

Sino-Venezuelan Relations: Beyond Oil

JOSEPH Y. S. CHENG AND HUANGAO SHI

Sino-Venezuelan relations have witnessed an unprecedented intimacy since the beginning of Hugo Chávez's presidency in 1999. While scholars hold divergent views on the possible implications of the suddenly improved bilateral relationship, they have reached a basic consensus that oil has been the driving force. This article explores the underlying dynamics of this relationship from the Chinese perspective. It argues that oil interest actually plays a rather limited role and will continue to remain an insignificant variable in Sino-Venezuelan ties in the foreseeable future. Despite the apparent closeness of the ties in recent years, the foundation for continued improvement in the future seems far from solid. Sino-Venezuelan relations have caused serious concerns in the United States, which, for centuries, have seen Latin America as its sphere of influence. Although the neo-conservatives are worried about the deviant Chávez administration and a rising China, the chance of any direct U.S. intervention remains slim. Nevertheless, the China-U.S.-Venezuelan triangular relationship poses a

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challenge to the Chinese leadership in its effort to balance its various foreign policy objectives.

KEYWORDS: Sino-Venezuelan relations; oil; trade and investment; balance in foreign policy objectives.

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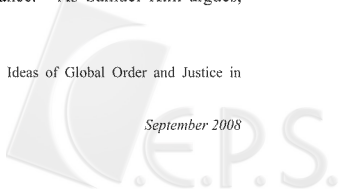


The development of Sino-Venezuelan relations in recent years has attracted a lot of attention in the Western media. In many ways, it is in line with the broad trends of China's foreign policy: resources diplomacy, extending China's global reach to correspond to its "peaceful rise," giving a higher profile to its "Third Worldist" orientation in diplomacy, etc. Yet support for radicalism in international relations has an adverse effect on China's image as a status quo power. Establishing a strategic partnership with Venezuela may be perceived as a direct international relations challenge to U.S. interests in its own sphere of influence, which goes against Beijing's efforts to avoid provoking the United States. Also, having close ties with the Hugo Chávez administration is not exactly in line with China's enhancement of its "soft power" through the establishment of more than one hundred Confucius Institutes (孔子學院) all over the world. It is the intention of this article to examine China's policy toward Venezuela in the light of these contradictions. The article attempts to analyze China's objectives and assess the achievements of its approach to Venezuela.

China's Foreign Policy: Toward a "Responsible Stakeholder"

In line with its economic reforms and its opening up to the outside world, China has, in its foreign policy, abandoned support for revolutionary ideology and opted for system maintenance.¹ As Samuel Kim argues,

¹Rana Mitter, "An Uneasy Engagement: Chinese Ideas of Global Order and Justice in



despite Beijing's rhetorical bemoaning of inequalities in the international economic system, criticism of military intervention by the major powers, and denunciation of U.S. unilateralism, Chinese foreign policy since the early 1980s can in fact be best characterized as dynamic "system maintenance."² Since the beginning of the new millennium, China has increasingly been motivated by a desire to maintain the status quo through stable relations with the major powers and the promotion of China's gradual rise in the international system.³ China has been stepping up its major-power diplomacy (大國外交, *daguo waijiao*). It has been working to improve relations with Russia, Germany, France, and the European Union while avoiding confrontation with the United States. President Hu Jintao's (胡錦濤) attendance at the North-South conference alongside the G-8 summit in France represented a small breakthrough, as the G-8 had long been perceived as a major-power club dominated by the Western world and discriminating against the interests of developing countries. This change of mind underscored China's desire to participate in major-power forums.⁴

In recent years, the concept of "peaceful rise" (和平崛起, *heping jueqi*) has been developed by the Chinese leadership to counter the "China threat" perception.⁵ When introducing the concept at Harvard University in December 2003, Premier Wen Jiabao (溫家寶) of China argued that while the Euro-American powers rose through violent imperial expansion, China intended to exploit "scientific and technological progress to solve

Historical Perspective," in *Order and Justice in International Relations*, ed. Rosemary Foot, John Lewis Gaddis, and Andrew Hurrell (Oxford: Oxford University Press, 2003), 207-36.

²Samuel S. Kim, "China and the United Nations," in *China Joins the World: Progress and Prospects*, ed. Elizabeth Economy and Michel Oksenberg (New York: Council on Foreign Relations Press, 1999), 46.

³Zhang Yunling, "Ruhe renshi Zhongguo zai Yatai diqu mianlin de guoji huanjing" (How to understand the international environment China faces in the Asia-Pacific region), *Dangdai Yatai* (Contemporary Asia and the Pacific), no. 6 (June 2003): 13-14.

⁴Yong Deng and Thomas G. Moore, "China Views Globalization: Toward a New Great-Power Politics?" *The Washington Quarterly* 27, no. 3 (Summer 2004): 117-36.

⁵Joseph Y. S. Cheng, "How China Deals with the 'China Threat' Perception," in *Challenges and Policy Programmes of China's New Leadership*, ed. Joseph Y. S. Cheng (Hong Kong: City University of Hong Kong Press, 2007), 207-44.

the resource and the environmental problems."⁶ In the eyes of Chinese scholars within the establishment, "peaceful rise" is the formula that sums up the essence of domestic policy and foreign relations in reforming China.⁷ Western observers also agree that China is more integrated into and more cooperative within regional and global political and economic systems than ever before in its history.⁸ In this connection, China's strategic calculus is characterized by a dynamic status quo orientation that seeks what Robert Gilpin terms "changes *in* an international system" rather than "changes *of* an international system."⁹

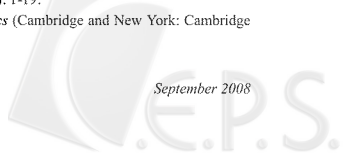
Scholars in China share a basic consensus that, in the next few decades, the Chinese nation will be preoccupied with raising the living standards of its people. This path toward modernization may be called "the development path to a peaceful rise," as China seeks a peaceful international environment in which it can concentrate on socioeconomic development. It avoids challenging the sole superpower, the United States, and attempts to maintain good relations with its neighbors, especially Russia, Japan, and India. China's economic development thus far has been driven by capital, technology, resources, and markets acquired through peaceful means. China does not seek hegemony or predominance in world and regional affairs as it realizes that it does not have the capability to do so. It has been engaging in opposition to U.S. hegemony, though in a relatively low-profile way. Pursuit of major-power diplomacy means that China increasingly demands recognition of its status and influence as a major power. It advocates a new international political and economic

⁶Wen Jiabao, "Turning Your Eyes to China" (把目光投向中國) (Speech at Harvard University, December 10, 2003), <http://www.people.com.cn/GB/shehui/1061/2241298.html>. Since late 2004, the new term "peaceful development" has been stressed more often than "peaceful rise," but the logic of the policy remains similar.

⁷Ling Dequan, "Heping jueqi' gangju muzhang" (Explaining "peaceful rise"), *Liaowang* (Outlook Weekly) (Beijing), February 2, 2004, 6.

⁸Alastair Iain Johnston, "Is China a Status Quo Power?" *International Security* 27, no. 4 (Spring 2003): 5-56; and Rosemary Foot, "Chinese Power and the Idea of a Responsible State," *The China Journal*, no. 45 (January 2001): 1-19.

⁹Robert Gilpin, *War and Change in World Politics* (Cambridge and New York: Cambridge University Press, 1981), 208.



order, one that can be achieved through incremental reforms and the democratization of international relations. In recent years, it has been considerably more active in joint efforts with India, Brazil, South Africa, and Mexico to promote developing countries' interests in international forums. Chinese leaders appreciate that China's development depends on world peace because it needs time.¹⁰ To this end, China is willing to establish ties of cooperation with a wide range of countries, including those with whom China once had hostile relations.¹¹

Chinese leaders also recognize the growing interdependence between China and the rest of the world. Economic reforms launched at the end of 1978 were accompanied by China's opening to the outside world and later the embrace of globalization symbolized by its entry into the World Trade Organization (WTO). Economic globalization has greatly increased China's sensitivity and vulnerability to developments elsewhere in the world. The "sticky power"¹² of interdependence has compelled Chinese policymakers to accept that international cooperation is the best means of achieving their goal of national power.¹³ Hence, the Chinese authorities have adopted a strategy of actively participating in the established world order while lobbying hard to promote their own views and interests.

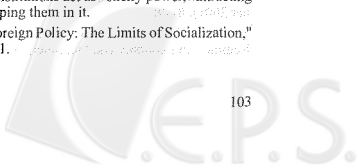
Chinese analysts consider that, in the long term, the decline of U.S. primacy and the subsequent transition to a multipolar world are inevitable. However, in the short term, Washington's power is unlikely to decline, and its predominant position in world affairs is unlikely to change. A cooperative relationship with Washington is of primary importance to Beijing,

¹⁰Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84, no. 5 (September/October 2005): 18-24.

¹¹Harry Harding, "China's Cooperative Behavior," in *Chinese Foreign Policy: Theory and Practice*, ed. Thomas W. Robinson and David Shambaugh (Oxford: Clarendon Press, 1994), 375-400.

¹²See Walter Russell Mead, "America's Sticky Power," *Foreign Policy*, no. 141 (March/April 2004): 46-53. The author argues that U.S. military force and cultural appeal have kept the United States at the top of global power, but the hegemon cannot depend on guns and Hollywood alone; U.S. economic policies and institutions act as "sticky power," attracting other countries to the U.S. system and then trapping them in it.

¹³Hongying Wang, "Multilateralism in Chinese Foreign Policy: The Limits of Socialization," *Asian Survey* 40, no. 3 (May/June 2000): 475-91.



whose top concerns are economic prosperity and social stability.¹⁴ Although the Chinese leadership often finds U.S. hegemony objectionable, it realizes that China has relied a great deal on U.S. leadership for the largely tranquil and open international environment essential for its economic growth during the past decades. China therefore wants to project its image as a "status quo power" that takes "a less confrontational, more sophisticated, more confident, and, at times, more constructive approach toward regional and global affairs."¹⁵ To avoid any costly confrontations with the United States and, indeed, with any major power, and to dispel the perception of the "China threat," Chinese foreign policy has purposely disavowed external military alliances.¹⁶

China embraces globalization because it understands that this is the only way to catch up with the most advanced countries; and isolation would mean falling further behind in the competition to maximize "comprehensive national power." Margaret Pearson observes that "it is difficult not to be impressed with the speed, magnitude, and depth of China's integration into the global economy during the post-Mao era."¹⁷ Much of this positive behavior, according to Alastair Iain Johnston and Paul Evans, relates to China's desire to be viewed as a responsible major power. China joined the WTO partly because it embraces globalization and partly because it wants to take its rightful place in the world's most important trading body. Developing countries have been persuading Beijing to become more actively involved in international organizations that they perceive as bene-

¹⁴Wang Jisi, "China's Search for Stability with America," *Foreign Affairs* 84, no. 5 (September/October 2005): 39-48; and William Ratliff, "China and Venezuela: Pragmatism and Ideology" (Testimony before the U.S.-China Economic and Security Review Commission on "China's Role in the World: Is China a Responsible Stakeholder?" August 3, 2006), http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_08_3_4wrts/06_08_3_4_ratliff_william_statement.pdf.

¹⁵Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs* 82, no. 6 (November/December 2003): 23-35.

¹⁶William C. Wohlforth, "The Stability of a Unipolar World," *International Security* 24, no. 1 (Summer 1999): 5-41; and Tomoyuki Kojima, "China's 'Omnidirectional Diplomacy': Cooperation with All, Emphasis on Major Powers," *Asia-Pacific Review* 8, no. 2 (November 2001): 81-95.

