SPECIAL REPORT

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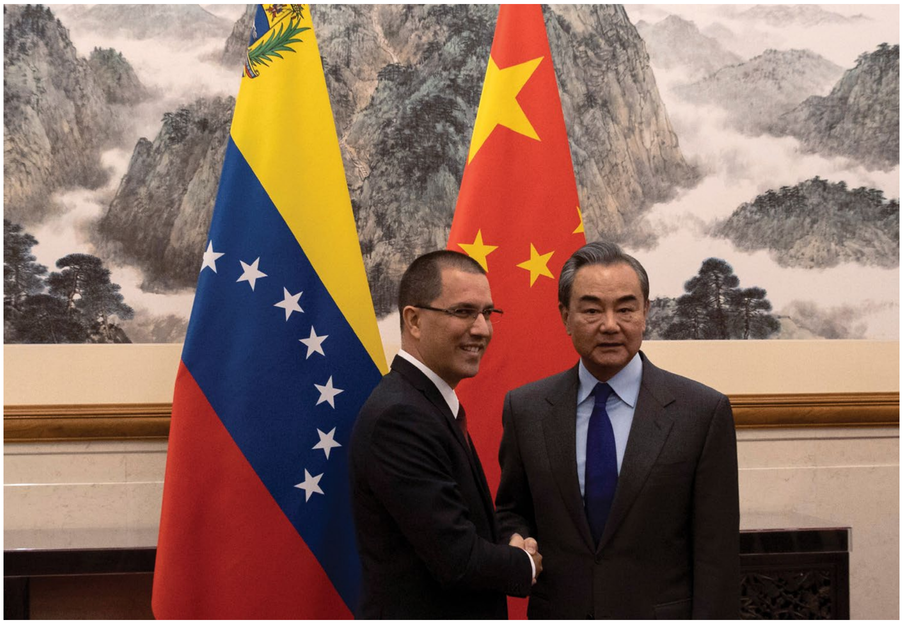
China-Venezuela Relations in the Twenty-First Century: From Overconfidence to Uncertainty

By Matt Ferchen



Venezuela's foreign minister, Jorge Arreaza, (left) meets with Chinese foreign minister Wang Yi in Beijing on January 16, 2020. (Photo by Ng Han Guan/AP)

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Summary

- China's industrialization boom in the early 2000s created new opportunities for its resource-rich trade partners in Latin America and Africa. Venezuelan president Hugo Chávez, seeking new diplomatic and oil collaborations with China and Russia, was enthusiastic about advances from China.
- Both sides miscalculated the risks and rewards of a partnership focused on oil and diplomatic ties. By the time of Chávez's death, the relationship was already experiencing growing frictions. Rather than admit to difficulties or mistakes, Chinese and Venezuelan leaders have stubbornly stuck with the status quo.
- China has attempted to balance low-key support for Nicolás Maduro's government—thereby helping prolong Chavista economic and political misrule—with efforts to minimize the financial and reputational damage resulting from its long-term support for Chávez and Maduro.
- The Venezuelan opposition has pointed to the lose-lose outcomes of the relationship while emphasizing that China still has an opportunity to make a positive contribution to Venezuelan development and peace if it changes course.
- The Trump administration's support for Juan Guaidó over Maduro, however, means that Venezuela will remain a key site for the rapidly expanding strategic rivalry between the United States and China.

United States Institute of Peace
Making Peace Possible

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NO. 484 | SEPTEMBER 2020

CONFLICT ANALYSIS & PREVENTION

ABOUT THE REPORT

This report examines China's relationship with Venezuela during the Chávez and Maduro regimes and the consequences for both countries. The report is based on more than eight years of research and interviews with government officials, businesspeople, sector analysts, and academic researchers from China, Venezuela, and the United States. It was funded by the China program at the United States Institute of Peace.

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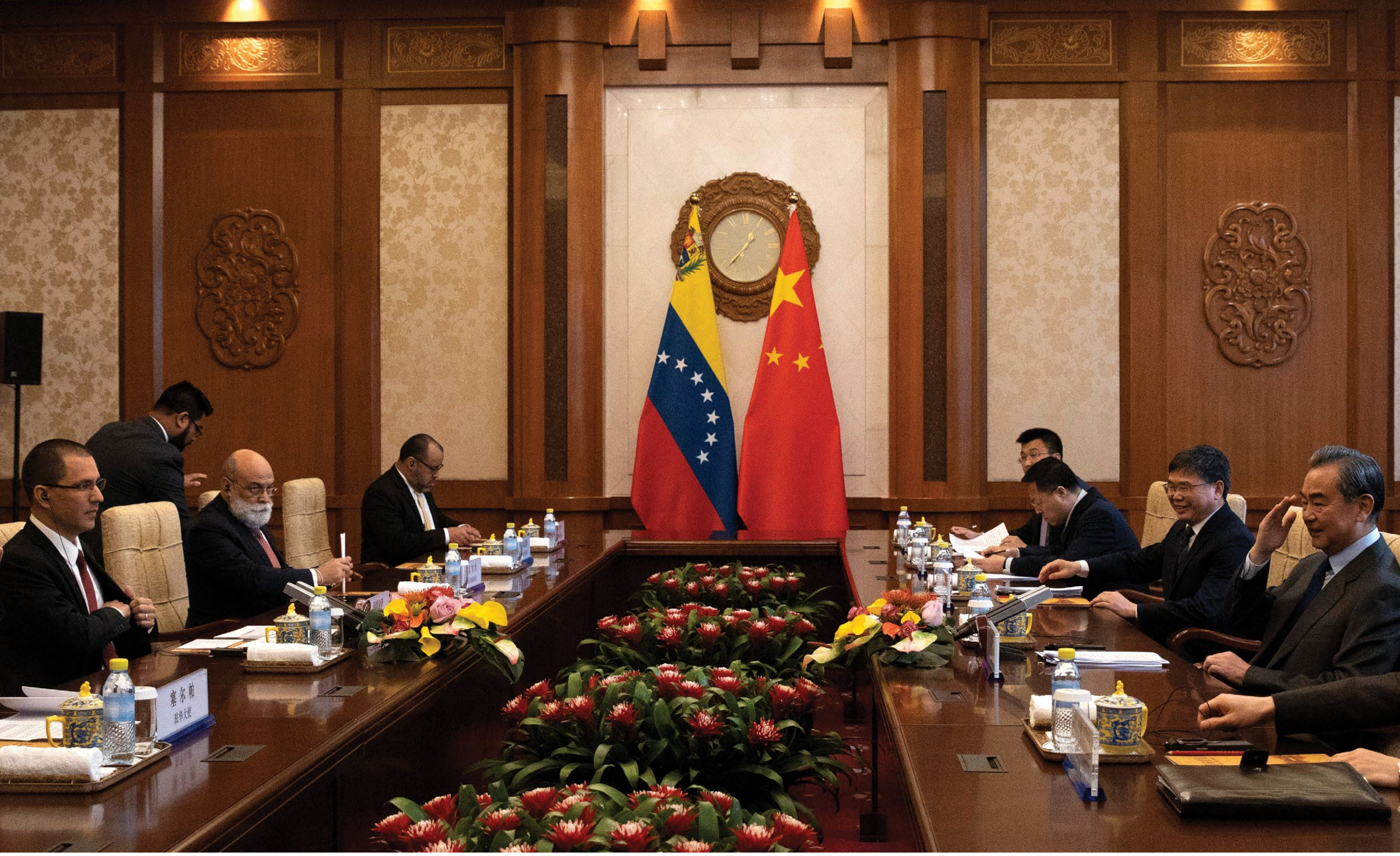


