 2009, the climatic El Niño phenomenon brought drought to Venezuela, affecting rivers, lakes, and consequently hydroelectric production (the country's main source of electricity). Particularly affected were the Uribante de Caparo Dam and the massive Simón Bolívar Hydroelectric Plant, the single most important such plant in Venezuela. The latter supports the functioning of several power stations, such as Guri, Caruachi, and Macagua. In late 2009, the government introduced very unpopular cuts in water provision to consumers across the country and forced the reduction of aluminum and metallurgic production in several factories (such as Alcasa, Venalum, and Sidor). Short-term solutions to the energy problem proved elusive, but longer-term remedies were gradually implemented, including an agreement signed with China in September 2010 to build a thermoelectric plant in Vigía, in the Andean state of Miranda. The Chinese company CAMC Engineering will be in charge of the project for the Venezuelan state enterprise Corpoelec. Such projects demonstrate the sophistication of China's strategy toward Venezuela: they provide concrete assistance in areas of critical need, generating political capital for Chávez while creating opportunities for Chinese companies to acquire foreign business and technical expertise.

Oil: The Prime Mover of Venezuela's Foreign Relations

Economic relations between China and Venezuela revolve around oil, the single most important component of the latter's exports and tax revenues.¹⁰ A net oil importer since 1993, China has tried to secure supplies in many corners of the world, such as Sudan and Angola. Even before Chávez took office in 1999, oil was the economic foundation of the relationship, and since then both sides have attempted to expand cooperation in the field as fast as possible.

According to the official report of the Hu-Chávez summit of September 2008, "China is ready to deepen 'all-phase and integrated' oil cooperation with

Venezuela.”¹¹ The report underscored the mutual benefit to be gained in the sector: China needs to secure new sources of imported oil to continue its rapid economic growth, and Venezuela under Chávez wants to reduce its dependency on the US market, to which it sold more than 60 percent of its output in 2007. During his trip to Beijing in September 2008, President Chávez announced the goal of selling one million barrels per day of oil to China by 2012.¹² The \$16 billion Sino-Venezuelan Heavy Strategic Fund will increase Venezuela’s oil production capacity, but observers remain skeptical about the feasibility of Chávez’s aspirations.¹³

Oil has historically been a central factor in Venezuelan politics, both domestic and international, and Venezuela under Chávez is no exception. An anti-Chávez strike at Venezuela’s state-run oil company PDVSA, in 2002–2003, prompted the government to dismiss more than twenty thousand qualified workers, eroding the technical capabilities of the company. Production has since decreased steadily, but the losses have been more than offset by the inflation of oil prices in the 2000s, reaching an impressive peak in July 2008 at \$147 per barrel. Strongly impacted by the global financial crisis, in 2010 the average price of oil was approximately \$75 per barrel, with considerable implications for the Venezuelan economy. In 2009, GDP decreased by 3.3 percent, and inflation was around 30 percent. Inflation remained high in 2010, though the government expects it will not increase further in 2011. The price of oil in the 2011 budget is calculated at \$40 per barrel, although most observers estimate that the price will exceed 2010 levels.

To cope with the crisis, it was necessary to adjust Venezuela’s national budget and the Social and Economic Development Plan 2007–2013 (also called Plan Nacional Simón Bolívar). In January 2010, the government introduced important changes to the currency market, devaluating the bolivar and creating a dual exchange rate system. These measures helped the state to cover its financial needs, as the relative significance of oil revenues in the economy increased. Together, the devaluation and increasing importance of oil income will put non-oil tax revenues at 12 percent in 2011.

As the crisis deepened in early 2009, China announced that in addition to the existing \$16 billion bilateral Heavy Strategic Fund, it would provide Venezuela with a further \$20 billion of fresh financing. The expenditure of this “super heavy fund,” as Chávez called it, is to follow three principles: gradualism, scientific planning, and common interest. The announcement was originally scheduled for Hu Jintao’s visit to Caracas in April 2010, to coincide with the bicentennial celebration of Venezuela’s independence. When the visit was canceled, details were announced instead during Minister Giordani’s August 2010 visit to Beijing. The final agreement was signed in Beijing on September 10, 2010, and published in Venezuela’s official bulletin *Gaceta Oficial* one week later. Chávez contrasted the generous conditions of this financing with

the inflexible requirements of the International Monetary Fund and Inter-American Development Bank.

