



China's President Xi Jinping has made a major commitment to eradicating corruption in the country's government and state-owned enterprises. Those who analyze Mr. Xi's policies argue that he sees corruption as a veritable cancer that can weaken and ultimately undermine the political hegemony of China's Communist Party. As a result, Mr. Xi has been willing to take on senior officials enriching themselves through public positions and other means. Corruption, however, while a persistent illness with a debilitating and self-generating momentum, is not exclusive to China. If truth be told, China's largesse abroad is also a major source of corruption and fraud, especially when it involves government-to-government transactions where transparency and accountability are absent. Venezuela is a case in point. In a major investigation, the [Wall Street Journal](#) now reports rampant corruption by government officials and officers of PdVSA, that country's state-owned petroleum giant. How much of the looting involves China's extensive loans to Venezuela is only now a matter of conjecture, but if the processes revealed are any indication, billions of dollars went into the pockets and bank accounts of the country's "revolutionary leaders," while these same leaders looked to China as a source of unlimited cash. Venezuela is facing numerous economic and political crises including an inflation rate of 160 percent, a declining currency, stagnant production, and an inability to pay for medical and food imports. Now comes an account that several U.S. government agencies are investigating allegations of offshore bank accounts, drug and other money laundering operations, currency manipulation, and multi-million dollar kickbacks by many of Venezuela's high government officials. Motivated by a search for drug money laundering, the U.S. investigation reveals a plethora of inappropriate transactions. According to the *Wall Street Journal*, Venezuela's current ambassador to the United Nations, Rafael Ramírez, the former energy minister and head of PdVSA and a number of his confreres are alleged to have siphoned off billions in public revenues during his tenure. Among the sources of this enrichment are multi-million dollar kickbacks from foreign companies doing business in the oil-rich country. ***The Revolution Kicks Back*** In just one cited instance, five Chinese oil and construction companies reportedly deposited \$154 million into a Panamanian shell company owned by Mr. Ramírez's close associate and cousin Diego Salazar. According to incidents cited by the *Wall Street Journal*, Mr. Salazar was a point man for negotiating kickbacks from overseas companies. Chinese loans are typically extended to purchase goods and services from Chinese companies operating in Venezuela, and in this instance the kickbacks constitute an additional "tax" paid for doing business abroad. The lack of transparency and financial controls over PdVSA are said to have facilitated the cover up of repeated fraudulent transactions. In 2005, for instance, the Chávez government established off-budget accounts to funnel petrodollars into subsidized housing and to finance projects with Venezuelan allies abroad. These accounts were unaudited by the central bank making illicit transactions almost impossible to detect. "The result," in one situation according to



the *Wall Street Journal* report, “was that up to \$3 billion of the \$15 billion in services and equipment that PdVSA contracted for annually represented overcharges that flowed back to top company executives, government officials and businessmen as kickbacks, say people knowledgeable about the alleged crimes.” Given that Venezuela is the single largest recipient of Chinese loans in the form of cash for oil schemes, estimated at over \$70 billion, the potential for fraud, graft and corruption involving Chinese money is immense. Writing in the [March 31, 2015 issue](#) of *The Diplomat*, Chinese scholars Xue Li and Xu Zanzhou outlined the risks in regard to the Americas, stating: “it is necessary to conduct regular risk assessments and set up a “stop-loss point” for investments and loans in Latin America. Take Venezuela as an example - China’s investment and loans in that country amount to more than \$70 billion. Considering the state’s political and economic situation, it is inappropriate to further increase the amount of investments and loans. In short, China should guard against bad debts.” The new revelations further underscore the risks. ***Playing Three Card Monty with the Bolivar*** PdVSA’s officials also gamed Venezuela’s tortured currency exchange system. In March 2012, for example, Mr. Ramírez reportedly ordered subordinates to obtain a *bolivar*-denominated credit line of 17.9 billion *bolivares* to be repaid in dollars. The loan, at a value of U.S. \$4.16 billion, was contracted at the official rate of 4.3 *bolivares* per dollar. But as *bolivares* sold on the black or parallel market for 9.3 per dollar, the lender could then buy *bolivares* at \$1.92 billion and go on to make a profit of more than \$2 billion. Mr. Ramírez’s associates, according to the *Wall Street Journal*, are said to have pocketed a \$70 million commission for the transaction. All of this, taking place while Venezuela’s economy is on life support. One reason the economy is in such a mess is that dollars have been spent on ill-considered grandiose social projects intended to buy votes from Venezuela’s poorest and on international adventures. Economic mismanagement means that little of the funds have been used to invest and maintain the petroleum industry, accounting for the decline in output and compounded by the recent global drop in oil prices. China’s largesse has been complicit so long as oil shipments continued or as long as high oil prices resulted in profitable arbitrage of discounted Venezuelan oil sold for a higher price in U.S. and other markets by Chinese petroleum companies. When it can no longer draw on foreign currency to pay for necessary imports, the government of Nicolás Maduro goes hat-in-hand looking for generous loans, usually to Beijing. In fact, earlier this year Maduro secured an additional \$5 billion loan from China. Ironically, investigators suggest the financial amounts stolen by Venezuelan government officials are reported in the billions of dollars. Apparently, while the profits were astronomical the kickbacks and payoffs of billions of dollars were less consequential. Today as Venezuelans cue for rationed goods and experience shortages of basic necessities, stories of “revolutionary leaders” giving out Rolex watches to their friends and associates while traveling in private jets leaves a bitter taste, especially while the opposition has been all but silenced before an upcoming election.



Venezuela's Leaders and the Chinese Trough

Corruption indeed works like a cancer on the body politic, and in Venezuela the disease is at an advanced stage. If President Xi is concerned about corruption among his own officials and the demoralizing effect it has on China's population, especially at a time of economic slowdown, then he might want to reconsider the effects of bankrolling deadbeat dictatorships like Venezuela whose leaders nourish themselves at the Chinese trough. The next time Maduro shows up in Beijing asking for a handout, Mr. Xi might want to inquire about the whereabouts of China's past cash advances. Read the original article, from China US Focus, [here](#).