



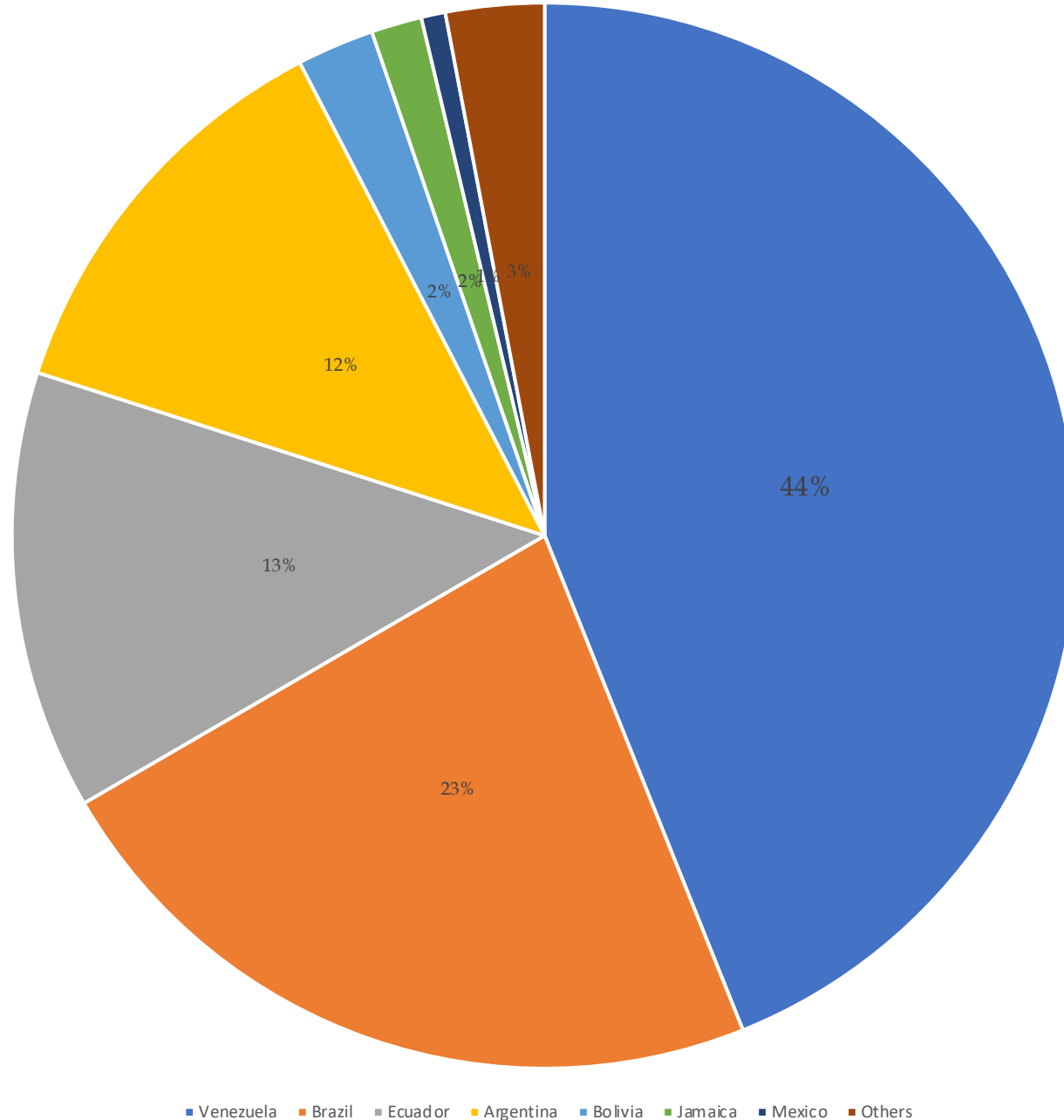
# China Investments in Venezuela Institutional remarks