Oil is squarely at the core of Chávez's foreign policy. Venezuela was a founding member of the Organization of Petroleum Exporting Countries (OPEC) and has actively pushed for higher prices within the organization. In 2005 Chávez created PetroCaribe, a multilateral organization that seeks to provide oil to Caribbean and Central American countries on favorable financial terms. He also created PetroSur, initially to advance the construction of a six-thousand-kilometer pipeline between Venezuela and Argentina (at the cost of \$10 billion), and later to integrate with the state-operated oil enterprises of Brazil, Bolivia, Paraguay, and Uruguay. These projects encompass oil exploration, exploitation, transport, storage, and refinement. As a collaborator in the PetroCaribe initiative, Cuba has by far been the greatest beneficiary of these arrangements.

Despite the publicity generated by the diplomatic skirmishes between the United States and Venezuela, the relationship between the two revolves around oil, as it has for a century. Depending on the year, the United States receives between 60 percent and 90 percent of Venezuelan oil exports, accounting for 8 to 10 percent of US daily imports. A functional bilateral relationship is therefore important to both Washington and Caracas, and any interruption of the northbound oil flow, although possible, is highly improbable. Such a disturbance would extinguish a crucial source of hard cash for Venezuela and compromise the viability of its network of CITGO retailers of Venezuelan-based petroleum in the United States. Conversely, if it refuses to buy Venezuelan oil, the United States would be forced to find alternative sources, which are not readily available. This structural impasse is the root of an acute political paradox: Chávez is a socialist leader who promotes Bolivarian revolution backed with US dollars, while the United States cannot easily avoid sending billions of dollars to the leader who has done more than any other to erode its hegemony in Latin America over the past decade.

To reduce its dependence on the US market, Venezuela has two main options. One is to increase oil production in order to augment exports to China while retaining the profitable US market, though diminishing the latter's relative weight in terms of total exports. The other is to redirect US-bound exports to another reliable customer. Experimentation with these strategies has so far proven disappointing for Chávez. Greater exploration and production requires investment, which has not been forthcoming from PDVSA. Production has in fact declined, and although the resulting losses have been offset by high oil prices, a number of chapters in this volume correctly question whether resource prices will return to their former levels.

Similarly unfortunate for Chávez is the unlikelihood that China, or any other country, will encroach on the market share of Venezuelan oil currently

occupied by the United States. There are few facilities in the world that can handle Venezuela's "heavy" crude oil, which contains high levels of sulfur, and most of them are in the United States. Furthermore, the time frame (and therefore cost) of shipping a ton of oil from Venezuela to the United States is between three and seven days, compared to between thirty and forty days to ship the same volume to China. To reduce reliance on US and other foreign firms, Venezuela has leveraged technology transfer from China to develop the necessary technical facilities and human capital for producing its own drilling rigs. The two countries have also agreed jointly to build oil tankers in Chinese shipyards and to construct a shipyard in Venezuela.

Venezuela has declared reserves of 315 billion barrels of oil, which if certified will put Chávez in control of one of the world's largest stocks. Much of this oil is thought to be in an area of the Orinoco Basin that is difficult to access, and furthermore, it is in the form of tarlike deposits. Canada has similar deposits and has shown that the technology for processing this substance is expensive, not easily available, and environmentally damaging. The high cost of converting the substance into oil makes the viability of the process vulnerable to fluctuations in demand for the final product: high oil prices on world markets can absorb the cost of production, but low prices make production unprofitable. One critical venture is the construction in China of three refineries capable of processing Venezuela's heavy oil. This may ultimately provide an alternative to existing facilities in the United States, but the refineries will take some years to build.