¹⁷Margaret M. Pearson, "China's Integration into the International Trade and Investment Regime," in Economy and Oksenberg, *China Joins the World*, 191.



ficial to domestic stability and regional peace. This involvement is again related to the Chinese leadership's concern with China's international image.¹⁸ Beijing is eager to demonstrate that China is, according to the latest formulation in Washington, a "responsible stakeholder" at the top level of international power.

In view of China's economic growth and rising international status, Latin American countries will accord increasing priority to their relations with the Asian giant. China's permanent seat in the UN Security Council is also a factor to reckon with. Today, Brazil, Argentina, Venezuela, and Mexico have established strategic partnerships with China. Many Latin American countries, including Chile, have also reached a consensus with China to develop long-term cooperation in the twenty-first century. At the end of 2004, China signed agreements on economic and technological cooperation with sixteen Latin American countries, agreements on encouraging and protecting investment with eleven countries in that region, and double taxation agreements with five others. It also established joint commissions for scientific and technological cooperation with Brazil, Mexico, Chile, Argentina, and Cuba.¹⁹ All these agreements reflect the rapid development of Sino-Latin American relations since the early 1990s largely based on expanding trade. As indicated above, the potential for further development of trade, investment, and joint ventures across the Pacific will provide a solid foundation for closer Sino-Latin American relations in the years ahead. There is a view that China's approach to Latin America is similar to Japan's "resources diplomacy" in the years after the Yom Kippur War of 1973. However, while the expansion in Sino-Latin American trade and investment activities does reflect "resources diplomacy" considerations, Chinese leaders tend to consider that China's developing ties with Latin America are aimed at demonstrating a global reach corresponding to

¹⁸See Johnston, "Is China a Status Quo Power?"; and Alastair Iain Johnston and Paul Evans, "China's Engagement with Multilateral Security Institutions," in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross (London: Routledge, 1999), 251.

¹⁹Zhang Mingde, "Sino-Latin American Rhythm," *Beijing Review* 47, no. 48 (December 2, 2004): 12-13.



the improvements in China's economic strength and international status. To allay the widespread suspicions concerning the China threat and to generate a favorable environment in Latin America and in the international community, China has been cautiously engaging in humanitarian operations in recent years. For example, in September 2004, China sent a "special police" peacekeeping contingent to Haiti. This was a demonstration of China's concern for the Latin American people rather than an effort to secure oil and energy supplies.

The vast distance between China and Latin America generates difficulties in transportation and mutual understanding, but it also means that the two parties have no serious conflicts of strategic and political interests. Their "Third Worldist" orientations in diplomacy contribute to an impressive 95 percent concurrence in their votes in the United Nations.²⁰ This broad agreement is expected to be maintained in the WTO, the Asia-Pacific Economic Cooperation (APEC) forum, and similar multilateral organizations.²¹ As China is prepared to assume a more active role in Third World issues in cooperation with the leading Third World countries, there will be more diplomatic coordination between China and the major Latin American countries, though progress will be slow as this is not an area of high priority to the parties concerned.

While the Chinese leadership wants to promote multipolarity to curb U.S. unilateralism, it appreciates the limitations in Latin America. Actually, both China and the Latin American countries value good relations with the United States, and try to avoid any sharp deterioration in these relations. Beijing understands that it should avoid forcing Latin American countries to choose between China and the United States. Similarly, Chinese leaders realize that Latin America has no strategic interests in the

²⁰Latin American Research Group, China Institute of Contemporary International Relations, "Zhongguo dui Lading Meizhou zhengce yanjiu baogao" (Research report on China's policy toward Latin America), *Xiandai guoji guanxi* (Contemporary International Relations), no. 4 (2004): 1-11.

²¹It is also true that recent years have seen occasional minor disagreements between China and Latin America in organizations like the Group of 21, which is arguably linked to the failure of the WTO Ministerial Conference in Cancun in September 2003.

Asia-Pacific region, and they therefore are more tolerant of the formal and informal ties these countries have with Taiwan.

China will increase its investment in Latin America and more Sino-Latin American business joint ventures will be formed. These trends, hopefully, will reduce such forms of trade friction as anti-dumping measures. Distance and language barriers will continue to handicap the development of tourism and educational and cultural exchanges. In recent years, Beijing has designated many Latin American countries as official tourism destinations for Chinese citizens; but in the near future, few Chinese citizens will be able to exploit the opportunity.

Both China and the Latin American countries hope to see increasing prosperity on the other side of the Pacific because this will mean more trade and rising demand for each other's products. There will be more participation from Latin American countries in APEC, while China will be eager to expand its multilateral diplomatic work in various Latin American regional organizations. Like China, major Latin American countries such as Brazil have both advanced and backward sectors in their economies; hence the scope for cooperation is broader and relations can be more balanced. A model South-South relationship can thus be achieved. It has to be recognized, however, that Sino-Latin American relations remain shallow and limited, making the maintenance of relatively idealistic mutual expectations unproblematic.²²

Sino-Venezuelan Energy Cooperation:

Myths and Facts

Since his election as Venezuelan president in 1998, Hugo Chávez has visited China four times.²³ He considers economic cooperation with

²²See Joseph Y. S. Cheng, "Latin America in China's Contemporary Foreign Policy," *Journal of Contemporary Asia* 36, no. 4 (2006): 500-28.

²³Hugo Chávez visited China in 1999, 2001, 2004, and 2006. Prior to Chávez only one Venezuelan president (Herrera Campíns in 1981) had visited China since the establishment of formal relations in 1974.

China, especially the oil trade, a fundamental pillar of his foreign policy of building a more "multipolar world" and reducing Venezuela's dependence on the U.S. market for its oil exports.²⁴ Venezuela has absorbed the most Chinese investment among the Latin American countries.²⁵

Bilateral Energy Cooperation

China has undertaken the operation of two oilfields in Venezuela since its entry into the Venezuelan market in 1997. According to agreements signed in Beijing in December 2004 and Caracas in January 2005, it undertook to develop fifteen declining oilfields in Zumano in eastern Venezuela (reserves are estimated at 400 million barrels of crude and 3 trillion cubic feet of natural gas), to buy 120,000 barrels of oil a month, and to build a plant in Venezuela to produce the boiler fuel used in Chinese power plants. Under the agreements, Venezuela has invited China to participate in many projects, such as prospecting for oil in the Orinoco belt, which probably has one of the world's largest deposits of crude oil, and searching for natural gas offshore. Energy industry analysts consider that these deals, though marginal at this stage, show that China is willing to move in slowly, with bigger ambitions in mind.²⁶

According to China's General Administration of Customs (海關總署), China imported 1.93 million tons of Venezuelan sour and heavy crude in 2005, an increase of 476.6 percent over 2004. Exports of Venezuelan petroleum products to China also registered a 142 percent increase in 2005, reaching a level of US\$578 million (see figure 1). However, this only amounted to 1.5 percent of China's total crude imports. In 2006, Venezuela became the ninth biggest oil supplier to China, with a daily export of 90,100 barrels of crude, an increase of 311 percent from the 21,900 barrels

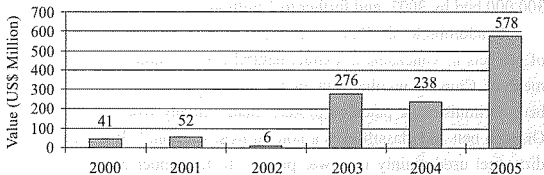
²⁴"Energy Focus for Chávez in China," BBC News, August 22, 2006, <http://news.bbc.co.uk/2/hi/business/5276260.stm>.

²⁵Ruan Yulin (阮煜琳), "Weineiruila muqian yijing chengwei Zhongguo zai Lamei de zuida touziguo" (Venezuela has become the Latin American country receiving the most Chinese investment), China News Service, August 26, 2006, http://big5.china.com.cn/zhuanti/115/duiwaikaifang/txt/2006-08/26/content_7107908.htm.

²⁶Juan Forero, "China's Oil Diplomacy in Latin America," *New York Times*, March 1, 2005.

Figure 1

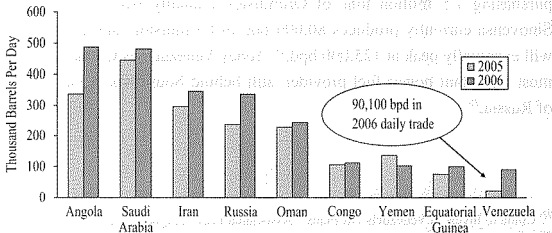
Value of Oil Trade between China and Venezuela, 2000-2005 (US\$ Million)



Sources: *Zhongguo shangye nianjian* (Almanac of China's commerce), various issues.

Figure 2

Important Sources of China's Crude Oil Imports, 2005 and 2006 (January – August)



Source: Data are derived from Energy Information Administration, U.S. Department of Energy, *Country Analysis Briefs: China 2006*, <http://www.eia.doe.gov/emcu/cabs/China/Oil.html>.

per day (bpd) exported in 2005 (see figure 2).²⁷ During Chávez's fourth visit to China in August 2006, the China National Petroleum Corporation (CNPC) and the China Petroleum & Chemical Corporation (Sinopec) agreed to jointly invest US\$5 billion in oil exploration and production

²⁷ *China Oil and Gas Monthly* (Singapore: FACTS), November 2006.



projects in Venezuela.²⁸ In addition, President Chávez announced plans to increase fivefold Venezuela's oil sales to China, from 155,000 bpd to 300,000 bpd by 2007, and further to 1 million bpd by 2012.²⁹

In addition to oil, China is also investing US\$60 million in a number of projects in Venezuela to extract natural gas.³⁰ Another significant element of Chinese involvement in the Venezuelan petroleum sector has been Orimulsion, a patented product made mainly from bitumen in the Orinoco belt and classified as a non-oil hydrocarbon.³¹ It is a low-grade, dirty fuel used mainly in power plants. In December 2001, CNPC and Petroleos de Venezuela S.A. (PDVSA) established the joint venture Orifuel Sinoven S.A. (Sinovensa) and invested US\$330 million to produce 6.5 million metric tons of Orimulsion per year by the end of 2004. In November 2003, CNPC began constructing a special type of power plant capable of burning Orimulsion in Guangdong (廣東省).³² PetroChina is currently purchasing 1.5 million tons of Orimulsion annually from Venezuela.³³ Sinovensa currently produces 80,000 bpd of Orimulsion, and production will eventually peak at 125,000 bpd.³⁴ Today Venezuela is China's second most important power fuel provider, still behind South Korea, but ahead of Russia.³⁵

²⁸"China to Invest in Venezuela Oil Plans," Associated Press, August 28, 2006.

²⁹"China Seals Oil Deal with Chávez," BBC News, August 25, 2006, <http://news.bbc.co.uk/2/hi/business/5286766.stm>.

³⁰Fabiola Sanchez, "Chávez Predicts Energy Deals with China to Boost Trade to \$3b," *The Boston Globe*, December 28, 2004.

³¹Orimulsion is a low-grade, high-pollution content fuel oil traditionally given little or no value because of the lack of a global market for its use.

³²Energy Information Administration, U.S. Department of Energy, *Country Analysis Briefs: Venezuela 2004* (June 2004), <http://www.eia.doe.gov/emeu/cabs/venez.html>.

³³R. Evan Ellis, *U.S. National Security Implications of Chinese Involvement in Latin America* (Monograph published by the Strategic Studies Institute of the U.S. Army War College, June 2005), <http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB606.pdf>.