Chinese foreign minister Wang Yi, right, gestures during a meeting with Venezuela's foreign minister, Jorge Arreaza, left, at the Diaoyutai State Guest House in Beijing on January 16, 2020. (Photo by Ng Han Guan/AP)

Introduction

Relations between China and Venezuela have been marked from the outset by superlatives. China is the world's largest oil importer, while Venezuela has the world's largest proven oil reserves. The China Development Bank (CDB), dubbed by some "China's Superbank," is arguably the world's biggest development finance institution, and its lending to Venezuela still constitutes China's largest outlay of loans anywhere in the world.[1] Venezuela's national oil company, Petróleos de Venezuela S.A. (PDVSA), once seen as the best-run oil company in Latin America, has been the key institution in Venezuela's South American and Caribbean oil diplomacy. The China-Venezuela relationship stands out geopolitically as well. China has characterized its relationship with Venezuela as part of an effort to be a leader and engine of international development, while Chavista leaders in Venezuela have cast themselves as twenty-first-century Bolivarian socialist revolutionaries.

However, the outsized ambitions and scale of the China-Venezuela political and financial relationship have meant that its failures and disappointments have also been correspondingly large. It has also become a case study in how China's claims that its foreign policy is focused on development can be highly misleading. Venezuela's long, slow-motion descent into economic, social, and political crisis has exposed the underlying miscalculations and weak points of China's financial and diplomatic position in Venezuela and in Latin America more generally. The relationship has also become a focal point for critics, including many in the Trump administration, of China's unsustainable lending practices in Latin America and Africa. Ultimately, while China did not use its new oil and lending relationship with Venezuela to push the country in directions it would not otherwise have gone, China's financial and diplomatic support for the Chávez and Maduro governments has facilitated and prolonged destabilizing misrule by Chavista leaders.[2]

This report explores how China and Venezuela came to be involved in such a dysfunctional economic and diplomatic relationship, how each side has responded to Venezuela's extended economic and political crisis, and the implications for the future of the bilateral relationship and for China's aspirations to be a leader and agent of international development. When China's developing country diplomacy in the early 2000s met Venezuela's interest in increasing oil exports to non-Western countries, the situation seemed ripe for closer economic and financial ties between the two countries. Economic, political, and diplomatic calculations and miscalculations on both sides over the last decade and more, however, combined to produce a perfect storm in China-Venezuela relations, with Venezuela currently in significant oil debt arrears to China and China facing both financial and reputational losses as other countries begin to question the effects of its development finance and win-win posture. With China publicly supporting Nicolás Maduro and the United States supporting the interim government under Juan Guaidó, in question now is whether China will take responsibility amid the growing US-China geostrategic rivalry to participate in multilateral efforts to help Venezuela restructure its finances and get back on its feet economically.

Boom and Bust in China–Latin America Relations

The China-Venezuela relationship of today is best understood against the backdrop of China's renewed economic and diplomatic engagement with Latin America and other resource-rich developing country regions such as Africa.[3] The rebirth of China's developing country diplomacy and the rapid takeoff in trade, investment, and financial ties to these regions began in earnest in the early 2000s. The brisk growth of commodity-based trade ties between South America and China beginning around 2003–2004 in turn provided the foundation for a wave of high-level diplomacy as Chinese leaders began to make state visits to Latin America at around the same time.

Driving the rapidly expanding commercial relationship with Latin America was a growing and changing Chinese economy in which demand for scarce mineral, energy, and agricultural resources was increasingly met by supplies of iron ore, copper, oil, and soy shipped from South America. At geostrategic and diplomatic levels, China was keen to build on its legacy of "third world" diplomacy from the 1950s and 1960s and to include regions like Latin America and Africa in its newly invigorated developing country diplomacy.[4] For their part, political and business leaders in many countries in South America expressed a high degree of enthusiasm for deeper economic and diplomatic engagement with China. Emblematic of such commercial and diplomatic ties was the China-Brazil relationship around 2010, characterized by booming soy and oil exports from Brazil, cooperation in the BRICS (Brazil, Russia, India, China, South Africa) group, and a notable effort to align critiques of the United States in the wake of the global financial crisis.

Ultimately, the commercial and political extremes that typified the roots of China-Venezuela relations are also at the heart of the relationship's current dysfunctionality.