José Ignacio Hernández

Fellow, Growth Lab-  
Harvard Kennedy School

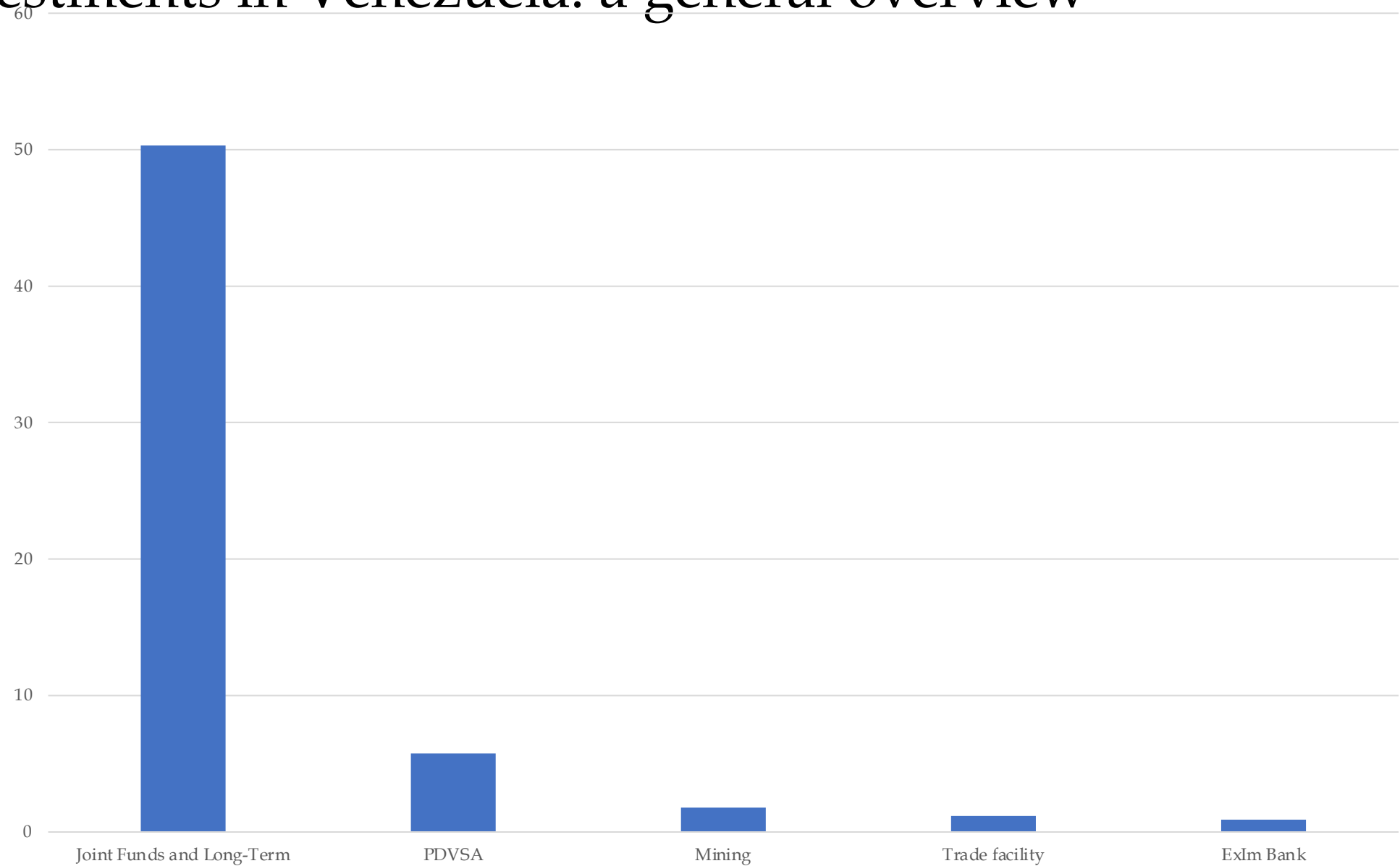
April 2023

# China Investments in Latin America: a general overview



Ray, Rebecca and Margaret Myers (2023)  
"Chinese Loans to Latin America and the  
Caribbean Database," Washington: Inter-  
American Dialogue.