³⁴Energy Information Administration of U.S. Department of Energy, *Country Analysis Briefs: Venezuela 2006* (September 2006), <http://www.eia.doe.gov/emeu/cabs/Venezuela/Oil.html>.

³⁵Ratliff, "China and Venezuela: Pragmatism and Ideology."

Economic and Technological Obstacles in the Oil Trade

Placing more oil on China's market will not be easy for Venezuela. Most of its oil is sold to the United States. To reduce its dependence on the United States, Venezuela must either expand production and generate more oil for export, or divert to China oil that is currently exported to the United States.

The first option, i.e., expanding domestic production, faces numerous constraints. In August 2005, PDVSA unveiled its strategic plan for 2006-2012, calling for US\$56 billion of investment to raise Venezuela's production capacity from 3.3 million bpd to 5.8 million bpd.³⁶ Despite abundant reserves, Venezuela does not offer an attractive investment environment to achieve this expansion. There are four major obstacles: the impact of the 2002 oil strike; increasingly insecure property rights, especially in the oil sector; political unrest; and Venezuela's commitment to the Organization of Petroleum Exporting Countries (OPEC). In 2000, Chávez succeeded in getting OPEC members to address the issue of over-production, thus contributing to a rise in oil prices. Expanding oil production to sell to China might thus clash with Venezuela's OPEC policy which has been fruitful for Venezuela.

Meanwhile, the major obstacle to expanding the Sino-Venezuelan oil trade is China's inability to refine Venezuela's high-sulfur crude.³⁷ Although China is building additional refining capacity, it is mainly for heavy crude from the Persian Gulf, which has much lower sulfur content. This leaves little room for Venezuelan crude. In contrast, the U.S. states on the Gulf of Mexico have refineries ideally set up to refine Venezuela's heavy crude.

³⁶The *New PDVSA Contact* (a newsletter about Venezuela's national oil industry published by PDVSA), no. 3 (September - October 2005), <http://www.pdvsa.com/interface/en/database/fichero/publicacion/925/19.PDF>; and "China Plans \$5bn Energy Push in Venezuela," *Financial Times*, August 28, 2006.

³⁷Peter Wilson, "Venezuela's Oil Sales to U.S. Drop as Chávez Sends More to Asia," *Bloomberg News*, July 12, 2006, http://www.bloomberg.com/apps/news?pid=20601086&refer=latin_america&sid=a_H7VhJXt_6L.



Shipping oil to Asia from Venezuela can take five to almost ten times longer than shipping to the United States. It is significant to note that the Panama Canal cannot accommodate supertankers. The long distance means higher transportation costs. According to experts, the transportation cost to China is US\$3 higher per barrel than that to the U.S. market.³⁸ Moreover, in times of crisis, China would have difficulties protecting the oil shipments. Apparently China is aware of the higher costs and does not seem eager to absorb them. Zhang Bolun (張伯倫), the political counselor of the Chinese embassy in Caracas, stated: "Venezuela's oil business deals with the United States are more lucrative than any possible oil business deal with China, because of the heavy costs entailed."³⁹

At this stage, China is content with the opportunity to make modest investments in Venezuela's marginal fields, to continue its operations in the Intercampo and Caracoles oilfields (agreements signed in 1997 between CNPC and PDVSA), and to maintain the development of Orimulsion it has financed. China has not openly expressed a substantial interest in major oil investments or large oil purchases from Venezuela. There is also the issue of "asymmetrical interdependence," as China is more important to Venezuela than vice versa. Just as Venezuela is committed to diversifying its oil markets, China is committed to diversifying its oil suppliers, including Vietnam, Russia, the Middle East, Central Asia, and Africa.⁴⁰

³⁸Yang Ming (楊明), "Zhongguo Weineiruila fazhan guanxi zhongzai shiyou?" (Is oil the focus of Sino-Venezuelan relations?), Voice of America News, August 24, 2006, <http://www.voanews.com/chinese/w2006-08-24-voa78.cfm>.

³⁹Javier Corrales, "Why Venezuela is Trapped, For Now: China, Iran and Venezuela's Search for Oil Markets," February 2008, <https://www.amherst.edu/media/view/47853/original/China-Venezuela+Feb+2008.pdf>.

⁴⁰Even in Latin America, China seems to be diversifying its sources of raw materials and its investment portfolio. In Brazil, Petrobras and China National Offshore Oil are exploring joint operations in oil refining and pipelines, with a US\$1 billion agreement with Sinopec to build a gas pipeline. In Bolivia, Shengli International Petroleum Development opened an office in the gas-rich eastern region and announced plans to invest up to US\$1.5 billion, depending on the result of a new hydrocarbons law under consideration in parliament. China has also expressed strong interest in oil blocks and exploration deals in Ecuador, Peru, and Colombia. See Forero, "China's Oil Diplomacy in Latin America" (cited in note 26 above).

Dynamics of Sino-Venezuelan Relations:

The Bolivarian Revolution

With four overwhelming election victories, Chávez has been attempting to transform the Venezuelan government and society in what he has termed a "Bolivarian Revolution." Based on Chávez's interpretation of the thinking of the Venezuelan founding fathers Simon Bolivar and Simon Rodriguez, this revolution brings together a set of ideas that justifies a populist and sometimes authoritarian approach to government, the integration of the military into domestic politics, and the use of the state's resources to serve the poor who are Chávez's main constituency. Although the Bolivarian Revolution is mainly oriented toward domestic politics, it also has an important foreign policy component. Bolivarian foreign policy seeks to defend the revolution in Venezuela, promote a leadership role for Venezuela in Latin America, and work toward the emergence of a multipolar world in which U.S. hegemony would be checked.⁴¹

Venezuela is trying to reduce the dominant role of the United States and the multinational corporations in its economy. The long-term goal is to create an alternative international economic system that promotes social development over profit, and respects sovereignty and cooperation over the short-sighted demands of international finance. Chávez therefore seeks to forge strong ties with other developing countries to secure the necessary capital, technology, and expertise traditionally provided by multinational corporations. Venezuela's strategic partnership with China is but one element of this development strategy.

The Chávez administration accords priority to building relations with China, as China is perceived as a major potential customer for Venezuelan crude. Beyond oil, China also represents an alternative source of investment and technology; and its decision to cooperate with the Chávez administration is unlikely to be influenced by the United States. Venezuela

⁴¹Juan Forero, "U.S. Considers Toughening Stance toward Venezuela," *New York Times*, April 26, 2005.

has suspended all military links with the United States, and now considers China to be an alternative source of military expertise and equipment.⁴² China's successful experience in economic development, representing a departure from the Washington Consensus, has attracted Venezuela's attention.

Oil as a Double-Edged Sword

The oil policy in Venezuela is almost equivalent to its economic policy.⁴³ With 7 percent of the world's reserves, Venezuela remains the fourth-largest oil supplier of the United States. Chávez's ambitious socialist project will have to depend on oil revenue; for example, PDVSA spent nearly US\$4 billion in 2004 on social programs for the poor.⁴⁴

Support for Chávez is not solely based on his charisma and populism. His substantive policies, especially the redistribution of oil wealth to the lower classes and land reform, contribute strongly to his continued popularity in Venezuela despite several attempts to remove him from power. The profits of the oil industry go to education, health care, and land reform. High oil prices in recent years obviously mean more money for social programs.⁴⁵ This dependence on oil, however, also implies vulnerability to market fluctuation in prices. As observed by an economic expert at J. P. Morgan, Venezuela would be the country to suffer the biggest financial crisis in the region if oil prices were to drop suddenly.⁴⁶

⁴²Juan Forero, "Arms Buying by Venezuela Worries U.S.," *New York Times*, February 15, 2005; and Juan Forero and Brian Ellsworth, "Venezuela Ends Military Ties and Evicts Some U.S. Officers," *ibid.*, April 25, 2005.

⁴³Janet Kelly and Carlos A. Romero, "Global Changes and Relations between the United States and Venezuela," in Janet Kelly and Carlos A. Romero, *The United States and Venezuela: Rethinking a Relationship* (New York and London: Routledge, 2002), 26-52.

⁴⁴Simon Romero and Clifford Krauss, "Venezuelan Plan Shakes Investors," *New York Times*, January 10, 2007; and Jose de Cordoba, Drew Benson, and Thaddeus Herrick, "Chávez Says Venezuela Intends to Sell Its U.S. Refinery Holdings," *Wall Street Journal*, February 2, 2005.

⁴⁵Tom Gottheil, "Antagonism and Intervention: Hugo Chávez and American Foreign Policy," <http://www.gwu.edu/~uwpl/fyw/euonymous/Gottheil.pdf>.

⁴⁶De Hao, "Laméi shiyouguo: Zhuanqian mowang qiongkunshi" (Latin America's oil-producing countries: Be aware of the potential hardship in future), *Zhongguo shiyou shihua* (China Petroleum and Petrochemicals), no. 4 (2005): 26.

China as a Political and Security Partner

Venezuela sees China as the largest developing country with the fastest-growing demand for energy in the world. Latin America achieved satisfactory economic growth in 2004, and much of that growth came from the booming sales of raw materials to China, rather than from trade with the United States.⁴⁷ President Chávez therefore hopes to exploit China's interest in energy to boost trade ties and secure credit lines to invest in infrastructure including transport and telecommunications.⁴⁸

On the political front, Chávez presents himself as Washington's staunchest adversary in Latin America along with Cuba's Fidel Castro, and he is attempting to secure China's support for a non-permanent Security Council seat for Venezuela. In China, Chávez "sees an emerging power quietly growing and challenging U.S. dominance," according to Elsa Cardoso, a political expert at Caracas' Metropolitan University.⁴⁹ As a developing country with a one-party government, China appears to be the perfect ideological and developmental counterbalance to the United States.⁵⁰

To improve security along its border with Colombia, Venezuela has acquired from China three JYL-1 mobile air-defense radar systems, including a command-and-control center, technical support, and access to a satellite communications network.⁵¹ This kind of security cooperation will certainly continue. In 2002, following the failed civic movement in Venezuela to overthrow Hugo Chávez, American military trainers were

⁴⁷Lu Guozheng, "2004 nian Lading Meizhou he Jialebihai diqu jingji quanmian chixu fusu" (Latin America and the Caribbean region see comprehensive and consistent economic recovery in 2004), *Lading Meizhou yanjiu* (Latin American Studies) 27, no. 2 (2005): 58-65; and Larry Rohter, "Bush Faces Tough Time in South America," *New York Times*, November 2, 2005.

⁴⁸Drew Thompson, "China's Global Strategy for Energy, Security, and Diplomacy," *China Brief* 5, no. 7 (March 29, 2005), http://www.jamestown.org/china_brief/article.php?issue_id=3280.

⁴⁹Waidian guan Zhu Weineirula zongtong fang-Hua, cheng fan-Mei bushi Zhong-Wei hezuo jichu" (Foreign media concern about Venezuelan president's visit to China: Anti-Americanism is not the base for Sino-Venezuelan cooperation), *Huanqiu shibao* (環球時報, Global Times), August 22, 2006.

⁵⁰Ratliff, "China and Venezuela: Pragmatism and Ideology."

