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Loans’ Impact on International Relations: Venezuela as Lender and Borrower

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LOANS’ IMPACT ON INTERNATIONAL RELATIONS:
VENEZUELA AS LENDER AND BORROWER

by

LEONELA MEDINA BAEZ

A master’s thesis submitted to the Graduate Faculty in Liberal Studies in partial fulfillment of the requirements for the degree of Master of Arts, The City University of New York

2016
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This manuscript has been read and accepted for the Graduate Faculty in Liberal Studies in satisfaction of the thesis requirement for the degree of Master of Arts.

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ABSTRACT

LOANS’ IMPACT ON INTERNATIONAL RELATIONS: VENEZUELA AS LENDER AND BORROWER
by
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Advisor: Tomohisa Hattori

Foreign aid can be allocated through grants and loans each of them having different repercussions in the hierarchical relations between donor/recipient and lender/borrower. This study focuses on the effects of bilateral loans in international relations. The relation created through bilateral loans is conditioned by the payment or cancellation of the debt: a client-patron relationship between lender and borrower remains when there is not debt payment, conversely, when the borrower pays off its debt to the lender on time, the relation of domination does not take place. However, how the relation is transformed if one state is both lender and borrower? To address this question Venezuela is examined as case study, country that performs the dual role of lender and borrower simultaneously. Through energy agreements, Venezuela provides oil loans under low interest rates, the possibility to pay back with goods and services and long periods to pay off the debts. Yet, while being a lender, the country receives loans from other states specifically the oil-for loan type whose payment is made by the supply of oil. Being oil the means to lend and borrow, the argument of this thesis is that in the particular case of Venezuela the dual role of lender and borrower impacts the capacity of the country to fulfill its obligations as lender which subsequently modifies Venezuela’s hierarchical relations with its borrowers.
Contents

Tables and Figures .......................................................................................................................... vi

Introduction .................................................................................................................................... 1

I. Chapter One: Venezuela as Lender ............................................................................................. 6
   I. Introduction to The Bolivarian Republic of Venezuela and its Bolivarian Ambition............ 6
   II. Literature Review .................................................................................................................. 10
   III. Venezuela’s Loan Practices ............................................................................................... 21
      III.A Venezuela’s Consolidation as International Lender .................................................... 21
      III.B Venezuela’s Progression as an International Lender .................................................. 26
      III.B-1 The San José Agreement (1980) .............................................................................. 32
      III.B-2 Energy Cooperation Agreement of Caracas (2000) .............................................. 34
      III.B-3 Alliance for the Peoples of Our America-Commerce Treaty of the Nations (ALBA-TCP) ........................................................................................................... 37
      III.B-4 Petro Caribe (2005) .................................................................................................. 42
      III.C Type of Loans Allocated by Venezuela ....................................................................... 51
      III.D Manifestation of Hierarchical Relations between Venezuela and its Borrowers ...... 55
      IV. Conclusions ..................................................................................................................... 60

II. Chapter Two: Venezuela Receiving Foreign Loans ................................................................. 62
   I. Introduction ............................................................................................................................... 62
   II. Literature Review .................................................................................................................. 63
   III.A Venezuela as Borrower ...................................................................................................... 75
   III.B Venezuela’s Lenders, Type of Loans and their Conditionality ....................................... 82
   III.C Venezuela’s Increasing Debt to China and the Transformation of their Relations ...... 93
   III.D How Loans to Venezuela Transform Hierarchical Relations with its Borrowers? ...... 99
   IV Conclusions .......................................................................................................................... 105

III. General Conclusions ............................................................................................................... 108

IV. Deficiencies of the Study and Further Implications ............................................................... 110

Bibliography ................................................................................................................................. 111
Figures and Tables

Figure 1. Relation of Venezuelan Public Oil Exports and OPEC Average Oil Prices .................32
Figure 2. Crude Oil Prices 1980-1999 US Dollar per Barrel ........................................52
Figure 3. Summary of Oil Bill Compensations by Country (2008-2015) ..........................54
Figure 4. Evolution of the External Public Debt in Venezuela 1969-1988
(Millions of Bolívares) ..............................................................................................76
Figure 5. Public Oil and Non-Oil Exports 1989-2015 (US$M) .........................................78
Figure 6. Cash Surplus/Deficit (GDP%) .........................................................................78
Figure 7. Public External Debt GDP% (End of Period) ....................................................79
Figure 8. Venezuelan Total Oil Exports of Refined Oil Products to China 1986-2012 ........88
Figure 9. Venezuelan Oil Exports to China, Russia, Spain and Japan 1999-2012 ..............93
Figure 10. Total Exports of Refined Oil Products from Venezuela to China and the United States 1986-2016 (Thousand barrels/day) ......................................................95
Figure 11. China’s Crude Oil Imports by Source, 2014 ..................................................96
Figure 12. Imports from China to Venezuela 1998-2014 (FBO US$) ...............................99
Table 1. Venezuelan Sector Composition in GDP% 1970-1974 .......................................23
Table 2. Oil Prices Period in the Venezuelan Economy 1963-1999 .................................23
Table 3. Summary of Central Government Finances, 1972-76
(Billions of Bolívares at current prices) .................................................................24
Table 4. Venezuelan International Assistance to Multilateral Organizations 1974-1975 ......28
Table 5. Venezuelan Bilateral International Assistance during the 1970s .........................29
Table 6. Energy Cooperation Agreement of Caracas Committed Amounts of Oil by Country .................................................................36
Table 7. Petro Caribe Line of Financing (Updated until 2015) .........................................44
Table 8. Petro Caribe Supply Quota by 2014 .................................................................45
Table 9. Petro Caribe Mixed Public Enterprises .............................................................46
Table 10. Petro Caribe Economic Zone (PEZ) Areas of Investment ...............................49
Table 11. Oil Agreements between Venezuela and Central America and the Caribbean ....51
Table 12. Financial Compromises of Venezuela 1999-2013 ...........................................81
Table 13. Chinese Lending During 2005-2011 ...............................................................82
Table 14. Terms of the China-Venezuela Joint Investment Fund ....................................84
Table 15. Chinese Loans to Venezuela Formally Announced/Publicized..........................87
Table 16. ODA Loans from Spain to Venezuela 1999-2014 US Dollar Millions...............92
Table 17. Venezuela Concession of Loans 1999-2014.........................................................100
Table 18. Reduction of Barrels of Oil through Credit-Source........................................101
Table 19. Dominican Republic’s External Debt in Relation to its Petro Caribe Debt...........104
I. Introduction

Foreign aid is a phenomenon that entails the transfer of resources between two or more states and whose discourse implies the development and/or maintenance of a relationship between the participating states. Through the transfer of resources emerges a hierarchical relation between donor and recipient (Hattori 2001). In order to analyze the development of such hierarchical relations it is necessary to understand what foreign aid is and which its conditions are. According to the analysis of Hattori, aid consists of two practices: gifts (grants) and loans; each practice creates a distinct relation between donor-recipient and lender-borrower. Gifts do not imply reciprocation from the recipient to the donor because no payment is needed. Since gifts are ambiguous in regards to the power relation, the exchange of gifts and grants is often described as practices of generosity and gratitude. This is what Hattori calls symbolic domination: eventually grants as gifts can naturalize the material inequality between donor and recipient as the natural order of things. Contrary to gifts, loans consist of an economic exchange where a debt is produced and the borrower is expected to pay back. However, as long as the borrower pays off its debt to the lender on time, the relation of domination does not take place but remains a possibility in case of delay or non-payment. Thus, loans produce a client-patron relationship between lender and borrower relation that remains when the borrower does not repay.

According to James C. Scott (1972), a patron-client relation happens when an “individual of higher socioeconomic status (patron) uses his own influences and resources to provide protection or benefits, or both, for persons of lower status (client) who, for their part, reciprocate by offering general support and assistance, including personal services to the patron” (Scott 1972: 92). To apply this concept to international relations, Christopher P. Carney (1989) asserts that first,
patron-client relation is different from dependency theory because the dependency involves socio-economic, ideological, cultural, and diplomatic/strategic factors; second, patron-client implies a degree of reciprocity because both members of the dyad give and take; and third, the patron expects compliance from the client in matters of crucial patronal interests. This concept denotes the relation that emerges between lender and borrower, who failed to repay or pay interest on time, in which the states are in different hierarchical positions, a reciprocation takes place, and the element of compliance is crucial to the success or failure of this relation.

This conceptualization of foreign aid through the lens of gift and loans, implies three key points. First, a relation is created between the donor and the recipient where the lack of reciprocation from the latter presupposes a symbolic domination from the former. Second, the relation between donor and recipient, as well as lender and borrower is hierarchical because one state is providing the other with a resource that cannot be reciprocated. Third, there is an important distinction between grants and loans in which each of them has different repercussions. Even though it is not a unique case, Venezuela is a state that performs the four roles of donor and recipient, lender and borrower simultaneously. This state, especially during the Hugo Chávez’s administration, spent millions of dollars on grants and concessional loans to other developing countries. Through energy agreements, such as Petro Caribe, Venezuela provided attractive loans to its borrowers with low interest rates, the possibility to pay back with goods and services and long periods of time to pay off the debts. Yet, during the same period the country was receiving loans and grants from other countries. The focus of this study is on the bilateral loans borrowed and lent by Venezuela with attention to Chávez’s administration (1999-2013) period in which considerable amount of bilateral loans came into and out of the country. The thesis asks how the hierarchical relation between lender and borrower transforms with the expectation to understand
whether a dual role of lender and borrower modifies the effects of loans on Venezuela’s hierarchical relations with its borrowers and lenders. The argument is that in the particular case of Venezuela the dual role of lender and borrower impacts the capacity of the country to fulfill its obligations as lender which subsequently modifies Venezuela’s hierarchical relations with its borrowers. By the reduction of the amount of oil allocated abroad and the increased debt payments, effectuated with oil as well, the influence of Venezuela over its borrowers considerably diminished.

In order to address this argument, this thesis will be divided into two chapters. The first one will analyze Venezuela as lender and the second one as borrower. In the first chapter, the first question to analyze is how Venezuela became a lender? To answer this question I track back when Venezuela began its role as a significant lender, under what circumstances, to which countries, and under what conditions. This provides as evidence what resources Venezuela offers (what this state has as surplus); who were the borrowers; and the conditionality of the loans. Second, the first chapter examines through what steps or processes Venezuela started lending foreign loans. As the previous inquiry, the approach to answer this question is to make a historical analysis of Venezuela as lender by looking at when this role began, under what mandates and under what economic and political conditions. This offers as evidence which were the developments of Venezuela as lender and the development of the schemes to allocate the loans. Third, the first chapter asks what type of loans Venezuela provides for other countries. To answer this question I analyze the loans agreements between Venezuela and its borrowers with a focus on the allocation of resources from Venezuela to other states. This analysis provides as evidence the details of the loans allocated by Venezuela, such as their conditionality, amount and main borrowers. Fourth, the first chapter examines how the hierarchical relations between Venezuela as lender and its borrowers manifest
themselves in their action or activities in international relations. Since the previous questions lay out Venezuela’s main borrowers and the countries more indebted to it, I examine the kind of relation that developed between them which provides as evidence if there were reciprocation between lender and borrower and if so, under what circumstances.

In the second chapter, this work analyzes Venezuela as a recipient of bilateral loans. The following questions are addressed. First, despite the availability of financial resources due to oil exports, why is Venezuela continuing to receive foreign loans? To answer this question, I analyze the economic situation that made Venezuela request foreign loans, the amount of the loans and the identification of the lenders. This provides as evidence what conditions exist in this state that makes it a target of foreign loans. Second, what type of loans the country receives and under what conditions? The approach to this question is to look at the empirical data in order to categorize the type, amount and conditions of the loans allocated in Venezuela; and also to look at agreements in which Venezuela incurred as borrower. This provides as evidence the conditionality of the loans received by Venezuela and the justification for receiving them. Third, how Venezuela’s increasing debt to China transforms the hierarchical relation between the two countries, is China relationship with Venezuela becoming more hierarchical recently? To answer this question, I make an assessment of the bilateral relations between Venezuela and its main lender, which is China, considering the conditionality of the loans agreements between the two countries. Also, I check if there is absence of late payments, of interests or principal by Venezuela. This provides as evidence whether the loans received by Venezuela had an effect in the relation with its main lender. The fourth question is how do loans to Venezuela transform hierarchical relations with its borrowers. To answer this question first I analyze how the loans allocated into Venezuela affect the country’s
capacity to fulfill its role as lender. This provides as evidence whether being itself a borrower impacted Venezuela’s relations with its loans’ recipients.

To these two chapter follows the general conclusions where it is examined how Venezuela’s hierarchical relations were affected by its dual role of lender and borrower.
Chapter One

Venezuela as Lender

I. Introduction to The Bolivarian Republic of Venezuela and its Bolivarian Ambition

Before analyzing Venezuela as lender and borrower it is necessary to understand the political and economic context that allows this developing state to assume this dual role. Venezuela formally declared its independence from Spain in 1823 after over a decade of war with the colonial power. Among the independence leaders was Simón Bolívar who in contrast to the rest leaders who only ambitioned the break away from Spain, Bolívar had a continental vision by aspiring that the former Spanish colonies of Colombia, Ecuador and Venezuela would form the Great Colombia. He, “envisioned a Gran Patria, incorporating all of Latin America, where all former Spanish colonies would establish unity of action to compete on a world stage still dominated by Europe and subsequently the United States” (Tinker Salas 2015: 31). However, no hemispheric integration took place and after independence, these three nations took their separate path where regional interests and personal ambitions took the center stage (Tinker Salas 2015: 31). Yet, Bolívar’s legacy became the center of Venezuelan identity and political discourse. Independence from the colonizers, democracy and regional integration became ideals proclaimed in the following centuries.

Even though Venezuela was among the few representative states in Latin American during the 1950s, before getting to that point, the country was ruled by military leaders or better known as caudillos. For instance, the military president Juan Vicente Gómez ruled the nation for nearly three decades; Gómez left power when he died in 1935 and to him followed other military governments, such as Isaías Medina Angarita who took office in 1943. After Medina Angarita was
ousted in 1945 a three-year period initiated, known as the trienio, which ended with the coup against the elected president Rómulo Gallegos in 1948 (Tinker Salas 2015: 81). To ease the political instability, in 1951 there was a political agreement called Punto Fijo, between the leaders of Venezuela’s non-communist parties-Rómulo Betancourt (Democratic Action, AD), Rafael Caldera (Social Christian Party, COPEI), and Jovito Villalba (Union of the Democratic Republic, URD)-which had as objective to reduce the military efforts to exploit political divisions, promote political peace, respect the outcome of popular elections, and incorporate losing parties in their cabinets (Tinker Salas 2015: 85). After the Punto Fijo Pact, Rómulo Betancourt was elected president in 1958. From then on Venezuela became one of the few exceptions in Latin America where representative regimes were the big absent. However, successive Venezuelan governments were permeated with corruption and unequal distribution of wealth, especially after oil was discovered in 1914 and became the state’s principal source of revenue.

During 1973-79, oil prices considerably increased which resulted in great revenues for the Venezuelan economy whose main exporting commodity was oil. The president during the oil bonanza was Carlos Andrés Pérez who governed the country in two terms 1974-79 and 1989-1993. However, in the second term oil prices declined leaving the economy with deficits (Romero 2010; Trinkunas 2002; Tinker Salas 2015). In 1976, the oil industry was nationalized and the Venezuelan state assumed an active role in international affairs. For instance, Pérez re-established the diplomatic relations with Cuba; his administration donated a ship to Bolivia, “in support of that landlocked nation’s aspiration to regain access;” he opposed the Somoza dictatorship in Nicaragua and supported the sovereignty over the Panama Canal1. Pérez proposed the project of La Gran

Venezuela (The Great Venezuela), which encompassed “flush of foreign reserves, the exploitation of bauxite and aluminum deposits, expand petrochemical production, push forward construction of the Caracas subway, modernize the international airports, and expand the Caracas subway, along with a host of other projects” (Tinker Salas 2015: 103). In order to develop these plans, Pérez’s administration borrowed from foreign creditors, with the assumption that oil prices would continue to increase. Venezuela's external debt rose from USD$0.7 billion in 1974 to USD$6.1 billion in 1978. At the end of the 1970s and the beginnings of the 1980s, falling oil prices, capital outflows and foreign debt payments destabilized Venezuelan economy which was reflected in a deficit of US$4.7 billion by 1988 (Haggerty 1993: 84). The price of oil began its steady decline in 1982, which deprived the Venezuelan government of revenues to finance its political model of redistributing the wealth to maintain political stability; the “foreign debt climbed past USD$33 billion, over 80% of which was owed by the state…inequality between rich and poverty widened…as the number of Venezuelans living in critical poverty expanded from 32.6% at the beginning of 1980s to 53.7% in 1989” (Trinkunas 2002: 50). During Pérez’s second term in 1989, the state borrowed USD$4.5 billion from the International Monetary Fund (IMF), measure that was accompanied by an austerity program that included spending cuts and raising gasoline prices; in February of 1989, these measures triggered a social riot called El Caracazo in which hundreds of civilians died.

Even though during the 1990 and 1991 the country experimented economic growth, “it occurred amidst increasing income inequality, declining real wages,” and government corruption.

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which triggered more social turmoil (Trinkunas 2002: 42). Moreover, the 1990s was a lost decade for Venezuela since it was “marked by recession, high inflation, steady devaluation of the currency, popular unrest, the decay of many government services, and the nearly collapse of the financial sector” (Trinkumas 2002: 42). Yet, the two failed coups attempts of 1992 against Pérez, were the major destabilizing events of that decade. The coup attempts were performed by The Revolutionary Bolivarian Movement 2004, whose leader was Lieutenant Colonel Hugo Chávez, who afterwards was imprisoned for two years. Chávez and his comrades justified their actions on social justice and putting an end to the governments of the elites. Giving speeches from jail, Chávez became a recognized leader at the national level (Tinker Salas 2015: 123). In 1998 Chávez, the military officer who wanted to take office under unconstitutional means, was elected as Venezuelan President. After assuming power in 1999, Venezuela under Chávez began an era under the umbrella of the ‘Bolivarian Revolution’ and the ‘Fifth Republic.’ Chávez governed until his death on April of 2013, the presidency of Venezuela was assumed by Nicolás Maduro who was vice-president at the moment of Chávez’s last presidential term.

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4 This movement was formed in 1983 by junior army officers who developed a populist and nationalist belief based in their selective ideas of Simón Bolívar and other independence heroes. They were also influenced by “their contacts with Venezuelan Marxist guerillas who had been defeated in the 1960s” (Trinkumas 2002: 53).
II. Literature Review

Venezuela is a country that has received broad scholarly attention due to its democratic exceptionalism during the 1950s and 1960s, its oil-based economy and its regional leadership which intensified during the 14 years of the Chávez administration. Most of these studies recognize the allocation of resources abroad as a means to influence the international order and to create an alternative international economic order. Thus, in order to analyze the role of Venezuela as lender, and its subsequent hierarchical relation with other states, concepts of hegemony, counter-hegemony and soft-power need to be tackled.

Hegemony is a concept used to conceptualize the international hierarchical position of the states and the relation of power between them. Robert Cox uses the hegemony concept informed by Antonio Gramsci to explain the hegemonic order in international relations. In his article “Gramsci, Hegemony and International Relations,” Cox poses as main inquiries, what is an enlarged meaning of hegemony? How Gramsci’s definition of hegemony at the national level can be transferred to the international order? After defining hegemony, what does counter-hegemony mean? To approach these questions the author analysis Gramsci’s definitions of hegemony emphasizing Gramsci’s theoretical and political context, then Cox takes those definitions to complement (or even substitute) the mainstream definition of hegemony used in international relations. To build his argument, Cox uses as evidence the definition by Gramsci of the following concepts, which he later applies to the international order realm. First, Gramsci applies the concept of hegemony to the leadership of the bourgeoisie over the rest of the social classes; Gramsci’s interpretation of Machiavelli and the image of power as a centaur, Cox asserts that this relation between the concept of power from Machiavelli and the concept of hegemony liberates hegemony from belonging to one specific class and instead gives it a wider “applicability to relations of
dominance and subordination, including relations of world order” (Cox 1993: 52). Cox argues that the movement towards hegemony according to Gramsci is a ‘passage from the structure to the sphere of the complex superstructures,’ which Cox interprets as “passing from the specific interests of a group or class to the building of institutions and elaboration of ideologies,” where those institutions and ideologies take an universal form and will supplement some of the needs of the subordinate group without undermining the leadership of the ruling class (Cox 1993: 57). Cox uses this interpretation to explain two things: first, that powerful, meaning wealthy, nations penetrate the economic life of the subordinate countries which are dependent on those wealthy nations; and second, that the powerful nations underwent an economic and social revolution that transformed their states and then had a spillover effect that extended to the international level. After analyzing Gramsci’s concepts regarding hegemony, Cox discard the conventional use of hegemony in international relations, which refers to the dominance of one country over the others. The author asserts that this definition is distanced from Gramsci’s concept.

Cox’s main argument is that “hegemony at the international level is thus not merely an order among states,” hegemony implies an order within the world economy where the dominant economic practice infiltrates into the other nations which become entangled and subordinate to such mode of production. Moreover, the author asserts that world hegemony encompasses an economic, social and political structure; hegemony cannot be only one of these structures, and it has to be all three. Hence, for Cox a counter-hegemonic practice needs structural changes that can only begin to take place at the national level before entering into the international order.

Giovanni Arrighi also analyzes Gramsci’s theories in his article “The Three Hegemonies of Historical Capitalism.” Arrighi explores the inquiries of hegemony and world economy, but his main question is: what is the kind of leadership that a nation should perform in the international
realm in order to be considered a hegemon? To tackle this question the author makes a historical analysis of the rise as hegemonies of the United Provinces, the United Kingdom, and the United States. In the same line of Cox, Arrighi discard the conventional political realist use of the hegemony concept, and he also uses Gramsci’s hegemony interpretation. At the core of his argument, like Gramsci, Arrighi defines hegemony as the combination of coercion and consent, where coercion implies the threat of the use of force whereas consent implies moral leadership. Arrighi’s main argument is that a nation becomes hegemonic when it leads the system of states in its desired direction, “and, in doing so, is perceived as pursuing a universal interest” (Arrighi 1993: 150). The author concludes that the three nations that he used as case study did not become hegemons only because of their military capability or their ability to command scarce resource, rather it was because of their capability to use their resources to solve the issues that emerged in the state-system. The author argues that a state can become world hegemonic if it has the moral leadership and thus credibility to “be the motor force of a universal expansion of the collective power of rulers vis-à-vis subjects” (Arrighi 1993: 151).