Changes to the legal framework of the Venezuelan oil sector, in force since January 1, 2002, have calibrated the national economy for conducting international business through state-to-state channels rather than through private companies. Consequently, projects, investments, and transactions are implemented by way of joint ventures, in which Venezuela retains a majority share of actions (at least 51 percent) for itself. This legislative maneuver has affected previously signed agreements between PDVSA and Chinese companies such as CNPC and Sinopec. Officially, China acknowledges Venezuela's sovereignty, but in private, Chinese executives are anxious about legal security and stability, a concern they share with officials from Western public and private institutions. Be this as it may, the Chinese economy needs oil, and Chinese companies have adapted to Venezuelan conditions to keep a share in its oil market. Cooperation continues to expand, and projects, including rigs and other heavy hardware, are blooming.

Telecommunications: From Satellites to Cell Phones

Alongside the oil sector, telecommunications has become a key focus of Sino-Venezuelan cooperation, symbolically spearheaded by the creation of

Venezuela's first satellite. On October 29, 2008, at 16:53 Greenwich Mean Time, China successfully launched the Venesat-1 Simón Bolívar, a Chinese Dong Fang Hong 4 Class (DFH-4) satellite, from the Xichang Satellite Launch Center in Sichuan. President Chávez observed the launch from a Chinese-built satellite control base in the Venezuelan town of Luepa, in the state of Bolívar, in the company of Bolivian president Evo Morales, especially invited for the occasion. The satellite was built by China Great Wall Industry, which is linked to the China Aerospace Science and Technology Corporation (CASC). Weighing 5,100 kilograms and carrying twenty-eight transponders, it has the capability to support Internet and television, thereby permitting the transmission of Telesur, the official television network created by Chávez to provide an alternative to CNN. The satellite operates from a 78-degree west geosynchronous orbital position ceded by Uruguay in exchange for 10 percent of the satellite's capability.

The coverage of the "Bolivarian Satellite" extends across the Caribbean, Central America, and South America except for the southern regions of Argentina and Chile, and it is expected to remain fully functional for fifteen years. The initiative was born in conversations in October 2004, pushed by Chávez's visit to Beijing in December of that year, and formalized through a bilateral agreement signed on November 1, 2005. China built two control stations in Venezuela (in the states of Bolívar and Guárico), and more than ninety Venezuelan engineers were trained in China to operate the satellite. The first of these engineers arrived on March 2, 2007, and alongside their technical training were required to study Chinese language and history. The total cost of the project has been estimated at more than \$400 million dollars, and President Chávez has announced that a second satellite will be built, this time to undertake strategic reconnaissance and surveillance. To showcase the technological sovereignty achieved by Venezuela with China's support, it is likely that the second satellite will be built in Venezuela but launched in China, probably in 2013.

Another development in the telecommunications sector is the quick penetration of Chinese companies into Venezuela's expanding cellular phones market. Huawei has been the most active, but Alcatel Shanghai has followed closely on its heels, and ZTE has recently built cellular phone factories in Cua (in the state of Miranda) and elsewhere, and won a lucrative contract to provide Venezuela with Internet television (IPTV). These companies have keenly watched the expansion of domestic telecommunications in Venezuela, particularly the growth of demand for cell phones to seven million new handsets per year, and they now control the market through investment in infrastructure and the supply of ever-evolving cell phone models.¹⁴ They represent an immediately visible Chinese presence in Venezuela: a new face of South-South cooperation that has a direct and concrete impact on the quality of life of millions of Venezuelans.

The China-US-Venezuela Triangle

The report on the September 2008 meeting of presidents Chávez and Hu issued by China's Ministry of Foreign Affairs revealed the diversity of perspectives and expectations harbored by the two about their relationship.¹⁵ China ranks its bilateral relations in the categories "strategic partner" (high significance), "cooperative partner" (medium significance), and "friendly cooperative relations" (low significance). Venezuela was upgraded in May 2001 from "friendly cooperative relations" to "strategic partner," and the report on the presidential meeting noted that Chávez views "cooperative relations with China from a strategic point of view."¹⁶ However, as if to stress the benevolence and innocence of Sino-Venezuelan relations, the same report mentioned twice that China views the relationship as a "strategic partnership of *common development*." It made no mention of Venezuela's purchase of eighteen to twenty-four K-8 military aircraft.