⁵¹*Ibid.*

withdrawn from the country. They were replaced almost immediately by Spanish-speaking special force trainers from the Chinese People's Liberation Army (PLA). At the same time, Chinese air force trainers also arrived in Venezuela as instructors for a new fleet of airplanes purchased from China by the Chávez administration.⁵² President Hugo Chávez also accused the Bush administration of blocking the sale of Brazilian military training aircraft to his government (Brazil needed U.S. approval for the sale because the aircraft use American technology) and he threatened to turn to China.⁵³

Further, the China Great Wall Industry Corporation was contracted by Venezuela to design, manufacture, test, and, in 2008, put into orbit the VENESAT-1 satellite. Named "Simon Bolivar," the satellite will be launched from the Xichang (西昌) Satellite Launch Center in southwest China in 2008 by a Long March 3B rocket. The satellite is designed to have a mission life of fifteen years during which it will "guarantee" Venezuela's "autonomy in telecommunications" and facilitate the development of the country's film, television, cultural, and educational program. Chávez described the accord with China as of "strategic and historic importance"; and he further added that "there will be never sufficient words to thank China for the moral, scientific, and technological support."⁵⁴

China as Trade Partner and Source of Investment and Technology

The Chinese markets for foodstuffs and minerals have generated increasing export revenues for Venezuela, which is also looking to China as a potential source of new investment.⁵⁵ Venezuela is now the largest

⁵²"China Challenges U.S. in Latin America," *Miami Herald*, April 15, 2001; and Albert Santoli, "China's Strategic Reach into Latin America" (Testimony before the U.S.-China Economic and Security Review Commission on "China's Growing Global Influence: Objectives and Strategies," July 21, 2005), http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/santoli_albert_wrts.htm.

⁵³"Venezuela: Chávez Says U.S. Blocks Warplane Sale," *New York Times*, January 11, 2006.

⁵⁴"Venezuela, China to Build Satellite," November 2, 2005, <http://cooltech.iafrica.com/space/515645.htm>.

⁵⁵Claudio Loser, "China's Rising Economic Presence in Latin America" (Testimony before

Table 1
Sino-Venezuelan Trade, 1999-2006 (US\$ million)

Year	Imports from China		Exports to China		Total Trade	
	Value	Change (%)	Value	Change (%)	Value	Change (%)
1999	160.70	-5.7%	2.66	121.8%	188.36	3.0%
2000	256.50	59.6%	94.79	242.7%	351.28	86.5%
2001	443.44	72.9%	145.77	53.8%	589.21	67.7%
2002	332.96	-24.9%	144.96	-0.6%	477.91	-18.9%
2003	199.24	-40.1%	542.18	274.0%	741.42	55.2%
2004	595.56	198.9%	738.01	36.1%	1,333.57	79.9%
2005	907.84	52.4%	1,234.01	67.2%	2,141.85	60.6%
2006*	1,546.00	70.3%	2,588.00	109.7%	4,134.00	93.0%

*January-November only.

Sources: Data for 1999-2005: *Lading Meizhou yanjiu* (Latin American Studies), various issues; and data for January-November 2006: PRC Ministry of Commerce, <http://mds.mofcom.gov.cn/aarticle/Nocategory/200303/20030300077570.html>.

single recipient of China's overall investment in Latin America. China's investment is mainly concentrated on two oilfields under development by Sinopec. In 2005, trade between China and Venezuela reached US\$2.142 billion (see table 1). In the first eleven months of 2006, the top five trade partners of China in the Latin American and Caribbean region were Brazil, Mexico, Chile, Argentina, and Venezuela, with their respective bilateral trade volumes amounting to US\$18.59 billion, US\$10.41 billion, US\$7.94 billion, US\$5.14 billion, and US\$4.13 billion.⁵⁶ According to its Ministry of Commerce, by 2006 China had established 62 companies in Venezuela with a total investment of US\$700 million. Investment is concentrated on oil exploration, oil technology service, housing construction, railway construction, and water pipeline construction. China also offered Venezuela

the U.S.-China Economic and Security Review Commission on "China's Growing Global Influence: Objectives and Strategies," July 21, 2005), http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/loser_claudio_wrts.pdf.

⁵⁶Data from <http://www.fmprc.gov.cn/chn/wjlb/zzjg/ldmzs/gjlb/2068/default.htm>.

a US\$700 million credit line to build houses, an aid project to help Chávez lift his major constituents out of poverty.⁵⁷

China is also in a strong position to contribute its technical expertise and practical experience to the development of extensive rail networks in Venezuela. In 2006, President Hugo Chávez unveiled a plan to construct a 1,000-kilometer-long railway costing US\$10 billion with aid from China. Chávez pointed out that cooperation in the field of infrastructure was playing a very important part in the strategic partnership between the two countries. He revealed that contracts had just been signed on a US\$1.22 billion loan from Beijing to build 20,000 homes as well as to buy 18 oil tankers and 13 oil drills from China.⁵⁸ PDVSA is to pay back the loan in the form of oil exports. Chinese economists regarded this case as a typically successful example of China's "project for resources" strategy.

In the agricultural sector, Venezuela's interest in improving agricultural productivity coincides with China's interest in developing a reliable supply of foodstuffs. During the 2004 visit of Chávez to China, China agreed to provide Venezuela with agricultural machinery and a US\$40 million credit line to increase its food production.⁵⁹ Since 2001, the China National Construction and Agricultural Machinery Import/Export Corp. (CAMC) had been supplying the Venezuelan government with several hundred tractors through a US\$30 million loan.⁶⁰ On July 3, 2002, the China CAMC Engineering Co. Ltd. signed a US\$100 million contract with the Venezuelan government to construct a water supply system for the Falcon state. Later, in June 2006, this Chinese company concluded another US\$80.3 million construction contract with the Falcon state for the second

⁵⁷Saul Landan, "China Throws an Economic Spear at the Monroe Doctrine," *Canadian Dimension* 39, no. 4 (July/August 2005): 42-44.

⁵⁸Qin Jize (秦吉泽), "Chávez Unveils Railway Plan," *China Daily*, August 26, 2006.

⁵⁹Gregory Wilpert, "Venezuela Offers China Greater Access to Oil to Reduce Dependence on U.S. Market," *Venezuelanalysis.com*, December 25, 2004, <http://www.venezuelanalysis.com/news.php?newsno=1454>.

⁶⁰Chinese Embassy in Venezuela, "Chaweisi zongtong chuxi wo xiang Wei chukou dierpi nongji daoke fafang yishi" (President Chávez presides over the ceremony for the arrival of China's second batch of tractors to Venezuela), February 12, 2003, <http://ve.mofcom.gov.cn/aarticle/jmxxw/200302/20030200068356.html>.



phase of the water supply project. The above-mentioned US\$40 million credit line concluded in 2004 was given to the Venezuelan agricultural development fund to purchase agricultural machinery from the China CAMC Engineering Co. Ltd.⁶¹ On February 3, 2004, the YTO Group Corporation, the biggest tractor manufacturer in China, secured a contract to export 530 ultra-large horsepower tractors (Dongfanghong 東方紅) to Venezuela, the company's largest export deal to date.⁶² Venezuela is keen to obtain Chinese technology in the oil sector as well. PDVSA announced that by 2008 it would be assembling rigs in Venezuela, and that with Chinese help it would manufacture its own rigs for the first time by 2010-11.⁶³

Soft Power of China

According to Joseph S. Nye, Jr., power is a relationship, and the proof of power lies not in resources but in the ability to change the behavior of states. A state may achieve the outcomes it prefers in world politics because other states want to follow it or have agreed to situations that produce such effects. The ability of one country to get other countries to want what it wants might be called co-optive or soft power in contrast to the hard or command power of ordering others to do what it wants. The soft power to affect what other countries want tends to be associated with intangible resources such as culture, ideology, and institutions. If a state can make its exercise of power appear legitimate in the eyes of others, it will encounter less resistance to realizing its objectives. If its culture and ideology are attractive, others will be more willing to follow.⁶⁴

The rise of Chávez and that of other more moderate left-wing leaders in Latin America reflects the disappointing results of the so-called "Wash-

⁶¹China CAMC Engineering Co. Ltd., *2006 nian zhongqi baogao* (Mid-term report 2006), August 2006, <http://www.cninfo.com.cn/finalpage/2006-08-28/18130106.pdf>.

⁶²"Zhongguo zuida tuolaji chukou dingdan zai Yituo jitan qianding" (The biggest tractor export deal signed by YTO Group Corporation), Ha.Xinhuanet.com, February 6, 2004, http://ha.xinhuanet.com/xhzt/2004-02/06/content_1947468.htm.

⁶³Jose Orozco, "Oil Lubricates Beijing-Caracas Relations," *Asia Times Online*, December 2, 2006, http://www.atimes.com/atimes/China_Business/HL02C01.html; and Ratliff, "China and Venezuela: Pragmatism and Ideology."

⁶⁴Joseph S. Nye, Jr., "Soft Power," *Foreign Policy*, no. 80 (Fall 1990): 153-71.



ington Consensus," a set of market-oriented policies including trade liberalization and privatization that the region and most parts of Asia embraced during the 1990s. Chávez condemned the U.S. free-trade model as a "perversion" that would unduly benefit the United States, and instead pushed for closer trade ties among Latin American countries.⁶⁵

In anticipation of the much-touted "Pacific century," Latin American leaders turned toward Asia as well. This was the world's most dynamic region in the early 1990s, and its development model appeared to hold the key to economic success.⁶⁶ China's economic achievements and development model have thus reinforced its soft power. In addition to economic development, China's efforts and performance in poverty alleviation were also appealing to other developing countries.⁶⁷

Joshua Ramo, an analyst of the London-based Foreign Policy Centre, called China's new development model the "Beijing Consensus," an alternative to the discredited "Washington Consensus" which emphasizes globalization and neo-liberal principles.⁶⁸ The Beijing Consensus is as much about social change as economic change. It directs economic growth and good governance to improve society, an original goal of development economics that somehow got lost in the Washington Consensus-driven 1990s. Many elements of China's rapid development appeal to the developing world, and this appeal is in part related to China's growing economic influence. The Beijing Consensus offers hope for the developing world, in view of the collapse of the Washington Consensus, the breakdown of WTO talks, and the implosion of Argentina's economy, at a time when much of

⁶⁵Matt Moffett and John D. McKinnon, "Failed Summit Casts Shadow on Global Trade Talks; In Blow to U.S., Chavez Taps Latin America's Discontent to Fight Opening of Markets," *Wall Street Journal*, November 7, 2005.

⁶⁶Peter H. Smith, "Latin America: In Quest of Alternatives," in Peter H. Smith, *Talons of the Eagle: Dynamics of U.S.-Latin American Relations* (New York: Oxford University Press, 1996), 318-52.

⁶⁷Liu Yu, "Quanquihua shiyexia de ruanquanli ji Zhongguo ruanquanli tanxi" (Soft power in the context of globalization and an analysis of China's soft power), *Lanzhou xuekan* (Lanzhou Academic Journal), no. 3 (2005): 13-18.

⁶⁸Joshua Cooper Ramo, "The Beijing Consensus: Notes on the New Physics of Chinese Power," in Joshua Cooper Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004), 1-6, <http://fpc.org.uk/fsblob/244.pdf>.

the world is uncertain what the new paradigm for development ought to look like.

Venezuela secured Approved Destination Status from the Chinese government in 2006, which meant China would facilitate visas for its outbound tour groups to Venezuela, as it already does for 50-plus nations, mainly in Asia and Europe. Securing the status could mean an initial 300,000 Chinese in tour groups visiting the Caribbean over the next five years, and the relatively small number will likely rise as China's economy expands. The World Tourism Organization predicts that China will jump from being the world's seventh-largest source of outbound travelers in 2003 to number four in 2020, by which time the number of Chinese traveling overseas will have more than quadrupled.⁶⁹ The spillover effects of China's economic growth, including tourism, obviously provide Venezuela with a strong impetus to come closer to China.