The means to exercise power in the international system can take the form of hard power, which is the traditional use of coercion or it can be through soft-power or co-optive power as conceptualized by Joseph S. Nye. In his article “Soft Power,” Nye argues that in a post-Cold War world the United States, as remaining superpower, has to worry more about the new challenges that it will face to exercise its power than about the challengers to its hegemonic position. Through the lens of balance of power, Nye poses the question to “what extent it [United States] will be able to control the political environment and get other countries to do what it wants?” To approach this question, Nye first refers to the definition of power which “means the ability to do things and control others, to get others to do what otherwise they would not…politicians and diplomats
commonly define power as the possession of population, territory, natural resources, economic size, military forces and political stability” (Nye 1990: 154). Then he argues that traditional or hard power cannot be ignored, however, the use of the soft-power will become relevant in the contemporary world. This is mainly due to five trends that he enumerates as: “economic interdependence, transnational actors, nationalism in weak states, the spread of technology, and changing political issues” (Nye 1990: 160). These trends respond to what he calls “diffusion of power” that refers to when power is slipping out of the hands of the state and non-state actors are becoming more and more influential. Moreover, Nye asserts that in the after-Cold War era the definition of power is missing its emphasis on military force, whereas the factors of education, technology and economic growth are becoming more significant.

Finally, Nye defines soft-power and contrast it with hard power. Referring to soft-power as a second trend, he asserts that “a state may achieve the outcomes it prefers in world politics because other states want to follow it or have agreed to a situation that produces such effects” (Nye 1990: 166). The principal achievement of co-optive or soft-power is that one country gets other countries to want what it wants, in contrast to the traditional hard power that order others what to do. Nye argues that if a state can make its power seem legitimate at the eyes of the rest, it will encounter less resistance to its wishes; it can establish international norms consistent with its society; and “if it can support institutions that make other states wish to channel or limit their activities in ways the dominant state prefers, it may be spared the costly exercise of coercive or hard power” (Nye 1990: 170). The instruments to exercise such power include diplomatic notes through economic threats to military coercion; and the resources recur to cultural and ideological attraction as well as rules and institutions of international regimes. Nye gives as example how the United States has more co-optive power than other countries because “institutions governing the
international economy, such as the International Monetary Fund and the General Agreement on Tariffs and Trade, tend to embody liberal, free-market principles that coincide in large measure with American society and ideology” (Nye 1990: 168).

The regional and cooperation agreements implemented by Venezuela, especially ALBA and Petro Caribe, has received ample scholarly attention in which concepts of counter-hegemony, south-south cooperation and soft-power are predominant.

In his article “Building a Global South Coalition,” Sean Burges asks which regional leadership strategy is more successful in terms of achieving its purposes, if the one implemented by Venezuela under Hugo Chávez or the one carried out by Lula Da Silva in Brazil. To approach this question the author makes a comparison of the foreign policy strategies implemented by Brazil with a neo-structuralist strategy⁵, and Venezuela’s strategies which had an official development assistance (ODA) approach. Burges explains that Venezuela’s strategy seeks to shape the global political economy through a regionalist approach based in the ideologies of Simon Bolivar and the country’s oil resources. The author asserts that at the core of Venezuela’s foreign policy is the Bolivarian Alternative for the Americas (ALBA) agreement which was created in 2004 as an alternative to the Free Trade Area of the Americas (FTAA). Moreover, Burges states that “in many respects Chávez’s ALBA can be read as a fuzzy attempt at a counter hegemonic project in the Coxian interpretation of Gramsci’s war of position” (Burges 2007: 1346). Although Venezuela sponsored energy agreements such as Petro Andina and Petro Sur, Petro Caribe is the one that has

⁵ According to Burges, the neo-structuralism is based in a Keynesian tradition in which the state has a role in the regulation and direction of the national economy. Even though neo-structuralism can appear similar to neoliberalism, the difference between the two school of thoughts is the space, pace and sequencing role of the state to intervene in the national economy, “moreover, the radical retraction of the state from the national economy advocated by neoliberalism as the surest avenue to freedom is rejected by neo-structuralism as being antithetical to political equality because it causes concentrations of economic power” (Burges 2007: 1349).
the ODA component. Created in 2005, Petro Caribe commits Venezuela to provide “US$17 billion in subsidized oil billing over the next 10 years at the rate of 200,000 barrels of oil per day” (Burges 2007: 1347). According to Burges, the ODA function of Petro Caribe comes into play in the terms of purchase: “reports suggest that Petro Caribe oil will effectively be USD$6 under market costs, bringing a region-wide annual total savings of USD$50 million” (Burges 2007: 1347). In contrast, Brazil’s strategy is reluctant to adopt the humanist ODA rhetoric and in assuming constant expenditure to gain regional leadership. Instead Brazil opted for a market-oriented system, which according to the author is a more sustainable strategy at the long run. Burges asserts that Brazil assumed a neo-structuralist approach whose corollary is that the state retains an important role in guiding the direction and development of the national economy (Burges 2007: 1349). Brazil’s regional strategies had a combination of state and private corporate efforts, such as the case of the Competitive Import Substitution Programme (CISP) was launched in 2005, which had the objective to substitute intra-continental products for extra-continental imports. Also, Brazil was part of the India - Brazil - South Africa Dialogue Forum (IBSA), whose “efforts began with a range of foreign policy issues of mutual concern, particularly the reform and expansion of the UN Security Council, and extended to dealing with the challenges of globalization and sustainable development, health care, confronting terrorism and promoting social development” (Burges 2007: 1351).

The outcomes of those actions are the evidence to prove Burges’ argument which is that Brazil’s neo-structuralist vision is more successful in attaining its purposes at the long run than Venezuela’s foreign development aid approach. Burges asserts that even though the countries that are part of the ALBA and the Petro Caribe agreements “happily accept Venezuela’s aid, provide support to Venezuelan causes where it is pragmatic to do so, and even adopt some elements of the
Bolivarian ALBA agenda,” however, “all this is done only when it reflects the interests of the country in question, representing a large roadblock in Chávez’s attempts to position Venezuela as an international leader, ostensibly at the head of a counter-hegemonic bloc opposing the neoliberal global order” (Burges 2007: 1353). In contrast, “Brazil’s neo-structuralist approach is predicated on the operation of markets, which become a device that the government can use for its policy goals by offering the right incentives and creating attractive conditions for investment… it is the Brazilian vision and approach that appears to be gaining the most traction in the rest of the region” (Burges 2007: 1355).

Through the perspective of Venezuelan foreign policy, in his article “The New Balancing Act: International Relations Theory and Venezuela’s Foreign Policy,” Mark Eric Williams makes three arguments: first, that even though Venezuelan foreign policy is antithetical to the United States’ foreign interests, it has an American style used by the Venezuelan government to advance the interests of Chávez’s regime. Second, the author asserts that analyzing Venezuelan’s foreign policy only through the lens of Chávez obscures the broader international context that helps understand the country’s behavior in the international stage. And third, that Venezuelan foreign policy is theoretically understandable but not revolutionary per se, especially since Venezuela reflects what is called soft-balancing power that is when a weak state uses non-military means to advance its interests and to deter a more powerful country. The approach used by the author is to outline the concept of soft-balancing and then “address those aspects of Venezuela’s foreign policy the concept illustrates” (Williams 2011: 260).

By focusing on the implications of the actual agreement, Daniele Benzi analyses the Petro Caribe treaty as a South-South cooperation tool in her article “Economic Geopolitics and Solidarity.” Petro Caribe is an energy cooperation agreement designed and implemented by the
government of Venezuela in 2005, which initiated with the participation of 14 countries and later on expanded to 19 countries of the Caribbean and Central America. According to the terms of the agreement, Venezuela would sell oil to the participating countries under concessional prices, low interest rates and extended periods to pay off the debt. The main questions posed by Benzi are: what are the intentions of Venezuela with the implementation of this agreement? What are the positive and negative effects for the participating nations? To respond these questions the author makes an assessment of Petro Caribe as a South-South cooperation tool in order to acknowledge its benefits and counterproductive effects to both Venezuela and the recipient countries. As evidence Benzi enumerates the aspects of the agreement that concord and also contradict with the South-South cooperation concept. She points out how the conditions of the agreement result in benefits for the recipient nations, especially since they don’t have to give money up-front, they have a low-interest rate, and some states can make the payments also in products and services. However, as downside the author references the cases of corruption and fraud in the recipient nations which can distort the ‘solidarity’ intentions of the agreement; and also how measures of environmental sustainability are not addressed by the agreement. Benzi emphasizes that scholars tend to leave aside the main purpose of the Venezuelan diplomatic strategy which is to break the monopoly of the transnational oil corporations and rearrange the relationship between them and the state (Benzi 2013:70). She concludes that Petro Caribe is a cooperation project that encompasses the economic and geopolitical balance of the Latin American region, which despite being under the umbrella of South-South Cooperation deals with the vicious aspects of traditional foreign aid treaties.

Assuming as well the analysis of the agreements and its implications, in her article “The ALBA, Petro Caribe and Center America: Common Interests?”, Josette Altmann Borbón makes a
comparison between the trade treaty Bolivarian Alternative for our American Nations (ALBA) and the Petro Caribe agreement in order to address the question whether the increment of regional agreements actually serve to unify Latin America. Her approach to answer this question is to analyze the interests that the recipient nations had to adhere to these agreements. Her answer is that the great amount of regional agreements serve more to fragment than to unite the Latin American region. Asymmetries among and within the countries reveal the incapacity of acting under the same page. Altmann Borbón emphasizes that countries tend to adhere more to agreements of economic opportunities rather than agreements of ideological nature. The main evidence to prove this argument is that ALBA, which had an ideological base, did not have as many participating nations as Petro Caribe, which differed from ALBA in the economic benefits that offered to the borrowing states.

By examining the Venezuelan agreements from the recipient nations’ perspective, in the article “Responses to Venezuelan Petro-Politics in the Greater Caribbean,” Anthony P. Maingot poses as main inquiry which are the responses of the Greater Caribbean to Venezuela’s Petro-Politics. The author approaches this question by examining Venezuela’s policies from the Caribbean nations’ perspectives by establishing their socio-economic context and the strategic reasons for which they will join or reject Venezuela’s proposals. As evidence he describes the opposition from Trinidad & Tobago, island that has its own oil reserves and which sees Venezuela more as a threat than as an ally. Barbados, because it has a close relationship with Trinidad & Tobago also refused to join Petro Caribe. In contrast, Jamaica which is oil dependent joined Petro Caribe in order to purchase the resource under favorable conditions. Maingot concludes that each country reacts differently to Venezuela and its ‘Bolivarian Revolution,’ depending on their economic and geopolitical situation.
In the same line as Maingot, by analyzing the Venezuelan agreement’s from the recipient countries perspective, Ronald Sanders asks in his article “Venezuela in the Caribbean,” whether the small states that benefit from the Venezuela’s loan scheme for oil will eventually respond to the Venezuelan agenda. His answer is that the Caribbean will pursue their interests despite the warnings from the United States and the aid provided by Venezuela. To approach his inquiry the author analyzes the traditional relationship between the Caribbean Community (CARICOM)’s member states and the United States, on the one hand, and the emerging relationship with Venezuela, on the other. The author also analyses the role of the CARICOM nations in international organizations such as the United Nations (UN) and in the Organization of American States (OAS). Sanders begins his analysis by establishing that prior to 2005 (the year in which Petro Caribe is implemented), Venezuela and the CARICOM’s members had little bilateral relations. He argues that it is clear that the Petro Caribe initiative was an instrument of Chávez to weaken the presence of the United States in the region. Nonetheless Chávez also “recognizes that CARICOM countries represent almost half of the 34 votes in the OAS, where debates on the hemispheric political situation are played out; and they are a solid bloc in the Latin American and Caribbean group at the UN. If he could get them on his side, his policies could influence significantly the discourse of these bodies” (Sanders 2007: 467). However, even though Venezuela received full support from CARICOM countries in 2006 when Venezuela challenged Guatemala for a seat in the UN Security Council, Sanders asserts that there is no real event since the implementation of ALBA and Petro Caribe that could measure the influence of Venezuela on the Caribbean. Sanders concludes that the CARICOM countries will not adopt the Venezuelan agenda,

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6 The CARICOM is composed of the following members: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts-Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the British colony, Montserrat (Caribbean Community. 2011. “CARICOM Member States.” http://www.caricom.org/jsp/community/member_states.jsp?menu=community (Accessed April 15, 2016).
especially the effort of deterring the United States. He asserts that these Caribbean nations have an intertwined relation with the United States and at “several levels is much deeper than the recently established links with Venezuela” (Sanders 2007: 474). Moreover, Sanders emphasizes that Venezuela and the United States have a mutual economic dependence as well, since the United States is the principal importer of Venezuelan oil. Hence, it is difficult to ask the other states to break ties with the North if Venezuela itself cannot.

The previously reviewed authors bring out key points about Venezuela’s behavior in the international community. For instance, Burges and Sanders emphasize the counter-hegemonic intentions of Venezuela through the implementation of the agreements ALBA-TCP and Petro Caribe. Both authors, along with Benzi, recognize that these agreements (especially Petro Caribe) are highly attractive for the participating nations, yet, its benefits are not enough to advance Chávez’s agenda in the region. Maingot, Sanders and Burges also emphasize that each country is going to respond to its own interests, despite of their participation in Venezuela’s agreements. This implies that Petro Caribe and ALBA do not have the enough elements to change international behavior, hence, the allocation of grants and loans from Venezuela to other states by itself does not determine the kind of relationship between the donor/recipient and lender/borrower, rather the relationship is going to be conditioned by the interests of the recipients and borrowers.

Following Hattori (2001), even though Venezuela allocates both grants and loans, this study will treat them as two distinct practices. Due to the constraints of time and space, this chapter will focus on the loans because grants constitute a different practice with a different causal mechanism. In order to understand the changes in power relations as the effect of the role of Venezuela as lender, the following four questions will be examined in the rest of the chapter: how Venezuela became a lender? Through what steps or processes Venezuela started lending foreign
loans? What type of loans Venezuela provides for other countries? How the hierarchical relations between Venezuela as lender and its borrowers manifest themselves?

III. Venezuela’s Loan Practices

III-A. Venezuela’s Consolidation as International Lender

Most reviewed authors assert that Chávez and oil is the binomial that explains the capacity of Venezuela to allocate loans abroad. However, Venezuela has served as lender decades before the arrival of Chávez to power, yet, oil revenues has been the principal factor behind the allocation of resources abroad. Venezuela became a lender because of the wealth that came from their oil production and exports. Moreover, in order to protect that source of revenue, Venezuelan governments have pursued an international agenda that includes the vision of regional integration, creating independence for the Latin American region and the impetus to be an international influencer.

Oil reserves were discovered in Venezuela in 1914, from then on the country political economy and international relations revolved around its principal buyers that were European countries and the United States and these countries’ colonies (Claim and Maingot 2007: 3). In 1943, Isaías Medina Angarita became the first Venezuelan president to travel abroad by visiting Colombia, Ecuador, Bolivia, Peru, the United States and also establishing relations with the Soviet Union (Tinker Salas 2015: 78). By the time of Medina Angarita’s regime the oil companies were on British and American hands which were reluctant to change the status quo, however, fearing nationalization (that already had happened in Mexico) the United States preferred to negotiate and gave more administrative positions to Venezuelans. Medina Angarita’s main legacy was the oil reform of 1943 which affirmed the Venezuelan government’s right to intervene in the oil industry.
This law allowed the country to begin a process to increment the revenues received by the exploitation of oil.

With the government of Rómulo Gallegos in 1958, the state of Venezuela visualized having an international role in petroleum politics. However, Gallegos’ government was overthrown by a military coup, thus the ‘Bolivarian’ foreign policy returned with the election of Rómulo Betancourt in 1959. This ‘Bolivarian’ approach implied a rhetoric of Latin American integration and a hemispheric revolution. Betancourt’s oil policies followed the previous regimes by refusing to nationalize the industry. However, because of the decreasing oil prices in 1959 the Venezuelan government started to consider the outcomes of increasing competition between oil-producing countries. In 1960, the Venezuelan Minister of Hydrocarbons Juan Pablo Pérez Alfonzo met with other Middle East producers and that same year the group founded the Organization of Petroleum Exporting Countries (OPEC), with Venezuela as a founding member (Tinker Salas 2015: 97).

Pedro-Pablo Kuczynski notes that by the 1970s the Venezuelan economy had a high degree of dualism: “the oil and gas industry (including refining), which provides only about 37,000 jobs directly, in 1975 generated 77% of the central’s government’s current revenue, 96% of merchandise export earnings, and 29% of gross domestic product (GDP). At the other extreme, agriculture which employs about 680,000 persons or approximately 19% of labor force generated only about 5% of GNP” (Kuczynski 1977: 49). This is shown in the following table where can be noted how the petroleum, gas and mining sector increased its GDP% composition from 19.0 in

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7 Gaceta Oficial de la República Bolivariana de Venezuela. 2001. Decreto con Fuerza de Ley Orgánica de Hidrocarburos [Decree of Organic Hydrocarbon Law], 13 September. Number 37.323.
1970 to 38.4 in 1974, while the agricultural sector diminished from 7.0 to 4.6 during the same period.

**Table 1. Venezuelan Sector Composition in GDP% 1970-1974**

<table>
<thead>
<tr>
<th>Sector Composition of GDP (%)</th>
<th>In Current Prices</th>
<th>In 1965 Prices</th>
<th>Growth rates in constant 1968 prices 1970-74</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1974</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.0</td>
<td>4.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Petroleum, gas &amp; mining</td>
<td>19.0</td>
<td>38.4</td>
<td>14.3</td>
</tr>
<tr>
<td>Petroleum refining</td>
<td>3.8</td>
<td>10.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>12.2</td>
<td>8.8</td>
<td>14.0</td>
</tr>
<tr>
<td>Construction</td>
<td>3.9</td>
<td>3.3</td>
<td>4.8</td>
</tr>
<tr>
<td>Other (services)</td>
<td>54.1</td>
<td>34.4</td>
<td>57.8</td>
</tr>
</tbody>
</table>

Source: Kuczynski 1977: 84.

However, oil as the main exporting commodity of the country also meant an economy highly dependable on oil prices and the country’s investment in the oil industry. According to Maria Antonia Moreno and Cameron A. Shelton (2014), there were three oil price periods that dictated Venezuela’s policy towards the oil industry. In table 2 can be noted how the Venezuelan policy of investment on the oil industry was highly related to the oil prices: low oil prices reflected low investment and this resulted in reduced oil productivity.

**Table 2. Oil Prices Period in the Venezuelan Economy 1963-1999**

<table>
<thead>
<tr>
<th>Period</th>
<th>Average (US$)</th>
<th>Standard deviation</th>
<th>Coefficient of variation</th>
<th>Average absolute rate of growth by Period</th>
<th>Characterization of the era</th>
<th>Venezuelan Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>I (1963-73)</td>
<td>11.22</td>
<td>1.77</td>
<td>0.158</td>
<td>8.39</td>
<td>Low level, low volatility.</td>
<td>High taxation and low investment.</td>
</tr>
<tr>
<td>II (1974-1985)</td>
<td>44.96</td>
<td>8.31</td>
<td>0.185</td>
<td>10.18</td>
<td>High Level, moderate volatility.</td>
<td>Production and revenues per capita are falling due to low investment on previous years.</td>
</tr>
<tr>
<td>III (1986-1999)</td>
<td>19.77</td>
<td>4.17</td>
<td>0.211</td>
<td>19.80</td>
<td>Moderate level, high volatility.</td>
<td>Relaxation of taxes and limited return to private investment lead to a modest expansion in production.</td>
</tr>
</tbody>
</table>

Kuczynski asserts that the largest increase in international oil prices came at the end of 1973, being the important measure of this increase “the average revenue per barrel exported collected by the Central Government, which rose from USD$1.65 in 1972 to USD$2.29 in 1973, USD$8.75 in 1974 and USD$9.43 in 1975” (Kuczynski 1977: 53). As table 3 shows, the biggest surplus happened in 1974 at the hike of the oil prices, however just two years later the country had a deficit. This is emphasized by Kuczynski, who asserts that from this statistics what mostly stand out is “the trend in current fiscal revenues, rising by 160% from 1973 to 1974, and then declining as oil output fell, initially slowly in 1975 and more rapidly in 1976” (Kuczynski 1977: 54).

Table 3. Summary of Central Government Finances, 1972-76 (Billions of Bolivares at current prices).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Revenues</strong></td>
<td>12.5</td>
<td>16.4</td>
<td>42.8</td>
<td>41.0</td>
<td>37.0</td>
</tr>
<tr>
<td><strong>Current Expenditures</strong></td>
<td>10.4</td>
<td>11.5</td>
<td>16.5</td>
<td>20.5</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>A. Current Surplus</strong></td>
<td>2.1</td>
<td>4.9</td>
<td>26.3</td>
<td>20.5</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Transfer to Special Funds</strong></td>
<td>-</td>
<td>-</td>
<td>14.1</td>
<td>9.0</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Other Capital Expenditures</strong></td>
<td>3.6</td>
<td>4.8</td>
<td>11.4</td>
<td>12.0</td>
<td>14.0</td>
</tr>
<tr>
<td><strong>B. Total Capital Expenditures</strong></td>
<td>3.6</td>
<td>4.8</td>
<td>25.5</td>
<td>21.0</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>C. Surplus or Deficit (A-B)</strong></td>
<td>-1.5</td>
<td>0.1</td>
<td>0.8</td>
<td>-0.5</td>
<td>-2.5</td>
</tr>
</tbody>
</table>

Source: Kuczynski 1977: 54

In 1974, under the administration of Pérez, the government initiated the nationalization of Venezuelan’s oil company Petroleos de Venezuela, S.A.-PDVSA⁸. Moreover, “Pérez used the

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country’s growing oil wealth to resuscitate the Bolivarian dream of hemispheric unity” (Clem and Maingot 2011: 5). Pérez’s regime made financial contributions to initiatives in Latin America and the Caribbean (which will be explained in the next section) that included bilateral agreements and contributions to international organizations. For instance, in 1974-75, the Venezuelan government allocated US$ 500 million to the World Bank, two other USD$500 million to the Inter-American Development Bank and to the International Monetary Fund respectively (Clem and Maingot 2011: 5). Clem and Maingot point out that Pérez foreign policy also included geopolitical initiatives that were against the current at that time. Venezuela supported the Rio Treaty which was part of a larger effort to reintegrate Cuba into the Organization of American States; this country also supported and gave funds to the Latin American Economic System⁹ (SELA) which included Cuba but excluded U.S. membership (Clem and Maingot 2011: 5).