It was also during these boom years in China–Latin America relations that Chinese foreign policy, under President Hu Jintao, came to focus on the concept and framework of peaceful development as the core logic underpinning China's commercial and diplomatic engagement with resource-rich developing countries in particular.[5] Working within the frame of peaceful development, Chinese foreign policy officials laid out the logic of their proposed virtuous circle: China's own continued economic development required deepened international trade, investment, and financial ties, which in turn would drive economic development for all those countries engaged in ever deeper commercial relations with China.

Importantly, the policy of peaceful development was touted as offering more than economic benefits. Drawing on the Chinese Communist Party's own domestic governance logic and rhetoric since the early 1980s, Chinese foreign policy officials argued that economic development would also boost political stability and peace.[6] It was on the basis of such logic that China promoted the rhetoric of win-win, mutually beneficial, and complementary relations, especially with developing countries, including some in Latin America. China's emphasis on the importance of economic development as a condition for stability, peace, and security is summed up by President Xi Jinping's 2014 assertion that "development is the greatest form of security," a message that has broad resonance in many developing countries.[7] Yet the China-Venezuela relationship serves as a sobering reminder that the slogan "development is the master key to solving all problems," as Foreign Minister Wang Yi said recently, can be a poor guide to practical policymaking, especially in conditions of poor governance and crisis.[8]

Nevertheless, in South America, and during the commodity boom from 2003 to 2013, the China-Venezuela relationship provided both Chinese and Venezuelan political and business leaders the opportunity to highlight the supposed benefits of a natural resource complementarity based on oil. At the same time, the relationship epitomized an elective affinity between South America's ascendant New Left leadership, headed by Venezuela's Hugo Chávez, and China as a new, alternative diplomatic and commercial partner in the region. Variations of such alliances emerged in other parts of South America as well, especially in Brazil and Argentina, but none developed to the same political and economic degree. Ultimately, the commercial and political extremes that typified the roots of China-Venezuela relations are also at the heart of the relationship's current dysfunctionality.

Sowing the Seeds of Dysfunction

The China-Venezuela relationship first truly took off in the early 2000s. Oil- and lending-based commercial and diplomatic relations were built up just as Hugo Chávez was entrenching his experiment in twenty-first-century Latin American populism.[9] Within a very short period of time, Chinese oil, financial, and diplomatic interests in Venezuela achieved a form, scale, and importance unmatched by China's energy and state-to-state relations elsewhere in Latin America—or indeed, anywhere else in the world.

Oil workers from PDVSA contractor Tucker Energy Services take a break from moving equipment to an oil field near El Tigre, a town located within Venezuela's Hugo Chávez oil belt, formally known as the Orinoco Belt. (Photo by Fernando Llano/AP)

Between 2007 and the time of Chávez's death in early 2013, the CDB lent Venezuela just shy of $40 billion, a figure far surpassing Chinese official energy finance to any other country in the world at that time, let alone elsewhere in Latin America, and establishing China as Venezuela's number one source of sovereign debt.[10] At the same time, the nations set up a special state-to-state coordinating body, the China-Venezuela Joint High Level Committee, to manage the new loans-for-oil deals, and by 2014 they had elevated diplomatic ties to the level of a "comprehensive strategic partnership," the second highest among China's diplomatic partnership types.[11]

Yet signs that not all was well in Venezuela or in the China-Venezuela relationship had begun to appear well before Chávez's death. Even before the global financial crisis, when Chávez was at the height of his power, politicization and mismanagement of the state oil company PDVSA was already putting strains on the country's oil production. At the same time, even as Sino-Venezuelan diplomatic amity flourished, China's state bankers and national oil firms had become impatient at the lack of privileged access to more upstream petroleum sources, which they believed should have been the natural outcome of such close, high-level political ties.[12] Looming in the background were increasingly obvious signs of Venezuela's economic distress and social and political polarization, not to mention growing tensions and acrimony inside and outside the country about the effects of Chavismo on Venezuela's democratic institutions and governance.

By 2012, as concern grew over Chávez's health and his grip on that year's presidential elections, Chinese analysts began to exhibit increasing unease about the stability of their Chávez-based partnerships.[13] After Chávez's death, and against a backdrop of plunging and volatile global oil prices starting in 2014, his successor, Nicolás Maduro, quickly proved to be capable of offering only a pale simulacrum of Chávez's dynamic if highly polarizing and destructive political and diplomatic leadership. Among the signs of growing economic incompetence on Maduro's watch were decreasing crude output and exports as a result of mismanagement at the PDVSA, destabilizing and corruption-enhancing exchange rate policies, and rising poverty rates. Eventually, Venezuela's economic, political, and humanitarian crisis spilled over into a regional refugee and democratic governance crisis. Yet even in the early years after Chávez's death, when signs of Maduro's ineffectual economic management were unmissable, China continued to lend to Venezuela, to the tune of an additional $20 billion between 2013 and 2017.[14]

Venezuelan and Chinese Calculations

Venezuela's descent and the way this ensnared China financially and diplomatically left Chinese policymakers and business officials trying to understand Venezuela's deepening crisis and how to manage their exposure to it. How did Chinese analysts and officials get their assessments of Venezuelan political risk so wrong, and what does the Chinese government's response, or lack thereof, say about who is learning what from China's troubled ties to the nation?

The emergence of this dysfunctional China-Venezuela relationship is a result of the confluence of specific factors. Venezuela under Hugo Chávez was looking for new oil and diplomatic partners just as China was seeking to expand its sources of overseas oil supplies while also working to build new diplomatic partnerships in the Americas (and in other parts of the Global South, such as Africa). On the Venezuelan side, Hugo Chávez was the key figure who made the relationship possible; on the Chinese side, the key actor was the country's biggest and most powerful bank, the CDB. If Hugo Chávez aspired to be the twenty-first century's Fidel Castro, then China's CDB was looking to build on its massive domestic urban debt and development portfolio to become China's premier state financier of overseas energy deals.[15]

