Beijing's Pragmatism Meets Hugo Chavez

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For decades, globalization has been the official policy of China's top leaders, be it modern-day economic globalization or Mao Zedong's pursuit of a global communist revolution. Since Mao's death, China has been guided by the notion articulated by Deng Xiaoping: "to get rich is glorious." In the post-Mao context, pragmatism generally trumps widely accepted morality in international affairs, leading China to strike deals with authoritarian regimes from Sudan to Iran who have natural resources that Chinese leaders desire. China's newfound zeal for pragmatism sometimes leads it to strike deals with governments that clash with the United States and the international community. One such challenge for Sino-U.S. relations is China's ties to Venezuela's president, Hugo Chavez.

The Venezuelan Context

This paper explores China's relations with Venezuela. In particular, it analyzes Beijing's relations with that country's unique president, Hugo Chavez Frias. Since his landslide electoral victory in 1998, Chavez has emerged as one of the most colorful political/military strongmen, or *caudillos,* in a hemisphere long famous for resourceful, if not necessarily progressive, strongmen. A former paratrooper who once led a failed coup against an elected predecessor, Chavez served time in jail before becoming a politician.

He was overwhelmingly elected because Venezuelans believed that their

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country's democratic system had become hopelessly corrupt in the hands of elites who had squandered the country's vast oil revenues for their own benefit. This was done, Chavez claimed, in partnership with "U.S. imperialists" who, during the 1990s, had foisted self-serving market reforms on most countries in the Western Hemisphere. Chavez's ideological goal is to replace that "Washington Consensus" with his Bolivarian revolution and an emerging "South American Consensus." This new theme is gaining currency with various national leaders from Argentina to Bolivia.

In pursuit of his own version of anti-U.S. populism, Chavez has tried to emulate Fidel Castro—who has dominated Cuban politics since 1959—and to adopt Cuba as an international partner. The situation is ideal for both parties: while Chavez props up Castro economically with Venezuela's oil, the Cuban leader sends Venezuela assorted specialists and serves as the ultimate anti-U.S. mentor. Chavez charges that the United States is trying to overthrow him. He has been highly dramatic in his condemnations of Washington's actions and has taken advantage of the discontent that is surging once again among many Latin Americans. "Leftist" governments claiming to represent the poor are springing up and Chavez is playing a leading role in this resurgence. He capitalized on the November 2005 Summit of the Americas in Buenos Aires by staging joint anti-Bush extravaganzas with Bolivia's populist president Evo Morales and the washed-up (but still recognizable) Argentine soccer star Diego Maradona, all to wildly cheering crowds of Argentines.

In addition to sustaining Castro in Cuba, Chavez is using Venezuela's windfall oil income to subsidize neighboring states in the hemisphere that have been hard-hit by development failures and particularly high oil prices. The most obvious of his regional Bolivarian ventures are his PetroCaribe and PetroAmerica initiatives. PetroCaribe is an oil alliance including 12 of 15 members of the Caribbean Common Market, as well as the Dominican Republic, and Cuba. It makes substantial amounts of Venezuelan oil available to Caribbean countries on preferential terms. PetroAmerica is an integration project of the state oil companies in South America intended to promote regional independence and development. Under Venezuela's direction, the Caribbean and South American alliances plan to cooperate toward the betterment of Latin America.

Despite an increasing number of Venezuelans, both rich and poor, who are upset about the quanitity of money he is giving away, Chavez continues to pursue his policies to transform the hemisphere. These projects ease the immediate needs of some hard-pressed people, cultivate closer ties between them and Venezuela, and simultaneously nurture Chavez's image as the modern generation's foremost regional humanitarian and anti-imperialist. As part of this process, the Venezuelan leader cultivates ties to what he perceives as "socialist" success stories around the world—in particular, China.

To make his point at home and to avail himself of the maximum in oil revenues, Chavez tightened state control over oil production and over most other aspects of society. By the end of 2005, all privately operated oil fields had been pulled under state control. This capped off a process whereby taxes and royalties from oil production were substantially increased. The campaign to collect alleged back-taxes from oil companies in 2005 hit the China National Petroleum Corporation with a bill for $101 million.