As noted above, the international activism directly assumed by Venezuelan presidents paved the way for the international role of the country during the Chávez era. By the time Chávez arrived to power in 1999 there was a precedence of Venezuelan governments using the oil revenues to allocate resources abroad in order to be an influential force in the international community. Since the 1970s the country was demonstrating certain international independence by being part of agreements that did not relate to the hegemonic states, such as being a founder member of the OPEC, being part of the Rio Treaty and providing funds to SELA. As will be noted in the next

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⁹ Sistema Económico Latinoamericano, is a regional intergovernmental organization created in 1975 through the Panama Agreement with its headquarters in Caracas, Venezuela. Its purpose is to promote a system of consultancy and coordination to agree on positions and strategies common for Latin America and the Caribbean. SELA is integrated by 27 countries, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, México, Nicaragua, Panamá, Paraguay, Peru, Dominican Republic, Suriname, Trinidad & Tobago, Uruguay and Venezuela. (Sistema Economico Latinoamericano y del Caribe (SELA). 2015. “Qué es SELA?” [What is SELA?], http://www.sela.org/es/que-es-el-sela/ (March 18, 2016)).
section, during the Chávez’s administration, Venezuela’s allocation of resources abroad intensified and the Bolivarian Revolution became the core of the country’s course of action and discourse.

III-B Venezuela’s Progression as an International Lender

The allocation of loans by Venezuela respond to the role of the oil industry in its economy and the leadership initiatives assumed by its governments. The crucial period of 1974-75 that translated into an oil bonanza marked the beginning of Venezuela as an international lender. During Pérez’s first term in the mid-1970s Venezuela provided international assistance without formal schemes; however, this began to change with the energy cooperation agreement of San José in 1980 and with the subsequent creation of more formal regional agreements and international platforms to allocate loans abroad.

As noted before, by 1960 oil was the main commodity of the Venezuelan economy, thus, the state’s interest in assuring its high international prices and collecting the revenues locally. In 1960, the OPEC was created as a permanent intergovernmental organization. Its creation took place at the Baghdad Conference on September of 1960, being the five founding members Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The principal objective of this organization is to “coordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry”\(^{10}\). In 1973 there were two events in the OPEC framework that “heralded the advent of expensive oil and a price volatility inherent with oil becoming commoditized, politicized and engulfed in an aura of

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geopolitical sensitivity” (Chalabi 2010: 1). That year ministers of the Arab petroleum-producing countries decided, in support of Egypt’s war with Israel, to reduce the production of oil in order to create political pressure on America that had a pro-Israel policy. After this decision, individual OPEC members “repeatedly pressed the multinational oil companies for new price and profit concessions and a share in their operations. The price of a barrel of crude, which was below USD$2.00 a barrel in the 1960s, rose quickly. Venezuela, for example, ordered the companies to raise prices four times, up to USD$4.44 a barrel, between January and October 1973” (Rabe 1982: 180).

Even though the OPEC measures to raise oil prices benefited Venezuela, Stephen Rabe notes that between 1970 and 1973 Venezuela did not play a predominant role within the OPEC which was due to Venezuela’s declining international position in the oil business. Moreover, during the embargo Venezuela continued to export oil to the United States, however, “neither the Nixon nor the Ford administration thanked the Latin nation for increasing its exports of oil to the United States” (Rabe 1982: 184).

During the 1970s, the Venezuelan state sought the nationalization of oil companies, process that began in 1974. This created a government budget surplus\textsuperscript{11}, due to the combination of oil production, exportation and high prices\textsuperscript{12}. This was the decade when Venezuela evolved from being a recipient of loans and foreign aid to be a donor and lender (Rabe 1982: 190). Kuczynski asserts that during 1974-75 Venezuela assumed two approaches to international assistance, one through bilateral cooperation agreements and the other through contributions to international assistance.

\textsuperscript{11} See Table 3.
\textsuperscript{12} According to a study made by Sachs and Warner, during the oil boom in the 1970s, “Venezuelan growth was 0.77\% lower due to natural resource intensity. Taken literally, this implies that at the end of the 20-year period in 1990, Venezuelan per-capita GDP was about 14\% lower than it would have been if Venezuelan had no natural resources” (Sachs and Warner 1999: 49).
organizations. Yet, Kuczynski notes that even though Venezuela gave direct assistance to Central American and Caribbean governments, its major contributions were to international organizations such as the World Bank, the IMF and the Inter-American Development Bank (IDB) as it is shown in table 4. For instance, “disbursements of public sector lending abroad in 1974, made up largely of the loans to the IMF and the World Bank, totaled about US$850 million, or 14% of the current account surplus” (Kuczynski 1977: 63). However, Venezuela’s assistance diminished in 1975 when its balance-of-payments surplus became smaller (Kuczynski 1977: 62).

**Table 4. Venezuelan International Assistance to Multilateral Organizations 1974-1975**

<table>
<thead>
<tr>
<th>Recipient Institution</th>
<th>Committed Amount</th>
<th>Year/Specifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF Oil Facility</td>
<td>US$540 million</td>
<td>1974</td>
</tr>
<tr>
<td></td>
<td></td>
<td>US$430 million were disbursed at the end of the same year through the Venezuelan Central Bank.</td>
</tr>
<tr>
<td>The World Bank</td>
<td>US$500 million loan.</td>
<td>1974</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Channeled through The Venezuelan Investment Fund</td>
</tr>
<tr>
<td>IMF Oil Facility</td>
<td>SDR(^{13}) 200 million.</td>
<td>1975</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Another contribution.</td>
</tr>
<tr>
<td>Inter-American Development Bank</td>
<td>US$500 million.</td>
<td>1975</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A commitment over a five year period to establish a trust fund.</td>
</tr>
<tr>
<td>Caribbean Development Bank (CDB); the Andean Development Corporation; Central American Bank of Economic Integration.</td>
<td>US $150 million.</td>
<td>1975</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This amount resulted from the sign of various commitments with these three institutions.</td>
</tr>
<tr>
<td>Central American Bank for Economic Integration</td>
<td>US$60 million loan.</td>
<td>1975</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This loan was for developmental programs, and gave informal assurance of assistance to Honduras’ efforts to recover from the destruction of Hurricane Fifi.</td>
</tr>
</tbody>
</table>


Regarding, Venezuela’s bilateral loans and assistance, John D. Martz asserts that the “major pillar to be erected was a willingness to employ petroleum earnings in the conduct of international relations,” which grew during the first months of the Perez’ administration in 1974.

The Venezuelan government used two mechanisms to disburse its assistance, which were cash-loan plan and reimbursement for fuel purchased by consumers. As it is detailed in table 5, these two mechanisms targeted the neighboring countries of the Caribbean, Central and South America. These countries benefited of lower interest rates than the market, cheaper oil prices and extended periods to make the repayments which meant that Venezuela was subsidizing these oil exports.

Table 5. Venezuelan Bilateral International Assistance during the 1970s

<table>
<thead>
<tr>
<th>Financing Mechanism</th>
<th>Description</th>
<th>Participating Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash-loan Plan</strong></td>
<td>Importers would pay $6 per barrel—roughly 50% of the market price. The remainder, in local currency, would be placed as a virtual loan into the respective countries’ development banks for domestic reinvestment. <strong>Interest was set at 8%</strong>, lower than the rates from international development funds, while repayment could <strong>extend over 25 years</strong>. Although the full price of the oil would eventually fall upon the importers, the burden would thus be extended over a lengthy period, during which time the available funds would be channeled into development programs.</td>
<td>Central American countries: Guatemala, El Salvador, Honduras, Nicaragua, Belize, Costa Rica and Panama.</td>
</tr>
<tr>
<td></td>
<td>In 1975, Venezuela promised to sell Jamaica petroleum for its industrial program under cash-loan terms similar to those already extended to Central America. Payment would be set at <strong>50% of the world price</strong>, with the remainder to be made in local currency for reinvestment in long-term development projects.</td>
<td>Jamaica</td>
</tr>
<tr>
<td><strong>Reimbursement of other oil exporters for fuel purchased by consumers</strong></td>
<td>Peru would pay Ecuador approximately <strong>half the cost of its daily 25,000 barrel imports</strong>. Ecuador would receive the remainder from Venezuela, which would eventually be repaid by Peru. As a consequence, Venezuela was spared the relatively uneconomical shipment of small quantities to Peru; the Ecuadorean petroleum industry would benefit; and Peru would have lower transportation costs. This <strong>deferred payment</strong> was estimated at some <strong>$100 million</strong> during its first year.</td>
<td>Ecuador, Peru.</td>
</tr>
<tr>
<td></td>
<td>A similar agreement was signed in 1976 involving <strong>Cuba and the Soviet Union</strong>, through which Venezuelan oil would be shipped to Cuba while the Russians in exchange would supply Western European customers. Both Venezuela and the Soviet Union were thus spared major transportation expense.</td>
<td>Cuba and Soviet Union.</td>
</tr>
</tbody>
</table>

However, despite this international economic assistance to Central America and the Caribbean, Rabe asserts that Venezuela did not assume a confrontational role against the United States. Moreover, Rabe emphasizes that Venezuela “contributed many of its petrodollars to international assistance, as the United States urged all OPEC members to do…wanting to prove the sincerity of its commitments to the Third World and also to invest its petrodollars abroad to prevent ruinous inflation at home, Venezuela gave in 1975, for example, 12% of its GDP to foreign aid” (Rabe 1977: 190). According to Maurice J. Williams (1976), after the increase of oil prices in 1974 the development assistance of the OPEC countries augmented under the discourse of helping developing countries handle the high oil prices. Williams notes that despite the OPEC’s members consensus on providing international assistance their different interests and oil production would drive them in different directions. For instance, “Saudi Arabia, Kuwait, the United Arab Emirates and Qatar will run major surpluses on their current balance of payments well beyond 1980, and they have important interests to pursue on behalf of the Arab world. Nigeria and Indonesia with small proven oil reserves will not have major returns. In between are Algeria, Iran, Iraq and Venezuela—with ambitious programs for development which appear likely to overtake their surplus oil earnings in the next few years” (Williams 1976: 316).

As noted before, the existence of the OPEC nor the nationalization process guaranteed the wealth surplus that Venezuela enjoyed during the 1970s. Even though in the following decades the prices recovered, “during the first years of Chávez’s presidency, oil prices hovered at less than USD$8 a barrel, the lowest price in decades” (Tinker Salas 2015: 149). To remedy this situation the Venezuelan government sought to reclaim its role with the OPEC and its oversight over

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14 In 1974 “the total flow of resources originating in OPEC and available for non-oil developing countries was about US$4.6 billion” (Williams 1976: 317).
PDVSA. Hence, “Venezuela assumed the leadership position of OPEC between 2001 and 2002 and hosted its summit meeting in Caracas.” Chávez’s visits to nations member of OPEC created concerns that he was getting involved with terrorists, yet other critics just pointed out that his main concern was to raise the oil prices (Tinker Salas 2015: 149). Chávez’s administration also sought to remedy the loopholes of the nationalization of the oil industries started by Pérez in the 1970s. Making use of his special powers granted by the National Legislature, in 2001 Chávez’s government approved a new “Hydrocarbon Law that placed oil unequivocally under state control” (Tinker Salas 2015: 149). According to PDVESA official page the 2001 Hydrocarbon Law approved by the Decree Number 1.510 “configured a new judicial framework that reversed the process of gradual privatization exposed during the 1990s decade and allowed to recover the control of the country’s energy resources for the benefit of the Venezuelan people\(^{15}\)”. In the content of the 2001 Hydrocarbon Law is stated that this Law recognizes the principle of property of the Republic over the hydrocarbon sites, which means that the “State can directly exploit the resources, regulate their exploitation and when the referred activities are executed by others different from the State, the State has the right to benefit or participate from the resource exploitation. Is not about a bare title of property, but a complete property hold\(^{16}\)”. With this Law the government made sure that the oil sites and its exploitation would remain within the hands of the state. As can be noted in figure 1, during the first six years of the Chávez’s administration the state counted with increasing oil prices and public oil exports, especially in 2005.


Figure 1. Relation of Venezuelan Public Oil Exports and OPEC Average Oil Prices


Through the country’s active role in the OPEC and the complete nationalization of the oil industry, the Venezuelan state had a material basis, the oil wealth, to allocate resources abroad, among other uses. Even though the country tended to allocate bilateral loans and grants in an informal matter (Coronel 2006), Venezuela has been characterized by the participation in the following four agreements and the creation of its own international platforms to allocate its loans: The San José Agreement (1980); Energy Cooperation Agreement of Caracas (2000); Alliance for the People of Our America-Commerce Treaty of the Nations (ALBA-TCP) (2004); and Petro Caribe (2005).

III.B-1 The San José Agreement (1980)

In the great Caribbean only Mexico, Venezuela, Colombia and Trinidad & Tobago are energy exporters (Arriaga Rodriguez 2003: 346). However, Mexico and Venezuela concentrate over the 80% of oil exports of the Latin American and Caribbean region (Ruiz-Caro 2006: 14).
Through the Latin American Energy Organization\(^{17}\) (OLADE), Venezuela assumed an energy cooperation program to supply oil to Costa Rica, Nicaragua, Honduras and Panama. This cooperation program was signed in 1974 and consisted in financing part of the oil bill of these countries for a period of two years (Arriaga Rodriguez 2003: 347). As consequence of this program, in August of 1980 Venezuela and Mexico signed the energy cooperation agreement “Programa de Cooperacion Energetica para los Paises de Centro America y el Caribe” [Program of Energy Cooperation for Central America and the Caribbean] also called the San José Agreement. This agreement emerged during an annual meeting of OLADE’s energy ministers in 1979 in which Venezuela invited Mexico to participate in this energy cooperation agreement. The treaty recognizes “two categories donors (Venezuela and Mexico) and beneficiaries (Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua, Barbados, Jamaica and Dominican Republic);” Belize and Haiti signed the agreement later on\(^{18}\).

Through this energy cooperation program, Venezuela and Mexico ensured to the beneficiary countries to supply up to 160,000 barrels of oil per day divided between 80,000 barrels Mexico and 80,000 barrels Venezuela\(^{19}\). The financial aid mechanism of this agreement is that the supplier countries offer a “credit up to 20% of the oil bill amount, with an annual interest rate of 2% and a period of 20 years to make the payments, when the credit is used to finance energy

\(^{17}\) OLADE is an intergovernmental organization constituted in 1973 through the subscription of the Convenio de Lima. Its purpose is to promote “integration, protection, conservation, rational advantage, commercialization and to defense the energy resources of the region.” Its member’s countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela, Barbados, Cuba, Grenada, Guyana, Haiti, Jamaica, Dominican Republic, Suriname, Trinidad & Tobago, México, Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panamá and Argelia (OLADE Official Web Page 2016).


projects in order to promote the rationalizing of oil consumption\textsuperscript{20}.” The agreement recognizes that the commercial signed contracts are going to be separate for each country, which means that the contracts ensure control from the supplier countries to adapt the conditions differently for each recipient\textsuperscript{21}.

The legal characteristics of the agreement state that it is valid for a year and that is has to be renewed annually. In 2005 the San José treaty was renewed by Chávez and by the Mexican president Vicente Fox. Both countries were providing 160.000 oil barrels per day (80.000 each country) under prices cheaper than the market\textsuperscript{22}. This agreement states that the generation of a credit line is equivalent to a 25\% of the delivered oil to the participating countries if the oil prices are above USD$27 per barrel. This financing can be used on the execution of infrastructure projects, transportation, environment and energy, but always with the objective to promote commercial exchange between Venezuela and Mexico. Because this agreement was in conjunction with Mexico it did not represent that much loss for Venezuela, especially since the financing of the oil prices would not happen if the unit of barrel of oil was below USD$27\textsuperscript{23}.


In October 28\textsuperscript{th} of 2000, the government of Venezuela promoted the establishment of the “Energy Cooperation Agreement of Caracas” (Acuerdo de Cooperación Energética de Caracas) which benefited ten Caribbean states: Costa Rica, El Salvador, Haiti, Honduras, Panama, 

\textsuperscript{20} See Alvarez Loera.
\textsuperscript{21} See Alvarez Loera.
Dominican Republic, Jamaica, Guatemala, Nicaragua and Belize. Cuba did not sign in the first convention, but signed a particular agreement later that same year. In the terms of the Agreement of Caracas is stated that it will work in parallel to the San José Pact and instead of nullifying the agreement of 1980, this one was meant to expand the number of beneficiary countries, the amount of allocated oil and the financial terms. Yet, the main difference between the Caracas Agreement and the San José Pact is that Venezuela was the only supplier and Mexico was out of the treaty. Regarding this agreement, Chávez is quoted asserting that the San José treaty became “too rigid” and Mexico’s reluctance to include other countries in the program (especially Cuba) was among his motivations to create this new agreement. Through this new initiative, Venezuela “contributed 80,000 extra barrels of oil daily with a financing of up to 15 years, with a grace period of one year, and an interest rate of 2% for the portion of the financed bill” (Serbin 2006: 86). In order to justify that this agreement would not be counterproductive to Venezuela, the minister of international affairs, Jorge Valero, stated that “we are not giving away 80,000 barrels of oil. We are selling barrels of oil, the difference is that the payment formulas are more tolerable, they are more concessional. For instance, the interest rates are lower than the LIBOR rate [London Interbank Offered Rate], which means that….they would have a less disturbing effect over the borrower’s financial structures.”

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26 By 2000, the average oil price was $27.6 per barrel. Under this price, the 80,000 barrels would have a cost of $2.208 million daily, and an annual average cost of $805,920 million.
Table 6. Energy Cooperation Agreement of Caracas Committed Amounts of Oil by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Barrels per Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuba</td>
<td>98,000&lt;sup&gt;28&lt;/sup&gt;</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>20,000</td>
</tr>
<tr>
<td>Guatemala</td>
<td>10,000</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>8,000</td>
</tr>
<tr>
<td>Panama</td>
<td>8,000</td>
</tr>
<tr>
<td>El Salvador</td>
<td>8,000</td>
</tr>
<tr>
<td>Jamaica</td>
<td>7,400</td>
</tr>
<tr>
<td>Haiti</td>
<td>6,500</td>
</tr>
<tr>
<td>Honduras</td>
<td>5,000</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1,600</td>
</tr>
<tr>
<td>Belize</td>
<td>600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>173,100</strong></td>
</tr>
</tbody>
</table>


The relation between Cuba and Venezuela was ‘especial’ in comparison with the relation of Venezuela with other countries of the region, especially after the arrival of Chávez to the presidency (Serbin 2006; Romero 2010). During the renovation of the San José Pact in August of 1999, Venezuela expressed its desire to include Cuba and other countries in the agreement, however, the renovation signed by Chávez and Ernesto Zedillo did not incorporate the changes proposed by Venezuela<sup>29</sup>. As noted before, in 2000 Venezuela designed another energy program, without Mexico, which included a total of 10 countries. However, a few days later, in October 30<sup>th</sup> of the same year, Chávez and the president of Cuba Fidel Castro signed the *Convenio Integral de Cooperación entre Venezuela y Cuba* (Integral Cooperation Convent between Venezuela and Cuba) “which even though was based on the Caracas Agreement, it included two additional important elements: a period of time of five years and the inclusion of barter of goods and services

<sup>28</sup> The initial amount agreed to allocate was 90,000 barrels daily (b/d), however, later on it increased to 98,000 d/d (Serbin 2006: 85).

as a mechanism of payment for the supply of oil, keeping the same conditions of the October agreement. The initial supply to Cuba was of 53,000 barrels daily. Later on this agreement was amplified: at the date of the article Cuba was receiving between 90,000 and 98,000 barrels daily which cover from 50% to 54% of the oil needs of the island (Serbin 2006: 85). The maximum fixed price since 2005 is of USD$27 per barrel, which means less than half of the international oil price, which was of USD$68 on April of 2006. This implied a subsidy of prices of a thousand million in 2005” (Serbin 2006: 86). Since 2002, the barrels of oil sold to Cuba are paid in the following way: “the half in 90 days after purchase and the rest over 25 years, with a 2-year grace period, including the cost of transportation and insurance….In exchange, Cuba sent more than 13,000 Cuban workers to Venezuela, mostly workers in the health (doctors, nurses and paramedics) and sports sectors – first as a sort of barter, and then since 2003, in payments for professional services that reached roughly US$4.4 billion in 2007 (Romero 2010: 108). According to Carlos A. Romero, the energy cooperation agreements between Venezuela and Cuba incremented the trade relations between the two countries. Cuban-Venezuelan relations grew from US$388.2 million in 1998 to US$464 million in 1999, US$12 million in 2000, US$2.5 billion in 2005, US$3.2 billion in 2006 and to US$7.1 billion in 2007, “close to 45% of the island’s total trade of goods and services” (Romero 2010: 109).


A crucial agreement designed and implemented by Chávez’s administration is the Bolivarian Alliance for the Peoples of Our America-Commerce Treaty of the Nations (ALBA-TCP); this agreement was the umbrella for the creation of other international platforms for the allocation of resources among the participating and non-participating member. During the Third
Summit of the Americas celebrated on April of 2001, Chávez signed a declaration stating his opposition to the proposition of the Free Trade Area of the Americas (FTAA): “We note that the FTAA is the most fine expression of the appetite of domination over the region, and if it is implemented, would constitute a reinforcement of neoliberalism and it would create levels of dependence and subordination without precedence.” That same year, during the Third Summit of State Presidents and the Government of the Association of the Caribbean States, the president of Venezuela presents the idea of the ALBA as “a proposal of economic, social, political and cultural integration of the nations of Latin America and the Caribbean.” This proposal was formally institutionalized in December of 2004 when Chávez and Fidel Castro met in La Habana and signed the protocols of the agreement. To the ALBA-TCP later on adhered Bolivia (2006), Nicaragua (2007), Dominica (2008), Honduras, Ecuador (2009), Antigua & Barbuda (2009), St. Vicent and Granadines (2009) and St. Kitts and Nevis (Date not available); Saint Lucia and Haiti are invited members since 2012.