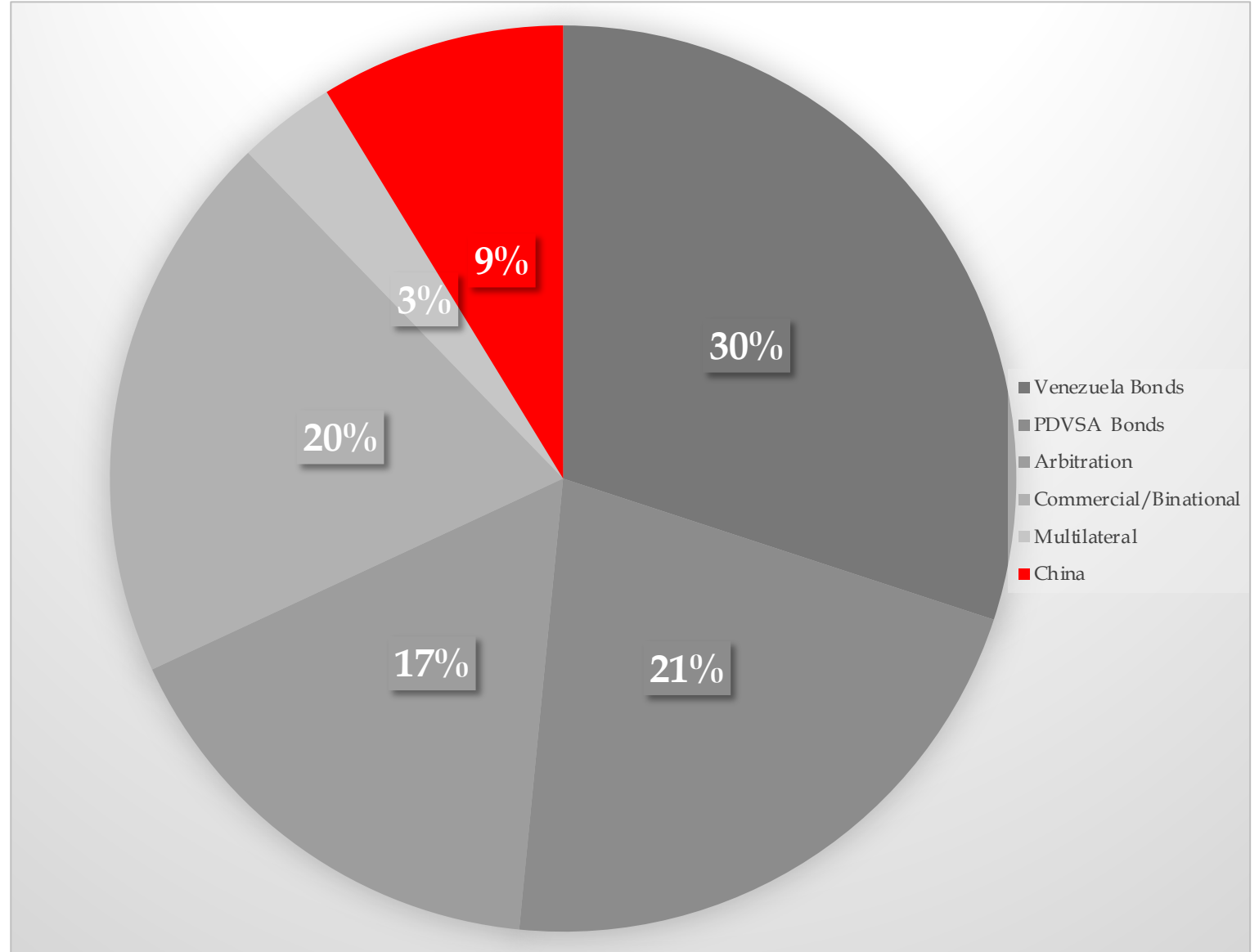
# China Investments in Venezuela: a general overview