Dynamics of Sino-Venezuelan Relations: Energy Supply and Business Opportunities for China

New Markets for Chinese Goods and Labor Services

Rapid economic growth and sustainable development are significant sources of legitimacy for the Communist Party of China. China therefore has to increasingly engage the rest of the world, including Latin America, to secure the inputs it needs and the markets for its exports. Exports to major developed countries such as the United States, Western Europe, and Japan have been growing but are beginning to stimulate protectionist reactions. Hence China has to diversify and cultivate new markets, especially in the developing countries of Asia, Latin America, and Africa. For example, in the first eleven months of 2004, electronic machinery exports from China to Venezuela increased 287 percent over the correspond-

⁶⁹Doreen Hemlock, "Ready for China's Approach," *Knight Ridder/Tribune Business News*, January 30, 2005.



Table 2
Contract Value of Engineering Projects by PRC Firms (US\$ million)

Year	Venezuela	Latin America	Venezuela/ Latin America	Venezuela's ranking in Latin America
1999	50.66	239.47	21.2%	1
2000	46.09	235.44	19.6%	1
2001	85.13	509.55	16.7%	3
2002	612.20	1,048.52	58.4%	1
2003	179.04	703.94	25.4%	1
2004	134.99	616.49	21.9%	2
2005	82.92	1,109.09	7.5%	3

Sources: Data for 1999: *China External Economic Statistical Yearbook 2000* (Beijing: China Statistics Press, 2000), 339-40; data for 2000-2001: *China External Economic Statistical Yearbook 2002* (Beijing: China Statistics Press, 2002), 173-74; data for 2002: *China External Economic Statistical Yearbook 2004* (Beijing: China Statistics Press, 2002), 184-85; data for 2003-2004: *China External Economic Statistical Yearbook 2005* (Beijing: China Statistics Press, 2005), 180-81; and data for 2005: *China External Economic Statistical Yearbook 2006* (Beijing: China Statistics Press, 2007), 717.

ing period in the previous year, showing the highest increase worldwide in China's exports in that period.⁷⁰

Like Africa, Venezuela in recent years has become a major market for China's engineering project companies (see table 2). A good example is the US\$240 million Falcon state water pipeline project, which includes the construction of 183 kilometers of pipeline, pumping stations, and water processing plants. The Bank of China funded the project which was carried out by the China CAMC Engineering Co. Ltd.⁷¹ China's export of labor services to Venezuela has also increased considerably in recent years. In

⁷⁰Woguo jidian chukou zhuyao shichang qingkuangbiao" (Table of China's major export markets for electronic machinery, January-November 2004), *Shijie jidian jingmao xinxi* (世界机电经贸信息, World Trade Information of Mechatronics) (Beijing), no. 1 (2005): 17.

⁷¹Chinese Embassy in Venezuela, "Chaweisi zongtong xuanbu you Zhongfang chengjian de Weifaerkenzhou shushui guandao xiangmu zhengshi qidong" (President Chávez announced the launch of Falcon State water pipeline project), June 12, 2003, <http://ve.mofcom.gov.cn/aarticle/jmxw/200306/20030600098625.html>.

Table 3
Contract Value of Labor Services by PRC Firms (US\$1,000)

Year	Venezuela	Latin America	Venezuela/ Latin America	Venezuela's ranking in Latin America
1999	678	5,636	12.0%	4
2000	1,204	7,022	17.1%	1
2001	8,241	13,236	62.3%	1
2002	61,342	109,337	56.1%	1
2003	17,904	74,035	24.2%	1
2004	13,590	66,225	20.5%	2
2005	8,292	115,034	7.2%	4

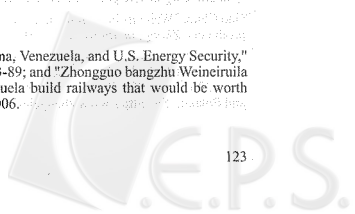
Sources: Data for 1999: *China External Economic Statistical Yearbook 2000* (Beijing: China Statistics Press, 2000), 345-46; data for 2000-2001: *China External Economic Statistical Yearbook 2002* (Beijing: China Statistics Press, 2002), 179-80; data for 2002: *Yearbook of China's Foreign Economic Relations and Trade 2003* (Beijing: China Foreign Economic Relations and Trade Publishing House, 2003), 891; data for 2003: *China Commerce Yearbook 2004* (Beijing: China Commerce and Trade Press, 2004), 770; data for 2004: *China Commerce Yearbook 2005* (Beijing: China Commerce and Trade Press, 2005), 916; and data for 2005: *China Commerce Yearbook 2006* (Beijing: China Commerce and Trade Press, 2006), 330.

2001, the market share of China's export of labor services to Venezuela already amounted to 62.3 percent of the total in Latin America (see table 3).

Resource and Commercial Interests

China and Venezuela concluded a bilateral Strategic Energy Plan in 2001 that extends to 2011. President Chávez indicated that Venezuela would triple its oil exports to China by 2009 which would then reach 500,000 barrels per day. In return, China agreed to contribute US\$9 billion to help Venezuela build railways.⁷² This contract exemplified China's way of doing business in Latin America: facilitating energy trade by pro-

⁷²Daniel P. Erikson, "A Dragon in the Andes? China, Venezuela, and U.S. Energy Security," *Military Review* 86, no. 4 (July/August 2006): 83-89; and "Zhongguo bangzhu Weineiruila jian 90yi Meiyuan tielu" (China to help Venezuela build railways that would be worth US\$9 billion), *Huanqiu shibao*, September 2, 2006.



missing major infrastructure investments. Up to June 2006, China had cumulatively imported 1.26 million tons of iron ore from Venezuela, its second-largest supplier after Australia.⁷³ Shandong Gold Group (山東黃金集團) also invested US\$13 million in the Sosa Mendez deposit in 2005; the gold reserves were estimated at 397,000 ounces.⁷⁴

On December 9, 2005, the four member states of the South America trade group, Mercosur, reached a consensus to accept Venezuela as a "special member."⁷⁵ As a Mercosur member, Venezuela enjoys favorable treatment in trade from other states. Venezuela is also a beneficiary of the Generalized System of Preferences (GSP); thus its industrial and agricultural products may enter major markets such as the European Union, the United States, Japan, and Canada tariff-free and quota restriction-free.⁷⁶ China does not qualify for GSP treatment from the United States, and Venezuela's special status may provide a strategic springboard for Chinese products, especially to the U.S. market.⁷⁷

During Chávez's visit to China in 1999, the two sides signed a number of agreements, including a memorandum of understanding on reaching a mutual investment protection agreement. An agreement on avoiding double taxation on income and property and preventing tax evasion was concluded in Caracas on April 17, 2001. During the third meeting of the Sino-Venezuelan high-level mixed committee in Beijing in December 2004, Chávez and Hu Jintao released a joint communiqué recognizing

⁷³"2005 nian 6 yue quanguo jinkou tiekuangshi fen guobie tongji" (China's iron ore import statistics by country: June 2005), *Kuangye kuaibao* (礦業快報, Express Information of Mining Industry), no. 8 (August 2005): 66.

⁷⁴Zhang Mei, "Jinqi Lading Meizhou jinkuang kancha yu kaifa" (Recent exploration and development of Latin American gold mines), *Zhongguo jinshu tongbao* (China Metal Bulletin), no. 37 (2006): 24-25.

⁷⁵"Venezuela Gains Mercosur Entry, Deepening Relations," December 12, 2005, http://www.bilaterals.org/article.php3?id_article=3227.

⁷⁶Gao Chao, "Weineiruita: Lamei diyi shiyou daguo" (Venezuela: Latin America's biggest oil producer), *Zhongguo duiwai maoyi* (China's Foreign Trade), no. 2 (2005): 68-70.

⁷⁷Twenty-two countries have granted China GSP treatment: the United Kingdom, France, Germany, Italy, Holland, Luxembourg, Belgium, Ireland, Denmark, Greece, Portugal, Spain, Japan, Norway, New Zealand, Australia, Switzerland, Sweden, Finland, Austria, Canada, and Poland. See <http://www.zhengzhou.org.cn/ztlm/zdqy/shangjie/bszn/008.htm>.



Table 4

Selected Cases of PRC Firms' Commercial Ventures in Venezuela

Year	Name of PRC firm	Contract items	Contract value (US\$)
2002	NUCTECH	vehicle inspection system	47 million
2003	CAMC Engineering	water pipeline project	240 million
2005	DQE International	seismic data collection	9.8 million
2006	CSSC & CSIC	selling 18 oil tankers	1,300 million
2006	ZTE Corporation	optical-fiber construction	132 million

Key: NUCTECH = NUCTECH Company Ltd.; CAMC Engineering = China CAMC Engineering Co. Ltd.; DQE International is a subsidiary of CNPC Daqing Petroleum, the largest comprehensive onshore petroleum technology service enterprise in China; CSSC = China State Shipbuilding Corporation; CSIC = China Shipbuilding Industry Corporation; ZTE Corporation is China's largest listed telecoms manufacturer with shares publicly traded on both Hong Kong and Shenzhen stock exchanges.

Sources: *Qinghua tongfang gufen youxian gongsi 2002 nian niandu baogao* (清華同方股份有限公司 2002 年年度報告, Tsinghua Tongfang Co. Ltd. 2002 annual report), March 29, 2003, <http://www.thtf.com.cn/www/web/gudong/nianbao/200204.pdf>; "Huawei Zhongxing huakai Weineiruila, 3G yu guangwangluo shuangshuang jieguo" (華為中興花開委內瑞拉, 3G 與光網絡雙雙結果, Huawei, ZTE reach contracts with Venezuela in 3G and optical network technology), Sina.com.cn, July 12, 2006, <http://tech.sina.com.cn/t/2006-07-12/00061032290.shtml>; Qin Fengtian (秦豐田), "Weineiruila weihe zhumu Zhongguo" (委內瑞來為何矚目中國, Why Venezuela eyes China?), *Zhongguo shiyou shihua* (China Petroleum and Petrochemicals) [中國石油石化], no. 2 (2005): 40-41; and "Weineiruila xiang Zhongguo goumai 18 sou youlun" (委內瑞拉向中國購買十八艘油輪, Venezuela purchases 18 oil tankers from China), BBC News (in Chinese), May 12, 2006, http://news.bbc.co.uk/chinese/simp/low/newsid_4760000/newsid_4764200/4764241.stm.

China's full market economy status.⁷⁸ Leading Chinese companies have been active in exploring the new Venezuelan market (see table 4).

Strategic Considerations

When President Jiang Zemin (江澤民) of China visited Venezuela in April 2001, he found a willing ally in Hugo Chávez, who proclaimed his admiration for Mao Zedong (毛澤東), backed China's bid to host the 2008

⁷⁸"Weineiruila chengren Zhongguo shichang jingji diwei" (Venezuela recognizes China's market economy status), BBC News (in Chinese), December 23, 2004, http://news.bbc.co.uk/chinese/simp/hi/newsid_4120000/newsid_4122300/4122361.stm.