THE VENEZUELAN SIDE

Venezuela's eagerness to build a new oil and diplomatic relationship with China is explained in large part by Hugo Chávez's petroleum-driven domestic and foreign policies in the first decade of the 2000s. After his 1999 election, Chávez announced his ambitions for a "Bolivarian revolution"—a set of policies that would entrench a populist authoritarian government, give the military a greater role in domestic politics, and oppose US-led globalization.[16] Domestically, the Bolivarian revolution became increasingly linked to his management of the oil sector and to control of PDVSA in particular.[17] Not only did Chávez radically restructure PDVSA in the early 2000s to ensure its political loyalty, he also set out to have Venezuela officially declared the most oil-rich nation in the world, an effort in which Chinese firms played a role.[18]

As part of his strategy to turn PDVSA and the country's oil sector into a political tool and source of revenue, Chávez also used the country's oil resources to fuel his new, more provocative foreign policy. Especially in the Andes and the Caribbean, Chávez used two structures, ALBA (Bolivarian Alliance for the Peoples of Our America) and the PetroCaribe program, an oil-lending scheme he signed in 2005, to provide oil at preferential rates as a way to strengthen regional political alliances.[19]

Key factors in putting together these petroleum-based alliances were dilution of US influence and interest in Latin America and the Caribbean, and a related effort to wean Venezuela and its regional allies off dependence on crude exports to the United States. China, along with Russia and India, was to become central to Venezuelan efforts to diversify the country's oil export markets and diplomatic partnerships. Thus, as part of Chávez's oil-based domestic and foreign policies, by the midway point of the first decade of the 2000s, China came to be seen as an increasingly important commercial and diplomatic partner. Yet even as Venezuela sought to decrease its energy export dependence on the US market, the US shale revolution took off, with the result that US demand for Venezuelan crude played an increasingly marginal role in the US oil market and in US calculations about Venezuela's leverage in their bilateral relationship. By 2014 it was clear that the United States had become markedly less dependent on Venezuelan oil, while China was increasingly entangled in burdensome state-backed lending, oil, and diplomatic ties to Venezuela.[20]

THE CHINESE SIDE

If Chávez sought closer ties with China as a key element of his petroleum-based domestic and foreign policy agendas, Chinese business and foreign policy officials were also eager to jump headfirst into a renewed commercial and diplomatic partnership. China's deepening ties to Chávez's Venezuela seem to fit squarely into the pattern and rhetoric of the country's foreign policy with Latin America in the new millennium. Starting in the early 2000s, China's demand for mineral, energy, and agricultural products drove a rapid increase in trade and diplomatic ties to commodity-rich South American countries.[21] In the nation's first 2008 white paper and in new high-level diplomatic visits, Chinese officials claimed that these burgeoning relationships were the product of complementarities based on natural comparative advantage and were therefore "win-win."[22]

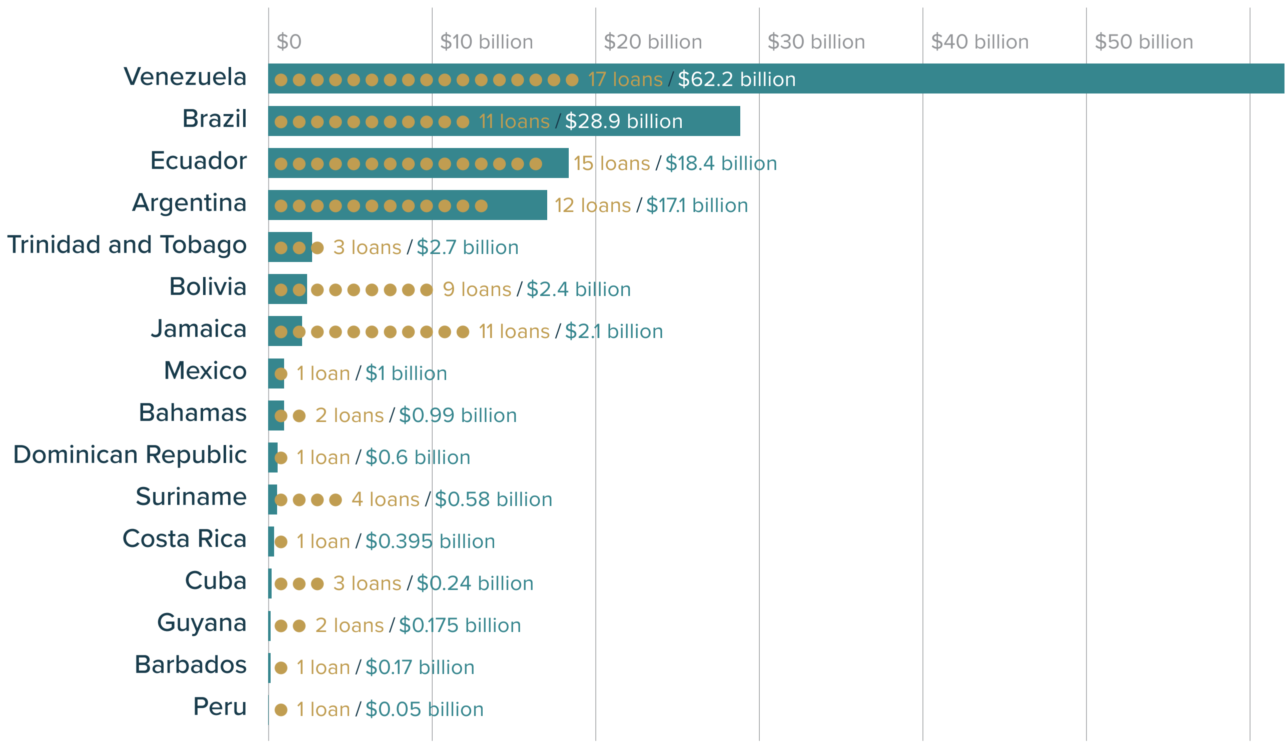
Insofar as China had become a net oil importer as early as 1994 and was intent on increasing and diversifying its sources of oil import partners, China's interest in Venezuela as a petroleum partner fit logically into the country's energy security aims. Whatever concerns Chinese firms, banks, and foreign policy officials may have had about Chávez's radical domestic and foreign policies, they forged ahead, insisting that Chinese demand for, and Venezuelan supplies of, oil would provide the necessary stability in the relationship.[23]

Yet the way China chose to engage with Venezuela, in particular through unprecedentedly large state-to-state loans-for-oil deals, not only highlights the particularities of the relationship but also sheds light on miscalculations that were made in specific efforts to manage risk. Starting around 2007, the CDB signed a series of loan agreements with Chávez and the PDVSA according to which the loans would be repaid through oil sales to China. While on the surface, this loan structure accords with the Angola model of commodity-backed loans in Africa, it differed in terms of the size of the loans to Venezuela (lending to Venezuela surpassed all Chinese loans to Africa) and because the CDB, rather than the China Export-Import Bank, was the key Chinese

FIGURE 1.