The government claims that by mid-2005 oil production stood at 3,312,000 barrels per day (bpd), of which 352,000 came from the then-privately operated companies. The state oil company, Petroleos de Venezuela (PDVSA), which opened commercial offices in Beijing and Cuba in 2005, hopes to increase production to more than 4 million bpd by 2012, although this will require significant infrastructure upgrades. PDVSA, however, according to a mid-2005 report by the independent consulting firm Stratfor, is plagued by poor management and a lack of capital, resulting largely from increased government controls and taxation and exacerbated by administrative incompetence. These conditions, Stratfor claims, have in fact *reduced* Venezuela's crude oil production since 1998 by about 1.2 million bpd. The *Petroleum Economist* reported in November 2005 that overall investments in the Venezuelan oil industry are falling. Even some articles in the Chinese media have suggested that Venezuelan official production figures may be significantly inflated.[1]

Sino-Venezuelan Relations

Chavez holds China up as an example of how to "be a world power without being an empire." He often proclaims that he has a special relationship with China, causing Chinese diplomats to smile politely as they go about their business of dealing fairly equally with everyone in a region that is of material interest to Beijing. Indeed, in most respects, Chavez's fulsome praise of revolutionary Maoism and the

Cultural Revolution are a profound embarrassment to Chinese leaders who are now following a very different road to development.

Bilateral relations between China and Chavez can be examined through the lens of three sometimes-overlapping categories: economic, political, and technological. For the Chinese, with their burgeoning need for energy, oil is the primary interest. Chavez, in turn, sees China as a source of ideological inspiration (however misguidedly he interprets that inspiration) and technical expertise. He also sees China, to some degree, as a hot poker with which to prod the raw sensibilities of increasingly concerned politicians in Washington.

But China's growing ties to Venezuela must be seen in the context of Beijing's aggressive cultivation of ties to governments throughout the Western Hemisphere that have oil and raw materials. In that sense, Chinese pledges of some hundreds of millions of dollars in investments to Venezuela must be kept in perspective. Recall, for example, that President Hu Jintao pledged investments of more than $30 billion to Argentina and Brazil alone for energy, raw materials, and infrastructure during his November 2004 trip to South America.

ECONOMIC TIES

China's main interest in Venezuela is its oil. Venezuela claims the largest proven oil reserves, now presumably 80.6 billion barrels, of any country outside the Middle East. While China was oil self-sufficient until 1993, it is now the world's second largest importer—although it still sops up only about a third as much as the United States (6.5 million bpd in contrast to 20.7 million bpd in 2004). According to "A Profile of China's Oil Industry," the percentage of imported oil in China's total consumption rises year by year. In 2004 it was 41.3 percent, up from 34.9 percent in 2003, 29.4 percent in 2002, and 26.9 percent in 2001.[2]

China's oil sources in 2004 were relatively diversified, with 45 percent coming from the Middle East, 29 percent from Africa, and 14 percent from Europe. But China would like to diversify further. Thus, while little oil currently comes from Latin America, which has around 13 percent of the world's proven reserves, Venezuelan leaders say that they hope to supply 15 to 20 percent of China's imports in the future. For its part, Beijing has signed many agreements in Venezuela promising some hundreds of millions of dollars of investments in oil and gas projects, as well as in general infrastructure. China has also invested or promised investments in education and housing, and although these projects seem less clearly related to raw material exports, they can be classified as soft power projects that promote China's image of good will.

But, like many of the pledges of largesse that President Hu made during his November 2004 visit, much of this money has not yet materialized. Real obstacles must be overcome to substantially increase Venezuelan oil shipments to China. First, China has no refineries that can handle heavy, highly sulfurous Venezuelan crude, while Venezuela itself does (Citgo)—but in the United States. The Xinhua news agency reported at the end of 2005 that Venezuela was exporting 140,000 barrels of crude per day to China, while in February 2006 PDVSA reported it hoped to be sending 300,000 bpd to China "very soon."[3] Much of what China was buying in 2005 and early 2006 was orimulsion, a dirty product made from low grade oil from the Orinoco Tarbelt, and most of it was used for asphalt.

Increases of Chinese oil imports will depend on whether Venezuela can convince the Chinese, who have some of their own technicians on the ground, that they are serious and competent.

