Venezuela's Authoritarian Allies:

THE TIES THAT BIND?

Cynthia J. Arnson, Editor

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I am reminded to add the disclaimer that, despite our collective best efforts, I bear responsibility for any errors that might remain. Finally, I hope that this work contributes to the efforts of those inside and outside Venezuela seeking to bring about a democratic, inclusive, and peaceful resolution of the country's deep and overlapping governance, economic, and humanitarian crises.

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June 2021

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INTRODUCTION

Cynthia J. Arnson

This is a book about the international dimensions of regime survival in Venezuela. Specifically, it explores the ways that international allies of Nicolás Maduro's authoritarian government have assisted it in surviving a calamitous period of economic decline, punishing economic sanctions imposed by the United States, and internal pressures for political change.[1]

This book aims to fill an important gap in the understanding of the international dimensions of the Venezuelan crisis. It details how a range of international allies—Russia, China, Cuba, India, Turkey, and Iran—have aligned with Caracas for diverse economic, political, ideological, and geostrategic reasons. With the exception of Turkey, the relationships between Venezuela and its foreign allies predate Maduro, who came to power in 2013. They were established, deepened, or transformed by President Hugo Chávez, a populist authoritarian who ruled Venezuela from 1999 until his death in 2013.

The Chávez period was marked by windfall rents and unprecedented wealth from Venezuela's principal export—oil—on which the economy depended for over 90 percent of export earnings. (By 2021, export dependency on oil had risen to 99 percent.)[2]

Venezuela was like other South American producers of raw materials that benefited from the commodity price boom during the first decade of the 2000s. With oil bringing in over $100 per barrel, Chávez spent lavishly on missions (*misiones*) aimed at improving social welfare in poor neighborhoods. He also embarked on a period of foreign policy activism directed explicitly at countering US influence in the region and spreading largesse to multiple countries in the region in the name of Bolivarian socialist solidarity.[3]

In furtherance of these foreign policy goals, Chávez and Fidel Castro of Cuba established the Bolivarian Alliance of the Peoples of Our America (ALBA) in 2004.[4] ALBA aimed to challenge not only US leadership but also the development and trade integration strategies promoted by "neoliberal" international financial institutions such as the World Bank. To deliver an alternative form of international assistance, Chávez launched Petrocaribe in 2005, providing oil at deeply discounted prices to energy-starved Caribbean and Central America countries, including Cuba. These same years saw Chávez build strong relationships with China, Russia, and Iran, explicitly embracing regimes that were at odds with Washington even though each had its own reasons for allying with Venezuela. Not surprisingly, US policymakers viewed Venezuela's economic, political, and military cooperation with these extra-hemispheric powers as antagonistic, if not threatening, to US interests.

Nicolás Maduro sought to continue, deepen, and diversify the international ties that Venezuela established during the Chávez era. He was not always successful; for example, for a variety of reasons elaborated in chapter 2, the Russian oil giant Rosneft withdrew from the country in 2020. Nonetheless, the existence of these relationships helps explain Maduro's resilience in the face of a "maximum pressure" campaign by the Trump administration aimed at overturning his regime and opening a path to free elections. Sanctions were the centerpiece of this pressure campaign; they were applied not only against current and former government officials and military leaders but also on entire sectors of the economy.[5] While terrorism- and drug trafficking–related sanctions had been leveled against Venezuelan officials going back to the administration of George W. Bush, the pace of sanctions accelerated during the Obama administration. This followed congressional enactment of the Venezuela Defense of Human Rights and Civil Society Act of 2014,[6] after which Obama sanctioned an array of prominent officials responsible for repression or corruption. Under President Trump, the US

Treasury Department vastly expanded the targets, sanctioning scores of political and military leaders, including President Maduro himself, his wife, the vice president, Supreme Court justices, governors, and senior leaders of the army, national guard, and police. The Trump administration imposed financial sanctions in 2017, outlawing Venezuelan government access to the US financial system.

The sanctions policy escalated in 2019, as hopes for a democratic breakthrough in Venezuela rose after the emergence of opposition leader Juan Guaidó. A fresh face who was for the most part unknown in international circles, Guaidó was president of the opposition-controlled National Assembly and declared himself interim president in January 2019. He was eventually recognized as Venezuela's legitimate leader by close to 60 countries.[7] Shortly after Guaidó's surprise move, and as domestic and international forces rallied behind him, the Trump administration targeted the regime's lifeblood, the state oil company, Petróleos de Venezuela, SA (PdVSA). Oil sector sanctions made it illegal for US companies or individuals to do business with PdVSA, and froze PdVSA's assets in the United States. Then, in August 2019, the administration further upped the ante, imposing so-called secondary sanctions on third parties that did business with PdVSA. Throughout 2019, sanctions were accompanied by US diplomatic efforts in Latin America and around the world to isolate the Maduro regime, convince others to impose economic sanctions, and solidify political support for Guaidó.

Before summarizing the reasons that Maduro has managed to cling to power, it is worth pausing to consider the economic and social ruin over which he presides. From the time he was narrowly elected in 2013 until the end of 2020, Venezuela's economy shrank by over 80 percent.[8] By early 2021, and beset by corruption and mismanagement, the country with the world's largest petroleum reserves—a founder of the Organization of the Petroleum Exporting Countries (OPEC), and once among Latin America's wealthiest nations—was pumping oil at the same rate it had in 1943.[9] In 2018, the International Monetary Fund calculated that inflation would reach a mind-bending 1 million percent; since then, annual inflation rates have been in the range of several thousand percentage points.[10] Venezuela's currency became so worthless that by early 2021, about two-thirds of transactions were conducted in foreign currencies.[11] A survey by leading Venezuelan universities found that 97 percent of Venezuelan households lived in poverty.[12] Even before the ravages of the COVID-19 pandemic, Venezuela's hospitals and health clinics lacked reliable electricity, running water, soap, and basic medicines.[13] These chronic shortages of food, medicine, and other basic goods, together with iron-fisted repression, have spurred a massive exodus of Venezuelan citizens, some 5.6 million by early 2021.[14] It is the largest—and still growing—refugee crisis in Latin American history and the second-largest in the world.

The government's survival under such circumstances has depended on a combination of tight internal control and international allies willing to defy US financial, oil sector, and secondary sanctions to provide a lifeline to the regime.

Internally, the most important pillar of regime survival has been the armed forces, especially its top-heavy officer corps.[15] Continuing a process begun under Chávez, Maduro has ceded control to the military of key economic sectors—petroleum, mining, ports, food distribution—which provide lucrative opportunities for graft and other forms of corruption. The military has additional opportunities for rent-seeking and enrichment through its involvement in the illegal economy, from narco-trafficking to gold mining to the contraband of gasoline and other goods.[16] In addition, the armed forces maintain close internal vigilance of their own ranks, to identify and eliminate real or potential sources of dissent. Among the 323 political prisoners in Venezuela as of early April 2021 were 125 members of the security forces.[17] As noted in chapter 4, Cuba has helped establish this internal surveillance capability within the security establishment.

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Maduro's ability to sustain the authoritarian regime established by his predecessor, Chávez, has had numerous other internal dimensions.[18] These include:

- The packing of state institutions, from the Electoral Council to the Supreme Court, to undermine checks and balances and any form of horizontal accountability. The subversion of independent institutions went as far as the convening of a parallel legislature, the 2017 Constituent Assembly, to undermine the authority of the constitutionally mandated National Assembly after legislative elections in 2015, which gave the opposition majority control. In the restricted legislative elections held in December 2020, the opposition lost control of the one remaining institution not dominated by the regime;

- The rigging of elections, including by banning political parties and the principal opposition candidates from participating, most notably in the 2018 presidential election. Whereas the Chávez regime had sought repeated validation in elections and referenda, Maduro took the restrictions on democratic space to new heights.[19] After the opposition's victory in the 2015 legislative elections, the regime determined never again to hold a free election it was likely to lose.

- The murder, torture, disappearance, and imprisonment of opposition politicians, students, human rights and other social leaders, members of nongovernmental organizations, and young men in poor neighborhoods. The crackdown on civil society, including health and humanitarian workers, continued even as the COVID-19 pandemic ravaged the country.[20] In 2020, a UN fact-finding mission concluded that systematic human rights violations by the military, police, and intelligence forces "amount to crimes against humanity."[21]

- The weaponization of scarcity and hunger, by tying the renewal of electronic "Fatherland Cards," by which citizens access government food subsidies, to participation in elections. The placement of booths (Red Points or *Puntos Rojos*) for the renewal of Fatherland cards next to polling stations undermined citizens' confidence in the secrecy of their ballot.[22]

Maduro is deeply unpopular in Venezuela—in mid-2020, only 13 percent of Venezuelans viewed him positively, a level virtually unchanged since 2018.[23]

Internationally, Venezuela's relations with Russia and China during the Chávez era resulted in tens of billions of dollars in loans, investments, and arms purchases, a significant portion of which remains unpaid. But as the US government doubled down on efforts to crush the Venezuelan economy in 2019, the purpose of Venezuelan foreign policy changed: sanctions evasion became its central motif. A smaller number of international actors have been involved in this effort. None of Venezuela's most important international allies stepped forward to subsidize the regime, either during a period of steep economic decline or in response to US sanctions. As noted in chapter 2, Russia lacks the wherewithal; and as outlined in chapter 3, China has sought to unwind its loan exposure in Venezuela in the face of the economy's deep dysfunction. Chapter 6 lays out how India, an ally of the United States, remained an important source of cash for the regime until private companies that were worried about US sanctions ceased even limited oil-for-diesel swaps in the Trump administration's waning days. Turkey and Iran, however, have played a significant role. Venezuela's strong anti-US posture has resonated with these two countries, which are also being sanctioned by the United States. But as described in chapters 7 and 8, both have profited handsomely from their trade with Venezuela, receiving payments in gold for products exported to Venezuela (Turkey and Iran) and helping to market sanctioned oil (Iran). Meanwhile, Cuba has continued to receive shipments of Venezuelan oil amid a severe fuel shortage in Venezuela, and has provided invaluable in-kind security and intelligence support.

The chapters in this volume explore these relationships in detail, noting the historical evolution of and unique drivers and interests involved in each

Russia

In the Russian case, Vladimir Rouvinski indicates in chapter 2 how Vladimir Putin saw in Chávez's anti-imperialist, anti-US posture a vehicle for Russia's own international projection and ambition to confront the West. Russia's interests in Venezuela have also had important economic dimensions, especially related to the energy sector and Russian oil giant Rosneft, the largest state oil and gas company in the world. Russia's loans to Venezuela have amounted to about $20 billion, far lower than China's but including $4 billion for purchases of military hardware (fighter jets, helicopters, and Kalashnikov rifles), the largest sale of Russian arms to any Latin American country. In Rouvinski's view, however, the main value of Venezuela to Russia is "its geographical proximity to the United States." Venezuela constitutes the leading edge of Russia's reassertion of strategic power in the Western Hemisphere, a form of tit-for-tat "symbolic reciprocity" in the US "near abroad" in response to Western meddling in support of independence movements in the former Soviet republics. Venezuela thus has geopolitical significance for Russia, not only as a symbol of its post–Cold War international assertiveness—which is especially important for domestic audiences in Russia—but also as payback for US and European policies in Ukraine, Crimea, and Kosovo, among others.

As the Trump administration doubled down on rhetoric that "all options are on the table," the Kremlin sent nuclear-capable long-range bombers to an airport near Caracas in December 2018 and held joint exercises with the Venezuelan Air Force. Russia subsequently deployed up to a hundred Russian military specialists in Venezuela—the first continuous presence of such personnel in the Western Hemisphere since Moscow withdrew its forces from Cuba in the early 1990s.

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Russia's policies in Venezuela have been costly, Rouvinski argues, including in terms of its prestige vis-à-vis other Latin American countries that oppose the Maduro regime. Although Rosneft facilitated most of Venezuela's oil shipments in the face of US sanctions, the company abandoned Venezuela in mid-2020 after US sanctions were imposed on its trading subsidiaries. The activities of the Russian state company that acquired Rosneft's assets have since been murky. Russia has provided shipments of wheat and its Sputnik V COVID-19 vaccine, but it does not have the economic resources to alleviate Venezuela's deep crises. Behind the scenes, Russian officials have appeared increasingly impatient with the Maduro government's inept handling of the economic crisis. Yet the tangible and intangible stakes for Russia in Venezuela are significant. "Losing Venezuela" would be costly for Putin's international and domestic image, Rouvinski concludes, and Russia will not simply abandon the country.

China

As Stephen Kaplan and Michael Penfold indicate in chapter 3, China became Venezuela's largest bilateral lender. Unlike Russia, China's interest in geopolitical influence in Venezuela has been far secondary to its interest in Venezuelan oil. Between 2007 and 2016, Chinese development banks loaned a net $45.1 billion to the government and its state-owned oil company, PdVSA, guaranteeing the loans with shipments of oil. Between 2010 and 2013, with oil prices still high and Hugo Chávez still in power, Venezuela accounted for about 64 percent of China's newly approved lines of credit to all of Latin America.

Chinese banks significantly revised their lending posture, however, as Venezuela's macroeconomic and governance challenges deepened after the election of Nicolás Maduro in 2013. Kaplan and Penfold illustrate how policy banks stopped lending new funds to the government in 2015, channeling resources toward joint ventures while working to unwind their extensive financial relationship. And while China offered some temporary debt relief to Venezuela in 2016 and 2018, Kaplan and Penfold indicate how fulfilling the terms of the massive oil-for-loan deals has deprived Venezuela of cash revenue from oil exports, especially at a time of collapsing oil production in Venezuela. In political terms, the authors also point out that China has maintained strong relationships with leaders of diverse political orientations in Latin America. That said, Chinese authorities have "little tolerance for political instability." While they have endeavored to maintain at least some contact with Venezuela's political opposition, they have also reportedly equipped the Maduro regime with surveillance technology.[24] At the same time, an ongoing debt moratorium has allowed China to occupy the sidelines domestically in Venezuela, with the aim of fostering its long-term commercial interests beyond the current crisis.

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Cuba

The authors of the chapters on Cuba, Brian Fonseca and John Polga-Hecimovich and Richard Feinberg, emphasize different dimensions of the Cuba–Venezuela relationship and its historical evolution. Feinberg traces the historic rivalry between Cuba and Venezuela for subregional leadership, arguing that the relative power of each country has shifted over time, although their interests today align in confronting a hostile United States. Fonseca and Polga-Hecimovich similarly emphasize the relationship's evolution since Chávez came to power in 1999, indicating that today Cuban security and intelligence support help Maduro stay in power amid the country's deep crises, while ongoing (albeit much reduced) oil shipments from Venezuela to Cuba provide a needed lifeline for the Cuban economy.

A distrustful Chávez sought to "coup-proof" the government, turning to Cuban advisers to train Venezuelan military and intelligence personnel, overhaul military planning, and help monitor the internal situation within the barracks.

The authors of both chapters agree that the attempted coup against Chávez in 2002—supported by the United States—marked a turning point in the Cuba–Venezuela relationship, opening the way for a deepening of security ties. A distrustful Chávez sought to "coup-proof" the government, turning to Cuban advisers to train Venezuelan military and intelligence personnel, overhaul military planning, and help monitor the internal situation within the barracks. Estimates of the number of Cuban security personnel in Venezuela are difficult to determine with any accuracy, because neither government has been transparent about the true dimensions of the relationship. Feinberg suggests that the US government has exaggerated the numbers, in part because such reports "quickly reverberate in the US media" and among domestic political constituencies.

The economic and social dimensions of the relationship have diminished over time; but at their height in the middle to late 2000s, they fulfilled key objectives of both governments. As Chávez expanded his social welfare missions (*misiones*) in poor neighborhoods, Cuba provided as many as 40,000 doctors, nurses, dentists, and other specialists to assist. In addition, hundreds of thousands of Venezuelans received health care in Cuba—most notably, Chávez himself as he was dying of cancer. According to Feinberg, "Venezuela paid handsome sums for this expert labor." The role of Cuban doctors in servicing the missions coincided with the peak of Venezuela's oil diplomacy through PetroCaribe, with Cuba reaping significant benefits—some 96,000 barrels of oil per day at deeply discounted prices in the middle of the decade, reaching a height of over a 100,000 barrels per day in 2012. Cuba continues to receive Venezuelan oil, albeit in vastly reduced quantities, even while Venezuela's oil sector struggles to maintain minimum levels of production.

Fonseca and Polga-Hecimovich view the current Venezuela–Cuba relationship as one of "elevated mutual dependence," based on the transactional exchanges of security and intelligence support from Cuba for Venezuelan exports of oil to the island. Feinberg, however, suggests that recognizing the "inherent tensions" in the relationship could lead to more effective US policies toward both countries.

India

Unique among Venezuela's international relationships has been the one with India, where "business rather than politics" has been the driver of bilateral ties. Hari Seshasayee demonstrates in chapter 6 that rapid economic growth in India led to surging demand for oil: by the 2000s, India was the third-largest importer of oil in the world, overtaking Japan and surpassed only by the United States and China. India possessed the capacity to refine Venezuela's cheaper heavy crude oil—one of its refineries is owned by Russia's Rosneft—and became Venezuela's second-largest oil export destination by 2008. Seshasayee notes that US sanctions on Iran, a previous source of oil for India, had the unintended consequence of deepening the India–Venezuela relationship. Unlike Russia, Cuba, and China, however, India–Venezuela ties were "anchored in energy security" and are unlikely to be affected by concerns over domestic politics in Venezuela.

Seshasayee details the way US sanctions against PdVSA in January 2019 and the extension of those sanctions to non-US entities involved in the oil sector in August 2019 complicated, but did not halt, the oil trade between Venezuela and India. Forty percent of Venezuela's crude exports in 2019 went to India, providing the cash-strapped

Maduro regime with $5.5 billion in revenues. In 2020, India was the destination of nearly a third of Venezuela's global oil exports, becoming the largest market for Venezuelan oil. Two companies—Reliance (RIL) and Russian-owned Nayara—accounted for the bulk of purchases; but even then, India's imports from Venezuela in 2020 were less than half of what they had been just four years earlier. In light of US sanctions and rapidly dwindling production in Venezuela, both companies turned to more reliable suppliers in the Americas and Middle East.

Chapter 6 indicates that Indian companies were wary of running afoul of US sanctions. Shortly after the Trump administration announced sanctions on PdVSA, for example, Reliance ended its exports of diluents to Venezuela. However, with the permission of the US administration, Reliance swapped diesel for Venezuelan oil, as permitted on humanitarian grounds. But even these diesel swaps ended in late 2020, as the Trump administration continued its push to strangle the Maduro regime economically. The oil-for-diesel swaps (which affected Reliance as well as Italy's ENI and Spain's Repsol) have not been renewed by the Biden administration.

Turkey

Unlike the other cases described in this book, the economic and political relationship between Venezuela and Turkey dates not from the Chávez era but, rather, flourished under Maduro and Turkish president Recep Tayyip Erdoğan. As Imdat Oner indicates in chapter 7, ties grew close beginning in late 2016. Not coincidentally, this was after Erdoğan turned back an attempted military coup and initiated a harsh domestic crackdown that was criticized by the United States and the European Union. The coup attempt—which Erdoğan claimed was masterminded by a US-based Turkish cleric, and which Maduro promptly condemned—"dramatically transformed Turkey's domestic and foreign policies," Oner writes, launching a period of internal authoritarianism and an anti-US and anti-Western foreign policy. Turkey's and Venezuela's mutual antipathy to the United States deepened after the Trump administration

Turkey's and Venezuela's mutual antipathy to the United States deepened after the Trump administration imposed sanctions on Turkey in 2018...

imposed sanctions on Turkey in 2018 in reaction to its jailing of a US citizen. Shortly after the application of US sanctions on Turkey, Erdoğan visited Caracas; this followed a late 2017 visit by Maduro to Ankara. These presidential visits were the first ever between the two countries, and paved the way for an expansion of trade and international flights.

While the trade relationship overall has been relatively modest, Oner argues that Turkey has become the linchpin of Venezuela's gold trade, providing the Maduro regime with a vital source of hard currency in the face of sanctions and the collapse of its oil industry. The transactions have been shrouded in secrecy, passing through bank accounts in Turkey held by the Venezuelan Central Bank. Oner indicates that Turkey has assisted other countries targeted by US sanctions, notably Iran, beginning in 2012, "providing billions of dollars' worth of gold in exchange for Iranian natural gas and oil." In the Venezuelan case, the gold-for-currency swaps have, among other things, helped finance purchases of food for government-subsidized food boxes known as CLAP.

Overall, Oner argues, the Turkey–Venezuela relationship is not institutional; rather, it is based on the close personal relationship between Erdoğan and Maduro, two authoritarian leaders isolated from the West, who blame external enemies for their internal difficulties and who have turned toward like-minded authoritarian governments: Russia, China, and Iran. Venezuela serves Erdoğan's interest in asserting Turkey's foreign policy independence, while Turkey has provided Maduro with a means to convert gold reserves into cash. However, Oner concludes, the relationship between the two country's leaders is far from becoming a broader alliance.

Iran

Iran–Venezuela ties go back to the 1960s, when both countries were founders of the Organization of the Petroleum Exporting Countries (OPEC). But the relationships flourished and acquired new significance during the presidencies of Hugo Chávez and Nicolás Maduro. As James Bosworth points out in chapter 8, "mutual antipathy toward the United States" drove the relationship in the 2000s between Chávez and Mahmoud

Ahmadinejad, with both leaders espousing an anti-imperialist foreign policy that challenged the West. Chávez facilitated closer ties between Iran and leftist governments in Nicaragua, Ecuador, and Bolivia. Chávez and Ahmadinejad visited each other's capitals, established direct flights, channeled investments, and signed numerous bilateral agreements (many of which went unfulfilled). But according to Bosworth, they especially "enjoyed inflaming the worst nightmares of US policymakers," by signing a nuclear cooperation agreement in 2008 and by hinting at uranium mining to help Iran's nuclear program (even though reality lagged far behind rhetoric). The frequent reports of Venezuelan assistance to Hezbollah also raised concerns about Iranian–Venezuelan cooperation in supporting international terrorism.

After a brief weakening in 2013 when Chávez died and Ahmadinejad lost power, Iran–Venezuelan relations "reemerged with force," Bosworth writes, in the face of sanctions imposed by the Trump administration. In 2020, Iran sent technicians and equipment to help Venezuela repair its largest refinery, which had been heavily damaged in an explosion and fire; and Iran began providing gasoline to address a critical fuel shortage in May 2020. Drawing on its own experience with evading sanctions, Iran helped Venezuela with a variety of tactics—turning off ship transponders, repainting and renaming vessels, and conducting ship-to-ship transfers—to facilitate Venezuela's imports of fuel and exports of oil. Venezuela paid for gasoline as well as food with gold, in transactions that were brokered by some of the same individuals who arranged gold sales to Turkey (see chapter 7). Despite US sanctions on some Iranian tanker captains and the August 2020 US seizure of four Iranian ships bound for Venezuela and loaded with gasoline, Iran has become a critical player in Venezuela's survival efforts. This, says Bosworth, was "a reaction to US actions and serves as a lesson in the second-order consequences of sanctions policies."

It is difficult to predict whether the limited economic lifeline Venezuela has received from its allies will be sufficient to enhance its prospects for future regime survival.

Toward the Future

As the chapters in this book demonstrate, Venezuela and its international allies have mutually beneficial relationships, albeit ones motivated fundamentally by self-interest. In several cases, this self-interest overlaps with a desire to join Venezuela in confronting the United States ideologically, geopolitically, or economically—especially with respect to US sanctions. Indeed, as James Bosworth argues in chapter 8, US policies toward Venezuela have had the unintended consequence of creating an "axis of the sanctioned," in which countries targeted by US policy share strategies for sanctions evasion, provide financial support outside the US banking system, and offer material support to one another, breaking the isolation that sanctions are intended to impose.

It is difficult to predict whether the limited economic lifeline Venezuela has received from its allies will be sufficient to enhance its prospects for future regime survival. Even with oil prices recovering as the US and Chinese economies rebound from their pandemic-induced stupor, Venezuela's production capacity remains deeply compromised. Russia's Rosneft has abandoned the country, and little is known about the Russian state enterprise that acquired its assets. China continues to receive Venezuelan oil, but in repayment for past loans, not for cash. Maduro's Achilles heel—the economy—has few prospects for rebounding. Reforms, including dollarization, are only band aids on a critically ill patient.

A wild card concerns the Biden administration's willingness to enforce secondary sanctions on PdVSA's customers, including India. Even in the harshest moments of Trump administration policy, sanctions enforcement included only one instance when tankers bound for Venezuela were turned around on the high seas. Unless the Biden administration is willing to continue such risky behavior, let alone contemplate the kind of military confrontation that the Trump administration threatened but from which it ultimately backed away, third countries will become increasingly bold in testing US resolve to enforce secondary sanctions.

In mid-2021, Venezuela appeared farther than ever from the hoped-for democratic political transition that Juan Guaidó once represented. Guaidó's own popularity within Venezuela has plummeted in tandem with the opposition's inability to produce change that improves the daily lives of ordinary people. Meanwhile, Venezuela continues to hemorrhage massive numbers of its own citizens to neighboring countries, putting regional stability at risk.The Biden administration focused in its early days on some efforts to improve the humanitarian situation within Venezuela and assist its neighbors financially to absorb refugee flows. But it adopted a wait-and-see approach to Venezuela's internal politics, including by rebuffing overtures from Maduro to engage directly. At the same time, in mid-2021 opposition parties and civic organizations made further efforts to unify, calling for negotiations to resolve the country's humanitarian crisis and move towards free elections. At the time of this writing, it is not clear that either the opposition or the regime and its supporters are willing to offer the necessary incentives, concessions, and guarantees for negotiations to be successful. However, given the extensive involvement of international actors in the Venezuelan conflict—some in support of the government and others seeking its removal—it is clear that Venezuela's tragedy cannot be resolved by Venezuelans alone. The United States and other democracies in the Western hemisphere and Europe have enormous influence to shape the nature of any political settlement in Venezuela. But as this book has made clear, untangling Venezuela's external alliances, including by distinguishing among the drivers and interests of the regime's major partners, is a key factor in the search for a democratic outcome.

Notes

1 I am grateful to Michael Penfold for his detailed comments on this chapter and to Catherine Soltero for research assistance.

2 Organization of the Petroleum Exporting Countries, "Venezuela Facts and Figures," https://www.opec.org/opec_web/en/about_us/171.htm.

3 For English-language background on Venezuela in the Chávez era, see, for example, Javier Corrales and Michael Penfold, *Dragon in the Tropics: The Legacy of Hugo Chávez*, 2d edition (Washington, DC: Brookings Institution Press, 2015); Kirk A. Hawkins, *Venezuela's Chavismo and Populism in Comparative Perspective* (Cambridge, UK and New York: Cambridge University Press, 2010); and Steve Ellner and Daniel Hellinger, eds., Venezuelan Politics in the Chávez Era: Class, Polarization, and Conflict (Boulder: Lynne Rienner Publishers, 2003).

4 ALBA's members were Venezuela, Cuba, Ecuador, Nicaragua, Antigua and Barbuda, Dominica, Saint Lucia, and Saint Vincent and the Grenadines.

5 Trump administration officials also sought to keep the regime off balance, stating on multiple occasions that "all options are on the table" in a thinly veiled reference to potential US military action.

6 For a detailed overview of sanctions under the Obama and Trump administrations, see Clare Ribando Seelke, "Venezuela: Overview of US Sanctions," Congressional Research Service, January 22, 2021, https://fas.org/sgp/crs/row/IF10715.pdf.

7 Guaidó's emergence came after the presidential elections in 2018 were "won" by Nicolás Maduro and were widely condemned by the international community as illegitimate.

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2

VENEZUELA: Russia’s Gordian Knot in Latin America

Vladimir Rouvinski

Venezuelan President Nicolás Maduro and Russian President Vladimir Putin during a bilateral meeting in Moscow, Russia.
Source: Kremlin.ru, October 4, 2017.

Russia's foreign policy is part of a complex tapestry intended to bolster its current president, Vladimir Putin.[1] Moscow's relations with Venezuela are a prime example of this strategy. Russian engagement with the Bolivarian Republic demonstrates Vladimir Putin's global ambitions to recruit geographically distant nations as partners in constructing a new multipolar, anti-US world order. The Russian government has learned to bolster support for Putin at home by taking advantage of situations unfolding in the Russian "far abroad," as elements of a political spectacle portraying Russia's return as a global power—like a scenario of "from Russia with love."

Russia's relationship with Venezuela is also a story of missed business opportunities, multi-million-dollar risky investments, dubious personal enrichment, and vast corruption. It also features denials, by a permanent member of the United Nations Security Council, of massive human rights violations in Venezuela in the name of "21st-Century Socialism."

Three key aspects of interaction between Moscow and Caracas are essential to understand the Russia's policy toward the region and Venezuela in particular. First is Russia's "return" to Latin America toward the end of the 1990s and subsequent events leading to the present challenges. Second is the role of political priorities rather than business interests that comprise the true guiding principles of the Russian involvement in the key sectors of the Venezuelan economy such as oil and natural gas. Third is the Russian view (among an important segment of Russian political elites) that the severity of the current crisis in Venezuela stems from US-backed efforts of sabotage and not as much from the disastrous economic policies of the Bolivarian government, combined with the impact of the COVID-19 pandemic. There are powerful figures in the Kremlin who sincerely believe that there is an opportunity to improve the situation sometime in the future with *chavista*s still in control of Venezuela. Finally, the evidence suggests that Venezuela has become a kind of a suitcase without a handle for Putin: hard to carry but difficult to throw away. While there is growing uncertainty about the Venezuela's future and there are no easy solutions, Russia believes that it has made too many tangible and intangible investments here. If Venezuela were ever to fall from the Russian orbit, it would be very painful for the Kremlin. Moscow is trying hard to prevent this from happening.

Venezuela and Russia: The Origins of the Relationship

The best way to understand the strengthening of Russian–Venezuelan relations since the end of the Cold War is to place them within Moscow's broader foreign policy framework toward Latin America and the Caribbean after Vladimir Putin's rise to the presidency in 2000. This policy had two main elements: The first was for Russia to provide both its state-owned and privately owned businesses with new opportunities in the region. The focus was on areas where the Russian government believed it had a comparative advantage in Latin American markets—that is, the energy sector and armaments.[2] The second goal was for Russia to engage Latin American countries, even if only symbolically, in building a new multipolar world order that might challenge the existing US-led world order. After the end of the Cold War and Latin America's so-called left turn, leaders in Moscow concluded that the Russian government could easily recruit new supporters in a number of Latin American countries.[3]

Anti-American rhetoric was a common feature in the speeches of former presidents Evo Morales of Bolivia, Néstor and Cristina Kirchner of Argentina, Rafael Correa of Ecuador, Fidel and Raúl Castro of Cuba, and, above all, Hugo Chávez of Venezuela. There was no shared Marxist socialist ideological base, as was the case during the Soviet Union. This time, simple anti-Americanism and calls for constructing a new "just" world order attracted Moscow to the leftist Latin American leaders. This attraction grew much stronger in the wake of Putin's 2007 Munich speech, in which he argued that a unipolar (American-led) order was unacceptable in the modern world. Additionally, the Russian president rejected any scenario in which (according to Putin) the system of law and values of one state—namely, the United States—would be imposed on all other states across the vital spheres of human existence: economy, politics, and culture.[4] For Chávez, the speech was a confirmation that Russia and Venezuela shared the view that it was necessary to oppose the power and influence of the United States on a world scale.[5]

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Chávez did not hesitate to translate this shared vision into policy. Caracas fully supported Putin's position rejecting Kosovo's independence in 2008 as a "dangerous precedent."[6] A few years later, Venezuela fully supported the Russian position on the five-day war with Georgia in 2008, including by following Russia's lead in recognizing the independence of the two Georgian separatist regions of Abkhazia and South Ossetia.[7]

The shared views on international issues between Moscow and the leftist governments in the Western Hemisphere is the key reason that Russian foreign policy doctrine described Russia's relations with Latin America and the Caribbean as being of "strategic importance."[8]

Over time, Russian priorities toward Latin America shifted from seeking economic opportunities to political advantage. Russia faced overwhelming competition from China, which began reaching out to Latin America shortly after Russia did. Russian companies quickly proved unable to compete with China commercially: smaller Russian firms lacked capacity and financing; and larger firms, including state-owned corporations, were prone to mismanagement and poor strategies.[9] Moscow soon resorted to sacrificing commercial profits for political benefits. Today, with Russia suffering from fluctuating energy prices and Western sanctions, the Kremlin is in a position to reward its most loyal Latin American followers only with short-term credits, limited investments, and arms sales.

The changing priorities in Russia's approach to Latin America are particularly evident in the case of Venezuela. At the beginning of the 2000s, the powerful Russian state and private corporations that were gaining access to the Venezuelan market included such giants as Gazprom, Rosneft, Lukoil, Surgutneftegaz, and TNK-BP. In 2006, Gazprom won a tender for the exploration of fields in Venezuela's territorial waters. Soon afterward came a contract to buy Lada cars; an assembly line for Kamaz trucks; commercial agreements in agriculture, fishing, and energy production; and a number of additional agreements.[10] It seemed like a real advance of Russian businesses in South America. Venezuela also became the largest buyer of Russian arms in the Western Hemisphere, after purchasing 100,000 Kalashnikov automatic rifles, 24 Su-30MK2 fighter jets, and about 50 helicopters, at a total cost estimated at $4 billion.[11] However, Russia's commercial heyday with Venezuela proved to be short-lived. After a sharp economic decline and staggering corruption, most Russian companies lost their interest in the Venezuelan market and left the country.[12] The only Russian company that remained on the ground throughout this entire period was Rosneft. The oil giant helped the Maduro government work around US sanctions by facilitating oil shipments and controlling, from its office in Panama City, the trade of most of Venezuela's oil.[13] At the same time, Rosneft supplied Venezuela's imports of gasoline, which were essential to run the Venezuelan economy. By June 2019, Russia was Venezuela's only source of imported gasoline.[14] But even Rosenft withdrew from Venezuela in 2020, shortly after the United States sanctioned two subsidiaries, Rosneft Trading and TNK Trading, which were responsible for a third of Venezuela's oil exports amid broader US sanctions against Petróleos de Venezuela, SA (PdVSA).[15]

The significance of Rosneft's departure from Venezuela needs to be understood in the context of the importance of the company to the Russian economy and the sheer size of the company's footprint in Venezuela. Rosneft is the largest oil-producing and the second-largest gas-producing company in Russia. It is responsible for 41 percent of all oil production in Russia and 6 percent of world production.[16] In terms of hydrocarbon reserves and the production of liquid hydrocarbons, it is also the world's largest public oil and gas company. Rosneft is considered one of Russia's top strategic companies.[17] Rosneft is also an instrument of Russian foreign policy, providing aid to regimes friendly to Russia (in the form of investments, services, and credits). Rosneft's emergence as a tool of Russian statecraft took place under Igor Sechin, Rosneft's CEO.[18] One of Putin's closest associates in today's Russia, Sechin is widely considered to be the second-most-powerful man in the country. He has greatly expanded the company, seldom failing to obtain new energy assets for Rosneft from less powerful members of the Russian elite.[19] While he may have a lower personal public profile when compared with others in the leadership, Sechin does not hesitate to publicly demonstrate his influence in the Russian political hierarchy.[20] When he uses his authority and ability to use Rosneft's assets abroad, it clearly signals Moscow's international priorities.[21] The case of Venezuela provides one such example.

Initially, it was not Rosneft but Gazprom making the investment headlines in Venezuela. After investing some $300 million in drilling just one well at the Urumaco I field and failing to find oil, Gazprom started to look for an opportunity to exit the country. Gazprom's desire to continue to do business in Venezuela had faded because of growing political instability and the need for substantial additional investments. Yet Venezuela's growing political importance for Moscow led the Kremlin to persuade Gazprom and several other Russian companies to form the National Petroleum Consortium (NNK). In 2010, NNK signed a contract with PdVSA to organize a joint venture to explore the Venezuelan oil reserves in the Orinoco River area. The total investment in this project was projected to be between $20 billion and $30 billion over a period of 25 years. By the end of 2014, Rosneft decided to buy out the other partners in the NNK group by paying $800 million combined to Gazprom, Lukoil, and Surgutneftegas. Rosneft's former consortium partners were relieved to leave the project, as they saw little long-term benefit.[22]

At about the same time, Rosneft agreed to arrange, between 2014 and 2016, prepayments to PdVSA for crude oil and related products. It is likely that this step was taken in order to confirm the seriousness of Russia's commitment, by offering urgently needed cash to the government in Caracas, which in 2014 had already started suffering from the shortage of hard currency and growing economic difficulties, and which faced a crucial 2015 parliamentary election. According to official sources, the company gave Venezuela a total of $6.5 billion in prepayments for supplying 4 million barrels per month (133,000 barrels per day). By mid-2018, PdVSA had failed to deliver roughly half the contracted total.[23]

In addition, the Russian company participated in several other energy joint ventures in Venezuela: Carabobo-2,4 (Petrovictoria), where Rosneft owned 40 percent; PetroMonagas, where Rosneft owned 16.7 percent; Junin-6 (PetroMiranda), where Rosneft owned 40 percent; Boquerón, where Rosneft owned 40 percent; and Petroperija, where Rosneft owned 40 percent. Through these ownership stakes, Rosneft on paper owned about 150 billion barrels of proven reserves.[24]

The failure to properly estimate complex risks associated with doing business in Venezuela is but one example of how good business design is less of a priority than responding to political pressure coming from the Kremlin to continue to engage Venezuela.

Additionally, the company obtained, in December 2017, a license to develop the offshore gas fields of Patao and Mejillones on Venezuela's coast for a period of 30 years, including the right to export the gas. Rosneft estimated the total reserves at the two newly acquired fields to be about 180 billion cubic meters of gas, or about 2 percent of 7.9 trillion cubic meters of total gas reserves controlled by Rosneft as of January 2018.[25]

As US pressure on the regime of Nicolás Maduro mounted, many foreign investors and traditional oil industry service providers decided to stay away from Venezuela. As a result, beginning in 2019, Rosneft became the major player in the distribution and shipments of Venezuelan oil and the servicing of equipment. However, Rosneft's participation in Venezuela's energy sector abruptly ended after the United States imposed direct sanctions on the company's trading arm in February 2020. In May 2020, Rosneft officially confirmed that "all of the company's activities in Venezuela have been completely discontinued, including its participation in all joint ventures, as well as in oil service companies, commercial and trading operations."[26] The failure to properly estimate complex risks associated with doing business in Venezuela is but one example of how good business design is less of a priority than responding to political pressure coming from the Kremlin to continue to engage Venezuela.

Rosneft's motivations for doing business with Venezuela, despite mounting problems, involved politics first and economics a far distant second. In doing business with Venezuela, the Russian company experienced the types and number of difficulties that would have forced any other company to cut its business ties long before Rosneft did. First, although the assets that Rosneft controlled in the country were impressive in quantity, Venezuelan crude ranges from heavy to extra-heavy, requiring special processing that demands advanced technology. This became an issue for Rosneft because of Western sanctions as well as the additional costs.

...the primary value of the South American nation for the regime in Moscow is its geographical proximity to the United States.

Second, because of continuing instability and the deterioration of the quality of everyday operations in Venezuela, many stages of the supply chain were vulnerable. For instance, in August 2018, one of the major ports from which Rosneft shipped its oil temporarily stopped operating due to a fire. Separately, a scheduled upgrade at one of the plants jointly owned by Rosneft and PdVSA was critically delayed because of the lack of qualified technical and management staff.[27] These interruptions, and others, served as warning signs about Venezuela's ability to meet its obligation of delivering oil to Rosneft as payment for loans.[28] The failure in Venezuela consequently jeopardized Rosneft's own obligations to its partners abroad.

Apart from the difficulties faced by Venezuela's *chavista* government and Russia's combined investment in Venezuela of up to $20 billion, the value of the Bolivarian Republic for Russia is not measured in terms of money alone.[29] There are other interests in play relating to two fundamental aspects of post–Cold war Russian relations with Venezuela. The first is Russia's recognition that the primary value of the South American nation for the regime in Moscow is its geographical proximity to the United States.

The second is an unusual sense of comradeship and trust developed by an important part of the Russian political elite toward Venezuela that dates back to the reign of Hugo Chávez and has continued during the rule of Nicolás Maduro.

Why Venezuela Matters to Russia

Early on in Russia's return to Latin America, Venezuela pushed to play the role of Russia's key partner in the region. Chávez chose this course of action for several reasons. First, from the very onset of contacts with Moscow, Chávez recognized that the changing tone of discourse among the post-Yeltsin Russian political elite, one that questioned the US-led international liberal order, was a perfect match for his own quest for new power arrangements both in and outside Latin America. Second, his domestic political strategy inside Venezuela—one that Maduro continues today—was similar to Putin's strategy in Russia: using emotionally charged political symbolism to gain the support of the electorate. Chávez quickly understood and capitalized on what Russia needed most of all from Latin America: acknowledgment of the idea that Russia was back in the international arena as a great power. Third, Chávez clearly understood that Putin's Russia was not the Soviet Union—it was not prepared to serve as a patron for Venezuela on the same scale as the USSR did for Castro's Cuba during the Cold War. However, Chávez clearly hoped that his friendship with the Kremlin would yield significant tangible benefits for Caracas.

The initial interactions between Putin's Russia and Chávez's Venezuela proved mutually beneficial in terms of political symbolism inside each country. For Vladimir Putin, the foray demonstrated Russia's return to its rightful prominent role in the international arena, and succeeded in increasing his own public support inside Russia. Against the backdrop of what Russians widely perceive as a humiliation of their national pride at the hands of the United States after the end of the Cold War, plus the failure to maintain several former Soviet republics within Russia's orbit in the wake of the color revolutions, Russia's leadership needed at least a symbolic breakthrough.[30]

This political task became particularly urgent in the aftermath of Putin's speech in Munich in 2007. Putin's Munich denunciation of the American-led unipolar world system failed to gain much international traction, especially when Russia's military victory in its five-day war against Georgia, fought in 2008 for the control over the separatist republics of South Ossetia and Abkhazia, met with silence or disapproval from even Russia's closest Eurasian allies. This is when the Venezuelan leader came to the rescue.

The first country, aside from Russia, to recognize South Ossetia and Abkhazia as independent states—a move strongly opposed by the United States and the Western powers—was Daniel Ortega's Nicaragua. More important for Moscow, Hugo Chávez promised the Russian leadership that he would use his influence among countries in the Bolivarian Alliance for the Peoples of Our America (known as ALBA) to widen international support for the Russian cause.[31] For Chávez, the reason to support the Russian side in the conflict in Georgia was not just to demonstrate political solidarity with Moscow; he also expected that there would be a tangible reward from Moscow for his support. Chávez clearly observed that soon after recognizing the breakaway republics, Nicaragua signed an agreement with the Russian power company RAO UES to build several hydroelectric and geothermal plants, in addition to receiving other types of aid. The chair of the board of directors at RAO EES at the time was none other than Sechin.[32]

This is not to say that Latin America was not on Russia's radar before the 2008 war with Georgia. In the 1990s, Moscow offered political support to Colombian president Ernesto Samper after his troubles with the United States following accusations that he had received money from the Cali drug cartel for his electoral campaign.[33] However, Venezuela proved to be especially useful for Putin's political spectacle because it demonstrated to the Russian public, at just the right time and in the right place (e.g., close to the United States), that Russia had restored its influence in the world. Many Russians still see Latin America as America's own "near abroad," similar to the former Soviet republics for Russia. While the majority of ordinary Russians have never traveled to Latin America, they do have some knowledge about that part of the world dating back to the times of the Soviet glory. The Kremlin realized that if they could score a diplomatic success in America's near abroad in Latin America, it would compensate in terms of political symbolism for Russia's loss of influence with its own neighbors.

The Bolivarian leaders played their role to perfection. We saw first-ever visits by the heads of state; the arrival of Russian strategic bombers and navy ships to Venezuela; an announcement about a possible military base "under the very nose of the

Yankees"; the acquisition of Russian fighter jets; and videos of Lada cars on the streets of Caracas. All these events provided the Russian media with perfect images of Russia's restored global reach. For those among the Russian elites who felt outplayed by the West in Ukraine and other former Soviet territories, Moscow's rising profile in Venezuela was evidence of a successful strategy of reciprocity. The primary mission was a success: domestic approval of Putin's foreign policy was rising, and Venezuela rose like a rocket in Russian public opinion surveys of countries considered friendly toward Russia.[34] Russia would eventually pay an economic price for this political success in terms of failed investments in and loans to Venezuela.

In spite of the economic failures, Russian elites still greatly value their relationship with Venezuela because the leaders of the Bolivarian Republic continue to support Russia politically and are ready to cooperate with Moscow in order to stay in power.

The leaders of Venezuela likewise wanted to base the bilateral relationship with the Kremlin on more than economic concerns. Chávez put his personal charisma and talent for personal diplomacy on full display in his efforts to build stronger relations with Russia. Putin, for his part, greatly values building good personal relations with foreign heads of state.[35] With personal style and political need in alignment, Chávez would go on to visit Russia more than any other Latin American leader. He traveled to Moscow nine times, sometimes visiting Russia more than once during a calendar year. Chávez would also meet Putin during the latter's visits to Venezuela and on the sidelines of international meetings like the United Nations General Assembly.