Beside designing ALBA-TCP as a regional integration agreement that is opposed to neoliberalism and which is based on solidarity and cooperation, what tangible alternatives it offers to its members? Between the first two members, Cuba and Venezuela, the main measures implemented were: both Cuba and Venezuela approved to eliminate any kind of tariff to the imports that came from either country; also it was tax-exempt any investment that came from one of the two countries (both from the state and private), during the period of the recovery of the

31 See ALBA-TCP 2013.
32 In December of 2009 the facto president of Honduras, Roberto Micheletti issued a decree through which he decided Honduras should leave ALBA, which was ratified in 2010 (ALBA-TCP Official Web Page 2010: “History of ALBA-TCP”).
33 See ALBA-TCP 2013.
investment; the oil exported from Venezuela to Cuba would be based in the prices of the international market, however, “since the oil prices are extremely changeable, Cuba offers to buy Venezuelan oil on a guaranteed price not inferior to USD$27 per barrel, always in conformity with the compromises assumed by Venezuela as one of the OPEC countries\textsuperscript{34}”. In 2005, Venezuela inaugurated a branch of the Venezuelan oil company \textit{Petroleos de Venezuela} (PDVSA) in La Habana, named PDVSA-Cuba; the same year it was inaugurated a filial of the Industrial Bank of Venezuela in Habana as well. With the adherence of Bolivia to the agreement, Venezuela stated that would donate up to US$100 million to finance infrastructure projects in Bolivia as well as to increment the import of Bolivarian products\textsuperscript{35}. According to the “ALBA-TCP, Creating a Multipolar World Report” (2013), besides the promotion of trade of goods, the ALBA promotes the exchange of medical doctors, teachers and even cultural interchange among the participating countries. By 2011 more than 3 million people participated in the ALBA literacy programs and more than 1,730 young medicine students from 70 countries were totally funded grant-holders\textsuperscript{36}. In 2009, the intra-ALBA commerce ascended to USD$4.352 million of which the two main commodities were oil and minerals (24\%) and food products (24\%)\textsuperscript{37}.

Throughout the years, ALBA-TCP took the form of diverse projects that included environmental issues, cultural exchange and preservation, education, health, telecommunication, tourism and health\textsuperscript{38}. In the economic sphere of the ALBA agreement was created the ALBA Bank as a financing alternative for the member states. The ALBA Bank (BALBA) was created in 2008

\textsuperscript{34} See ALBA-TCP 2013.
\textsuperscript{35} See ALBA-TCP 2013.
\textsuperscript{38} See ALBA-TCP. 2011.
with headquarters in Caracas; at that moment the member countries of the bloc were Venezuela, Cuba, Bolivia and Nicaragua. According to the description of its protocol, its objective is to finance development projects and programs by promoting a fair economic exchange and egalitarian to all the members of the ALBA. By 2016, the country members of the BALBA are Venezuela, Cuba, Bolivia, Nicaragua, St. Vincent & Grenadine and the Commonwealth of Dominica. According to the Constitutive Agreement of BALBA (2008), if other Latin American countries want to be part of this institution they “shall sign the Agreement of the Bolivarian Alternative for the Peoples of Our America (ALBA)”\(^{40}\). In the Constitutive Agreement is established the operations that BALBA may perform: give credits, credit facilities, bonds, collateral and other guarantees; issue, place, structure and administer all kinds of securities; act as commission agent and depository of funds security. In the same document is also stated that BALBA is divided into three classes of ordinary share: Class A shares correspond to the Latin American countries that are part of the ALBA-TCP agreement; Class B shares are regional nation states, whether they are or not members of ALBA, as well as states outside the region; and Class C shares are central banks, financial and non-financial, state, mixed or semi-state entities, being understood that such entities in which the State has a shareholding greater than 50%\(^{41}\). In 2008, the BALBA initiated with a contribution of the ALBA’s country members which ascended to a capital of US$1 billion (Hart Landsberg 2009: 8). In the same year, Chávez described the “ALBA Bank as a financing instrument that is different from other financing institutions because it does not impose strict conditionality for the given loans and it functions based in a consensus of all its members”\(^{42}\). During ALBA’s eleventh summit in

\(^{39}\) See ALBA-TCP 2013.


\(^{41}\) See ALBA Bank 2008.

\(^{42}\) See ALBA-TCP 2013.
2012, the member countries of that moment (Cuba, Ecuador, Bolivia, Nicaragua, Dominica, Antigua and Barbuda and St. Vincent and the Grenadines) agreed to contribute one percent of their international reserves into the bank to fund development projects\textsuperscript{43}.

The main function of the BALBA is to finance the different projects implemented by the ALBA bloc. For instance, in 2009 BALBA announced that it will finance new projects in the areas of health, culture and energy in Nicaragua, Bolivia, Cuba, Venezuela, Honduras and Dominica with a cost of USD$17,900 million. In the article is quoted Esteban Martel, the executive director of BALBA in Cuba, who asserts that BALBA differs with the other lending international organizations such as the World Bank and the IMF, which “have never allocated funds to alphabetize and to improve the health of the people in the region”\textsuperscript{44}. However, there is not clear official statistics that show the activities of BALBA.

ALBA-TCP differs from the previous regional agreements in its complexity and scope of actions. Even though the energy agreements of San José and the Acuerdo de Caracas had a component of financing for development, their main function was to sell oil under preferential conditions to the states of Central America and the Caribbean. In contrast, ALBA-TCP extends as an ‘integral’ cooperation bloc where the participating nations could exchange goods, services, human capital and knowledge. Moreover, according to several authors, ALBA is more than a regional agreement, rather it was also the intent to shift the international balance of power. In the article “ALBA as Instrument of Soft-Balancing,” Alfredo Toro (2011) argues that ALBA is a soft-

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balancing instrument meant to delay, frustrate and weaken the dominant presence of the United States in Latin American and the Caribbean. Under this vision of regional integration and self-determination, Toro asserts that ALBA tries to become an alternative to the American hegemony by two distinct forms: first, instead of having a neoliberal approach, its intention is to strengthen the state and not the market; and second, in contrast to other international lending organizations, ALBA and the ALBA Bank does not impose conditionality on its borrowers and recipients. Thus, ALBA becomes an alternative within the mainstream international trade market. However, that open counter-hegemonic stand is what makes ALBA less appealing to the region than other agreements, according to Altman Borbón. An important observation made by Altman Borbón is that “while this agreement was based on the policy of trade, not aid, ALBA is anchored more on the idea of a barter system rather than free trade” (Altamann Borbón 2015:4). This means that the responsibility that comes along with exports, debts and loans is not that predominant in this agreement which is more concentrated on the exchange of their comparative advantage resources which is highly clear with Venezuela allocating oil and its derivatives and Cuba exporting medical doctors.

**III.B-4 Petro Caribe (2005)**

In 2005 the new energy cooperation agreement, Petro Caribe, is created by Venezuela which differs from the ALBA but is constituted within its framework. According to Petro Caribe official page, “the existence of Petro Caribe (or Petro America or Petro Sur) cannot be understood, if the importance of ALBA is not first recognized⁴⁵”. In Petro Caribe web page is also explained that Petro Caribe is part of the change of direction of Venezuela’s foreign policy which is framed

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in the integrationist impetus proposed by ALBA. However, there are two main differences between Petro Caribe and ALBA. First, Petro Caribe’s main function is to sell oil under concessional terms to the nations that are part of the agreement, whereas ALBA is a more integral trade scheme that encompasses the exchange of all kinds of goods and services. Second, in contrast to ALBA where all the participating countries act as donors and recipients and as lenders and borrowers, the Petro Caribe agreement positions Venezuela as the lender (supplier) and the participating countries as the borrowers (receivers). Through Petro Caribe the Venezuelan government finances oil to Caribbean and Central American countries under preferential prices. According to Andres Serbin, Petro Caribe deepened the conditions of the 2000 Caracas Agreement, being the Petro Caribe conditions more generous than the previous one: the participating countries have 15 years to make the payments, two years of grace to make the first payment and an annual interest rate of 2%. (Serbin 2006: 87). In the Petro Caribe official web page is stated that in the period of 2005-2009, “the accumulated oil and other products reached a total of 90.5 million barrels. The financed portion of the oil receipt (USD$3.000 million) represent for the recipient countries a saving of USD$1.4 billion. These resources are invested in social and development projects within the participating countries.”

There are 18 signatory countries, Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guyana, Jamaica, Dominican Republic, St. Kitts and Nevis, St. Vincent and the Grenadines (signed in 2005); Haiti and Nicaragua (adhered in 2007); in 2008 signed Honduras, in 2012 Guatemala and in 2014 El Salvador. Just as the ALBA agreement was justified as an alternative to the asymmetries of globalization, and more specifically to the Free Area Agreement

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48 Even though Bahamas, Guatemala and St. Lucia signed the agreement, the countries have not applied it in practice (SELA 2015: 8).
between the United States and Latin America, Petro Caribe was also justified “to confront asymmetries in the consumption and access to energy, in a context of an energy crisis spurred by the price increase of hydrocarbons. This situation greatly affected non-producer countries, whose oil bills are a significant component of their economies, and exacerbated the poverty level of the population”\(^{49}\). The financing offered by Petro Caribe works as follow: the proposed finance scale is up to 50% of the oil bill, taking as reference the price of the hydrocarbons. The financing is up to 25 years, including two years of grace, and the interest rate is reduced to 1% if the oil price is above US$40 per barrel\(^{50}\). However, this conditions vary according to the oil prices as it is shown in table 7. If the international price of oil exceeds US$40 per barrel, the previous financing terms remains. But if the price of the oil barrel is below US$40 “the term for payment of products will be 17 years, with a two-year grace period and an interest rate at 2%, whereas short-term payment foresees a period between 30 and 90 days” (SELA 2015: 13).

Table 7. Petro Caribe Line of Financing (Updated until 2015)

<table>
<thead>
<tr>
<th>Price per Barrel in US$</th>
<th>% to Finance</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 15</td>
<td>5</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 20</td>
<td>10</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 22</td>
<td>15</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 24</td>
<td>20</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 30</td>
<td>25</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 40</td>
<td>30</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 50</td>
<td>40</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 80</td>
<td>50</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>60</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
<tr>
<td>&gt; 150</td>
<td>70</td>
<td>2-year grace period 17 years to pay at a 2% interest rate</td>
</tr>
</tbody>
</table>


By 2014, the hydrocarbons supply quota measured in thousands of barrels per day (TBD) is the following:\(^5\):

### Table 8. Petro Caribe Supply Quota by 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Quota 2014 (MBD)</th>
<th>Supplies 2005-2014 (MMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>30.0</td>
<td>91.1</td>
</tr>
<tr>
<td>Jamaica</td>
<td>23.5</td>
<td>83.5</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>27</td>
<td>64.3</td>
</tr>
<tr>
<td>Haiti</td>
<td>14</td>
<td>32.6</td>
</tr>
<tr>
<td>Guyana</td>
<td>5.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>4.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Grenada</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Dominica</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>St. Vincent And The Grenadines</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Belize</td>
<td>4</td>
<td>2.9</td>
</tr>
<tr>
<td>Suriname</td>
<td>10</td>
<td>3.2</td>
</tr>
<tr>
<td>El Salvador</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total Petro Caribe</strong></td>
<td><strong>129</strong></td>
<td><strong>313</strong></td>
</tr>
</tbody>
</table>


The Petro Caribe agreement states the necessity to create an enterprise to oversee the operating capacity of the agreement. As subsidiary of PDVSA, was created PDV Caribe which has as main functions “to support the joint planning, organization, and development of capabilities to transport, receive, store, distribute, and commercialize hydrocarbons through a direct, secure, and reliable means of supply for the Caribbean and Central American countries; to promote infrastructure projects which lead to the sovereign management of energy in the Caribbean and Central America; to foster technological cooperation, technical training, and activities related to the conservation of electrical energy; and to coordinate required transportation in order to fulfill contracts through PDV Marina and/or Transalba, shipping company that supports Petro Caribe operations”\(^5\). Beside PDV Caribe, the agreement also “stipulates that the existence of public

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\(^5\) In the Petro Caribe Management Report 2015, it is not stated the supplied quota to Cuba in the period 2005-2014, however, according to estimations by Serbin (2006), Cuba had assigned a quota of 98,000 b/d which in nine years would represent a total of 32193 million of barrels.

bodies to conduct energy operations will be required, and for this purpose, Venezuela offers the
technical cooperation for establishing such bodies in the member countries. To date, eleven mixed
enterprises have been undertaken between PDV Caribe and public enterprises of eleven member
countries” (SELA 2015: 14). Through PDV Caribe, the Venezuelan state bought a share of the
public oil enterprises of its lenders. As table 9 shows, PDV Caribe acquired almost half of the
foreign state companies, however, in the case of Cuba it was created a PDVSA branch in La
Habana whose 100% belongs to PDV Caribe.

Table 9. Petro Caribe Mixed Public Enterprises

<table>
<thead>
<tr>
<th>Share Composition Of The Joint Ventures Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALBA Petro Caribe (Belize Energy) Limited</td>
</tr>
<tr>
<td>PDV Caribe (Dominica) LTD</td>
</tr>
<tr>
<td>PDV Grenada LTD</td>
</tr>
<tr>
<td>Petrojam Limited</td>
</tr>
<tr>
<td>ALBA De Nicaragua, Sociedad Anonima</td>
</tr>
<tr>
<td>PDV St. Kitts Nevis Limited</td>
</tr>
<tr>
<td>Pdv Saint Vincent And The Grenadines Ltd</td>
</tr>
<tr>
<td>Refineria Dominicana De Petróleo, S.A.</td>
</tr>
<tr>
<td>Societe D’Investissement Petion Bolivar, S.A.</td>
</tr>
<tr>
<td>Alba Petróleos El Salvador, S.E.M</td>
</tr>
<tr>
<td>Pdvsà Cuba, S.A.</td>
</tr>
<tr>
<td>Cuvenpetrol, S.A.</td>
</tr>
<tr>
<td>Transportes Del Alba Inc.</td>
</tr>
<tr>
<td>Trocanà World Inc.</td>
</tr>
<tr>
<td>Tovase Development Corp.</td>
</tr>
<tr>
<td>Cuvenpeq, S.A.</td>
</tr>
<tr>
<td>Pdv Suriname N.V.</td>
</tr>
</tbody>
</table>

As noted before, the relation between Cuba and Venezuela is different from the rest participating countries. After the establishment of the Acuerdo de Caracas in 2000, Cuba and Venezuela signed their particular agreement days later, moreover, Cuba counts with a branch of PDVSA in its territory. According to the report “Evolution of the Petro Caribe Energy Cooperation Agreement” prepared by SELA, “Cuba is considered a Petro Caribe de facto member because, although the supply and exchange with Cuba are done under the scheme of this Agreement, they are contractually derived from the Comprehensive Cooperation Agreement (CIC) between Venezuela and Cuba, signed in 2000. In fact, Cuba is the country with the highest established quota among all members, 98,000 barrels per day (SELA 2015: 8). Since 2005 the daily quota of oil exported to Cuba has grown to a total of 153,000 barrels which is the result of “98,000 barrels through the Integral Cooperation agreement (of bilateral character) plus 55,000 barrels through Petro Caribe, amounting to 90% of Cuba’s total consumption of about 170,000 barrels a day”…the refineries in Cuba are refurbished by PDVSA which “processes and eventually re-exports part of the 153,000 barrels a day Cuba receives from Venezuela” (Romero 2010: 110).

In the SELA report (2015) are compiled recent data about Petro Caribe’s current performance:

- Of the quota of 129 thousand barrels of oil per day, Petro Caribe has met 74.4% of the total, up to January of 2015.
- Since the implementation of the agreement a total of 307 million oil barrels have been supplied to the 13 member countries. Out of the 13 members, the major destination of the oil has been Dominican Republic, Nicaragua, Jamaica and Haiti. These four countries have received 87% of total supply within the framework of Petro Caribe.
“A total of 432 projects that account for USD$3,944 million in investment, have been implemented by PETROCARIBE since its creation until 2014” (SELA 2015: 19).

The principal element that links Petro Caribe to ALBA is the financing of development projects through schemes such as the ALBA Caribe Fund (ACF), “which is constituted by resources coming from the savings generated by the financing of the oil bill and direct trade, as well as coming from financial and non-financial instruments53”. The Fund was opened with a Venezuelan investment of USD$50 million and that amount grew to USD$112 million, which have financed projects in 10 countries of the region: Antigua and Barbuda, Belize, Cuba, Dominica, Granada, Guyana, Haiti, San Vincent, Saint Cristobal and Nieves, Grenadines and Nicaragua54. According to Petro Caribe official web page, the ACF is used for programs and projects that prioritize issues of health, education, housing, and the economic development of small and medium industries. In the same section is stated that by 2009 “it had been allocated USD$179 million to 85 projects in 11 countries in the region and USD$29 million to 3 electricity projects55”. During the IX Summit of Heads of State and Government of Petro Caribe, named “Special Summit”, held in Caracas, on March of 2015, the Summit ratified its compromise to “support the expansion of the ALBA Caribbean Fund in additional two hundred million dollars, to lever up the socio productive development in the Caribbean countries, as well as to finance the advancing of complementary energy” (SELA 2015: 11).

Another initiative within Petro Caribe and linked to ALBA-TCP is the Complementary Economic Zone (PEZ) which covers the 21 countries that are part of both Petro Caribe and ALBA:

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“in May, 2013, at the Ninth Ministerial Council of Petro Caribe, the creation of an Ad Hoc Group was agreed to define the technical and legal foundations to make viable the creation of a Petro Caribe Economic Zone (PEZ), in order to increase and diversify intra-regional trade, strengthen production sectors, promote social investment, and foster development”. The permanent committee is integrated by St. Vincent & Grenadines, Venezuela, Dominican Republic, Nicaragua and Haiti. In the first meeting of the Ad Hoc Group it was created a permanent coordination committee that would work in the five areas of transport and communication, tourism, production networking, trade and integration, social and cultural. According to the Petro Caribe Management Report 2015, each will tackle the following issues:

### Table 10. Petro Caribe Economic Zone (PEZ) Areas of Investment

<table>
<thead>
<tr>
<th>Area</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and Cultural Structuring Programs</td>
<td>Universalization of education; universalization of health; food Security and Sovereignty; promotion of Social Participation; cultural Identity.</td>
</tr>
<tr>
<td>Transportation and Communications</td>
<td>Legal assessment of existing integration mechanisms, and exchange of necessary information; identification of concrete projects: evaluation of civil aviation alliances in the Eastern Caribbean, as a pilot project that enables the establishment of cargo and passenger routes.</td>
</tr>
<tr>
<td>Productive Networking</td>
<td>Legal and tariff assessment of the existing integration mechanisms, and exchange of necessary information; Include Technical Assistance and Cooperation Programs; Coordination between the universities of the region, not only from the academic point of view; Identify alternative forms of production</td>
</tr>
<tr>
<td>Program for Tourism</td>
<td>Legal assessment of the existing integration mechanisms and exchange of necessary information; Carry out a diagnosis of the main difficulties that the Member States face to develop tourism; Identify tourism related projects that encourage an increase in the flow of tourists from the region.</td>
</tr>
<tr>
<td>Program for Trade and Integration</td>
<td>Legal assessment of the existing integration mechanisms and exchange of necessary information; Assessment of existing tariffs structures in the region; Make an inventory of existing potentials; Continue fostering and deepening the Petro Caribe Fair Trade Mechanism. Establish a list of priority goods and services that may be subject to trade compensations for payment of their long-term oil bill; Establish an automatic quota allocation mechanism by country, of products of origin, to be compensated against the long term oil bill.</td>
</tr>
</tbody>
</table>


The use of oil in Venezuelan foreign policy started to take form in the 1970s, during the oil boom. Being a major oil producer and oil exporter, the Venezuelan state counted with revenues to allocate resources abroad and to assume a leadership role in international affairs. During 1974-76, Venezuela allocated loans abroad through the cash-loan plan that benefited Central American and Caribbean countries with low interest rates, extended repayment periods and lower-oil prices than the market. Yet, at this point is not established a formal scheme with compromised fixed quotas, element that was later included in the San José Agreement and in Petro Caribe. Yet, with the San José treaty, Venezuela was not completely empowered to assume a counter-hegemonic position because the agreement just contemplated to sell oil under concessional prices, moreover, the supplier role was shared with Mexico and as noted before when Chávez tried to enforce changes within the agreement (such as including Cuba among the recipients), they were not acknowledged by Mexico. However, the subsequent energy agreements reflect the evolution of Venezuela as lender and how the country reinforced the petro diplomacy by assuming more counter-hegemonic practices. With the implementation of the Acuerdo de Caracas and the bilateral oil agreement with Cuba, Venezuela took the lead in allocating more barrels of oil and extending more concessions to its borrowers. However, ALBA and Petro Caribe were the maximum counter-hegemonic intents because these agreements openly declared to be opposed to the current international order; they professed to be an alternative for the countries of Central America and the Caribbean through their facilities of payment and free conditionality. The alternative function was especially relevant for Cuba which had been under the United States embargo for years but with ALBA and Petro Caribe it found a space for international exchange.

57 After the triumph of the Cuban Revolution in 1959, the new Cuban president Fidel Castro shifted the country in a Communist path which included a close relation with Soviet Union, nationalized US-owned properties and increased taxes for the American imports. In retaliation, the United States under the presidency of John F. Kennedy instituted a
III.C- Type of Loans Allocated by Venezuela

Since the framework of action and justification for the agreements created by Venezuela is cooperation, regional integration and to some degree social justice, the country emphasizes that its loans and programs are under concessional (or soft) terms in order to become a real alternative for the countries of the region. As the analysis of the previous agreements demonstrate, Venezuela sold oil under concessional terms. In table 11 is shown that Petro Caribe is the agreement with the most participating countries, however, the loans terms are not that different from the other energy agreements.