Second, there is the challenge of transportation from a country with no Pacific coastline. A seven-year program has been announced to expand Venezuela's number of tankers from 21 to 58. The largest and now most commonly used oil shipment tankers, the so-called Very Large Crude Carriers, are too big to pass through the nearby Panama Canal. If used for shipments to China, they will have to load at deep-water ports elsewhere in the Caribbean and go around Cape Horn in southern Africa, a very long trip indeed. Another option is the construction of a pipeline across Colombia, already agreed to in 2005 by Chavez and Colombian President Alvaro Uribe, or one across Central America. Pipelines are, of course, subject to sabotage, as evidenced by a late-2005 bombing of a line that supplies Venezuela's largest refinery.

Venezuela also has the largest natural gas reserves in South America. China is interested in exploring this resource as well. In late January 2006, Venezuela, Brazil, and Argentina stated that they have the "political will" to pursue the construction of a 5,000-mile gas pipeline across the Amazon, and Chavez said that "some Chinese companies" are interested in being involved.[4]

It is worth noting again that China plays these events much more quietly than Chavez. For example, in late-August 2005, the Chinese ambassador in Venezuela, Ju Yijie, gave an interview to the Caracas paper *El Universal* in which he acknowledged Venezuela's wish to diversify its markets—60 percent of its crude now goes to the United States. The ambassador explained China's interest in Venezuelan oil, the kinds of problems that must be overcome to make the oil available in China, and emphasized that, as of August, China had "not bought one drop of crude." He added that because of Venezuela's geographic location, "the natural markets for Venezuelan oil are North and South America." The ambassador's blunt assessment suggested several things. First, that China is not altogether convinced by some of Venezuela's plans and promises, though discussions are under way and some investments have been made. Substantial increases of Chinese oil imports will depend on whether Venezuela can convince the Chinese, who have some of their own technicians on the ground, that they are serious and competent. Just as importantly, the ambassador warned the Chavez government during the interview that China does not want to be made a pawn in a dispute with Washington. President Hu did not visit Venezuela on his 2004 trip to South America, probably in part to avoid annoying Washington.

POLITICAL LINKS

China seeks to improve its political position in the Caribbean, where a number of countries still diplomatically recognize the Republic of China in Taiwan, so it is happy to have this Caribbean basin oil power on its side. Venezuela can be counted on to support China at the Commission on Human Rights (Venezuela is a member from 2006 through 2008) and in other United Nations and international forums. Caracas immediately supported China's Anti-Seccession Law (intended to discourage Taiwan from seeking independence by threatening military action) when it was promulgated in March 2005. Tensions have developed, however, between Beijing and Caracas because some of the 130,000 Chinese nationals now living in Venezuela have been subjected to violence, a problem that is likely to grow as the Chinese presence expands.

TECHNOLOGICAL TRANSFERS

Beijing is providing Caracas with some technological equipment that may in time bring Venezuela into the Chinese supply orbit. This includes a communications satellite, to be named *Simon Bolivar* after the liberator of northern South America, a man whom Chavez upholds as his hero and whose values he selectively attempts to advance. The acquisition of the satellite is bundled with the training of dozens of Venezuelan specialists, many in China. *Simon Bolivar* is expected to last for 15 years after its scheduled launch in 2008 and will reportedly be used for telephone, internet, and transmission of educational programs. Venezuela's state-run power company will also offer broadband service provided by China's Zhongxing Telecom. Venezuela has begun building computers with Chinese technology and has acquired three JYL-1 mobile air-defense radar systems. Included in that contract are a command-and-control center, technical support, and access to a satellite communications network.

The United States has refused to service Venezuela's aging fleet of F-16s and is impeding Chavez's efforts to buy from other countries—including a deal whereby Spain would sell a dozen military transport planes to Venezuela and Brazil's Embraer would sell training planes, because both were built with some U.S. technology. Chavez has warned that he may buy planes from China or Russia to escape the U.S. snare. China has reportedly offered to sell Venezuela its new FC-1 fighter. It is worth noting that, until now, Caracas has bought many more arms from Russia and other countries than from China. In the aggregate, the purchases would be enough to significantly change the regional military balance.