Chávez also sought to build a sense of comradeship with other key Russian political and business figures. When visiting Russia, he did not limit his visits to the Russian capital: he would not hesitate to travel to smaller Russian cities and befriend members of the powerful regional elite, some of whom later would join the central government in Moscow. Fully aware of Putin's sensitivity on the question of the collapse of the Soviet Union—considered by the Russian president and his followers as the greatest geopolitical catastrophe of the 20th century—Chávez announced, on one of his visits to Moscow, that "I am one of those who believe that the Soviet Union has never disappeared."[36] The Venezuelan president also paid respect to rehabilitated Russian customs and traditions. For instance, he twice accepted the title of honorable Cossack, and met with the hierarchy of the Russian Orthodox Church on almost every visit. Thanks to his frequent television appearances in Russia, Chávez became one of the most recognizable foreign leaders among the Russian public.[37]

The *comandante*'s successor, Nicolás Maduro, learned the lesson and continued to follow the example of his patron. Before the COVID-19 pandemic, Maduro visited Russia several times each year. When most foreign leaders, citing Russia's involvement in the war in Ukraine, declined Putin's invitation to attend the symbolically important celebrations of the 70th anniversary of Russia's victory over the Nazi Germany, Maduro was the only South American leader to attend the commemoration. Maduro has appeared eager to take advantage of any opportunity to meet the Russian leader at home or abroad, or to speak by phone. Perhaps not surprisingly, Maduro developed particularly close personal relations with Sechin, who continued to be a regular visitor to Caracas. Notably, Sechin was Maduro's guest at the opening of the Chávez memorial in Sabaneta in 2016.[38] While there is no public record of any new meeting between Maduro and Sechin after Rosneft's departure from Venezuela and the global health emergency, the members of Maduro's close circle still meet Russian leaders in person whenever possible.[39] Another distinctive feature of the relations between Russia and Venezuela, in the context of Russia's rapprochement with Latin America, are the over two hundred treaties, agreements, contracts, and memoranda of understanding signed by Moscow and Caracas after Chávez became president of Venezuela.[40] These agreements range from a comprehensive treaty of technical military cooperation, to technical documents on sharing certain Russian bank and cybersecurity technologies, to sales contracts for Russian agricultural products. In practical terms, many of these treaties and agreements have gone unfulfilled. Nonetheless, the high number of intergovernmental agreements translates to multiple trips by top Russian bureaucrats and key business leaders to Venezuela, as well as corresponding trips by Venezuelan representatives to Russia. Diplomats from both countries have worked on Russian–Venezuelan high-level commissions and other formal frameworks, including electoral authorities and parliamentary delegations. The rotation of individuals assigned to these various bilateral commissions and working groups has served to build a broadening base of familiarity between Russian and Venezuelan elites.

The analysis of the issue of trade and commerce between Russia and Latin America would be incomplete if not to mention the high incidence of corruption. While there is evidence of widespread corruption in other parts of the Russian economy, the case of Venezuela stands out. According to a study in 2020, "corruption has been, more than a constant, a versatile amalgam in the Russian advance into Venezuela."[41] In this context, one of the emblematic cases that continues without a resolution was the project to build a Kalashnikov rifle plan in Venezuela. After completion, the plant was to become the largest of its kind outside Russia (25,000 machine guns with cartridges were to be produced annually); according to Chávez, "thanks to the Russians, we will be able to protect every street, every hill, every corner."[42] In 2006, the Russian Rosoboronexport and Venezuela's Defense Ministry signed a contract, and it was expected that the first line of production would become operational by 2011. However, the plant was never built, despite the fact that Russia received full payment from Venezuela. A criminal case was opened in Russia, and several people were charged with corruption and fraud. The court has pointed out other corruption schemes and money laundering linked to the Russian and Venezuelan governments, discovered during the criminal investigation, but no further action has been taken in either country. New timetables for opening the plant have been announced several times (the last time was in 2020), but so far, production has not begun.

The persistent efforts by the Bolivarian leadership to engage with Russia nicely coincided with the anti-American worldview of those members of Russia's political elites looking for a chance to prove Russia's return to the global stage. A considerable part of the Russian political establishment has shared Caracas's view that Venezuela's domestic problems are the work of outside forces, primarily the United States. In spite of the economic failures, Russian elites still greatly value their relationship with Venezuela because the leaders of the Bolivarian Republic continue to support Russia politically and are ready to cooperate with Moscow in order to stay in power. In 2016, Russian defense minister Sergei Shoigu stated publicly that political unrest in Venezuela represented yet another American-supported attempt at a color revolution.[43] In 2018, Sechin accused the United States of using sanctions in order to damage Rosneft's investments in Venezuela as part of a broader, unfair American strategy of economic competition around the world.[44] In September 2018, Foreign Minister Sergey Lavrov stated that the answer to solving the Venezuelan crisis was a dialogue between the Maduro government and the opposition, but he accused the United States of preventing a dialogue from taking place.[45] The next month, in October 2018, Vladimir Putin linked the political and economic difficulties experienced by the government of Maduro to "external influence" and demanded that "the people of Venezuela be given a chance to decide by themselves the future of their country," since "there is no need for a bull in a china shop."[46] In December 2020, Moscow offered its full approval of the results of the parliamentary elections in Venezuela, which were "held in a free and legitimate manner despite the attempts by external forces to delegitimize the electoral process."[47] From the Russian print media to television to academia, the Russian political establishment compared events unfolding in Venezuela with the 2014 Maidan Revolution in Ukraine.[48]

A New and Unsettling Chapter for Russia: The Emergence of Juan Guaidó

The surprising self-proclamation of Juan Guaidó, on January 23, 2019, as interim president of Venezuela was followed by a further escalation of tensions in the country. These included widespread energy blackouts and failed attempts to deliver international humanitarian aid. The dramatic developments placed Moscow's policy toward Venezuela under enormous pressure. The government of Vladimir Putin found itself at a crossroads: either to begin looking for an exit strategy, or to use the complicated Venezuelan scenario as an opportunity to reshape the nature of Russia's engagement with Venezuela.[49] Events that unfolded throughout 2019 demonstrate that Russia chose the latter option.

Throughout 2019, Moscow did not offer Venezuela any new credits or prepayments of oil. However, the Kremlin did offer technical military support to the Maduro government and maintained military personnel in the country. At least initially, Moscow helped Caracas obtain urgently needed cash by assisting it with oil sales and financial transactions despite US sanctions; provided strong diplomatic backing of Maduro in the United Nations; renewed business relations; and increased positive coverage in the Russian mass media. The visit by Maduro to Russia and his meetings with Putin in September 2019, as well as the visits to Venezuela by Foreign Minister Lavrov in February 2020 and by deputy prime minister Yuri Borisov in March 2021, served to strengthen Russia's image as a major extra-regional actor in Latin America.

The Four Major Factors for Why Russia Remained So Heavily Involved in Venezuela

Four major factors help explain why Russia remained so heavily involved in Venezuela. *The first factor is that for Russia in Venezuela, retreat is not an option.* The group within Russia's political elite that is responsible for Moscow's assertive policies in the international arena still holds sway in the Kremlin. These individuals do not share a common ideology, as was the case of the Soviet leadership. Instead, they share a common understanding of the past, present, and future of Russia. Even more important, their views coincide with Putin's ideas on what is right for Russia. In addition, most of them have known each other for many years and associate their personal well-being with their remaining in the inner circle of power.

Many of Russia's powerful political elites are part of Putin's Security Council.[50] In recent years, the importance of the Security Council in designing and implementing the country's foreign policy agenda has been growing.[51] For the members of the council, the crisis in Venezuela constitutes a case of "hybrid conflict" that tests Russia's ability to resist and counterattack the adversary's action in a new type of rivalry in international relations. According to the council's secretary, Nikolai Patrushev, a hybrid conflict "involves economic and political pressure to circumvent UN decisions and international law; the organization of mass protests; threats of military invasion; attempts to get rid of the top political leadership and aggressive propaganda." Patrushev and other members of the council are convinced that these actions characterize the US-led international campaigns against the Venezuelan government, and that Russia should act accordingly.[52]

For the members of the Russian Security Council and the rest of the nation's political elites, the situation in Venezuela cannot be viewed separately from a global process in which Russia struggles to ensure its just place in the international arena and to thwart attempts by Western powers to reduce its political and economic autonomy. Therefore, a retreat from Venezuela was never an option.[53] Not surprisingly, in 2019 key Russian officials often referred to relations between Russia and Venezuela as "strategic."[54] Moreover, as the political crisis in Venezuela heated up in January 2019, Moscow sent a military technical contingent there. This group included the chief of the Russian General Staff of the Ground Forces, Colonel General Vasily Tonkoshkurov; later, in March, up to a hundred Russian military specialists arrived in Caracas. This represented the first continuous presence of Russian military personnel in the Western Hemisphere since Moscow withdrew its military personnel form Cuba in the early 1990s, a clear manifestation of Kremlin's determination to keep Venezuela within Russia's orbit.[55]

Many other Russian-sponsored or -assisted actions helped keep Maduro in power. In the United Nations Security Council, Russia blocked a US-backed resolution concerning the 2019 Venezuelan presidential crisis and the prior results of the 2018 presidential election, condemned as illegitimate by most countries in the West. As noted above, until its withdrawal from Venezuela in 2020, the Russian company Rosneft became the driving force of the Venezuelan oil industry. Some Russian banks and other financial institutions strengthened their work to facilitate financial flows to and from Venezuela. The Russian propaganda machine, including the RT television channel and government-sponsored news agencies, made significant efforts to expose international audiences to alternative explanations of the situation in Venezuela than the ones emanating from Western countries.

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In the eyes of many members of the Russian political elite, developments in Venezuela in 2019 reaffirmed the high value for Russian interests of Latin America's geographical proximity to the United States. For decisionmakers in Moscow, and for the first time since the collapse of the Soviet Union, Moscow managed to veto Washington's attempt at regime change in a country of the Western Hemisphere that was friendly to Russia by challenging US-supported efforts to oust Maduro. Contrary to previous post-Soviet scenarios in Latin America and the Caribbean, the Unites States could no longer ignore

Russian activities in a sensitive area of the US "near abroad." The situation in Venezuela was one of the issues dealt with by high-ranking Russian and US government officials during bilateral meetings, something viewed by Moscow as a sign of recognition that Russia was a key player in the struggle over Venezuela's future.[56]

At the same time, events unfolding in Venezuela since 2019 laid bare the many limitations of Russian policy. These included a shortage of Russia's financial resources to support its policy in Latin America and the weak governance capacity of *chavismo*, which severely reduced the options for Russia's achieving its political objectives in a rapidly changing environment. Over the course of the year, Russian officials frequently indicated in press briefings that they were not negotiating the provision of new credits to Venezuela. Maduro was already late with payments on some of the existing loans to foreign creditors, while the bulk of the debt to Russia had to be restructured. Hence, the Putin government was not willing to approve requests for additional credits or loans.

To make things worse, US sanctions against both Russia and Venezuela's financial and oil sectors reduced the room for business transactions, systematically forcing the parties to work around the restrictions and accept higher transaction costs. On issues of governability, the Russians were greatly concerned with the Maduro government's mismanagement and poor accountability, not to mention the fact that Russian recommendations aimed at helping *chavismo* alleviate the country's harsh economic crisis had rarely been taken into consideration. On occasion, it seemed that Moscow's patience was reaching its limits and that important players were becoming increasingly intolerant of the status quo. This dynamic can be seen in Russian–Venezuelan energy cooperation, which is described below.

The second factor is Rosneft and Russian policy toward Venezuela—in effect, that no man is an island. In the Venezuelan case, many observers think of Sechin as the key individual behind Moscow's policy. His close friendship with and admiration of Maduro are well known. Nonetheless, the way in which Russia cooperated with Venezuela in 2019 illustrated that Sechin's power to define the course of Russia–Venezuela relations extended only as far as the trust invested in him by Putin. Rosneft had risked several billion dollars in Venezuela in loans and joint-venture investments.[57] In other words, Rosneft's failure in Venezuela could offer an opportunity for Sechin's many enemies inside the

Russian political establishment to even the score, if the company's involvement in Venezuela came to be seen as his own initiative and not a project approved by Putin himself.

However, the fundamental explanation for Russia's persistence in Venezuela should not be confused with Sechin's personal preferences and interests. Of growing importance in Moscow was the idea that control over Venezuela's energy resources could contribute significantly to Russia's future as a global energy player, part of the new energy architecture Putin has attempted to build in order to sustain and expand Russia's role as a global energy supplier. With new pipelines to Europe and Asia, Russia today is close to replacing the old supply infrastructure inherited from the Soviet Union. Nevertheless, Russian energy strategy is not limited to the replacement and redesign of supply networks originating in Russia. Some experts have warned that oil production from existing fields within Russian territory may decrease in the mid-term.[58] Moscow is also aware that the global energy market is currently undergoing fundamental changes of extraordinary scale in terms of geography and technological innovation. Using the government-controlled megacompanies such as Rosneft, Russia actively sought to opportunities to extend its control over more oil and gas fields around the world. By transferring all of Rosneft's assets in Venezuela to a shadow company entirely owned by the Russian government, it seems that Moscow is trying to fill two needs with one deed: on one hand, to liberate Rosneft from the risks associated with the US sanctions; on the other hand, to buy time while the situation in the country remains uncertain.

The third factor is that there are many faces of Russia's involvement with Venezuela. This factor explaining the continuation of Russia's engagement with Venezuela concerned business opportunities beyond the energy sector. Although Venezuela experienced stark difficulties in meeting its financial obligations and has a severe shortage of hard currency, there were lucrative opportunities for a number of companies with good connections to the Russian government. Many of these companies are part of the Russian military industrial complex; two key visits to Venezuela in 2019 and in 2021 were by a high Russian government official, Yuri Borisov, the deputy prime minister.[59] After serving several years as deputy defense minister and military-industrial commissioner, Borisov took charge of Russia's defense and space industries. With Venezuela being the largest customer of Russian arms in Latin America, and taking into account the quantity of the arms already sold, Russian defense industries are expected to continue profiting from close relations between Moscow and Caracas, at least in terms of maintenance, training, and upgrading.

Another example concerns the shipments of Russian grain. For the Maduro regime, the shipments of grain have been politically important, as the *chavista* government used them to distribute subsidized wheat flour to bakeries serving the poor. In 2018, Russia's government-controlled United Grain Company delivered 254,000 tons of grain to Venezuela; in 2019, it delivered up to 600,000 tons. Due to limited access to the most recent data, it is not clear how many grain shipments were actually sent to Venezuela in 2020, but the available evidence suggests that the shipments continued.[60] Overall, and despite the relatively low volume of shipments, Russia effectively replaced Canadian and US grain suppliers to the Venezuelan market in 2018 and 2019, while seeking to keep its presence in this sector in the future as well.

Overall, the 2019 political turmoil in Venezuela did not change Russian priorities in Latin America. The region's key values remain its geographical proximity to the United States and the opportunities for Russia to strengthen its might as an energy superpower.

Russia's pharmaceutical companies constitute yet another actor. They have expressed interest in Latin American markets for some time, and they perceive the departure of Western pharmaceutical companies from Venezuela as an important opportunity. At the same time, the lack of essential medicines such as insulin has been a long-standing critical problem for the Venezuelan government, as the shortages of medicine constitute a major source of the regime's unpopularity. On December 11, 2019, the first shipment of 200,000 doses of insulin arrived in Venezuela, after the signing of a contract to buy considerable quantities of insulin produced by Gerofarm, headquartered in Saint Petersburg. Needless to say, Gerofarm is known not only as one of the leaders of the pharmaceutical industry in Russia, but also as one of the sponsors of the 2019 election campaign of Alexander Beglov, the current governor of Saint Petersburg and member of the Supreme Council of the ruling political party

United Russia. In addition, Venezuela became the first recipient of Russia's COVID-19 vaccine, Sputnik-V, and, together with Argentina, is Russia's showcase of "COVID diplomacy" in Latin America. This benefits not only the government of Vladimir Putin but also the companies that produce the vaccine in Russia and those involved in the supply chain.[61]

And the fourth factor is Venezuela in the Russian mass media. This factor, which has kept Moscow attached to Caracas, has been the multifaceted role of Venezuela in the political spectacle put on for Russian domestic and foreign audiences. One focus is Venezuela as evidence of the restored status of Russia as a great power.

However, by 2019 the Russian public showed much less interest in the idea of recuperating Russia's global reach than during the period when Moscow started building an alliance with Caracas. The government of Putin has thus had to walk the extra mile in order to convince Russian public opinion that the continuation of Moscow's involvement in Venezuela is worthwhile. To make the case, the Russian government has significantly increased the number of reports about Venezuela in Russian TV news and other television programs. For example, Channel One alone aired 256 Venezuela-related news reports and TV shows between January and October 2019.[62] This compared with only 34 such reports in 2018.[63] If one counts the number of mentions in news programs and talk shows, Venezuela was given almost twice as much attention by Channel One, for example, as Belorussia, despite the obvious relevance of the latter for Russian domestic and foreign policy.

By making the Bolivarian nation an important protagonist on Russian TV, Russian propaganda has been able to kill several birds with one stone. First, when talking about Venezuela, Russian TV hosts can denounce US foreign policy in the context of continuing tensions between Moscow and Washington. On April 11, 2019, for example, the central theme of one of the talk shows, *Time Will Tell*, was "The Dictate of the USA." The participants discussed a "successful defense of Venezuela by Russia in the United Nations" and Washington's "wrong beliefs that America can dictate its will anyone around the world." In another program, the TV presenter announced, "Washington unleashed a new round of financial war against [Cuba and Venezuela]. . . . This is a warning to all those who help Caracas, including Russia."[64]

Venezuela also provided an opportunity for Russian propaganda to celebrate Russian military technological might. On another popular talk show, *The Great Game*, aired on February 25, 2019, one of the participants assumed that Russian weapons provided "an occasion for the United States to think about [potentially considerable US military] casualties in Venezuela."[65] In addition, Russian TV stations alleged that the United States was intervening in Venezuela because of unfair competition with Russian oil industries on a global scale. Last but certainly not least among the reasons that Venezuela has occupied such a prominent place on Russian TV channels was that it provided an opportunity for Russian propagandists to condemn US policies of "regime change." According to Russian government-controlled media, these efforts bring about the deterioration of living standards, the suffering of common people, and widespread violence. Hence, often comparing Venezuela with Libya and Syria, Russian TV has portrayed Moscow's aid to Caracas not only as a good will gesture but also as necessary to protect the world—and Russia—"against malign US intentions."[66]

Political talk shows have become a backbone of nationwide television broadcasting in Russia, and Venezuela has served to help manipulate public opinion.[67] Taking advantage of the confused and stereotypical knowledge of Latin America among the Russian public, talk show anchors allow guests to make false or erroneous statements without correcting them; they thereby skillfully direct seemingly balanced debates toward conclusions that are in line with Moscow's official stance in the region. This helps alert Russians that the story of Venezuela is not over and to prepare them for whatever might develop in the future.

The coverage of Venezuela by Russian government-controlled media outside Russia responds to a dynamic similar to the one inside the country: Venezuela's difficulties are a result of US-led actions rather than of the disastrous policies of *chavista*s over many years. As the Russia scholars Sean Steiner and Sarah Oates demonstrate, Russian media broadcasts in foreign languages are centered on four key messages that echo the ones destined for Russia's domestic audience: "The US wants regime change"; "the US wants Venezuela's oil"; "the US will create provocations"; and "the US is hypocritical and caused the crisis."[68] In other words, both internally and internationally, Moscow has wanted audiences to believe that its engagement with Caracas is benign, while Washington is to be blamed not only for the current turmoil but also for scenarios that may unfold in the future.

As the tumultuous year 2019 came to a close, Russia confronted financial and reputational challenges in Venezuela but remained committed to a sustained presence on the ground. But it increasingly dealt with a divided Latin America: through its emphatic defense of the Maduro government and its opposition to regional initiatives that sought to resolve the crisis, the Kremlin alienated many governments in Latin America that recognized Juan Guaidó as Venezuela's legitimate leader.[69] At the same time, Moscow closely watched the political unrest that erupted in many parts of the continent and hoped to acquire new supporters among governments emerging from the waves of protest.[70]

Overall, the 2019 political turmoil in Venezuela did not change Russian priorities in Latin America. The region's key values remain its geographical proximity to the United States and the opportunities for Russia to strengthen its might as an energy superpower. At the same time, developments in Venezuela contributed to the reshaping of the Latin American vector of Russian foreign policy. After 2019, more than ever, Moscow became aware of the many limitations that it has in such a distant theater of operations. At the same time, it showed a will to continue exploiting low-cost opportunities in this key area of US interest.

The Year 2020: No Way Out?

Throughout 2020, Venezuela, like every other country in the world, struggled with the impact of the COVID-19 pandemic. While the officially-reported numbers of COVID infections and deaths were low, especially when compared with the grim statistics of neighboring countries, few Venezuelans could escape the feeling of uncertainty and helplessness. The absence of vaccines was only part of the story; the rest had to do with the catastrophic collapse of Venezuela's health sector, including chronic deficits of essential medicine, supplies, and even running water in Venezuelan hospitals and clinics that long predated the arrival of the coronavirus. The Maduro regime tried to turn the pandemic into an opportunity to improve its image in the area of emergency relief and vaccination, where the opposition had little if any space for action. This opportunity could not have arisen without a help from Maduro's friends, namely, China and Russia.

In the case of China, the *chavista* government benefited from what became known as China's "mask diplomacy," that is, the donation of disposable masks and other supplies, widely publicized by government-controlled media.

From a political perspective, however, Russia's emergency assistance turned out to be much more valuable to the Maduro government than that of China. Beijing's mask diplomacy was not limited to the China's political allies in the region; indeed, China donated to virtually every Latin American and Caribbean country. In contrast, the government of Putin made it clear that the first foreign recipients of Russia's COVID vaccine would be those governments that had established strategic relations with Moscow. Accordingly, as mentioned above, Venezuela became the first nation outside Russia to receive "Sputnik-V," Russia's first officially-registered vaccine. The delivery of the initial batch took place at Caracas' Simón Bolívar International Airport, with Vice President Delcy Rodríguez and other high-level officials participating. The ceremony was broadcast live on Venezuelan television as well as on networks across Latin America, thereby contributing to a widening division in Latin American public opinion concerning the benefits of having the Russians as friends. After all, when Moscow delivered the Sputnik-V vaccine to Caracas, no other Latin American country had received a COVID-19 vaccine from any nation. In addition, it became known that Russia had also donated expensive diagnostic equipment and medicine to Venezuela to treat coronavirus patients. Moreover, Russia leant its voice to a demand in the United Nations to lift sanctions against Caracas on a "humanitarian basis."[71] Both Russia and Venezuela knew that the proposed resolution had only a slim chance of being adopted; but both countries used the resolution's failure as an excuse to accuse the United States and other Western governments of obstructing measures to improve the quality of life of ordinary Venezuelans.

By 2020, Venezuela had become a giant Gordian knot of challenges for Russia, with no easy solutions, and Putin's government had grown deeply worried about the future of Russia's presence in Venezuela.

Judging only by the developments described above, an outside observer might conclude that Russian–Venezuelan relations had reached an important level of trust and cooperation. The real state of affairs, however, was quite different. By 2020, Venezuela had become a giant Gordian knot of challenges for Russia, with no easy solutions, and Putin's government had grown deeply worried about the future of Russia's presence in Venezuela. In 2020, Russia's largest public oil and gas company, Rosneft, abandoned Venezuela, creating a great deal of uncertainty regarding the future of Russian strategy in Venezuela's energy sector.

The uncertainty created by the dueling presidencies of Guaidó and Maduro was magnified by an unrelated development on the global scene: the collapse of world oil markets as the COVID-19 pandemic induced sharp economic contractions around the globe. This exposed Russia's vulnerability in terms of its financial might and political weight in the international arena.

In addition, although Russia readily accepted the results of the Venezuela's restrictive parliamentary elections in December 2020, the United States, the European Union, and the majority of Latin American nations did not. Yet another source of division darkened the prospects for reaching any kind of consensus among key external actors about a solution to the country's crisis. Russia is now widely perceived as the only major external power not willing to consider a post-Maduro Venezuela; at the same time, it is short of tangible resources to help the allied regime keep its economy afloat.

By the end of 2020, the logic of reciprocity evident in Russia's approach to Venezuela—equating the US "near abroad" with Russia's in the former Soviet republics—underwent major change, going from something merely symbolic to something more tangible. Russia's current approach includes several elements—the permanent presence of military-technical personal on the ground, COVID-19 vaccine diplomacy, and the exercise of privileges by virtue of Russia's membership in United Nations Security Council. Part of the shift demonstrates the important degree of adaptability in Russian policy toward Latin America, along with the high level of trust and knowledge of the region acquired during two decades of Russian rapprochement with Venezuela. The change also results from Russian policymakers' view of Venezuela as a place of "hybrid conflict," whereby the United States "orchestrates" regime change through economic sanctions, disinformation, and the funding of opposition leaders or movements as opposed to "legitimate" governments.[72] Senior Russian politicians use the same "hybrid conflict" language to characterize political conflicts in their own "near abroad" that produced a change of political regimes. The list includes Georgia (2003), Kirgizstan (2005), Ukraine (2013–14), and Armenia (2018), as well as an attempt to change the regime of Alexander Lukashenka in Belarus in the second part of 2020.

Frequent statements by top political figures and portrayals of the Venezuelan situation in the government-controlled media attest to the fact that Russian political elites and Russian public opinion more generally perceive the ongoing political crisis in Venezuela as a case of a "hybrid conflict." Hence, for Russia, the attempt to remove Maduro from power tests Russia's ability to resist and reject the adversary's action in a new form of international rivalry. For the government of Putin, the crisis in Venezuela cannot be separated from a global process in which (1) Russia struggles to guarantee its place as a key power in the international arena and (2) attempts by Western powers to reduce Russia's autonomy must be thwarted. Understood this way, Russia simply cannot afford to stop supporting Maduro's Venezuela. To do so would call into question Moscow's ability to deal with hybrid conflict.

The shift from symbolic to multifaceted reciprocity reveals both the strengths and weaknesses of the Russian commitment to Venezuela. On one hand, Venezuela confirms the high political value for Russia of Latin America's geographical proximity to the United States. On the other hand, there is perhaps no better illustration of the costs of Russian involvement than the withdrawal of Rosneft from Venezuela. Despite all the company's efforts, its love story with Venezuela was ultimately short-lived. In February 2020, the United States slapped sanctions on Rosneft Trading, SA, a trading arm of the Russian company. It took only a month, after a second Rosneft subsidiary was also sanctioned, for Rosneft to announce the sale of all its assets in Venezuela. They included its participation in potentially lucrative joint projects to exploit oil and gas fields. As it turned out, the buyer was the Roszarubezhneft, wholly owned by the Russian government, which paid for the assets with government-owned shares of Rosneft (valued at $4 billion), thus diminishing the participation of the government in the ownership of the company. Quite notable was the fact that the company had been legally constituted only a few days before Rosneft announced its departure from Venezuela. The newly appointed head of the company, Nikolai Rybchuk, had no previous experience in the oil sector; before assuming the post of CEO in a multi-billion-dollar oil company, he was most often seen in Angola, training military and security forces.

Shortly after the sale was formalized, Russian websites that post job openings announced that Roszarubezhneft was hiring technical personal with experience in the oil sector and with working knowledge of spoken Spanish. However, these posts disappeared as quickly as they appeared. Since then, there has been scant information about Rosneft's former assets in Venezuela. The company even filed a suit in a Russian court against a popular Russian news agency; Rosneft requested payment of more than $700 million to compensate for presumed damages from the publishing of a short article that questioned whether Rosneft had really sold its assets in Venezuela and insinuating that Roszarubezhneft is a shell company.[73]

Rosneft's abandonment of Venezuela represented a success of the US strategy to increase economic pressure on the Maduro government.[74] Indeed, after Rosneft abandoned its operations, the Venezuelan government lost a critical lifeline and was forced to look elsewhere for help with oil sales and imports of fuel. As noted in chapter 8 below, Venezuela turned to Iran. However, by the end of 2020, alternatives to Russia's role in marketing Venezuelan oil and providing needing energy imports did not look promising.

Rosneft's successor, Roszarubezhneft, will face the problems of local production inefficiency, corruption, negligence, and a lack of qualified personnel, if it is to fully restart former Rosneft's operations. Additionally, and despite some recovery of demand, there is ongoing uncertainty about global oil markets and US sanctions policies, not to mention the political puzzle that Venezuela represents, including claims by the opposition that at least some of the deals made by the *chavista* government with Russia are illegal. As for now, the future of the Russian participation in Venezuela's energy sector remains uncertain. Still, Rosneft's former assets in Venezuela, now owned directly by the Russian government, remain the biggest Russian post–Cold War investment in the energy sector of Latin America and the Caribbean. Moscow is unlikely to be willing to relinquish them easily. Indeed, the Maduro government has appeared eager to reengage with Moscow and keep Russia as a major player in Venezuela's energy sector, putting forth plans for new oil joint ventures in late 2020.[75]

The collapse of the Venezuelan economy and the COVID-19 global pandemic have had a major impact on the already shrinking Russian–Venezuelan economic ties; these already suffered from the lack of a long-term strategy, frequent changes in legislation, the weak spending power of many Venezuelans, delays in payments, and high political risk, among other factors. During the heyday of the *chavista* regime, it benefited from the high oil prices and Russian businesses had great expectations with regard to the Venezuelan market, with highly-publicized plans for building Russian Lada car assembly lines, large-scale heavy machinery, and consumer goods sales. However, none of these business proposals have been implemented in practical terms. By 2019, the total volume of trade and commerce between Russian and Venezuela was down by over 21 percent year-on-year; the decline is likely to continue.[76]

Conclusion: The "Venezuelization" of Russian Latin American Policy

There is a famous Russian tale about a fabulous young hero, a *bogatyr* or superman, who once stopped at a crossroads of three roads. In order to continue his journey and fulfill an assignment given to him by the tsar, he has to choose one of the roads. In the middle of the crossroads, there are signs telling the young man what awaits him if he chooses one path or another. The problem is that any choice would get the *bogatyr* into trouble. If he goes to the left, he will lose all his fortune; if he goes to the right, he will lose his horse; and if he goes straight, he will lose his life. It seems that Russian decisionmakers in charge of Venezuela policy are facing exactly this kind of a problem. There are only a few options left for them in this South American nation, and all these options are risky. But Vladimir Putin does not like to lose. After all, the key value of Venezuela for Russia—namely, its location in the Western Hemisphere—remains very high for the Kremlin, as long as the tensions in US-Russian relations continue or even increase. In addition, Putin and his colleagues remember that, in the original version of the Russian tale, the *bogatyr* chooses to go straight, confronts the enemy, and not only lives but also changes the status quo in his favor. Yet simply cutting the Gordian knot that Venezuela represents—either by elevating the level of military presence or by offering a financial lifeline—would be very costly for Moscow, both in political and economic terms. That is why the Russian government is likely to consider negotiating new terms for Russia's presence in Venezuela with relevant domestic and external actors.

One of the options for the government of Vladimir Putin is to seek the establishment of working contacts with other international actors involved in Venezuela that have been in contact with both Maduro regime and the opposition supported by the United States, Europe, and many Latin American nations. In fact, the Putin government did signal on several occasions that it might be willing to become involved in a process leading to new power arrangements in Venezuela, provided the process is carried out in a "legitimate way." Putin used these words in a televised conversation with Maduro when the latter visited Moscow in 2019; furthermore, Russian foreign minister Lavrov met some opposition members during his visit to Caracas in 2020. In this context, the real challenge for Putin is not so much to be willing to accept new rules of the game but to convince other actors to negotiate with Russia. Because of Russia's constant support of Maduro, Moscow is widely perceived in the region as the only external force behind the survival of the *chavista* government and the only major outside power that obstructs the search for a true resolution of the Venezuelan political crisis.

Often overlooked is that Russia can also be part of a solution, not just part of the problem.

As described above, much is at stake for Russia in Venezuela, and it is not prepared to simply abandon the country, leaving many tangible and intangible assets behind. Although the momentum of Russian–Venezuelan relations has slowed, it has not disappeared. Often overlooked is that Russia can also be part of a solution, not just part of the problem. First, Russian relations with Venezuela are characterized by a high level of trust that perhaps no other external actor (with the possible exception of Cuba) possesses. In addition, the Venezuelan armed forces are equipped almost entirely with Russian arms; even if the political regime changes, Venezuela will remain dependent on Russia for weapons maintenance, servicing, and ammunition. The Venezuelan military is key to the prospects for a peaceful transition. Russia's support for a transition could help secure the collaboration of the armed forces in the process. In the international arena, Russia is a permanent member of the UN Security Council and an experienced participant in many other formal international organizations; the country is therefore positioned to facilitate international efforts to help Venezuela. Last but certainly not least important is the fact that Russia's commitment to Venezuela's energy sector is not driven solely by the short-term consideration of saving the Maduro regime from freefall but also by a long-term strategy to establish Russia as an energy superpower.

This could motivate Russia to consider contributing to the international community's postconflict reconstruction efforts, which will be costly by any account.

Of course, the acceptance of a possible Russian role in some future arrangements in Venezuela does not depend solely on Moscow. On one hand, there might be a resistance from some parts of the Venezuelan opposition, which continues to associate Maduro's survival with the backing offered by the Kremlin during the last several years. On the other hand, there are also voices in the United States and among its allies that raise concerns linked to the continuation of the Russian presence in Venezuela. In particular, there are worries that allowing the government of Putin to act as one of the facilitators of the Venezuelan transition would reflect an acceptance of its role as a relevant actor in the Western Hemisphere. However, the exclusion of Russia from a transition process could lead Moscow to choose a different option, namely, to allow Venezuela to remain a form of low-intensity conflict similar to what is taking place in some parts of Russia's "near abroad." The government of Putin possesses sufficient resources to do precisely this. It could continue offering diplomatic support to the *chavista* regime in the United Nations, sending limited humanitarian aid and promoting the use of government-controlled media like RT and Sputnik Mundo to portray the situation in Venezuela as "the machinations of American imperialism."

Several features of Russia's recent engagement in Venezuela are evident in other Latin America and the Caribbean countries; this can be referred to as the "Venezuelization" of Russian foreign policy in Latin America. First and outmost, Russia's is an opportunistic policy conducted primarily through the lens of symbolic reciprocity with the United States. Since its return to Latin America and the Caribbean, the Putin government has looked carefully for opportunities to engage with regional governments that have disputes with Washington; in these cases, Moscow has offered political leaders limited but timely support. This support may include diplomatic backing in the United Nations, favorable coverage by the government-controlled media, and limited economic engagement. In return, Moscow expects these governments to express their support for Russian policy elsewhere, but especially in Russia's near abroad, in addition to subscribing to Russia's interpretation of the idea of a new multipolar world order. Such expressions of support from regional leaders are helpful in achieving Russia's domestic policy goals and in dividing nations in the United States' own "neighborhood." The "Venezuelization" of Russia's foreign policy in Latin America also means bringing some of the practices of Moscow's hybrid warfare in the Russian near abroad to the Western Hemisphere—in particular, when it comes to corruption and disinformation campaigns conducted by the media and social networks. In other words, the importance of the case of Venezuela consists not only in finding a durable solution to this nation's political and economic problems but also in learning the best ways of dealing with an external actor like Russia whose interests that do not coincide with the true aspirations of many Latin Americans.

Notes

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2 See more on this in "Russian Re-Engagement with Latin America: Energy and Beyond," by Vladimir Rouvinski, in *The Impact of Emerging Economies on Global Energy and the Environment: Challenges Ahead*. ed. Bruce M. Bagley, Dina Mouliokova and Hannda S. Kaab (Lanham, MD: Lexington Books, 2015), 293–312.

3 The left turn, or "pink tide," refers to the rise of the leftist governments in Latin America at the end of the 1990s and early 2000s.

4 See the official web page of the president of Russia for a full transcript of the speech (in Russian): http://kremlin.ru/events/president/transcripts/24034

5 "Speech by Commander President Hugo Chávez during the Act of the Signing of the Agreements between the Russian Federation and the Bolivarian Republic of Venezuela and a Joint Press Conference with the Russian Prime Minister Vladimir Putin," April 4, 2010, http://www.todochavez.gob.ve/todochavez/658-intervencion-del-comandante-presidente-hugo-chavez-durante-acto-de-firma-de-acuerdos-entre-la-federacion-de-rusia-y-la-republica-bolivariana-de-venezuela-y-rueda-de-prensa-conjunta-con-el-primer-ministro-ruso-vladimir-putin, in Spanish. In addition, according to one of the leading Russian experts on Venezuela, Emil Dabaguian, who personally knew Chávez, the Venezuelan president truly admired the speech of Putin in Munich because it was a perfect match for his own view of the current state of the world order.

6 See "Chávez Rejects the Independence of Kosovo, Which He Describes as a 'Dangerous Precedent,'" *El País*, https://elpais.com/internacional/2008/02/21/actualidad/1203548418_850215.html, in Spanish.

7 Russia insisted that the war over the separatist-controlled territories of Georgia was started by the Georgians, and that Russia had to defend its troops stationed there because an international mandate allowed them to be in the area.

8 "The Concept of Foreign Policy of the Russian Federation, Approved by the President of the Russian Federation V. V. Putin," February 12, 2013. In 2018, while no longer labeling Russia's relations with all of Latin America as "strategic," Russian officials continue to refer to relations with Venezuela as "strategic."

9 The reports sent by Russian trade representatives in Latin America to Moscow, publicly available at polpred.com, provide plenty of evidence that Russian state-owned corporations were losing many business opportunities because they attempted to continue to use the Soviet-time strategies in the new political settings, both in Russia and in the region. These opportunities were often easily taken by rival Chinese companies that were capable of accepting greater financial risks because they were backed by the Chinese state and could adapt their strategies more easily to the changing market conditions.

10 See Rouvinski, "Russian Re-Engagement with Latin America."

11 On the issue of arms sales, see Evan Ellis, *The New Russian Engagement with Latin America: Strategic Position, Commerce, and Dreams of The Past* (Carlisle Barracks, PA: US Army War College Strategic Studies Institute, 2015).

12 In Moscow, the perception of the level of corruption linked to business relations with Venezuela is high even by the Russian standards. In 2017, the Russian court sentenced a member of the Russian parliament for stealing approximately $20 million allocated for the construction of the Kalashnikov automatic rifles plant. It was the first case ever in Russian history in which a person received a prison term for the damage to a foreign state, despite the fact that the Latin American side never reported any irregularities. Earlier, there were reports of missing funds destined for the construction of affordable housing in Caracas, as part of an agreement with the mayor's office in Moscow, and several other similar cases. In an interview with the Russian ambassador in Venezuela by the *Russia Today* news agency in December 2015, the ambassador complained about the lack of a real commitment by Russian businesses to the Venezuelan market; see http://www.mid.ru/ru/maps/ve/-/asset_publisher/xF355DHtiSes/content/id/1956486.

13 See Lucia Kassai, "To Buy Venezuelan Oil, You'll Need to Go Straight to Panama City," Bloomberg, September 19, 2019, https://www.bloomberg.com/news/articles/2019-09-19/to-buy-venezuelan-oil-you-ll-need-to-go-straight-to-panama-city.

14 "Russia's Rosneft Last Major Petrol Supplier to Venezuela," *Financial Times*, August 7, 2019, https://www.ft.com/content/d0645804-b7a3-11e9-96bd-8e884d3ea203.

15 Daphne Psaledakis and Huymera Pamuk, "US Blacklists Second Unit of Russia's Rosneft over Venezuela Oil," Reuters, March 12, 2020, https://www.reuters.com/article/us-usa-venezuela-sanctions/u-s-blacklists-second-unit-of-russias-rosneft-over-venezuela-oil-idUSKBN20Z33Z.

16 Official company data are available at Rosneft.ru: https://www.rosneft.ru/

17 Russian law defines a strategic company as a "federal state unitary enterprise engaged in the production of goods, works, or services of strategic importance; for ensuring the defense capacity and security of the State, protecting morality, health, rights, and legitimate interests of the citizens of the Russian Federation" (Decree No. 2009 of the President of the Russian Federation, August 4, 2004; with changes approved on October 24, 2018). The strategic companies enjoy certain benefits, which may include guaranteed financial support

from the federal budget and special tax programs, among other advantages.

18 During the Soviet Union, Igor Sechin served as a military adviser in Angola. Later, he started working with Vladimir Putin at the mayor's office in Saint Petersburg. When Putin became president, Sechin held appointments in Putin's administration and served as a deputy primer minister. He was transferred to Rosneft in 2012. Numerous reports indicate Sechin's appetite for a luxurious lifestyle.

19 Many experts believe that Sechin was behind the idea to nationalize Yukos, and he made sure that Rosneft took control over a number of other, formerly privately owned, companies. Some of the former owners, who attempted to resist, ended up in a prison.

20 In 2017, the Russian public was exposed to a power game between the minister for economic development of the Russian Federation, Alexey Ulyukaev, and Igor Sechin. The former was accused by the latter of extorting a $2 million bribe for an assessment that allowed Rosneft to acquire stakes at another oil company. Despite the weak and unconvincing evidence, Ulyukaev received a prison sentence. The case was widely covered by the Russian major media. It is known that with the onset of the COVID-19 pandemic, Putin canceled almost all of his personal meetings. In this regard, it is very indicative that, in 2021, the person with whom Putin met personally most of all, outside the circle of his family, is Igor Sechin.

21 While the case of Venezuela is one of the most important in terms of tangible resources invested, it is not the only one. For instance, in Iraqi Kurdistan, Rosneft plans to invest $3 billion despite not having an approval from the central government in Baghdad, which is required by Iraqi law.

22 Many Russian companies were complaining about growing difficulties in doing business in Venezuela. In particular, they were suffering because of unjustifiable delays from government officials who were not responding to their requests on time, mismanagement and the lack of efficiency in managing many technical issues, as well as corruption. See Rouvinski, "Russian Re-Engagement with Latin America."

23 Marianna Parraga, "Venezuela's Port Woes Stall Oil Exports to Rosneft," *Reuters*, August 29, 2018, https://uk.reuters.com/article/uk-venezuela-oil-exports-exclusive/exclusive-venezuelas-port-woes-stall-oil-exports-to-rosneft-source-idUKKCN1LE2NG.

24 As reported at Rosneft.ru, https://www.rosneft.com/press/releases/item/180805/. It is important to take into account that, on the Russian domestic market, oil production in measured in tons, not barrels. Hence, Rosneft often provides the related statistics in tons. Here, 1 barrel is roughly equal to 0.1364 ton, but the value differs greatly depending on the particular type of oil.

25 Rosneft.ru.

26 Financial results for the first quarter of 2020. Official web page of Rosneft, May 15, 2020, https://www.rosneft.ru/press/releases/item/200703/.

27 An upgrader is a facility used in the oil industry, which is essential for converting extra-heavy oil (like Venezuela's) into the synthetic crude oil suitable for refineries.

28 "Venezuela's Petropiar Oil Upgrader Begins Restart after Repairs, Fire," *Reuters*, June 26, 2018, https://www.reuters.com/article/us-venezuela-crude-upgrader/venezuelas-petropiar-oil-upgrader-begins-restart-after-repairs-fire-idUSKBN1JM2VC.

29 Arnold Khachaturov, "Bolivar Will Not Pay Back the Debt," *Novaya Gazeta,* August 29, 2017, https://www.novayagazeta.ru/articles/2017/08/30/73645-bolivar-ne-vyplatit-kredit, in Russian.

30 Color (or colored) revolution is a term used to describe the mostly peaceful change of political regimes in the former Soviet republics in the post–Cold War era. The Russian elites believe that these transitions were made possible because of external (Western) clandestine influence that helped to trigger a popular protest against the established political rule.

31 ALBA is a political and trading bloc created by Venezuela and Cuba in 2004, but which is sustained financially overwhelmingly by Venezuela alone. Moscow expected wider support of its international positions than it actually received from the ALBA countries See Vladimir Rouvinski, "Russia and ALBA: A Marriage of Convenience?" in *Decline of the US Hegemony? A Challenge of ALBA and a New Latin American Integration of the Twenty-First Century*, ed. Bruce M. Bagley and Magdalena Defort (Lanham, MD: Lexington Books, 2015.)

32 Rouvinski, "Russia and ALBA."

33 See Vladimir Rouvinski, "Colombia frente a las potencias extra-hemisféricas: El caso de las relaciones colombo-rusas," *Revista* Cs 14: 77–109.

34 See Vladimir Rouvinski, "Understanding Russian Priorities in Latin America," Kennan Cable 20, 2017, https://www.wilsoncenter.org/publication/kennan-cable-no20-understanding-russian-priorities-latin-america. Needless to say, the Bolivarian leaders also took a full advantage of their closeness to the Kremlin in order to strengthen their domestic standing. For instance, addressing publicly the US president at one of his regular televised meetings, Chávez proclaimed, "Venezuela is no more alone. Russia is with us!" Several years later, Nicolás Maduro regularly made similar statements to the Venezuelan media.

35 See Charles E. Zeiger, "Diplomacy," in *Routledge Handbook of Russian Foreign Policy*, ed. Andrei P. Tsygankov (London: Routledge, 2018), 132–33.

36 This is from a statement made by Hugo Chávez in October 2010, during a speech to the Congress, "Two Centuries of Latin American Independence," Moscow Library of Foreign Literature.