Table 11. Oil Agreements between Venezuela and Central America and the Caribbean

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Conditions</th>
<th>Participating Countries</th>
<th>Allocated loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>San José Treaty (1980)</td>
<td>To sell oil under stable prices and favorable conditions. A credit line equivalent to a 25% of the delivered oil to the participating countries if the oil prices are above $27 dollars per barrel.</td>
<td>Barbados, Belize, Costa Rico, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama and Dominican Republic</td>
<td>Both countries were providing 160,000 oil barrels per day (80,000 each country) under prices cheaper than the market. The 80,000 daily barrels of oil represent an average of 29,200 MMB per year.</td>
</tr>
<tr>
<td>Energy Cooperation Agreement of Caracas (2000)</td>
<td>Contribute 80,000 extra barrels of oil daily; financing of up to 15 years; grace period of one year; interest rate of 2% for the portion of the financed bill.</td>
<td>Costa Rica, El Salvador, Haiti, Honduras, Panama, Dominican Republic, Jamaica, Guatemala, Nicaragua and Belize</td>
<td>Allocation of 75,100 per day to 10 participating countries. The average per year is of 27,411,500 MMB per year.</td>
</tr>
<tr>
<td>Covenant of Integral Cooperation (2000)</td>
<td>Sell oil at the fixed price of US27 per barrel; oil is paid, the half in 90 days after purchase and the rest over 25 years; 2 years-grace period.</td>
<td>Cuba</td>
<td>Initial supply of 53,000 barrels daily. Then, extended to 90,000-98,000 barrels daily. Supplying 98,000 barrels daily that represents 35,770 MMB per year.</td>
</tr>
<tr>
<td>Petro Caribe (2005)</td>
<td>15 years to make the payments; two years of grace to make the first payment and an annual interest rate of 2%.</td>
<td>Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, the Dominican Republic, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Suriname</td>
<td>313 MMB were supplied during the period 2005-2014.</td>
</tr>
</tbody>
</table>

Source: Own elaboration from Romero 2010; Petro Caribe Management Report 2015.

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Beginning with the San José Agreement in 1980, Venezuela committed to allocate up to 80 thousand barrels of oil daily under the market prices and offered a credit line if the oil price per barrel exceeded USD$27, however, as figure 2 shows, even though by 1980 the average OPEC oil prices was of USD$36.83 per barrel, at the end of the decade it decreased to USD$18.23\textsuperscript{58}, trend that continued during the 1990s\textsuperscript{59}. This means that since the oil prices declined from USD$27.56 in 1985 to USD$17.97 in 1999, the credit line of the San José Agreement was not applicable.

**Figure 2. Crude Oil Prices 1980-1999 US Dollar per Barrel**

![Crude Oil Prices 1980-1999 US Dollar per Barrel](image)


In the subsequent agreements, the conditions of the loans for the borrowers improved because Venezuela increased the amount of allocated oil (from 80,000 barrels daily in 1980 to 124.8 thousand daily barrels in 2005 under Petro Caribe), yet, the financing payment time remained of 15 years (with the exception of Cuba that has a 25 years period to make its payments).

\textsuperscript{58} These prices are of money of the day. At 2014 US dollars the value would be US$105.81 and US$34.80 per barrel respectively (BP Statistical Review of World Energy 2015).

and the interest rate of 2%. However, the form of payment varied since 2000 with the *Convenio Integral de Cooperación* [Covenant of Integral Cooperation] when barter was introduced as a form of payment. Cuba (the only borrower of this agreement) could pay back with goods and services which Cuba did mainly by exporting its human capital. In 2000, there was the first flight that took Venezuelan patients to receive medical attention in Cuba; however, it was in 2003 when the social cooperation program started with 53-member Cuban health workers who became part of the social program “Barrio Adentro”\(^{60}\). After the 2000 Convenio, Cuba sent to Venezuela more than 13,000 workers who were “mostly workers in health (doctors, nurses and paramedics) and workers from the sport sector” (Romero 2010: 108). By 2007, Cuban authorities stated that “there were 39,000 ‘collaborators’ in Venezuela, 31,000 of which were health workers. This was about 75% of all international Cuban aid workers, a total of 52,000 for that year” (Romero 2010: 110).

The mechanism of barter continued under the Petro Caribe agreement, though, it was not open to all the signing countries. According to the Petro Caribe Management 2015 Report, “the agreement contemplates the possibility that signatory countries pay back part of the financed portion with goods and services. In this sense, an Operations Manual of the Petro Caribe Compensation Mechanism was prepared, approved by signatory countries at the Fifth Meeting of the Ministerial Council of Petro Caribe on June 11\(^{th}\) 2009, in resolution 05.09-06, which is being implemented to date (2016) by six countries: El Salvador, Guyana, Nicaragua, Jamaica, the Dominican Republic, and Suriname\(^{61}\). In the Report is stated that by the end of May 2015, these

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\(^{60}\) This is a social program implemented by the administration of Chavez in 2003 with the purpose to provide free medical attention in the neighborhoods of scarce resources of Venezuela. This program was based on a bilateral cooperation between Cuba and Venezuela in which Cuba would provide medical doctors to Venezuela, and Venezuela would pay back with the supply of oil (2015. “Barrio adentro suma más de 704 millones de consultas médicas gratuitas en Venezuela” [Barrio adentro has Performed more than 704 Million of Free Medical Consultations], TeleSur, http://www.telesurtv.net/telesuragenda/12-anos-de-Barrio-Adentro-20150415-0079.html (Accessed April 15, 2016).

six countries have compensated through goods a total of US$3,471 million as payment of the oil bill. In the period 2005-2014 these six countries were supplied with 174,750 MMB of oil. As noted in figure 3, Nicaragua is the country that has made the most payments, whereas Dominican Republic (which is the country that has received most barrels of oil after Cuba) is the one with least payments through the barter mechanism.  

Figure 3. Summary of Oil Bill Compensations by Country (2008-2015)


Countries such as Guyana, Nicaragua and the Dominican Republic have continued to supply food products towards Venezuelan enterprises, such as Agropatria, Corporación Venezolana de Alimentos (CVAL), Corporación de Abastecimiento de Servicios Agrícolas (CASA) and Petroquímica de Venezuela (Pequiven)” (SELA 2015: 22). El Salvador, on the other hand, compensate with health services and Jamaica through the offering of English courses; however, food is the main received item which represents 95.92% of trade compensation, whereas

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the “remainder is distributed between livestock (3.39%), medications (0.17%) and Clinker (0.17%)”.

Thus, the type of loans allocated by Venezuela are distinguished not only by the facilities that they offer to its borrowers such as line of credits according to the oil prices, grace periods and low-interest rates, but also by the use of barter for the payment of the debts. Through this mechanism the countries that are members of Petro Caribe export goods, services and human capital to Venezuela incrementing their commercial and cultural relations, something mainly envisioned, however, in the ALBA scheme.

III-D Manifestation of Hierarchical Relations between Venezuela and its Borrowers

With the creation of regional agreements in order to sell oil under concessional loans, Venezuela has acquired allies and enemies in the international community which has been reflected in the country’s performance in international organizations and through its hierarchical relations. Members of the ALBA and Petro Caribe agreement have demonstrated their support to the Venezuelan government in international forums, yet, this was not always the case.

Chávez’s radicalism in action and speech was among his most remembered characteristics. However, Chávez would make diplomatic use of its commercial partners to smoothen the situations, being one of his preferred agents the Dominican president Leonel Fernández. As noted above, after Cuba, Dominican Republic is the country that most barrels of oil received among the Petro Caribe members with a total of 91.1 MMB during 2005-2014, which accounted a value of

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USD$8,224 million; besides the Dominican government was among the biggest debtors to Caracas, debt that was arranged to be paid with over a 50% discount in 2015\textsuperscript{64}.

The first agency of Fernández began in 2005 by mediating in a Mexico-Venezuela tense event. Since 1980 Venezuela and Mexico shared the position of oil suppliers to the Caribbean and Central American nations through the San José Agreement, however, in 2005 Chávez had an episode with the then president of Mexico Vicente Fox. Fox criticized Chávez for his position against the Free Trade Area of the Americas, Chávez responded in what Fox considered insults. By 2005 the relations between Venezuela and Mexico were weaken to the point that both presidents withdrew their respective ambassador and Fox threatened to break the diplomatic relations\textsuperscript{65}. However, during a Petro Caribe meeting held at Caracas, Chávez gave a sign of wanting to leave behind the 2005 episode, by sending his regards to the then president of Mexico, Felipe Calderón. To do this, Chávez used as messenger Fernández, who after his intervention in the meeting left to travel to Mexico where he would meet with Calderón\textsuperscript{66}.

This was not the only time that Chávez asked Fernández for a diplomatic intervention. Venezuela under Chávez had a very conflictual relation with its neighbor Colombia, which worsen in 2008 when a high leader of the Revolutionary Armed Forces of Colombia (FARC) was killed by the Colombian army in Ecuadorian territory. Due to this event Chávez made strong declarations

against the Colombian president Alvaro Uribe which were followed by critics also made by the Ecuadorian president Rafael Correa against the Colombian government. To put an end to the diplomatic crisis, Fernández used the annual meeting of the Rio Group held at Santo Domingo to make the three presidents shake hands in sign of peace, Fernández “asked his colleagues to reaffirm their peace disposition with a hand shake for the closure for the event”. During an official visit of Chávez to the Dominican Republic in order to sign oil agreements, Chávez thanked Fernández for serving as mediator in the Colombia-Venezuela relation and for his “great efforts that have been extraordinary and will be extraordinary in seeking the harmony”. However, Fernández’s mission to mediate in Venezuela’s diplomatic relations were under Chávez’s instructions. In 2010 Chávez asked Fernández to stop the negotiations with Colombia until the substitute of president Uribe was elected. The petition was made by the then Minister of International Affairs, Nicolás Maduro who did not reveal to the news the answer of Fernández but asserted that “Venezuela values his decision and his efforts relating the relations between Venezuela and Colombia”.

The Venezuelan government not only used its alliances to mitigate diplomatic conflicts but also to have access to international organizations and to promote a multipolar world. According to Toro (2016), one of the elements that influence the commercial relation between Venezuela and Colombia

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the Caribbean and Central American countries, is to assure the support of the region in international forums and organizations, being the Organization of American States (OAS) a good example. For instance, the ALBA imposed its majority to forbid an OAS’s resolution regarding the acts of violence taking place in Venezuela in 2014. In March of 2014 OAS decided to define a resolution towards the violent conflicts in Venezuela and after an eight hour meeting “the support of the ALBA bloc and the CARICOM countries achieved to forbid that the member States adopted a series of resolutions that were going to be discussed: a consultancy meeting convocation for the chancellors; sending a commission of observation or the draft of a resolution to the conflict.” In public declarations, the Venezuelan ambassador for OAS, Roy Chardeton, stated that this action evidenced an achievement to refrain to stop the interventionist purposes. Another example of support happened when the relations between Venezuela and the United States became tenser after Washington freeze the accounts of seven Venezuelan officials and also declared Venezuela a great security threat to the North American country. However, in a 2015 ALBA Summit celebrated in Caracas the ALBA countries ratified their support to Venezuela, including Cuba which was in the process of negotiating its relation with the United States. Among the presidents present in the Summit who expressed their support were Evo Morales from Bolivia, Daniel Ortega from

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72 By 2014, the members of the ALBA bloc that are also members of OAS are Bolivia, Nicaragua, Dominica, Ecuador, St. Vincent and the Grenadines, Antigua & Barbuda, St. Kitts & Nieves and Grenada. ALBA-TCP. “Member Countries,” http://alba-tcp.org/en/albatcp (Accessed April 15, 2016).

73 By 2014, the members of the CARICOM that are also members of OAS are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat (a British overseas territory in the Leeward Islands), Saint Kitts and Nevis, SaintLucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago (CARICOM Official Web Page).


75 See Saiz, Eva. 2014.
Nicaragua and Raul Castro from Cuba, and the first ministers of St. Vincent & Grenadines, St. Cristobal and Nieves, Dominica, Granada and Antigua & Barbuda.

However, ALBA and Petro Caribe members’ support is not the norm. In 2015 six countries that are member of the Petro Caribe agreement voted in favor of a Colombian proposal which convoke to an OAS chancellor meeting in order to debate the board crisis between Colombia and Venezuela. Guyana, Guatemala, Jamaica, El Salvador, St. Lucia and Bahamas are among the 17 countries that voted in favor of Colombia and which are members of Petro Caribe. However, Colombia did not get enough votes for its petition; against Colombia’s petition voted Ecuador, Haiti, Nicaragua, Venezuela and Bolivia and 11 countries abstain to vote. The Venezuelan oil expert Alfredo Toro Hardy stated in a news report, that the Caribbean nations are not that supportive of Venezuela anymore because “PDVSA has not being able to supply the same amount of oil to the states members of Petro Caribe;” Hardy also stated that due to the fall in the oil prices and the fiscal deficit that Venezuela faces, the country is not under conditions to keep its generosity with the Petro Caribe beneficiaries.

Yet, ALBA by itself is an achievement of the Venezuelan international initiatives. This bloc started only with Venezuela and Cuba as permanent members in 2004 and over 10 years later

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it counts with a total of 11 permanent members including 6 countries of the Caribbean (Cuba, Dominica, St. Vincent and The Grenadines, Antigua & Barbuda, St, Lucia, and St. Kitts & Nevis), three of South America (Venezuela, Bolivia and Ecuador) and one of Central America (Nicaragua). Moreover, the ALBA scheme was extended to other regional agreements such as Petro Caribe. As stated above, the ALBA Bank is used to channel the exchange activities of the Petro Caribe members, also the mechanism of barter implemented in Petro Caribe is used to supply ALBA institutions.

IV. Conclusions

The role of Venezuela as a significant international lender had a gradual transformation having two crucial moments, the mid-1970s that marked the oil bonanza and 1999 with the arrival of Chávez to power and the beginning of the ‘Bolivarian Revolution.’ Throughout these years, Venezuelan governments pursued the nationalization of the oil industry and assumed an active role in the international field. Yet, there were three key differences between the Venezuelan loans in the 1970s and in the 2000s. First, during the Pérez’s regime the international grants and loans were mainly allocated through multilateral organizations whereas in the Chávez’s administration the loans were mainly bilateral and promoted the strengthening of the state institutions. For instance, one of the conditionality of Petro Caribe is that private oil industries are not allowed to participate in the agreement. Second, even though the ‘Bolivarian’ discourse was present in the Venezuelan political scenario throughout the years, Chávez assumed the Bolivarian Revolution in a more radical sense than his predecessors, furthermore, Chávez openly declared his objective of promoting a multipolar world by providing more self-determination for the Latin American region. Third, the loans allocated during the 1970s and 1980s lacked the formal scheme developed in the 2000s, especially through Petro Caribe; even though the San José Agreement in 1980 had a level
of formality, Mexico shared with Venezuela the role of supplier, aspect that changed in the following energy agreements (such as the Caracas Agreement and Petro Caribe) in which Venezuela became the solely provider.

The creation and development of ALBA-TCP became the core of Chávez’s Bolivarian diplomatic agenda. Furthermore, as pointed out by Burges (2007) this scheme is a representation of a counter-hegemonic practice. First of all, it was created as a reaction to the Free Trade Area of the Americas (FTAA) which Chávez categorized as another form of American imperialism. In contrast, ALBA-TCP will be formed within Latin America and only for Latin America. Its concept was beyond commercial exchange to also include the sharing of political and social values, which is exactly what Cox enumerates as necessary for a counter-hegemonic practice: a structural change that encompasses the economic, social and political spheres. Even though ALBA’s effectiveness is questioned, due to its limited members and scope of action, this bloc evolved from two participants (Venezuela and Cuba) to 11 members by 2016. As noted before, this bloc has an actual internal commercial trade, composed mainly of oil and food, it shares a left-wing political value among its members, and has demonstrated its alliance in international organizations such as the OAS. Even though Petro Caribe was created as a separate agreement, ALBA is its foundation and at moments both intertwine (for instance, when Petro Caribe members make their payments in goods that serve to supply ALBA institutions, such as ALBA Food). Yet the most important distinction between Petro Caribe and ALBA is the loan component that is mainly present in Petro Caribe. Petro Caribe members create a bloc that is unified by a common debt, thus if the debt is cancelled so is the alliance.
Chapter Two

Venezuela Receiving Foreign Loans

I. Introduction

In the previous chapter was analyzed Venezuela as lender through the supply of oil under concessional terms. It was stated the high dependency on oil prices and exports for the Venezuelan economy which was reflected in surplus under oil bonanza and deficits under decreasing oil prices. Prior to the Chávez’s administration the Venezuelan state borrowed abroad to finance local projects and to cover public deficits, being the principal source of those loans multilateral organizations such as the IMF. However, during the Chávez’s administration most of the state loans were bilateral being China its principal lender under the type of oil-for-loans. Thus, as oil was the commodity that attracted Venezuela’s borrowers, it was the same resource that attracted its principal lenders. The aim of this section is to analyze how the role of Venezuela as borrower of loans impacted the country’s hierarchical relations in international relations. The following questions are addressed: why is Venezuela continuing to receive foreign loans? What type of loans the country receives and under what conditions? How Venezuela’s increasing debt to China transforms the hierarchical relation between the two countries, is China relationship with Venezuela becoming more hierarchical recently? And, how do loans to Venezuela transform hierarchical relations with its borrowers?
II. Literature Review

As any other developing country Venezuela has been the target of foreign aid in forms of grants and loans. However, since 1999 the country’s open opposition towards neoliberalism and the international institutions influenced by the United States (such as the IMF and the World Bank) limited Venezuela’s alternatives of international lenders. Yet, when it comes to foreign credit, China stand out as Venezuela’s main provider of bilateral loans (Toro 2016). In the book Turning the World Upside Down, Alfredo Toro Hardy (2013) argues that the increased commercial relations between China and Latin America is a representation of the shift that is taking place in the global economy. He notes that in 1990 the total imports that came from China to Latin America represented a 0.6%, however, by 2011 China represented a 14% of the total regional imports; also, by 1990 China was listed as No. 17 for Latin American exports and by 2011, China “represented 9% of total regional exports” (Toro Hardy 2013: 115). The author points out that in the Asia-Pacific area, China surpassed Japan and South Korea, countries that have been trading with Latin America since the 1970s.

Toro Hardy emphasizes that this increase in commercial relations had more significance for the Latin American countries than for China: “the robust growth observed in Latin American countries in the past decade is an important measure of its connections to China…between 2000 and 2006, 70% of the export growth in Latin America was explained by the growth in the export of commodities to China…however, for China the implications of this current new trade with Latin America have been much more modest…in 2011, it accounted for 6% of China’s total exports and 7% of its imports” (Toro Hardy 2013: 118). However, China has not only increased trade transactions with Latin America but also investments through the allocation of grants and the concession of loans. Toro Hardy asserts that China’s loans come with no ideological or
macroeconomic measure attached which it is more attractive than the conditionality of the loans offered by traditional lenders such as the World Bank and the IMF. Moreover, China is not only offering free conditionality credits but also bigger amounts: through the “China Development Bank, and other institutions have spent an estimated USD$75 billion on financial investments in South America, which is more than the World Bank, the US Export Bank and the Inter-American Development Bank put together” (Toro Hardy 2013: 165). Toro Hardy emphasizes that the interest for Latin America is due to China’s wanting access to resources of the region. The author points out the special importance of oil for China, according to “the 2004 projections of the US Department of Energy, both China and the United States would be importing around 70% of their oil requirements in 2025…Venezuela, Brazil and the other South American producers will be in position to provide such additional oil with Venezuela alone probably duplicating Saudi Arabia’s reserves” (Toro Hardy 2013: 161).

In contrast to Toro Hardy who asserts that the allocation of Chinese investment respond to the country’s desire to access the resources of its recipients and borrowers, Deborah Brautigam argues in her book The Dragon’s Gift the Real Story of China in Africa, that access to resources is a partial answer to China’s motivations because as the rest of the countries, China uses foreign aid as a tool of foreign policy. She asserts that China gives aid for three reasons which are “strategic diplomacy, commercial benefit, and as a reflection of society’s ideologies and values” (Brautigam 2013: 15). According to Brautigam there are several factors that make China a particular donor and lender: it is a developing country, that is recipient itself, with its own development success which gives it credibility as a development partner; the emergence of Chinese institutions, such as the Chinese International Development Bank, stepped in to directly compete with other lending institutions such as the World Bank and the IMF; in contrast to the aid and loans that come from
ex-colonizers to ex-colonies, China’s aid has different origins which is based in its long tradition of commercial exchange with smaller countries; foreign aid has become an instrument of Chinese state leaders to improve China’s exports and its own development; hence, China conceives foreign aid as a partnership that creates benefits for donor/lender and recipient/borrower, for instance China ties its foreign aid funds to Chinese goods and services. Another characteristic of China in this respect is the system of subsidies by offering preferential loans and export credits.

Brautigam also describes the evolution of China’s foreign aid and allocation of loans. She asserts that China’s aid is not a recent phenomenon, since the 1970s this country was considering the implications of assuming a formal role in foreign aid, moreover, around that time foreign aid was used as a diplomatic strategy. For instance “votes from African countries enabled communist China to finally be seated at the United Nations in 1971” (Brautigam 2013: 42). By 1984, Chinese leaders established a trial guidelines for overseas joint ventures being an important point the link between aid and investment which “could potentially allow the Chinese to address three goals at once: a growing backlog of unpaid aid loans, consolidation of former aid projects, and experience (and maybe profits) for China’s new corporations” (Brautigam 2013: 62). During the 1990s, China implemented a series of reforms that shaped China’s aid programs, being a relevant one the creation in 1994 of three ‘policy banks,’ “the China Development Bank, China Export Import Bank and China Agricultural Development Bank…the centerpiece of the reforms was the launch in 1995 of a new system of concessional aid loans, offered through China’s Eximbank” (Brautigam 2013: 79). Brautigam emphasizes that China has a typical East Asian Development State whose principal characteristic is the state control over finance (Brautigam 2013: 80). For instance, policy banks operate mainly as tools of the government, being one of them the Eximbank. By 2007, China Eximbank “had become by far the world’s largest export credit agency” (Brautigam 2013: 113).
Brautigan points out that Eximbank’s “concessional loans are the only part of their operations that can be called foreign aid” (Brautigam 2013: 114), and the subsidy for the interest rate of such concessional loans comes from the Chinese government’s foreign aid budget. The author emphasizes that China’s government is not geared towards debts cancellations, for instance, the Highly Indebted Poor Country (HIPC) was a debt reduction program launched in 1996 by the OECD bilateral donors, however, “Beijing was slow to accept the position that debt owed to China should be canceled outright” (Brautigam 2013: 128). Brautigan concludes that China’s novel ‘win-win’ approach consists of “using very large credits, at competitive market rates, tied to Chinese machinery, equipment, and construction services, with repayments in oil or other resources” (Brautigam 2013: 307).