Olympics, and pledged to oppose a United Nations resolution to censure China for its human rights record.⁷⁹ Chávez indicated that the two countries had discussed the joint manufacturing of the Chinese K-8 and Y-12 military training and cargo planes in Venezuela. With regard to China's support for Chávez's failed bid for a UN Security Council seat, a statement by Zhu Yuchao (朱毓朝), associate professor of political science at the University of Regina in Canada, revealed that China had calculated the gains and losses of supporting Venezuela's bid. On the one hand, it was thought that China's support would not seriously provoke the United States, as Venezuela's role would be more symbolic than a real challenge to Washington. On the other hand, China expected to reap additional benefits from other radical countries in the United Nations by supporting the most famous left-wing leader on the continent, just as it has done in Africa.⁸⁰ Another important consideration was that Nicaragua, Venezuela's sole competitor for the seat, still maintained formal diplomatic relations with Taiwan.

The Iraq war of 2003 also helped to bring China and Venezuela closer together. Since the invasion, the United States has enjoyed greater influence over Middle Eastern oil, thus rendering it an unstable and insecure supplier to China. It is notable that Angola surpassed Saudi Arabia to become China's top oil supplier in 2006. However, China suffers from the political pressure of international public opinion because of its role in the Darfur conflict in Sudan.⁸¹ In contrast, Venezuelan oil seems more attractive in terms of reliability and Venezuela's geographical location. Since the mid-1990s, China has adopted a "two resources and two markets" strategy to tap both domestic and overseas resources and markets. Latin

⁷⁹"Venezuela Will Oppose a UN Resolution Criticizing China," *Wall Street Journal*, April 17, 2001.

⁸⁰Wan Yizhong (萬毅忠), "Zhu Yuchao: Zhongguo bu keneng yu Weineiruilia jianli zhengzhi lianmeng" (Zhu Yuchao: China will not form political alliance with Venezuela), August 26, 2006, http://www1.chinesenewsnet.com/MainNews/Forums/BackStage/2006_8_25_18_0_1_66.html.

⁸¹Paul Reynolds, "China's 'Peaceful Rise' Running into Criticism," BBC News, February 1, 2007, <http://news.bbc.co.uk/2/hi/africa/6312507.stm>.

America has been seen as a significant potential supplier and market in recent years as the United States' strategic concern has shifted from this region to the Middle East and the "axis of evil" states. Although the Iraq war elevated oil prices to an unprecedented level, it was in the long term detrimental to Venezuela's interests. As Chávez stated: "We have no doubt that the Iraq war will affect OPEC's solidarity and future development; we will have to suffer the negative consequences in the future after the war as oil prices will drop and cheap petroleum products will fill every corner of the market" (author's translation from Chinese).⁸² It is logical that Venezuela will try its best to expand or at least maintain its share of the world oil market to generate enough petrodollars for its costly social programs. China, as the fastest growing economy and the second largest energy consumer, appears to be a promising new market for Venezuelan oil.

Future Prospects for Sino-Venezuelan Relations:

Emerging Divergences

Economic Divergences

The Chinese leadership is in search of stable energy suppliers in the long term, and a partnership with the erratic and potentially volatile Chávez administration is unreliable. During a meeting with other South American presidents in April 2006, Chávez threatened to blow up the country's oilfields in response to a possible invasion by the United States. Such rhetoric is hardly reassuring to Chinese investors, especially when they have access to more conveniently located, better quality oil from partners in the Middle East and Central Asia.

Since China's primary interest in its engagement with Venezuela is domestic economic development, Beijing is likely to insist that Venezuela gives value for its investment. China will not tolerate production inef-

⁸²Jiao Zhenheng, "Yilake zhanzheng dui Weineiruila shiyou gongye de yingxiang" (The impact of the Iraq war on Venezuela's oil industry), *Lading Meizhou yanjiu* 25, no. 3 (2003): 11-12.

iciency resulting from political and ideological radicalism. Chávez has often tried to exploit his country's relations with China in his administration's disputes with the United States, such as threatening to give China F-16 planes that the Bush administration refused to maintain and upgrade. The Chinese leadership is certainly most reluctant to allow Chávez to drag China into serious disputes with Washington that would complicate broader Sino-American relations.⁸³

Fifteen Latin American countries have adopted anti-dumping measures against China, including Venezuela; for example, Venezuela once levied 100 percent and 116.83 percent tariffs on Chinese jeans and zippers, respectively. Between 1987 and 2001, Venezuela initiated nine anti-dumping cases against China, 26.5 percent of Caracas's total anti-dumping cases. In fact, Venezuela's first anti-dumping charge was targeted against China.⁸⁴ In April 2000, the Venezuelan government decided to impose a 48.27 percent-358.82 percent anti-dumping tax against shoes made in China, for a period of five years.⁸⁵ In terms of taxation, China is evidently being treated just like other investors.⁸⁶ On September 6, 2006, Venezuela's customs and tax agency, SENIAT, reported that five foreign oil companies had been ordered to pay evaded tax, with CNPC having to pay US\$11 million, the largest amount among the five companies concerned.⁸⁷

Apparently, China is a risk-averse investor. When asked why President Hu Jintao did not visit Venezuela during his December 2004 Latin American tour (whereas his predecessor, Jiang Zemin, had visited Vene-

⁸³Ratliff, "China and Venezuela: Pragmatism and Ideology."

⁸⁴Yang Shihui, "Lamei dui Zhongguo fanqingxiao de tedian, qushi he chengyin fenxi ji Zhongguo duice yanjiu" (Latin American practice of anti-dumping against Chinese exports: characteristics, causes, and counter-measures for China), *Lading Meizhou yanjiu* 24, no. 4 (2002): 9-16.

⁸⁵Weineiruila dui Zhongguo xie fanqingxiao" (Venezuela takes anti-dumping measures against Chinese shoes), *Zhongguo xiangjiao* (中國橡膠, China Rubber) 21, no. 11 (2005): 14.

⁸⁶Ratliff, "China and Venezuela: Pragmatism and Ideology."

⁸⁷Yin Nan (尹南), "Zhongshiyou bei Weineiruila zhuishui 1,100 wan Meiyuan, zongbu cheng buzhiqing" (Venezuela asks CNPC to pay US\$11 million evaded tax; main office claims ignorance), *Xinhua*, September 8, 2006, http://news3.xinhuanet.com/fortune/2006-09/08/content_5065288.htm.



zuela in 2001), China's political counselor in Caracas, Zhang Bolun, explained that "the political conditions in Venezuela were too unstable and uncertain to permit a presidential visit."⁸⁸ This was an odd comment—the end of 2004 was a stable period in Venezuela relative to the previous three years. The political conditions in Venezuela could only appear "unstable and uncertain" to a leadership which wanted to avoid risks. When asked why there had been no more major Chinese investment in Venezuela, Zhang Bolun replied: "There is too much risk for little return." This time, he was referring not so much to the political situation as to the enormous obstacles to investment, including the extent of PDVSA participation in the oil projects.

Venezuela's investment environment has a rather disappointing record. In 2006, it was classified as a repressed economy by the Heritage Foundation. Among the 157 countries assessed, Venezuela ranked 152, ahead of only North Korea, Iran, Myanmar (Burma), and Zimbabwe.⁸⁹ In his inauguration speech in 2007, Chávez defended his decisions to nationalize companies in the telecommunications and electricity industries, and promised to seek greater control over natural gas projects. He also renewed his request to the National Assembly for decree powers, claiming that a "revolutionary law of laws" would allow him to hasten the construction of socialism.⁹⁰ The unsatisfactory law and order situation means that the risk of doing business in Venezuela is high; for example, the staff of the China CAMC Engineering Co. Ltd. experienced a number of robberies in the first half of 2006 alone.⁹¹

⁸⁸Jorge I. Dominguez et al., "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," *Inter-American Dialogue* (Washington, D.C.), June 2006, 43. <http://www.thediologue.org/publicationfiles/china.pdf>.

⁸⁹Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom: The Link between Economic Opportunity and Prosperity* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, 2006).

⁹⁰Simon Romero, "Chávez Begins New Term Vowing Socialism," *New York Times*, January 11, 2007.

⁹¹See note 61 above.



Political Divergences

Cynthia Watson, a professor at the U.S. National War College, observes that Latin America's status is still below that of Africa in terms of Chinese strategic interests.⁹² Hugo Chávez's hostility toward the United States preceded his approach to China and is in no way a result of that relationship. Indeed, if the Chinese leaders had their way, they would probably try to get Chávez to back off or at least tone down his political activism in Venezuela and the region. They understand that China will not be able to meet the expectations of Venezuela, and they have been weighing the cost of China's involvement in the Latin American region carefully.⁹³

Shen Dingli (沈丁力), a professor in the American Studies Institute of Fudan University, Shanghai, said that Chávez probably could not realize his dream of getting China to take the lead in confronting the United States.⁹⁴ Zhong Dajun (仲大军), director of the Beijing Dajun Economic Observation Centre, a private think-tank, believes that China will likely gauge the extent to which it engages with Venezuela, and will avoid sensitive issues that could provoke the United States. In Zhong's opinion, China will probably continue to act in a peaceful and self-restrained manner internationally, as this would maximize its national interests.⁹⁵ According to Deng Lijia (鄧麗嘉), an energy researcher at the Brookings Institution, Sino-Venezuelan relations have mainly been pushed by Chávez, and China has only followed. In Deng's opinion, China is not currently willing to support Chávez's anti-American campaign as actively as Chávez expected; China is by no means an advocate of U.S. hegemony, but it knows that Venezuela is a sensitive issue to the United States and it will not risk its

⁹²Mary Anastasia O'Grady, "The Middle Kingdom in Latin America," *Wall Street Journal*, September 3, 2004.

⁹³Cynthia A. Watson's testimony to the U.S.-China Economic and Security Review Commission on "China's Growing Global Influence: Objectives and Strategies," July 21, 2005, http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/watson_cynthia_wrts.htm.

⁹⁴Chen Su (陳蘇), "Weineiruila xiwang zengjia dui Zhongguo shiyou chukou" (Venezuela wants to increase oil export to China), *Voice of America News* (in Chinese), August 23, 2006, <http://www.voanews.com/chinese/w2006-08-23-voa32.cfm>.

⁹⁵*Ibid.*

hard-won warm relationship with Washington just for the sake of Venezuela.⁹⁶ President Hu Jintao, when he attended the G-8 and the conference of leaders of developing countries, emphasized that the countries concerned should seek to resolve (energy) conflicts through dialogue and negotiation, and should not politicize energy issues nor use force to settle problems.⁹⁷

It is interesting to note that Chávez, during his 2006 visit to China, unilaterally characterized Venezuela's relations with China as a "strategic alliance," although the Chinese government formally termed the relationship a "strategic partnership."⁹⁸ Nevertheless, Venezuela remains a central component of China's strategy to enhance its economic and political links with Latin America.⁹⁹ Rapidly expanding Sino-Venezuelan trade might be expected to encourage Venezuela to adjust its foreign policy to better accommodate China's interests. However, it appears that the marked increase in bilateral trade has had no discernible effect on the correlation between the voting patterns of China and Venezuela in the UN General Assembly (see figure 3).

Constraints in Energy Cooperation

Sino-Venezuelan oil cooperation is a part of Venezuela's efforts to diversify its oil markets. Venezuela has been actively improving its trade relations with the South American and Caribbean countries, Russia, Iran, and the countries of Central Asia simultaneously. Venezuelan oil only accounts for 2.3 percent of China's total oil imports, far less than Angola's 18 percent, Saudi Arabia's 16 percent, and Iran's 12 percent.¹⁰⁰ Venezuela

⁹⁶See note 38 above.