37 This is according to a survey conducted in 2013 by FOM; data are available in Russian at https://fom.ru/Mir/10867.

38 "Presidente Maduro develó monumento de Hugo Chávez en Sabaneta," *ALABCiudad*, October 7, 2016, http://albaciudad.org/2016/10/monumento-hugo-chavez-sabaneta-barinas-desde-rusia/.

39 In June 2020, Jorge Alberto Arreaza, Maduro's minister of foreign affairs, joined Vladimir Putin in celebrating the 75th anniversary of the Allied victory over Germany, while in November of the same year, Maduro's vice president, Delcy Rodríguez, arrived in Moscow for a working visit.

40 "Interview of the Ambassador of Russia in Venezuela V. F. Zaimsky with TASS News Agency," February 15, 2017, http://www.mid.ru/about/professional_holiday/news/-/asset_publisher/I5UF6lkPfgKO/content/id/2642717.

41 Alejandro Cardozo Uzcátegui and Victor Mijares, "The Versatile Amalgam: Interests and Corruption in Russia-Venezuela Relations," *European Review of Latin American and Caribbean Studies* 109 (2020): 191.

42 Larisa Zhukova, "The Mythical Billion on Kalashnikov Assault Rifles. Why the Former Senator Goes to Jail," RIA Nososti, February 27, 2017, with updates on March 30, 2020, https://ria.ru/20170227/1488859548.html.

43 "Speech by the Defense Minister of the Russian Federation General of the Army S. K.

Shoigu at the IV Moscow International Security Conference," April 16, 2016, in Russian, http://mil.ru/pubart.htm?id=12016244%40cmsArticle.

44 "Venezuela Has Good Prospects in the Oil Industry, Sechin Said," *RIA Novosti*, https://ria.ru/spief/20180525/1521343125.html, May 25, 2018, in Russian.

45 "Lavrov Evaluated the Influence of the United States on the Crisis in Venezuela," *Economics Today*, September 29, 2018, in Russian, https://rueconomics.ru/352228-lavrov-ocenil-vliyanie-ssha-na-krizis-v-venesuele.

46 "Putin Commented on the Situation in Venezuela," *RIA Novosti*, in Russian, https://ria.ru/world/20181003/1529893770.html, October 3, 2018.

47 "Zakharova: Elections in Venezuela Showed That Its Citizens Are in Favor of dialogue in Parliament," Tass, https://tass.ru/politika/10223505, December 10, 2020.

48 The Ukrainian crisis is widely perceived in Russia as a color revolution that turned into a civil war, with unpredictable consequences and damage to vital Russian interests.

49 On the evolution of Russian relations with Venezuela before and in early 2019, see Vladimir Rouvinski, *Russian–Venezuelan Relations at a Crossroads* (Washington: Woodrow Wilson International Center for Scholars, 2019), https://www.wilsoncenter.org/publication/russian-venezuelan-relations-crossroads.

50 Russia's national Security Council (Sovet Bezopasnosti Rossiiyskoiy Federatsii in Russian) is an advisory body under the president of the Russian Federation, which is in charge of preliminary assessments before Putin's decisions on issues related to internal and external threats. Although the membership in the council is usually reserved for the highest government officials—such as the prime minister, minister of defense, head of Federal Security Services and others—some individuals keep their seat on the council even after they stop holding any related post within the government. The changes in Russian political institutions recently initiated by Vladimir Putin showed the importance attached to the Security Council: the former Prime Minister, Dmitry Medvedev, is now Putin's deputy at the council. While the position of deputy was introduced only in 2020, Medvedev kept most of his staff as well as the extraordinary personal privileges he enjoyed as prime minister.

51 As Maxim Bratersky argues, "The list of challenges and threats to national security has greatly expanded. The component elements of national security (political autonomy) now include issues of military-strategic stability, national sovereignty, socio-political stability, the competitiveness of the economy, society and ideology. The Russian Security Council now issues documents devoted not only to military and economic security, but also to environmental policy, policy in the Arctic, information security, energy and transportation." Maxim Bratersky, "The Evolution of National Security Thinking in Post-Soviet Russia," *Strategic Analysis* 40, no. 6 (2016): 513–23.

52 RIA Novosti, "Patrushev Claims Hybrid Impact on Venezuela from Abroad," April 24, 2019, in Russian, https://ria.ru/20190424/1552991931.html.

53 At the beginning of the 2019 crisis, a high-ranking Russian diplomat referred in a private conversation to Russia's role in Venezuela as "the last line of defense of our country in the international arena." Other Russian government officials and diplomats in informal conversations often expressed a similar view.

54 E.g., in October 2019, the Russian vice prime minister, Yuri Borisov, announced that Russia and Venezuela will soon sign "a strategic document, . . . which will determine trade, economic, scientific, technical, and cultural relations between our countries for a long period,

at least until 2030." As reported by Interfax news agency on October 6, 2019, https://www.interfax.ru/world/679262.

55 In September 2019, Maduro acknowledged that a planned rotation of Russian technical military personnel took place.

56 The concept of "near abroad" (*blizhnee zarubezie* in Russian) is used in Russia to refer to the territory of the former Soviet Union, the geographical area of utmost strategic importance for Russia. Many members of the Russian political elite think of Latin America as the US "near abroad." Direct talks between the United States and Russia on Venezuela took place in March 2019 in Rome, when the US special representative for Venezuela, Elliott Abrams, met with the Russian deputy foreign minister in charge of Latin America, Sergei Ryabkov. In May 2019, the situation in Venezuela was discussed in a telephone conversation between President Donald Trump and Vladimir Putin; the subject came up during Putin's meeting with Secretary Mike Pompeo also in May. Venezuela was among the topics discussed frequently by Russian and US diplomats throughout the year. It also figured in talks between US secretary Pompeo and Russian foreign minister Sergei Lavrov in Washington in December 2019.

57 It is difficult to estimate the total cost of Rosneft's involvement with Venezuela because of the lack of transparency along with conflicting accounts provided by the parties. According to Reuters' calculations, the Russian company has spent around $9 billion in projects in Venezuela since 2010. Reuters, "Venezuela Approves Incentives for Russia's Rosneft to Invest in Offshore Gas," November 6, 2019, https://www.reuters.com/article/us-venezuela-russia-gas/venezuela-approves-incentives-for-russias-rosneft-to-invest-in-offshore-gas-idUSKBN1XG24A.

58 See International Energy Agency, *World Energy Outlook* (Paris: International Energy Agency, 2019), https://www.iea.org/reports/world-energy-outlook-2019.

59 "Russia and Venezuela Sign Cooperation Agreements," Vesti.ru, October 6, 2019, in Russian, https://www.vesti.ru/doc.html?id=3196532.

60 "Russia Has Expanded the Geography of Grain Buyers in the South and North American Market," *КазахЗерно.kz,* , January 14, 2021, https://polpred.com/?ns=1&ns_id=3623215. "Deputy Prime Minister Borisov in Caracas Held Talks With the President of Venezuela," Interfax.ru, March 31, 2021, in Russian, https://www.interfax.ru/world/758713.

61 In addition to the state-owned Gamaleya Center, the companies that produce Sputnik-V are Biocad, Lecco, Generium, Pharmstandard-UfaVITA, and Binnopharm. They are owned by individuals with close links to the Russian political elite and may participate in the supply of the vaccine to Venezuela and other Latin American markets.

62 Channel One (Perviy Kanal) TV broadcasting can be watched for free in 99.8 percent of Russian territory. Its potential domestic audience is 140 million viewers. Among the Russian TV companies, it has the most extensive networks outside Russia, with a potential reach of up to 250 million viewers, according to International Media Distribution (IMD), a US-based media company that distributes programming in foreign languages to cable and satellite providers in the United States and Canada.

63 Author's own calculations, based on data provided at Channel One's official website: https://www.1tv.ru.

64 See https://www.1tv.ru/news/2019-04-18/363768-vashington_razvyazal_ocherednoy_vitok_finansovoy_voyny_s_yuzhnymi_sosedyami.

65 See https://www.1tv.ru/shows/big-game/vypuski/rossiyskoe-oruzhie-eto-povod-ssha-zadumatsya-o-poteryah-v-venesuele-viktor-murahovskiy-o-silovom-scenarii-gosperevorota-v-venesuele-bolshaya-igra-fragment-vypuska-ot-25-02-2019.

66 See https://www.1tv.ru/shows/vremya-pokazhet/vypuski/vremya-pokazhet-vypusk-ot-30-04-2019-2019-04-30.

67 Pyotr Tveredov, "A Great Game of Channel One," *Nezavisimaya Gazeta*, June 13, 2019, in Russian. The newspaper claimed that Russian political talk shows are watched by important Russian decisionmakers.

68 See Sean P. Steiner and Sarah Oates, "Reading the RT Leaves: Foreign Policy Lessons from Russian International Media Coverage of Venezuela," Kennan Cable 43, August 29, 2019, https://www.wilsoncenter.org/publication/kennan-cable-no-43-reading-the-rt-leaves-foreign-policy-lessons-russian-international. According to the author's interviews with Latin American journalists in Ecuador and Colombia in October and November 2019, Russia's government-sponsored RT in Spanish TV broadcast and Sputnik news have become key sources of information for Latin American journalists and the general public.

69 E.g., Russia rejected the invitation to participate in the Conference for Democracy in Venezuela that was held in Lima, Peru, in August 2019. Earlier, the Russian Council of Federations sent a letter to several Latin American parliaments with a warning not to intervene in Venezuela or else face Russia's reaction, which was regarded by some governments as a threat. See Vladimir Rouvinski, "El Favor del Oso: Colombia y la política rusa," *El Espectador*, April 7, 2019, https://www.elespectador.com/noticias/el-mundo/el-favor-del-oso-colombia-y-la-politica-rusa-articulo-849255.

70 In January 2020, it was reported that Russia has used its trolls to manipulate public opinion in South American nations hit by mass protests. See Lara Jakes, "As Protests in South America Surged, So Did Russian Trolls on Twitter, US Finds," *New York Times,* January 19, 2020, https://www.nytimes.com/2020/01/19/us/politics/south-america-russian-twitter.html.

71 See the official Twitter account of the Russian Mission to the United Nations, March 25, 2020, https://twitter.com/RussiaUN/status/1243011675554529280.

72 See, e.g., Nikolai Patrushev, "See the Goal: Russia's Security in the Modern World," *Rossiiskaya Gazeta,* November 11, 2019, https://rg.ru/2019/11/11/patrushev-ssha-stremiatsia-izbavitsia-ot-mezhdunarodno-pravovyh-ramok.html. Patrushev is the secretary of Russia's Security Council.

73 "Rosneft Announced the Withdrawal of its Claim Against RBC for 43 Billion Rubles," RBC News, July 16, 2020, https://www.rbc.ru/technology_and_media/16/07/2020/5f1066f49a7947deec064658.

74 See Antonio De la Cruz, "Rosneft's Withdrawal Amid US Sanctions Contributes to Venezuela's Isolation," Center for Strategic and International Studies, April 10, 2020, https://www.csis.org/analysis/rosnefts-withdrawal-amid-us-sanctions-contributes-venezuelas-isolation.

75 "Venezuelan Officials Peddle Oil Deals to Moscow," Argus Media, November 12, 2020 https://www.argusmedia.com/en/news/2159503-venezuelan-officials-peddle-oil-deals-to-moscow.

76 According to Exportcenter.ru, https://www.exportcenter.ru/international_markets/world_map/south_america/venezuela/.

3

CHINA–VENEZUELA ECONOMIC RELATIONS:

Hedging Venezuelan Bets with Chinese Characteristics

Stephen B. Kaplan and Michael Penfold

Venezuela's President Nicolas Maduro, right, walks with Chinese President Xi Jinping during a welcome ceremony at the Great Hall of the People in Beijing, China Wednesday, Jan. 7, 2015. Source: AP Photo/Andy Wong, Pool

Development holds the master key to solving all problems. In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries and achieve economic integration and interconnected development and deliver benefits to all.

–President Xi Jinping, Belt and Road Forum for International Cooperation, May 2017

The Trump administration critiqued President Xi Jinping's rosy development rhetoric, suggesting that "debt-trap diplomacy" is at the heart of China's flagship foreign policy program, the Belt and Road Initiative (BRI).[1] The BRI is designed to invest between $500 billion and $1 trillion (or 3 to 7 percent of China's 2018 gross domestic product, or GDP) in long-run infrastructure financing across more than 60 neighboring Asian, European, and African countries. China considers Latin America to be a "natural extension" of its BRI,[2] with 19 Latin American and Caribbean countries signing BRI agreements since Panama first inked its deal in November 2017.[3] After its policy banks (i.e., the Chinese Development Bank and China Export-Import Bank) invested more than $140 billion in Latin American loan commitments over their first decade in Latin America (which amounts to $12.8 billion annually, or 5.4 percent of total regional foreign direct investment, or FDI), China's financing spigots are likely to stay open.[4] By 2025, China has also pledged to invest an additional $250 billion, which, if realized, would push this annual figure above $20 billion (or 8.5 percent of total regional FDI).

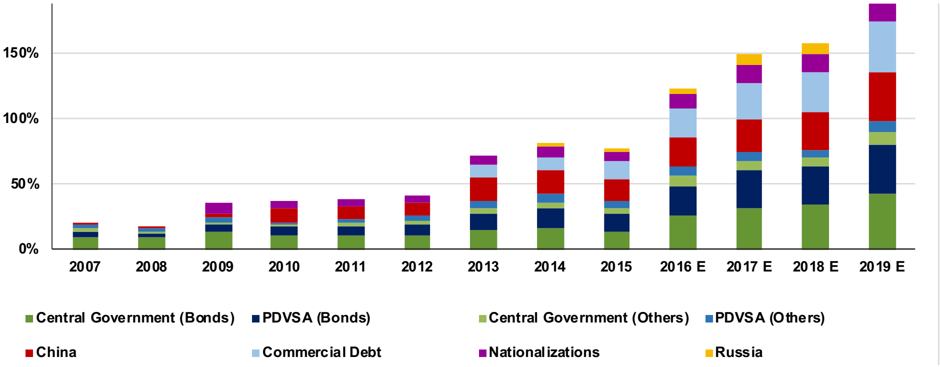
The considerable size of the investments has caught the United States' attention, particularly against the backdrop of rising US-China trade tensions and heightened technological competition. In October 2018, Vice President Mike Pence remarked that "China uses so-called 'debt diplomacy' to expand its influence," offering unsustainable infrastructure loans that mire borrowers in a growing debt burden until they must repay China with key strategic assets.[5] Pence explicitly censured China's loans to Venezuela, saying they "saddle" the Venezuelan people with debt, even as their "democracy vanishes."[6] The 2018 US National Defense Strategy similarly accuses China of using "predatory economics."[7]

In the Western Hemisphere, Venezuela has been at the center of these growing global tensions between China and the United States, particularly after tens of thousands of Venezuelans raised their hands toward the sky on January 23, 2019, to offer solidarity to legislative leader, Juan Guaidó, who declared himself interim president of Venezuela during a rally demanding President Nicolás Maduro's resignation. Refusing to recognize the legitimacy of Maduro's May 2018 reelection, Guaidó cited his constitutional duty as the head of the National Assembly to fill the presidential vacancy until new elections were called. Working hand and hand with Guaidó, the United States unequivocally supported his declaration, recognizing him as Venezuela's head of state. Backed by many different Latin American nations, President Trump said he would "use the full weight of United States economic and diplomatic power to press for the restoration of Venezuelan democracy." Other European countries also recognized Guaidó as interim president after Maduro failed to accept the convening of new presidential elections.

The United States put some economic muscle behind its position, imposing sanctions on Venezuela's state-owned oil company, Petróleos de Venezuela, SA (PdVSA). The January 28, 2019, sanctions declared that all PdVSA's assets, including its oil sale proceeds, would be frozen in US jurisdictions. Throughout 2019, the US government applied further pressure by imposing secondary sanctions on countries doing business with this crude-rich nation, something that heavily affected Russian, Chinese, Indian, Spanish, and even US firms still doing business in the oil sector.

In light of these patterns, how did these sanctions affect countries not aligned with the United States, particularly those powers, such as China and Russia, with a major financial interest in Venezuela? China and Russia are Venezuela's two main bilateral creditors, accounting for one-quarter of the nation's foreign debt (see figure 3.1). However, to what extent do these nations share geopolitical ends in the Western Hemisphere? To date, the two countries have offered distinct political reactions to the crisis prompted by Guaidó's effort to displace Maduro and convoke free and fair elections. Russia's Foreign Ministry warned the United States against meddling in Venezuela, saying "the cynical, overt interference in the internal affairs of a sovereign state continues. It must stop."[8] Russia's foreign policy response fell along enduring Cold War fault lines, an ideological response similar to Cuba's, whose Foreign Ministry expressed "its unwavering solidarity" with the Maduro government. Russia's strong support of Maduro's fully authoritarian regime has proven decisive in helping him maintain iron-clad control over the military. And, as Vladimir Rouvinski argues in chapter 2 of this volume, Russian support has been crucial for the regime to survive, including by bypassing international sanctions. That said, the departure of its state oil firm, Rosneft, from Venezuela in March 2020 raises uncertainties about Russia's ability to sustain this role.

Figure 3.1: Composition of Venezuela's Foreign Debt (% GDP)



Sources: Kaplan and Penfold 2019.

China may have benefited from Russia's operations to evade sanctions, reportedly receiving some obfuscated oil shipments, but it has also been more pragmatic and subdued than Russia. China has provided unconditional support to Maduro, with its Foreign Ministry saying that "we respect Venezuela's efforts to uphold its sovereignty, independence, and stability." However, it has also called on "all parties to remain rational and keep calm, and reach a political settlement through peaceful dialogue."[9] What explains China's more cautious reaction to the crisis? What are China's hemispheric motivations? Do the country's Venezuelan investments reflect President Xi's development discourse or the Trump administration's geopolitical portrayal? Or are both perspectives missing some nuance? This chapter argues that, though China may be interested in geopolitical influence and South-South development, its commercial objectives have historically motivated much of China's hemispheric investment.

In Venezuela, China has too often prioritized commercial relations over macroeconomic evaluation, leading to a mispricing of investment risk. Venezuela's indebtedness to China is thus more a product of its creditor learning curve than geopolitical entrapment. Fostering Venezuela's sustainable development eluded China as a creditor because its foreign economic policy necessitated deemphasizing more objective risk assessments. As a rising "developing country" creditor, China's lack of conditionality differentiated it from Western lending, helping to promote its South-South cooperation in the developing world. Rather than mitigating sovereign risk with policy conditions, China's policy banks instead used commercial considerations to approve these loans. In Venezuela, China's policy banks secured their lending with loan-for-oil-deals, wagering that the country's oil production capacity was a sufficient guarantee for debt repayment. China also hoped to gain a foothold in the Latin American energy sector by offering Venezuela cheap loans, development financing, and the autonomy to massively expand its state balance sheet.

China is currently Venezuela's largest bilateral lender, but Beijing has reassessed its sovereign risk evaluation. Its policy banks have been actively unwinding their financial ties with Venezuela since President Nicolás Maduro's succeeded Hugo Chávez in 2013. Adorned in its state-to-state "sisterhood" rhetoric, Beijing continues to offer diplomatic support for the regime. However, given its long-standing concerns about Venezuela's economic mismanagement and political instability, China has steadily dissolved its Venezuelan financial links over the last half decade. At its peak, Venezuela accounted for an average of 64 percent of China's new approved lines of credit to Latin America between 2010 and 2013. By contrast, between 2014 and 2017 Venezuela represented only 18 percent of China's total new lines of credits to the region. China has been lending defensively, or offering Venezuela limited new funds to keep the country afloat so that it can repay its debts. In other words, China has moved from privileging commercial ties to more carefully evaluating its investment risk.[10]

Table 3.1: China's Lines of Credits to Venezuela

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Original Tranches (A, B, C, Great Fund) (Billions USD)*	**4.0**	**0.0**	**4.0**	**8.9**	**11.4**	**0.0**	**5.0**	**0.0**	**0.0**	**0.0**	**0.0**	**33.3**
Renewed Tranches (A, B, C, Great Fund) (Billions USD)	0.0	0.0	0.0	0.0	4.0	4.0	0.0	4.0	5.0	0.0	0.0	17.0
Total Central Government Financing**	**4.0**	**0.0**	**4.0**	**8.9**	**15.4**	**4.0**	**5.0**	**4.0**	**5.0**	**0.0**	**0.0**	**50.3**
Direct Joint-Venture Financing	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0	0.0	2.2	0.0	6.2
Other Bilateral Credits	0.0	0.0	1.5	1.1	1.5	0.5	1.1	0.0	0.0	0.0	0.0	5.7
Total Bilateral Financing**	**8.0**	**0.0**	**9.5**	**18.8**	**32.3**	**8.5**	**15.1**	**8.0**	**10.0**	**2.2**	**0.0**	**62.1**
Amount (% of Total for LatAm)**	83.3%	0.0%	35.0%	41.1%	87.5%	64.3%	72.1%	40.0%	20.3%	10.4%	0.0%	**41.4%**
No. of Loans	1	0	3	2	3	2	4	1	1	1	0	17

Sources: Rodriguez, Torino Capital; Venezuela's Official Gazettes; Gallagher and Myers Database, The Interamerican Dialogue.
*Adjusted for Tranche Renewals (i.e. Roll-overs), **Not Adjusted for Roll-overs.

Importantly, the structure of these loan-for-oil deals involved two separate contracts: a financial agreement in which Chinese policy banks lend Latin American governments money, such as Venezuela; and a commercial agreement in which Chinese importers purchase oil from PdVSA. The commercial agreement secured the loans, as

PdVSA uses its daily oil proceeds from its China sales to steadily repay the loans to Chinese policy banks over time until maturity. However, the success of China's efforts to hedge its Venezuelan risk with oil collateral was contingent on PdVSA's ability to sustain its oil production. Without steady or increasing oil production, PdVSA was in a financial catch-22. Complying with the terms of these oil-for-loan deals meant funneling an increasing share of its export proceeds to China, rather than reinvesting in the company's operations. Ironically, as PdVSA's struggled to finance its operations, the state oil company jeopardized its production, and ultimately its ability to repay the government's loan-for-oil debts.

During the Chávez era (1998–2013), China had some project-level commercial successes in Venezuela in the mining and energy sectors, but it failed by far to meet the lofty goals of the BRI in other sectors because of its inability to temper moral hazard in Venezuela.[11] In a country where oil revenues represent 96 percent of gross income, China's hope of separating commercial from macroeconomic risk was virtually impossible. The health of the state oil company was integrally tied to the vitality of both the state and the economy. Venezuelan leaders gladly borrowed from China, using the state oil company's future oil sales as collateral. To spend on the government's political and social agenda today, they leveraged the health of Venezuela's prized asset, tomorrow. With PdVSA already struggling from commodity volatility after the 2008–9 financial crisis and a loss of managerial expertise earlier in the decade, transferring proceeds from the state oil company to repay the central government's debts stunted it reinvestment and profitability.

...the success of China's efforts to hedge its Venezuelan risk with oil collateral was contingent on PdVSA's ability to sustain its oil production.

Perhaps most important, China's commodity guarantees were unable to check the Venezuelan sovereign risk problem under President Maduro's leadership. By the beginning of Maduro's 2013 term, China had extended more than $40 billion to Venezuela through its loans-for-oil facilities (and other bilateral credits), and about $30 billion of that amount was still outstanding. Given ongoing uncertainty about President Maduro's economic management credentials, however, China's policy banks relented from deepening their financial relationship with new state-to-state loan facilities. Instead, they renewed $9 billion in previous loan tranches to help Maduro navigate the commodity correction during 2014–15. Soon Beijing realized that Maduro gladly borrowed from China, using the state oil company's future oil sales as collateral, but he did not heed the advice of his own cabinet about the importance of reforming economically. As the central government's spending expanded without bounds, Maduro was increasingly killing the preverbal goose that had long laid Venezuela's golden egg.

A Venezuelan debt spiral and a deep governance crisis were casting a shadow over China's South-South development discourse.

Despite their positive state-to-state rhetoric, the two countries began moving in different directions. After internalizing the extent of Venezuela's macroeconomic and governance problems, Chinese policy banks started reducing their credit risk exposure. By 2016, China's defensive lending had entered a new stage, as it extended some temporary debt relief to Venezuela, negotiating a two-year moratorium on the country's bilateral loans, which was recently renewed in response to the global COVID-19 pandemic. To the extent that China has lent Venezuelan new money, such as a reported $5 billion loan during the summer of 2018, it has been linked to the direct financing of joint-ventures in the oil industry to help boost production, and, hence, to recovering China's outstanding oil collateral under its loan-for-oil deals. By contrast, the Venezuelan government has deepened its governability crisis by refusing to change its economic model, leading the country into the worst economic depression and migration crisis in Latin America's modern history. With the collapse of Venezuela's oil industry, the Maduro government increasingly had difficulty getting new credit from anywhere, let alone China.

Over time, China's creditors deleveraged their financial position, not only because of their economic exposure but also because of the government's concerns about soft power optics throughout the rest of the region. A Venezuelan debt spiral and a deep governance crisis were casting a shadow over China's South-South development discourse. China had deep investment and trade ties in many major Latin American countries, including Argentina, Brazil, Ecuador, Panama, and Peru; and these countries increasingly criticized Nicolás Maduro's autocratic turn and economic mismanagement in Venezuela. Most recognized Juan Guaidó as interim president and called for free and fair elections, and have also been acutely affected by the migration crisis that has followed Venezuela's economic and social collapse. As a result, neighboring nations have been openly promoting regime change, demanding to restore democracy and seeking international funds to mitigate the humanitarian crisis on the borders with Venezuela. Factoring in both these costs, China has been pursuing a defensive lending strategy over the last half decade that runs counter to the claims of the more offensive-minded debt-trap diplomacy.

China's Commercial Relations in Latin America

To provide background to these creditor–debtor relations, let us turn the clock back to the mid-2000s, when China made its initial investment foray into Latin America under the umbrella of its "go global" strategy. During this time, China's leadership, guided by the stewardship of Hu Jintao, had embraced Deng Xiaoping's circumspect view of international relations: "Hide your strength, bide your time, never take the lead."[12] In first expanding its Latin American investment, China had emphasized its "peaceful rise" in the hemisphere by prioritizing its bilateral relationship with the United States, and carefully avoiding any direct geopolitical challenges. For example, during a 2011 state visit to the United States, President Hu emphasized that "we do not engage in arms races or pose a military threat to any country; China will never seek hegemony or pursue an expansionist policy."[13]

China has been pursuing a defensive lending strategy over the last half decade that runs counter to the claims of the more offensive-minded debt-trap diplomacy.

China's accompanied this peaceful rise theme with its "go global" strategy. First articulated by President Jiang Zemin in 1998, the "go global" strategy aims to promote the interests of the Chinese state globally by internationalizing Chinese investment and lending, and securing long-term access to energy and raw materials. China's policy banks are a key instrument in achieving these foreign policy goals. Charged by the government to finance infrastructure and trade, policy bank loans often headline broad infrastructure-led investment packages. Such bilateral lending is an important pillar of the East Asian model of foreign aid, which aims to promote infrastructure development and FDI as key drivers of longer-term growth.[14]

Building on these foreign policy foundations, President Xi Jinping more recently incorporated these policy tools under the banner of the Belt and Road Initiative. Initially crafted to invest as much as 7 percent of China's GDP in infrastructure across more than 60 neighboring countries, China recently signed BRI agreements with 18 Latin American countries to also join this initiative. Taking a page from China's domestic playbook, where infrastructure spending and trade promotion helped spur growth during its miracle years, many Chinese leaders today see infrastructure investment as a catalyst for overseas development. For example, in a 2017 interview, a sovereign risk director from one of China's policy banks underscored the benefits of financing infrastructure investments internationally: "One of the deciding factors between a developed and a developing country is the level of infrastructure; the world needs a new way of infrastructure building; the developing world has a most urgent need, and for the rest time in history, China is willingly supporting these activities because China now is a capital exporting country."[15]

Cloaked within these development objectives is China's commercial goal of promoting its firms internationally. China hopes to catalyze finance in risky credit environments to bolster global trade and investment, creating opportunities for Chinese firms and goods globally. To improve their global competitiveness, Chinese firms are often hoping to gain cheap assets, build their market share, gain valuable overseas experience in marketing and distribution, and improve key logistical skills and local engineering capabilities.

China's strategic interest in Venezuela has been primarily commercial, but also accommodative of President Hugo Chávez's political goal of economic diversification from the United States.

Several other commercial factors have also helped catalyze China's outward investment. Faced with rising wages and inflation domestically, China today is finding it more difficult to move incrementally in its global economic relations. Capital is flowing abroad for both sanctioned and unsanctioned reasons. They include exporting domestic overcapacity in such sectors as infrastructure, construction, steel, and energy, acquiring foreign technology under "Made in China 2025," but also unplanned private-sector capital flight. China's investment overseas also reflects its loss of comparative advantage in labor-intensive manufacturing. Its outward FDI is in part meant to keep a foothold in this sector, which has become a crucial part of its global win-win development strategy.

In this regard, China's 2016 White Paper on Latin America and the Caribbean lists manufacturing among its six priority cooperation areas.[16] Compared to Africa, however, Latin American labor costs are relatively high, helping explain why to date only one-tenth of China's regional FDI has been oriented toward manufacturing. The White Paper expects this trend to change, suggesting that China will foster "industrial cooperation in such fields as automobiles, new energy equipment, motorcycles and chemical industry, which will cover the whole industrial chain."[17]

China's strategic interest in Venezuela has been primarily commercial, but also accommodative of President Hugo Chávez's political goal of economic diversification from the United States. Commercially, China's policy bank lending to Venezuela helps defray operational costs, encouraging companies to position themselves in global energy and commodity markets that are vital to meeting the demands of China's rising middle class. Since the first Venezuelan loan deals were negotiated in 2007, the China Development Bank (CDB) and the China Export-Import Bank have mainly supported investment in the energy and mining sectors, including power stations, oil refineries, and pipelines. They have helped some of China's largest state-run enterprises develop a local presence in Venezuela, including the China National Petroleum Company (CNPC), the China Petroleum and Chemical Company (Sinopec), and the Sinohydro Group.

Rather than imposing such policy conditions, China tends to underwrite credit risk with commercial conditions embedded in its loan contracts.

However, the initial discretionary nature of these policy bank loans also meant that Venezuela used the proceeds for infrastructure projects in a variety of other economic sectors, including agriculture, transportation, and real estate. Although it receives less attention because of its lower headline numbers compared with China's billion-dollar energy agreements, Venezuela has also quietly attracted $800 million (or about two-fifths of its total Chinese FDI) in manufacturing investment in the automotive and consumer electronics industry by private firms like Huawei Technologies and Chery Automobile.[18] Notably, three-quarters of this investment took place during the Chávez regime when economic conditions were more favorable.

China's investment thus tended to reflect its stated foreign policy economic objectives for Latin America, funneling finance and investment resources into energy, infrastructure, and manufacturing.[19] But do China's creditors and investors behave any differently compared with the West?

Latin American Risk Management: China versus the West

Chinese policy banks historically approached sovereign risk evaluation with a different set of metrics compared with Western capital. In structuring their loan contracts, China has avoided policy conditionality, or credit being contingent on a country's macroeconomic performance. Chinese bankers operate under an official doctrine of nonintervention in domestic affairs, as stipulated in the country's Five Principles of Peaceful Coexistence.[20] For example, China's State-Owned Assets Supervision and Administration Commission considers "respect for the laws and policies of the country being invested in and respect for local customs" as primary principles in its foreign investment guidelines.

Whereas Western creditors often place a big emphasis on the macroeconomic and institutional environment (i.e., the budget framework, the extent of indebtedness, the rule of law, transparency, and governance quality), Chinese investors have tended to view such institutional metrics as political. Rather than imposing such policy conditions, China tends to underwrite credit risk with commercial conditions embedded in its loan contracts.[21] Chinese scholars, officials, and practitioners all tend to emphasize this distinctly commercial, non-Western approach. For example, Chinese scholars have illustrated this point in the Chinese Academy of Social Sciences' (CASS) *Journal of Latin American Studies*, the government think tank's premier regional studies publication: "The primary reason that the World Bank and other developmental financial institutions overlook Venezuela and other such countries is that they are so-called high-risk nations. This type of judgment is based upon a political perspective and not an economic perspective. In reality, Venezuela is South America's largest oil exporter and maintains a relatively strong ability to repay debts."[22] CASS's Latin American Institute, which publishes the *Yellow Book of Latin America and the Caribbean* that details China's foreign affairs strategy for Latin America, concurs with this scholarly assessment of the oil industry: "Latin America is the realistic choice of Chinese resources diversification. In recent years in Latin America, mineral resources reserved has constantly escalated, the large size oil fields have been discovered, which offers good condition for China resources diversification strategy."

Finally, Chinese investors responsible for external investment decisions also share these viewpoints about Latin American risk. For example, a former executive member of the loan approval committee of one of China's major policy banks sees its role as creating credit space and spurring economic activity in risky operational environments: "A lot of people say Venezuela is so risky, you shouldn't give more loans to this country! Some critics even say Exim Bank and China Development Bank should stop giving money to Venezuela. But, for these two banks, we are OK. We have different metrics than you. We think Venezuela is OK. ICBC or China Construction Bank they may say that Venezuela is too risky, but Exim Bank or CDB say OK, because these banks have different tastes for risks, and they also have different skills toward risk management. Exim Bank and CDB, they are so good at playing in developing countries, especially Africa and Latin America. These two banks set very strong guarantees. They set up different risk management structures."[23] Compared with market-based creditors, which often want short-term policy assurances to ensure higher near-term financial returns, Chinese creditors seek to promote long-term commercial opportunities by tying their investments to guaranteed contracts for its state-owned firms, Chinese content requirements to stimulate machinery exports, or commodity guarantees.[24]

From a political perspective, China has a long-history of cross-ideological relationships in Latin America but little tolerance for political instability.

In Venezuela, China's policy banks have tended to use commodity guarantees that secure their loans with oil. While these financial vehicles are popularly understood as exchanging loans for oil, they are a bit more complicated in their execution. They are based on two different transactions. Chinese policy banks lend Latin American governments money, while Chinese importers simultaneously establish a daily purchasing agreement with PdVSA. The company then uses the cash it earns from its daily sales to Chinese importers to incrementally repay the policy bank loans over time until maturity. PdVSA's daily inflow of income from Chinese oil purchases thus serves as collateral for policy banks' loans to the national government.

These types of loans deliver policy flexibility, but at the potential cost of long-run commercial competitiveness. For example, former Venezuelan president Hugo Chávez lauded the lack of conditionality, saying, "it differs from other multilateral loans because it comes with no strings attached, unlike the scrutiny of international finances."[25] However, both types of financing come at a price. The commodity guarantees embedded in loans-for-oil agreements risk eroding commodity proceeds that could otherwise be channeled toward domestic spending or reinvestment in state energy firms.

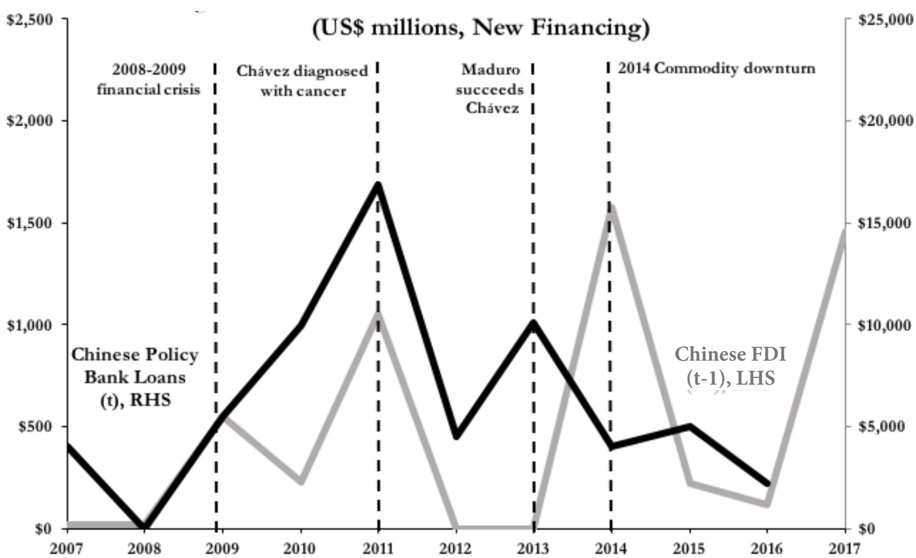
How China's Sovereign Risk Assessment Changed in Venezuela

This growing opportunity cost of borrowing from China has encapsulated the China–Venezuela lending relationship since oil production began to falter in 2013–14. Mired in its historically devastating crisis, Venezuela has struggled to repay its outstanding Chinese debts because of its dwindling state oil production. China has consequently questioned whether its commercial approach to lending is sufficient, while increasingly incorporating a more traditional macroeconomic approach to sovereign risk. For example, China reportedly conditioned its recent $5 billion in joint-venture financing on the government's currency devaluation—a far cry from nonintervention in Venezuelan affairs.[26] What has prompted China's about-face as a creditor?

Given the importance that China places on state-to-state relations, its shifting creditor position reflects politics as much as economics. China views its state-to-state cooperation as the diplomatic entryway into new creditor–debtor relations; but the administrative channel is also a lifeline for resolving investor disruptions and commercial disputes. From a political perspective, China has a long-history of cross-ideological relationships in Latin America but little tolerance for political instability.[27] For instance, Argentina's regime stability has allowed China to forge business deals across the political aisle with both Mauricio Macri, a center-right president, and Néstor Kirchner, a former leftist president. It also has not shied away from doing business in Brazil since the presidential victory of far-right candidate, Jair Bolsonaro. According to a Chinese Foreign Ministry spokesperson, Lu Kang, "China congratulates Brazil on a smooth presidential election and congratulates Mr. Bolsonaro for his election… . China has always aimed to develop the China-Brazil relationship from a strategic and long-term perspective. We are willing to maintain and further develop our current partnership with Brazil in order to better serve the people of our countries, as well as striving to maintain regional peace and stability for the world."[28]

China was more circumspect regarding Venezuela's political transition. For more than a decade, China had extended new financial commitments to Venezuela, even during periods of volatility such as the 2008 global financial crisis and the 2014 commodity downturn. However, the scale of its new financial commitments eased over time, particularly after former president Hugo Chávez was first diagnosed with life-threatening cancer in 2011 and then was succeeded by Nicolás Maduro in 2013 (figure 3.2). Chinese FDI and trade finance continued with news of a successful transition. However, public bankers have been more skeptical about Maduro's ability to manage the economy and repay Venezuela's debts, particularly as Venezuela's cash crunch stymied repayments on both its "loan-for-oil" deals and the financing of its $7.5 billion high-speed railway project.

Figure 3.2: China's Finance and Investment into Venezuela (US$ millions, New Financing)



Note: Policy bank loans include financial commitments that are rolled-over in any given year (see *Total Bilateral Financing* from Table 3.1).
Sources: Calculated from Torino Capital data; China-Latin American Finance Database (Inter-American Dialogue), CEIC data, MOFOMM, SEC, China Global Investment Tracker, AID data, and the Atlantic Council.

Policy banks have not lent the central government any new funds directly since 2015, instead channeling funding toward joint ventures (table 3.1). Policy banks have also conditioned such new funding on "monitoring" oil production and economic reforms. Beyond these financial institutions, state-owned insurance firms, such as Sinosure, have increasingly adopted macroeconomic risk metrics that are similar to Western investment banks and multilateral institutions in their project evaluations.

In summary, Chinese lenders have become more circumspect about their Venezuelan lending, which reflects their learning curve as a creditor. After mispricing Venezuelan investment risk, China appears to be placing a growing emphasis on macroeconomic assessment relative to commercial project evaluation. Notably, the bulk of China's Venezuelan lending occurred during the leadership of President Hu Jintao, who publicly prioritized China's global commerce above its geopolitics. Between 2010 and 2013, Venezuela accounted on average for close to two-thirds of China's credit lines to Latin America. By contrast, between 2014 and 2017, Venezuela represented less than one-quarter of new lines of credits to the region. In recent years, China's current president, Xi Jinping, has taken a more assertive foreign policy posture internationally. However, Xi's shift in diplomatic tone has aligned with a period when China has been further unwinding its financial commitments to Venezuela, a pattern that contradicts the premise of the debt escalation associated with debt-trap diplomacy.

The Limits of Venezuela's Chinese Courtship

Sitting atop the Caracas congestion is Venezuela's treasured Avila National Park, the verdant central coast mountain range that is full of fauna. According to local lore, a flower-picker named Pacheco, who hailed from the nearby mountain-town of Galipán, once traveled the long-winding road to Plaza Bolivar in Caracas to sell his flower harvest annually. His arrival tended to coincide with winter, spawning the provincial expression "Llegó Pacheco," or "Pacheco has arrived," meaning that bleaker, dreary days of Venezuelan hardship were approaching. Nine thousand miles around the globe, where winters are much colder, China's historical wisdom for surviving the seasonal chill is rooted in nutrition. To reduce illness, the age-old proverb favors eating "carrots in winter, and ginger in summer," to boost immunity.

In the current era of globalization, China has cultivated its roots in Venezuela, growing its financial and commercial ties over the last decade. When Venezuela's economy first arrived at its long, arduous winter after the global financial crisis, China offered carrots to boost Venezuela's health, strengthening state-to-state ties to sustain its economic vitality. Venezuelan leaders considered China to be a key foreign policy ally, helping the country finance the expansion of the Venezuelan state, and diversify its economic relations from the West.

The tendency of Chinese policy banks to mitigate credit risk with commercial rather than macroeconomic conditions had left them exposed to Venezuela's governance failures.

As the Venezuelan winter turned darker amid the country's historic crisis, China balked at being Venezuela's lender of last resort. Despite Venezuela's desire to further deepen its state-to-state relationship during its crisis, China increasingly reduced its financial commitments against the backdrop of President Maduro's economic mismanagement, the state oil company's collapse, and the consequent political instability. However, they avoided completely cutting financial ties to Venezuela.

The tendency of Chinese policy banks to mitigate credit risk with commercial rather than macroeconomic conditions had left them exposed to Venezuela's governance failures. Without policy conditionality on the loans, President Maduro could spend without bounds even after the commodity bust. Given that Chinese loans were instead tied to oil production, Chinese bankers were compelled to lend defensively in hopes of boosting Venezuelan oil output, and recovering their oil collateral. In the following pages, we explore China–Venezuela ties in further detail, first examining Venezuela's foreign policy objectives toward China, before assessing the risks that prompted China to partially recoil to from the relationship.

Venezuela's Foreign Policy Objectives Toward China

After Hugo Chávez's successful 1998 presidential bid in Venezuela, he entered office as a neoliberal critic, but also as the head of a country with a long history of economic alignment with the United States, the global exporter of market capitalism. How could Chávez craft the policy space to pursue heterodox governing solutions if he was constrained by the financial and trade architecture established by the United States?

Chávez's foreign policy had two principal goals. First, he hoped to leverage oil revenues to counterbalance the United States' influence in Latin America. Second, he aimed to build international support from non-Western state actors. Early on in his tenure, he identified China's emergence on the global economic stage as a potential opportunity to help Venezuela gain autonomy from the United States. In a conference at the University of Beijing, during his first official visit to China, Chávez publicly declared: "We have already begun to pursue a world policy aimed at restoring our autonomy, our independence from any other world power, and in that sense, we are very much like China."[29]

By the time Chávez died in 2013, the first objective had been undercut by the 2008 global financial crisis. Providing subsidies to other allies internationally through such programs as PetroCaribe, a Venezuela–Caribbean alliance, was hampered by the postcrisis oil volatility. At the same time, Venezuela's economic implosion mitigated the ideological appeal of *chavismo* as a political option for the Latin American left. Collapsing oil production, mounting foreign debt, the expropriation of private-sector assets, and distortionary exchange rate, and price controls hamstrung economic activity. Finally, the ebbing of Latin America's pink tide—with a shift away from left governments in Argentina, Brazil, Peru, and Chile—further eroded the appeal of leftist regional messaging.

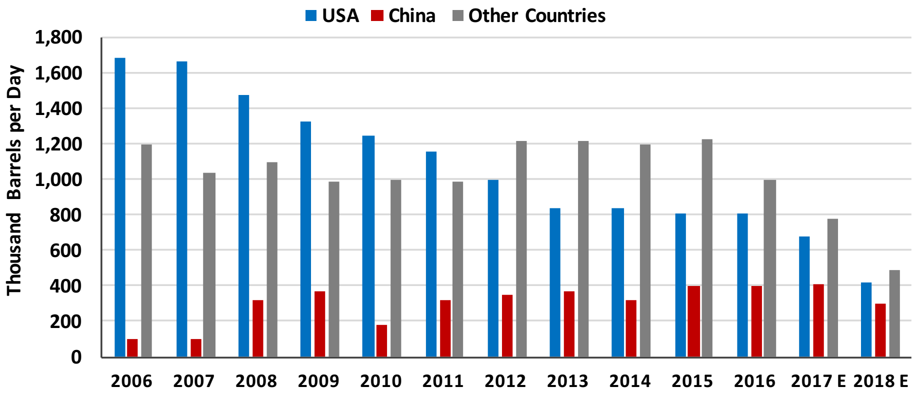
Although Chávez failed to counterbalance US influence in the region, the Bolivarian Revolution did secure its other foreign policy objective: obtaining support from non-Western global powers that might prove more sympathetic to Venezuela's socialist project. On this front, Chávez succeeded in building strong state-to-state ties with Cuba, China, and Russia. During the last two decades, each of these countries has played a pivotal but very different role for Venezuela's foreign policy. India and Turkey have also increased their Venezuelan presence recently, but to a lesser extent than these three nations. India has mainly deepened ties commercial ties with Venezuela since 2013, becoming the third-largest purchaser of Venezuelan before oil sanctions were enacted by the United States. After oil sanctions were issued in 2017, its importance soared even further. By comparison, Turkey has been more comfortable stepping into the geopolitical limelight as a key provider of humanitarian aid to the Venezuela government and as vehicle to bypass sanctions through its financial system.