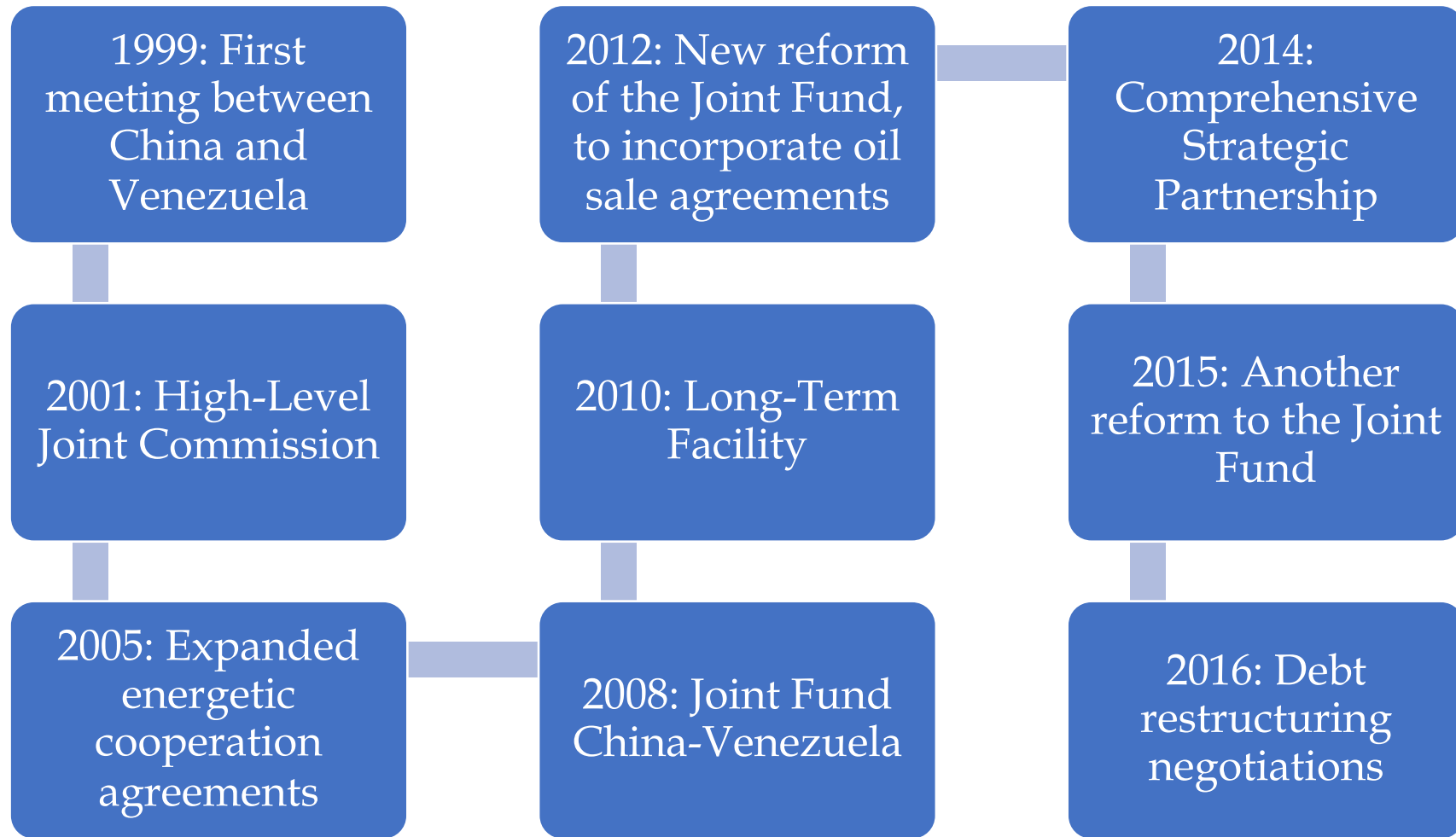
Ray, Rebecca and Margaret Myers (2023)  
"Chinese Loans to Latin America and the  
Caribbean Database," Washington: Inter-  
American Dialogue.

# China Investments in Venezuela: a general overview regarding the external debt

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# China Investments in Venezuela: milestones



# China Investments in Venezuela: Joint Funds and Long-Term Facility

Mechanism	USD billion
Joint Fund Tranche A 2007	4
Joint Fund Tranche B 2009	4
Joint Fund-Long Term 2010	20.3
Joint Fund Tranche A 2011	4
Joint Fund Tranche B 2012	4
Joint Fund Tranche C 2013	5
Joint Fund Tranche A 2014	4
Joint Fund Tranche B 2015	5
Total	50.3