Chinese Lending to Latin America and the Caribbean, 2007–19

The China Development Bank and China Export-Import Bank have provided $138 billion in loans to governments and state-owned enterprises throughout Latin America and the Caribbean since 2007. About 45 percent has gone to Venezuela.



Source: Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, www.thedialogue.org/map_list.

financial institution involved.[24] In the years after the global financial crisis of 2008–09, the CDB was just emerging on the global stage as a major financier of Chinese energy deals. It was in South America, and Venezuela in particular, that the CDB took the biggest plunge.

To put the situation in perspective, from 2005 to 2011 alone, the CDB was responsible for more than 80 percent of Chinese loans to Latin America and the Caribbean, with Venezuela being the largest recipient by far.[25] At that time, the CDB's loans-for-oil deals constituted close to 60 percent of its overall loan exposure to Latin America and the Caribbean. Indeed, the CDB's outsized exposure to Venezuela, with over $60 billion lent since 2007, still constitutes the bank's, and China's, largest exposure anywhere in the world. (China's lending to Venezuela and other countries of the region is shown in figure 1.) In other words, the CDB, acting in the name of the Chinese government, placed a $60 billion bet, the largest it would place anywhere, on the riskiest country not just in Latin America but arguably in the world.[26] And while bank officials and some Western analysts had previously argued that the loans-for-oil structure of the deals was meant to ensure that as long as Venezuela had oil in the ground, it would eventually be able to repay the loans, the post-Chávez realities of Venezuela have upended these expectations.

After Chávez, Chronic Crisis

Since Chávez's death in 2013 and the dramatic drop in global oil prices that began in 2014 (followed recently by an even more dramatic plunge), Venezuela has been in a steady downward spiral. It has one of the highest inflation rates in the world. Its oil production and exports have plummeted to levels not seen in decades. Nicolás Maduro, still tenaciously clinging to power, has long proven himself a much less adept politician than Hugo Chávez and has come to rely on draconian economic, security, and political measures to ensure that he and his Chavista support coalition remain in power. For China, Venezuela's post-Chávez descent into crisis and chaos has meant that few if any of the promised benefits of the relationship have been borne out.[27] Rather, China's economic and geostrategic interests in Venezuela, and potentially its reputation among Venezuela's neighbors, have all been threatened.

Even before Chávez's death, China had hoped to have preferential access to Venezuela's vast Orinoco Belt petroleum reserves, yet because of the chaotic state of Venezuela's oil sector and of PDVSA in particular, Chinese firms have not been able to pump significant new flows of upstream Venezuelan crude.[28] Challenges to more upstream Chinese investment have long included restrictive PDVSA joint venture rules and the high costs of accessing and processing Orinoco crude. But at least since 2014, as a result of PDVSA's own mismanagement and investment shortfalls and the difficulty of accessing dollars for necessary equipment imports because of the byzantine exchange-rate policies, all exacerbated by US sanctions on Venezuela's oil exports, Venezuelan crude production and exports have fallen to historic lows.[29] In fact, the actual flow from Venezuela into Chinese hands has always underperformed the claimed promises of up to one million barrels per day, rarely achieving even half that amount (equating to less than 5 percent of China's oil imports in any given year).

Moreover, many of the petroleum resources that come to Chinese firms and banks through the deals have ended up being resold in the US market, potentially exposing China to existing or future US sanctions.[30] In the wake of the dramatic drop in global oil prices in 2014, Venezuela was forced to ask for renegotiated terms for its debts to China, essentially entering into a form of de facto default. In consequence of all these challenges, Chinese lending has since slowed to a trickle, with no new loans to Venezuela issued since 2016 and only one loan tranche refreshed.[31] Though maintaining accurate and updated figures on China's oil-related loans to Venezuela has long been a challenge owing to the opacity and secretive, high-level dealmaking on both sides, it is estimated that Venezuela still owes around $20 billion in crude-linked debt payments to China.[32]

And yet, since 2014, China has not completely cut off flows of financial or diplomatic support to Venezuela.[33] China has steadfastly refused to publicly criticize or abandon diplomatic support for the Maduro government or even to admit that any problems exist in Venezuela or in the Chinese-Venezuelan relationship. When pressed, Chinese foreign policy officials have

Government supporters hold up posters featuring, from left, the late Venezuelan leader Hugo Chávez, President Nicolás Maduro, and independence hero José Félix Ribas, during an event at the Miraflores Presidential Palace on February 12, 2020. (Photo by Matias Delacroix/AP)

consistently said they stand by their commercial and diplomatic commitments to Venezuela, will not interfere in Venezuela's internal affairs, and hope for stability there. A typical press release from China's official Xinhua press agency stated that China "voiced support for Venezuela's efforts in safeguarding its sovereignty, independence and stability as well as opposition to foreign interference in the South American country's internal affairs."[34]

Some less official voices have long been more critical. There are reports of meetings at which Chinese oil-sector leaders argued for letting the current Venezuelan leadership sink under its own weight.[35] And various Chinese media outlets, including the financial paper *Caixin*, have been keen to explore the reasons behind Venezuela's crisis and to explain China's exposure to, and role in, facilitating it.[36] While attracting less attention than the diplomatic or financial components of the relationship, other Chinese-linked projects related to the special funding vehicles have been co-opted as part of Chavista political campaigns or have simply failed to materialize. For example, Chávez and Maduro have used fungible Chinese financing in overt displays of political largesse, giving away Chinese-branded appliances and building Chinese-contracted housing projects, while a high-profile Chinese-backed railway project was derailed by poor planning and corruption.[37] By 2017, because of the already-dire economic situation and threats to physical safety, hundreds of thousands of Chinese citizens and members of ethnic Chinese communities that had settled and worked in Venezuela for generations had begun to flee Venezuela and return to China.[38] Yet despite the broad array of setbacks in China's ties to Venezuela, the Chinese government has never officially veered from its official support of either Chávez or Maduro.