In the geopolitical realm, not only has Cuba been an ideological partner with *chavismo* but the island has also helped the Venezuela regime develop key intelligence capacities for repressing dissent, particularly within the armed forces. As noted by Brian Fonseca and John Polga-Hecimovich in chapter 4, these intelligence capabilities have become instrumental to regime survival, as the Bolivarian Revolution has become more authoritarian in recent years. In turn, Russia has evolved into Venezuela's most important security ally.[30] Leveraging this alliance, Venezuela has circumvented the United States' sanctions to purchase military equipment. Russia's state-owned enterprises have also emerged as key investors in the natural gas and oil sectors, with Rosneft and Gazprom providing valued short-term financing to Venezuela's crumbling oil-state giant, PdVSA. However, as the United States strengthened international compliance over secondary sanctions against third parties doing business with PdVSA, Rosneft opted to leave the country in March 2020 in order to reduce its global exposure.[31]

In the case of China, Venezuela's foreign policy has consisted of a complex juxtaposition of geopolitical, commercial, and financial considerations.[32] First, recall that President Hugo Chávez prioritized diversification from its economic reliance on the United States. Given China's abundant capital and its foreign policy goal of securing oil access, it represented the most expedient commercial route for diversifying oil markets.

Early in his tenure, President Chávez formalized this bilateral relationship with Chinese president Jiang Zemin through the creation of the High-Level China–Venezuela Commission. In a 2001 white paper, the two governments fixed the framework for energy cooperation for the next decade, helping reduce the barriers to entry in Venezuela's oil sector for China's state-owned oil companies, China National Petroleum Corporation, China Petroleum and Chemical Cooperation (Sinopec), and China National Offshore Oil Corporation.[33] In line with Venezuela's strategic objective of oil independence from the United States, Chávez oversaw a threefold increase in its oil exports to China: from less than 90,000 barrels per day in 2005 to more than 320,000 in 2014 (figure 3.3).

Figure 3.3: Venezuela's Oil Exports



Source: Calculated from PDVSA, EIA, ITC–TradeMap.

In addition to these geopolitical goals, the Venezuelan government also sought foreign financing to both expand the size of the state in strategic sectors and fund public infrastructure and social investment projects. Multilateral institutions, such as the World Bank and the Inter-American Development Bank (IDB), were not willing to finance a development plan that they deemed to be fiscally and technically unsustainable. In fact, the World Bank stopped financing new projects in the country and the IDB reduced its credit portfolio in Venezuela compared with other Latin American countries. In line with these assessments, the World Bank moved its regional office from Caracas to Bogotá in 2001, leaving just a representative office; and the IDB reduced its Venezuelan staff. Without much of a multilateral presence in Venezuela, Chávez increasingly courted Chinese financing to expand his development plan and social reforms, known as "Socialism of the 21st Century."

Chinese financing helped endow Chávez with the capacity to expand the Venezuelan state's economic reach, beyond the resource-abundant oil and mining sectors. In 2007, China and Venezuela created a development fund, dubbed the China–Venezuela Joint Fund (FCCV), that would be managed by their national development banks. The FCCV was jointly capitalized with $4 billion from the China Development Bank and $2 billion from Venezuela's Development Fund (FONDEN).

Rather than conditioning lending on macroeconomic targets, China instead employed commercial means to mitigate credit risk. In Venezuela's case, this meant using commodity guarantees to collateralize its policy bank loans. Each time, China injected fresh funds into the FCCV, PdVSA would sign a simultaneous contract to sell oil through an international subsidiary of CNPC. For example, China's first $4 billion FCCV tranche was collateralized by 100,000 barrels per day in oil sales, which the Venezuelan government would then use to repay Chinese policy banks during the three-year loan maturity. As the China Development Bank extended new loans to Venezuela, or rolled over existing three-year tranches (table 3.1), PdVSA would commit to sending new oil shipments to China. By the end of 2016, Venezuela's oil shipments to China had surpassed 400,000 barrels per day (or almost one-fifth of total exports), helping the Venezuelan government's goal of oil diversification.

Chinese financing helped endow Chávez with the capacity to expand the Venezuelan state's economic reach, beyond the resource-abundant oil and mining sectors.

Ironically, if the lack of conditionality was not sufficient, these loan agreements further fueled state spending through their accounting schemes, which obfuscated the government's debt obligations. In structuring these deals, Chávez and Maduro had both agreed to register these loans as sovereign debt for the central government, which enabled the government to discretionally use these loans.[34] PdVSA would repay the central government's outstanding loans to China with oil sales, yet these debt-servicing expenditures were not included in the national budget, opening fiscal space for other types of spending. In other words, the government could finance additional public expenditures by leveraging the balance sheet of PdVSA.

By 2013, China had provided the Venezuelan government with more than $30 billion in oil-backed loans (table 3.1), which enabled sectoral investments on state priorities beyond the most economically-important oil and mining industries, including infrastructure, construction, agriculture, telecommunications, housing, and forestry. For example, China helped finance sugar refineries, cellphone assembly, electricity generation, cattle ranches, egg farms, transportation systems, and massive housing projects.[35] Several of these projects were never completed, and if built, failed to be commercially viable, including controversial investments in a home-appliance factory and high-speed railway.

Although the Chinese financial relationship was embedded in oil, it also empowered the Venezuelan state. For Chávez, China's "no strings-attached" loans helped facilitate the expansion of the state into non-oil sectors that had been previously the purview of the private sector.[36] During the decade-long commodity boom (2004–14), the size of the Venezuelan state expanded to more than 40 percent of GDP.[37] Notably, however, more than two-thirds of this public balance sheet expansion occurred during the boom's final few years just as Chinese lending to Venezuela reached its peak (table 3.1).

While China extolled the merits of nonintervention and ideological flexibility in its commercial dealings, its lack of conditionality implicitly gave creditor consent to Chávez's nationalization spree that would have been far more challenging under the stewardship of Western multilateral creditors.[38] After his successful 2006 reelection, Chávez began to more swiftly march the country along the path of his "Socialism of the 21st Century." He first leveraged an oil windfall to help propel an initial series of oil and gas nationalizations between 2004 and 2006, before launching a second wave in early 2007. The second wave included both nationalizations and expropriations in the mining, electricity, financial, telecommunications, agriculture, and industrial sectors. Simultaneously, China's investments in hundreds of projects helped expand the presence of the Venezuelan state in the non-oil economy, through deals with Venezuela's state-owned enterprises that operated outside the energy or mining sectors.

Chronicle of a Crisis Foretold: How China Mispriced Venezuelan Credit Risk

In the classic novel *Chronicle of a Death Foretold*, by Gabriel García Márquez, two brothers from a small Colombian town plan to murder fellow townsman, Santiago Nasar, for deflowering their sister, Angela Vicario, before her wedding night. As news spreads from the butcher's shop to the milk market, the entire village soon learns of the Vicario brothers' plans, yet few townfolks attempt to stop Nasar's foreseen murder. Neighboring Venezuela's story over the last decade has been a calculable descent into a historic crisis, yet few Chinese economic spectators have attempted to change the country's course. Akin to the Colombian villagers' lack of intervention in Nasar's butchery, China failed to stop Venezuela's slow economic death. Of the slew of reasons offered for the town's negligence in warning Nasar, perhaps the most common theme was a diffusion of responsibility. Colombian townsfolk fail to intervene in part because they assume that other villagers will act. Similarly, because China conducts its foreign affairs through the prism of nonintervention, the Chinese government places faith in its state-to-state relations, leaving the burden of local governance with the Venezuelan authorities.

For this reason, the passing of the Bolivarian baton from Chávez to Maduro was a key inflection point for China's public bankers. High oil prices and Chávez's more pragmatic governing posture had buttressed their favorable risk assessment of Venezuela's ability to repay its debt. For example, in the fallout from the global financial crisis in 2010, Chávez did not hesitate to devalue the currency despite the risk it posed to his popular support base. The devaluation placated creditors by preserving the government's fiscal stability, and facilitating debt repayment. It lined government coffers with new cash by yielding more local bolivars from its dollar-based oil revenues. However, the devaluation also essentially levied an inflation tax on the poor by raising the import prices of items such as food and electronic goods.

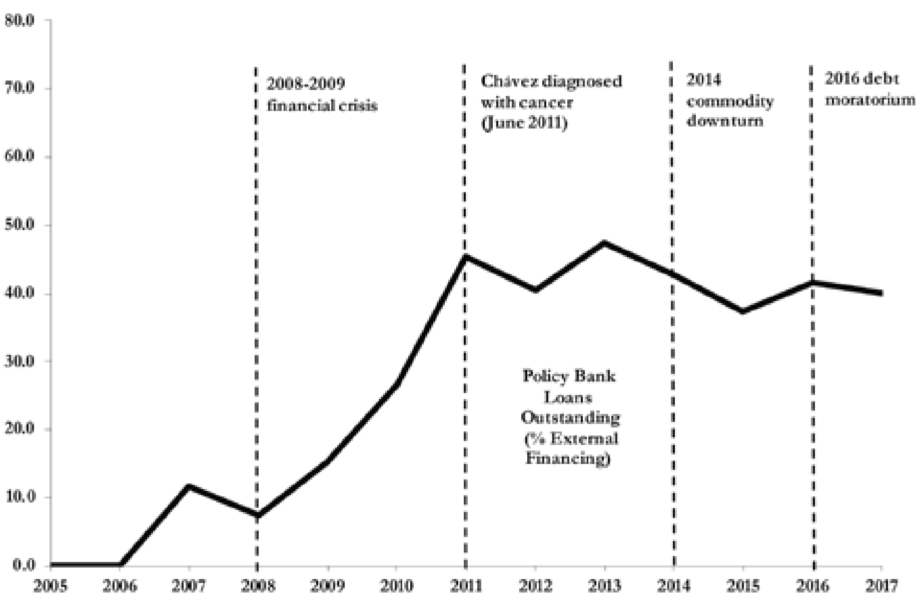
However, with Chávez's death in 2013, Maduro had to assure Chinese creditors of his governance capabilities. Their lending might lack policy conditions, but their faith in the state-to-state relationship was instrumental to sustaining an open financing spigot (figure 3.2). Unfortunately for Maduro, Chávez's demise had coincided with the end of the largest oil windfall in Venezuela's modern history along with the beginning of the most dramatic economic depression in Latin America's recent past.

By the end of 2018, Venezuela's economy was in a death-spiral. Venezuela had lost more than half of its GDP, and was struggling with an annual hyperinflation that according to the International Monetary Fund had reached over 1 million percent.[39] If that were not a sufficient nail in Venezuela's economic coffin, the country had no access to financial capital markets, the economy was subject to international sanctions, and the Central Bank had less than $1 billion in liquid international reserves to cover basic imports.

After succeeding Chávez in 2013, Maduro was unable to stop the economy's bleeding. Rather than addressing Venezuela's severe macroeconomic imbalances, Maduro doubled-down on public spending, with the government's fiscal deficit reaching double digit levels as a share of GDP.[40] He also unsuccessfully attempted to solve the country's woes with expensive fuel subsidies, costly nationalizations, exchange rate and price controls, and strengthening the military's role in the management of state-owned enterprises.

At the same time, Maduro's was unable to turn the tide in Venezuela's oil industry, with oil production collapsing from 2.4 million barrels per day when he took office in 2013 to less than 1.2 million by the end of 2018. By the middle of 2020, PdVSA was exporting less than 350,000 barrels per day. The historic collapse reflects a variety of factors, including the 2014 oil price crash, stunted investment, waning technology acquisition, a loss of public managerial expertise, massive corruption, and the government's long-standing practice of redirecting oil revenue toward social spending. Because it was dependent on oil for 95 percent of its foreign exchange earnings, the

Figure 3.4: Venezuela's Oustanding Debt to China (2005-2017)



Note: Policy bank loans outstanding annually are adjusted for roll-overs of traunches, and debt repayment.
Sources: Kaplan 2021; China-Latin American Finance Database (Inter-American Dialogue, CEIC data, SEC, AID data.

economy receded along with the oil wells. Maduro could not even turn to global capital markets, Venezuela's historic fail-safe financier, to help revive the oil industry after the United States sanctioned any new financing for PdVSA in 2017.

Why did China not cut its credit lines or craft a clear exit strategy from Venezuela, particularly once the economy soured under Maduro? As discussed above, China sustained state-to-state relations, but deleveraged from its peak financial commitments to Venezuela when first confronted with Chávez's illness (figures 3.2 and 3.4). However, China was willing to renew some commitments under President Maduro in hopes of recovering its initial investments. In other words, China's creditors lent defensively to secure Venezuela's oil collateral. It was reluctant to be a sole lender of last resort, but willing to maintain some financial linkages in hopes of expanding its long-term commercial presence in the oil sector.[41] For example, notwithstanding the commodity downturn, China renewed $9 billion in financing for the crisis-ridden country between 2014 and 2015 (table 3.1). With this refinancing, Venezuela's total outstanding debt remained high, at about $25 billion, accounting for almost one-half of Venezuela's external debt (figure 3.4), or about 10 percent of GDP. Notably, this calculation of outstanding debt is well below some widely cited, but inflated, estimates because it adjusts the outstanding loan amount for both financing renewals and debt repayment.

China had to lend defensively, providing new funds to Venezuela in hopes of securing debt repayment, despite the country's growing economic dysfunction.

China's lack of conditionality, and its willingness to refinance during downturns, helped advance its soft power diplomacy of South-South Cooperation and developing country empowerment. For example, President Xi frequently emphasized these values within his foreign economic policy: "We uphold fairness and justice and advance the democratization of international relations. In many major international and local issues, we share a common voice with emerging markets and developing countries."[42] "China's development, within world development, is also for the common development of each country in the world, adds more energy, and brings about more opportunities."[43]

However, this approach to finance in developing countries also placed the burden of governance on local governments. An emphasis on policy autonomy could be a positive development for South-to-South cooperation, if Latin American governments use this money to promote sustainable growth and address long-standing socioeconomic inequalities. But the Venezuelan government's failure to reach such lofty goals left China exposed to considerable macroeconomic risk as a creditor, with little recourse except for approving a 2016 debt moratorium.

PdVSA's Collapse and Venezuela's Debt Hangover

China's growing reluctance to provide Venezuela with new financing reflected the collapse of Venezuela's oil sector and national credit quality. Ironically, China attempted to leverage its lack of policy conditionality to diplomatically and developmentally entice a region with a long-standing frustration with austerity.[44] By lending without policy conditions, however, China became exposed to Maduro's mismanagement of the oil sector, and of the economy more broadly. China's commercial approach to mitigating sovereign risk with oil collateral could not sufficiently protect its creditor interests in Venezuela. China had to lend defensively, providing new funds to Venezuela in hopes of securing debt repayment, despite the country's growing economic dysfunction.

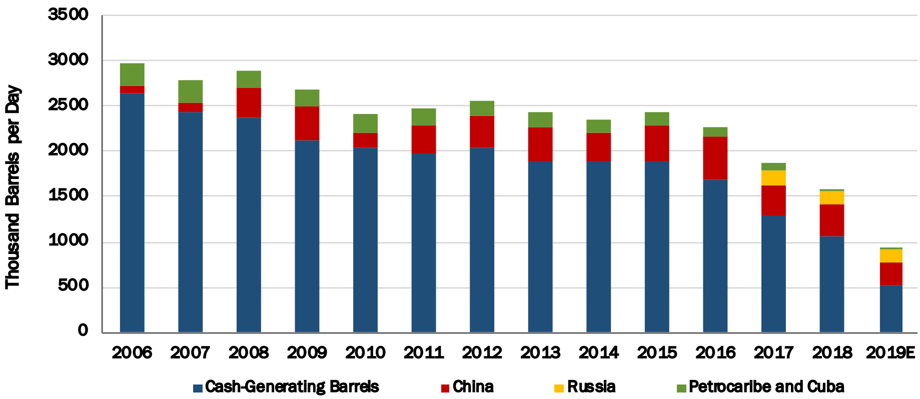
Mired in a vicious cycle of collapsing oil production, feeble investment, and a crashing economy, Venezuela's foreign debt became unsustainable after the commodity downturn. The ratio of foreign debt to GDP had increased from a mere 21 percent in 2007 to more than 200 percent by 2019 (figure 3.1).[45] In addition to borrowing from China, the Maduro government also raised money from global capital markets and new bilateral creditors. For instance, global bondholders steadily financed more than half of Venezuela's external debt over the last decade. In May 2017, Goldman Sachs bought PdVSA bonds, drawing the rebuke of Julio Borges, then the National Assembly president, for its decision to "aid and abet Venezuela's dictatorial regime."[46] Russia also entered the financial scene during this time, providing more than $6 billion in new funds through its state-owned oil enterprise, Rosneft, to PdVSA between 2016-17. In exchange, PdVSA agreed to provide 49.9 percent of CITGO's total shares as its US collateral to Rosneft in order to guarantee any future payments.

Theoretically, the influx of new funds should have provided Venezuela with some relief, but they also created a financial quandary. Under the structure of these loan-for-oil deals, Chinese policy banks lend Latin American governments money, but there is a separate commercial agreement where Venezuela sells its oil to Chinese importers. PdVSA then takes these export proceeds and puts them in an account with the policy banks, to repay the loans. Hence, a certain amount of PdVSA sales is precommitted to China for debt repayment.

In other words, these loans are collateralized by PdVSA's daily income, yet as mentioned above, the liability was registered as sovereign debt for the central government. The Venezuelan government's debt repayments to China were paid with income from PdVSA's export sales to China, meaning that the Venezuelan government could leverage PdVSA's balance sheet to boost its public expenditures. The viability of these oil-for-loan deals was then contingent on PdVSA's current cash flow, and ultimately the state-oil company's ability to sustain consistent oil production and future export sales.

However, the once world-class state oil company was teetering on the edge of solvency, struggling to finance its basic operations and service its own foreign debt obligations. Under these conditions, complying with the terms of these oil-for-loan deals meant funneling an increasing share of its export proceeds to China rather than reinvesting in the company's operations. Export sales to China have represented a growing share of PdVSA's dwindling exported oil sales, rising from a 3 percent share in 2006 to 18 percent in 2016 (figure 3.5).

Figure 3.5: Composition of Exported Barrels



Source: Calculated from Kaplan and Penfold 2019; PDVSA, EIA, OPEC, ITC.

Venezuela debt payments to Russia, related to the aforementioned $6 billion, further squeezed the state oil company's export margins. Of PdVSA's total export sales, only the proceeds from the United States and India were not fully earmarked for debt repayment and, hence, generated a positive cash flow. Saddled with this export-linked debt servicing, PdVSA increasingly struggled to invest in its operations and boost oil production. For example, in 2006, PdVSA exported over 2.5 million barrels per day that supported its cash flow. However, by 2013, oil production plummeted below the critical 2-million-barrel-per-day threshold and PdVSA increasingly encountered debt repayment difficulties.

Fearing creditor litigation and overseas asset seizures, including key refineries owned by CITGO in the United States, Venezuela requested a debt moratorium with China so that it could repay its international bondholders. China relented, offering an interest-only grace period on Venezuela's debt repayment, in part because PdVSA was already in arrears with its export-linked debt repayments (which had declined by 48,000 barrels per day in 2016).

The 2017 financial sanctions imposed by the United States further strained PdVSA's balance sheet, which limited Venezuela's ability to issue, refinance, or restructure its foreign debt. Without the policy space that would come from a restructuring, PdVSA was left with a stark choice that pitted debt repayment against investment in oil production. The state oil company chose debt repayment, sacrificing its ability to stabilize production. By 2018, it had about 600,000 cash-generating barrels, or a mere one-quarter of its 2006 income, that it could invest back into the operations of the state oil company (figure 3.5).

China Lends Defensively to Protect Its Commercial Interests

In the early days of the China–Venezuelan economic courtship, Chinese bilateral financing had offered Venezuela a development opportunity. However, the broad-based development focus beyond the oil sector left Chinese creditors exposed to the health of the entire Venezuelan economy. They hoped to avoid the failings of other historic creditors in Latin America by circumventing policy conditionality with commercial conditions. As discussed above, Chinese policy banks thought securing their policy loans with oil collateral could sufficiently mitigate credit risk. However, this time was not any different, and growing debt obligations once again hampered investment and productivity, albeit on the balance sheet of the state oil company rather than the central government.

Not only did China underestimate Venezuela's ability to sustain oil production—and, hence, economic activity—but also successfully manage several commercial projects that were spread across broad sectors of the economy. Similar to any investment portfolio, China's investments in Venezuela's commercial landscape are populated with both successes and failures. According to one Chinese policy bank official responsible for risk assessment, some projects will "generate high profits, other less than zero."[47] Chinese firms successfully invested in a number of projects in the energy, mining, manufacturing, and electronics sector in Venezuela, but the price tag of some of the largest failures, such as a Haier home-appliance factory and a China Railway Engineering high-speed railway across Venezuela's plans, captured local headlines. While China has invested in more than 50 combined FDI and construction projects in Venezuela, these two failed projects alone accounted for 12 percent of total inward FDI, and one-third of total Chinese construction contracts, respectively.[48]

Chinese policy banks were thus willing to renew tranches under the original joint-development financing plan (FCCV) to foster debt repayment, but did not offer Venezuela any new funding facilities.

If Venezuela's economic and resource management were not sufficiently suspect, these commercial failures prompted China to balk at its lending relationship, particularly as arrears accrued on the $7.5 billion high-speed cargo railway investment. When Chinese project managers finally left in 2015, railroad factories along the construction corridor were ransacked for their power generators, computers, metal siding, and copper wiring.[49] Venezuela's opposition leaders have lamented these bad investments. For example, former Caracas mayor Antonio Ledezma denounced Maduro's botched governance of these two projects, saying: "We ran a debt with China to build a railroad from Valencia and Caracas, and that was never concluded… . We have a large debt to China (and Russia) for public works that were contracted, and never built, and with China because we give them more oil in exchange for televisions, etc. That's unheard of!"[50]

China's emphasis on local governance had also left it exposed to President Maduro's economic mismanagement. Maduro had delayed reforms in the oil sector and foreign exchange market that were aimed at economic stabilization. For instance, the Venezuelan president dismissed internal pressures from his own economic cabinet about eliminating foreign exchange controls that were seen as intensifying the oil sector's operational problems. In late 2014, Vice President Rafael Ramírez, who was also the head of PdVSA, unsuccessfully advocated for such reforms before eventually leaving his government post. In the face of a sharp decline in global oil prices that was the spark for Venezuela's economic woes, Ramírez proposed removing some of the economy's worst distortions, including exchange rate and price controls.[51] He also wanted to cut gasoline subsidies and instead help the most vulnerable sectors with targeted cash transfers.[52]

Without reform, China was walking a delicate financial tightrope in Venezuela. If Chinese policy banks had cut their financing to Venezuela out of concern that the country's historic crisis would jeopardize its debt servicing capacity, a likely default would have impeded the flow of Venezuela's oil shipments to the Middle Kingdom. Chinese policy banks were thus willing to renew tranches under the original joint-development financing plan (FCCV) to foster debt repayment, but did not offer Venezuela any new funding facilities.[53]

President Xi Jinping's July 2014 visit during his Latin American tour had marked the beginning of China's defensive lending phase in Venezuela. Xi's visit was a symbolic gesture about Venezuela's importance as a long-term political and economic partner, even after Chávez's 2013 death. However, China's policy banks relented from deepening their financial relationship amid ongoing uncertainty about President Maduro's economic management credentials. Shortly after his visit, the China Export-Import Bank and China Development Bank replenished tranches A and B respectively (totaling $9 billion) of the China–Venezuela Joint Fund (FCCV). This financing was vital to helping Venezuela cover its financing shortfalls and avoid a balance-of-payments crisis. From 2014 to 2015, Chinese funds provided nearly one-third of Venezuela's total financing needs, often directly padding its international reserves.[54] Beyond these credit renewals, however, China's policy banks did not offer any new loan-for-oil deals because they first wanted to recover their oil collateral on previous bilateral debts before extending any new funds.

China's Financiers Also Tread Cautiously Because of Political Instability

China's reluctance to extend new credit lines to Venezuela may have also reflected its concerns about political stability in the post-Chávez era. In December 2015, the Venezuela opposition won a two-thirds supermajority in the National Assembly, and immediately initiated a recall referendum. Faced with the threat of democratic removal from the presidency, Maduro used his political control of the judiciary to block the referendum. The Supreme Court then stripped the National Assembly of its constitutional powers. This governability crisis catalyzed four months of massive street protests, which were violently repressed by the armed forces. To further undermine the opposition, Maduro illegally held elections for a National Constituent Assembly to bypass the National Assembly in July 2017. In response, the United States, imposed financial sanctions on Venezuelan former and current government officials, while 12 other hemispheric countries refused to recognize the Constituent Assembly and formulated the Lima Group to "condemn the breakdown of democratic order in Venezuela."[55]

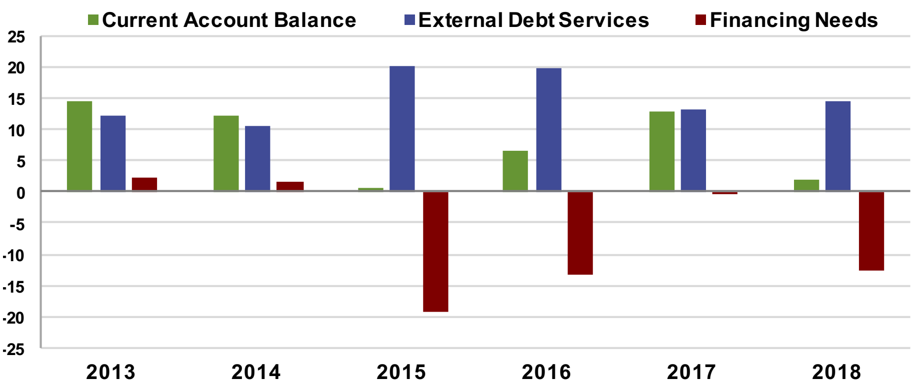
The dismantling of the National Assembly also cast a cloud over Venezuela's debt-servicing capacity. Without formal approval from the National Assembly, a potential opposition-led transition could question the legality and repudiate any new debt. In fact, the National Assembly formally conveyed to Venezuela's creditors that any new debt would be considered illegal without its legislative approval, sending letters to international banks (i.e., Goldman Sachs, JPMorgan Chase, and Nomura),[56] multilateral institutions (i.e., the CAF Development Bank of Latin America),[57] and Chinese creditors. For example, a cautionary missive was delivered to China's Embassy in Caracas, underscoring the legal perils of extending new credit without the National Assembly's consent.[58]

To hedge this growing political risk, Beijing courted Venezuela's opposition leaders and reinforced its long-standing willingness to deal with governments from across the political spectrum.[59] For example, during the 2012 presidential election campaign, Chinese leaders had similarly met informally with opposition candidate Henrique Capriles. In its latest political overture to Venezuela's opposition, Beijing extended invitations to key opposition leaders to visit China, including Julio Borges, who was going to be the parliament's president in 2017.[60] The opposition's message resonated with Chinese officials, who appeared sensitive to the legality question surrounding any new debt issues. In private conversations with the Maduro government, Chinese officials had ostensibly linked Venezuela's access to new credit lines to formal approvals from the National Assembly.[61]

Defensive Lending and the Debt Moratorium

Notwithstanding China's efforts to lend defensively, Venezuela's foreign debt was too large for China alone to make much of a dent by 2016. Venezuela's current account was earning too little in income to cover the country's debt service, meaning that its external financing needs averaged more than $15 billion between 2015 and 2016 (figure 3.6).

Figure 3.6: External Account Barrels ($USD Billions)



Source: Calculated from BCV, ITC–TradeMap, IMF, Authors' estimations.

To address these severe balance of payment imbalances, Maduro balked at economic reform, instead opting to cut imports to avoid further aggravating Venezuela's indebtedness problem. Venezuela's imports plummeted to $13 billion by the end of 2017, a mere one-fourth of its 2013 total of $54 billion. However, exports also continued to fall due to lackluster oil production, eroding Venezuela's current account surplus to virtually nil by 2018. Without new financing, repaying its debt became an uphill battle for Venezuela. Multilateral institutions and capital markets were reluctant to be Venezuela's lender of last resort. At the same time, China and Russia had little appetite for this risk, particularly given Venezuela's depleted oil production.

It was in this broader context that China's defensive lending had initially entered into a new stage in 2016. At that time, China's policy banks had cut their discretionary loans, and increasingly linked any new financing to boosting oil production and, hence, to debt repayment under loans-for-oil deals. For example, China Development Bank's loan to Venezuela that year was broadly geared toward improving oil production through upgrading and reform (table 3.1).[62] However, the spigot for new financing beyond the oil sector had run dry. As part of its defensive lending strategy, China shifted to temporary debt relief rather than refinancing. At Venezuela's request, China negotiated a two-year moratorium on the South American country's state-to-state debt. China reportedly loosened the terms on Venezuela's outstanding loans, allowing the country to only pay interest and defer its principal payments, and also the underlying collateral, removing minimum oil shipment quantities and extending repayment deadlines.

China was also extremely careful in not seeking an open confrontation with the United States with respect to Venezuela's contentious political conflict, especially after Guaidó emerged as interim president in January 2019.

The moratorium served a few strategic interests for China. First, it helped improve PdVSA's cash flow without extending significant fresh funds to Venezuela. In other words, China could mitigate its financial risk while still forging a long-term commercial presence in the oil sector. Second, it allowed Chinese creditors to walk a political middle ground in Venezuela. They extended a grace period to endow the Venezuelan government with more financial flexibility, but the lack of new financing also signaled "goodwill" toward the Venezuelan opposition. China would not provide fresh financing without legislative approvals. In the event of political turnover, such "goodwill" would help smooth a pathway for China's sustained commercial relations in Venezuela. Recently, China doubled-down on this financial strategy. In late 2018, after Maduro's second official visit to Beijing, according to several unofficial sources, the moratorium was extended for an unknown period of time, amid Venezuela's deepening historic crisis.[63]

The debt moratorium also likely reflected China's need to manage its soft power optics of South-to-South cooperation and developing country empowerment. Failed investments would undermine those optics, along with a complete cessation of lending, particularly as regional leaders focused more attention on the Venezuelan crisis. Historically, Latin American governments had been reluctant to criticize one another's internal situations, but major economic powers like Argentina and Brazil had become more critical of Maduro's autocratic turn, as illustrated by Mercosur's eventually condemnation of the Constituent Assembly in 2017. More recently, five members of the Lima Group (Argentina, Colombia, Chile, Paraguay and Peru) requested that the International Criminal Court launch a preliminary investigation of the Venezuelan government for crimes against humanity.[64] Against this contentious backdrop, a debt moratorium allowed China to occupy the sidelines domestically in Venezuela, but also regionally in Latin America.

China was also extremely careful in not seeking an open confrontation with the United States with respect to Venezuela's contentious political conflict, especially after Guaidó emerged as interim president in January 2019. Beijing remained loyal to Maduro—and defended the regime during the debates in the United Nations Security Council—although it avoided engaging in any public diplomacy campaign against Guaidó.[65] This position was distinct from Moscow's more partisan support for the *chavista* regime, which included offering technical military assistance to Caracas, despite Washington's explicit opposition to such aid.[66] In fact, China publicly issued several statements calling both the opposition and the *chavista* regime to engage in political negotiations; and even strongly backed the negotiations mediated by Norway that started in May 2019 and collapsed three months later.[67]

China's diplomatic caution continued to be an important theme throughout 2019. After the United States issued secondary sanctions against foreign companies doing business with PdVSA in August 2019, China became increasingly reluctant to directly finance Maduro, or even help him indirectly bypass these sanctions. For example, in its *2019 Foreign Investment Guide for Venezuela*, the Chinese Embassy labeled Venezuela as one of the "riskiest countries in the world," saying that "increased financial sanctions on Venezuela by the US and other Western countries means greater operating risks."[68]

While China balked at these risks, Russia's state-owned oil company, Rosneft, was instrumental in helping Venezuela's state oil company divert exports to alternative markets such as India. For example, after the United States enacted oil sanctions on

PdVSA in January 2019, Rosneft's role evolved from being a heavy producer and short-term oil financier to becoming the fulcrum of Venezuela's efforts to circumvent US sanctions. Rosneft, which had a minority ownership stake in the Indian firm Reliance, used the multinational conglomerate to channel commercial exchanges through third parties in Singapore and Malaysia, thereby obfuscating PdVSA's trading patterns. Reliance soon became PdVSA's most important client, benefiting from its attractive crude prices, which in some cases were discounted by as much as 40 percent. Notably, however, Reliance was protected because as the final client, it was not subject to sanctions under US law. Rosneft therefore did not petition the US Treasury for a waiver.

China has been unwinding its financial ties in Venezuela since 2014, which suggests that its economic woes are not a product of debt-trap diplomacy or an intentional effort to bankrupt Venezuela to seize the country's assets.

Russia's commercial triangulation was thus the cornerstone of Venezuela's efforts to bypass the United States' initial sanctions. Under this program, Rosneft was able to control more than 40 percent of PdVSA oil exports, and even reportedly helped mask Venezuelan oil shipments to China.[69] However, in August 2019, the United States activated secondary sanctions, covering any firms trading PdVSA-produced oil globally, with the exception of those operating in domestic joint ventures or internal trading partnerships within Venezuela, such as China's CNPC.

Fearing it would be penalized by the more comprehensive secondary sanctions imposed by the United States, Rosneft decided to exit Venezuela.[70] Given that Rosneft is a publicly traded company, it did not want to be targeted by the US Treasury, particularly given that the firm held a stake in US-based CITGO as Venezuelan loan collateral. Notably, Rosneft was not alone in its decision to leave Venezuela. Chevron, the US multilateral firm, also decided to disinvest from the country, announcing its planned departure by the end of 2020.[71]

By contrast, CNPC had decided to remain in Venezuela, but limited its exposure to the few hundred thousand barrels per day that the Chinese oil firm directly produced in its PdVSA joint venture. Recall that China's policy banks were using such joint ventures as a vehicle for recovering their oil collateral from Venezuela. China's strategy in

Venezuela was thus not to increase investment in the oil sector but rather to protect its financial and commercial position through an extension of its debt moratorium in August 2020. Under the moratorium, Maduro negotiated another bilateral agreement with Chinese policy banks, extending a grace period on almost $19 billion of outstanding debt until the end of 2020.[72]

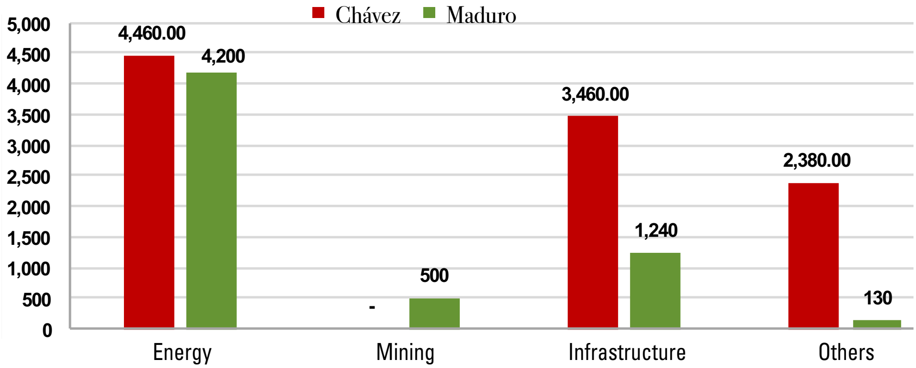
Hedging Mispriced Risk Administratively and Commercially

China has been unwinding its financial ties in Venezuela since 2014, which suggests that its economic woes are not a product of debt-trap diplomacy or an intentional effort to bankrupt Venezuela to seize the country's assets. Venezuela's outstanding debt to China has retreated from its 2010–11 highs (figure 3.4). By contrast, Venezuela's overall foreign debt has expanded during the same time (figure 3.1), in large part due to the collapse of GDP, but also to the government's and PdVSA's ongoing willingness to finance a fiscally unsustainable public balance sheet expansion with global bond issuance.

Beyond reducing its financial ties with Venezuela, China also increasingly employed administrative and commercial measures to help hedge its sovereign risk. Initially, China's policy banks had extended loans for oil in Venezuela, leaving the central government considerable discretion in the design of its development projects. Recall that projects had targeted a wide range of economic sectors from agriculture and manufacturing to transportation and real estate. After the Maduro transition, however, China became more selective in its investments, favoring more projects in the strategically-important oil and energy infrastructure sectors, where it hoped to maintain a long-term commercial presence. Under Maduro, China was significantly more reluctant to invest in other areas. Figures 3.7 and 3.8 show how China's inward investment became increasingly concentrated in oil and energy infrastructure.

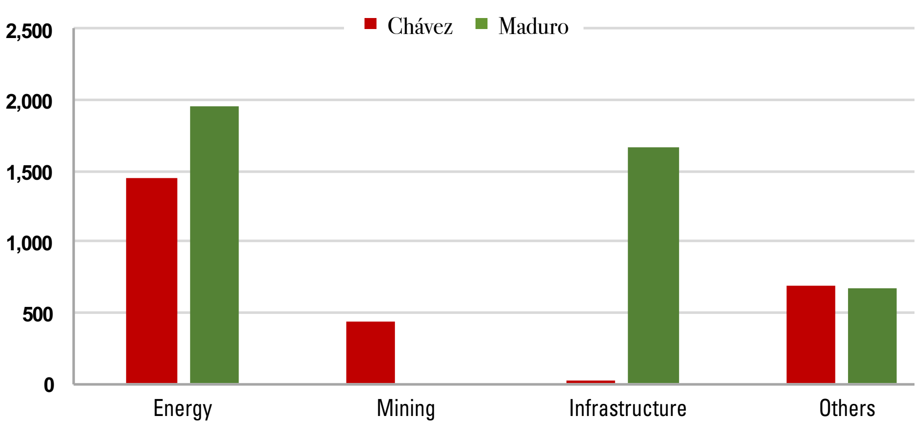
Chinese officials thus began to walk a delicate tightrope between adhering to their foreign policy framework of nonintervention, inching toward greater "collaboration in the formulation of policies," including advising the Venezuelan government on the need to reform the economy.

Figure 3.7: Chinese Construction Contracts in Venezuela ($USD Millions)



Source: Calculated from Atlantic Council, China Global Investment Tracker (CGIT), RED-ALC China.

Figure 3.8: Chinese FDI in Venezuela ($USD Millions)



Source: Calculated from Atlantic Council, China Global Investment Tracker (CGIT), RED-ALC China.

To further hedge its commercial risk, China had also tied new lending directly toward boosting oil production in Venezuela. Whereas past bilateral financing from China was often used discretionally, China is increasingly using joint-venture financing arrangements, where it lends directly to the China-Venezuelan joint-venture firm and the loan is eventually repaid from the joint venture's production (table 3.1). While Maduro reportedly secured a new loan from China that was as large as $5 billion during the summer of 2018, the Chinese Ministry of Commerce stated that it would be used to improve the country's oil production, implying it is likely to follow the joint-venture financing model rather than the Chinese–Venezuelan cooperation fund, which features direct state-to-state lending.[73]

China's headline oil investment in Venezuela is Sinovensa, China's joint venture with PdVSA in the heavy Orinoco oil belt, which is home to the world's largest petroleum reserves. China has also invested in smaller greenfield projects, such as Petrozumano, that have yielded a considerably smaller oil outputs than Sinovensa. The Sinovensa project, which had recently been operating below its output of 100,000 barrels per day oil, has been directly linked to China's new financing.[74]

Shortly after Maduro's visit, China's state oil company, CNPC, announced that it had increased its stake in Sinovensa to 49.9 percent. Against the backdrop of China's ongoing efforts to recover its oil payment arrears from Venezuela, the equity stake likely made China a more willing investor, albeit with some controversy. Venezuela's Hydrocarbon Law caps foreign ownership participation at less than 50 percent, meaning that a change above that amount would have likely required approval from the disbanded National Assembly.[75] China has previously been careful not to roil the Venezuelan opposition, but the equity transfer may invite some long-run legal challenges.

Beyond the Sinovensa joint venture, China is also exploring the possibility of exchanging existing debt for equity participation elsewhere in the oil sector. The refining industry, which was operating at less than 30 percent of its capacity due to a lack of investment and maintenance, has been a key target. In 2017, local oil unions reported that Chinese and Russian officers conducted a two-month due diligence assessment of the large refinery complex in Paraguaná.[76] In the service sector, China links it lending to purchases of Chinese drilling equipment and guaranteed contracts for Chinese logistics firm, but it may want to foster a longer-term presence. In the mining sector, the Venezuelan government outsourced the operational management of its most important state-owned producer of iron-ore to a Chinese firm.

Complementing these commercial activities, China has also employed administrative measures to help mitigate its sovereign risk. For example, in August 2015, President Maduro made his first state visit to China. One of Maduro's most important objectives during his official tour was to solicit further financing. While China was willing to renew tranche B of the China–Venezuela Joint Fund (see table 3.1), it also began to offer cooperation assistance to Venezuelan authorities. After that official visit, a commission of Chinese economic experts was sent in 2016 to meet with the minister of planning and the Central Bank in Venezuela in order to discuss the current macroeconomic imbalances in the country and exchange views on how to address these problems.[77] Chinese officials thus began to walk a delicate tightrope between adhering to their foreign policy framework of nonintervention, inching toward greater "collaboration in the formulation of policies,"[78] including advising the Venezuelan government on the need to reform the economy.[79]

...in many ways, China was entangled in a creditor trap more than Venezuela was captured in a debt trap.

While the China–Venezuela relationship has primarily been characterized by economic cooperation assistance over the last few years, the Chinese have also deepened political cooperation. Under the leadership of the Chinese telecommunications company, ZTE, the Chinese helped the Maduro regime design a sophisticated electronic card for its citizens, while reportedly also exporting surveillance technology to Venezuela.[80] In hopes of building political loyalty for the May 2018 elections, the government openly used the card to offer cash transfers and heavily subsidized public services to the Venezuelan population in exchange for votes and refraining from protesting. After these elections, China affirmed its state-to-state cooperation with Venezuela, with the Chinese ambassador, Li Baorong, saying that China is willing to "deepen pragmatic cooperation, and push the comprehensive strategic partnership to a higher level."[81]

In addition, Beijing also has extended vital assistance to President Maduro to cope with the COVID-19 crisis, providing Venezuela with almost 2 million rapid testing kits, more than 6.5 million surgical masks, and medical equipment ranging from ventilators and thermometers to protective suits and gloves.[82] These efforts are part of a broader $2 billion pandemic aid effort, launched at the May 2020 World Health Assembly.[83]

Despite such rosy state-to-state rhetoric and development aid, however, Chinese officials have also cautioned investors about Venezuelan risk. In the Chinese Ministry of

Commerce's 2017 report *Foreign Investment Directory—Venezuela*, Ji Xianzheng, the Chinese economic and business counselor to Venezuela, issued this warning for companies seeking out business in Venezuela: "Venezuela has been regarded as a high-risk market. Apart from political instability and high social risks, Venezuela also has a tight control on foreign exchange… . Additionally, strong unions, labor complications, and security threats all pose significant risks and costs for doing business in Venezuela. If Chinese companies wish to enter the Venezuelan market, they need to have a deep understanding of the Venezuelan political scene, macroeconomic trend, industry insights and the potential risks involved. Do not enter blindly."[84]

China is likely to sustain its current approach to Venezuelan risk, deepening state-to-state relations, while increasingly targeting its financial assistance toward boosting oil production, recovering oil collateral, and growing its long-term commercial presence in the Venezuelan energy sector.

Conclusion

On the eve of the global financial crisis in 2008, President Chávez and President Hu laid the foundations of the China–Venezuela state-to-state relationship when they crafted the China–Venezuela Joint Fund (FCCV). The timing was good for both governments. For Venezuela, President Chávez was able to court a creditor to help expand the Venezuelan state, particularly his development plan and social reforms under the banner of "Socialism of the 21st Century." For China, Venezuela's abundant natural resources and energy supplies could help China secure long-term access to these vital national assets.

The relationship worked, even during hard times, given President Chávez's willingness to pragmatically manage the economy when necessary. In contrast, Maduro was more ideological than Chávez, refusing to reform the Venezuelan economy when it buckled under the weight of the global commodity correction in 2014.

Maduro wanted an ideological partner in China, but China was first and foremost a commercial partner. While China's foreign policy emphasized nonintervention in sovereign affairs, it also placed the onus of economic decisionmaking on local governance choices. From China's perspective, even if its policy banks have been willing financiers of Venezuela, the Bolivarian nation carries the burden of engineering its own economic crisis. For this reason, China has been steadily unwinding its financial ties over the last half decade.