The increased commercial relation between China and Latin America, but specifically, China’s concession of loans is addressed in the Inter-American Dialogue report “The New Banks in Town: Chinese Finance in Latin America,” by Kevin P. Gallagher, Amos Irwin and Katherine Koleski. The authors argue that the common claims about Chinese loans in Latin America which assert that they have more favorable terms, impose no policy conditions, and have less stringent environmental guidelines than the loans of Western governments or international institutions are not completely accurate. They conclude that argument by making a comparative analysis of the amount, conditionality and terms of the loans provided by the Chinese government in contrast to the loans provided by the World Bank, the Inter-American Development Bank and United States Export-Import Bank in Latin America. First, by comparing the amount of Chinese loans in Latin America, the authors assert that China has become a major financial source for the region, especially for South America. China’s loans to the region doubled every year between 2008 and 2010, “in 2008, loans ramped up to USD$6 billion. In 2009, lending tripled again to USD$18
billion, passing the World Bank’s USD$14 billion and IDB’s USD$15 billion. In 2010, lending doubled once more to $37 billion, well above loan levels of the World Bank (USD$14 billion) and IDB (USD$12 billion)” (Gallagher, Irwin and Koleski 2012: 7). The report notes that the large amount of loans is concentrated on a few borrowers such as Venezuela, Brazil, Argentina and Ecuador, countries that received the 90% of the $75 billion that China allocated in the region since 2005. The authors emphasize that China is the ‘lender of last resort’ because it is not a cheap one. Countries such as Venezuela, Ecuador and Argentina are not attractive borrowers for the mainstream market due to the high debts of their economies, and in the case of Argentina and Ecuador, their precedence of default in 2001 and 2008-2009 respectively (Gallagher, Irwin and Koleski 2012: 8). However, in order for China to secure its payments from these highly indebted countries, China used “its loans-for-oil and purchase requirements to reduce the cost of lending to these otherwise non-creditworthy borrowers…. Chinese Development Bank does not subsidize its interest rates as development aid or to outcompete other lenders, instead offering the loans at cost… The risk mitigation of loans-for-oil seems to explain why CDB was able to offer the $20 billion Venezuelan loan at a floating rate of 50-285 basis points over LIBOR, only a fraction of its 935 basis point cost in sovereign debt markets (Gallagher, Irwin and Koleski 2012: 9). Another key point made in the report is that the CDB is backed up by the Chinese government, and failure to repay this institution jeopardize the bilateral relations and future deals with Chinese firms.

Even though China has become an alternative for the countries that cannot recur to the mainstream lenders, the conditions of the Chinese loans are not that ‘sweet,’ especially when it comes to their loans-for-oil package. According to the report, “a loan-for-oil generally combines a loan agreement and an oil-sale agreement that involves two countries’ state-owned banks and oil companies” (Gallagher, Irwin and Koleski 2012: 15). Even though this type of loans have been
highly used by China in the last decade, the authors point out that they did not ‘invented’ it, conversely, Japan gave China loans for its oil in the 1970s, and “now that China imports oil and exports technology, it has copied Japan’s deal” (Gallagher, Irwin and Koleski 2012: 15). According to the report, there are six reasons why loans-for-oil results beneficial for China: they “help China establish diverse, long-term oil supply chains, promote Chinese exports, put dollar reserves to productive use, expand the international usage of the Chinese yuan, and win favor with borrowing governments” (Gallagher, Irwin and Koleski 2012: 15). However, this type of loans might not result that favorable for the borrowers. The authors give as example the case of Venezuela, country that is highly indebted with China under the loan-for-oil terms. Venezuela “agreed on a ten-year, $20 billion loan-for-oil in 2010. To pay this loan back with $110 barrels over the ten-year tenor, Venezuela would only have to send 50,000 barrels per day. However, Venezuela committed to send 200,000 to 300,000 barrels per day to China, four to six times as much. By incorporating the repayment into a larger supply contract, Venezuela can truthfully say that CDB will only deduct a portion of the revenues to cover loan interest, while the rest will return to Venezuela. Today, Venezuela has signed so many loans-for-oil that it allows China to keep $70 per barrel to pay back the loans, while China refunds the remaining $40 or so according to market prices” (Gallagher, Irwin and Koleski 2012: 14). In contrast, Brazil and Ecuador, which also take loans-for oil with China, can retain a larger percentage of the oil revenue because they have smaller loans.

A key point noted in the report is that the oil is not collateral to the loans which means that if the borrowers threaten to cut oil supply, the Chinese Development Bank cannot seize extra oil or oil revenue to compensate. However, there are certain strings in the Chinese loans that safeguard their payments. For instance, “Chinese loans do not require that a borrower changes its policies in
return for financing. Instead, Chinese banks usually force borrowers to spend a share of the loan on Chinese goods” (Gallagher, Irwin and Koleski 2012: 18). Besides, Chinese banks almost always tie their loans to the purchase of Chinese goods, according to the report, “we found conditions in every loan requiring the borrower to purchase Chinese construction, oil, telecommunications, satellite, and train equipment…since Venezuela committed to spend the majority of its $20 billion loan in 2010 on Chinese goods and services, CDB denominated half in Chinese yuan (De Córdoba 2011). This is the largest Chinese-currency loan to date…the purchase requirements allow Chinese banks to reduce their exposure to default risk” (Gallagher, Irwin and Koleski 2012: 19). However, the authors conclude that Latin American and Caribbean countries pay a higher premium for the Chinese loans which is due to the interest rates and not to the loans-for-oil. They assert that their analysis shows that “the majority of Chinese loans-for-oil in Latin America are linked to market prices, not quantities of oil. Meanwhile, the loans are often tied to working with Chinese contractors and businesses, and that condition represents another cost because it reduces the ‘spillover’ effect in terms of local contracting in Latin America and the Caribbean” (Gallagher, Irwin and Koleski 2012: 27).

By analyzing the specific relations between China and Venezuela, in the article “Venezuela and China Economic Relations in the Regime of Hugo Chávez,” Silvia Hernandez Rada argues that the bilateral relations between China and Venezuela increased during the Chávez’s administration which responds to strategic interests from both sides: due to the friction between Venezuela and the United States, Venezuela needs to diversify its markets and also the country needs financial support to continue its socialist economic model. China on the other hand, needs energy resources that are critical for maintaining its level of development. The author points out that the agreements between China and Venezuela increased from a total of 42 since the 1970s
until 1998, to 300 agreements during 1999-2011. She asserts that the interest from Venezuela to China is based in three actions of foreign policy: “petro-diplomacy, the necessity to diversify the markets, and a shared vision of a common enemy, the United States” (Hernandez Rada 2011: 4). Hernandez Rada defines petro-diplomacy as the co-relation of energy interests which become strategic for the development and materialization of international agreements in this area. She emphasizes that in this respect China has become a country dependent on natural resources which needs in order to maintain its level of development, furthermore, if China wants to become a world power it needs energy security (Hernandez Rada 2011: 4). The author points out that by 2009, China’s consumption of energy surpassed the consumption of Russia, Brazil and India and its demand will become near of the consumption in Europe and the United States. However, even though China has a dependency on oil resources, the country has several suppliers to satisfy its demand by having oil contracts in Africa, Centro-Asia and South America. Hernandez Rada emphasizes that just as China seeks to diversify its markets, Venezuela also seeks that diversification in order not to depend only on the United States, even though it is its principal commercial partner. The author asserts that China’s purpose is to increase its resources and satisfy its necessities regardless of which country is going to become its strategic partner (Hernandez Rada 2011: 10). In her conclusions, Hernandez Rada points out that the relations between China and Venezuela are sustained in the Chinese loans to Venezuela, “which accentuate the dependence of Chávez’s administration for the sustainability of the Bolivarian Revolution, but also it impairs the successive governments and whole generations because the payments are based in future supply of oil” (Hernandez Rada 2011: 22). Moreover, the author asserts that China is a bigger winner out of the relation with Venezuela because China gets access to oil for their consumption and also to re-sell it in the international market with higher prices than negotiated with PDVSA,
China also introduces its products in the Venezuelan market and gets a “political counterbalance in America which goes in line with its interests” (Hernandez Rada 2011: 25).

In the article “The Relation between China and Venezuela,” Evan Ellis also analysis the specific relation between the two countries during the Chávez’s administration from a strategic point of view. The author asserts that China “meets” Venezuela as one of its four strategic partners in Latin America with an increase in bilateral agreements that includes more than USD$28 billion in loans and USD$16 billion in investment compromises by 2009 (Ellis 2010: 31). The approach of his article is to analyze the interests of both China and Venezuela in the expansion of their relations. Ellis argues that China’s main benefits is the access to resources and markets in Venezuela, “with the risk that China’s relation with Venezuela could create problems with their relation with the United States which is strategically more important” (Ellis 2010: 31). In the case of Venezuela, China’s support prolong the capacity of Chávez’s regime to finance revolutionary activities both locally and in the region, “but it creates a fundamental cycle of debt and dependency that is going to be unsustainable” (Ellis 2010:31). The author enumerates three interests from China to have presence in Venezuela: first, gain access to basic goods; second, to increase the sale of Chinese products in important sectors and with higher value; and third, to keep a political and economic space in the Americas where the Chinese can operate (Ellis 2010: 31). Ellis emphasizes that even though China has shown interest for other Venezuelan resources, such as metal and minerals, its main focus is on oil. This interest is mainly due to the Venezuelan considerable reserves: “according to measures by the Geology Survey of the United States, the Orinoco Basin of Venezuela can contain up to USD$1.5 trillion of oil barrels, of which around USD$513 billion barrels can be extracted, making Venezuelan total oil reserves bigger than the combined reserves of Saudi Arabia and several nations of the Persian Gulf” (Ellis 2010: 32).
This interest for Venezuelan oil is reflected in the mechanisms of payment of the Chinese loans. Ellis remarks that one out of three big loans from China to Venezuela since 2007 have been under future supply of Venezuelan oil. For instance, in order to clear off the USD$8 billion that China contributed to the Chinese-Venezuelan Fund in 2010, Venezuela has sent an average of 100,000 barrels of oil per day. Also, a USD$20 billion loan agreed in April of 2010 will be paid off in a period of 10 years with the supply of 100,000 additional barrels per day (Ellis 2010: 32).

The author notes the importance that China gives to other sectors, such as mining, and to the introduction of its products in the Venezuelan market. For instance, through an agreement of May 2010, the Chinese company Haier sold 300,000 Chinese appliances which the Venezuelan government would sell at the state warehouses. The commercial relations have also included telecommunications and security apparatus, airplanes, and China even launched a satellite for Venezuela (Ellis 2010: 33). Ellis asserts that Venezuela represents a strategic allied in the region to support China’s intent to change the position of those nations that recognize Taiwan as an independent country; “11 of the 23 of the countries in the world that recognize Taiwan are from Central America and the Caribbean. Most of those nations depend on Venezuela for the supply of oil, which they receive under favorable conditions of payment through the Petro Caribe agreement” (Ellis 2010: 35). Regarding the benefits for Venezuela, Ellis argues that China contributes to the viability of Chávez’s regime through five elements: it serves as a source of funds in a short term; it helps to extract raw materials from Venezuela; it diversifies the export markets for the country; it creates symbolic projects for the national consumption; and it serves as alternative provider of military products of second level (Ellis 2010: 32). The author concludes that the increased bilateral relation between the two countries has incentives but significant risks for both parts. For China is the issue of keeping a distance from the anti-United States rhetoric
pursued by Chávez and also not getting involved in the economic and political crisis of the regime. Whereas for Venezuela the major risks are the increased dependence on China for loans to cover the regime expenses, dependency on China to extract Venezuelan oil and other resources and the unsustainability of the debt.

Since loans are a crucial element in the relations between China and Venezuela, it is relevant to consider the blurry line between concessional loans and regular loans, each having different implications for the lender and the borrower. In his article “Economics and Politics of Official Loans versus Grants,” Matthew Odedokun examines at an academic level, the implications of allocating official assistance whether in loans or grants, and the differences between concessional and non-concessional loans. In his analysis he makes the distinction between concessional or subsidized loans and non-concessional loans by stating that “a concessional loan (which is the one that is currently in vogue) is a subsidized credit and, by definition, has a grant element built into it and can therefore be conceptualized as a grant when it is being compared with a non-concessional loan” (Odedokun 2003: 2). Based in his empirical analysis, Odedokun argues that subsidized loans are less efficient for the state receiving the loans because they tend to over borrow and thus to assume a bigger debt burden. The author asserts that since concessional loans is another name for subsidized loans, “the effects of different degrees of softness or concession can be analyzed and theoretically predicted on the basis of the economic theory on subsidy of a commodity or factor input” (Odedokun 2003:18). Odedokun points out that the degree of concession of a loan is measured by the implied grant element in relation to the face value of the loan. Such grant element is defined by the author as the rate of interest on the loan and the grace period, which is the timeframe before repayment of the principal. Thus, “the lower the loan rate or the longer the grace period, the higher the grant element” (Odedokun 2003: 24).
The approach used in Odedokun’s article is to explain through empirical data the differences in the mix use of grants and loans allocation by using annual panel data between 1970 and 1999 pooled across 17 member countries of the Development Assistance Committee (DAC) of the OECD. The indicators used by the author are Level of donors’ per capita income; Economic (real GDP) growth; the phase of economic cycle; Size of government—government expenditure in relation to GDP; Ideological leaning of the donor government; Political constraints and checks and balances against executive arm of Government; Trend variable; and Dummy variable for post-1990 period. He concludes by suggesting the “necessity to separate concessional loans into two constituent parts: pure grants and non-concessional loans. This would entail the recipient being given the grant component, coupled with the option to take as much as it wishes from the non-concessional loan component….this would overcome many of the adverse incentives and related problems of concessional loans” (Odedokun 2003: 29).

According to the reviewed authors the relation between China and Venezuela is mainly based in a mutual need: oil and natural resources from the Chinese side and money and investment from the Venezuelan side. Both countries seek to diversify their markets and in the case of Venezuela, they seek an alternative market different from the United States. Also, the authors emphasize the risk of an accruing debt for Venezuela which can become unsustainable. Yet, there is also the risk for China of not receiving the payment for their loans.
III-A. Venezuela as Borrower

The role of Venezuela as borrower is based in two main factors: first, even though the Venezuelan economy has been highly dependent on oil prices, the oil bonanzas has not translated into less external public debt, conversely, high levels of debt have coincided with oil booms. Second, since the Venezuelan state assumed a social spending at the local level and at the international level through the concession of loans abroad, there was the need for more resources to continue such spending. These two factors took place previous the Chávez era and during his term, however under different circumstances.

According to the article “Associated Factors of Public Debt in Venezuela,” by Jorge Lopez Palma (1998), by the end of the 1990s Venezuela had a public external debt problem which inherited from the accelerated acquisition of foreign loans during 1974-1982. Lopez Palma’s analysis demonstrates that Venezuela’s high level of debt occurred almost simultaneously with the oil bonanza of the mid-1970s. During the first term of Carlos Andres Perez’s presidency, the deficit of the state happened almost simultaneously with the petrodollars boom and the solution was to borrow abroad. Lopez Palma asserts that “Venezuela received an average of USD$1000 million annually in loans during the so-called oil bonanza. In the second stage of the oil bonanza, under the Campin’s administration, emerged the second wave of borrowing when the foreign loans annual rated increased to USD$2,600 million; this established an annual average debt of USD$1,900 million” (Lopez Palma 1998:71). Lopez Palma states that the external Venezuelan debt accelerated during the first presidency of Carlos Andres Perez (1974-1979) and the principal factors that contributed to this were the premise that oil prices will increase to USD$40 per barrel, and also the liberalization of the transnational banc to approve, without much restrictions, the so-called sovereign loans. The author presents a table, which is represented in figure 4, with the
evolution of the external public debt of Venezuela during 1969-1988, period that encompasses four different presidential terms. As the figure shows, the biggest increase occurred in 1974-1975, when the annual average rate of the external public debt increased from 27.2% to 51.5%.

**Figure 4. Evolution of the External Public Debt in Venezuela 1969-1988 (Millions of Bolivares)**

![Graph showing the evolution of the external public debt in Venezuela from 1969 to 1988.](graph)


During the first term of Pérez’s presidency there was the oil boom in the 1970s which led the state to implement a ‘Great Project’ that included, among other things, “the nationalization of the oil and metal industry, the recuperation of the social security, the creation of an Investment Fund, the development of Guyana and the construction of regional aqueducts.” Yet, the governments of Luis Herrera Campins (1979-1984) and Jaime Lusinchi (1984-1989) also increased the public debt with an annual average rate of 36% and 19.8% respectively (Lopez Palma 1998: 63).

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Lopez Palma asserts that there were three main sources that Venezuela recurred for foreign loans: the bilateral assistance for development; the private foreign direct investment; and the credits of the imports given by the same sellers (Lopez Palma 1998:70). However, during the 1974-1989 period, Venezuela recurred to multilateral organizations as its main lender. For instance, in 1989 during the second term of Pérez, the Venezuelan economy assumed a restructuration of the external debt under the IMF, which included a program of high conditionality (Lopez Palma 1998:64). The author notes that when the oil exports started to fall in 1975 Perez’s administration decided to recur to external loans to cover the public deficit, instead of implementing unpopular measures on the population (such as raising taxes). This was combined with an increment of the State spending and the imports into the country. Lopez Palma concludes that the problem of public debt in Venezuela during 1974-1997 had two defined phases: accelerated public external debt (1974-1982) and the cancelation of the debts with recessive consequences and greater external control of the internal political economy (from 1983 on) (Lopez Palma 1998: 73).

According to the authors Thomas Legler (2007) and Jennifer McCoy (2004), when Chávez arrived to power he did not have an economic plan, moreover, he just followed the steps of the Punto Fijo’s governments which was “raising oil prices through curtailing production, hence, he had a purely oil dependent economy without any diversification into other sectors” (McCoy 2004:287). As can be noted in figure five, during the 1990s the exports mainly concentrated on oil, tendency that continued and heightened during the Chávez’s administration.
Within the first six years of Chávez’s presidency, his administration faced a strike from PDVSA executives who were hostile to the government which affected the oil production and thus oil revenues (Weisbrot 2011: 197). As figure six shows, by 2001 and 2002 Venezuela was on deficit which increased in 2003 but recovered in the two following years.

Figure 5. Public Oil and Non-Oil Exports 1989-2015 (US$M)


Figure 6. Cash Surplus/Deficit (GDP%)

In contrast to the loans during times of revenue in the mid-1970s, Mark Weisbrot (2011) points out that Chávez’s regime used the oil revenues to alleviate the public and external debt that the country had acquired: “total public debt had increased through the crisis of 2002-2003, reaching a peak of 47.6% of GDP in 2003, with the foreign part of that at 29.7%. But by 2008 the public debt had been reduced to just 14.2 percent of GDP, with the foreign public debt at only 9.6%. This rouse in the recession to 18.4% and 10.8%, respectively. If we were to include the foreign debt of PDVSA and other state-owned enterprises, the total debt would rise to 26%....Venezuela ran a huge current account surplus of 12.6 percent for 2008, although this collapsed to 2.6 percent for 2009…what happened was obvious, the current account went into deficit for just the fourth quarter of 2008 and the first quarter of 2009-when oil prices crashed. It rebounded quickly into surplus in the next two quarters as oil prices recovered” (Weisbrot 2011: 206). However, according to statistics of the Venezuelan Central Bank (2016), even though the external public debt was reduced in 2008, it incremented again in the following years. As figure seven shows, by 2009 and 2012 the debt was higher than in 2006 and 2007, yet it didn’t reach the peak of 2003.

**Figure 7. Public External Debt GDP% (End of Period)**

![Bar Chart showing Public External Debt GDP% (End of Period) for years 2002 to 2012. The chart shows a decrease in debt from 2003 to 2008, followed by an increase in the following years.](source: Venezuelan Central Bank 2016.)
The second cause of needing external funds is the social spending that the Venezuelan state underwent during the Chávez era. At the local level, “the central government social spending from 1998 to 2008…there has been a huge increase, from 11.3% of GDP in 1998 to 18.6% for 2008. In real (inflation-adjusted) terms, social spending per person has nearly tripled, increasing by 191% over the period 1998-2008” (Weisbrot 2011: 203). McCoy points out that “by 2003 facing the building toward a recall referendum, Chávez expanded fiscal policy and initiated a number of new social programs to bring medical care, literacy programs, and supermarkets into poor neighborhoods” (McCoy 2004: 287). In 2015, despite the economic slowdown, Maduro’s administration announced an increase in the state budget with a “heightened investment in pension programs, healthcare and university expansion. The plan totaling around USD$117.7 billion represents a 35% overall increase from the 2014 budget. Proportionally, 34% more funds will be invested in social programs in 2015 than in 201481”. In a national televised discourse, Maduro asserted that throughout the 15 of the ‘Bolivarian Revolution’ the government has on average invested 60% of its budget in social services, “which Maduro says he intends to maintain despite economic challenges…Venezuelan government has overseen a 15% increase in salary for workers and pensions82”.

As noted in the first chapter, spending money abroad was one of the main characteristics of Chávez’s administration. For instance, “from 2005 to 2007 alone, Chávez gave away a total of $39 billion in oil and cash; $9.9 billion to Argentina, $7 billion to Cuba, $4.9 billion to Ecuador, and $4.9 billion to Nicaragua” (Schoen and Rowan 2009: 83). Other estimations ascend to US$43

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billion since 1999; in declarations of the ex-officer of PDVSA, Gustavo Coronel, for an article of The Economist, out of the US$43 billion worth of foreign commitment, “roughly $17 billion could be described as aid, including cheap oil to Cuba and cash transfers to Bolivia…Venezuela's cheap-oil program alone is worth $1.7 billion a year, though its most flamboyant feature\(^{83}\)”. In another article published by Coronel (2006), he asserts that the Venezuelan state annual planned spending was above the annual income that the state could receive. Colonel makes a list of the compromises abroad assumed by the Chávez’s administration by 2006:

### Table 12. Financial Compromises of Venezuela 1999-2013

<table>
<thead>
<tr>
<th>Country/Institution</th>
<th>Amount US$</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>3,900 million</td>
<td>To buy bonds of Argentinian debt.</td>
</tr>
<tr>
<td>Bolivia</td>
<td>60 million</td>
<td>Donation for social causes not specified.</td>
</tr>
<tr>
<td>Brazil</td>
<td>4,600 million</td>
<td>Destined to a refinery in Pernambuco; purchase of 20 Tucanos airplanes and 28 tanks for PDVSA.</td>
</tr>
<tr>
<td>Andean Community</td>
<td>50 million</td>
<td>Humanitarian aid not specified.</td>
</tr>
<tr>
<td>Petro Caribe countries</td>
<td>540 million</td>
<td>Worth of subsidized oil.</td>
</tr>
<tr>
<td>Cuba</td>
<td>4,400 million</td>
<td>Worth of subsidized oil and other oil production projects.</td>
</tr>
<tr>
<td>Ecuador</td>
<td>25 million</td>
<td>Worth of purchased bonds.</td>
</tr>
<tr>
<td>United States</td>
<td>16 million</td>
<td>Including resources for propaganda and donations to communities in Boston and NY.</td>
</tr>
<tr>
<td>Spain</td>
<td>2000 million</td>
<td>Purchase of airplanes and coast guard patrol boats.</td>
</tr>
<tr>
<td>Guyana</td>
<td>12 million</td>
<td>Cancellation of debt under unspecified terms.</td>
</tr>
<tr>
<td>Jamaica</td>
<td>600 million</td>
<td>For infrastructure and development of a refinery in Kingston.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>625 million</td>
<td>Subsided oil and development of a refinery.</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>156 million</td>
<td>For infrastructure</td>
</tr>
</tbody>
</table>

Source: Coronel 2006: *Chavorragia Financiera*\(^{84}\).