Stalemate, Opposition Strategy, and the US-China Rivalry

Even as Venezuela's crisis has plunged to ever greater depths, China has sat on the diplomatic sidelines by continuing to maintain its status quo support of Maduro while rejecting calls to recognize his opponent, Juan Guaidó. China's conservative, head-in-the-sand diplomatic stance, however, belies an effort to maximize leverage over an increasingly desperate and friendless Maduro regime while also attempting not to alienate the Guaidó interim government, with which China may one day have to officially work. Thus, on the surface, Chinese-Venezuelan relations appear frozen in time, while beneath the surface, Chinese officials and firms maneuver in a high-risk game. China, however, is not the only outside actor, as both Russia and Cuba have continued to provide diplomatic, economic, and military support to Venezuela even as the United States has taken a much more critical and punitive approach to the Maduro regime and its supporters, including China. Ultimately, Venezuela's complex internal power struggles and the behavior of outside actors, including both its neighbors and international financial institutions, will constrain and shape China's strategic calculations about the nation.

MADURO'S SYMBOLIC DEALMAKING WITH RUSSIA AND CHINA

Since early 2019, when Nicolás Maduro was sworn in for a second term after having crippled the opposition-led National Assembly in 2017, the Maduro administration has seen its regional and broader international legitimacy and support dwindle. More than fifty countries have recognized the interim Venezuelan government and Juan Guaidó as the country's legitimate president.[39] In the face of these trends, Maduro has been keen to demonstrate that his government has commercial and diplomatic alternatives, especially with Russia and China but also with its longtime ally Cuba. To do so, Maduro has actively sought new loan and oil deals with both the Chinese and Russian governments.

Initially, Russian politicians and oil companies showed greater willingness than their Chinese counterparts to support a range of dealmaking with the Maduro government. In fact, just as the United States was beginning to take a more active approach in favor of the Guaidó administration, the Russian government and Russian oil firms, led by Igor Sechin and Rosneft, began to openly double down on their support for the Maduro regime.[40] But Russia's, and Rosneft's, gamble took a dramatic turn in March 2020 when Rosneft sold its Venezuelan assets to the Russian government.[41] Russia has not completely folded on its Venezuelan gamble—it has continued diplomatic support and military aid—but China clearly remains the Maduro government's primary economic lifeline.[42]

Even while continuing to officially support Maduro, Chinese diplomats have been more muted in their support than their Russian counterparts. Chinese diplomats have consistently, if

The core element of the relationship, the oil trade, has been increasingly forced into contortions to avoid US sanctions, while Chinese investments in Venezuela's energy grid have failed to ensure stable power supplies.

predictably, criticized outside interference in Venezuelan politics, called for a negotiated solution to Venezuela's political crisis, and fallen back on hopes for their version of Venezuelan stability and development. Behind the scenes, however, Chinese officials and businesses have been active in attempts to shore up the relationship. Though new flows of official finance from the CDB have been cut off since 2016, a wide range of other dealmaking has taken place. Only some of that, for instance a 2019 agreement for greater Chinese participation in expansion of the oil-processing joint venture Sinovensa, has focused on energy cooperation.[43] Other sectors are attracting attention: for example, on a 2018 visit to China, Maduro signed twenty-eight deals, including some for satellite cooperation and ZTE telecommunications equipment. Yet as Venezuela's economic crisis and diplomatic isolation have worsened, big-ticket deals have been more difficult to bring to fruition. The core element of the relationship, the oil trade, has been increasingly forced into contortions to avoid US sanctions, while Chinese investments in Venezuela's energy grid have failed to ensure stable power supplies.[44] Moreover, Russia, not China, has been behind efforts to provide Venezuela with a new cryptocurrency.[45] Even Venezuela's key communications satellite, built by a Chinese firm, has ceased to function properly.[46] China has supplied medical equipment to Venezuela amid the coronavirus crisis, yet such assistance cannot compensate for the crisis in Venezuela's health care system.[47] To further underscore continued political cooperation, as part of the 2018 visit, Maduro also signed a memorandum of understanding to participate in China's Belt and Road Initiative (BRI). Yet every element of this dealmaking has been controversial: the Sinovensa agreement has been undermined by corruption scandals, ZTE has provided the Maduro government with digital surveillance technology, and Venezuela signing on to the BRI is a further provocation at a time of heightened US concern about the initiative.[48]

Even as China maintains its support for the political status quo in Venezuela through its diplomatic backing of Maduro, and its firms attempt to capitalize on opportunities opened up by Venezuela's economic wreckage, there exists a range of additional forces and actors that will further complicate China's calculations. These include the Venezuelan opposition's China strategy, the ongoing US pushback against Maduro's efforts to prolong his authoritarian grip on Venezuelan politics and against China's role in Latin America more generally, and events within Venezuela itself.

GUAIDÓ'S CHINA STRATEGY

The Venezuelan opposition, led by Juan Guaidó, has not only actively and successfully courted international diplomatic support from many of Venezuela's neighbors, as well as the United States and the EU, it has also sought to convince China of the wisdom of recognizing the Guaidó administration and to dissuade it from maintaining its support for the Maduro regime. The most direct and open of such appeals came in April 2019, when Guaidó called for China to recognize his interim government in an editorial published on the Bloomberg website. In "Why China Should Switch Sides in Venezuela," Guaidó argued that his administration would be able to provide the

Opposition leader Juan Guaidó speaks during a press conference in Caracas, Venezuela, on March 9, 2020. (Photo by Matias Delacroix/AP)

kind of effective governance necessary to sustain the stability and economic prosperity China says it hopes for in Venezuela.[49] In a clear allusion to China's long insistence on commodity complementarity as the basis for the relationship, Guaidó began the editorial by noting that "China is the world's largest oil importer and Venezuela has the largest proven oil reserves in the world." Looking beyond oil, Guaidó left the door open for China to play a cooperative role in the broader rebuilding effort that would be needed if and when the interim government comes to power.