# DISMANTLING DEMOCRACY IN VENEZUELA

The Chávez Authoritarian Experiment

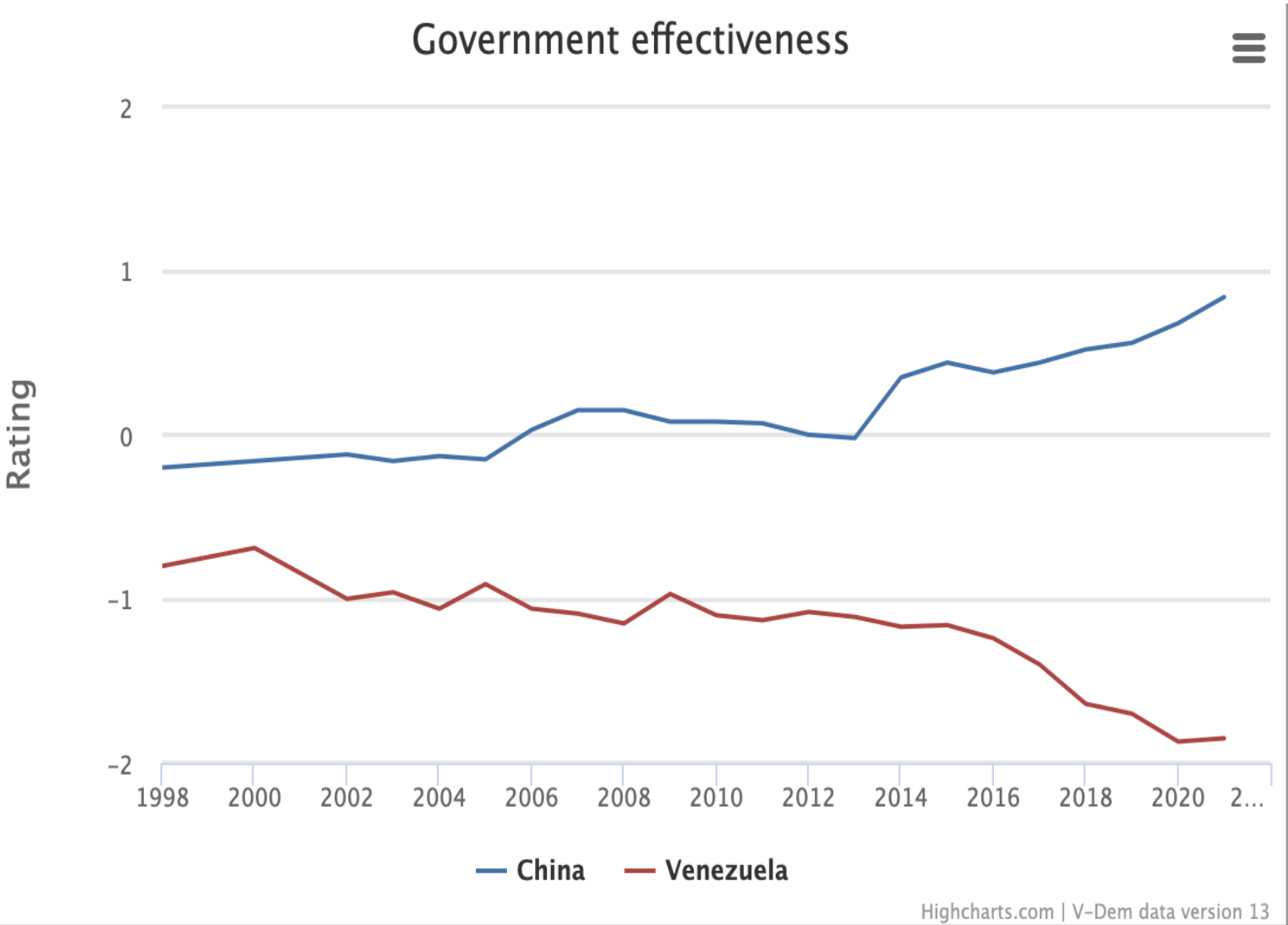
Allan R. Brewer-Carías



## China loans and Venezuelan Constitutional Law

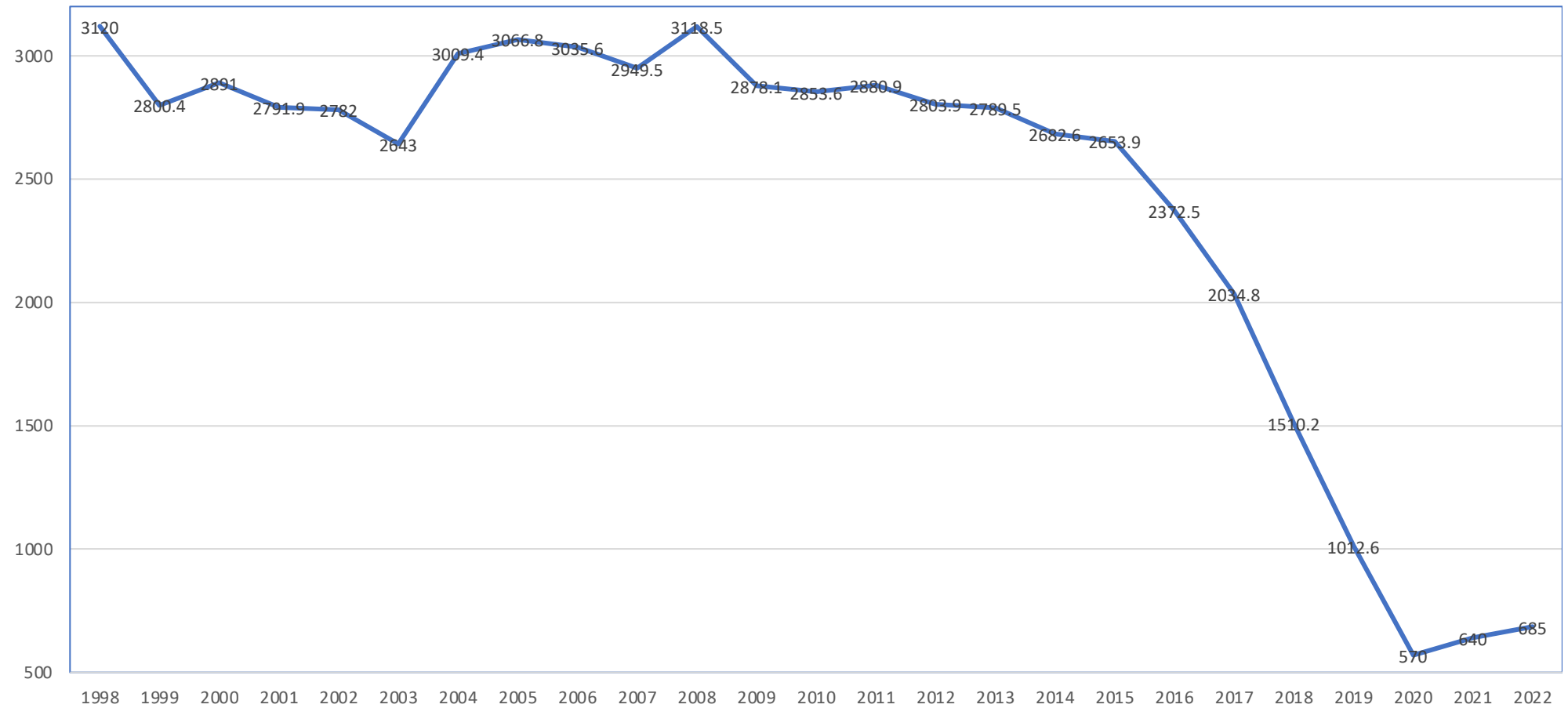
- The borrower is a state-owned enterprise (BANDES), not subject to the constraints of the debt ceiling Law.
- The loans are part of bilateral agreements approved by the National Assembly, not subject to the Public Contracts Law.
- Since 2003, the checks and balances system was dismantled in Venezuela: The loans were not subject to effective controls based on the accountability principle.