Relations with the United States are a priority for China, and policy toward Venezuela and Latin America are accordingly subordinated.¹⁷ Beijing is acutely aware that since the establishment of the Monroe Doctrine on December 2, 1823, Latin America has been a sphere of vital interest to the United States. Unlike Russia, China has more to lose than gain from playing the "Venezuela card" in its relations with Washington. Strategic restraint was evident in the November 5, 2008, release of China's *Policy Paper on Latin America and the Caribbean*, the country's most important official statement on Latin America. The paper was made public the day after the US presidential election in order to minimize the chance that China's engagement with Latin America would be targeted by the campaign of either candidate as an undesirable political factor. The strategy succeeded: China-Latin America relations were almost completely absent from the race to the White House, mentioned only on one rare occasion in the presidential debate of September 26, 2008, when Senator Barack Obama said, "The conspicuousness of their presence is only matched by our absence."¹⁸

The 2006 electoral battle between Venezuela and Guatemala for a temporary seat on the UN Security Council was important for both the United States (which backed Guatemala) and Venezuela, but not for China. The battleground for winning votes was Latin America and the Caribbean, and while China's position was not a major factor in the outcome, for Chávez the election was a test of China's loyalty. China openly supported Venezuela, but made no effort to convince other voters in the region, probably due to a prior arrangement with the United States. The eventual election of Panama as a compromise candidate reflected Panama City's long-practiced ability to maneuver between foreign interests in its canal.

The structure of US-Venezuela relations remains essentially unchanged after the transition from the Bush to the Obama presidency, principally because of the need of both sides to sustain the northerly flow of oil. The new

administration has brought a fresh attitude to the relationship, however, and President Chávez has diminished his rhetorical attacks on the United States. The diplomatic thaw allowed Secretary of State Hillary Clinton to achieve an agreement for the return of ambassadors Bernardo Alvarez and Patrick Duddy to their respective posts in Washington and Caracas.

During the Fifth Summit of the Americas, held April 17–19, 2009, in Trinidad and Tobago, the two presidents shook hands and Chávez gave Obama a copy of Eduardo Galeano's classic book, *The Open Veins of Latin America*. Before going to the summit, President Chávez made his sixth visit to Beijing, on April 8 and 9, where he proclaimed that China is the world's new "center of gravity," and that a new world order free of US hegemony is emerging. At the sixty-fourth UN General Assembly in New York, on September 24, 2009, speaking after President Obama, President Chávez stated that he could smell hope, in sharp contrast with his 2006 "sulfur" speech following President Bush in the same place. He compared Obama with John F. Kennedy, though later warned that there are "two Obamas." Earlier in 2009, he also severely criticized the agreement between the governments of Colombia and the United States to let US forces use seven Colombian bases.

Just as Sino-US relations are a top international priority for China, the same holds true for the United States. The *Global Trends 2025* report, released by the US National Intelligence Council on November 20, 2008, states that China is "poised to have more impact on the world over the next twenty years than any other country," and that the United States "will have less power in a multipolar world than it has enjoyed for many decades."¹⁹ China appears to want closer links with Venezuela and other center-left governments in Latin America, a region historically shaped by US hegemony. Reciprocally, most countries now want closer links with Beijing. China is therefore proceeding cautiously, testing the limits of what can be done with minimal risks. Its engagement with the region, caution notwithstanding, implies an important identity change for the United States.

Prospects and Pressures

Oil will remain the key Chinese interest in Venezuela. The reduction of transport times and costs are being explored through the joint construction of Post-Panamax extra-large "supertankers," whose passage from the Atlantic to the Pacific requires the widening of the Panama Canal. A strategic alternative is the construction of a pipeline from Venezuela, through Colombia, to the Pacific, or a shorter pipeline through the Panama Isthmus. The technical and political feasibility of these projects remain uncertain. The construction of heavy-oil refineries in China would alleviate dependence on US facilities, but the time horizons for bringing them online are lengthy.