In US policymaking circles during the Trump administration, many practitioners had viewed China as more culpable, suggesting that China's foreign economic policy reflects the pernicious pattern of debt-trap diplomacy.[85] According to this perspective, China's financial sirens shipwrecked the Venezuelan economy. In other words, China—which emerged as a major Latin American financier for energy, mining, and infrastructure projects—used its financial might to entice Venezuela to accumulate large and costly loans. In exchange for these financial offerings, China increased its economic and political leverage by trapping the oil-rich nation in an unsustainable debt spiral.

However, in many ways, China was entangled in a creditor trap more than Venezuela was captured in a debt trap. China's tendency to bank unconditionally has a diplomatic appeal throughout Latin America, but it left Chinese creditors exposed to moral hazard risk in the case of Venezuela.[86] Pursuing unconditional lending meant that China's policy banks had to eventually lend defensively to help overcome the errs of Chávez's and Maduro's governance deficit. They provided debt relief to a political regime that was gravely mismanaging the economy in hopes of eventual debt repayment.

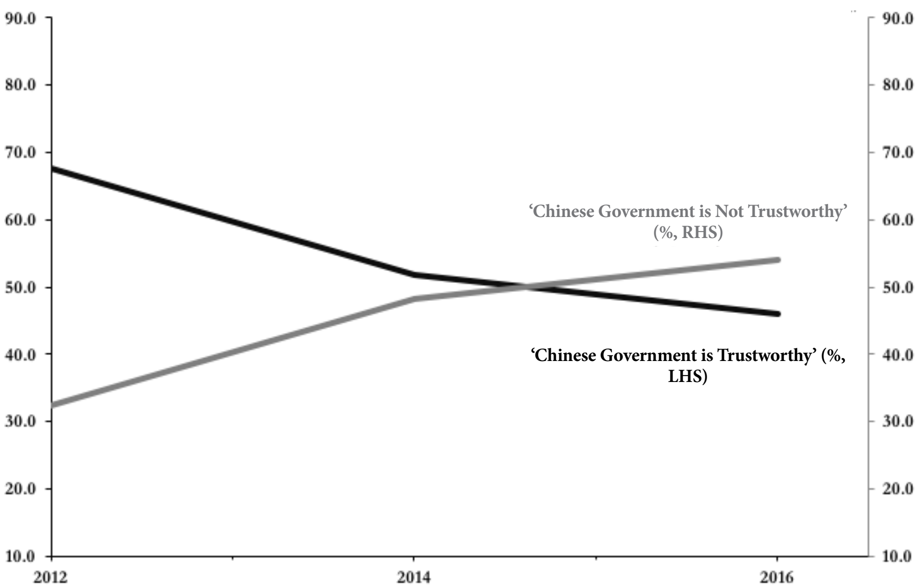
Basically, China's lack of policy conditionality had meant a tacit acceptance of Venezuela's massive balance sheet expansion during China's decade-long presence from 2004 to 2014. Rather than imposing policy conditionality on debtor governments, China's public bankers attempted to secure their Venezuelan loans commercially with commodity guarantees. China's policy banks thus based their overseas lending to Venezuela on a non-Western interpretation of sovereign risk, which emphasized expending credit in developing countries to create commercial opportunities. By deemphasizing conditionality, it also limited the extent to which China's economic consultations were heeded by the Venezuelan government. According to one former policy bank official, "Venezuela did not accept enough outside advice. Not from China. Not from the US."[87]

As Venezuela experienced an unprecedented institutional and economic collapse, China nonetheless became a reluctant, defensive lender. China had paid a high cost for its creditor learning curve in Venezuela as the country fell into arrears on both its oil collateral and its financing of its transportation infrastructure. From China's perspective, Venezuela never adopted "the soul of planning. They tried to build up society but did not learn from China."[88]

To mitigate their high exposure during the Maduro years, China's policy banks thus steadily tempered new state-to-state lending. However, they also had to incur a series of costs to facilitate debt repayment, including providing temporary debt relief, restructuring the terms of the country's outstanding loans, reducing required oil shipments, and relaxing repayment deadlines.

In response to these costs, policy banks have increasingly reoriented their hemispheric strategy toward equity rather than debt financing, and they have also encouraged Chinese businesses to progressively concentrate their Venezuela investment in the energy sector. To mitigate the *chavista* regime's discontent with China's defensive lending strategy, Beijing has been favoring more technical and political cooperation. In the meantime, China continues to deepen its diplomatic ties with Venezuela on both

Figure 3.9: Venezuelans Say 'Chinese Governement is Trustworthy' (2012-2016)



Source: Latin American Public Opinion Project (LAPOP), Venezuelan Survey, 2012, 2014, 2016 sides of the political divide, with the aim of fostering its long-term commercial interests beyond the current crisis.

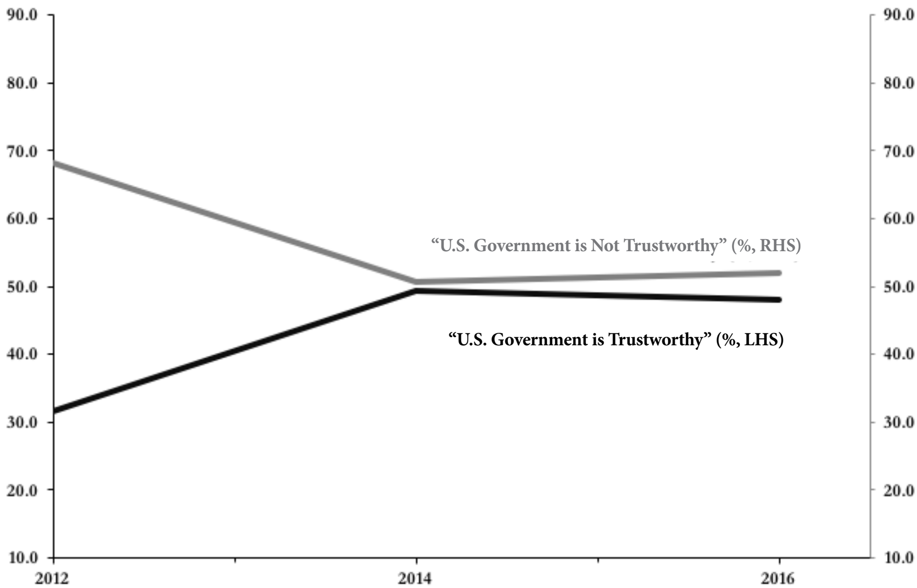
Notwithstanding China's political hedge in Venezuela, has China's soft power rhetoric paid dividends in the country, or has its reputation suffered from its creditor woes? We have seen a marked deterioration in China's political influence in Venezuela. A mere third of the Venezuelan population deemed China "untrustworthy" in 2012, but more than half the population mistrusted China by 2016 (figure 3.9). We expect China to further contain the political fallout by treading carefully in Venezuela, particularly during the current crisis. For example, during the political conflict between Maduro and Guaidó, China did not actively resist the United States' efforts to destabilize the increasingly authoritarian *chavista* regime. At the same time, President Xi has reiterated China's reluctance to pursue global hegemony, saying that China would not develop "at the expense of other countries' interests."[89]

China continues to deepen its diplomatic ties with Venezuela on both sides of the political divide, with the aim of fostering its long-term commercial interests beyond the current crisis.

Indeed, why would China intentionally invite debt problems in the developing world when the appeal of China's South-to-South cooperation is its development rhetoric? Why would Beijing allow for such a debt spiral in Caracas, its flagship state-to-state lending case in Latin America, after investing billions in its soft power image?[90] We think the answer is that it was unintentional—a product of China, as a creditor, mispricing Venezuelan risk.

Ultimately, China's creditor mishaps create an opportunity for the United States, which has seen its image improve in Venezuela over the last half decade (figure 3.10). By contrast, China has not gotten much political leverage from its investments in Venezuela, which, at its peak, accounted for three-quarters of China's Latin American portfolio. To the extent that the US government remains concerned about China's ability to gain hemispheric influence through its economic ties, it should strive to compete economically with China. The state-to-state model is floundering in Venezuela, creating a window of opportunity for alternative development ideas. While Venezuela's political crisis limits near-term opportunities, the United States could bolster its regional capital by articulating a strategic vision for helping improve Latin American development. The BUILD Act, a bipartisan bill which created a new US development agency in the summer of 2018, could be a step in the right direction.[91] Leveraging private investment, the new development agency aims to support developing countries' transitions toward market economies, using loans, loan guarantees, equity capital, insurance, and technical assistance. The United States will gain little regional capital through its ongoing critiques of China's "predatory economics" given that much of the region still views China as offering a development opportunity. However, presenting the region with a competing development vision could help restore US economic and political leadership.

Figure 3.10: Venezuelans Say 'U.S. Governement is Trustworthy' (2012-2016)



Source: Latin American Public Opinion Project (LAPOP), Venezuelan Survey, 2012, 2014, 2016

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TWO NATIONS, ONE REVOLUTION:

The Evolution of Contemporary Cuba-Venezuela Relations

4

Brian Fonseca and John Polga-Hecimovich

Cuba's President Raúl Castro, center right, and Venezuela's President Nicolás Maduro raise their arms during the XV Political Council of the Bolivarian Alliance for the Americas group, ALBA, in Havana, Cuba, Monday, April 10, 2017. Source: AP Photo/Ramon Espinosa

Cuba es el mar de la felicidad. Hacia allá va Venezuela.

(Cuba is a sea of happiness. That's where Venezuela is going.)

–Hugo Chávez Frías, March 8, 2000

Contemporary Cuban–Venezuelan relations blossomed in the late 1990s, due in large part to the close mentor–pupil relationship between then-presidents Fidel Castro Ruz and Hugo Chávez Frías. Their affinity grew into an ideological and then strategic partnership. Today, these ties are as strong as ever, as Cuban security officials exercise influence in Venezuela and help maintain the *chavista* regime in power. Details of the relationship, however, remain shrouded in secrecy, complicating any assessment of Cuba's role in Venezuela. The two countries' governments have not been transparent about the size and scope of any contingent of Cuban military and security professionals operating in Venezuela. In fact, Havana claims that there are no Cuban security personnel in Venezuela, but merely medical staff supporting humanitarian missions.[1] At the same time, the United States and other countries have at times exaggerated the number of

Cuban security forces in Venezuela for political purposes.[2] Despite the lack of transparency and overestimations of Cuban security professionals operating in Venezuela, it is evident that Cuban security training and technical assistance have aided the Venezuelan government in establishing a firewall against internal and external threats.

At the outset of this partnership, Castro provided mentorship to Chávez in the areas of health, politics, and security and intelligence. In return, Chávez helped underwrite Cuba at a time of economic hardship and diminishing relevance in the international system after the collapse of the Soviet Union. Although the texture of Cuban–Venezuelan relations remains consistent with the areas of cooperation borne out of the Chávez–Castro relationship, the intensity and depth of engagement slowly faded under presidents Raúl Castro and Miguel Díaz-Canel in Cuba and Maduro in Venezuela—with the notable exception of Cuban security and intelligence support for the Venezuelan leadership. Although it is difficult to assess the number of Cubans assisting the Venezuelan government and their precise roles, it is clear that Havana has a compelling economic and political interest in the Venezuelan regime's survival.

This chapter explores three periods of Cuban–Venezuelan relations since 1999. The first period comprised a series of bilateral agreements, including the Comprehensive Cooperation Agreement (Convenio Integral de Cooperación), and spanned Chávez's arrival to power until 2004. The second period involved an increase in the exchange of goods and the institutionalization and regionalization of relations. It began with rising oil prices and the creation of the Bolivarian Alliance for the Peoples of Our America (Alianza Bolivariana para los Pueblos de Nuestra América, ALBA) in 2004 and lasted until Chávez's death in 2013. The third stage spans the Maduro presidency from 2013 to the present. This period coincides with a fall in oil prices, Venezuela's economic and political crisis, and a stronger role for Cuban political, military, and intelligence advisers in Venezuela.

Two Nations, One Revolution, 1999–2004

Fidel Castro and Hugo Chávez first met in 1994 following Chávez's release from prison after his failed 1992 coup attempt against President Carlos Andrés Pérez. In his visit to Cuba, Chávez gave an impassioned speech at the University of Havana in which he praised the country as a "stronghold of Latin American dignity" that must be emulated.[3]

However, the relationship did not begin to take form until Chávez's election to the presidency. Castro attended Chávez's inauguration in 1999; and later that year, the two governments began to establish economic, political, and security ties. The leaders also visited each other frequently between 1999 and Chávez's death in 2013; Chávez was fond of making unscheduled stopovers in Havana, and Castro celebrated his 75th birthday in Venezuela.

From the outset of his presidency, Chávez accepted former Cuban officials and pro-Castro sympathizers as part of his inner circle and adapted a number of Castroist ideas...

Castro long sought revolution in Venezuela as well as preferential access to Venezuelan oil.[4] His first trip after coming to power in 1959 was to Venezuela, where he solicited $300 million in oil from then–newly elected president Rómulo Betancourt.[5] The Venezuelan leader declined and tensions between Havana and Caracas grew.[6] In late 1961, Betancourt broke relations with Cuba following a new doctrine of severing ties with governments that had come to power via nonelectoral means, and in 1962 Venezuela voted to expel Cuba from the Organization of American States. For its part, Cuba provided more than $1 million in financial support, including arms and military equipment, to Venezuelan insurgent movements such as the Armed Forces of National Liberation (Fuerzas Armadas de Liberación Nacional) between 1961 and 1964.[7] Tensions came to a head in 1967, when the Venezuelan Army and National Guard were forced to repel an attack by a small contingent of Cuban and Venezuelan guerrillas on the beach of Machurucuto.[8] Carlos Andrés Pérez reestablished diplomatic relations with Cuba in 1974 at the beginning of his first term in office.[9]

Chávez's rise came nearly 30 years after the Machurucuto event. For Castro, Chávez appeared as one of the last champions of the Cuban-inspired revolutionary social and political movements that had swept Latin America and the Caribbean during the Cold War. The political newcomer identified as a socialist and often employed a highly charged "anti-imperialist" rhetoric. Moreover, he viewed himself as a revolutionary in keeping with the precedents set by Simón Bolívar and Fidel Castro, often invoking their names as a means of establishing legitimacy and inspiring support for his sociopolitical movement. From the outset of his presidency, Chávez accepted former Cuban officials and pro-Castro sympathizers as part of his inner circle and adapted a number of Castroist ideas, including the Bolivarian Circles (Círculos Bolivarianos), parastatal institutions inspired by Cuba's Committees for the Defense of the Revolution (Comités de Defensa de la Revolución).

The Cuba–Venezuela relationship, however, was not based purely on the ideological affinity of its leaders. Its foundations also included strong commercial ties. After the collapse of the Soviet Union and throughout the Special Period (Período Especial) of the 1990s, Cuba sought to replace the economic subsidies long provided by Moscow. Havana wanted access to oil at below market prices and investment flows from Caracas. For its part, the Chávez government pursued global leadership through alliances with other developing countries. Later, leaders in Caracas desired the political advisory and intelligence and counterintelligence support that Cuba could provide.[10]

The number of Cuban uniformed personnel in Venezuela and their roles during this period are unclear. It is evident, however, that tacit US support for the opposition during the 2002 coup attempt helped drive Chávez toward Cuban security forces.

Opportunities for Cuban participation in Venezuela's armed forces increased as Chávez began politicizing the Venezuelan military shortly after taking office.[11] In the wake of the deadly Vargas mudslides in February 1999, the Venezuelan president launched Plan Bolívar 2000 to engage Venezuelan soldiers in socioeconomic programs aimed at providing food, medical assistance, education, and infrastructure to some of the poorest parts of the country. The plan enlisted the support of thousands of Cuban personnel, including teachers, medical professionals, and an unknown number of Cuban security officials.[12]

Shortly thereafter, the government allowed guerrillas from the Revolutionary Armed Forces of Colombia (Fuerzas Armadas Revolucionarias de Colombia, FARC) to establish training camps in the western border states of Zulia, Táchira, and Apure, deepening tensions between the Venezuelan military leadership and Chávez. Venezuelan support to the FARC took place between 1998 and 2002, during the ultimately unsuccessful peace talks between the group and the administration of Colombian president Andrés Pastrana. During this period, Chávez ordered Venezuelan officers to provide logistical support to FARC guerrillas launching raids into Colombia. This angered Venezuela's military leadership, which until then had been taught—and expected—to defend Venezuela against socialist-inspired insurgencies like the ones they were now ostensibly supporting.[13]

The Cuban and Venezuelan governments solidified their partnership through a flurry of bilateral agreements, including the Comprehensive Cooperation Agreement in October 2000. Under this framework, Venezuela pledged to sell up to 53,000 barrels of oil per day to Cuba at a fixed, reduced price through the state-owned Petróleos de Venezuela, SA (PdVSA).[14] For its part, Cuba offered Venezuela "medical services, specialists and health technicians to provide services in places where such personnel are not available" at no cost.[15] The agreement also provided Venezuelans with the ability to send patients and their relatives to Cuba for specialized medical treatment. Although the island had already sent medical professionals to Venezuela, this agreement increased the number of doctors, nurses, and paramedics from dozens to thousands.

Chávez would soon need Castro's strategic political and security assistance. When the Venezuelan president appointed allies to prominent posts in PdVSA in April 2002, dissident members of the military and the leadership of the Venezuelan Federation of Chambers of Commerce (Federación de Cámaras y Asociaciones de Comercio y Producción de Venezuela, Fedecámeras) briefly ousted Chávez in a coup d'état, before a countercoup brought him back to power. In response, according to an interview with Castro, the Cuban leader coached Chávez and his inner circle through the ordeal. Castro advised Chávez not to resign, and instead to "demand honorable conditions for surrender, guarantees that you won't be the victim."[16] Over the phone, Castro also committed to send a diplomatic delegation to Venezuela in support of Chávez. Venezuela's then–minister of defense José Vicente Rangel reinforced that the call with Castro was "the determining factor. His advice allowed us to see better through the darkness. It helped us a great deal."[17]

In the aftermath of the 2002 coup attempt, Chávez became more radicalized and distrustful of those around him—especially, and understandably, the political opposition and opposition-aligned PdVSA and military leadership. He also grew closer to Castro and the Cuban government. After the event, Chávez changed the nature of the relationship, seeking not only Castro's advice but also active support from the Cuban intelligence service to help him maintain power and stave off internal opposition and manage tensions with the George W. Bush administration.[18]

The number of Cuban uniformed personnel in Venezuela and their roles during this period are unclear. It is evident, however, that tacit US support for the opposition during the 2002 coup attempt helped drive Chávez toward Cuban security forces. Cuban military personnel became more visible in Caracas in the immediate years after 2002, according to multiple sources interviewed for this study who asked to remain anonymous.[19] The increase in Cuban military members coincided with the decline of US personnel. Chávez started purging the Venezuelan military leadership shortly after his return to Miraflores in 2002, and in 2004 he turned his attention to dismantling the US military presence in his country. In 2004, the president withdrew the US Military Group's access to the Venezuelan military headquarters at Fuerte Tiuna, causing it to take up residence at the US Embassy. At the time, the US military group comprised 40 military personnel—many of whom served as trainers and liaisons to Venezuelan forces. By 2007, only three US defense personnel remained in the country.[20]

The Deepening of Cuban–Venezuelan Relations, 2004–13

Interdependence between the two countries grew on December 14, 2004, on the 10th anniversary of Chávez's first visit to the island, when Chávez and Castro signed the Cuba–Venezuela Agreement. This strategic arrangement established "cooperation between the Republic of Cuba and the Bolivarian Republic of Venezuela, . . . based . . . not only on solidarity principles, which will always be present, but also, in the highest possible level, on the exchange of goods and services that are most beneficial for the economic and social needs of both countries" (Article 2). Each country sought material and ideological benefits from the agreement. Cuba eliminated duties on all Venezuelan imports (Article 12.1), offered tax exemptions to profits on Venezuelan investment in Cuba (Article 12.2), and granted scholarships (Article 12.7) and educational exchanges (Article 12.10).[21] Perhaps the most consequential service it offered, however, was increasing the number of Cuban medical professionals sent to Venezuela.

As president, Chávez promoted dozens of social welfare missions (*misiones sociales*) to bring state services to the poor. One of the earliest and largest of these was Misión Barrio Adentro (Into the Neighborhood Mission). This program began in early 2003 when the mayor of Libertador Municipality outside Caracas, Freddy Bernal, initiated discussions with the Cuban Embassy to bring 58 Cuban physicians to poor neighborhoods in his municipality. By December of that year, Bernal's Plan Barrio Adentro had become so popular that Chávez transformed it into the first national social mission.

A number of other social missions also used the expertise and personnel offered by Cubans over the course of the decade.

The December 2004 agreement thus allowed Barrio Adentro and other social missions using human capital from Cuba to grow. While Venezuela provided financial support through PdVSA, Cuba sent medicine and personnel necessary to design, execute, and supervise the program with the help of the Venezuelan Ministry of Health and Ministry of Defense. According to some sources, Barrio Adentro included 23,789 Cuban doctors, dental specialists, optometrists, nurses, other personnel, and more than 6,500 sites where patients were seen. The agreement itself asserted that Cuban health care professional served some 15 million Venezuelans (Article 12.12).[22]

A number of other social missions also used the expertise and personnel offered by Cubans over the course of the decade. Through Misión Milagro (Miracle Mission), Cuban ophthalmologists performed eye surgeries on impoverished Venezuelans. Additionally, Cuban medical professionals participated in Venezuela's Misión Sonrisa (Smile Mission), established in 2006 to offer dental prosthetic rehabilitation to the poor as part of the national public health program, and in Misión Dr. José Gregorio Hernández, created in 2008 to provide medical home visits to people with disabilities. Cuban teachers contributed to the Misión Robinson I and II, Misión Ribas, and Misión Sucre educational programs, and Cuban experts contributed to other social missions as well via social cooperation agreements.

In all, the Venezuelan social scientist Carlos Romero estimates that, at its apex in the mid-2000s, there were 30,000 to 40,000 Cuban professionals in Venezuela.[23] Importantly, this includes Cuban military members. While the Venezuelan armed forces (Fuerza Armada Nacional, or FAN, until 2008; and Fuerza Armada Nacional Bolivariana, FANB, after

2008) maintained the central role in most social missions' logistical support and facilities construction, Cuban military officials and civilians who reported directly to Chávez or the minister of defense often played technical advisory and supervisory roles. Cuba—through its National Defense Law 75—has vast experience in leveraging the military to provide technical support to society, especially with respect to natural or manmade disasters.[24] According to retired Venezuelan officers interviewed for this study, these Cubans were housed in military installations and given lodging, food, and transportation. In addition to their stipend in bolívars, the Cuban government paid them in dollars, as per the bilateral agreement. The precise number of these security and intelligence personnel reporting directly to Chávez or the minister of defense is unknown.

In this period, Venezuelan oil diplomacy approached its peak. The country not only used the 2004 agreement to increase the amount of oil it sent to Cuba at favorable prices (Article 12.5), raising it to some 96,000 barrels per day, but the document also marked the formal creation of the ALBA regional alliance.[25] At its inception, Venezuela and Cuba were the only members. Subsequently, a number of other Latin American and Caribbean states joined: Bolivia, Nicaragua, Ecuador, Honduras, Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia.[26] The promulgation of this agreement marked a new phase of cooperation beyond the energy sector and medical and other personnel, including the regionalization of the Cuba–Venezuela partnership.

Far more consequential for regional relations and for Venezuela's place in the Caribbean was the formation of PetroCaribe.

Far more consequential for regional relations and for Venezuela's place in the Caribbean was the formation of PetroCaribe. Launched on June 29, 2005, as an ALBA initiative, PetroCaribe was originally conceived as an alliance of Central American and Caribbean states, including Antigua and Barbuda, the Bahamas, Belize, Cuba, Dominica, the Dominican Republic, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Haiti, Nicaragua, Honduras, and El Salvador.[27] Participant countries would purchase Venezuelan oil on conditions of preferential payment. In Jamaica, Guyana, Nicaragua, and Haiti, the value of preferential Venezuelan financing for oil imports was more than 10 percent of government revenue and the equivalent of about 4 percent of gross domestic product, and accounted for all of Haiti's national oil supply and until recently nearly 75 percent of Nicaragua's.[28] Venezuelan aid to Nicaragua drastically diminished between 2017 and 2019, and other PetroCaribe members have seen similar declines.[29] Still, Venezuelan oil has been a significant source of aid for cash-strapped countries in the region.[30]

Under Chávez, Cuban advisers began to work in the highest echelons of the Venezuelan executive, training police as well as members of the military and intelligence services.

According to then–oil minister Rafael Ramírez, between the creation of PetroCaribe in 2005 and January 2012, Venezuela provided a total of 178 million barrels of crude oil worth $14.4 billion to the 18 member countries. Ramírez said that PetroCaribe members had saved $2.7 billion as a result. Unsurprisingly, many of these small states have supported Venezuela diplomatically in the Organization of American States and other multilateral forums. For Cuba, the oil shipments were vital in subsidizing its economy.

For its part, Cuba's support for Venezuela extended beyond the social missions. Collaboration between Cuba's Revolutionary Armed Forces (Fuerzas Armadas Revolucionarias, FAR) and Venezuela's FANB intensified throughout the 2000s. The two countries signed bilateral agreements for the joint development and training of members of all branches of the FANB, including travel to Cuba to train, and Cuban officers began to play a direct role in planning within the Venezuelan military. A special report by Reuters published in August 2019 indicated that two agreements signed by Cuba and Venezuela in May 2008 provided for Cuban assistance to overhaul Venezuela's Directorate of Military Intelligence, to train Venezuelan intelligence officers in Cuba, and to provide Cuban advisers to train and inspect Venezuelan military units.[31] According to a paper published by the anti-Castro Institute of Cuban and Cuban-American Studies at the University of Miami, delegations from the Institute of Higher National Defense Studies (Instituto de Altos Estudios de Defensa Nacional, IAEDEN) visited the island, and graduating officers from the Venezuelan Army's Military Command attended graduation ceremonies in Cuba presided over by Fidel Castro.[32]

Under Chávez, Cuban advisers began to work in the highest echelons of the Venezuelan executive, training police as well as members of the military and intelligence services.[33]

Chávez remained concerned about maintaining loyalty within security and defense institutions and leaned on Cuba's experience coup-proofing the government.[34] Cuba's role was to monitor, supervise, and report the internal situation of the barracks to the Venezuelan political leadership, as well as to advise on psychological operations at the national and international levels. According to former director of civil protection Antonio Rivera, about 400 Cuban security professionals served in advisory functions, aiding with reorganization and doctrine and providing education to Venezuelan security forces.[35] It is unclear if Rivera was referring to FAR personnel, Ministry of Interior personnel, or both, further illustrating the complexity of defining and identifying the scope of security workforces.

...far from ending Cuba and Venezuela's alliance, the death of Chávez and the onset of Venezuela's prolonged economic crisis have instead transformed it into one of elevated mutual dependence.

Due to health problems, Castro delegated the duties of president to his brother Raúl on July 31, 2006. As Fidel's health worsened, Raúl Castro was named president in early 2008. In June 2011, Chávez revealed in a televised address from Havana that he was recovering from an operation to remove an abscessed tumor with cancerous cells. This marked the beginning of a two-year battle with cancer and associated health problems, a period when he sought medical care in Cuba. After winning the 2012 presidential elections, Chávez missed his January 10, 2013, inauguration in Caracas, as he was receiving cancer treatment in Havana. He finally returned to Venezuela in February and passed away on March 5, 2013, with Nicolás Maduro succeeding him. With Fidel Castro's deteriorating health and Chávez gone, it was up to newly anointed leaders—former minister of defense and Fidel's right hand, Raúl Castro; and Maduro—to carry the relationship forward.

A Transactional Relationship, 2013–present

Until 2013, Venezuela could afford the economic cost of support to Cuba during a decade of rising oil prices, and the Cuban and Venezuelan governments had been strategically aligned under Chávez and the Castros. In many ways, the personal and political solidarity between the two countries' leaders mitigated the vulnerabilities created by interdependence.

However, far from ending Cuba and Venezuela's alliance, the death of Chávez and the onset of Venezuela's prolonged economic crisis have instead transformed it into one of elevated mutual dependence.[36] According to published reports, Maduro and his confidants rely on Cuban security and intelligence personnel to identify potential coup plots and provide advice on managing popular unrest, while the governments of Raúl Castro and Miguel Díaz-Canel have relied on Venezuelan oil to keep Cuba's economy running. Therefore, while Díaz-Canel has offered Maduro his "unwavering solidarity," the relationship appears more quid pro quo and lacks much of the public political activism that characterized the previous two periods.[37] More than ever, it appears that Cuba helps Maduro stay in power while Venezuela helps Cuba economically. As such, the two countries have something else in common: a fear of US-sponsored regime change.

Some aspects of the partnership have waned since Chávez's death. Cuban medical professionals have left the country en masse, from a high point of about 40,000 down to an estimated 20,000 or fewer (although that number appears to have risen slightly during the COVID-19 pandemic). As Venezuela's economic crisis intensified in 2013, funding for Barrio Adentro decreased. Consequently, many Cuban medical personnel began returning to Cuba; Castro and Díaz-Canel recalled some allegedly due to a lack of payment by Venezuela, while others sought asylum in the United States.[38] Shortly thereafter, the head of the Venezuelan Medical Federation reported that 80 percent of the program's physical establishments had been abandoned.[39]

Yet the emigration of an estimated 30 percent of Venezuelan physicians in recent years means that Venezuela has become more reliant on Cuban health care workers. This is especially true during the COVID-19 pandemic.[40] Across the country, government-run clinics have dispatched teams of Cuban medical workers to administer COVID-19 tests and to track down residents who reported potential coronavirus symptoms.[41] As a result, the total number of Cubans may have increased in 2020. Indeed, reports indicate that Cuba sent an additional 2,000 health specialists to Venezuela between March and November, and Chief of Cuban Missions Julio García affirmed in August 2020 that there were some 22,560 Cuban health professionals in country.[42]

Venezuela's leadership and regional influence have also diminished. In 2016, Argentine president Mauricio Macri pulled his country and its 20 percent stake out of Telesur, and Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, and Peru have all suspended or withdrawn their membership from the intergovernmental Union of South American Nations (Unión de Naciones Suramericanas, UNASUR), Brazil's geopolitical project embraced by many of the region's "Pink Tide" governments.

The Cuba–Venezuela relationship today appears largely centered on the security and intelligence transactional aspect.

The Cuba–Venezuela relationship today appears largely centered on the security and intelligence transactional aspect. Increasingly, the Cuban government has supplied Caracas with security and intelligence support that help it to stay in power, such as deploying security personnel to protect Maduro and other members of the political elite, providing counterintelligence support to mitigate uprisings, and technical advice to counter opposition and international efforts at regime change.[43] Senior officials of the US government have found the Cubans' apparent degree of influence within the military high command and political leadership particularly worrisome. Testifying before the Senate Armed Services Committee in February 2019, Admiral Craig S. Faller, commander of the US Southern Command, stated that Cuba "owns the security around Maduro and is deeply entrenched in the intelligence service."[44] He went on to assert that Cuban spies, intelligence and political advisers, counterintelligence agents, and military trainers help suppress dissent within the armed forces and throughout society.[45]

Maduro, like Chávez, appears to admire the Cuban dictatorship's success at maintaining itself in power and has employed some of the same methods, such as repression, censorship, and social control. For example, as in Cuba, Maduro has used consumer goods scarcity and rationing as a way to control the population, has leveraged migration as a means of reducing socioeconomic and political pressure, and has intentionally created fear and distrust among citizens as a means of mitigating potential uprisings.

Ascertaining the true numbers of Cuban military and intelligence professionals deployed to Venezuela is fraught with difficulty. First, there is no public record of total personnel operating on the ground. Various sources—often uncorroborated and ideologically predisposed to exaggerate or minimize numbers—claim figures that range from 4,500 to 25,000 Cuban military and intelligence personnel embedded in Venezuela. Organization of

American States secretary-general Luis Almagro has suggested a number of 22,000 Cuban "infiltrators" in the Venezuelan government,[46] and former US national security adviser John Bolton leveled an accusation that somewhere between 20,000 and 25,000 Cuban military and intelligence professionals prop up the Maduro government.[47] Others are more circumspect. One anti-Castro-leaning think tank, cited by the *Panama Post* and *The Independent*, claims that there are just over 4,500 personnel organized into battalions spread throughout the country,[48] and in a public event on June 24, 2020, US special representative Elliott Abrams claimed there were 2,500 Cuban intelligence agents in the country.[49] Meanwhile, according to Bolivarian National Intelligence Service (Servicio Bolivariano de Inteligencia Nacional, SEBIN) defector General Manuel Ricardo Cristopher Figuera, Cuban protective services around Maduro grew from an estimated 20 to 200 during the first half of 2019.[50]

Ultimately, the number of Cuban security and intelligence personnel is not as relevant as the roles that numerous sources report that the Cubans play inside Venezuela.

Second, it is difficult to distinguish Cuban security and intelligence personnel representing the FAR, the Ministry of Interior (Ministerio del Interior, MININT)), and its Intelligence Directorate, let alone distinguish FAR or MININT officers working in nonsecurity areas. Havana does this intentionally in an effort to create ambiguity about personnel deployed to Venezuela. Analysts may aggregate representatives of these distinct organizations into a single figure meant to represent the totality of Cuban security and intelligence personnel operating within Venezuelan territory. However, it is likely that these institutions fill different functions, from providing technical support to the Venezuelan military to aiding the government in maintaining domestic order and supporting both the government and Havana's intelligence operations. It is possible that some Venezuelan military resent or are averse to a Cuban military/security presence that undermines the prominence of the FANB. The Venezuelan military has a strong sense of pride grounded in its long history defending the nation from internal threats.[51] This is among the reason that Cuban military reportedly dress in civilian attire and tend to withhold their affiliation in working within the Venezuelan military ranks.[52]

It is possible that there are a few thousand Cuban security and intelligence professionals on the ground supporting the Venezuelan military and intelligence services and providing protection to Maduro, but it is well below the high estimates of 20,000 to 25,000.[53] The FAR is made up of an estimated 50,000 to 65,000 active military personnel.[54] As such, it is unlikely that personnel deployed to Venezuela would exceed a double-digit percentage of its active force.[55] MININT has an estimated 70,000 or more across its six agencies, and much of that workforce is busy exercising domestic control inside Cuba. And although there are still thousands of Cuban doctors and humanitarian-focused personnel providing services in Venezuela—in exchange for some form of compensation—it is likely that most Cuban medical personnel are just that—medical professionals. Still, it is important to note that Cuban doctors are often used to advance the Venezuelan government's political interests, such as preferentially providing care to government supporters.[56]

US sanctions against PdVSA since 2019 may have inadvertently made Cuba a strategic destination for Venezuelan oil, ensuring continued shipments.

Ultimately, the number of Cuban security and intelligence personnel is not as relevant as the roles that numerous sources report that the Cubans play inside Venezuela. Maduro appears to base at least some of his decisions on the opinions and instructions of Cuban advisers, since he knows that his survival depends in part on their expertise. Intelligence and counterintelligence—likely provided by both Venezuelan and Cuban personnel—are particularly important for the president to snuff out threats to his power from within the FANB, the political elite, or the political opposition. For example, Maduro has arrested and jailed scores of allegedly mutinous officers without due process, such as the case of Navy captain Rafael Acosta, and there are credible reports of their torture.[57] According to defectors, much of the security and intelligence cooperation is coordinated through the Cuba Cooperation and Liaison Group in Venezuela (Grupo de Coordinación y Enlace, GRUCE) being used, which works closely with the SEBIN and the Military Counterintelligence Directorate (Dirección General de Contrainteligencia Militar, DGCIM).[58] Beyond interviews with Venezuelan defectors by members of the media, there is limited evidence of GRUCE's role in Venezuela. Nonetheless, according to Reuters, the role of the Cuban-mentored DGCIM has been critical: it has "embedded agents, often dressed in black fatigues, within barracks. There, they would compile dossiers on perceived troublemakers and report any signs of disloyalty."[59]

In return for this security and intelligence aid, Maduro continues to grant generous, albeit declining, oil subsidies to Cuba.[60] There have been disruptions and interruptions in crude shipments, but as Venezuela sinks deeper into extreme economic depression, it somehow manages to maintain the outlines of the countries' 2004 agreement. The stakes are so high for the Maduro government that PdVSA bought nearly $440 million worth of foreign crude in 2017 and 2018 and shipped it directly to Cuba on friendly credit terms—often at a loss.[61] As of early 2019, reports estimated Venezuelan oil shipments to Cuba at about 40,000 barrels per day, with a market value of more than $800 million annually, despite Venezuela's need for hard currency to import food and medicine.[62]

US sanctions against PdVSA since 2019 may have inadvertently made Cuba a strategic destination for Venezuelan oil, ensuring continued shipments. This is because sanctions have made exports more difficult for PdVSA, revealing storage limitations. Cuba, by remaining open to Venezuelan oil, has helped PdVSA avoid a deeper shut-down of the industry by being a consistent customer for significant volumes. As a result, between January and June 2020, Reuters found that Venezuela sent 14.1 million barrels of oil to Cuba, or about 78,000 barrels per day.[63] Meanwhile, the economist Francisco Rodríguez calculated a slightly lower figure of 32,147 barrels per day, a number that would still make Cuba the fourth-highest recipient of Venezuelan oil exports during that time.[64] And although Venezuela's overall oil exports fell to 395,000 barrels per day by October 2020, their lowest levels since the 1940s, Venezuela continued to depend on Cuba and honor its long-standing supply agreement.[65] On October 20, PdVSA's oil tanker *Teseo* caught fire as it was discharging 500,000 barrels of oil it was bringing to Cuba, and at least on tanker brought a shipment in the first part of November.[66] Of course, it is also important to note that Venezuela has also resold oil to Cuba that it has imported from other sources, like Iran.[67]

In short, our research leads us to conclude that Maduro relies to some degree on Cuban security and intelligence support to remain in power. Meanwhile, the two countries' oil arrangement has endured despite the steep decline in Venezuela's oil production, at least partially in response to US sanctions. It is also important to note that Maduro is also leaning on Russia, China, Iran, and other allies to weather attempts to dislodge him and his inner circle from power, which challenges assertions that Cuba is solely responsible for maintaining the Maduro regime in power.

Next Steps for Venezuela and Cuba

The relationship between Venezuela and Cuba has evolved significantly since 1999. What began as a personal and ideological partnership between presidents Fidel Castro and Hugo Chávez quickly evolved into a strategic arrangement between their two countries based on the exchange of subsidized oil for medical personnel and political support. At the beginning of the second decade of the 2000s, and into the presidencies of Castro's and Chávez's successors, this relationship became more pragmatic, as Cuban military and intelligence personnel help Nicolás Maduro stay in power amid a profound social, economic, and humanitarian crisis, while oil provided by Venezuela continues to provide much-needed support to the Cuban economy.

If oil shipments from Caracas were to stop, Cuba would struggle to find a replacement at a time when it appears to be entering a period of deepening austerity increasingly like the Special Period of the post-Soviet 1990s. For now, Venezuelan subsidies enable Cuba to avoid another special period. As such, Cuba is an ally of the Maduro government, as the country remains Cuba's primary supplier of oil and market for Cuban services exports. It appears that the Trump administration's hard-line approach to Cuba and Venezuela, instead of driving a wedge between Havana and Caracas, instead forced them closer together as each tried to weather increased pressure from Washington.

Likewise, it would be politically damaging for the Maduro administration and *chavismo* to admit publicly that the Venezuelan government can no longer supply Cuba with oil. Given credible reports of Cuban military personnel and intelligence officials advising the upper echelons of the Venezuelan armed forces and government and the influence that these Cuban officials might have over Maduro, the Venezuelan president has a strong incentive to continue providing assistance to the Cuban government. In short, Cuba and Venezuela are now interdependent, such that developments in one country would have dramatic domestic effects in the other one.

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THE GEOPOLITICS OF CUBA–VENEZUELA–US RELATIONS

5

An Informal Note

Richard E. Feinberg

HAVANA, CUBA - Billboard depicting Fidel Castro & Hugo Chávez. Image source: Adwo/shutterstock.com

This chapter situates the evolving relations between Cuba and Venezuela within the context of the Caribbean Basin and their powerful northern neighbor, the United States. There is a natural rivalry between Cuba and Venezuela for subregional leadership, and relative power relations have shifted over time. The United States' aversion to radical social change in the region has molded perceptions of inter-American relations by both *fidelistas* and *chavistas*, even as their left-leaning political ideologies and governance models differ substantially.

The failed coup in April 2002 against Hugo Chávez marked a tipping point, after which Venezuela replaced long-standing US security ties with Cuban security assistance. The Cuban–Venezuelan barter relationship, exchanging cheap oil for Cuban medical and other expert services, promoted the vital economic and political interests of both parties. Today, both countries are suffering the consequences of gross economic mismanagement, creating opportunities for the international community.

Yet so far, international diplomacy has failed to find an adequate response to the new Venezuelan model of what I would call "minority authoritarianism." Escalating international economic pressures on both Cuba and Venezuela, in the context of official US rhetoric calling for regime change, seems like a poor strategy for driving a wedge between the two Caribbean Basin states. The Biden administration should carefully review the ineffective sanctions policies it has inherited—globally as well as within the Caribbean Basin—and better match the tactics of sanctions with more realistic diplomatic strategies.

The failed coup in April 2002 against Hugo Chávez marked a tipping point, after which Venezuela replaced long-standing US security ties with Cuban security assistance.

The Intertwined Geopolitics of the Caribbean Basin

Ties between Cuba and Venezuela are deeply rooted in history and geography. For hundreds of years, both nations were integrated into the Spanish Empire, were governed under similar political and legal codes, and were part-and-parcel of Spain's tightly interwoven colonial commercial system. In the 19th century, Cuban and Venezuelan independence fighters engaged in fraternal mutual assistance; Cuban founding father José Martí spent six months in Venezuela in 1881. In July 1958, representatives of the opposition groups battling Fulgencio Batista convened in Caracas; the Pact of Caracas recognized the leadership position of Fidel Castro and established principles for a post-Batista government.[1] Many Venezuelans—having just ousted their own dictator, Marcos Pérez Jiménez, in early 1958—sympathized with the Cuban struggles against Batista. To thank Venezuelans for their support for his cause, the first country Fidel Castro visited after his 1959 triumph was Venezuela. When the Venezuelan government turned against Castro in the early 1960s, the Cubans provided training and weapons to antiregime revolutionaries.

By location, Venezuela and Cuba are part of the same geopolitical system arrayed around the Caribbean Basin. Both nations face the dominant superpower to the north, the United States. In such circumstances of extreme asymmetry of power, nations can choose to align themselves with the neighboring hegemon; generally, most of the smaller Caribbean and Central American nations have chosen to maintain close relations—that is, to "bandwagon," in international relations jargon—with the United States. But both Cuba (11 million population) and Venezuela (over 30 million) are large enough to imagine charting more independent paths. Such was the Pan American vision of the Venezuelan patriarch Simón Bolívar, a fighter and thinker who greatly inspired Fidel Castro. In recent years, both nations have been aligned in their interests to gain a greater degree of autonomy from the United States; rationally, they have sought to act in concert, to better "balance" against US power.

But seeking a degree of independence from Washington does not necessarily imply outright hostility. For example, after his election in 2006, Nicaraguan president Daniel Ortega successfully juggled good relations with both Cuba and Venezuela, availing himself of the financial largesse of Hugo Chávez, while maintaining more-or-less normal relations with the United States and affording Nicaragua unimpeded access to international financial institutions. Following that example, upon the election of Barack Obama, Raúl Castro signaled his interest in pursuing a similar policy of balancing profitable relations with both Caracas and Washington.

At the same time, Cuba and Venezuela have been rivals for regional influence. By size of landmass and economic resources, Venezuela is the natural subregional hegemon, so long as Mexico—by far the largest Caribbean Basin nation outside the United States—chooses to pursue a low-key, "noninterference" foreign policy. In the early post–World War II years, Venezuela took the lead in seeking the ouster of regional dictators in favor of democratic movements; notably, in the 1970s Venezuelan president Carlos Andrés Pérez spearheaded foreign military assistance to the Sandinistas in their bid to oust Nicaraguan dictator Anastasio Somoza.[2]

The emergence of Fidel Castro, however, enabled Cuba to challenge Venezuela for regional influence. In the 1960s and 1970s, Cuban support for revolutionary movements in the region, while ultimately unsuccessful outside Nicaragua, gave Castro meaningful leverage in national and regional politics. It was not by coincidence that Colombia and the international community agreed that Havana, with its ties to the guerrillas but also because of its regional stature, should host the 2012–16 peace talks between the Colombian government and the Revolutionary Armed Forces of Colombia (FARC).

The rise of Hugo Chávez shifted the regional balance back toward Venezuela. While falling far short of its originally stated aim of uniting Latin America and the Caribbean, Chávez's Bolivarian Alliance for the Americas (ALBA) did create a diplomatic amalgam that eclipsed, at its apogee, the increasingly archaic Non-Aligned Movement that had been a valuable vehicle for Cuban influence.

Today, both Venezuela and Cuba are consumed with severe internal economic difficulties. Nevertheless, both nations jockey for influence among other regional states. Each, in my experience, displays its own diplomatic style: Venezuelan diplomacy, following the personality of Hugo Chávez, tends toward the dramatic and bombastic, while the more mature Cuban diplomats are typically professional and businesslike, although they, too, can resort to hot rhetoric when feeling provoked.