Even though it results counterintuitive that a country under oil bonanza and with high social spending locally and abroad would request foreign loans, the case of Venezuela demonstrates that is precisely the high level of spending and the over trust in high oil prices which made foreign


loans the most viable solution to compensate the deficit at home without imposing unpopular measures on the citizenry.

**III-B Venezuela’s Lenders, Type of Loans and their Conditionality**

During the Chávez’s era China had become Venezuela’s most important lender, being the loan-for-oil type the principal terms of the Chinese credits. The supply of oil under the market prices became the principal downside of the loans agreements between China and Venezuela. To a lesser extent, Venezuela had also received bilateral loans from other countries, for instance Russia, Japan and Spain.

Due to the amount of loans allocated in Venezuela since 2001, China has become its principal lender. South American countries concentrate the loans allocated from China in the region, being Venezuela the biggest borrower. For instance, in the period 2005-2011 Venezuela was the country that borrowed most money from China with a total of US$38,500 million, as the following table shows:

**Table 13. Chinese Lending During 2005-2011**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>38,500</td>
</tr>
<tr>
<td>Brazil</td>
<td>11,731</td>
</tr>
<tr>
<td>Mexico</td>
<td>1,000</td>
</tr>
<tr>
<td>Argentina</td>
<td>10,000</td>
</tr>
<tr>
<td>Ecuador</td>
<td>6,304</td>
</tr>
<tr>
<td>Peru</td>
<td>200</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>300</td>
</tr>
</tbody>
</table>


According to the Forbes article “Venezuela's Future - Mortgaged By Chavismo In Cooperation With China,” by Paul Coyer, China took advantage of the need of the Venezuelan government to stay in power by providing the cash that the government needed to continue with
its social spending both locally and abroad. In the article is stated that according to the loans agreements signed between China and Venezuela, the repayments are going to be made with oil, and the lower the oil prices, the more oil Venezuela has to provide to China. Moreover, “when Caracas has gone back to Beijing seeking relief from its loan payments and to seek more loans to keep itself afloat, China has responded both by promising more money and by lengthening the terms of its existing loans, which in essence means that China has a legal claim on Venezuela’s oil farther into the future”. Finally, the author points out three contradictory factors that threaten the future of Venezuelan economy and the revenues that the country could get from its oil reserves: by 2016 Venezuela was in the brink of debt default, with more than US$15 billion worth of debt repayment coming due in the course of 2016; due to the oil quotas of the Petro Caribe program and the oil dedicated to the debt repayment to China, the country has little oil supply left to sell it to its traditional clients, such as the United States; and there is the threat of running out of their foreign gold reserve since the country is resorting to sell their gold, whose reserves have fallen from USD$43 billion to USD$11 billion in the past seven years.

In 2007 was created the China-Venezuela Joint Investment Fund (JIF) which is a rotating scheme used to finance diverse projects in Venezuela in diverse areas such as infrastructure, transportation and agriculture. According to a report by the Venezuela newspaper El Universal, this Fund is divided in three phases, in which Venezuela through the National Development Fund

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(FONDEM) and China through the Chinese Development Bank (CDB) made economic contributions to the fund; yet Chinese’s contribution are loans which Venezuela has to repay by supplying barrels of oil to China, however, the officials point out that the oil supply can change according to the oil prices. If oil prices are low, more barrels will be allocated in order to compensate the difference. The conditions are explained in table 14:

**Table 14. Terms of the China-Venezuela Joint Investment Fund**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China’s Contribution</td>
<td>US$4,000 million</td>
<td>US$4,000 million</td>
<td>US$5,000 million</td>
</tr>
<tr>
<td>Venezuela’s Contribution</td>
<td>US$2,000 million</td>
<td>US$2,000 million</td>
<td>US$1,000 million</td>
</tr>
<tr>
<td>Method of repayment from Venezuela to China</td>
<td>Supply China with 100,000 barrels of oil daily.</td>
<td>Supply China with 130,000 barrels of oil daily.</td>
<td>Supply China with 100,000 barrels of oil daily.</td>
</tr>
</tbody>
</table>

Source: *Diario El Universal* 2014

However, it is important to note that the millions injected by Venezuela to the JIF are financed by China through the CDB. According to Hernandez Rada, since the repayment mechanism of this Fund contemplates the supply of oil from Venezuela to China, “Venezuela (PDVSA) sends oil (not less than 200 barrels per day) to China (CNPC), which is going to be paid in an account of BANDES that was created in the Chinese Development Bank in China, meaning, the revenues of the sold oil to China do not enter into the accounts of PDVSA to invest in production but the revenues stay in China as payment concept for the debt from Venezuela to China. Through this mechanism, Venezuela pays the Chinese credit for the millions that Venezuela injected in the Fund” (Hernandez Rada 2011: 23).

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88 See 2014. “EL ABC del Fondo Chino Venezolano.”
According to the report “Inside China Inc.” by Erica Downs (2011), the projects financed by the JIF include the “satellite Simón Bolívar, five metro lines (two in Caracas and one each in Los Teques, Valencia and Maracaibo), the train from Cúa to Encrucijada, and the Gran Mariscal de Ayacucho highway” (Downs 2011: 50). In this same report is described the terms of the JIF:

“The three-year supply contract that secures CDB’s first loan of $4 billion requires PDVSA to deliver 100,000 b/d of fuel oil to Chinaoil. In contrast, the three-year supply contract that secures CDB’s second loan of $4 billion stipulates that the volumes delivered to Chinaoil will fluctuate with the price oil from a minimum of 107,000 b/d when oil prices are above $60 per barrel to a maximum of 153,000 b/d when oil prices are below $42 per barrel. PDVSA’s fuel oil sales to Chinaoil will range from 207,000 b/d to 253,000 b/d during the period in which the two supply contracts overlap” (Downs 2011: 50).

In the same report is specified that in 2010 another loan was agreed between China and Venezuela which was separate from the Chinese-Venezuelan Fund and that ascended to USD$20 billion. Until that date it was the “CDB’s largest foreign financing ever” (Downs 2011: 51). The portions of this new credit would be destined to the areas of infrastructure, energy, mining, social development and agricultural activities in Venezuela, according to Down. The terms of the US$20 billion loans are as follow: “it consists of three agreements, a USD$10 billion loan to BANDES governed by English law; a RMB 70 billion (USD$10.6 billion) loan to BANDES governed by Chinese law; and an oil supply contract between PDVSA and Chinaoil governed by Venezuelan law. The dual credit facility, which has a ten-year term, is secured by revenue earned by PDVSA from the oil supply contract with Chinaoil. Ecoanalítica, an economic consultancy in Caracas, reported in September 2010 that it had been unofficially uninformed that the interest rate on the loans fluctuates between LIBOR+0.5 percent and LIBOR+2.85 percent” (Downs 2011: 51).
According to an article by The Economist\(^89\), the loans-for oil will not be that beneficial for the Venezuelan economy at the long-run: “a loan tied to oil-field investments will not necessarily help Venezuelan government coffers, since the state needs short-term cash to pay for salaries, social security, and imports, rather than long-run investments in upgraded oil rigs. Since the loan will be repaid in oil, it did not need to be ratified by the Venezuelan parliament (as it will not officially count as debt). Theoretically, that also means the government does not have to account for the way it is spent to its citizens, although China will be expecting it to be invested in oil. China will be first in line for repayment, before other creditors\(^90\)’.

The following table shows the Chinese loans to Venezuela that has been formally announced. As can be noted in one year the two countries formalized more than one loan, as in 2009, 2010 and 2011. Most of the loans are channeled through the Chinese Development Bank and they are dedicated to infrastructure. The continuity of the loans reflect the long-term debt accruing from Venezuela to China. For instance, in a news report of the Camera of Commerce and Industry of Caracas, is specified that by 2015 “the obligation of the Venezuelan government with China divided among all Venezuelan citizens which is 30,620,404 habitants according to the Venezuelan National Institute of Statistics, is translated in a debt of US$718.47 per person\(^91\).

\(^90\) See 2015. “Why China is Lending $5 billion to Struggling Venezuela.”
Table 15: Chinese Loans to Venezuela Formally Announced/Publicized

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrower entity</th>
<th>Lender</th>
<th>Amount (S$m)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Funding infrastructure, other projects.</td>
</tr>
<tr>
<td>2009</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Funding infrastructure, other projects.</td>
</tr>
<tr>
<td>2009</td>
<td>CVG</td>
<td>CDB</td>
<td>1,000</td>
<td>Mining project credit.</td>
</tr>
<tr>
<td>2010</td>
<td>PDVSA</td>
<td>CDB and BES</td>
<td>1,500</td>
<td>Trade-related credit facility.</td>
</tr>
<tr>
<td>2010</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>20,000</td>
<td>Funding infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>PDVSA</td>
<td>CDB</td>
<td>4,000</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>PDVSA</td>
<td>ICBC</td>
<td>4,000</td>
<td>Housing</td>
</tr>
<tr>
<td>2013</td>
<td>BANDES and PDVSA</td>
<td>CDB</td>
<td>5,000</td>
<td>Funding infrastructure, other projects</td>
</tr>
<tr>
<td>2015</td>
<td>PDVSA</td>
<td>CDB</td>
<td>5,000</td>
<td>Increase oil production</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>48,500</strong></td>
<td></td>
</tr>
</tbody>
</table>


According to Gallagher, Irwin and Koleski (2012), the type of loans used by China, especially in Latin America, is the loan-for-oil type of which Venezuela is its biggest borrower. The authors assert that the main concern from the lender side is to compromise the allocation of a fixed quota of oil for future time under fluctuating oil prices, meaning that if prices of oil go up the borrower still have to send the agreed quota, and if the prices go down more oil has to be supplied to cover the difference. This second scenario is the one faced by Venezuela regarding its loans compromises with China. As figure 8 shows, the export of Venezuelan oil to China started to increase at the beginning of 2000, having an important escalation between 2011 and 2012. However, the difficulty in this kind of loans that Venezuela is taking from China is that at the end Venezuela will have less oil available to sell to the profitable market. Moreover, “with so much of its dwindling oil production dedicated to the Petro Caribe program, which earns Venezuela no money, and to debt repayment to China, there is little oil left over to sell to traditional clients like the United States in order to make much-needed cash”\(^92\). This problem intensifies if the oil prices

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decline because in the agreement signed by the two countries is stipulated that the cheaper the oil, more barrels Venezuela has to supply in order to compensate. Hence, with the decline of oil prices that means that Venezuela will have less of the product to sell (because it has to give great quantities to China) and less revenues from the oil that is left to sell\textsuperscript{93}.

**Figure 8. Venezuelan Total Oil Exports of Refined Oil Products to China 1986-2012**

![Graph showing Venezuelan Total Oil Exports of Refined Oil Products to China 1986-2012.](image)

Source: U.S. Energy Information Administration (EIA), International Energy Statistics 2016\textsuperscript{94}.

Even though China is Venezuela’s main lender of the last years, Russia, Japan and Spain have also provided bilateral loans to the country during Chávez’s administration. According to a news report by *El Universal*, in October of 2011, Russia and Venezuela signed an agreement in which Russia lent Venezuela USD$4.000 million with the purpose of sustaining the technical-military cooperation between the two countries; according to the agreement Russia would give USD$2,000 million in 2012 and the rest in 2013. Chávez declared that this loan was to equip the

\textsuperscript{93} See Nagel, Juan Cristobal. 2014.

Venezuelan Armed Forces\textsuperscript{95}. In the same article is pointed out that besides the USD$4,000 million loan, in 2010, Venezuela received a loan from Moscow of US$2,200 million in order to buy tanks and missiles. However, the collaboration between the two countries is not just for the acquisition of arms, it also extends to oil and agricultural activities. While signing the October 2011 loan agreement, Chávez announced the creation of the joint venture PetroMiranda in the Orinoco Basin, the exploration of gas in the Venezuelan Gulf and the development of the area El Carabobo 2, of the Orinoco Basin. In 2015, the Venezuelan government asked Russia to extend the period to clear off the credit received in 2011; in August of the same year “Vladimir Putin signed the ratification law that extends until December 31rst of 2016 the deadline for Venezuela to pay off the US$4,000 million to Russia”\textsuperscript{96}.

The bilateral relations between Russia and Venezuela started in March of 1945 when the ambassadors of both countries signed an act that formalized the relations between the two countries\textsuperscript{97}. However, in a note by the Venezuelan Ministry of Foreign Affairs (MPPRE), the friendship between Russia and Venezuela increased during the Chávez’s administration. For instance, since 2000 both countries have signed 240 agreements in the areas of energy and commerce\textsuperscript{98}. In 2001 the two countries created the \textit{Comision Intergubernamental de Alto Nivel...}


\textsuperscript{96} 2015. “Rusia prorroga el prestamo de 4.000 millones de dolares a Venezuela” [Russia Extends the loan of USD$4.000 million to Venezuela], \textit{Sputnik News}, \url{http://mundo.sputniknews.com/americalatina/20150608/1038155799.html} (Accessed April 15, 2016).


[Intergovernmental Commission of High Level]. It was accorded that the Commission would be under the direction of the vice presidents of Venezuela and Russia, “besides this institution would coordinate the consultancy and elaboration of integral proposals about the cooperation in political, economic, commercial, scientific, cultural, academic and environmental sectors between the two countries”99. The first meeting of this commission took place in 2004 and from then on the institution has held uninterrupted gatherings alternating the seat between the two countries. During the VIII Summit of the Commission in 2011 with seat in Caracas, Russia and Venezuela signed the following agreements: the development of the area Carabobo 2 located in the Orinoco Basin; the Russian loan to Venezuela of US$4,000 million to sustain the technical-military cooperation between Russia and Venezuela; the increase of the capital of the Russian-Venezuelan Bank100 to US$4,000 million; the exploration of gas Robalo in the Venezuelan Gulf; the agreement to accelerate the creation of the joint venture PetroMiranda in the Orinoco Gulf; the exportation of Venezuelan flowers to Russia; the intention to create a joint venture with the interest to produce plantain. In the IX Summit in 2013, which took place in Moscow, the two countries signed a memorandum of understanding for the production of drills and oil equipment between Petroleos de Venezuela Industrial and the Russian enterprise Uralmash101. However, the officials do not describe which the terms for the Russian credit are.


100 The Russian-Venezuelan Bank was proposed in 2009 and formally inaugurated in 2015 with branches in Caracas, Moscow and Pekin. Russia owns the 51% of the bank and Venezuela the rest. The initial capital of this bank is US$4,000 million. According to the Venezuelan ambassador in Moscow, Juan Vicente Paredes, the purpose of this bank is to finance projects between the two countries in the areas of energy, industry, transportation and more (RT News 2015: “Venezuelan Ambassador in Russia”).

Another Venezuelan lender, but in a much lesser extent than China and Russia, is Japan which also used the loan-for-oil mechanism. In a news report by *America Economia* is stated that in 2011 Japan lent US$1,500 million to PDVSA and as repayment Venezuela would export 3 million barrels of oil annually for five consecutive years; the loan was conferred by the Japan Bank for International Cooperation (JBIC), along 8 Japanese Financial firms and two Japanese commercial entities. The JBIC qualified the loan as “soft” due to its low interest rate, even though it did not reveal the rate. In the same report, the president of PDVSA, Rafael Ramirez, discarded other commercial agreements between the two nations due to the great geographic distance; beside this transaction was made to guarantee the supply of oil to Japan after the earthquake that happened in March of the same year and to add resources to PDVSA in Venezuela. In another news report by *El Dia*, Ramirez stated that the payment period is of 15 years and the payment can be made in cash or oil. He also asserted that the loan will be used to finance the improvement of Venezuelan refineries companies El Palito and Puerto La Cruz, and “to promote the development of the capacity of processing the Venezuelan oil.” In the same news is stated that in 2007 PVDSA received its first loan from Japan of US$3,500 million.

Finally, according to the OECD statistic database, Spain is the only OECD country that allocated bilateral loans to Venezuela during the 1995-2013 period. The loans from Spain were meanly for the sectors of transportation, water and sanitation and vocational training. However, according to Toro (2016) the relation between Spain and Venezuela is mainly commercial. And

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103 See 2011. “Japón otorgará préstamo.”

there aren’t registries of allocation of more loans from Spain to Venezuela. As the description of table 16 shows, these loans were allocated to areas different from oil and mining which contrasts to the Chinese and Russian loans that target the areas of infrastructure and oil production.

Table 16: ODA Loans from Spain to Venezuela 1999-2014\textsuperscript{105} US Dollar Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>24.136</td>
<td>Not specified</td>
</tr>
<tr>
<td>2003</td>
<td>45.111</td>
<td>Transportation and storage</td>
</tr>
<tr>
<td>2004</td>
<td>0.513</td>
<td>Vocational Training: secondary education.</td>
</tr>
<tr>
<td>2005</td>
<td>2.237</td>
<td>Vocational training: secondary education; River basins’ development: water and sanitation.</td>
</tr>
<tr>
<td>2006</td>
<td>5.384</td>
<td>Vocational training: secondary education; River basins’ development: water and sanitation.</td>
</tr>
<tr>
<td>2008</td>
<td>1.414</td>
<td>River basins’ development: water and sanitation.</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84.951</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Data Base 2016\textsuperscript{106}.

Even though the loans from China, Russia, Japan and Spain represented an increase in the exports of Venezuelan oil to these destinations, as is shown in figure 9, Russia is the country that has imported most oil from Venezuela during 1999-2012 and China and Japan incremented their imports in the mid-2000s.

\textsuperscript{105} Amount type: Constant prices  
Flow type: Gross disbursements  
III-C Venezuela’s increasing Debt to China and the Transformation of their Relations

As noted above, China has become the principal lender of Venezuela, especially since 2007 when the two countries created the Chinese-Venezuelan Fund and the loans from China to Venezuela increased considerably. Through the method of payment, Venezuela is compromised to supply oil to China in order to cancel the debts. Even though, by 2015 more than half of the debt was cancelled, the constant renovation of loans from China indicate that the oil compromises will extend for a long period of time.

China and Venezuela established bilateral relations in June of 1974 and according to the Venezuelan Embassy in China, the relations between the two countries increased with the emergence of the Bolivarian Revolution, meaning with the arrival of Chávez to power. In an Embassy note is stated that by 1999 there were only 30 cooperation agreements between the two countries, however, by 2015 there have been signed around 500 agreements. These agreements encompass the areas of industry development, technology and the launch of the satellites Simón.
Bolívar in 2008 and Francisco de Miranda in 2012. In the same note is emphasized that one of the objectives of Maduro’s administration is to reach over a million barrels of oil exported to China, “in order to diversify the foreign markets of the country and to respect the international compromises”

Just as Venezuela was fostering dependency among its borrowers, the country developed a dependency over China, which became its main loan provider. According to the article “How Much Venezuela Depends on China” by Daniel Pardo, in the 17 years of Chávez government the military, political, social and economic relation between China and Venezuela grew considerably. In the article is stated that since 1999, China and Venezuela signed over 450 agreements, in contrast to 74 signed in the period 1974-1998. However, China has not supersede the United States as the principal commercial partner of Venezuela; the United States imports around 800.000 oil barrels per day whereas China imports from 300.000 to 600.000 barrels per day. As is seen in figure 10, even though oil exports to China incremented especially since 2002 and the exports to the United States diminished between 1999 and 2004, the oil exports to the US increased again since 2006. Nonetheless, according to Maduro’s declarations in 2015 Venezuela is exporting around 700.000 barrels of oil daily to China.


109 See Pardo, Daniel. 2015.

In order to determine the hierarchical relations between China and Venezuela it is necessary to understand the level of dependency of China on Venezuelan oil and the loans cancellation and debts that these two countries have. First, the relation between both countries is more important to Venezuela than to China mainly for two reasons: China is providing cash funds that Venezuela needs to cover its expenses and that other countries are not willing to provide due to Venezuela’s high level of debt; and even though China accorded to receive Venezuelan payments on oil, this country has other sources to get this resource from, moreover, according to Clem and Maingot (2011) Venezuelan oil is not that attractive to China because “of the realities of distance and transportation costs…and the need for special refineries to process the heavy Venezuelan crude, China’s reliance on Middle Eastern oil will actually increase over time” (Clem and Maingot 2011: 9). As figure 11 shows, Venezuela only represented 4% of China’s oil imports in 2014 whereas China’s main provider is Saudi Arabia.
Second, the increasing economic crisis in Venezuela is making the country less able to fulfill its debts compromises. In February of 2016 the administration of Maduro asked China for a grace period of two years in order to pay the debt to the country, this request happened in “moments when Venezuelan oil prices were around USD$23 per barrel, below the USD$40 stipulated in the debt terms of USD$50,000 million that the Bolivarian regime assumed with Pekin…Caracas is trying to use the more than 500,000 barrels that are sent to China to sell them in other markets”\textsuperscript{112}. According to a news report in the Nuevo Herald, the Chinese government denied to this request, moreover, “China insists that Venezuela increases the supply of barrels of oil in order to pay the


near US$45,000 million in debt…China is skeptic to continue its credit to Venezuela due to the hard situation of Venezuelan finances and because China is facing their own economic problems”\textsuperscript{113}. In a news report to the BBC Mundo\textsuperscript{114}, the director of the China-Latin America Inter-American Dialogue, Margaret Myers, states that Chinese investment is pragmatic and economic and not ideological, however, China faces a dilemma because on the one side the country wants to recover its loans and on the other side is conscious of the weakness of Venezuela at the moment; Myers asserts that ‘it is important to note, however, that Venezuela is for China an strategic alliance due to its petroleum reserves.’ In the article is also pointed out that China might want to continue its investment in the production of oil in order to reinforce its source of repayment.