The security component of China-Venezuela relations is developing in a steady and controlled fashion. In addition to military personnel exchanges and the purchase of the K-8 planes, a second satellite equipped with reconnaissance capabilities is a likely prospect. External developments, such as the 2008 arms deal between the United States and Taiwan, may lead China to reconsider its (so far) restrained stance in this sphere. The dynamics of Venezuela-US relations will significantly influence both countries' relationships with China. President Obama, who took office on January 20, 2009, has indicated his desire to improve relations with Venezuela and China, though as Cynthia Watson points out in Chapter 6, entrenched interests in Congress are constraining his ability to do so.

International relationships are conditioned by the dynamics of domestic politics, and the recent chronology of Venezuelan voting illustrates mounting pressure on President Chávez. In December 2006, Chávez was, for the first time, defeated in a referendum that sought popular approval for the institutionalization of socialism and the removal of limits on his reelection. Despite this defeat, in November 2008, regional elections saw Chávez's allies win seventeen of twenty-two states, though the opposition won the remainder, including Caracas. On September 26, 2010, for the first time since 2005, the opposition participated in congressional midterm elections. Chávez attempted to obtain a two-thirds majority (110 of 165 seats) with his United Socialist Party of Venezuela (PSUV), but the opposition organized a strong alliance called the Coalition for Democratic Unity (MUD). Participation was 66.45 percent, which is considered high in Venezuelan politics, and Chávez's PSUV and its allies obtained only 48.22 percent of votes (ninety-eight representatives). The MUD obtained an impressive 47.22 percent (sixty-five representatives), while a minor party obtained only two representatives. Although Chávez remained very popular, the result was an important point of consolidation of the opposition. The real test for Chávez will come with the December 2012 presidential election, with enormous implications for engagement with the United States, and consequently the tone of relations with China.

The US midterm election of November 2010 showed waning support for President Obama, a recovery for the Republican Party, and the emergence of the conservative Tea Party. Republicans in the lower chamber now hold several important foreign affairs positions, which does not bode well for US-Venezuela engagement. China too is approaching a transition point, with presidential elections scheduled for November 6, 2012. Furthermore, the *fifth generation* of Chinese leaders is expected to take power in the Eighteenth Party Congress in 2012, raising further uncertainties about the character of the China-US-Venezuela triangle.

Another factor that will shape the trajectory of Sino-Venezuelan relations is migration. Chinese immigration to Caracas and other urban centers is on the rise, and while there are no official figures, it is clearly the case that the num-

ber of Chinese living in Venezuela is growing rapidly. Officials have privately speculated that there are now 150,000 Chinese in the country, though how they may come to serve as intermediaries and brokers is, as yet, uncertain. Understanding this form of “soft power” is a critical challenge for analysts and observers and will require the development of new social scientific approaches.

Finally, the global financial crisis that erupted in 2008 modified several parameters for policymakers. The impact of the crisis in Venezuela has been conditioned by preexisting systems of economic management, such as funds controlled directly by the government to free up the allocation of resources. Venezuela’s almost total dependency on oil exports makes the global price of oil a good indicator of the general health of the economy. Despite the comparatively weak performance of oil in 2010, compared to mid-2008, recovery has exceeded the expectations of pundits and has to some extent buoyed the economic superstructure of Venezuela’s revolutionary process.

China’s strong economic performance through the crisis has augmented its influence in world affairs, consolidating its position as a key US partner, an authority in the G20, and as a *primus inter pares* of the BRICS. The \$20 billion that Beijing committed to Venezuela in 2010 was a token of China’s growing capacity to exert economic and financial power well beyond its borders. The global financial crisis has deepened China’s power and has consequently exerted a direct impact on China-Venezuela relations, US reactions to their relationship, and the flow of oil underlying both.

Notes

1. ALBA was initiated by President Chávez to consolidate regional autonomy in the face of perceived US imperialism and to oppose and undermine Washington’s FTAA (Free Trade Area of the Americas).

2. These diplomatic actions were taken in part to express solidarity with Bolivian president Evo Morales, who had recently expelled the US ambassador in La Paz.

