By Jason Mitchell

China has cemented its position as Venezuela’s biggest foreign lender by agreeing to a new USD4bn credit line for infrastructure projects in the Latin American country.

On 18 May, China Development Bank, the country’s state-owned development bank, agreed to the new loan as a contribution to the China-Venezuela Joint Development Fund, which was created in 2008. Venezuela and China have both contributed to the fund, which totals USD32bn, for social and infrastructural projects in the South American country, but China has contributed much more then Venezuela, normally in the form of new credit lines. In effect, China has become the left-wing country’s lender of last resort.

“I think the Venezuelan government has been advised well about pursuing this relationship with China,” says Victor Rodriguez, the chief executive officer of LatAm Alternatives, a hedge fund manager, and director of the Latin American chapter of the Hedge Fund Association.

“This growing relationship is a reflection of the economic balance of power today. The fact that China is prepared to lend to the country indicates that it believes that Venezuela is capable of paying it back.
“The Asian country is very serious about its strategic relationship with Venezuela, Brazil and other Latin American countries.”

The Venezuelan government has agreed to supply China with up to one million barrels of oil a day within three years time in return for the loans (it already provides it with 460,000 barrels a day). The Asian giant has become the only long-term creditor of large-scale loans to the South American country, as Hugo Chavez, its socialist president, has avoided links with traditional lenders, such as the IMF and the World Bank.

The loans are normally secured against revenues from oil sales to Chinese firms, supposedly at market prices but in some cases with steep discounts, according to local experts.

However, analysts say that Venezuela will be hard pressed to supply China with such a high future volume of oil shipments, because its daily production totalled only 2.78m barrels last year and the country is not investing sufficiently in oil infrastructure.

Last year, the China Development Bank also provided Venezuela with a USD20bn credit line for housing projects. The China-Venezuela Joint Development Fund has provided financing for eight projects in the basic industries sector; two in housing; 11 in transport and communications; one in education; 31 in agriculture; two in the environmental sector; five in science and technology; and nine in electrical energy. These include the construction of railways, hydroelectric plants, and metro systems.

Venezuela’s Bank of Economic and Social Development (Bandes by its Spanish initials) is in charge of disbursing the fund and says it is considering investing in a total of 127 mega-projects.

In March, Venezuela also signed development deals valued at more than USD4bn with China's Citic Group and the Industrial & Commercial Bank of China, for projects in the oil, mining, finance and construction sectors.

Some analysts are critical of the deals with China because often they are contingent on Venezuela using Chinese companies. For example, the South American country is using Chinese loans to pay Citic International Contracting, part of Citic Group, to build 10,000 housing units on the site of a military base in Caracas.