



Venezuela's President Nicolás Maduro recently returned from Beijing with a \$5 billion line of credit from the China Development Bank (CDB). This comes at a very difficult time for Maduro, whose regime's support is at an all time low since his predecessor, Hugo Chávez, first came to power 15 years ago. For Maduro things abroad look better than things at home.

A former bus driver, named as successor to the late, charismatic Chávez, Maduro is driving his country's economy into a ditch. Instead of correcting his path, he has been shifting blame for his mismanagement on to others.

The Broken Record

Despite one of the largest oil booms in history, yielding over \$90 billion a year to the Venezuelan government, Maduro runs one of the worst performing economies in the Americas.

Since coming to power in April, after a hotly contested election in which he claimed to receive just over fifty percent of the vote, Maduro has presided over recurrent national electricity blackouts, one of the highest murder rates in the world, shortages of basic goods such as rice, oil, butter, flour, and even toilet paper.

Oil accounts for 95 percent of Venezuela's export earnings, yet today Venezuela pumps less oil than it did in 1998 when Chávez was first elected president. The decline in output is due, in large measure, to the government's use of the state petroleum company's revenues to fund social spending schemes, impeding its operation as an efficient global oil company.

Government spending on "social missions," like health, housing and welfare programs, have made poor Venezuelans progressively dependent on the government for their livelihood. At the same time the government squeezes the private sector blaming it for all manner of problems. The World Bank's "Doing Business Report," ranks Venezuela 180 out of 185 in terms of doing business.

Inflation, brought on by uncontrolled government spending, is at 45 per cent. Investment has dried up and industrial output has declined enormously.

The *bolívar*, the national currency, is fixed at the official rate of 6.3 to the dollar, but trades on the black market at seven times that amount. As a consequence, imports are restricted causing more shortages of basic goods. Devaluing the currency earlier this year lost the government support among many in the middle and lower income brackets. Additional



devaluations are expected to fuel inflation and a further decline in purchasing power.

Controlling foreign exchange, it takes the government 180 to 270 days to process a request for foreign currency, creating arrears with overseas vendors further discouraging imports.

With the state's hands in all economic activities corruption has skyrocketed. Transparency International's 2012 "Corruption Perception Index," ranked Venezuela 165 out of 174, the lowest ranked country in Latin America.

The economic problems have generated greater political instability and produced rifts within the ruling circles. Split between hardline socialists vent on deepening the revolution, and pragmatists, such as the finance minister Nelson Merentes who must sell Venezuelan bonds abroad, the disunity in the ranks has further undermined Maduro.

The Blame Game

Despite exercising near total command of the economy, Maduro has spent his time blaming others for the decline. [A September 30, 2013 *Financial Times* article](#) describes Maduro's strategy as one where you wrap "yourself in the national flag and blame somebody else."

Maduro has accused business and the political opposition of hoarding goods and wrecking the economy. Recently, he expelled charge d'affaires Kelly Keiderling and two other US Embassy diplomats for allegedly helping the opposition "sabotage" the electric grid and the rest of the economy. Earlier this year, without offering any proof, Maduro claimed that the White House conceived a plan for the "total collapse" of the Venezuelan economy by October.

In some respects, Maduro is his own worst enemy. During one speech he invoked the memory of Chávez, saying the latter spoke to him in the form of a little bird. A few days later, Maduro declared he slept at Chávez's mausoleum for inspiration. Polls show declining favorability among a hard-pressed, weary Venezuelan population.

Chávez supporters recall the *commandante* dressing down his ministers on live television, including Maduro, as incompetent. Today, these same ministers run the country and their mismanagement has become all the more apparent, minus Chávez's populist connection to marginalized Venezuelans.



China and Venezuela: \$40 billion and Counting

The CDB's \$5 billion line of credit affords Maduro's government some breathing room to pay for badly needed imports. To date, however, China has provided Venezuela with more than \$40 billion in loans, in exchange for 640,000 barrels of crude petroleum a day. It is one of China's largest commitments overseas.

Chinese oil companies sell a portion of their Venezuelan crude on the world market. In their book *China's Superbank*, authors Henry Sanderson and Michael Forsythe show a disparity between Venezuela's oil exports and China's imports as reported to its customs administration.

For instance, one November 2011 report showed that at an average 419,000 barrels a day, Venezuela had shipped 37.7 million barrels over a three-month period from January 1 through March 2011. However, according to China's customs figures for the same period, only 21.1 million barrels arrived from Venezuela: a difference of 16.6 million barrels.

The fact is China currently lacks sufficient refining capacity needed to process heavy Venezuelan crude but the U.S. does. Chinese companies, therefore, are selling the heavy Venezuelan oil in the US market. These companies then acquire equity oil, taking delivery of a similar amount of crude from sources closer to home and lowering transaction costs.

Notwithstanding China's commercial endeavors, Venezuelan oil continues to fuel China's growing economy, but economists and others are increasingly concerned Maduro's economic policy failures endanger investments, leading to declining output and unreliable future supplies.

Politically, should an opposition government come to power, Venezuela might declare billions of dollars in loans and investments as odious debt, brought on by a regime that squandered its revenues and wrecked the economy.

Like others who have loaned to Venezuela in the past, using petroleum as collateral, Chinese investors might also get burned. Investments cannot be sustained unless there is substantial improvement in economic policies and performance. Thus far, the Venezuelan experience is a lesson in capital consumption at its worst. More loans might be throwing good money after bad.

Read the [original article](#) at ChinaUSFocus.com.