# Investment without governance





# Bad governance, oil collapse and default



Venezuela oil production, 1998-2021. Source: OPEC

# Institutions



Lender

Facility agreements  
UNCITRAL  
English Law



Borrower

Sino-Venezuela  
Joint Funds

Eligible  
Project List

Capital

Collection Account  
Amounts due  
30% escrow

Repayment

Oil price drop



Venezuela

Joint  
Governance  
Mechanisms

Petroleum  
Sale and  
Purchase  
Contract

Buyer



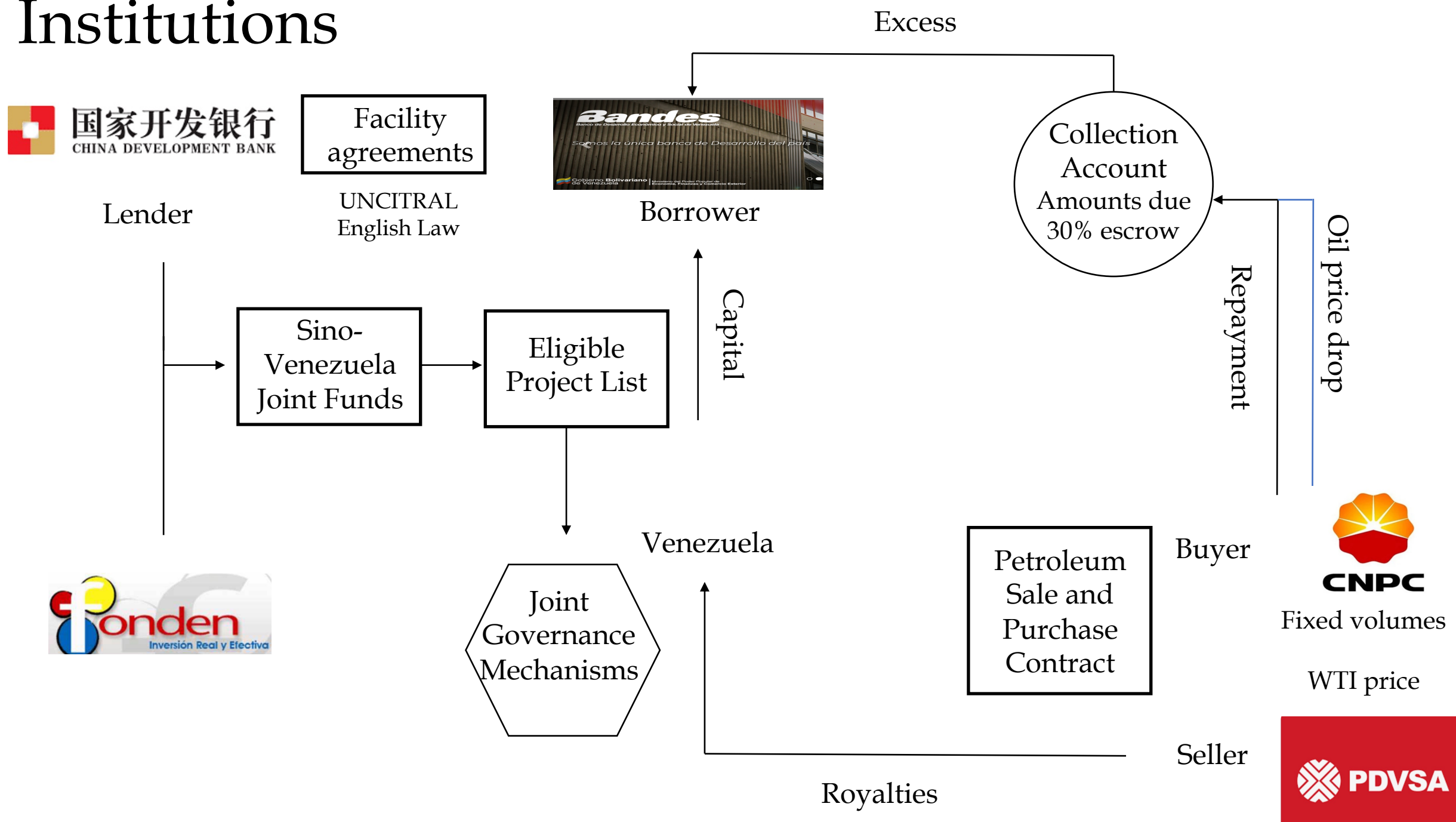
WTI price

Seller



Royalties

Excess



# Lessons (for Venezuela)

Pros	Cons
China loans were a substitute for multilateral financing (less economic conditionalities).	More expensive loans.
Easy access to capital financing.	Conditioned capital financing (contractors/projects).
Simplified project mechanisms.	Lack of transparency and accountability

# Lessons (for China)

Pros	Cons
The debt repayment depended on oil production.	The collapse of oil production impaired debt repayment.
China did not impose any good governance conditionalities.	Weak governance hindered the loan's effectiveness and debt repayment.

# Conclusions

- Domestic factors influenced China loans.
  - ✓ The oil boom and the external debt expansion.
  - ✓ Weak institutions for debt and public procurement.
- External factors influenced China loans:
  - ✓ Chávez's regional charismatic leadership.
  - ✓ China's international development policies.
  - ✓ Venezuela's strategic decision to move apart from multilateral institutions.





# Conclusions

- Constitutional aspects:
  - ✓ China loans fulfill formalities applicable to external debt and public procurement: but there were legal formalities without good governance.
  - ✓ The institutional collapse in Venezuela hindered the efficiency and transparency of the projects.
  - ✓ The destruction of the oil industry rendered the agreements unenforceable.