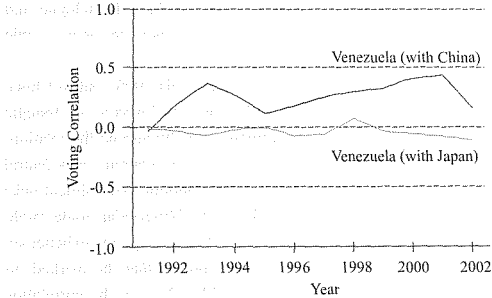
⁹⁷Shen Jiru, "Xinshijie geju xia xin nengyuan anquanguan: huli, hezuo, weiwu wending" (New understanding on energy security under the new world order: mutual benefit, cooperation, and the maintenance of stability), *Rennin ribao* (People's Daily), August 18, 2006.

⁹⁸Orozco, "Oil Lubricates Beijing-Caracas Relations."

⁹⁹Erikson, "A Dragon in the Andes?"

¹⁰⁰Guo Cunhai (郭存海), "Chaweiisi fang-Hua yu Zhong-Mei guanxi" (Chávez's China visit and Sino-American relations), China Elections & Governance website, August 22, 2006, <http://www.chinaelections.org/NewsInfo.asp?NewsID=94548>; and Dejin Su (蘇德進),

Figure 3
Venezuela's Voting Correlation with China and Japan in the UN General Assembly (1991/92-2002/03)



Note: For the purpose of calibration, the extent of voting correlation with Japan, a major power in East Asia, is included.

Source: Jorge I. Dominguez et al., "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," *Inter-American Dialogue*, June 2006, 14. <http://www.thedialogue.org/publicationfiles/china.pdf>.

continues to rely heavily on the U.S. market, and 60 percent of its crude goes to the United States.

The Venezuelan government enacted a new oil law in November 2001, under which the government will hold at least a 51 percent share in all upstream and mid-stream joint ventures. The mining area usage fee is fixed at 30 percent, reduced to 20 percent for ultra-heavy oilfields and 16.67 percent for asphalt mines. These rates are probably the highest worldwide according to experts.¹⁰¹ The income tax rate for joint ventures

⁹⁹Chávez Visits Beijing: The Convergence of Oil Diplomacies," *Washington Observer Weekly*, no. 189 (August 16, 2006), <http://www.washingtonobserver.org/en/document.cfm?documentid=64&charid=3>.

¹⁰¹Li Wen, "Shiyou shengchan daguo Weineiruila zhengbian toushi" (Examining the military coup in oil giant Venezuela), *Guofei shiyou jingji* (International Oil Economy) 10, no. 8 (August 2002): 9-16.

is as high as 67.7 percent.¹⁰² From April 18, 2005 onwards, the income tax rate for foreign oil companies which had cooperation contracts with PDVSA in the Orinoco heavy oil belt was increased from 34 percent to 50 percent. Major players in this area include ExxonMobil, ChevronTexaco, ConocoPhillips, Total, and China's CNPC.¹⁰³ In Venezuela, tax revenue as a percentage of GDP now stands at close to 25 percent, higher than any other country in the region and approaching the rate in the United States.¹⁰⁴ Apart from the economic consideration, recent years have seen an aggressive nationalization scheme in the Orinoco oil belt, which requires all foreign oil companies to sign agreements transferring 60 to 83 percent of their equity stakes to the PDVSA.¹⁰⁵ ExxonMobil and ConocoPhillips chose to reject the terms. It is easy to see why China's oil industry does not consider Venezuela an attractive investment opportunity.

The U.S. Factor in Sino-Venezuelan Relations

U.S.-Venezuelan Relations

U.S.-Venezuelan relations were already tense when the U.S. Department of State appeared to endorse the overthrow of the Chávez administration in 2002. Since then, relations have deteriorated still further, with Chávez now regularly directing public criticisms and personal insults against the Bush administration. U.S. officials have found it hard to resist responding. During her Senate confirmation hearing in 2005, Secretary of

¹⁰² Yang Bo, "Duiwai kangfangzhong de Weineiruila shiyou" (Venezuela's petroleum opens to the outside world), *Shiyou huagong jishu jingji* (Techno-Economics in Petrochemicals), no. 1 (2005): 14-19.

¹⁰³ Chinese Embassy in Venezuela, "Weineiruila zhengfu jiangzai Aolinuoke youdai zuoye de waiguo gongsi de lirunshui tigao zhi 50%" (The Venezuelan government to increase the tax rate of foreign oil companies in Orinoco heavy oil belt to 50 percent), April 18, 2005, <http://ve.mofcom.gov.cn/aarticle/jmxw/200504/20050400068877.html>.

¹⁰⁴ Bernardo Alvarez Herrera, "A Benign Revolution: In Defense of Hugo Chávez," *Foreign Affairs* 85, no. 4 (July/August 2006): 195-98.

¹⁰⁵ Embassy of Venezuela in the U.S., "Fact Sheet: Arbitration between ExxonMobil and Venezuela," *Venezuelanalysis*, February 18, 2008, <http://www.venezuelanalysis.com/analysis/3174>.

State Condoleezza Rice characterized Venezuela as a "negative force" in the region. When he was secretary of defense, Donald Rumsfeld even likened Chávez to Hitler.¹⁰⁶ Chávez told reporters when he was in Brasilia in 2004 that if the United States attempted to push Venezuelan society into chaos, or imposed an economic embargo against Venezuela, Venezuela would stop exporting oil to the United States and would switch to new export markets like China.¹⁰⁷ On April 24, 2005, Chávez announced the termination of the 35-year-old military cooperation agreement with the United States, which allowed for U.S. military personnel to be stationed in Venezuela. Chávez questioned the appropriateness of allowing the military presence of a country that had supported efforts to topple the existing government.¹⁰⁸ However, these statements are no more than rhetoric.

Even Chávez himself, while furiously opposing the U.S. invasion of Iraq, had to admit that Venezuela would ensure that the United States had a reliable supply of oil. When the Bush administration imposed an arms embargo against Caracas on May 15, 2006, for refusing to offer help in Washington's anti-terrorism campaign, Chávez's response was moderate. He suggested that the embargo would not affect Venezuela, and that Venezuela would not use it as an excuse to cut off oil exports to the United States.¹⁰⁹

Despite the deterioration of the bilateral relationship, Venezuela continues to sell 1.5 million barrels of oil per day to the United States, making it that country's fourth-largest oil supplier and accounting for about 14 percent of total U.S. imports.¹¹⁰ Since the election of President Chávez,

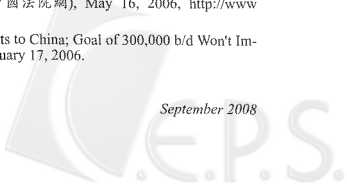
¹⁰⁶Erikson, "A Dragon in the Andes?"

¹⁰⁷Chinese Embassy in Venezuela, "Chawei si zongtong biaoshi: Ruguo Meiguo tingzhi cong Weineiruila jinkou yuanyou, Wei zhuanxiang xinde xiaoshou shichang" (President Chávez says: Venezuela will switch to new markets if the United States stops importing oil from Venezuela), March 14, 2004, <http://ve.mofcom.gov.cn/aarticle/jmxw/200403/20040300194639.html>.

¹⁰⁸"Venezuela Ends Military Ties and Evicts Some U.S. Officers," Reuters, April 25, 2005.

¹⁰⁹Yin Nan (尹南), "Weineiruila piping Meiguo dui Wei wuqi jinyun" (Venezuela criticizes U.S. arms embargo on it), ChinaCourt (中國法院網), May 16, 2006, <http://www.chinacourt.org/public/detail.php?id=204930>.

¹¹⁰Steve Ixer, "Venezuela Aims to Double Exports to China; Goal of 300,000 b/d Won't Impact U.S. Supply," *Platts Oilgram News*, February 17, 2006.



Venezuela has honored its oil supply contracts. There were only two occasions when the supply was interrupted: during the opposition-led coup and during the opposition oil sabotage at the end of 2002.

U.S.-Venezuelan trade has steadily increased in recent years too, and was expected to be worth US\$50 billion in 2006, twenty times more than Venezuela's trade with China.¹¹¹ Venezuela is the United States' second-largest trading partner in Latin America, second only to Mexico, and its thirteenth-largest trading partner globally. The United States remains Venezuela's number one trading partner, purchasing 60 percent of Venezuela's oil and natural gas, and providing 85 percent of its foreign direct investment.¹¹² In recent years, Venezuela has been according high priority to the diversification of its oil markets, but the United States will likely remain its most important market in the foreseeable future.¹¹³

There seem to be no structural contradictions in the U.S.-Venezuelan relationship, although much friction exists. Chávez might decry the effects of globalization and equate neo-liberalism with an inhumane economic policy, but he cannot roll back the integration of the world economy nor has he shown much desire to do so. Since the end of the Cold War, the United States may be more tolerant of the diverse political orientations in Latin America and accept Venezuela's experiments in democratization and economic development.¹¹⁴ In an interview in March 2005, Secretary of State Condoleezza Rice told *The Washington Post* that nobody, including the U.S. government, wanted to be an enemy of Venezuela and its leaders.¹¹⁵ After Chávez's overwhelming electoral victory in December 2006, the

¹¹¹"Weineiruila zongtong yaoqiu Meiguo dashi daoqian" (Venezuelan President demands U.S. ambassador's apology), BBC News (Chinese), December 21, 2006, http://news.bbc.co.uk/chinese/simp/hi/newsid_6190000/newsid_6199000/6199005.stm.

¹¹²See note 104 above; Orozco, "Oil Lubricates Beijing-Caracas Relations"; and Chen Hua, "Weineiruila yuanhe gantong Meiguo jiaoban" (Why Venezuela dares to challenge the United States?), *Dangdai shijie* (Contemporary World), no. 9 (2005): 28-29.

¹¹³See note 34 above.

¹¹⁴See note 43 above.

¹¹⁵Lin Meifang (林美芳), "Weineiruila biaoshi huanying Laisi youguan hejie de jianghua" (Venezuela welcomes Rice's speech on reconciliation), Xinhua, March 26, 2005, http://news3.xinhuanet.com/world/2005-03/27/content_2749057.htm.

U.S. ambassador to Venezuela, William Brownfield, said that Washington congratulated the Venezuelans on a peaceful vote with a high turnout. He further indicated that the United States and Venezuela shared an interest in cooperating on various issues including the combating of drug trafficking, international crime, and terrorism, as well as trade and energy issues.¹¹⁶

Sino-American Relations

During his visit to Beijing in 2006, Chávez said that developing relations with countries like China was part of Venezuela's effort to establish a multipolar world to counter U.S. hegemony. China's support for the Venezuelan bid for a UN Security Council seat and the two countries' increasingly close bilateral ties in the energy sector made Washington highly concerned about Sino-Venezuelan cooperation.¹¹⁷ However, according to one senior U.S. diplomat, officials in Beijing have assured Washington that China has no plans to seek greater influence in Latin America beyond expanding trade. This reassurance underscores how China's global rise has heightened concerns about its activities in regions where Washington has long been dominant.¹¹⁸

Deteriorating relations between Caracas and Washington prompted the U.S. Senate Foreign Relations Committee to mandate contingency plans in case Venezuelan oil was diverted from the United States to China.¹¹⁹ Chinese officials, meanwhile, deny that China's oil hunger is increasing friction with the United States. According to Han Wenke (韩文科), deputy director-general of the energy institute affiliated to China's National Development and Reform Commission, "although oil trade plays

¹¹⁶U.S. Seeks Better Ties with Chávez Government," *China Daily* (Hong Kong edition), December 6, 2006; and "Chávez Pledges 'to Expand Revolution' after Election Win," *ibid.*, December 5, 2006.