By recognizing the inherent competition for regional leadership between the nations of Cuba and Venezuela, rooted in both history and geography, the international community could better play to each nation's strategic visions. Signaling recognition and respect for each nation's claim to regional leadership would be a good place to start.

The United States and Radical Social Change

Much has been written about the causes, both fundamental and proximate, of the conflictive relations between the United States and Fidel Castro.[3] Regardless of precisely when he became a Marxist-Leninist, Castro clearly believed that the United States of the mid–20th century, so fully consumed by Cold War anticommunism, would inevitably find itself in fierce opposition to the radical social reform that Castro felt Cuba required. Castro also assumed that his internal enemies and the Miami-based diaspora would rally Washington to the counterrevolution. For his survival, Castro turned to the Soviet Union.

By 2008, when Fidel's younger brother, Raúl Castro, assumed the presidency, the international environment had changed radically: the Soviet Union had dissolved and the Cuban revolution had long ago fully consolidated its hold on power, having built a strong state and eliminated all traces of domestic opposition. Under these circumstances, Cuba could—indeed needed—to reach out to the United States to normalize diplomatic and commercial relations. While this shift in strategic doctrine involved certain risks, Raúl Castro was willing to take the gamble, at least while Barack Obama was in office.

Hugo Chávez had tremendous admiration for Fidel Castro and for his abilities to maintain his independence from US foreign and commercial ties. However, by the end of the 20th century, the United States was more comfortable with ideological pluralism and more willing to live with progressive social policies, even those involving expropriations of properties (accompanied with adequate compensation), while still seeking to promote democratic political norms. But the civilian-military coup in April 2002 had a radicalizing impact on Chávez.[4] He saw that there were rebellious factions in the military willing to work with the business community and civilian opposition to overthrow him by force. Public statements by the George W. Bush administration signaled support for the coup attempt, even before it could consolidate. Staging and losing a coup is a very grave error; there are dire consequences for those who unsheathe the sword without being able to drive it to the hilt! Inevitably, once back in power, the triumphant Chávez sought to preempt future coups by purging the security apparatus and staffing the civilian ministries with loyalists. As Fidel Castro counseled his protégé, "the state that doesn't defend itself is cut to ribbons."[5] Before dying of cancer in 2013, Chávez had over a decade to stand up a security apparatus and civilian public sector populated with loyal *chavista*s, people who owed their careers to *chavismo* and who in their barracks and government offices were force-fed incessant political indoctrination.

[W]e can readily discard the notion that the numbers of Cuban advisers are in the thousands, perhaps even tens of thousands, as asserted by senior US officials without offering credible evidence.

In refreshing his security apparatus, who better to turn to than Cuba? Fidel Castro had already ruled for over 40 years, without facing a serious coup attempt (as far as we know). By their very nature, the precise size and activities of international security and intelligence assistance are considered national security secrets. But we can readily discard the notion that the numbers of Cuban advisers are in the thousands, perhaps even tens of thousands, as asserted by senior US officials without offering credible evidence. (Given the intense interest in Venezuela and Cuba within the Trump administration, we can assume that the US government would likely be running psychological operations campaigns against both governments, campaigns that could well include exaggerated claims of bilateral security cooperation and that might, in the first instance, be directed against the target governments but whose content quickly reverberates in the US media.). Surely such a massive foreign security presence would be both inefficient and counterproductive, raising the hackles of patriotic Venezuelan officers and compromising the *chavista* nationalism brand. As an indicator of a more likely presence, the US military group, expelled by Chávez in 2004, had numbered some 40 military personnel, many of whom served as trainers and liaisons to Venezuelan forces (as noted in chapter 4, by Brian Fonseca and John Polga-Hecimovich). The US government does not release detailed data on its intelligence presence abroad.

Chávez expelled this US military and intelligence presence and gradually reduced the overall US diplomatic footprint in Caracas. After all, had not the US publicly blessed the April 2002 coup against him? And had not the US fomented division and discontent within the armed forces, prompting coups in Guatemala (1954) and in Chile (1973) against reform-minded governments? Both these episodes are deeply imbedded in the worldview of the Latin American left. Furthermore, Cuban counterintelligence would not want any competition in Caracas from its archenemy agencies.

Chávez's counterintelligence blows, and the gradual exiting of other types of American presence, including in the commercial spheres, have badly eroded the US government's understanding of the inner workings of the Chávez government and security apparatus. This intelligence deficit may help to explain the persistent underestimation of the staying power of the *chavista* government. The intelligence deficit also helps to explain the blatant intelligence failure in early 2019, when the US government very publicly backed opposition leader Juan Guaidó in his efforts, thus far unsuccessful, to splinter the armed forces and oust President Nicolás Maduro and his close associates.

Interestingly, the style of US diplomacy has varied significantly toward these two Caribbean Basin nations. In the case of Cuba, the Trump administration has adopted an assertive unilateralism, throwing its weight against the preferences of most European and Latin American nations, which much preferred the Obama strategy of engagement and support for gradual, peaceful change. By contrast, on Venezuela the Trump administration has been willing to coordinate policies with the Lima Group of regional governments. The administration recognized that despite its general disdain for multilateralism, in the Lima Group it found governments with similar concerns and goals, even if not always full agreement on tactics and instrumentalities. This flexibility in administration diplomacy might seem an obvious response to opportunity, yet the Trump team was not always willing to work with like-minded allies on other issues, such as commercial policies toward China.

Regime Types and Ideologies

There is another explanation for the US intelligence and diplomatic failures to date in Venezuela: the hemisphere is confronting a new model of "minority authoritarianism" that has, at least momentarily, confounded the US government as well as other international players. During an earlier period often labeled "electoral authoritarianism," the *chavista* government arguably more or less respected democratic norms, even as incumbent candidates enjoyed an uneven playing field.[6] In the golden era of sky-high oil prices, Chávez could heat up the economy, measurably improving living standards, and win internationally supervised elections. But the collapse of global oil prices—and gross economic mismanagement, corruption, and clientism—ended the fiesta; the *chavista*s could no longer be confident in winning contests genuinely "free and fair."

Rather, *chavista* power came to be based on a loyal security apparatus, including military and police (assisted by paramilitaries), and a bloated public sector equally staffed by *chavista* loyalists, blurring the lines between state and party. Accumulated over two decades, the *chavista*s ruled over an entire generation of recruits. The wages in government jobs might not be very generous, but loyal *chavista* employees at least enjoyed steady employment as well as other associated perks. A similar governing coalition emerged in Nicaragua under Daniel Ortega. How durable this model of minority authoritarianism will be remains to be tested; but in the medium term, in both Venezuela and Nicaragua, it has survived significant challenges.

It should be noted that this "minority authoritarianism" model differs markedly from the Cuban model. The Venezuelan model evolved gradually and maintains important elements of democratic capitalism, including opposition political parties, however stifled, and a local private sector, however debilitated. The Venezuelan model has evolved gradually, whereas the Cuban system is the product of a root-and-branch upheaval that thoroughly crushed the ancien regime. Further, the *chavista*s have not yet been able to mount an equivalent to the hegemonic Cuban Communist Party, with its mass social organizations, extensive social networks, and efficient surveillance systems.

Marxism-Leninism (*fidelismo*) and state populism (*chavismo*) are at odds in critical respects.

Fundamental ideological differences separate the two governments. Marxism-Leninism (*fidelismo*) and state populism (*chavismo*) are at odds in critical respects. Without diverging into a lengthy discourse over ideological definitions and characteristics, historically Marxists have viewed with contempt populists and their failure to understand class struggle, their readiness to form alliances with class enemies, dangerous reliance on personalities, and sloppy organizational structures. In economic execution, the sober Cubans manage tight fiscal and monetary policies (at least until this year's surprise announcement of big wage hikes without complementary measures to stimulate a strong supply response), in contrast to Venezuela's exploding deficits and consequent runaway inflation.

Yet Chávez's approach to governing mirrored that of the Cuban government in several important respects: the primacy of politics and ideology over economic results, the preference for presidential centralism, and the recourse to direct popular consultations and mobilizations. Rhetorically, the two governments display a dedication to social equity, international solidarity, and national autonomy.[7] They also share a deep skepticism concerning "bourgeois democracy," and toward US policy, which to them seems to weaponize democratic liberties to assist favorable factions but opportunistically to discard them when the wrong side is winning.

Publicly, Fidel Castro spoke very highly of Hugo Chávez.[8] But he must have recognized the younger man's ideological immaturity. The elder Fidel was so much better educated, better read, better traveled. We can speculate that Castro could see through Chávez's many personality flaws, but he quickly recognized how useful Chávez, and oil-rich Venezuela, could be to Cuba. We do not know what Raúl Castro, first secretary of the Cuban Communist Party until 2021, and President Miguel Díaz-Canel think of Nicolás Maduro, but it is likely that the bilateral relationship is based more upon opportunistic interests than genuine mutual respect.

The Trump administration emphasized the ideological overlaps between the Cuban and Venezuelan governments. But the differences in ideologies, organizational structures, economic policies, and leadership styles are worthy of note. Wise policymakers would recognize these discrepancies, which compound the inherent competition for regional leadership between the two nations noted above, and the opportunities they present to international actors.

Economic Complementarity

Cuba's energy model had been highly dependent upon oil shipments from the Soviet Union. In the post-Soviet period, Cuba built up its domestic energy production with infusions of capital and equipment from Canada, China, South Korea, and elsewhere. As a result, Cuba produces about 50,000 barrels of oil per day (bpd), or roughly 30 to 40 percent of its consumption needs.[9] But the country remains heavily dependent upon imported hydrocarbons; about half of Cuba's electric power comes from imported fuel.

As energy prices climbed in the early 2000s, a Cuban–Venezuelan economic exchange agreement was extremely timely. At its height in 2012, Venezuela supplied Cuba with 105,000 bpd at highly subsidized prices. In return, Cuba provided up to 40,000 specialists in health care, sports and education; these experts were strategically placed in poor barrios to bolster Chávez's electoral results. According to one estimate, between 2000 and 2018, 219,000 Cuban professionals served in Venezuela. Moreover, between 2000 and 2006 some 300,000 Venezuelans traveled to Cuba to receive medical attention financed by the Venezuelan government.[10] Venezuela paid handsome sums for this expert labor, subsidies that swelled Cuba's external "services" exports to an estimated $6 billion per year.[11]

Through these barter arrangements, the two nations were exchanging goods and services in which each had a strong comparative advantage and an excess of supply. And the economic exchange provided solutions to each partner's most pressing problems.

Venezuelan oil subsidies to Cuba fit into the *chavista* strategy of using oil to exert diplomatic influence throughout the Caribbean Basin; PetroCaribe was an initiative of the Venezuelan-led Bolivarian Alliance for the Americas (ALBA). During the energy crisis of the 1970s, Venezuela and Mexico had joined in a similar regional subsidy plan.

Despite repeated pleas from many regional leaders, the United States had been unwilling to finance a regional energy plan, leaving a vacuum that Chávez was quick to exploit. PetroCaribe's influence was especially visible within the Organization of American States, where the ALBA members regularly aligned with Venezuela and blocked US initiatives. But now that Maduro is more dependent upon his security apparatus than upon electoral support, he probably places more value on security assistance, and the numbers of Cuban "internationalists" have declined markedly.

Venezuelan oil shipments and related financial subsidies have declined but remain significant in terms of the Cuban energy matrix.

While invaluable in the short run, the Venezuelan oil subsidy had a deleterious effect on the on-again, off-again Cuban process of economic reform. The Cuban government had announced plans to build alternative energy capacity with the participation of foreign investors, but execution has lagged badly.[12] A major strategic failure of the Raúl Castro era (2008–18) was his neglect of energy independence—facilitated by Venezuelan largesse.

Today, Venezuelan oil shipments and related financial subsidies have declined but remain significant in terms of the Cuban energy matrix. In 2017 Venezuelan oil shipments had fallen by about half, to 55,000 bpd, and to an estimated 47,000 bpd by March 2019.[13] We cannot yet know the full impact of US sanctions imposed by the Trump administration but so far maintained by the Biden administration, which have sought to disrupt Venezuelan oil exports; a complete shutoff of Venezuelan energy supplies would cost Cuba another estimated $1.8 billion.[14] The decline in Venezuelan subsidies from cheap oil and overpriced medical services is certainly compounding the many headaches of Cuban policymakers. Furthermore, US hostilities reduced tourism income, and national export earnings are deeply depressed. The visible reality is one of growing consumer scarcities, shortages of gasoline, and a very depressed investment climate. Further, the COVID-19 pandemic halted international tourism entirely, negatively affecting both service export earnings and the consumer-dependent private sector; however, if Biden relaxes the Trump-era restrictions on travel and if antivirus vaccines prove effective, the rebound in tourism could be rather rapid.

After the collapse of the Soviet Union, Cuba succeeded in gradually diversifying its international relations. The government did not want to repeat its experience of extreme dependency upon the Soviet Bloc. Cuba welcomed Venezuelan assistance but recognized the vulnerabilities of the *chavista* regime and sought to diversify its commercial exchanges. Initially, many governments were willing to provide Cuba with trade credits but increasingly balked at Cuba's inability to honor contracts and keep current on debt repayment schedules. Similarly, many potential investors visited the island but most departed discouraged by the government's ambivalence toward international capital, the excessive red tape, and the overall low quality of the business climate.[15] Today, Cuba is not creditworthy; and neither China nor Russia, and certainly not private financial institutions, are willing to provide fresh credits on a large scale. By itself, Venezuelan assistance can help to keep the Cuban economy afloat, but it is not sufficient to reignite growth.

Future Possibilities

Under what circumstances might the two regimes part ways? Is either likely to abandon the other, to pursue their own divergent goals?

Reportedly, the Obama administration engaged in discussions with the Cubans regarding Venezuela, probing to see under what conditions Havana might assist in reorienting Venezuela back toward pluralist democracy and a foreign policy less reflexively hostile toward the United States. More recently, European countries have engaged in similar probes.[16] So far, the Cubans have demurred, at once downplaying their influence in Caracas and asserting that the bilateral relationship was not negotiable.

One could imagine a complex deal whereby the US and the international community indicated a willingness to replace Venezuelan oil shipments and financial subsidies, in whole or in part, in return for Cuban collaboration in nudging the *chavista*s toward a solution to the Venezuelan crisis (whatever that might look like). But several complications arise, from the Cuban perspective. Can Havana trust any agreement entered into by the United States whose policies can change dramatically every four years? Even if executive branch officials were sincere, might Congress and hostile Cuban Americans disrupt any accord? Could Havana be certain that successor governments in Caracas would honor the accord? And would Cuban international credibility itself suffer if Cuba were perceived to be sacrificing a once loyal ally in a self-interested deal with the United States? Finally, might the whiff of such a deal, which some Cubans might see as treachery, provoke serious rifts within the Cuban Communist Party?

The Biden administration should carefully review the numerous ineffective sanctions policies it has inherited, and it should better match the tactics of sanctions with more realistic diplomatic strategies.

During the Trump era, US policymakers imagined that by further punishing Cuba, they might drive a wedge between Havana and Caracas and compel Cuba to withdraw its security assistance. The logic was hard to follow. The administration appeared intent on a punitive policy toward Havana in any case, driven by its own domestic political goals as well as ideological predispositions. Why should Cuba believe that, if it abandoned a regional ally, the US would soften its sanctions? On the contrary, the Trump administration appeared to hope that the removal of the *chavista* government in Venezuela would be but a prelude to the real prize: regime change in Havana. If anything, the harsh rhetoric and escalating economic sanctions against both governments seemed more likely to push the targets closer together, in a defensive huddle.

Under the Trump administration, the United States lumped together Cuba, Venezuela, and Nicaragua in a "Troika of Tyranny."[17] Beyond the turn of phrase, the label suggested an erasing of the differences among the regime types. Yet, as this chapter suggests, the phase "Two Nations, One Revolution" masks important differences that an astute Biden administration could exploit. The Cuban variant of *fidelista* Marxism is very distinct from *chavista* populism—in social base, organizational structure, and macroeconomic management. Moreover, as history and geography suggest, Cuba and Venezuela are natural competitors for influence in the Caribbean Basin. Pushed together, they are more likely to seek to a balance against US leadership and to search for external leverage (as from China and Russia). Pried apart, geopolitical logic would suggest that the individual states might either seek to accommodate to US power or take advantage of today's multipolarity to survive within a worldwide diversity of relationships.

The Biden administration should carefully review the numerous ineffective sanctions policies it has inherited, and it should better match the tactics of sanctions with more realistic diplomatic strategies. In rethinking Cuba policy, it will want to weigh which approaches are more likely to induce Havana to reconsider its alliance with Caracas. By recognizing the inherent tensions between Cuba and Venezuela, the United States could design more effective policies toward both states.

Notes

1 Louis A. Pérez Jr., *Cuba: Between Reform and Revolution*, 4th edition (New York: Oxford University Press, 2011), 234.

2 Anthony Lake, *Somoza Falling: A Case Study of Washington at Work* (Amherst: University of Massachusetts Press, 1989).

3 See, e.g., William M. Leo Grande and Peter Kornbluh, *Back Channel to Cuba (*Chapel Hill: University of North Carolina Press, 2014).

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6 Carlos Romero, "Venezuela and Cuba," in *Cuban Foreign Policy Transformation under Raúl Castro*, ed. H. Michael Erisman and John M. Kirk (Boulder CO: Rowman & Littlefield, 2018).

7 Roger Burbach, Michael Fox, and Federico Fuentes, *Latin America's Turbulent Transitions: The Future of Twenty-First Century Socialism* (New York: Zed Books, 2013).

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9 Richard Feinberg, *Cuba's Economy After Raúl Castro: A Tale of Three Worlds* (Washington: Brookings Institution, 2018), https://www.brookings.edu/research/cubas-economy-after-raul-castro-a-tale-of-three-worlds/.

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11 Carmelo Mesa-Lago and Pavel Vidal, *El impacto en la economía cubana de la crisis venezolana y de las políticas de Donald Trump* (Madrid: Real Instituto Elcano, 2019).

12 Feinberg, *Cuba's Economy*.

13 Mesa-Lago and Vidal, "El impacto en la economía."

14 Mesa-Lago and Vidal.

15 Richard Feinberg, *Open for Business: Building the New Cuban Economy* (Washington: Brookings Institution Press, 2016).

16 Author interviews, Havana and Washington, 2018–19.

17 See White House, "Remarks by National Security Advisor Ambassador John R. Bolton on the Administration's Policies in Latin America," November 2, 2018, https://www.whitehouse.gov/briefings-statements/remarks-national-security-advisor-ambassador-john-r-bolton-administrations-policies-latin-america/.

INDIA-VENEZUELA RELATIONS:

A Case Study In Oil Diplomacy

6

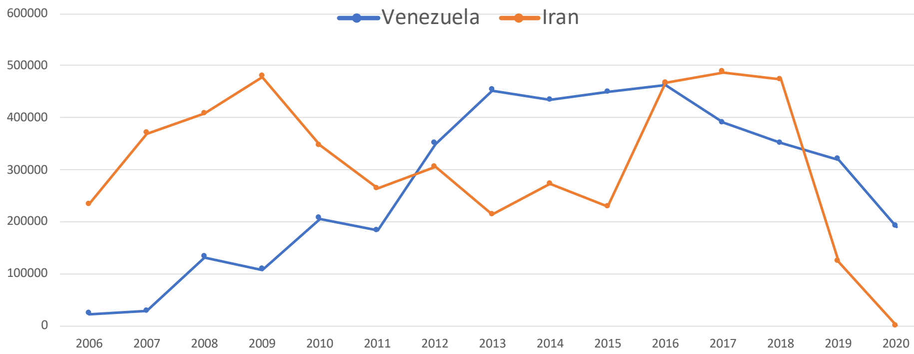
Hari Seshasayee

India's Foreign Minsiter S.M. Krishna, center, shakes hands with Chile's counterpart Alfredo Moreno Charme, second right; Venezuela's counterpart Nicolás Maduro, second left; Cuba's Deputy Foreign Minister Rogelio Sierra Diaz, left; and India's Junior Minister for Foreign Affairs E. Ahamed before a meeting in New Delhi, India, Tuesday, Aug. 7, 2012. Source: AP Photo/Mustafa Quraishi

The year is 2007. Iran is India's second-largest source of oil imports, totaling 367,000 barrels per day (bpd).[1] The country is a stone's throw from India, so close that both territories shared a land border before India's independence from the British Raj. India's imports from Venezuela are a paltry 28,000 bpd in comparison, not surprising since Caracas is about 10,000 miles from New Delhi.

Cut to 2013. India's oil imports from Venezuela skyrocket to 441,000 bpd, accounting for 12 percent of the country's total oil imports. Meanwhile, imports from Iran plummet to 200,000 bpd by year end.[2] Suddenly, Venezuela does not seem so far away. In 2019, India became Venezuela's largest export market, primarily as a result of US sanctions against Venezuela's national oil company, Petróleos de Venezuela SA (PdVSA). What caused this rather sudden and unexpected reversal of roles? (See figure 6.1.)

Figure 6.1: India's oil imports from Venezuela & Iran, 2006–20(in quantity, barrels per day)



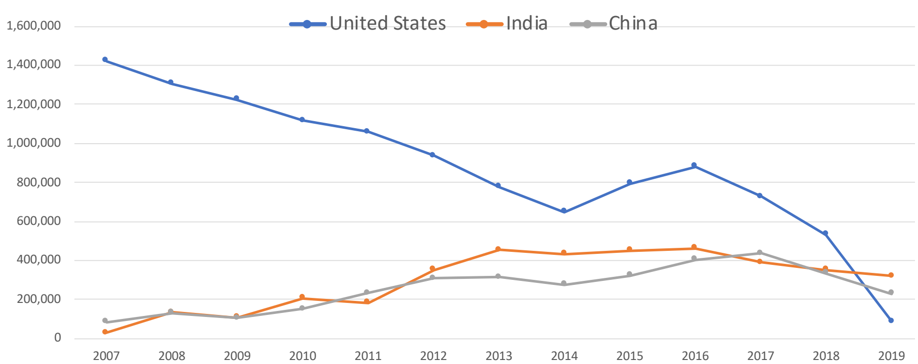
Three major factors—pertaining to India, Venezuela, and the United States—coalesced to bring Venezuela closer to India's economic orbit. First and foremost are India's rapid economic growth and increasing thirst for oil. The first decade of the 21st century saw India's gross domestic product (GDP) growing at 7.5 percent on average.[3] This was accompanied by a rising demand for oil—used as transportation, industrial, or domestic fuel—and allied sectors like petrochemicals, fertilizers, and pharmaceuticals. In less than a decade, from 2005 to 2013, India doubled its oil imports, from 1.93 million bpd to 3.88 million bpd.[4] India also surpassed Japan to become the world's third-largest buyer of crude oil, behind only the United States and China. Soon public and private oil companies in India actively sought new markets that could meet this rising demand. Today, India is also Asia's largest "heavy crude' buyer,"[5] and it is home to some of the world's largest and most complex refineries capable of processing heavy crude, with a refining capacity of roughly 5 million bpd, equal to that of Germany, France, and Canada combined.[6]

Enter Venezuela, home to the world's largest proven oil reserves, nearly all of which is in the form of heavy crude. In mid-2007, Venezuela's then-president, Hugo Chávez, seized majority stakes in four oil projects in the Orinoco Belt, causing foreign companies like Exxon Mobil and ConocoPhillips to exit the country. Soon, PdVSA assumed more control of operations in the region. By the very next year, 2008, India suddenly became Venezuela's second-largest export destination, behind only the United States and just a hair's length ahead of China. Evidently, Venezuela was eager to please in India's search for new oil suppliers.

Finally, the United States played an inadvertent role in accelerating Venezuela's trade linkages with India. The mounting pressure of US sanctions on Iran forced India to drastically decrease its oil imports from the Gulf nation. After US president Barack Obama's first visit to India in November 2010, the Reserve Bank of India (RBI) announced that it would stop using the Asian Clearing Union (ACU) to pay for Iranian oil. "Trade transactions with Iran should be settled in any permitted currency outside the ACU mechanism," noted the RBI in a December 2010 circular.[7] Without the ACU, the threat of US sanctions made it increasingly difficult to settle payments with Iran, leaving a vacuum in India's oil imports that Venezuela was quick to fill.

Venezuela, which until recently remained on the periphery of India's economic and political policy, suddenly became a key part of the Indian government's energy policy in the 21st century. India, too, became vital for Venezuela's economic survival, accounting for nearly 17 percent of Venezuela's exports, even more than the country's exports to China in 2018.[8] (See figure 6.2.) After US sanctions against PdVSA were announced in January 2019, India became Venezuela's largest oil export market, accounting for 40 percent of the Andean nation's oil exports in 2019. Even in 2020, India remained a major export market for Venezuela, accounting for just less than one-third of the country's total oil exports, second only to China.

Figure 6.2: Venezuela's exports to US, India & China, 2007–19 (in quantity, barrels per day)



An Overview of India–Venezuela Relations

India and Venezuela established diplomatic relations in 1959, with Venezuela opening its embassy in India in 1962.[9] Soon after, in 1968, Indian prime minister Indira Gandhi visited Venezuela as part of an eight-country tour of the Latin American and Caribbean region and decided to open an embassy in Caracas.[10] However, bilateral ties stagnated for several years afterward, as India became preoccupied with domestic issues arising from a period of national emergency during the 1970s; and Venezuela, along with several Latin American countries, entered the so-called lost decade of the 1980s, an era marked by high levels of inflation and a serious oil glut, when prices plummeted to less than $10 per barrel of oil.

Venezuela, which until recently remained on the periphery of India's economic and political policy, suddenly became a key part of the Indian government's energy policy in the 21st century.

The current phase in bilateral relations began in the early 21st century, with the visit of Chávez to India in March 2005. Chávez's visit marked the first major overture made by Venezuela to court India as a market for its oil exports. Both countries signed several agreements to deepen cooperation in the hydrocarbons sector—not only for India to buy oil but also for Indian public-sector companies to invest in downstream oil projects in Venezuela.

Chávez's visit was followed by several high-level exchanges, primarily between the petroleum ministers in both countries. The business of oil has anchored the India–Venezuela relationship, and is likely to do so for many years to come, given the natural convergence between India, one of the world's largest buyers and consumers of oil, and Venezuela, which has the largest oil reserves in the world.

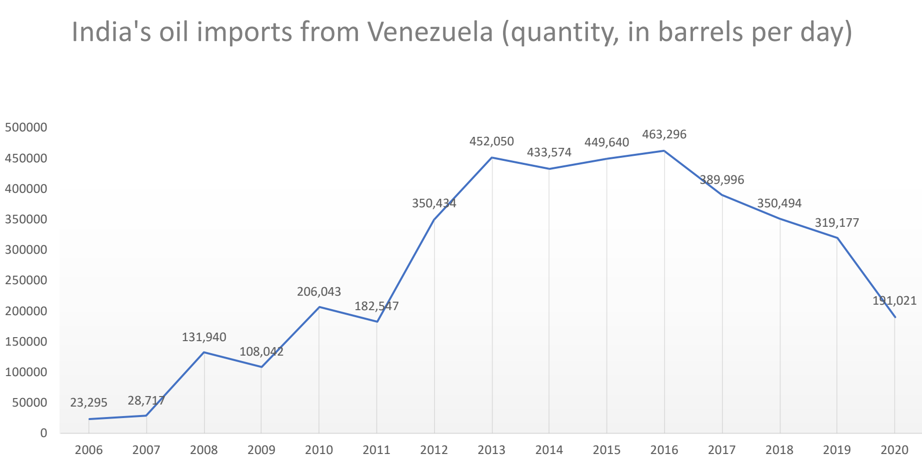
There are some other, albeit smaller, elements to the India–Venezuela bilateral relationship—which include non-oil related commerce such as pharmaceuticals, automobiles, and textiles—but these exchanges have diminished over the past few years due to the domestic economic and liquidity crises that afflict Venezuela.

Overall, business rather than politics drives bilateral relations. This, more than anything else, dictates the policy positions of both countries. They are both in it for the long run, regardless of which political dispensation is in power in either country. Since business is at the forefront, neither country needs to go out of its way to make political appeasements. Testament to this was Indian prime minister Narendra Modi's decision to skip the 17th Non-Aligned Movement Summit, which was held in Venezuela on September 17, 2016. Although India's vice president led the delegation to the summit, it was the first time a serving Indian prime minister chose not to attend the summit since the bloc was founded in 1961.[11]

Oil, Oil, and More Oil

Oil, or more specifically, crude petroleum, is the cornerstone of India–Venezuela ties. There are very few trade relationships in the world where nearly all trade between two countries is a one-way exchange of just one product—and that is the case for India–Venezuela trade. The export of crude petroleum from Venezuela accounted for 99 percent of all India–Venezuela trade in 2018 and 96 percent in 2019.[12] India's crude oil import capacity, which reached a peak of 4.52 million bpd in 2018, now far exceeds Venezuela's export capability.[13] There are two main factors here.

Figure 6.3: India's oil imports from Venezuela, 2006-20



The first main factor is imports. India's imports of crude oil from Venezuela are partly market-driven, but other subfactors are equally if not more important in determining the quantity of imports over the long run.

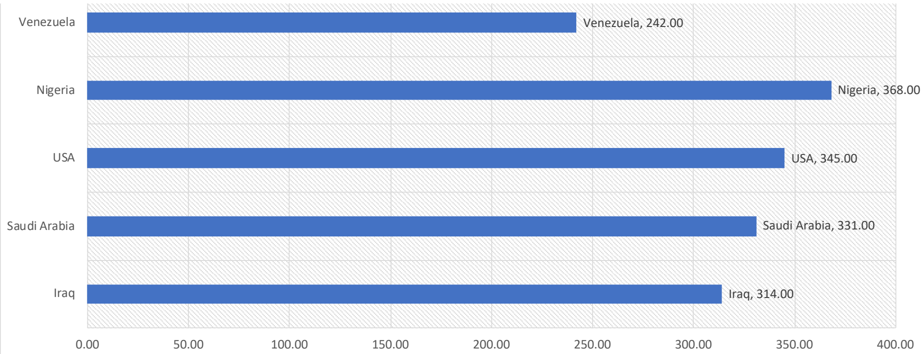
The first subfactor is heavy crude. As the name suggests, heavy crude tends to be thicker and denser, with more sulfur, metals, nitrogen, and other contaminants. It is generally defined as oil with an API gravity of 22.3° or less.[14] Extra heavy crude has an API gravity of less than 10°, which means it sinks rather than floats in water. Heavy crude goes through a more complex refining process, where contaminants like sulfur are removed.

In 2009, a US Geological Survey team published a paper estimating "a mean volume of 513 billion barrels of technically recoverable heavy oil in the Orinoco Oil Belt Assessment Unit of the East Venezuela Basin Province; the range is 380 to 652 billion barrels."[15] Even at a much lower estimate of 224 billion barrels of heavy crude oil, Venezuela's Orinoco Belt contains about the same amount of oil as all of North America.[16]

There are very few trade relationships in the world where nearly all trade between two countries is a one-way exchange of just one product—and that is the case for India–Venezuela trade.

Some Indian refineries are capable of processing heavy Venezuelan crude, which is priced much lower than lighter grades of crude due to the complex refining process it must undergo. The Venezuelan Merey, a heavy crude with an API gravity of 16°, traded at $69.31 in September 2018, a whole 12 percent less than the Brent Crude price of $78.80[17]; post US sanctions on Venezuela, in February 2021, Merey traded at only $42.87, fully 31 percent less than the Brent price of $62.23.[18] This poses an advantage for Indian refiners that can turn a profit converting heavy crude to finished products like gasoline or diesel and sell it on the open market. For instance, India's average cost for importing 1 ton of crude petroleum oil from Venezuela in 2020 was as much as 22 percent to 34 percent cheaper than other import destinations; it cost India only $242 to import one ton of crude oil from Venezuela, but cost $314 to import it from Iraq, $345 from the United States, $331 from Saudi Arabia, and $368 from Nigeria.[19] India and Venezuela therefore enjoy a synergy with heavy crude, which matters even more in the long-run as technology makes heavy crude easier and cheaper to extract, transport, and refine. (See figure 6.4.)

Figure 6.4: India's Imported Unit Value of Crude Petroleum (including oil prices and freight, dollars per ton), 2020



The second subfactor is India's diversification policy. Although India produces a fair amount of oil, at about 826,000 bpd in 2019, this accounts for only about 15 percent of the total oil consumption of 5.27 million bpd, the remainder of which is imported.[20] Historically, much of this oil requirement has been met by the Middle East; the region is so close that goods can transit in as little as three to four days from the Middle East to the west coast of India. In comparison, it can take between 40 to 60 days for a ship to sail from Venezuela to India.

Naturally, the Middle East is the most important source of oil for India; in 2007, more than 75 percent of India's oil imports came from the region. But it can be a risky proposition to depend on one region for such an important and strategic resource. The government of India thus actively seeks to diversify oil import sources. India's oil minister, Dharmendra Pradhan, said in an interview to *Mint*, a financial daily in India, that "procurement has to be diversified, taking into account the changing geopolitics in the world. I met a representative from the US government recently and I have already asked for oil from them when they start allowing [exports]. We will look to go to Russia and Latin America if that suits our needs."[21]

This diversification policy has shown rather quick results. In 2014 and 2015, the Middle East supplied only 59 percent of India's oil imports, a whole 16 percentage points less than it did in 2007; Latin American countries like Venezuela, Mexico, and Brazil, as well as African nations like Nigeria and Angola, make up the rest.[22] As India's demand for oil increases, it will open the trade basket for more suppliers, including the United States, which has already started supplying crude oil to India—in 2017, the United States exported about $480 million worth of crude oil to India, and that increased to $5.6 billion in 2019.[23] This diversification policy began in the early 21st century, marked by ONGC Videsh's first overseas production in Vietnam in 2003, and also includes investments by India's public oil companies in countries like Venezuela, to ensure a long-term, steady supply of oil; it has been aided by importers such as India's Reliance Industries, a private company and the largest Indian buyer of Venezuela oil.

In 2014 and 2015, the Middle East supplied only 59 percent of India's oil imports, a whole 16 percentage points less than it did in 2007; Latin American countries like Venezuela, Mexico, and Brazil, as well as African nations like Nigeria and Angola, make up the rest.

There is also a synergy with Venezuela: in addition to India's diversification of oil import sources, Venezuela needs to capture large new markets given that its largest customer, the United States, was rapidly cutting oil imports due primarily to an increase in domestic oil and gas production and then to US financial and, subsequently, oil sanctions. US oil imports from Venezuela decreased from 1.4 million bpd in 2007 to about half of that in 2017, and to only 87,000 bpd after sanctions in 2019, down to practically zero in 2020. The Venezuelan government's Plan Siembra Petrolera 2005–30 (Sowing the Oil Plan) names India, along with other Asian nations like China and Japan, as key markets for export diversification.

The third subfactor is Reliance Industries. As India's largest private company, currently ranked 96th in the *Fortune* Global 500, Reliance Industries Limited (RIL) is the most important player in India–Venezuela trade, accounting for an overwhelming majority of Venezuelan crude oil imported by India. RIL operates the largest single-location refinery in the world, in Jamnagar, Gujarat, on India's west coast, where it operates a crude oil port just 10 miles from the refinery.

From 2005 to 2008, RIL expanded its oil refinery in Jamnagar in partnership with the US-based Bechtel Group, a leading global engineering and construction company, at a cost of more than $6 billion. The Bechtel website notes that "Jamnagar is much more than a pair of giant refineries. It's a massive, integrated manufacturing complex that also boasts aromatics and a petrochemical plant, a power generation system, a port and terminal complex, and access to a pipeline network. Construction of the second refinery required over 200,000 engineering and supplier documents, more than 1.9 million cubic yards (1.5 million cubic meters) of concrete, some 13 million feet (4 million meters) of piping, and 4,400 pieces of major equipment. The work site itself covered an area larger than London."[24]

Only a small subset of global refining assets is capable of processing heavy Venezuelan crude, due to the high capital and operating costs involved.

Besides the sheer scale of the refinery, another major advantage RIL receives is the increased profit margin by leveraging the light/heavy crude differentials, given that the complex refinery can process practically all types of crude oil. Only a small subset of global refining assets is capable of processing heavy Venezuelan crude, due to the high capital and operating costs involved.

RIL entered the India–Venezuela trade scenario unequivocally in 2010: due to the threat of US sanctions on Iranian oil imports, RIL chose not to renew its contract of 100,000 bpd from Iran and promptly increased its Venezuelan imports from 59,000 bpd in 2009 to 182,000 bpd in 2010.[25] This was only the beginning.

In 2012, RIL's executive director, PMS Prasad, flew to Caracas to sign a long-term heavy crude oil supply contract with PdVSA. The terms: PdVSA will supply between 300,000 to 400,000 bpd of crude oil to RIL for 15 years. This was a clear win-win deal. The RIL 2012–13 annual report notes that "the agreement provides RIL with security of supply and allows it to optimize around that supply while providing PDVSA a material Asian end user market."[26] By virtue of these large quantities, much of the crude is shipped in very large crude carriers capable of carrying up to 2 million barrels of oil, aptly termed as "supertankers," at a discounted wholesale price.

The real twist, however, is this: after Venezuela sells its heavy crude in supertankers at a bulk rate, RIL processes the oil at its refinery and exports finished products such as gasoline and diesel to foreign markets as far flung as the United States and Brazil. This is made possible due to the highly complex nature of RIL's twin refineries, which can process practically any grade of crude oil into gasoline or diesel. Over the years, RIL's refineries have processed 200 different grades of crude oil. As a result, RIL's gross refining margin (GRM) was $11.9 per barrel in 2017, about $5.5 more than the benchmark Singapore refining margin. An article in August 2017 notes that there are three key reasons for RIL's high GRM, "One, the complexity of its twin refineries at Jamnagar, Gujarat. Two, the company's smart crude sourcing strategy, and three, the freedom to alter its product mix according to market demand (and supply)."[27]

The oil exchanges between India and Venezuela go beyond transactional imports and include a strategic imperative from the Indian government to participate in joint exploration and downstream projects in Venezuela's vast oilfields.

Reliance's twin Jamnagar refineries can process 1.4 million bpd, or roughly 2 percent of the world's refining capacity, almost the same refining capacity as all of Canada.[28] And that is not all: RIL is nearing completion of yet another expansion project in Jamnagar, dubbed J3, which would increase capacity to about 2 million barrels per day.[29]

Besides RIL, only one other Indian company, Essar Oil, imports Venezuelan crude oil, albeit in smaller quantities. Essar Oil, founded in 1989 as part of the private Essar Group, was acquired by Rosneft in 2016 for a record $12.9 billion and renamed Nayara Energy in 2018. It was a win-win situation, propelled by market forces: the Essar Group sought a foreign buyer to absorb some of its massive debt, and Rosneft was looking for a way to enter the Indian oil market. The acquisition helped the Essar Group repay some of its $21 billion in debt over the past two years. The company buys crude oil from several Latin American countries, including Mexico, Venezuela, and Brazil. Despite this new Russian ownership, there is no Russia–India–Venezuela trilateral dialogue or relationship to speak of—India enjoys a strategic and historical relationship with Russia, and would be hesitant to bring Caracas into the mix.

The second main factor is investments. The oil exchanges between India and Venezuela go beyond transactional imports and include a strategic imperative from the Indian government to participate in joint exploration and downstream projects in Venezuela's vast oilfields. These investments are part of a long-term strategy to secure India's energy needs. There are several subfactors.

One subfactor is energy security policy. In June 2017, the government of India published its "Draft National Energy Policy," outlining everything from the country's energy demand and rural electrification to regulators and overseas engagements.[30] The report underlines some key elements of government policy that remain pertinent to Indian investment in Venezuela, and states that "in the recent past, there has been an overwhelming success in securing oil and gas assets by our companies, and this number is set to increase. This will be effectively used to acquire assets and also seek beneficial energy supply contracts. Imaginative purchase contracts will be struck that give us price and volume flexibility."

Despite OVL's earnest entry into Venezuela, and its nearly $2 billion investment commitment in the country, the company has faced various setbacks, in the form of unpaid dividends and rapidly falling production levels.

Venezuela fits well into India's national energy policy. The investments by large Indian public oil companies in Venezuela must be seen in this larger context of energy security. They also give India a deeper understanding of the on-the-ground realities in Venezuela, especially at times of political and economic crises.

Another subfactor is OVL, the largest investor. ONGC Videsh Limited (OVL), is the overseas arm of the Oil and Natural Gas Corporation (ONGC), India's premier public oil and gas exploration and production company. OVL has invested in 37 oil and gas projects across 17 countries, including 11 projects in Latin America that in 2014 contributed up to 30 percent of OVL's oil production.[31]

In 2008, OVL acquired a 40 percent participating interest in the San Cristóbal oilfield in the Orinoco region, with PdVSA holding the remaining 60 percent stake in the joint venture Petrolera IndoVenezolana. Given that OVL is a public company, the deal was facilitated by the Government of India, namely, by Oil and Gas Minister Murli Deora, the first Indian oil minister to visit Caracas. OVL agreed to invest $354 million and redevelop the field to increase production from the current 20,000 to 40,000 bpd,[32] in order to "pump 232.38 million barrels of crude over 25 years."[33]

This was followed by a much bigger acquisition: a three-member consortium of Indian public companies invested in Venezuela's Carabobo-1 oil block, including an 11 percent stake for OVL (for $1.33 billion),[34] and 3.5 percent each for Indian Oil Corporation and Oil India Limited (for $454 million each).[35] Since all three are public companies, India's Cabinet Committee on Economic Affairs approved an initial investment of $2.18 billion in March 2010. It is difficult to overstate the sheer magnitude of this strategic investment: the Carabobo-1 oil field holds an estimated 31 billion barrels of oil reserves, making it the fourth-largest onshore oil field in the world,[36] and the investors have been granted a license term of up to 40 years, to take advantage of this fact.[37] In comparison, the United States holds 68.9 billion barrels of oil reserves.[38]

Carabobo-1 began production in 2012–13 with a modest 27,000 bpd, and OVL shipped its first cargo of 1.2 million barrels by the supertanker *BungaKasturiDua* to Reliance Industries in July 2014.[39] This is a good example of two Indian companies working together to secure oil supplies from overseas, with OVL as the producer of oil in Venezuela and RIL as the buyer and refiner.

The country owes billions to foreign airlines and international pharmaceutical companies. Indian pharmaceutical companies also form a part of the latter group and are unable to repatriate $350 million from Venezuela.

The Carabobo-1 venture was expected to reach a peak production capacity of 400,000 bpd by 2016–17, but this has been inevitably delayed by the various domestic crises plaguing Venezuela. OVL's management expected to reach this target by 2020–21, but this too will be delayed due to Venezuela's slowing oil production levels and the COVID-19 pandemic.[40] Despite OVL's earnest entry into Venezuela, and its nearly $2 billion investment commitment in the country, the company has faced various setbacks, in the form of unpaid dividends and rapidly falling production levels. Production in OVL's San Cristóbal oilfield stood at nearly 20,000 bpd in 2012,[41] and fell to just 3,000 bpd in 2020;[42] OVL's production in Carabobo-1 stood at a paltry 1,700 bpd in 2020, just a fraction of its expected production levels. However, in the long run, these may end up being only temporary speed bumps. Venezuela considers OVL an important strategic investor and is likely to repay the dividends owed to the company once the country's economy recovers. Similarly, to the extent that oil production stabilizes over the coming years, OVL is bound to ship more oil from its San Cristóbal and Carabobo-1 ventures to companies like Reliance Industries in India.

Bilateral Ties in the Context of Venezuela's Domestic Crises

The recent crises in Venezuela have enveloped all aspects of society and have inexorably affected Caracas' foreign relations. This is manifest in pending dues to foreign companies, mounting foreign debt, the migration of more than 5 million Venezuelans, international sanctions, and closures of international manufacturing units such as Goodyear Tire, Kellogg, and Bridgestone.

Naturally, the spillover has had an impact, even if temporary, on India–Venezuela ties as well. There are two main factors here.

First, there has been a "staggering drop in [oil] production." Venezuela has reached record low levels of oil production. Estimates suggest that the country produced an average of 2 million bpd of oil in 2017, which fell further to a historic low of 374,000 bpd in June 2020. In comparison, production stood at 3.1 million bpd two decades ago.[43] This has had a temporary impact on India's imports of Venezuelan oil. From 2012 to 2018, India imported on average 404,000 bpd of crude oil from Venezuela per year. In 2019, India's annual import decreased to 319,177 bpd, a 20 percent drop.[44] This is a surprisingly moderate reduction in imports, considering that Venezuela's overall production has dropped by 51 percent in the last three years.[45] By the end of 2020, India's imports of Venezuelan oil dropped to 191,021 bpd, the lowest level since 2009.

Nevertheless, this decrease in production levels has had a direct impact on Indian investors like OVL. Production in the Carabobo-1 oil block is presently not even 0.5 percent of the expected peak capacity of 400,000 bpd.[46] The company's 2017–18 annual report notes, "Venezuela's staggering drop in production, where production has fallen by more than 500,000 bpd in the past one year and is projected to drop by another 600,000 bpd by December 2019, is a more near-term threat to the stability of global oil markets. While the list of countries posing geopolitical risk is largely Middle-East dominant—the biggest risk in terms of significant oil supply disruptions comes from Iran (on account of possible re-imposition of sanctions by the United States) and Venezuela (with its rampant decline in production from its aging fields and state of severe sovereign economic crisis)."[47] Incidentally, the United States announced in November 2018 that it will reinstate sanctions against Iran, and by mid-2019, India completely halted its imports of Iranian oil to comply with US sanctions.