Even as Guaidó and his colleagues have advanced positive arguments for why recognizing the interim government would be in China's interest, they have also made clear that China faces economic and reputational risks if it continues to support Maduro. To this end, a dedicated team within the interim government in Bogotá has been actively seeking to convince China that its long-term interests are not best served by continuing on that path. In a document titled "A Role for China in Venezuela's Transition Process," this China-focused team emphasized that "among the several countries that help keep [Maduro] afloat … the one with the greatest political and economic influence is the People's Republic of China."[50] The report notes that China's reputation as a trusted development partner in Latin America and the Caribbean, manifested by, among other things, the recent extension of its signature BRI project to the region, is imperiled by the legacy of "corrupt and ruined" Chinese projects in Venezuela.[51] One prominent example of a reputational cost that had to be paid was when the Inter-American Development Bank annual meeting, scheduled to take place in Chengdu, China, in late March 2019, was canceled when China refused to allow Guaidó's representative to attend on behalf of the Venezuelan delegation.[52]

Economically, the interim government's China policy advisers argue that the result of China's dealmaking with the Chávez and Maduro governments, including the over $60 billion in loans, was that "not a single significant project has been carried to completion," and instead, Chinese economic interests have been systematically undermined by the close association with Chavistas. Left unspoken is the long-standing possibility that a Guaidó-led government might declare Chinese loans "odious" or "illegitimate," thereby paving the way for debt restructuring or outright repudiation.[53] Ultimately, though, the interim government is keen to appeal to China's often-stated desire for stability, which, it believes, has been systematically undermined by Chavista misrule and would be rebuilt under a Guaidó administration. The opposition is keen to emphasize that China playing a role in helping Venezuela move from chaos to stability would also redound positively to China's reputation in Venezuela and in the broader Latin America and Caribbean neighborhood.

EFFECTS OF US-CHINA GEOSTRATEGIC RIVALRY

At the same time, the opposition interim government is also clearly associated with the Trump administration's efforts to promote a change in the status quo in Venezuela. Under the Bush and Obama administrations, there were serious and rising concerns about the direction of Venezuelan domestic and foreign policies, but under the Trump administration Venezuela has attracted much greater public policy attention from the United States. This has entailed not only a ratcheting up of sanctions against individual Venezuelans and the export of Venezuelan oil but also more direct support for the Guaidó-led opposition. A high-profile signal of such continued support was President Trump's invitation to Guaidó to sit in the president's box during the State of the Union speech in February of 2020.

The Trump administration's continued criticisms of the Maduro regime, its bilateral and multilateral efforts to pressure Maduro to step aside or allow for new elections, and its support for the interim Guaidó government all stand in contrast to China's public positions and policies in support of Maduro. As part of a broader pushback against China's role in developing regions such as Latin America, Africa, and Southeast Asia, the Trump administration has targeted the China-Venezuela relationship as the key concern in the Americas. Since at least early 2018, Trump administration officials have been clear in pointing to differences in US and Chinese policy positions with regard to Venezuela. In early 2018, on the eve of a trip to Latin America in which Venezuela was to feature prominently, then secretary of state Rex Tillerson observed that "China's offers always come at a price."[54] US secretary of state Mike Pompeo has been even more direct in his criticism of China's role in Venezuela, arguing in a speech in Chile in April 2019 that "China's bankrolling of the Maduro regime helped precipitate and prolong the crisis in that country."[55] Then national security adviser John Bolton underlined the consequences for continued Chinese (and Russian) support for the Maduro regime when in August 2019 he said that an executive order authorizing new US sanctions against Venezuelan assets and business

China's dalliance with Venezuela included calculations about the benefits of close ties to a country that was at the very least a thorn in the side of the United States.

transactions could also be extended to "foreign persons who provide support or goods or services to any designated person, including the government of Venezuela."[56]

Prior to Rosneft's recent decision to sell its Venezuelan oil assets to the Russian government out of concern it might get caught up in US sanctions, Russia had seemed to be more willing than China to openly flaunt its continued oil and other deals with Venezuela.[57] While Chinese firms may have been less willing to publicly defy the new US sanctions, there is evidence that they have used loopholes and the cover of Russian-flagged vessels to transport and sell Venezuelan crude. The Trump administration's continued support for the opposition interim government under Juan Guaidó, the US pushback against China's role in Latin America, and the broader scaling up of the US-China strategic rivalry all mean that the possibility of Chinese firms becoming more entangled in US sanctions of Venezuela is real.

China's official responses to pressure from the more assertive US position on Venezuela under the Trump administration have so far been highly defensive and critical. China has characterized its role in Venezuela as that of an apolitical development partner while criticizing the United States' history of interference in the domestic affairs of countries in Latin America and the Caribbean. Even during the Obama administration, some Chinese think tank analysts and officials entertained conspiratorial theories about US intentions to undermine China's position in Venezuela and elsewhere in the Americas, mentioning efforts to work with the Venezuelan diaspora in Colombia and the United States. Almost all such theories sidestepped the difficult realities of China's commercial and diplomatic relations with Venezuela under both Chávez and Maduro.[58]

Yet as Chinese government ministries, state-owned enterprises, and policy banks have become more aware of political and economic risk in regions such as Latin America where China's financial and investment ties have expanded in recent decades, Venezuela has come to feature more prominently in Chinese internal debates as an example of a country where risk was misdiagnosed.[59] Such analyses tend to focus on the risks associated with China's loans-for-oil arrangements with Venezuela, yet from the outset it was clear that China's dalliance with Venezuela included calculations about the benefits of close ties to a country that was at the very least a thorn in the side of the United States. China has long viewed expanded ties to Latin America and the Caribbean as a counterweight to US influence in East Asia (especially Southeast Asia), and thus its relations with Chavista Venezuela have always been conducted at least partly as a conscious provocation.