¹¹⁷"Zhongguo zhichi Weineiruila jingxuan Anlihui xiwei" (China supports Venezuela's bid for UN Security Council seat), BBC News (Chinese), August 25, 2006, http://news.bbc.co.uk/chinese/simp/hi/newsid_5280000/newsid_5284300/5284318.stm.

¹¹⁸Tim Johnson, "China Assures U.S. It Won't Export Political Model to Latin America," *Knight Ridder/Tribune Business News*, April 15, 2006.

¹¹⁹William M. Arkin, "Venezuela: Fumbling a Pop Up," *Washington Post*, November 1, 2005.

an important role in every field, it has a limited influence in Sino-American relations."¹²⁰ In August 2005, the Venezuelan daily *El Universal* published an interview with Ju Yijie (居一傑), the Chinese ambassador to Caracas. When asked if China's demand for Venezuelan oil could push the United States out of the Venezuela market, the ambassador asserted that "China has the potential to do it, but I do not see the necessity."¹²¹ China hosted the first meeting of energy ministers from the world's leading oil consumer nations in Beijing in December 2006. China, the United States, Japan, South Korea, and India, which together used almost half of the world's energy, agreed in a joint statement to strengthen cooperation in seeking alternative energy sources, conserving energy, and sharing information. The meeting, to a limited extent, reflects China's attempt to eliminate the "China threat" perception.

At a hearing of the Western Hemisphere Subcommittee of the House International Relations Committee in April 2005, U.S. Congressman Dan Burton stated: "China's rising economic, political, and military influence in the Western Hemisphere poses serious challenges to the U.S. in the years ahead.... We must work in earnest to prevent this from happening."¹²² In August 2006, President Chávez announced that Venezuela had won China's support for its UN Security Council bid, following a plan to increase crude oil sales to China to 500,000 barrels a day in five years from the current level of about 150,000 barrels a day. Figures from the U.S. Department of Energy, meanwhile, show that Venezuela's oil exports to the United States fell 6 percent in the first four months of 2006.¹²³

¹²⁰David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* 84, no. 5 (September/October 2005): 25-38.

¹²¹Roberta Giusti, "Entrevista: El Embajador de China Saluda la Llegada de PDVSA a Pekin," *El Universal*, August 28, 2005.

¹²²Dan Burton (chairman of the Subcommittee on the Western Hemisphere), "China's Influence in the Western Hemisphere" (Presented at the hearing before the Subcommittee on the Western Hemisphere of the Committee on International Relations, House of Representatives, April 6, 2005), 5, <http://www.foreignaffairs.house.gov/archives/109/20404.pdf>.

¹²³Simon Romero, "U.S. and Venezuela at Odds, and Seized Cargo Is Just the Half of It," *New York Times*, August 27, 2006.

This competition from China was worrying for some U.S. energy officials, especially in view of the fact that the United States was becoming more dependent on foreign oil.¹²⁴ This was at a time when Venezuela had secured a controlling stake in crucial oil ventures run by foreign companies, and the Bolivian government had acted to nationalize its natural gas sector, even sending in troops to show its determination. Later, Ecuador cancelled the operating contracts of the U.S.-based Occidental Petroleum Corporation, triggering a trade dispute with Washington. These disputes may have created opportunities for China's state-owned oil companies to play a more significant role in the region's energy sector. The long-term outlook for U.S. energy security will be improved if the Bush administration can fashion a compelling response to China's growing economic influence and Latin America's resurgent nationalism.¹²⁵

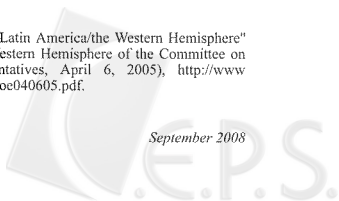
Relations between the United States and Latin America are far from satisfactory today. President Chávez has made clear his intent to forge a broad anti-U.S. coalition in order to replace Washington's agenda for the hemisphere with his own, one that rejects representative democracy and the market economy.¹²⁶ The Western Hemisphere, however, is not likely to become a major focus of Chinese diplomacy; China's interest in this region is driven primarily by its rapid economic growth and its increasing need for natural resources. Relations with the United States and Asian regional security issues are of much higher priority and will remain so in the foreseeable future.¹²⁷ China has limited its cooperation with Venezuela primarily to oil and its related industries; it is concerned about the risks of political instability in Venezuela and it wants to avoid any serious deterioration in its relations with the United States. As for Venezuela, under cur-

¹²⁴See note 119 above.

¹²⁵Peter Hakim, "Is Washington Losing Latin America?" *Foreign Affairs* 85, no. 1 (January/February 2006): 39-53.

¹²⁶*Ibid.*

¹²⁷Riordan Roett, "Relations between China and Latin America/the Western Hemisphere" (Statement before the Subcommittee on the Western Hemisphere of the Committee on International Relations, House of Representatives, April 6, 2005), <http://www.internationalrelations.house.gov/archives/109/roe040605.pdf>.



rent conditions, any major disruption of oil exports to the United States would devastate its economy and perhaps pose a mortal threat to the Chávez regime.

In 2004 and 2005, Venezuela became a significant buyer of rifles, military helicopters, aircraft, and ships from Russia, Brazil, and Spain, but not from China.¹²⁸ Thomas Shannon, the U.S. assistant secretary of state for Western Hemisphere affairs, admitted that "China's military engagement in the region is pretty light, by our standards. China is not selling major military-weapons systems in the hemisphere." He also indicated that China had offered assurance that it was "not operating in the region with the intent of exporting any kind of political model."¹²⁹

As in Asia and Africa, China's growing profile in the Western Hemisphere reflects its broader emergence as a global political and economic power. China is now the world's sixth-largest economy, third-largest trading nation, and a major destination for foreign direct investment. As economic globalization progresses, so too do the linkages between China and Venezuela. China has been translating its economic success—and its search for resources to fuel its economic development—into greater influence around the world, including Latin America and the Caribbean.¹³⁰ R. Evan Ellis argues that China's interests in securing access to the resources of Latin America through trade and investment give it a vested interest in the stability of the region. Thus attempts by the Chávez regime to spread its Bolivarian Revolution to other Latin American countries by promoting radical indigenous movements ultimately may cause China to see Chávez as a net liability to its interests in the region.¹³¹ China's in-

¹²⁸ Adolfo R. Taylhardat, "Los Fusiles Rusos," *El Universal*, February 23, 2005.

¹²⁹ Cynthia A. Watson, "A Panda in the Neighborhood: China's Evolving Involvement in Latin America" (Paper presented at the 2006 Pacific Symposium on China's Global Activism: Implications for U.S. Security Interests, Institute for National Strategic Studies, National Defense University, Washington, D.C., June 20, 2006), 12.

¹³⁰ Roger F. Noriega, "China's Influence in the Western Hemisphere" (Statement before the Subcommittee on the Western Hemisphere of the Committee on International Relations, House of Representatives, April 6, 2005), <http://www.internationalrelations.house.gov/archives/109/20404.pdf>.

¹³¹ See note 33 above.

vestment in the region reached US\$6.32 billion in 2004, but this was well behind the total U.S. investment in the region amounting to more than US\$300 billion.¹³² Even in Venezuela, almost sixty companies representing fourteen countries are involved in one or more aspects of its oil sector.¹³³

Oil analysts say that even if Venezuela tries to reduce oil exports to the United States, the latter should be able to find other suppliers, but it would take time and cost more.¹³⁴ Moreover, there is little credible evidence that China and Venezuela are really conspiring to choke off the flow of oil to the U.S. market. Both China's growing energy needs and Venezuela's management of its petroleum sector have important implications for U.S. energy security. However, the most significant factor is the long-term demand for and supply of oil in the global market, not a sudden shock to U.S. energy supplies resulting from a cut-off of oil by conspiring parties.

Conclusion

China and Venezuela have established some common interests, and have been able to achieve mutual benefits in their bilateral relationship, although these are modest even by Sino-Latin American standards. However, mutual expectations regarding future Sino-Venezuelan relations are asymmetric. Chávez hopes for a "strategic alliance" with China, but it is less clear whether China believes that it needs Venezuela to push for multipolarity in the global energy sector. China's prudence in its approach to Venezuela reflects an appreciation of the political cost to Sino-American relations if China becomes embroiled in Venezuela's challenge to U.S. interests. China needs good relations with the United States far more than a "strategic partnership" with Venezuela.

¹³²See note 130 above.

¹³³Ratliff, "China and Venezuela: Pragmatism and Ideology."

¹³⁴Juan Forero, "Venezuela Cautions U.S. It May Curtail Oil Exports," *New York Times*, February 27, 2006.



Apparently, Chinese leaders are aware that China may well be in the process of becoming a political competitor in the United States' traditional sphere of influence, and that some Latin American countries may hope that China will act as a "soft" balance to U.S. hegemony. Nevertheless, China has been trying to avoid that role; as one Chinese scholar has argued, China has no need and no capability to reduce the United States' sphere of influence by improving Sino-Venezuelan relations.¹³⁵

China's limited capacity to process sour crude and the huge distance between the two countries—which means high freight costs—will curtail China's ability to accommodate significantly larger volumes of Venezuelan oil. Although China is building additional sour crude refining capacity, much of it has been earmarked to process domestic offshore heavy crude or designed to cope with heavier oil from the Persian Gulf with a lower sulfur content. China is likely to put off costly investment in its refining capacity to process Venezuela's high sulfur crude.¹³⁶

In the eyes of U.S. policymakers, Sino-Venezuelan relations represent China's growing global engagement, and do not necessarily constitute a threat to U.S. interests.¹³⁷ In the foreseeable future, the Chinese leadership will still strive to maintain a peaceful international environment in order to concentrate on economic development. It will therefore avoid confrontation with the United States. President Hugo Chávez has been looking for a political ally to counter U.S. power, and the development of economic relations with China has been an instrument to achieve his political objectives. He will probably be disappointed, although Beijing remains interested in expanding relations with Venezuela, which can provide energy resources, an export market, and diplomatic support.

¹³⁵Jiang Shixue (江时学), "Zhong-La guanxi de xin fazhan" (New developments in Sino-Latin American relations), Chinese Academy of Social Sciences, August 26, 2005, <http://dlib.cass.net.cn/file/2005082632605.html>.

¹³⁶*China's Overseas Investments in Oil and Gas Production* (Report prepared for the U.S.-China Economic and Security Review Commission by Eurasia Group, New York, October 16, 2006), 18-19. http://www.uscc.gov/researchpapers/2006/oil_gas.pdf.

¹³⁷See note 130 above.

According to the power transition theory, in order to maintain its dominance, a hegemon will be tempted to declare war on its challengers while it still has a power advantage. Thus, China's approach to Venezuela demands careful management, through achieving a balance among the objectives of raising China's international profile, pursuing "major-power diplomacy," pushing for multipolarity and limiting unilateralism, developing new markets and sources of inputs in support of China's economic development, and maintaining a peaceful international environment including the maintenance of good relations with the United States. At the very least, the apparent contradictions have to be contained. So far, the Chinese leadership has not been entirely successful in this, although it has been cautious in anticipating more challenges to come.

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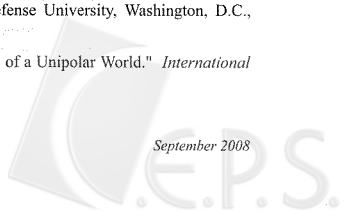
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