Second, there are pending dues. The economic crisis in Venezuela has had a severe impact on foreign firms operating in Venezuela. Due to strict foreign exchange controls, companies are unable to repatriate money from Venezuela. The country owes billions to foreign airlines[48] and international pharmaceutical companies.[49] Indian pharmaceutical companies also form a part of the latter group and are unable to repatriate $350 million from Venezuela.[50] Four Indian pharmaceutical companies—Dr. Reddy's Laboratories, Glenmark Pharmaceuticals, Claris Lifesciences, and Sun Pharmaceutical Industries—have been lobbying since 2013 for a solution to this issue.

Besides Indian pharma companies, OVL is also owed money from dividends declared between 2009 and 2013 for its stake in the San Cristóbal oil field (no further dividends have been declared since). The total amount due is $537.63 million, and only $88.42 million has been received so far.[51] PdVSA even offered to sell an additional 9 percent stake in the San Cristóbal project as a means of repayment, but OVL refused this stopgap offer.

Not Much Beyond Oil

Besides the oil relationship, India and Venezuela enjoy a moderate commercial and cultural relationship that has grown over the past 50 years since establishing diplomatic ties. In commercial terms, India's exports are negligible, reaching $252 million in 2012, making Venezuela only the 86th-largest export destination for India that year; in 2020, India exported $758 million to Venezuela, though 87 percent consisted of Reliance's diesel exports, part of a diesel-for-crude barter deal that allowed the company to continue trading with Venezuela. Pharmaceutical products, cotton, machinery, and chemicals constitute the large majority of Indian exports to the Andean nation. Due to the lack of medicines in Venezuela, a handful of Indian pharmaceutical companies set up offices in the country—including some of the largest companies from the sector, such as Sun Pharmaceuticals, Dr. Reddy's Laboratories, and Glenmark Pharmaceuticals—but all these companies shut their operations in Venezuela by 2019 and relocated their businesses to other countries in Latin America.

Tata Motors, part of the Tata conglomerate and one of the world's largest producers of vehicles (producing 1.08 million vehicles in 2016,[52] roughly equal to Italy's total vehicle production of 1.10 million in the same year),[53] announced in 2014 that it would open its first overseas assembly plant for passenger cars, surprisingly, in Venezuela.[54] The plan has so far been stalled and is unlikely to materialize.

Despite these mishaps, diplomatic ties have always remained cordial, in both the pre- and post-Chávez eras. This is due to the efforts of the Indian Embassy in Caracas, which has over the years bridged the large geographical distance between India and Venezuela by galvanizing interest through academia, yoga, dance, and other cultural activities. The Indian Embassy in Caracas runs regular cultural activities and launched the Indian Association in Venezuela in 2003 to promote Indian culture in the Andean nation. Several Indian spiritual and cultural centers are present in Venezuela, ranging from the Hare Krishna and Sai Baba temples to yoga and Ayurveda groups. Several thousand Venezuelans (including Venezuelan leader Nicolás Maduro) are followers of Sai Baba of Puttparthi, a fact that was palpable as the National Assembly of Venezuela "honoured Sai Baba with a unanimous resolution in 2011 following his passing away and hailed him as one of the greatest Mahatmas, Spiritualists, Humanists of India and the world."[55]

There is also some academic interest in Venezuela about Indian culture and history. The University of Los Andes in Mérida and the Central University of Venezuela in Caracas both have had India study centers for more than a decade now, and they occasionally hold seminars and lectures on Indian history, Mahatma Gandhi, and contemporary topics like "India as an Emerging Power."[56] The Law Faculty of the University of Santa María in Caracas more recently opened an India study center in homage to B. R. Ambedkar, an Indian jurist widely credited as the principal architect of the Indian Constitution.

While cultural, diplomatic, and people-to-people ties remain cordial, and the Indian Embassy in Caracas continues to organize periodic cultural events and delegations, things have slowed down since the past decade due to the crises in Venezuela and more recently, due to the COVID-19 pandemic.

India–Venezuela Relations in the International Context

There is merit in looking at India-Venezuela relations through an international context, primarily by trying to answer two questions:

- Where does India stand among Venezuela's most important international partners?
- What is Venezuela's place in the larger context of India-Latin America relations?

To answer the first question, it is important to note that a vast sea of difference separates India's relationship with Venezuela from Caracas's "allies." Unlike the cases of Russia, Cuba, and China, India's bilateral relationship with Venezuela is anchored in energy security, and the political relationship remains secondary. Regime changes and domestic political issues are unlikely to cause any real friction in the India–Venezuela relationship.

Today, Russia, China, and Cuba remain important political allies for the Maduro-led socialist government, while New Delhi maintains an arm's-length distance when it comes to politics. Even though former Venezuelan president Hugo Chávez visited India in 2005, no Indian prime minister or external affairs minister has visited Venezuela since 1968. Instead, it is India's oil minister who interacts more frequently with Venezuela.

Russia and China have a much deeper relationship with Venezuela, especially through military exchanges and loans (especially China, which has provided about $62 billion to Venezuela).[57] However, India does not have a military relationship with Venezuela, and shows no sign of lending Caracas any funds.

There is reasoning behind India's largely apolitical relationship with Venezuela. In the long run, it would be counterproductive for India to insert itself politically in Venezuela. Even the oil relationship has little political input from the Indian side: it is instead determined in large part by global market forces and private Indian oil companies like Reliance Industries. Just as India has stayed away from the high-power proxy war in Syria, it will most likely continue to remain outside the political arena in Venezuela.

In the larger context of India–Latin America relations, Venezuela is rarely portrayed front and center, and remains secondary to Brazil and Mexico in terms of its importance to India. For instance, India and Brazil elevated their bilateral relationship to the level of a "strategic partnership" in 2006 during the visit of India's prime minister to Brazil.[58] It is India's largest trade partner in Latin America, with average annual bilateral trade of $8 billion; a large majority of Indian investment in Latin America is centered in Brazil, with nearly 100 Indian companies from the pharmaceutical, automobile, information technology, agribusiness, and engineering sectors established in the country; finally, Brazil is also the largest Latin American investor in India.[59] Additionally, India and Brazil enjoy a natural alliance through the BRICS and IBSA platforms, which include frequent summits at the level of heads of government—something no other Latin American country enjoys.[60]

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Mexico, too, has become increasingly important for India in the 21st century. In September 2007, during the visit of former Mexican president Felipe Calderón to India, both countries labeled their relationship a "Privileged Partnership." More recently, India–Mexico bilateral trade reached a peak of $9 billion in 2018, more than India's trade with Brazil, Canada, or Turkey. India today exports more cars to Mexico than it does to any other country; and India has also been the third-largest export destination for Mexican crude oil since 2011, after only the United States and Spain.

Besides, there is rarely talk of Latin America in the political corridors of New Delhi. For instance, as India's Ministry of External Affairs illustrates in its organogram, the Latin American and Caribbean region is managed by the minister of state for external affairs, akin to a deputy foreign minister.[61] Most other countries and regions—including Europe,

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South Asia, Southeast Asia, North America (only including the US and Canada), East Asia, and West Asia—come under the purview of the minister of external affairs. Even India's prime minister rarely visits Latin America. Of Narendra Modi's nearly 100 international trips till date, only three have been to Latin America, making it the least-visited region. Two were to attend multilateral summits—a BRICS Summit in Brazil and the Group of Twenty Summit in Buenos Aires—and one was a cursory 4-hour visit to Mexico to lobby for a seat in the Nuclear Suppliers Group. In comparison, Modi has visited Africa 9 times, Central Asia 8 times, and even Oceania 3 times.

The Effect of US Sanctions on India–Venezuela Relations

The US sanctions against Venezuela, especially secondary sanctions targeting those doing business with PdVSA, have had a profound effect on the Andean nation's oil exports to far-flung India. However, despite numerous news reports apparently confirming the halting of Venezuela's oil exports to India, oil continues to flow in surprisingly large quantities from Venezuela to India.[62]

These oil exports are a lifeline for Nicolás Maduro's regime in Venezuela: India accounted for 40 percent of Venezuela's crude oil exports (by quantity) in 2019, amounting to revenues of $5.5 billion;[63] even in 2020, despite the falling price of oil and the COVID-19 pandemic, Venezuela exported oil worth $2.3 billion to India. More important, Venezuela relies on oil sales to India as a vital source of foreign exchange, given that a sizable share of Venezuela's exports to China goes toward repaying over $62 billion in loans.[64]

While the imposition of US sanctions against PdVSA remains the primary reason for this marginal reduction in imports, bilateral diplomacy conducted by Washington has also helped persuade India to reduce imports. The US special representative for Venezuela, Elliott Abrams, admitted at a press conference in March 2019, "I would say that we have had contacts with Indian companies and with the Government of India and that we have found there to be a very considerable amount of cooperation, which we are very happy to see."[65]

In addition to the US sanctions, Venezuela's rapid decline in oil production has led to a decrease in its overall exports. While Venezuela's official estimates put oil production levels at 1 million bpd in 2019, data from the Organization of the Petroleum Exporting Countries based on secondary sources estimated Venezuela's total oil production at 793,000 bpd in 2019.[66] Production levels fell further in 2020 to approximately 630,000 bpd, according to Reuters.[67] The US secondary sanctions against Venezuela, which also affect third-party countries and companies that do business with Venezuela, has had five broad but immediate consequences:

First, India & China became the biggest markets for Venezuelan oil. India imported a considerable amount of oil from Venezuela in 2019, roughly 319,000 bpd; this made up a whopping 40 percent of Venezuela's global oil exports.[68] To put that in perspective, roughly $2 out of every $5 of Venezuela's oil export revenue came from India. Even China received only 229,000 bpd in comparison in 2019. In 2020, India and China reversed places: 30 percent of Venezuela's oil exports went to India, while more than 40 percent was destined for China. The continuous and increasing pressure against the Maduro government—including US sanctions, international recognition of Juan Guaidó as interim president, falling oil prices, lower levels of production, and the COVID-19 pandemic—has pushed Maduro to a corner, prompting something akin to a buyer's market. Maduro and PdVSA are willing to sell as much oil to India and China as they can at highly discounted, wholesale prices. Renewed US sanctions against banks and shipping companies that facilitate Venezuela's oil trade have also pushed down the price for Venezuelan Merey crude, which traded 31 percent lower than Brent Crude in February 2021. (See figure 6.5.)

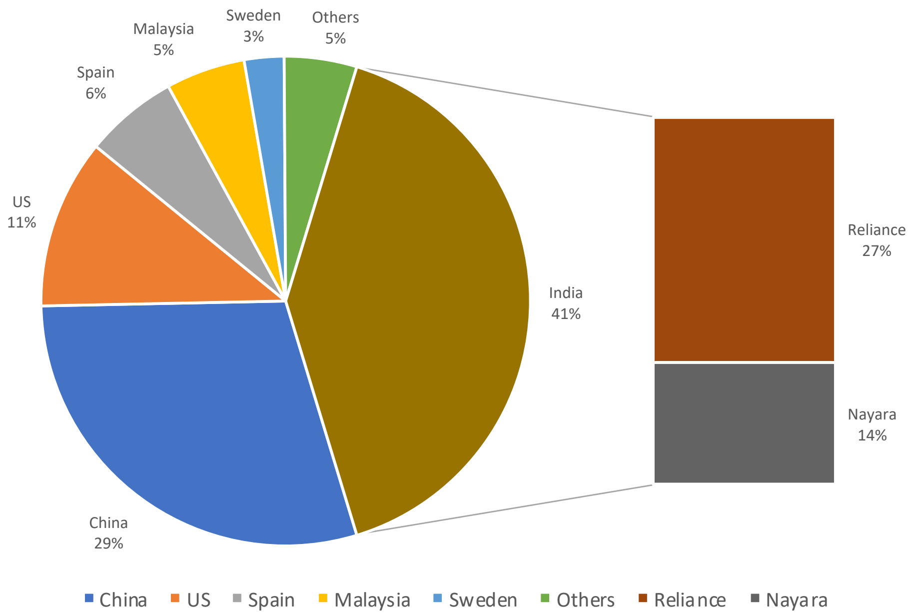
The continuous and increasing pressure against the Maduro government—including US sanctions, international recognition of Juan Guaidó as interim president, falling oil prices, lower levels of production, and the COVID-19 pandemic—has pushed Maduro to a corner, prompting something akin to a buyer's market.

Second, India makes up for the shortfall in Venezuelan oil from the US and Latin America. Although India continues to be Venezuela's largest oil export destination, the lower levels of oil production in Venezuela means India still faces a shortfall in oil supply.

India's oil imports from Venezuela fell from a high of 463,000 bpd in 2016 to 316,000 bpd in 2019, and to only 191,000 bpd in 2020.[69] Besides, Venezuelan oil exports have become increasingly erratic due to unstable local production and the effects of US sanctions on intermediary traders, shipping companies, and insurers. The only Indian buyers of Venezuelan oil, RIL and Nayara Energy, have thus turned to more reliable sources of oil supply. According to Bloomberg, a news service, "Reliance has been feasting on oil from the US, Colombia, and Ecuador" and Nayara Energy has "turned to supplies from Canada, Kuwait and Ecuador."[70] In fact, the United States exported more oil to India than Venezuela did in 2020.[71] This increase in US oil exports to India is a significant development, and has also led to closer Indo-US collaboration: in July 2020, the two countries signed an agreement that would allow India to lease a portion of the United States' strategic petroleum reserves, which ties in to India's long-term energy security policy.

Third, US sanctions led to barter deals, temporarily permitted under humanitarian grounds. The secondary sanctions imposed by the United States make it exceedingly difficult for companies from any country to do business with Venezuela. For example, the US Treasury Department sanctioned Rosneft Trading Company in February 2020 for facilitating trade with Venezuela. However, there remained one major exception to the US sanctions: barter deals, which didn't involve cash transactions. Reuters noted in 2019 that "crude-for-fuel swaps are a way around the complications that have arisen because of the sanctions, which have virtually eliminated cash exchanges. PdVSA boosted deals involving barter and swaps following a first round of US financial sanctions on the firm in 2017."[72] Companies like RIL executed barter deals that included the export of diesel from India in exchange for crude petroleum oil from Venezuela—which is unsurprising since RIL is one of India's largest producers and exporters of diesel. These deals received authorization from the US Treasury's Office of Foreign Assets Control and were justified under humanitarian grounds. Argus Media, an energy publication, stated in a July 2020 article that "the diesel exception to the US sanctions is intended to facilitate food distribution, agricultural activity, and power generation. In the current health crisis, diesel is especially needed to run generators that supply power to Venezuelan hospitals."[73] These diesel swaps were in force and utilized by Reliance from July to October 2020. However, just days before the US elections in November, the Trump administration imposed another round of sanctions against Venezuela, effectively banning diesel swaps. Consequently, Reliance has stopped imports of Venezuelan oil since November 2020.

Figure 6.5: Venezuela's Oil Exports (quantity/bpd), 2019



Fourth, Reliance became PdVSA's prime customer, with explicit approval from the United States. Post-US sanctions, RIL became one of PdVSA's most important clients, buying up as much as 25 percent of Venezuela's total oil exports in 2019 and 2020.[74] Due to the company's sheer size and diversified portfolio—as India's largest company by market capitalization and revenue—it is deeply integrated with the US market, through joint ventures in shale gas blocks in Texas and Pennsylvania with Chevron and Pioneer Natural Resources and millions of dollars' worth of exports from India to the United States; more recently, RIL has also started buying crude oil from the United States. Naturally, due to these important business interests, RIL promptly decided to comply with US sanctions against Venezuela, and has so far taken three steps to ensure compliance. First, it immediately stopped

Post-US sanctions, RIL became one of PdVSA's most important clients, buying up as much as 25 percent of Venezuela's total oil exports in 2019 and 2020.

exports of diluents such as alkylate and naphtha from its Houston-based subsidiary to Venezuela once sanctions were announced in early 2019. Second, RIL has been gradually decreasing its imports from Venezuela, despite having signed long-term contracts with PdVSA that last until 2027. Finally, RIL resumed lobbying activities in the United States after a six-year hiatus, to ensure full compliance with the US sanctions. Public documents filed by the company reveal that RIL contracted a lobbying firm, Eversheds Sutherland (US) LLP, on February 15, 2019, for assistance on the issue of "US economic trade sanctions policies."[75] The simple objective of this lobbying is to ensure full compliance with US sanctions and also receive explicit approval from the US Justice Department and State Department for any oil imports related from Venezuela, whether directly or through intermediaries. This is akin to a US ally buying Venezuela's oil, since RIL has no intention to put a damper on its relationship with the United States. Besides, this would not be the first time the company acquiesces to US policy: RIL has always ensured to comply with US sanctions against Iran, and has done so from 2010 to the present. Reliance continued to buy Venezuelan oil through diesel swaps, with explicit permission from the US State Department, and remained one of the largest buyers of Venezuelan crude through 2020 The company paused its Venezuelan oil imports in November, and is likely to continue complying with the policies set forth by the Biden administration.

Since pausing imports from Venezuela in mid-2020, Nayara is making up the shortfall in Venezuelan oil by importing more heavy crude from Canada, Latin America, and West Africa.

And fifth, Rosneft emerged as PdVSA's intermediary for global trade until mid-2020. In the aftermath of US sanctions, most oil companies around the world found it cumbersome to do business directly with Venezuela's PdVSA. Rosneft was quick to fill this gap by becoming the chief intermediary for oil trade with Venezuela: Rosneft first bought Venezuela's oil, and companies like RIL then imported the oil from Rosneft. Reuters reported in late 2019 that "Rosneft now receives more Venezuelan crude than any other buyer as refiners worldwide have cut purchases to avoid violating sanctions, or because they cannot find banks to process the transactions."[76] Besides RIL, the only other Indian company that imported Venezuelan oil is Nayara Energy, previously Essar Oil, owned by Russia's Rosneft since late 2017. These relatively new owners, and the Maduro regime's growing political alliance with Russia, brought a different angle to the India–Venezuela oil trade: a portion of the oil co-produced by Rosneft and PdVSA in Venezuela was shipped to India's Nayara Energy. In 2018, this amounted to 69,200 bpd of oil exported from Venezuela to Nayara's Vadinar port in Gujarat,[77] which increased to 107,500 bpd in 2019;[78] Nayara accounted for roughly 14 percent of Venezuela's total oil exports in 2019.[79] While Nayara Energy, in its earlier incarnation as Essar Oil, used to pay cash for Venezuelan oil, its imports of Venezuelan crude came under the purview of Rosneft's oil-for-loan deals until March 2020, when Rosneft announced the sale of its Venezuelan assets and terminated its commercial and trading operations in Venezuela.[80] Rosneft's increasing influence within Venezuela brought some unwanted attention from Washington: in early 2020, the US sanctioned two subsidiaries of Rosneft that helped facilitate the oil trade with Venezuela; shortly after the US sanctions, Rosneft announced the sale of its operations to a company owned by the Russian government and ceased all "participation in its Venezuelan businesses, including joint ventures of Petromonagas, Petroperija, Boqueron, Petromiranda, and Petrovictoria, as well as oil-field services companies, commercial and trading operations."[81] This has had an immediate impact on Nayara Energy's oil imports; the company's CEO, B. Anand, noted on September 15, 2020: "We are altering our crude strategy not because of the pandemic but because of Venezuela. We continue to have a strong bias towards ultra-heavy crude because that's what delivers the best value for our refinery."[82] Since pausing imports from Venezuela in mid-2020, Nayara is making up the shortfall in Venezuelan oil by importing more heavy crude from Canada, Latin America, and West Africa.

For Venezuela, and more specifically the current *chavista* regime, India is not an ideological ally and is unlikely to go out of its way to support Caracas in matters of state and foreign policy.

Looking Ahead

It is evident that oil is of paramount importance to the India–Venezuela relationship. This became even more pronounced in the face of declining US imports of oil from Venezuela and India's rising demand for petroleum. Nevertheless, we should note that the India–Venezuela bilateral is unlikely to expand much beyond oil.

For Venezuela, and more specifically the current *chavista* regime, India is not an ideological ally and is unlikely to go out of its way to support Caracas in matters of state and foreign policy. India remained a valuable commercial partner for Caracas, as a buyer of oil and supplier of priceless foreign currency in a plummeting economy, until late 2020, but its ability to continue doing business with Venezuela is highly unlikely as long as US secondary sanctions remain in place.

For India, at least for the short term, Venezuela is only a supplier of oil. But it is becoming a problematic supplier of late due to declining production levels and the risk of US sanctions. Still, even in 2020, despite the diesel swaps and the COVID-19 pandemic, 30 percent of Venezuela's exports were destined for India. More important, fully 25 percent of Venezuela's oil export sales are to RIL, an Indian company that actively collaborates with the United States to ensure compliance with sanctions. The United States can advise RIL to stop importing Venezuelan oil at any time it wishes, and RIL will immediately comply. This dynamic with RIL is in contrast to Venezuela's allies such as Russia or China, which would rather deal with Maduro directly than with Washington on matters related to Venezuelan oil. Of all Maduro's financial and geopolitical lifelines—including China, Russia, Cuba, Iran, and Turkey—India is the only one that does not maintain regular and direct contact with Maduro.

Besides oil, New Delhi does not see any other strategic imperative in engaging Caracas—it would be ill advised for India to take any political policy position vis-à-vis Venezuela, especially regarding the ongoing political crises in the country. In some ways, it is advantageous for both countries that the relationship is not burdened by ideology. This is unlike Venezuela's allies China and Russia, who remain close to the current administration. But oil will continue to flow from Venezuela to India in roughly similar measures, regardless of the party in power in either country.

In the short term, due to Venezuela's near-total economic collapse, India has looked to the United States and other Latin American countries to make up the shortfall in oil supplies. But in the long run, the fortunes of both countries are inescapably tied together. Venezuela forms an integral part of India's overall energy security policy, which includes cooperation with other oil-producing nations in Africa (e.g., Nigeria and Angola) and Central Asia (Kazakhstan and Azerbaijan). African countries now account for about one-fifth of India's total crude oil imports.[83] In the long run, New Delhi's energy diplomacy with Africa and Central Asia is likely to run parallel to India–Venezuela and India–Latin America ties, without having a negative impact on the relationship with Latin American countries. Oil produced from these regions tend to be of lighter grades, and are therefore priced much higher than Venezuelan and Latin American heavy crudes. Moreover, these countries possess much smaller reserves of crude oil—even Nigeria, which currently exports nearly as much oil to India as Venezuela does, has 37 billion barrels of oil reserves, only about 12 percent of Venezuela's oil reserves.[84]

Of all Maduro's financial and geopolitical lifelines—including China, Russia, Cuba, Iran, and Turkey—India is the only one that does not maintain regular and direct contact with Maduro.

Despite India's dire need to increase the proportion of renewables in its energy matrix, petroleum will continue to be indispensable at least for another half-century. Even the most ambitious estimates by the government of India put India's oil import demand between 7.19 million bpd and 9.34 million bpd by 2040, assuming that renewables account for a full tenfold increase from their current level in the energy matrix.[85] If Venezuela is to continue to provide roughly 10 percent of India's oil needs in 2040, this means exports would have to increase from the pre-US sanctions average of 424,000 bpd to between 702,000 bpd and 924,000 bpd. This alone should provide impetus for both countries to maintain a stable and cordial relationship.

As the geopolitical scales tip, the domestic situation in Venezuela shows no signs of improvement. Recent economic figures released by the International Monetary Fund, showing that GDP contracted by 35 percent in 2019 and 10 percent in 2020, reconfirm the gravity of the crisis.[86] According to the United Nations International Organization for Migration, 5 million people had already fled the country as of March 2020,[87] and this could reach up to 8 million, or one-quarter of the entire population.[88] It is by no means an exaggeration that economists term Venezuela's current predicament "the single largest economic collapse outside of war in at least 45 years."[89]

Notes

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TURKEY AND VENEZUELA: An Alliance of Convenience

7

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President Erdoğan pays an official visit to Venezuela. Image source: AK Parti,11/27/2020

"Maduro brother, stand tall, Turkey stands with you!" This was the message of Turkish president Recep Tayyip Erdoğan to his Venezuelan counterpart, Nicolás Maduro, immediately after more than 50 nations recognized the opposition leader Juan Guaidó as Venezuela's interim president.[1] Deeming international support for Guaidó as constituting international intervention in the domestic matters of a sovereign government, Turkey joined countries such as China, Russia, Iran, and Cuba in backing Maduro as Venezuela's legitimate president.

Before this Venezuelan crisis, the Turkish government had not previously become engaged in such a geographically distant political crisis. Likewise, the Venezuelan crisis has never been among the top issues in Turkish public opinion. Yet in January 2019, Maduro was embraced wholeheartedly by the Turkish public, and many Turkish citizens voiced support for him on social media, using the hashtag "#WeAreMaduro."[2]

Because Turkey is a NATO member and a long-standing US ally, its sudden involvement in the Venezuelan crisis was puzzling, given that there was no prior historical or cultural affinity whatsoever between Turkey and Venezuela. Erdoğan's vocal support for Maduro was initially considered in the Turkish media as mere rhetoric; but in reality, the economic and political ties between Ankara and Caracas have grown strong, especially since late 2016. In particular, Turkey has emerged as the linchpin of the Venezuelan gold trade, providing Maduro with a much-needed source of revenue at a time of shrinking oil revenues and comprehensive US sanctions.

That said, Turkey's involvement in Venezuela does not appear to be part of a long-term strategic project. Rather, it is an alliance of convenience, characterized by growing bilateral trade, mutual dislike of the United States and closer relations with Russia, and the personal chemistry between Erdoğan and Maduro.

Turkey's engagement with Venezuela has been shaped and driven by rising anti-Americanism in Turkish foreign policy during Erdoğan's tenure. Erdoğan's foreign policy, which was largely driven by anti-US and anti-Western ideology, prepared Ankara to establish unprecedented relations with Caracas at a critical time. Ankara's rapprochement with Caracas has occurred amid both countries' increasing tensions with the United States. Especially since a coup attempt in Turkey in 2016, Erdoğan has drawn closer to Maduro, based on the two leaders' mutual dislike of the West and frustration with US sanctions; the Maduro administration has been subjected to several rounds of US sanctions since 2015, and the Trump administration imposed sanctions on Turkey in 2018 over the arbitrary detention of an American pastor, Andrew Brunson.[3] Erdoğan's personal rapport with Maduro has been another important factor in the strengthened relationship, in that the two populist and authoritarian leaders have cultivated a personal affinity.

Erdoğan's approach to the Maduro administration seems conjunctural and pragmatic—with a potential for deepening but also limitations.

Finally, the two states have succeeded in developing a relationship marked by mutual economic benefit at a time when both countries have sought to find alternative commercial partners. Softening demand in the world economy along with increasing instability in the Middle East and Europe have meant that Turkey's exports to its main trading partners have dramatically declined. As a result, Turkey has sought to diversify its economic partners across the Global South, including in Latin America.

However, it is unclear how durable this rapprochement will be. Erdoğan's approach to the Maduro administration seems conjunctural and pragmatic—with a potential for deepening but also limitations. And the Maduro government also seems cognizant of Turkey's limited capacity to provide significant economic support at a time when Turkey's own economy is in a recession.

Equally important is the fact that Turkey's engagement with Venezuela is adding new strain to Ankara's relationship with Washington, exposing Turkey to secondary US sanctions as a result of its commercial relationship with the Maduro government. Any possible US sanctions against Turkish entities will pose a real danger for the Erdoğan administration, potentially worsening a painful economic downturn that Washington's previous sanctions against Ankara exacerbated.[4]

Hence, confronting or even provoking Washington over Caracas seems a risky diplomatic choice for Ankara, which was already embroiled in multiple disputes with the Trump administration. Even if Erdoğan intends to maintain his vocal support for Maduro in the future, Ankara will need to exercise caution regarding the extent of the economic lifeline it provides to Caracas, lest it face rising pressure from the United States.

Historical Background

Diplomatic ties between Turkey and Venezuela extend back almost 60 years, but until recently have amounted to little more than a routine exchange of diplomats. Relations between the two countries have also been subject to diplomatic fluctuations and tensions.

Bilateral relations were first severely strained in 2005, when the National Assembly of Venezuela adopted a resolution recognizing the mass killings of Armenians during World War I as genocide and asking the European Union to place preconditions on Turkey's bid for membership in the European Union.[5] Ironically, Maduro was then president of the Venezuelan National Assembly, and the resolution passed with the approval of both government and opposition legislators. The resolution, which was strongly rejected by Erdoğan's government, caused tension between the two countries.

Subsequently, bilateral ties stagnated and then became more hostile in light of differences between Caracas and Ankara over how to view the Arab Spring. Hugo Chávez was one of the most prominent defenders of embattled Syrian president Bashar al-Assad. In that same period, Erdoğan, then prime minister of Turkey, was one of Assad's most vehement critics, and was eager for regime change in Syria. As a strong supporter of the Assad regime and the Muammar Qaddafi regime in Libya, Chávez slammed Turkey and other NATO members for their involvement in operations against Syria and Libya.[6] One member of the Venezuelan congress—Abdel el-Zabayar, of the ruling socialist party, PSUV—even joined Assad's army to fight against the rebels backed by the Turkish government.[7]

When Maduro came to power in 2013 after Chávez's death, bilateral relations did not change; Erdoğan's Turkey was simply not on Maduro's radar. Despite Turkey's desire to develop a relationship with Venezuela as part of a policy to deepen its relations with Latin America, the Maduro government took no positive steps toward Ankara. Yet the coup attempt in Turkey in 2016 considerably altered the course of the two countries' relations and ushered in a new phase of rapprochement.

The Failed Coup Attempt in Turkey

On the night of July 15, 2016, bridges over the Bosphorus Strait in Istanbul were blocked by troops, and soldiers raided the state television stations. A coup attempt was taking place in Turkey on live TV. A faction of the Turkish military, claiming to speak for the entire Turkish armed forces, aimed to overthrow Erdoğan. But Erdoğan soon broadcast a message urging Turkish civilians to take to the streets to resist the army's attempt. After high-ranking military officers quickly reaffirmed their loyalty to the government, the attempt soon failed. More than 250 Turks died and hundreds of people were injured in the course of the failed coup attempt.

A complete and authoritative narrative concerning the failed coup has yet to emerge. Yet soon after the putsch failed, the Turkish government blamed Fethullah Gulen, a US-based preacher, and his followers.[8] In May 2016, Erdoğan officially designated the Gulen movement a terrorist organization.

The coup attempt dramatically transformed Turkey's domestic and foreign policies. Domestically, Erdoğan used the attempt as an excuse to purge thousands of military and government officials he suspected of plotting against him. More than two hundred media outlets were closed, and dozens of journalists were jailed on dubious charges. The failed putsch has accelerated democratic backsliding and curtailed freedoms and human rights in the country.

Since the coup attempt, Turkey's relations with the West have grown more strained. For the Turkish government and its supporters, Gulen's residence in Pennsylvania was seen as clear evidence of US involvement in the coup plot.[9] Erdoğan has repeatedly called on Washington to extradite Gulen on the charge of masterminding the coup attempt. The US authorities have rejected the extradition request, claiming that Turkish officials have not provided sufficient evidence of Gulen's involvement in the coup attempt, leading Erdoğan and his supporters to believe that the United States is willfully harboring a man seeking the overthrow of the Turkish government. Anti-Americanism has dramatically increased in the wake of the failed coup.

Rising anti-Americanism and democratic backsliding in the aftermath of the coup attempt have strained Turkey's ties with the United States and other Western allies, but has offered new opportunities for other countries, including Venezuela. In the first hours of the attempt, the Venezuelan government was quick to publicly condemn it and to express strong support for Erdoğan.[10] While Washington and European capitals hesitated to show solidarity to the degree Ankara expected, Maduro strongly condemned the coup attempt and assured the Turkish government of Venezuela's support.

To be sure, Maduro had reason to express his quick support for Erdoğan, given what must have been his own fears of a coup like the one that had sought to topple Chávez in 2002. The failure of the putsch in Turkey provided a timely example that Maduro could exploit. "Did you see what happened in Turkey?" Maduro asked. "Erdoğan will seem like a nursing baby compared to what the Bolivarian Revolution will do if the right-wing steps over the line with a coup."[11]

Erdoğan acknowledged that he had not known Maduro until the Venezuelan leader telephoned him to express solidarity against the coup.[12] Yet his apparent gratitude for Maduro's immediate and unanticipated support opened the door to warm relations between the two countries.

Shortly after this episode, Maduro announced his first trip to Turkey, in October 2016, to attend the World Energy Congress in Istanbul.[13] The two met and signed a series of bilateral agreements on energy, trade, and air transportation, signaling a burgeoning alliance.

Bilateral Political Relations

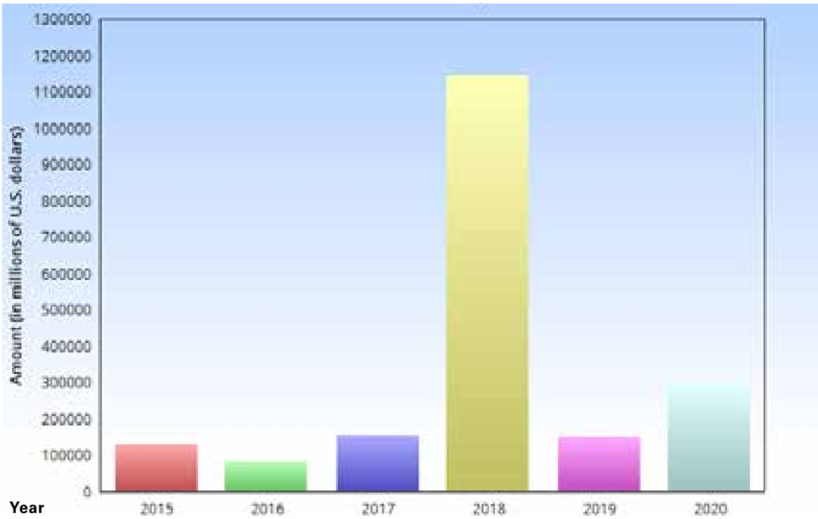
Bilateral relations have continued to flourish since Maduro's initial visit. Since 2016, President Maduro has visited Turkey four times, and high-level officials of both countries have visited each other's capitals.[14] Maduro paid his first official visit to Turkey in October 2017. On this occasion, there was a meeting of the Joint Cooperation Commission, which focused on economic and commercial relations, and several agreements were signed.[15]

To further strengthen relations, Turkish president Erdoğan visited Venezuela after attending the Group of Twenty's summit in Argentina in December 2018. During the visit, Erdoğan praised Maduro and reiterated Turkey's support.[16] The two countries signed 10 agreements—in the mining, financial, commercial, energy, agribusiness, industry, and military fields.[17]

These presidential visits were the first ever between the two countries. They were followed by several high-level exchanges, culminating in the signing of additional bilateral agreements and several projects that made Turkey a mutually beneficial partner for Maduro. These agreements have later materialized and paved the way for increasing cooperation between the two countries. As a result of the signed trade agreements, bilateral economic cooperation has developed at a rapid pace. Bilateral trade volume tripled in 2018, seeing an unprecedented rise.[18] Turkey's top business association, the Independent Industrialists and Businessmen Association (*MUSIAD*), established an office in Caracas in 2018, which resulted in a triple growth in Turkey's exports to Venezuela, which rose from $37.4 million in 2017 to $120.8 million in 2018.[19] Although these numbers do not represent a significant amount compared with Turkey's overall exports, the sudden rise is symbolically significant at a time when its overall exports are in sharp decline. (figure 7.1).

Venezuela also decided to start gold-refining operations in Turkey in 2018 based on an agreement signed between Turkey and Venezuela.[20] The Maduro government shipped tons of gold to Turkey in 2018.

Figure 7.1: Trade Volume between Turkey and Venezuela



Source: Author's calculations, based on Ministry of Trade, Republic of Turkey.

In addition, in December 2016, Turkish Airlines—THY, the country's national flag carrier—initiated flights between Istanbul, Havana, and Caracas as a result of an agreement between Turkey and Venezuela.[21] THY filled a critical void by starting the flights to and from Caracas at the same time that other large international airlines suspended their operations in Venezuela. In 2019, THY increased its flights to Venezuela from three to five weekly.[22] Reports have also indicated that transfers of gold were made on THY flights from Caracas to Istanbul.[23] All international flights were suspended due to the COVID-19 pandemic. The Maduro administration announced in late 2020 that Turkey would be among the first countries allowed to operate flights between Venezuela and Turkey.[24]

THY planes are not the only ones flying to Venezuela. A private jet operated by a Turkish charter jet company appeared to have traveled to Caracas on various occasions. For example, the jet was suspiciously dispatched from Moscow to Caracas when an uprising unfolded against Maduro in April 2019. US secretary of state Mike Pompeo argued that the purpose of the jet was to transport Maduro to safety in Cuba but that the Russians persuaded him to stay.[25] The jet was also used to fly Venezuelan officials to Oslo for negotiations with opposition leaders.[26] The same plane appeared once again to transport Vice President of Venezuela Delcy Rodríguez to Spain and Turkey in January 2020.[27]

Economic cooperation between Turkey and Venezuela continues to develop, with new agreements signed between the two countries. In mid-2020 Turkey removed tariffs on thousands of tons of Venezuelan agricultural products—including seeds, cheese, and rice—based on a bilateral trade agreement signed in May.[28] According to the agreement, Venezuela will be able to export a total of 16,600 tons of agricultural products to Turkey free of customs duties.

Meanwhile, Erdoğan's government has politically benefited from strong bilateral relations with the Maduro government, as it has become more evident in schools linked to the Gulen movement in Venezuela. The Turkish government is in global pursuit of the Gulen movement, which Erdoğan has accused of orchestrating the failed coup. The movement has been controlling hundreds of schools, companies, and charities in Turkey and around the world, including in Latin America. While the Turkish government closed and seized all the institutions related to the movement in Turkey, it has asked many countries to extradite Gulen movement members and close down Gulen-linked institutions in their territories.

Erdoğan's government appeared to award the embattled leader of Venezuela a degree of international legitimacy and political support in the face of increased efforts to isolate the Maduro government.

In this regard, Turkey has also been pressuring Venezuela to close or hand over control of two schools in Caracas that are linked to the Gulen movement. After bilateral relations became strong, the Maduro administration did not hesitate to hand over these two schools to the Turkish state-led education foundation.[29] Ahead of Turkish president Erdoğan's visit to Venezuela in 2018, the Venezuelan Ministry of Education transferred full control over the Turkish schools to the Turkish foundation as a gesture of support for Turkey.

Erdoğan's government appeared to award the embattled leader of Venezuela a degree of international legitimacy and political support in the face of increased efforts to isolate the Maduro government. Maduro was invited to a meeting of the Organization of Islamic Cooperation in Turkey in 2017, where participants expressed support for Venezuela's position on the issue of Palestine.[30] In addition, while in January 2019 most international leaders boycotted Maduro's second presidential inauguration, Turkey sent a high-level official, Vice President Fuat Oktay, to the ceremony.[31]

Turkey has repeatedly slammed the US sanctions against Venezuela. Erdoğan said: "Political problems cannot be resolved by punishing an entire nation. We do not approve of these measures that ignore the rules of global trade."[32]

Diplomatic cooperation between Turkey and Venezuela has also grown stronger. For example, the Venezuelan government recently suggested that Turkey serve as the "protecting power" for its embassy in Washington.[33] However, the US authorities have rejected such a move.[34]

The Venezuelan authorities also considered the possibility of Turkey's playing a potential mediating role between the Maduro government and the Venezuelan opposition.[35] Turkish foreign minister Mevlut Cavusoglu announced in late 2020 that he was in talks with two high-profile Venezuelan opposition members—two-time presidential candidate Henrique Capriles and legislator Stalin González—in the months before the December 6, 2020, National Assembly elections.[36] Apparently, Turkey played a role in a negotiation process between the Maduro government and a faction of the Venezuelan opposition, while Guaidó and other members of the opposition underlined that they were not aware of the talks. The Turkish foreign minister implied that the negotiations had led to Maduro's pardon of more than 100 political opponents who had been targeted for prosecution.[37]

Even during the pandemic crisis, political relations between the two countries continued to deepen. Foreign Minister Mevlüt Cavusoglu paid a visit to Caracas in August 2020 to sign agreements and mark the 70th anniversary of diplomatic relations between the two countries.[38] In addition, during the COVID-19 crisis, as a "gesture of friendship and goodwill," Turkey shipped more than 15 tons of medical supplies to Venezuela, including ventilators, testing kits, masks, and protective clothing.[39] Turkey also signed an agreement with the Venezuelan authorities for the construction of a hospital in Venezuela with a capacity of 288 beds.[40]

The growing links between the two countries are not limited to political and economic engagement. Cultural ties also appear to be strengthening. Erdoğan announced during his visit to Caracas in 2018 that Turkey plans to build a mosque in Caracas at Venezuela's request.[41] Turkey is also interested in opening an office of the Yunus Emre Institute, the state-run cultural agency, in Venezuela. In 2019, Turkey was invited to the Venezuela International Book Fair (FILVEN) as a "guest of honor."[42]

In addition, *Dirilis Ertugrul* (*Resurrection: Ertugrul*), a historical drama about the founder of the Ottoman Empire, began to be screened on the Venezuelan state television channel.[43] During his visit to Istanbul in 2018, Maduro visited the set of the series, dressing up as a historic horseman and expressing his admiration for the drama.

The Opaque Gold Trade

Turkey's commercial engagement with Venezuela is more evident in the mining sector, and the gold trade has been the most obvious manifestation of the growing commercial links between Ankara and Caracas. With Venezuela's economy melting down and oil production collapsing, Maduro has recently turned to gold in a bid to shore up the country's depleted foreign currency reserves. In the wake of US and other international sanctions, the Venezuelan government has been seeking customers for its gold, a critical source of hard currency. Turkey has become a reliable purchaser of Venezuelan gold, in transactions that remain murky.

Initially, Venezuela's central bank argued that it moved its gold-refining operations from Switzerland to Turkey.[44] According to the Venezuelan authorities, the gold exported to Turkey would ultimately return to become part of the Venezuelan Central Bank's portfolio of assets.[45] However, Turkish official records do not show any gold exports back to Venezuela in 2018. It was recently learned that the refined gold has been sold in Turkey or in other markets and the money has been transferred to the account of the Venezuelan Central Bank.

Although the scope and content of the gold dealings between Venezuela and Turkey are not well documented, it is clear that the two countries have established a gold-for-food mechanism. Venezuela has sold a substantial amount of gold to Turkey in exchange for basic food supplies.[46] More than 40 percent of Venezuela's gold reserves (a total of 73 tons) were sold off in 2018.[47] A large amount of gold (23.9 tons) has been exported to Turkey. A newly established Turkish company, Sardes Kiymetli Madenler, which signed the gold deal with the Venezuelan Central Bank, imported $900 million worth of gold from Venezuela into Turkey last year.[48]

In return, Turkey has become a key supplier for the Maduro government's main food subsidy program, known as CLAP (Local Supply and Production Committees). According to reports, Turkey is currently supplying 69 percent of CLAP's provisions in Venezuela.[49] Consumer staples in CLAP—such as pasta ($27.9 million), sunflower oil ($13.6 million), wheat flour ($7.9 million), red lentils, and powdered milk—were among Turkey's principal food exports to Venezuela.[50]

Although the scope and content of the gold dealings between Venezuela and Turkey are not well documented, it is clear that the two countries have established a gold-for-food mechanism.

Although officials of the two countries will not share the details of the food-for-gold mechanism, information from the US Department of the Treasury sheds some light on the two countries' opaque financial dealings.[51] Turkish companies have imported gold from Venezuela, depositing money in accounts in Turkish banks, which in turn have transferred funds to the Venezuelan Central Bank account held in Turkey. Then, an Istanbul-based company, Mulberry Proje Yatirim, has purchased the goods from Turkey on behalf of Venezuelan clients and sold them back to Venezuela.[52]

Meanwhile, in 2018 the authorities of the two countries indicated their intention to further increase cooperation in the mining sector. Minerven, the Venezuelan state-run mining company, created a joint venture with the Turkish company Marilyns Proje Yatirim in August 2018 in order to sell gold in Turkey.[53] Shortly thereafter, Erdoğan pledged to further develop commercial relations and to cover the majority of the needs of Venezuela during his 2018 visit to Caracas, although what that meant was not specified.[54]

After Erdoğan's visit, the Venezuelan minister of industries and national production, Tareck El Aissami, visited Ankara in February 2019 to finalize the gold-refining deal.[55] He conducted negotiations with his Turkish counterparts and visited a gold-refining facility in Turkey's central province, Corum. In a press conference, he also vowed that "2019 will be the most productive year for relations between Turkey and Venezuela."[56] After Aissami's visit, Erdoğan also confirmed during a political rally ahead of local elections that "Venezuelan gold will be refined in Corum. . . . We will develop Corum for the gold trade and the city to a better position in this field."[57]

However, this announced gold-refining project has never materialized. Ankara has decided to halt this project in the wake of intensified US pressure against Turkey.

What Motivates Turkey's Interest in Venezuela?