Conclusions

Several factors will set the parameters of Sino-Venezuelan relations for the foreseeable future: China's critical need for oil (which, in this case, must be transported very long distances) to fuel its continuing economic growth and Venezuela's possible role in providing that resource; the sharply contrasting diplomatic styles of political leaders in Beijing and Caracas, dictated by what they perceive to be their primary national interests; the U.S. reaction to Chinese and Venezuelan bilateral relations; and China's insistence on payback for its investments.

There is no chance that Venezuela will change the overall course of Chinese politics, though Venezuelan oil would certainly be welcome in Beijing. China's energy relationship with Chavez, however, may have some repercussions for domestic politics in Venezuela—Chavez may cite China's continued rejection of democratic governance to justify Venezuela's own slide away from democracy.

Beyond the Sino-Venezuelan bilateral relationship, things are more complicated. Oil and other raw materials from many parts of the world—increasingly from Latin America—which are so critical to China's continuing development, have to travel long distances and through international waters. Beijing knows very well that seriously unfriendly bilateral relations with Washington might result in disrupted deliveries of these essential supplies. Thus, China's dependence on raw materials originating many thousands of miles from home, in addition to high levels of trade with the United States, give Beijing an important stake in the stability of the world and in working relations with Washington. One of the key aspects of China's "rise" from the time of Deng Xiaoping has been a reliance on a carefully calibrated, largely non-confrontational international profile. It follows that Hu

Jintao will not, in the end, applaud the instability across Latin America that Mao once sought and that today's Maoist Chavez seems to favor.

Some in the United States have argued that China secretly seeks to threaten the United States from bases in Cuba, Venezuela, and, in time, other Latin American countries. While this is highly improbable in the foreseeable future for the reasons given above, security issues must be monitored and distinctions must be drawn between the special case of Cuba and Chinese relations with other Latin American nations, including Venezuela. Former Venezuelan United Nations Ambassador (2001–2004) Milos Alcalay noted in an interview that "a strong relationship is growing between China and Venezuela," but that circumstances are "not favorable for a strong military and intelligence link."

China has promised tens of billions of dollars in investments in Latin America, but will they materialize? And if so, what kind of demands will follow? China does not invest anywhere, including in Venezuela, without the expectation of something significant in return: oil, gas, nickel, soybeans, or other resources. The measured implementation of Chinese pledges will be managed by capable and demanding Chinese experts who will have little patience with Maoist political and ideological posturings by Chavez if these stand in the way of tangible progress. If Chavez persists in making highly ideological attacks on Washington while China operates from a largely practical, non-ideological perspective—characteristics noted by Ambassador Alcalay—the Venezuelan president stands the chance of alienating Beijing. This message, sent to Chavez in August 2005 by the Chinese ambassador in Caracas, was apparently missed, ignored, or not believed. Venezuelan analyst Elizabeth Burgos noted in an interview that while China clearly wants Venezuela's (or anyone's) oil, the question is whether Beijing "is willing to run the risk of a confrontation with the United States over a country without much importance except oil."

In the end, China wants pragmatic commercial relations with Venezuela. It wants oil, but is still not convinced that Venezuelans will be able to deliver large quantities, in substantial part because of the objectives and actions of Chavez himself. They put up with him *in spite of* his revolutionary words and actions, not because of them. One can almost imagine that if Chinese investments continue to rise, as seems probable, Beijing will become increasingly intolerant of grandiose political statements from Caracas if they reduce efficiency and aggravate relations with Washington, as they are likely to do. This could result in Chinese leaders losing patience, making criticisms, and issuing ultimatums, as the United States has done before them. In fact, if ties to China become ever closer, Chavez may in time find that he has simply exchanged "Ugly Americans" for "Ugly Chinese."

Notes

1. Peter Wilson, "Venezuela Oil Output Figures Remain Unclear," *China Daily*, 17 May 2005.
2. "A Profile of China's Oil Industry", *Xinhua*, 21 February 2005.
3. Xinhunet. "Venezuela exports 5.3 mln barrels of oil to China, Singapore." *China View,* 23 December 2005, http://news.xinhuanet.com/english/2005-12/24/content_3963542.htm; Humberto Marquez. "Challenges 2005-2006: Oil Market Analysts Issue Dire Warnings." *Oneworld.net*, 30 December 2005, http://www.oneworld.net/article/view/124903/1/6573
4. "The Explosive Nature of Gas", *The Economist*, 9 February 2006.