Even though China agreed a loan to Venezuela in 2015 for USD$5,000 million, the main purpose of this credit is to “increase the production of oil in a gradual manner, which had been stocked in the last years,” according to declarations to the press by the Venezuelan president\textsuperscript{115}. However, it is important to note that even though China has more leverage over Venezuela, the Asian country seems to see in Venezuela and South America in general an important source of

\begin{thebibliography}{99}
\end{thebibliography}
energy, material resources and fertile lands resources that they need for their rapid development and vast population\textsuperscript{116}.

As noted in the previous section, the loan-for-oil type of credit arranged between Venezuela and China becomes counterproductive under a scenario of plunging oil prices, which means that Venezuela has to send more oil to China to compensate the difference and also it has less oil available to sell on the market. According to a CNN news report, the Chinese president Xi Jinping made an official visit to Venezuela in July of 2014 during which the two countries signed other 38 agreements for a total of 450 bilateral covenants since 1999 until 2014. One of those agreements included a new loan for US$4,000 million to be paid with 100,000 barrels of oil daily. With these new agreements, the “goal was to double the supply of Venezuelan oil to China by 2016”\textsuperscript{117}.

Through the allocation of Chinese loans not only increased the exports of oil from Venezuela to China but also the exports from China to Venezuela. In a news report by El Nacional is stated that small local industries are stopping to produce in order to become importers, the “Chinese are the second exporters to Venezuela after the United States”\textsuperscript{118}. The imports include appliances, clothes, car pieces and more which come from the Chinese city Canton. Between 2007 and 2012 the imports from China to Venezuela were worth around US$4,000 million, “more than half corresponds to electronic appliances, textiles, shoes and accessories. As figure 12 shows, the exports from China to Venezuela incremented considerably after 2005 and especially during 2012.


\textsuperscript{117} See 2014. “Cual es el efecto de los prestamos de China a Venezuela.”

Perhaps it is still soon to assert the changes in the relation between the two countries, but what cannot be denied is that China and Venezuela have incremented their commercial relations. However, the Venezuelan-Chinese relation is going to be determined by Venezuelan capability to pay off its accruing debt.

III-D How loans to Venezuela transform hierarchical relations with its borrowers?

The principal implication for Venezuela as lender and borrower is that the country is caught-up in a zero-sum situation: since Venezuela allocates loans through subsidized oil and pays its debt with oil as well, the country would have less oil to supply its borrowers and less resources to provide substantial subsides. Thus, the hierarchical relation between Venezuela and its borrowers is transformed by the conditionality of the loans assumed by Venezuela which curtail the country’s ability to fulfill its lending obligations.

According to the analysis of the economic journalist Andres Rojas (2015), the energy agreements (especially Petro Caribe) have considerably increased Venezuelan accounts receivable due to the lack of payment from its borrowers. Venezuelan annual concession of loans increased from USD$961 million in 1998 to USD$1183 million in 2014, as the following table shows.

Table 17. Venezuela Concession of Loans 1999-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Loan Amount US$ MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1216</td>
</tr>
<tr>
<td>2000</td>
<td>322</td>
</tr>
<tr>
<td>2001</td>
<td>1038</td>
</tr>
<tr>
<td>2002</td>
<td>815</td>
</tr>
<tr>
<td>2003</td>
<td>620</td>
</tr>
<tr>
<td>2004</td>
<td>87</td>
</tr>
<tr>
<td>2005</td>
<td>2605</td>
</tr>
<tr>
<td>2006</td>
<td>3715</td>
</tr>
<tr>
<td>2007</td>
<td>1752</td>
</tr>
<tr>
<td>2008</td>
<td>3962</td>
</tr>
<tr>
<td>2009</td>
<td>3511</td>
</tr>
<tr>
<td>2010</td>
<td>4104</td>
</tr>
<tr>
<td>2011</td>
<td>4611</td>
</tr>
<tr>
<td>2012</td>
<td>7410</td>
</tr>
<tr>
<td>2013</td>
<td>3115</td>
</tr>
<tr>
<td>2014</td>
<td>1183</td>
</tr>
<tr>
<td>Total</td>
<td><strong>40,066</strong></td>
</tr>
</tbody>
</table>

Source: Rojas 2015\(^{120}\).

In Rojas’s analysis there are two important emphasized points: first that Venezuela has diminished its supply of oil to its borrowers; and second the lack of payments and debt forgiveness to the borrowers. He asserts that the accumulated commercial loans linked to oil ascend to USD$35.968 million between 2005 and 2014; even though Venezuela established an oil quota of 376,000 barrels per day, this quota was not always fulfilled and by 2014 it showed a decreased of 17.5% in regards to 2013, which meant that only 198,300 barrels per day were allocated; as table 18 shows, the biggest reduction was in the supply to Dominican Republic. This decreased in oil

barrels began in 2012 due to the fiscal and currency problems that Venezuela was facing. In Rojas’s article is stated that 2012 was the hiked point of oil exports reaching 400.000 barrels per day, however, that same year Venezuela was only receiving the cash payment of 200.000 barrels.

Before 2005 (the year of Petro Caribe implementation), the loans offered by PDVSA and other public institutions was around US$683 million per year but by 2014 that number increased to USD$3,596 million.\(^{121}\)

### Table 18. Reduction of Barrels of Oil through Credit-Source

<table>
<thead>
<tr>
<th>Country</th>
<th>Quota of Daily Barrels</th>
<th>Supplied in 2014</th>
<th>Supplied in 2013</th>
<th>Reduction %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua &amp; Barbuda</td>
<td>4.400</td>
<td>900</td>
<td>1100</td>
<td>-18,1</td>
</tr>
<tr>
<td>Belize</td>
<td>4.000</td>
<td>2.400</td>
<td>2600</td>
<td>-7.6</td>
</tr>
<tr>
<td>Dominica</td>
<td>1.000</td>
<td>300</td>
<td>300</td>
<td>0</td>
</tr>
<tr>
<td>El Salvador</td>
<td>7.000</td>
<td>5.900</td>
<td>6.400</td>
<td>14.2</td>
</tr>
<tr>
<td>Granada</td>
<td>1.000</td>
<td>800</td>
<td>700</td>
<td>0</td>
</tr>
<tr>
<td>Guatemala</td>
<td>20.000</td>
<td>0</td>
<td>0</td>
<td>4.5</td>
</tr>
<tr>
<td>Guyana</td>
<td>5.200</td>
<td>4.600</td>
<td>4.400</td>
<td>-2.8</td>
</tr>
<tr>
<td>Haiti</td>
<td>14.000</td>
<td>13.600</td>
<td>14.000</td>
<td>0</td>
</tr>
<tr>
<td>Honduras</td>
<td>20.000</td>
<td>0</td>
<td>0</td>
<td>-19.7</td>
</tr>
<tr>
<td>Jamaica</td>
<td>23.500</td>
<td>17.900</td>
<td>22.300</td>
<td>-18.5</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>30.000</td>
<td>23.300</td>
<td>28.600</td>
<td>-33.3</td>
</tr>
<tr>
<td>St. Cristobal &amp; Nieves</td>
<td>1.200</td>
<td>600</td>
<td>900</td>
<td>0</td>
</tr>
<tr>
<td>St. Vincent &amp; Grenadines</td>
<td>1.000</td>
<td>500</td>
<td>500</td>
<td>0.03</td>
</tr>
<tr>
<td>Surinam</td>
<td>10.000</td>
<td>3.400</td>
<td>3.300</td>
<td>0.03</td>
</tr>
<tr>
<td>Cuba</td>
<td>98.000</td>
<td>89.400</td>
<td>99.300</td>
<td>-9.9</td>
</tr>
</tbody>
</table>

Source: Rojas, Andres 2015.

The accumulated Cuban oil-related debt with Venezuela was about USD$4,975 billion in 2009, equaling 24% of all oil cooperation receivable accounts of Petróleos de Venezuela (PDVSA)” (Romero 2010: 110). As noted before, Cuba has a barter mechanism with Venezuela through which Venezuela pays Cuban workers with the supply of barrels of oil to Cuba, however, since the drop in oil prices in 2011 “the numbers of the island indicate that the value of Cuban workers (medical doctors, teachers or consultants) is much greater than the value of the oil…in 2012 Cuba had a trade surplus with Venezuelan commerce of USD$6 million,” and since the

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\(^{121}\)See Rojas, Andres. 2015.
Venezuelan oil is paid with Cuban services that could be reducing the debt from Cuba to Venezuela. However, “the important thing is not the debt but the fact that Venezuela is sending oil to Cuba which is being paid with overvalued services”\textsuperscript{122}. For instance, there are estimations that account that each Cuban doctor has a cost of USD$90,000 per month\textsuperscript{123}. In contrast to Cuba’s surplus in its barter relation with Venezuela, Colonel asserts that the oil agreements between Venezuela and Cuba signed in 2000 represent a great deficit for the Venezuelan state: “the form of payment, including 15-year financing at 2% interest of 25% of the volume, is a gift to Cuba that can be estimated at some USD$400 million per year at current oil prices…In total, therefore, Venezuela is giving Cuba a subsidy on the order of USD$2.2 billion to USD$2.3 billion per year” (Coronel 2006: 12). Because neither country reveals clearly the function and terms of their trade, it is difficult to distinguish what is aid and what are loans. For instance, with a debt from Cuba to Venezuela of USD$1.93 million, “there is no knowledge of under what conditions those ‘solidarity loans’ were agreed”\textsuperscript{124}. Putting aside the barter between oil and services, Cuba has not made liquid payments towards its debt with Venezuela.

Aside from Cuba’s situation, by 2015 Dominican Republic became the principal debtor of Venezuela due to the allocation of oil under credit through Petro Caribe, in the same way PDVSA became Dominican Republic’s main creditor to the point that it represents the fourth part of the Dominican external debt. By 2014, Dominican Republic owed a total of USD$4.121 million which indicates a debt growth of 9.310% in 10 years; this means that the debt with Venezuela grew 94

\textsuperscript{122} Lopez Ballesteros, Frank. 2014. “En tres anos se transfirieron a Cuba 18.000 millones de dolares” [In Three Years USD$18.000 million were Transferred to Cuba], El Universal, \url{http://www.eluniversal.com/nacional-y-politica/140601/en-tres-anos-se-transfirieron-a-cuba-18000-millones-de-dolares} (Accessed April 15, 2016).

\textsuperscript{123} 2014. “Cuanto le cuesta a Venezuela la cooperación entre La Habana y Caracas” [How Much does it Cost to Venezuela the Cooperation between La Habana and Caracas?], CNN En Español, \url{http://cnnespanol.cnn.com/2014/02/18/cuanto-le-cuesta-a-venezuela-la-cooperacion-entre-la-habana-y-caracas/#0} (Accessed April 15, 2016).

\textsuperscript{124} See Lopez Ballesteros, Frank. 2014.
times in one decade. In order to diminish this debt compensation mechanism such as the import of goods and the participation of PDVSA in the Dominican oil industry *Refrineria Dominicana de Petroleo* (REFIDOMSA), of which PDVSA acquired the 49%\(^ {125}\).

As can be noted in table 19, after 10 years of its implementation, the Petro Caribe agreement represented 25.6% of the total external public debt of the Dominican Republic. However, in 2015, the Dominican government paid the 98.5% of its debt to PDVSA. Dominican Republic paid with resources of sovereign bonds of US$2.5 million. The government announced that with this payment they obtained a discount of 52% of the total debt (which represents a saving of US$2.094.2 million) accrued during the period 2005-2014. Through this payment, Dominican Republic reduced its debt to PDVSA to US$96.5 million by 2015\(^ {126}\). The Dominican minister of Hacienda asserted that this transaction was beneficial for both countries: the Dominican external debt was immediately reduced by 3.3% of the country GDP and the period of payment for the remaining debt is of 19.7 years instead of 11 years, which is going to be attractive to international investors and the IMF; meanwhile PDVSA acquired a liquid fund of USD1.93 million\(^ {127}\). According to Rojas this decision was made because of the pressures of the IMF that advised the Dominican Republic of the danger of not assuming this debt. Rojas also points out that the saving of the Dominican government meant that PDVSA only recovered 48% of the amount owed by

\(^{125}\) See Rojas, Andres 2015.


Dominican Republic. Also, this concession of forgiving more than half of the Petro Caribe debt was later emulated by other countries members of the agreement such as Jamaica\(^{128}\).

Table 19. Dominican Republic’s External Debt in Relation to its Petro Caribe Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Petro Caribe Debt Amount (US$MM)</th>
<th>Amount of External Debt (US$MM)</th>
<th>Relation of the Petro Caribe Debt/Dominican External Debt (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0</td>
<td>6,379.7</td>
<td>0</td>
</tr>
<tr>
<td>2005</td>
<td>159.5</td>
<td>5,847.1</td>
<td>2.7</td>
</tr>
<tr>
<td>2006</td>
<td>448.8</td>
<td>6,295.5</td>
<td>7.1</td>
</tr>
<tr>
<td>2007</td>
<td>702.7</td>
<td>6,555.6</td>
<td>10.8</td>
</tr>
<tr>
<td>2008</td>
<td>1,232.6</td>
<td>7,218.8</td>
<td>17.1</td>
</tr>
<tr>
<td>2009</td>
<td>1,466.8</td>
<td>8,214.6</td>
<td>17.9</td>
</tr>
<tr>
<td>2010</td>
<td>1,849.5</td>
<td>9,946.9</td>
<td>18.6</td>
</tr>
<tr>
<td>2011</td>
<td>2,384.5</td>
<td>11,625.6</td>
<td>20.5</td>
</tr>
<tr>
<td>2012</td>
<td>3,029.9</td>
<td>12,871</td>
<td>23.5</td>
</tr>
<tr>
<td>2013</td>
<td>1,752</td>
<td>14,919.4</td>
<td>24.7</td>
</tr>
<tr>
<td>2014</td>
<td>3,686.4</td>
<td>16,074.5</td>
<td>25.6</td>
</tr>
</tbody>
</table>

Source: Rojas 2015.

In the same year, Jamaica followed Dominican Republic steps and paid its oil debt of USD$3,000 million to Venezuela through sovereign bonds and with a discount of 53%. After negotiations with Caracas, “Venezuela cancelled USD$3,000 million of the Jamaican debt in exchange of one single payment of USD$1,500 million…however, the authorities did not specify if this payment covered the whole Petro Caribbean debt from Jamaica”\(^{129}\). This measure was part of an agreement of Jamaica and the IMF in order to reduce the weight of its external public debt which by 2015 was around 145% of its GDP\(^{130}\). The decision of Venezuela to accept the debt

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\(^{128}\) See Rojas, Andres 2015.


payments by conferring onerous discounts is linked to its urgency of foreign exchange in order to confront the local economic situation; however, “it is important to note the difference between real debt and nominal debt in order to estimate the amount that Venezuela is losing with these transactions…even though the debt has a nominal value of USD$3,500 million, its real value is around USD$2,500 million…taking the debt real value, Venezuela would be losing USD$1,000 million”\textsuperscript{131}.

Venezuela’s own debt, which had to be paid off with oil supply, affected its role as lender because the country asked for its payments before the time stipulated in the Petro Caribe agreement, also having to concede onerous discounts to its debtors and diminishing the amount of oil destined for the Caribbean and Central America.

IV. Conclusions

There were two factors that drove Venezuela to ask for foreign loans: first is the over trust in having oil as the main source of revenue by assuming that its prices and exports will lead to enough surplus to sustain ample spending. Paradoxically, the second factor is precisely having oil as the principal commodity of the economy which makes it vulnerable to the volatility of oil prices. For instance, in the mid-1970s the high oil prices gave trust to the Venezuelan administration to ask for loans abroad in order to develop local projects; however, the oil prices went down and the country had to recur to more loans in order to cover its deficits and debts. These loans came mainly from multilateral institutions, such as the IMF, which proposed unpopular economic reforms. During the Chávez’s regime similar economic situations took place but the political context called

for different lenders. Since Chávez was openly declared against the mainstream economic order, his administration did not recur to multilateral organizations that could have the influence of the United States behind them. Instead, Chávez’s regime used bilateral loans from alternative lenders such as China and Russia, being China its principal provider. Yet, the main distinction of the money borrowed by Venezuela during the 2000s is that their payment would be made with barrels of oil. Under the loan-for-oil type of loans, China and Venezuela seemed to develop a mutual beneficial relation: China provided the cash that Venezuela urgently needed and Venezuela compromised to provide oil to China until the debt was paid off. However, as already explained that exchange of oil for money resulted counter-productive for Venezuela due to the decreasing oil prices and the terms of the Chinese loan agreements: Venezuela had to allocate extra barrels of oil to compensate the difference which meant that it would have less amount to sell to its traditional customers (being the United States its principal importer).

Through the allocation of these loans, China and Venezuela increased their commercial and diplomatic relations which was reflected on the more than 400 agreements signed between the two countries since 2001. Some analysts show concern in the level of dependency that Venezuela is creating towards China through the allocation of loans-for-oil, especially since China has more leverage on Venezuela than Venezuela on China. Even though China is highly interested in Venezuelan oil and the country runs the risk of not being paid back, China has other sources to get its oil from. In contrast, China has become Venezuela’s biggest lender, especially since Venezuela’s international economic standing limits its access to the mainstream market. Even though other countries such as Russia and Japan have lent to Venezuela, they do not lend at the Chinese’s scale. Thus, Venezuela might fall into the implications explained by Odedokun, the
more concessional the loans are, the more the recipient would borrow and the more indebted it will get.

Since the loan-for-oil agreement has a double repercussion of increasing Venezuela’s dependency on China and decreasing its dominance over its borrowers, it can be said that Venezuela fell on its own trap. Having to allocate more oil to pay its debts means that Venezuela has less oil to allocate to its other clients, which was the case of the Petro Caribe members as demonstrated by Rojas’ analysis. Yet, the biggest impact is the urgent need of cash reflected in the discounts that Venezuela made to the Dominican Republic and Jamaica in order to receive early payments from the Petro Caribe debt. Since loans are an economic exchange that creates a relation of domination while the debt is in place, this early payment from Dominican Republic and Jamaica could be interpreted in three forms. First, by the early payment with the onerous discount from Venezuela’s side, the borrowers have a moral gratitude with Venezuela because that discount can be assumed as a grant component. Conversely this situation could be interpreted as the borrowers having leverage on its lender, Venezuela had an urgent need for cash which was provided by its borrowers who according to the terms agreement had a longer period of time to make the payment. And third, the early payment of the debt just signifies the end of the relation between Venezuela and its borrowers since not much is owed anymore.
III. General Conclusions

Since loans are an economic exchange which if are paid the relation of domination between lender and borrower does not take place, being a lender and borrower simultaneously affected the hierarchical relation mostly between Venezuela and its borrowers. However, the biggest influence of the relation between Venezuela and its borrowers and lenders is conditioned by the terms of the received and given loans. The conditionality of the loans borrowed by Venezuela, the cash-for oil type of loan, implied less oil to allocate abroad and less economic solvency to subsidize its oil supply. Through Venezuelan energy agreements, the country sells oil under concessional prices meaning that its borrowers have extended periods of time to complete their payments and they receive subsidies depending on the oil prices. Thus, Venezuela’s borrowers can end the debt by paying the money for the product that they received; so already did Dominican Republic and Jamaica which bought sovereign bonds to cancel their debts with Venezuela. In contrast, the loans that Venezuela receives from China have the payment method inverted; China provides Venezuela with money and Venezuela provides China with oil through fixed quotas (even though they can increase if the price of oil descend) for a determined period of time. This means that Venezuela could not emulate Dominican Republic or Jamaica by buying cash to cancel its debt with China; it is not likely that Venezuela would produce all the barrels of oil at once and send them to China because that implies that they would not have oil left to sell in the market. For instance, when the administration of Maduro asked China to reduce the supply of oil allocated for the debt payment, China’s administration denied the petition because at the end oil is the only guarantee of their payments. Since the payment of debts vanish the patron-client relation, because the states are not in different hierarchical positions and the element of compliance is not on the table anymore, it
can be said that the relation of domination of China over Venezuela is stronger than the relation between Venezuela and its borrowers.

However, it has to be noted Venezuela’s achievements through its energy agreements and through the creation of ALBA-TCP. Since the mid-1970s Venezuela was providing alternatives for non-oil small states through the allocation of oil under cheaper prices than the market and facilities such as grace periods and extended time to make the payments. In 2000 these agreements were taken to another level through the Chávez’s administration by incrementing the benefits for the borrowers and creating international blocs through the schemes of ALBA-TCP and Petro Caribe. In both agreements the Venezuelan state had the leadership as the main provider for the rest of the states. Even though Venezuela not always received the international support of the members of these agreements, a space was created which allowed commercial exchange and promoted to a certain degree Venezuela’s political economy. For instance, only state owned oil industries could participate in the Petro Caribe agreement, moreover, through the creation of joint ventures the Venezuelan state bought shares of the oil industries of its borrowers. This corroborate the point made by Benzi (2013) who asserts that one of the Venezuelan strategies was to break the monopoly of transnational oil corporations. Yet, the most relevant demonstration of the scope of ALBA-TCP and Petro Caribe is the space that they created for Cuba, country alienated from international commerce through the American trade embargo. Beside the direct financial aid that Cuba received from Venezuela, through ALBA-TCP the Caribbean country found an alternative space for international trade in which its human capital became its principal exportation. At the same time that Venezuela promotes alternative practices in international relations through its lending practices, so it does through its role as a borrower. China is a relatively new lender in Latin America being Venezuela its biggest borrower. Venezuela benefited from the interest of China on
the resources of the region and their lack of conditionality for the allocation of loans; thus, Venezuela as borrower also seeks alternatives outside the mainstream market.

IV. **Deficiencies of the Study and Further Implications**

The major deficiency of this study is the limited access to Venezuelan official statistics regarding the amount of its given and received loans. Moreover, being a situation under development (because until 2016 Venezuela continues its agreements of Petro Caribe and ALBA-TCP and also continues renovating its loans with China), this thesis had to rely on news article and independent reports for the amounts, terms and purposes of the loans allocated from China to Venezuela and the developments of the Venezuelan energy agreements.

The topic of Venezuela as lender and borrower has many layers that deserve scholarly attention. For instance, the relation between Cuba and Venezuela is a topic that can be study further, considering that through the ALBA-TCP bloc and the barter system both countries created an alternative avenue of trade. Since this study focused on the loans from Venezuela to the Caribbean and Central America, a further study could incorporate the loans agreements between Venezuela and other countries of South America such as Brazil, Argentina, Bolivia and Ecuador with which Venezuela developed other types of energy agreements (e.g. Petroandina, UNASUR, Petroamerica).
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115


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121