3. Spokesperson Liu Jianchao added that “China and Venezuela have nothing more than normal state-to-state relations and normal cooperation between states,” and Chinese officials such as Wei Qiang made similar comments. See the Inter-American Dialogue’s *Latin America Advisor*, October 1, 2008, 4.

4. Christopher Bodeen, “Chávez: Beijing, not U.S., Is Key,” Associated Press, September 24, 2008.

5. The K-8 military training plane is also known by the names Hongdu JL-8, Nanghang JL-8, and K-8 Karakorum. It has been in service in the People’s Liberation Army Air Force since 1998 and has been exported to a number of countries, including Egypt, Ghana, Myanmar, Namibia, Sri Lanka, Sudan, Tanzania, Zimbabwe, Indonesia, and the Philippines. This extended network of users makes stocks of replacement parts widely available, while diminishing the capacity of the United States to disrupt their movement, as it has with F-16 parts in use by Venezuela.

6. A chronology of Chávez’s trips to China is presented in the *Libro Amarillo*, Ministerio del Poder Popular para las Relaciones Exteriores (Popular Power Ministry

of Foreign Relations), formerly the Ministerio de Relaciones Exteriores (Ministry of Foreign Relations), Caracas. The first trip was in October 1999, during his first year in power; the second was in May 2001, after President Jian Zemin's state visit to Caracas, the last by a Chinese head of state; the third was during Christmas in 2004; the fourth in August 2006; and the fifth in September 2008. Rather than visit in person, Hu Jintao has sent other high-ranking figures to Venezuela in his place. Vice President Zeng Qinghong visited in January 2005; Li Chang-Chun, member of the standing committee of the political bureau of the Communist Party, visited in 2007; and Vice Premier Hui Liangyu visited in May 2008.

7. One instance of mild Chinese political support for Venezuela was the latter's struggle with Guatemala (backed by the United States), to be elected for a two-year chair on the UN Security Council. After a protracted diplomatic battle (there were forty-eight ballots in October and November 2006), Panama was elected as compromise candidate for the period 2007–2009. On the Chinese government's ambivalent relationship with Hugo Chávez, see Francois Bougon, "China Keeps Chavez Close, But Not Too Close," AFP, April 11, 2009, www.google.com/hostednews/afp.

8. See "Chinese Vice President Predicts Bright Future for China-Venezuela Ties," Xinhua, February 18, 2009, <http://news.xinhuanet.com>. Also see Tyler Bridges, "China Makes Its Move as U.S. Falls Back in Latin America," *McClatchy Newspapers*, July 8, 2009.

9. Domínguez et al., *China's Relations with Latin America: Shared Gains, Asymmetric Hopes*, 41.

10. On Venezuela's dilemmas in oil trade with China and the United States, see Corrales, "Why Venezuela Is Trapped, for Now." On the history of Venezuela's oil industry, see Luis Xavier Grisanti, "Hernández Grisanti y el nacionalismo petrolero," *Analítica.com*, August 24, 2009; and Rossi, *El epílogo del petróleo*. On the role of oil in Chávez's foreign policy, see C. Romero, *Jugando con el globo*, and Tronconi Heredia, *¿El petróleo: Arma de la revolución?*

11. Ministry of Foreign Affairs (PRC), "Hu Jintao Talks with Chávez," September 24, 2008, <http://www.mfa.gov.cn>.

12. "Venezuela to Buy Chinese Combat Planes: Chavez," AFP, September 21, 2008, <http://afp.google.com>.

13. Domínguez et al., *China's Relations with Latin America*.

14. "Venezuela's Chinese-technology Cellular Phone Causes Consumer Frenzy," *People's Daily Online*, May 11, 2009, <http://english.people.com.cn>.

15. Ministry of Foreign Affairs (PRC), "Hu Jintao Talks with Chávez."

16. Domínguez et al., *China's Relations with Latin America*, 41.

17. Paz, "Rising China's 'Offensive' in Latin America and the U.S. Reaction."

18. Inter-American Dialogue, *Latin America Advisor*, October 1, 2008, 1.

19. Peter Finn and Walter Pingus, "Report Sees Nuclear Arms, Scarce Resources as Seeds of Global Instability," *Washington Post*, November 21, 2008.