Now that the US-China strategic rivalry has blown open, and China's ties to Venezuela are at the center of that rivalry in the Americas, it is unclear whether Chinese officials have an exit strategy. After years of "poking the (US) bear," China's supposed proclivity for making long-run calculations looks more like indecision. As Venezuela's financial crisis deepens, its role as an example of unsustainable Chinese lending is likely to reemerge as Latin America and the international community grapple with multilateral efforts at debt forgiveness and loan restructuring. In a setting of tense US-China rivalry, it is increasingly unlikely that China will participate in political transition and economy recovery packages if such efforts are primarily led by the United States.[60] Venezuela thus stands out both for its potential to be an even greater focal point in

US-China tensions and for the increasing likelihood that multilateral efforts to get Venezuela back on its feet will be slowed or will fail as a result of Sino-American friction.

Considerations of unilateral US pressure for China to change its stance aside, any calculations about what might alter the status quo of stalemated China-Venezuela relations must also include the direction of domestic Venezuelan politics and the role of the nation's neighbors and the broader international community in helping broker a negotiated political resolution to its political crisis. For example, the Lima Group has been active in seeking regional solutions to the Venezuelan crisis, while Norway has sponsored negotiations between the Maduro government and the interim Guaidó government. Though such regional and international efforts have yet to achieve a breakthrough on the political front, it is far likelier that China would at least voice support for a settlement resulting from multilateral talks. Yet as China attempts to understand the political winds in Venezuela and influence outcomes to its advantage, a more unilateral or behind-the-scenes form of intervention can't be completely counted out.

Here, looking to the example of Zimbabwe might prove prescient. In the case of Robert Mugabe's drawn-out political downfall, which finally came to a head in 2017, China persisted in its official public support, despite long-simmering dissatisfaction, while waiting for Mugabe's eventual demise.[61] In some ways, China's close relationship with Mugabe, however, soured; Zimbabwe's long-term economic and political crisis, which undercut Chinese interests in the country; and a complex array of domestic and regional actors with an interest in the outcome all are mirrored in China's predicament in Venezuela.[62] The differences, however, include Venezuela as the most dysfunctional of all of China's partners in Latin America and the Caribbean and the fact that the drama playing out in the Americas is doing so in the context of a growing US-China rivalry. Though China was able to emerge from the end of the Mugabe era as a key economic player in Zimbabwe, with plans in hand to construct the country's new parliament building, it is far from obvious that China will emerge as unscathed from its troubled ties with Venezuela.[63]

Conclusions: Learning from China's Mistakes

The China-Venezuela relationship is important, largely as a cautionary tale, at a number of levels. On its own terms, the relationship between the two countries has failed to live up to the economic potential that political and business leaders on both sides envisioned. And though Chávez and Maduro were able to secure valued financial resources and diplomatic cover from China, China has been exposed to the vicissitudes and widespread impacts of Chavista misrule that its economic and political support helped enable in the first place. Regionally, the floundering China-Venezuela relationship underscores how far China's win-win rhetoric and promises, based on commodity complementarity with South America, have turned into something far closer to lose-lose patterns associated with historical Latin American commodity dependence and resource curses. Chinese foreign policy and policy bank officials entered into their outsize economic and political relationship with China with a combination of hubris, ambition, and naïveté about the country and the region that has contributed to the region's worst economic, humanitarian, and political crisis in decades.

The China-Venezuela relationship is also an indictment of China's diplomacy with other developing regions such as Africa and parts of Southeast Asia. China promised to be a different kind of development partner and ally, but as Venezuela descended into crisis, China stood on the sidelines. Rather than offering to cooperate in regional or other multilateral solutions to the economic, humanitarian, and political crisis, China instead resorted to platitudes about its support for Venezuelan stability and sovereignty. Moreover, difficulties in the nations' loans-for-oil relationship long predated concerns about China's unsustainable development finance. Such problems are both a result of opaque, state-to-state, unaccountable dealmaking and an ongoing example of how such dealings can work against both parties' interests, undermining economic and political stability and contributing to broader patterns of political and potentially violent conflict.

China-Venezuela relations are, therefore, an active case study for other countries whose leaders have entered into troubled and unsustainable lending and investment ties with China. In Southeast and South Asia, countries such as Malaysia, Myanmar, Thailand, and Sri Lanka, among others, have all been involved in renegotiating infrastructure and energy deals with China that went awry in one way or another. In many of those cases, as in Venezuela, politicized, corrupt, or simply poor dealmaking was to blame for deals that were financially, environmentally, socially, or politically disruptive or unsustainable. In this comparative context, and at a time of growing anxiety and debates over what China will do in places where it has become a key lender, those concerned about its unsustainable development finance will be watching to see whether China again chooses opaque, bilateral debt restructuring with Venezuela, or whether it instead changes course to participate in regional or other multilateral efforts to restructure Venezuela's debt burden.[64] China's recent agreement to participate in a multilateral debt restructuring deal with Angola, where the CDB has lent more money than anywhere else in Africa, highlights just how little responsibility China has taken to help set Venezuela on a more sustainable path. The lessons learned by the various stakeholders in the troubled China-Venezuela relationship will bear heavily on the future of that relationship and on China's broader efforts to be seen as a leader of international development.

At the level of great power relations, China's foray into its still unprecedented loans-for-oil arrangement and its close political association with Chavista Venezuela had from the start the potential to become points of friction in the US-China relationship. Even if China's calculations that these close oil and political ties would fit into broader commodity-based ties to Latin America and build on decades' worth of third world diplomatic rivalry in the region, forging close ties with Chávez always had the potential to be provocative.[65] After all, Chávez inherited Fidel Castro's revolutionary and anti-US legacy (if more in thought than in deed), a fact that should not have been lost on Chinese officials as they created their special relationship with Chávez in the first decade of the twenty-first century. Though the China-Venezuela relationship is not a primary cause of the increasing geostrategic rivalry between the United States and China, it is arguably now the most contested site of that rivalry in the Americas.

Notes

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