The radical changes in Turkish politics have provided an impetus for Venezuela and Turkey to find common ground. In particular, rising anti-Americanism in Turkish foreign policy and Erdoğan's authoritarian consolidation of power have dramatically transformed Turkey's foreign relations.

Erdoğan has been in power in Turkey for 16 years, first as the country's prime minister from 2003 to 2014, and then as president. After he became president in August 2014 through Turkey's first-ever popular presidential election, he appeared to tighten his authoritarian grip. Under his rule, foreign policy decisions have become increasingly personalized. With the transition from a parliamentary system to a centralized executive presidency in Turkey through a referendum in 2017, foreign policy decisionmaking processes have been mostly transferred from the traditional institutions to Erdoğan's hand. In particular, the Ministry of Foreign Affairs, which long played a key role in decisionmaking, has turned into a simple implementer of decisions made by the president, based solely on his preferences.

Meanwhile, anti-American and anti-Western sentiment and rhetoric among the country's ruling elite have dramatically ramped up. Though Turkey remains formally tied to the United States and the West through NATO, its government has increasingly defied the United States and European allies.

Particularly in the aftermath of the coup attempt in 2016, the level of trust between Washington and Ankara sank to a historic low. Turkey's relations with the United States have undergone a series of crises in various fields. Bilateral relations have been strained, mainly due to Ankara's anger at Washington, first for supporting the Syrian

Kurdish Peoples' Protection Units (YPG) in Syria and later for its refusal to hand over Fethullah Gulen after the failed coup attempt. Erdoğan considered these two issues as further proof that the US could not be trusted as an ally.

The conflict between the United States and Turkey over the extradition of Gulen has deeply poisoned bilateral ties. Turkey also blames Washington for supporting the Kurdish group YPG in Syria. The United States had begun to cooperate with Syrian Kurdish militants in 2015 along the Syrian-Turkish border, to defeat the self-proclaimed Islamic State (ISIS). Yet YPG's ties to the Kurdistan Workers Party (PKK), an insurgent group and designated terrorist organization that has been active in Turkey since the early 1980s, has been a security concern for Turkey. In October 2019, the Turkish military entered northeastern Syria in a bid to push out Syrian Kurdish fighters near the border after President Trump's decision to pull back US forces in the region. Turkey's move triggered resentment in the United States that worsened into sanction threats and deepening political tension between the two countries.

The United States and Turkey reached a diplomatic crisis course yet again over Ankara's acquisition of Russian S-400 missiles in 2019 that US and European officials see as a threat to the F-35 fighter jet. Ankara has bought and deployed S-400 missiles from Moscow, despite all the objections from Washington, which led Ankara to be removed from NATO's F-35 fighter jet program.

US sanctions and pressures have provided Erdoğan with a much-needed scapegoat to condemn the United States and fashion Turkey as a country standing up against the unfair US policies against Venezuela.

The ideological motivations for these actions by Turkey—mostly built on anti-American sentiment—have not only left Turkey isolated from the West but have also pushed the country to deepen its relationships with like-minded regimes, including Russia, Iran, and China. As US–Turkey relations have deteriorated, Ankara's ties with anti-American regimes have grown increasingly closer over the last few years. President Erdoğan has frequently portrayed political engagement with these regimes as a step toward Turkey's independence from the United States.[58]

Turkey's desire to assert its independence from the United States has contributed to the solidarity between Caracas and Ankara. Erdoğan appears to view his closer ties with Maduro—in defiance of US sanctions—as conveying a message of Turkish independence in the conduct of foreign policy. During his visit to Caracas in 2019, Erdoğan criticized the US sanctions on Venezuela and asked rhetorically, "Are we going to seek permission from somewhere about whom we will be friends with and with whom we will trade?"[59]

Moreover, during Erdoğan's tenure, Turkey has positioned itself as the anti-imperialist and antihegemonic actor who challenges US policies against "oppressed countries." In this respect, Turkey's determination to challenge Western hegemony has become even more evident in the Venezuela crisis. US sanctions and pressures have provided Erdoğan with a much-needed scapegoat to condemn the United States and fashion Turkey as a country standing up against the unfair US policies against Venezuela.[60]

Erdoğan's antihegemonic and anticolonial mind-set can best be seen in his reaction to Juan Guaidó's presidency. As he said, "Those who attempt to appoint a postmodern colonial governor to Venezuela, where the people are sovereign and where President comes through elections, should know only democratic elections determined the way to govern the country."[61] Erdoğan encouraged Maduro to keep resisting the "imperial attempt" to topple him: "Should Maduro stand tall and continue on the path he believes in, I am certain that the people of Venezuela will stand behind him."[62]

While Erdoğan and his supporters view this antihegemonic discourse as an indication of Turkey's growing self-confidence as an international power, the anti-imperialist stance has been backed up by numerous diplomatic and commercial agreements, which have drawn the two countries closer together.

The Close Personal Relations and Affinity between Maduro and Erdoğan

Despite their ideological differences—Maduro espouses a far-left ideology, while Erdoğan has an Islamist vision—the two leaders seem to have developed strong personal ties. Particularly, Erdoğan's increasingly authoritarian rule and anti-Western political stance have sparked a political affinity with Maduro. While Maduro praised Erdoğan as "the leader of a new multipolar world,"[63] Erdoğan pledged his support and referred to Maduro as "my brother."[64]

Many experts have underscored the similarity in Erdoğan and Maduro's reactions to their two nations' internal and external political challenges. As part of their cults of personality, they mostly find common ground when talking about democracy, independence, and noninterventionism. In the same vein, both leaders share a highly personalized and authoritarian style of governance, and care less about each other's poor human rights records and the deterioration of democratic institutions in their countries. Both leaders have cracked down harshly on political dissent and have undermined democratic norms to help them concentrate power. And they both have successfully overcome challenges to their authority in recent years as they have been bent on consolidating power.

Both Turkey and Venezuela appeared to have adopted a similar narrative with a clear notion of external enemies and global conspiracies against their power.

The two leaders also feel disrespected or even threatened by the West. In his visit to Caracas, Erdoğan said, "They sometimes call us the sultan or dictator. We share a common ground [with Maduro], but we do not pay attention to them."[65]

Additionally, the Erdoğan–Maduro rapprochement should be seen in the context of a recent convergence of the two leaders' concerns and threat perceptions. Both leaders are profoundly insecure about both real and imaginary enemies, at home and abroad. Both Turkey and Venezuela appeared to have adopted a similar narrative with a clear notion of external enemies and global conspiracies against their power. Shortly after Guaidó declared himself the country's interim president, the Turkish media drew parallels between what happened in Turkey in 2016 and the political crisis in Venezuela. The government mouthpieces described the events unfolding in Venezuela as part of a broader Western conspiracy.[66]

In addition, the two leaders hold similar views regarding the sources of their countries' economic failures. Maduro has accused the United States of waging economic war, just as Erdoğan has described Turkey's economic crisis as part of "an economic war" being waged against Turkey.

Similar to Venezuela's, the Turkish economy has suffered from US sanctions. As noted above, the US government imposed tough sanctions on Ankara in 2018 after the Turkish government arrested the American evangelical pastor Andrew Brunson in Turkey on terrorism-related charges.[67] President Trump even vowed to "devastate" Turkey's economy. The sanctions damaged the Turkish economy so badly that its currency plunged to a record low against the dollar. This created negative sentiments among not only Turkish ruling elites but also the Turkish people, who faced the sanctions' bitter outcome. Growing disenchantment with US sanctions and pressures led to the burgeoning of the Turkish–Venezuela relationship.

Especially at a time when Western countries are leaving Venezuela because of a fear of sanctions, Turkish companies appear to be increasingly interested in pursuing opportunities there.

Shortly after the US sanctions were imposed, Turkish foreign minister Cavusoglu paid an official visit to Venezuela in September 2018. During his visit, he accused the US of using the dollar as a tool to attack other countries. And he also announced Turkey's intention of recognizing the "petro" and its eagerness to use local currencies in bilateral trade between the two countries, and thus to eliminate the US influence through dollar.[68]

For Erdoğan and his supporters, Venezuela is considered another victim of a broader Western conspiracy targeting like-minded leaders in the world. This has underpinned the disproportionate reaction to regime change in Venezuela that Erdoğan's Turkey has displayed.

The Economic Relationship

Although anti-American sentiment and personal affinity between the countries' two leaders are at the forefront of driving bilateral relations, business and commercial interests are also critical factors in the burgeoning friendship between Turkey and Venezuela. Even though this affinity based on anti-Western sentiment is growing stronger, the two governments have fundamentally different political identities and ideologies. Despite its troubled relationship with Western allies and Erdoğan's authoritarian rule, Turkey is still a candidate for membership in the European Union and is a member of NATO. Thus, Ankara's pivot to Caracas may be more of temporary partnership than a permanent alliance.

In light of its continuing political, economic, and humanitarian meltdown, Venezuela has been desperate for new partners to shore up its deteriorating economy. Conversely, Turkey has sought to diversify its partners beyond its traditional sphere of influence and to expand its export market in Latin America.[69] Turkey has certain economic interests in Venezuela. Especially at a time when Western countries are leaving Venezuela because of a fear of sanctions, Turkish companies appear to be increasingly interested in pursuing opportunities there.

Turkish businesspeople have sought preferential access to Venezuela's domestic market and the Erdoğan government has negotiated and gained favorable investment ventures and contracts in Venezuela. During trade discussions at the Foreign Affairs Commission in Turkey in May 2019, Venezuelan officials indicated that the Venezuela would provide concessions, including tax exemptions for Turkish products.[70] Similarly, the Venezuelan representative to Turkey's business association, MUSIAD, indicated that "the Venezuelan government has offered to give gold mine[s] to Turkish companies… . Seventy percent of the mine revenues will go to the Turkish companies and the rest to the Venezuelan government."[71]

Although Turkey's trade with Venezuela seems profitable, it is still risky, due to mounting US sanctions. However, this is not the first time that Turkey has sought risky commercial relations with a country sanctioned by the United States. Beginning in 2012, Turkey helped Iran evade US sanctions by providing billions of dollars' worth of gold in exchange for Iranian natural gas and oil. The state-owned Turkish bank, Halkbank, is now accused by US prosecutors of helping Iran evade US sanctions in 2012.

Recently, some companies in Turkey have appeared to attempt to circumvent US sanctions against Venezuela. For example, the company Grupo Iveex Insaat, which is registered in Turkey, started buying Venezuelan oil in 2019 despite US sanctions on trade in Venezuelan crude oil. Similarly, a Turkish steelmaker received one cargo from Venezuela's state-run company, Corpovex, in September 2019 amid ongoing US sanctions.[72]

That said, it should be noted that despite rising bilateral commercial relations, Venezuela is still far from being one of Turkey's chief trading partners. Its trade volume with Venezuela still accounts for a fraction of Turkey's total trade, at the level of small percentages. Similarly, overall, the level of investment and commerce with Turkey remains insignificant for Venezuela in comparison with China, Russia, and India.

The Challenges of the Turkey–Venezuela Partnership

Largely on the sidelines of Latin American politics, Ankara has become heavily invested in its relationship with Caracas. However, Turkey's newfound partnership with Venezuela has serious limitations.

The closer Turkey–Venezuela ties naturally strain Ankara's relationship with the United States. The Trump administration dramatically ratcheted up sanctions to impose hardships that could lead to regime change in Venezuela; hence, Erdoğan's support for Maduro has certainly become an irritant in the US efforts to isolate the Maduro regime.

In particular, Turkey's gold trade with Venezuela, which extends a lifeline to Maduro, has been a source of concern for Washington. As the former US special representative for Venezuela, Elliott Abrams, stated, "Whether it's gold or anything else of value, we inquire, and we ask the Turkish government to stop it… . We have not had the cooperation from Turkey that we want. Turkey is undermining its own position, not only in Venezuela but all of Latin America; …it is a cost for Turkey."[73] Furthermore, during a Senate Foreign Relations Committee hearing in August 2020, Senator Jeanne Shaheen asked Abrams whether the United States was planning to impose sanctions on Turkey because of Erdoğan's relations with Maduro. Abrams implied that there was already an ongoing investigation into Venezuelan shell companies operating in Turkey and that the United States would take action against Turkey if the United States found any actions violating the sanctions.[74]

The US authorities are concerned not only because of the lack of transparency of the deals but also because of the benefits they produce. Neither Turkish nor Venezuelan official data provide any tangible information about the ultimate destination of

Venezuelan gold after it arrives in Turkey. Although Ankara has assured the US authorities that all of Turkey's trade with Venezuela is in accordance with international law, US officials visited Turkey in 2018 and shared their concerns that some of the gold may have wound up in the hands of the Iranian authorities.[75]

While the lack of transparency remains a significant issue in bilateral relations, allegations by a convicted Turkish crime boss focused a spotlight on Venezuela in Turkey. The crime boss claimed that Erkam Yildirim—the son of a former Turkish prime minister—had been involved in a scheme to traffic cocaine from Venezuela to Turkey.[76] Following a 2020 seizure in Colombia of 4.9 tons of cocaine destined for Turkey, the source alleged that the son of the former prime minister had looked for a new cocaine trafficking route from Colombia through Venezuela. The Turkish government immediately rejected the allegations and declined the request of the Turkish opposition to investigate.The companies involved in the opaque financial deals between the two countries have recently faced US sanctions. In July 2019, the US Treasury imposed sanctions on Istanbul-based Mulberry Proje Yatirim for its alleged involvement in corruption networks.[77] Alex Saab, a Colombian businessman who has been implicated in several corruption schemes, has allegedly played a key role in building Venezuela's economic relationship with Turkey through his shell companies located in Istanbul.[78] Possible indictments of Saab in the United States could reveal the details of his complicated web in Turkey and uncover the involvement of Turkish officials at the highest level. This could create additional tension with the US authorities, similar to the Halkbank case related to a scheme to evade US sanctions against Iran.

Alex Saab, a Colombian businessman who has been implicated in several corruption schemes, has allegedly played a key role in building Venezuela's economic relationship with Turkey through his shell companies located in Istanbul.

The sanctions have considerably raised the stakes for companies and institutions in Turkey doing business with Maduro. The official numbers indicate that the trade volume between Turkey and Venezuela dropped considerably during the first half of 2019, from $844.36 million in 2018 to $42.6 million. Though Turkish exports to Venezuela are down by 34 percent, Turkish imports from Venezuela decreased 99 percent compared with the previous year.[79] These figures also indicate that the gold trade between the two countries was suspended in November 2018, once US sanctions were announced against Venezuela's gold trade.[80] That said, Ankara, being aware of how the risk levels have risen with regard to its trade relations with Caracas, might have attempted to hide the real figures.

Despite Ankara's public defiance of Washington's pressure, Turkish companies are indeed highly sensitive to the US spectrum of sanctions against their country.[81] This was reflected in the decision of one of Turkey's largest state-owned banks, Ziraat Bank, in August 2019. After the US government issued an executive order permitting the Treasury Department to sanction foreign nationals and companies that do business with the Maduro administration, Ziraat Bank decided to stop offering services to Venezuela's Central Bank.[82] Similarly, the head of the Foreign Economic Relations Board's (DEIK) Turkey–Venezuela Business Council said that since the gold is covered by US sanctions, Turkey should avoid any gold trade with Venezuela.[83]

Moreover, Turkey's increased rapprochement with Venezuela led the Trump administration to deepen its ties with Greece and Cyprus, whose relations with Ankara are under strain over latter's maritime claims in the eastern Mediterranean. Shortly after Turkish foreign minister Cavusoglu's visit to Caracas in August 2020, US secretary of state Mike Pompeo paid an official visit to Greece and Cyprus.[84] While the Turkish minister criticized Pompeo's visit to Cyprus, he implied that the US government could have been bothered by his visit to Venezuela.[85]

The Future of Turkish–Venezuelan Relations

Venezuela and Turkey have formed an unconventional partnership characterized by cooperation in several areas. But Turkey's political and economic importance to Venezuela is small compared with that of Russia and China. Likewise, the relationship between the two governments is not deeply institutional, but mostly stems from the close personal relationship between the two countries' authoritarian leaders. Turkey and Venezuela are far from turning this personal rapprochement into a broader alliance.

Turkey's recent enthusiasm for Maduro is based on interests that are more pragmatic and less geopolitical in comparison with those of Russia and China, which have long sought to assert economic and political influence in the Americas. Hence, punitive measures by the United States that increase the cost of Turkey's relations with Venezuela could potentially push Erdoğan to scale back his support for Maduro. Similarly, Turkish companies will become more circumspect about their financial interactions with Venezuelan entities.

That said, it would be a mistake to assume that bilateral political relations will suffer an abrupt rupture in the foreseeable future. This was evident in the press release from the Turkish government in response to the decision of Ziraat Bank to stop offering services to Venezuela's Central Bank: "The decisions taken by the private sector and institutions, especially due to the comprehensive unilateral sanctions imposed on Venezuela by the US, are independent from the official bilateral relations between Turkey and Venezuela. Turkey's principled position towards Venezuela has not changed."[86]

Commercial activities are unlikely to be the dominant driver of the relationship between Ankara and Caracas. Yet the Turkish authorities will retain their "principled position" regarding Venezuela. It is likely that Erdoğan will continue to openly criticize US policy and sanctions against Venezuela, whereas companies and state institutions will abide by the US sanctions. Finally, Turkey's position in the current Venezuelan crisis would also likely spell trouble for Ankara's relations with the Venezuelan opposition in an eventual post-Maduro era.

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8

VENEZUELA'S RELATIONS WITH IRAN:

Maduro's Lifesaver in 2020

James Bosworth

Iran's President Hassan Rouhani, right, meets with Venezuela's President Nicolás Maduro, left, at the Saadabad Palace in Tehran, Iran, Saturday, Oct. 22, 2016. Image source: AP Images

This chapter explores specifically how Iran assisted the regime of Nicolás Maduro to evade US sanctions and survive politically and economically in 2020. While Venezuela and Iran have several decades of cooperation, the public record suggests that support in 2020 was more extensive than in the past.[1] Iran provided:

1. material support in helping Venezuela deal with shortages of food and fuel;
2. important lessons and connections to evade sanctions; and
3. a financial connection, as the Iranian government accepted payments in Venezuelan gold.

In the process of their cooperation, the two countries exposed the limits of US sanctions policy. Having survived the "maximum pressure" campaign of the Trump administration, Iran's actions toward Venezuela now challenge any attempt by the Biden administration to make progress in achieving US objectives.

Venezuela's modern relations with Iran are defined by the relationship each country has with the United States. Other than the fact both nations produce oil and were among the original founders of the Organization of the Petroleum Exporting Countries, there is little that aligns the two countries outside of their presence among the list of countries that the United States considers antagonists. That mutual antipathy toward the United States is what drove the countries to become allies in the 2000s.[2] The subsequent use of heavy individual and sectoral sanctions by the United States against both countries has pushed them into a greater alliance.

Nearly everything that happened in 2020 to push Iran and Venezuela closer together was a reaction to US actions and serves as a lesson in the second-order consequences of sanction policies.

Surviving under sanctions often requires a "black knight" to assist the sanctioned regime. "Black knights," as described by three prominent economists, are allies of a targeted country who provide support aimed at offsetting the effect of sanctions.[3] In the case of Venezuela in recent years, several allies have stepped in at times to play this role. These allies include Russia, China, India, and Turkey. In 2020, because many of those other allies appeared less willing or less capable of assisting, Iran stepped up its support.

The relationship between Venezuela and Iran shifted during the Trump era, culminating in cooperation in 2020 that exceeded all previous public bilateral cooperation efforts between the two countries. Iran helped Maduro evade US sanctions, providing food and fuel in exchange for gold. This was critical support for Maduro amid shortages and significant economic and political crises, even as many of Maduro's other allies publicly backed away (Russia's Rosneft withdrew from the country; China's loans dried up) or simply paid less attention to Venezuela due to the COVID-19 crisis and the related global economic recession.

Nearly everything that happened in 2020 to push Iran and Venezuela closer together was a reaction to US actions and serves as a lesson in the second-order consequences of sanction policies. The United States' sanctions of both Venezuela and Iran definitely changed the behavior of the two countries, but not in the way that the Trump administration intended. The two countries grew closer, found ways to support each other, and helped limit the effectiveness of US sanctions.

In spite of its earlier "maximum pressure" rhetoric and repeated insistence that "all options were on the table," when faced with public Venezuela–Iran cooperation, the Trump administration backed away from military confrontation to prevent deliveries of fuel and food. The costs of enforcing sanctions demonstrated their limits and the potential strength of an antisanctions alliance.

Iran's experience with sanctions related to its nuclear program before the Joint Comprehensive Plan of Action signed in July 2015 provided the country with several lessons that it was able to pass along to Venezuela. Among these lessons, if sanctions are meant to isolate, then finding and cooperating with allies in a similar position is key to negating their effect. In the process, Iran gained a market for its gasoline and obtained gold and other benefits, making the alliance profitable.

Third parties—including Turkey, Russia, and China—also helped support Iran and Venezuela in evading sanctions and surviving the pressure campaign. US policies have created an axis of the sanctioned.

The presence of individual superfacilitators of illicit activity made the difference between successful and unsuccessful cooperation. In the case of Iran and Venezuela, a Colombian businessman, Alex Saab, played a critical role in organizing the flows of oil, gold, and financing to make the cooperation between the two countries possible. Even after his arrest in Cabo Verde, the structures that Saab put in place ended up providing millions of gallons of gasoline to Venezuela and critical gold supplies to Iran during the rest of 2020 and into 2021.

A Quick History

Iran's assistance to Maduro did not materialize out of nowhere in 2020. Iran and Venezuela have spent parts of the past two decades forging an alliance.[4] Iranian president Mohamed Khatami visited Venezuela three times during his 1997–2005 term. The friendship grew stronger in the mid- to late 2000s, driven by the late Hugo Chávez and Iran's former president, Mahmoud Ahmadinejad. The two met on multiple occasions in Venezuela and Iran, and also on the sidelines of other international conferences. The two signed agreements and invested in each other's countries. They enjoyed playing up their alliance as a counterweight to the United States in both South America and the Middle East. Chávez helped connect Ahmadinejad to other Latin American leaders who were trying to separate their countries from the influence of the United States, including Bolivian president Evo Morales and Nicaraguan president Daniel Ortega.

Some of the projects had real money behind them. Iran made several billion dollars in energy investments in Venezuela in 2005 and 2006.[5] The two countries jointly formed the Banco Internacional de Desarrollo (International Development Bank) in 2009 and funded it with $200 million. The bank largely served as a slush fund for projects tied to corruption.

Both countries, but particularly Venezuela, enjoyed inflaming the worst nightmares of US policymakers focused on national security issues. In 2008, the two countries signed a nuclear cooperation agreement. In 2009, Venezuela hinted that it might explore the possibility of mining uranium to help Iran with its nuclear program. Neither of those efforts ever appears to have gone beyond public rhetoric, but they certainly sparked concern. Similarly, Iran invested in a drone-manufacturing plant in Venezuela, but the plant never made many drones, and those it was designed to manufacture had limited capabilities.[6]

Ahmadinejad attended Chávez's funeral and Maduro's presidential inauguration in 2013. The Iran–Venezuela relationship briefly weakened after Ahmadinejad lost power in 2013 to Hassan Rouhani. The new Iranian president did not place the same level of importance in the relationship and was more focused on negotiations with the United States and Europe related to Iran's nuclear program. However, the relationship did not diminish altogether, and it reemerged with force in the face of sanctions by the Trump administration.

Throughout the Venezuela–Iran relationship over the past two decades, there have been many reports about such cooperation and its links to terrorism. Those include concerns about Hezbollah money laundering and the potential that Venezuela provided passports to Iranian officials or Hezbollah members.[7] Douglas Farah has described Venezuela–Iran cooperation as an important foothold for other Iranian-linked terrorist threats in the Western Hemisphere.[8] A 2020 Atlantic Council report highlighted potential financial ties between Hezbollah and Venezuela.[9] This chapter focuses more on Maduro's relationship with the Iranian government and sanctions evasion, but the Hezbollah connection plays an important role in US perceptions of the relationship and is an important justification for maintaining sanctions on both governments.

The Trump Era and "Maximum Pressure"

The administration of Donald Trump ramped up the pressure and sanctions on both Iran and Venezuela. Shortly after taking office, Trump announced the United States' withdrawal from the Joint Comprehensive Plan of Action and the reimposition of sanctions on Iran.[10] On Venezuela, Trump began by increasing the individual sanctions that began under the Obama administration, including the targeting of Tareck el-Aissami, a *chavista* official who has served in numerous posts, including as vice president and oil minister, and his *testaferro* (front man), Samark López.[11]

Trump's Treasury Department then added sectoral sanctions on gold, the financial sector, and, eventually, the oil sector.[12] The sectoral sanctions were an escalation from the previous administration's policy. They also divided the United States from its partners in Latin America, from Canada, and from its partners in Europe, which were willing to sanction individuals who engaged in corruption and human rights abuses as a way of changing behavior but were resistant to sectoral sanctions that would be seen as targeting the country as a whole.

Those in favor of sectoral sanctions see Maduro and his allies as having captured the Venezuelan state, using it to generate profits and maintain power. Individual sanctions are not enough to generate pressure when every institution within the government, including the Central Bank and the national oil company, is being used by those in power. Further, while humanitarian exceptions are built in to the sectoral sanctions, supporters regularly note that the *chavistas* mismanaged the economy into ruin well before sanctions took effect, including stealing hundreds of billions of dollars in government funds through corruption. Any lifting of sectoral sanctions would likely be siphoned away to corruption rather than help the population.

Opponents of sectoral sanctions argue that they do more harm than good. Sanctions that punish an entire economy will generally hurt the most vulnerable hardest, while those who are in positions of power maintain wealth and an ability to evade the worst effects of the sanctions. Historically, sectoral sanctions have a poor track record when their stated goal is regime change, as appeared to be the case under the Trump administration. Although humanitarian exceptions exist, many companies "overcomply" with sanctions and refuse to work anywhere near sanctioned countries or companies out of fear of potential punishment, weakening those exceptions and limiting humanitarian assistance needed by a suffering population.

Sectoral sanctions are often paired with secondary sanctions that target companies and individuals that assist in evading the sanctions wherever they are in the world. Supporters argue that these secondary sanctions are necessary to enforce the sanctions regime and prevent evasion. Critics say that secondary sanctions are an unfair extraterritorial application of US law and that they add significant costs to private sector companies that must pay for due diligence to comply with the law. Essentially, the US government is adding a cost of doing business to companies that want to act properly by making them pay to check sanctions compliance.

The oil sanctions were applied in tandem with an important political shift in early 2019, as the United States and dozens of other countries moved to recognize opposition leader Juan Guaidó as interim president, rather than Nicolás Maduro. The Trump administration appeared to believe that the oil sanctions would exert enough economic pressure to assist in a transition of power.

The sanctions included exceptions that were intended to protect humanitarian aid and civil society. A 2021 report by the Government Accountability Office found that the US Treasury Department failed to track these exceptions and that many nongovernmantal organizations opposed to Maduro and supported by the United States had been affected by the sanctions effort.[13] More broadly, though supporters of sectoral sanctions are correct the Maduro government's mismanagement and corruption are the main source of Venezuela's suffering and shortages, the sanctions probably added to shortages of food and fuel in Venezuela and gave Maduro an easy target to blame for the country's problems.

IRAN'S ASSISTANCE TO MADURO IN 2020:

- Equipment and personnel to attempt to repair Venezuela's refineries
- Shipments of gasoline
- Shipments of food and a supermarket with Iranian products
- Accepted payment in gold while Venezuelan gold was under sanctions
- Lessons on how to evade sanctions including how to manage international oil shipments and how to launder gold into the international financial system
- Cooperation on cryptocurrency efforts

Equipment and Personnel to Attempt to Repair Venezuela's Refineries

Venezuela faces chronic gasoline and diesel shortages in spite of sitting on the world's largest known oil reserves. Ideally, the Maduro regime should be able to refine its own fuel, but two decades of mismanagement and corruption, combined with the more recent effects of sanctions, have left Venezuela's largest refineries barely functioning.

The main refineries of Amuay and Cardón have a capacity of 940,000 barrels per day. They have regularly experienced power outages, equipment thefts, and personnel shortages, leaving them barely running. The composition of Venezuela's heavy-sulfur crude oil also makes refining more difficult without specific equipment and additives (known as diluents).

According to what is known publicly, beginning in April 2020 Iran sent equipment and personnel to help repair the Cardón and Amuay refineries.[14] The assistance arrived on Iranian Mahan Air flights that resumed in 2020 after many years of limited or no flights between the two countries. This was an additional blow to US sanctions efforts, because the United States had sanctioned Mahan Air in late 2019 for its ties to the Iranian Revolutionary Guard Corps.[15]

Argus Media reported that at least 20 Mahan Air flights arrived in 2020, carrying catalyst for the refinery complex. In 2021, Maduro switched to flights by Venezuela-owned Conviasa, and at least 7 flights took place in February 2021.[16]

Iran's assistance likely played a role in the improved performance of the refinery complex, but the refineries are far from operating at normal capacity. Maduro claimed that the two refineries were functioning at a level sufficient to provide enough fuel for the whole country prior to an explosion in October 2020 that took the Amuay refinery offline.[17] As of February 2021, Amuay's cracker (which is a critical refinery component that heats up the crude petroleum and breaks it down into more useful petrochemicals) remains offline, and Cardón is operating at less than 20 percent capacity.

Shipments of Gasoline

With the refinery repairs far too slow to overcome the immediate fuel shortage, in May 2020, Iran began providing gasoline shipments to Venezuela. Although the United States did not publicly attempt to stop the refinery assistance, the fuel shipments sparked a showdown between the Trump administration and Venezuela's Iranian suppliers.

The show of support began when Iran sent five tankers loaded with gasoline to Venezuela in May 2020.[18] Ships in what many journalists dubbed the "flotilla" traveled with their trackers off for much of the trip, but they were closely monitored by media outlets, private-sector firms, and, almost certainly, government agencies. The Trump administration made vague threats about doing something but refused to specify which specific measures it would take.[19] Iran responded with threats to retaliate against ships in the Persian Gulf if its ships were stopped. All five ships successfully made it to Venezuela and offloaded their gasoline cargo.[20]

However, the Trump administration acted soon afterward. In late May, US officials threatened sanctions against the shippers to halt two Liberian-flagged vessels containing Iranian gasoline that were headed for Venezuela.[21] In late June, the US Treasury Department sanctioned the Iranian tanker captains who delivered gasoline in May to Venezuela.[22]

In August, the United States seized four Iranian tankers carrying over 1 million barrels of oil combined. Iran denied that the oil was heading for Venezuela. The seizure, which was legally justified due to sanctions against the Iranian Revolutionary Guard,[23] did not involve the US military, and the ships were boarded without force after the United States pressured the Greek shipping company that owned the four ships.[24]

The US actions to seize and turn around ships and sanction captains did not deter Iran from continuing to send oil products. In September, the *Forest*, *Fortune*, and *Faxon* arrived in Venezuela with additional gasoline. These ships transited again to Venezuela in February 2021. Additionally, condensate arrived from Iran on the tanker *Honey*. However, this tanker was misnamed and was likely *The Horse*. The tanker returned to Iran with Venezuelan heavy crude.

Iran's ability to send fuel to Venezuela demonstrated the limits of the US sanctions strategy, in that officials were unwilling to enforce it with military action in the Caribbean or elsewhere, thereby risking a full-scale military confrontation.

Shipments of Food, and a Supermarket with Iranian Products

In 2020, in addition to gasoline, Venezuela faced extreme food shortages again after a brief reprieve from the shortages in 2019. The reasons for the shortages are multifaceted, and include the lack of fuel and a shortage of foreign currency to pay for imports of machinery and fertilizer.

As part of the agreements between Iran and the Maduro regime, Iran sent food and other consumer goods to Venezuela. Iran also opened up a branch of the Megasis supermarket in Caracas in late July 2020.[25] This supermarket features Iranian products that substitute for other products from countries from which imports are too expensive. Iran, meanwhile, receives an economic boost and an export destination.

On the surface, there is little to criticize about a deal that brings food to hungry Venezuelans. However, the Maduro regime has a history of using food as a political weapon. The regime has built an infrastructure to track who votes, and political participation can determine whether people receive subsidized food. During the illegitimate

December 2020 legislative elections, regime ally Diosdado Cabello specifically threatened to withhold food from those who failed to vote.[26]

The Megasis supermarket location has its own political history. It was previously an Éxito supermarket location that was expropriated from its French-Colombian ownership by the Chávez government. It was then used as a site for the distribution of subsidized food boxes, which are known by the Spanish acronym CLAP. These CLAP boxes often went only to regime supporters. Also, the contracts to put food in these boxes were negotiated by the businessman Alex Saab. Saab stole hundreds of millions of dollars from ordinary Venezuelans by skimming money off these contracts. As described later in this chapter, he also played a large role in Venezuela–Iran relations.

Lessons from Iran: How to Evade Sanctions, Manage International Oil Shipments, and Launder Gold in the International Financial System

Amid all this assistance are lessons that Iran learned from its own experience as a heavily sanctioned regime. The first lesson is that surviving sanctions requires allies. Sanctions are intended to isolate governments. To the extent that governments sanctioned by the United States can cooperate and trade with each other, they can help break the isolation.

Second, Iran helped Venezuela learn specific tactics to help ships with oil, fuel, and other supplies evade efforts to sanction these ships and seize their goods. Ships turn off their transponders, are repainted, list themselves as vessels that have actually been scrapped and removed from service, and engage in ship-to-ship transfers of products in order to create difficulties in tracking the sanctioned oil and the ships engaging in the trade.

Researchers from C4ADS and IBI Consultants published a report analyzing the ships that made ports of call in Venezuela in the year after the Trump administration announced oil sanctions in January 2019. Though the number of ships using an Automatic Identification System dropped by 46 percent, the number of ships making ports of call in Venezuela only dropped 2 percent. The ships that went to Venezuela were different than before the sanctions, with over 100 ships making their first visit to Venezuela after the sanctions were announced. Cuba, China, and India were the main destinations for ships after they passed through Venezuelan waters.[27]

Ships turn off their transponders, are repainted, list themselves as vessels that have actually been scrapped and removed from service, and engage in ship-to-ship transfers of products...

Efforts to repaint and fraudulently name ships are detectable. So while these tricks may work in the short term, such as while the ship is in transit, sanction-evasion techniques that were effective 10 years ago do not prevent ships from being tracked today. In December, a very large crude carrier took on 1.9 million barrels of Venezuelan heavy crude to be shipped to Asia. PdVSA documents claimed that the ship was the *Ndros*. However, Reuters and Tanker Trackers reported that the *Ndros* had been scrapped in 2018 and the vessel was actually the Liberia-flagged *Calliop*.[28] Tanker Trackers, which uses satellites and port records to monitor ships, also recently identified a ship that was repainted midvoyage from Venezuela.[29]

Sanctions evasion is by definition intended to avoid detection; therefore, it is plausible that Iran began teaching Venezuela these techniques well before 2020. Reuters reported that Venezuela sent 18 shipments of oil to China in the second half of 2019, noting that "the STS [ship-to-ship] maneuvers mirror tactics that Iran, whose oil industry is also under US sanctions, has used to ship its oil to China for years."[30]

Bloomberg reported that Venezuelan oil is being blended with other petroleum products in ship-to-ship transfers near Malaysia. Those blends, combined with fraudulent paperwork, allow China to import the mostly Venezuelan oil.[31] Iranian shipments of fuel to China often avoid sanctions in similar fashion.

Document falsification is particularly risky, because it creates fewer records from which Venezuela can make financial claims if the oil is lost, stolen, rerouted, or seized.

When bills of lading are carried on board ships and the information is falsified, all parties in the transaction face heightened risk.

Iran appears also to have taught Venezuela how to launder gold into international markets; that effort predates the 2020 cooperation by several years.

Iran drew on its own experience using gold to evade sanctions. For example, Turkey's minister of economy, Zafer Caglayan, and the network of facilitator Reza Zarrab helped arrange the sale of over 200 tons of gold to Iran (worth around $13 billion) in exchange for oil deals and bribes in the early 2010s (see chapter 7).[32]

Even as that network was shut down, in part due to Zarrab's arrest in 2016 and prosecution in the United States, a new network in Turkey popped up that assisted Venezuela in selling and laundering gold on the international market.[33] This network used new facilitators and banks, but many of the same techniques as the previous Turkey–Iran gold laundering schemes. US officials told Bloomberg that they believed that gold being sent to Turkey in 2018 could have been headed to Iran indirectly, although they could not prove it at the time.[34] By 2020, it was clear that the individuals helping arrange gold sales to and food purchases from Turkey were also key facilitators in the deals with Iran.[35]

The Facilitators: El Aissami and Saab

While bilateral cooperation is often portrayed as agreements between countries or between presidents, specific individuals can play influential and outsized roles in the relationship and its contours. Iran's support for Maduro in 2020 was strongly driven by two Venezuelans who helped negotiate many of the agreements.

First, Iranian cooperation with Venezuela appeared to take off with the appointment of Tareck El Aissami as the country's oil minister. El Aissami, Venezuela's former vice president and foreign minister, has long been an ally of Iran. The second individual, Alex Saab, as mentioned above, is a Colombian citizen who was practically unknown until several years ago and never held an official role in the Venezuelan government before 2020.

Journalists and researchers have attempted to disentangle the Saab network for years. There have been several informative investigative articles on the Saab network, including some groundbreaking research done by the team at Armando.info, a Venezuelan investigative journalism website.[36]

Starting in 2011, Saab allegedly pocketed over $300 million in a corruption scam involving housing contracts. In 2015, Saab's company based in Switzerland landed a $4.5 billion contract with PdVSA in spite of having none of the required experience to drill.[37] Saab also negotiated key portions of a deal with Mexican firms to obtain food for CLAP boxes, likely overcharging by significant amounts and pocketing the difference.

Saab then played a key role in Maduro's negotiations with Turkey in 2018—buying food and selling gold—and likely opened up his contacts with Iran at that point. C4ADS researched and identified Saab's role in the management of Turkish and Venezuelan firms used to move gold and profit from overpriced food contracts.[38]

In June 2020, Saab's plane could not make it from Caracas to Tehran without refueling. Denied the right to land by other countries in Africa, his plane made an emergency stop in Cabo Verde, where he was arrested and faces extradition to the United States. There is certainly much more about the Colombian-born financier for the Maduro regime than has yet come to light, one reason analysts believe that Maduro fears Saab's extradition to the United States.

Saab was allegedly carrying a letter signed by Maduro's foreign minister that accredited him to Iran, something that Saab's lawyers argued gave him diplomatic immunity.[39] The Maduro regime allegedly had asked the government of Iran to assist Saab's negotiations to obtain another 5 million barrels of gasoline and also medicines.

Saab's lawyers admitted that he previously visited in Iran in April 2020. He negotiated the first round of gasoline shipments in May and also obtained parts for oil refinery repairs, food, and medicine. In exchange, he was authorized to sell off portions of Venezuela's gold reserves to Iran.

Payments in Gold in Defiance of Sanctions

Relevant to all these deals is the fact that Iran accepted Venezuelan gold as payment for transactions. Iran did not just teach Venezuela how to launder and traffic sanctioned gold. It became the primary buyer of that gold.

In return for the refinery repairs, Bloomberg reported the Maduro regime gave 9 tons of gold worth around a half billion dollars via a Mahan Air flight that went directly from Caracas to Tehran.[40] Though the reports were denied at the time, Iranian Revolutionary Guard Corps major general Yahya Rahim-Safavi confirmed in September that the gold was transferred by plane.[41]

There is an older sanctions-related reason that Venezuela had billions of dollars in reserves in gold bars in its Central Bank. In 2011, fearing potential future sanctions (a lesson learned from Libya[42]) Hugo Chávez ordered 160 tons of gold worth over $11 billion moved from European banks back to Venezuela.[43]

Iran did not just teach Venezuela how to launder and traffic sanctioned gold. It became the primary buyer of that gold.

Chávez was quite prescient on this issue. In 2019, Maduro was blocked from accessing Venezuela's remaining gold reserves in the United Kingdom when that country recognized interim president Juan Guaidó. Having the gold physically in Venezuela in order to finance transactions with Iran, Russia, China, Turkey, and other countries was critical to Maduro's survival.

On top of the gold bars at the Central Bank, Venezuela also has significant deposits of gold ore that has yet to be mined. Unlike oil extraction and refining, something that requires technical expertise and heavy equipment to do at scale (particularly given Venezuela's abundant heavy crude), gold mining can be done by unskilled workers using simple tools.[44] In doing so, the Maduro regime has worked to export that gold abroad, including some shipments to gold refineries in Turkey and the Middle East.[45] Due to purposefully vague record keeping, the gold from mining and the gold bars as reserves may be intermingled in Venezuela's financial dealings.

In spite of the mining effort, according to Reuters, Venezuelan Central Bank documents show that it only had 86 tons of gold remaining as of the end of 2020.[46] The reserves have been falling for years, something that will eventually cause problems for Maduro or any leader who succeeds him. In one sign that Iran is motivated by money and not ideology, the *Victor 1*, after 100 days at sea, did not deliver oil to Venezuela due to a payment dispute.

Although gold is the primary way Venezuela is paying Iran, it may also be providing other products. In February 2021, for example, Reuters reported that Iran is accepting jet fuel from Venezuela in exchange for gasoline.[47]

Cooperation on Cryptocurrency Efforts

Along with exchanging actual gold, Venezuela and Iran, through their militaries, cooperated in mining the digital gold that is Bitcoin and other cryptocurrencies. Maduro has promoted the petro, Venezuela's homegrown cryptocurrency, which is largely a scam. But the country's military has used scarce electricity and bandwidth to mine bitcoin. Iran's Revolutionary Guard Corps has also mined bitcoin as a way to earn money and have access to a currency that may be able to evade sanctions.[48]

The move into bitcoin and other crypto currencies is trendy. However, on top of providing potential currency and reserves, it also serves to undermine and work around the primacy of the dollar, upon which many sanctions are based.

As cryptocurrency adoption becomes more widespread, it will be important to monitor this form of sanctions evasion. Such adoption places US companies operating in the cryptocurrency space at risk of sanctions violations.

The Challenge: Knowing What We Do Not Know

There is still much about the relationship between Venezuela and Iran that is hidden from public view. Why are there Qods and Iranian Revolutionary Guard Corps personnel in Venezuela? Is Hezbollah still laundering money in Venezuela, and are there active threats from Hezbollah cells? How much gold has been transferred from Venezuela to Iran? What role did Iran play in other gold transfers to Turkey and the United Arab Emirates in 2018 and 2019? Answers to those questions are unclear, despite both informed and paranoid speculation online.

One recent example of the uncertainties in the relationship involves the February 2021 delivery of the first 100,000 doses of Russia's Sputnik V vaccine that arrived to Caracas. The flight went from Moscow to Tehran before landing in Caracas. Why would such a flight stop in Iran on its way to Venezuela?

Venezuela and Iran embrace the opaque nature of their cooperation and sometimes even play on the legitimate concerns and paranoia of those monitoring their relationship. As recently as last year, Maduro suggested that Venezuela may consider buying medium-range missiles from Iran after a similar unverified report appeared in Colombian media. Venezuela cannot afford medium-range missiles and it does not appear to be a serious consideration. But the report provided the sort of rhetorical fodder that distracts from the very real economic, energy, and sanctions-evasion cooperation in which the two countries publicly engage.

Lessons for the United States and Its Partner Nations

The Biden administration appears likely to roll back Trump's "maximum pressure" policies. And there are discussions about resuming negotiations with Iran over its nuclear program. Though early changes in sanctions policy toward Venezuela are likely to be limited to humanitarian exceptions such as diesel swaps, there is an expectation among analysts that a new policy approach, particularly toward sectoral sanctions, will emerge.

However, some sanctions will almost certainly remain on both countries. The US government will continue to sanction Iran for its connections to terrorism and for its missile program. Individual sanctions against Maduro regime officials who are corrupt or engage in massive human rights abuses are likely to remain. The Venezuelan gold industry remains a tragic mix of crime, human rights violations, and environmental destruction that is unlikely to be legalized any time soon.

As it considers a new approach, the Biden administration should learn from the recent sanctions-evasion cooperation between Iran and Venezuela in five main ways. First, sanctions have unintended consequences, and one of these is pushing sanctioned nations together. Venezuela, Iran, Russia, Syria, and Turkey are all finding ways to cooperate on shipments of food and fuel and on building the financial infrastructure to evade sanctions regimes that prevent trading in dollars.

Second, Iran and Venezuela will search for and exploit any loopholes that exist. That was true when the previous administration increased sanctions. If the Biden administration lifts any sanctions, the two countries will likely take advantage of this easing to find new loopholes to exploit.

Third, rhetoric needs to match reality. The "maximum pressure" discourse was undermined as Iranian planes and shipments of gasoline arrived in Venezuela. The US government did successfully seize and block some shipments, but Iran ultimately shipped fuel to Venezuela and received gold and other payments in return. Sanctions enforcement has significant limits if the United States is unwilling to back up its rhetoric, including through military escalation or brinkmanship. US officials should clearly state what they are prepared to do, and then follow through with appropriate action. This is true whether the policy moves in a direction of tightening or loosening existing sanctions.

Fourth, the role of individual facilitators should not be underestimated. Alex Saab and his network were critical to opening up the relationships in Turkey and Iran. The Maduro regime's response to the arrest of Saab has demonstrated just how much his efforts mattered to Iran–Venezuela cooperation. There are times that shutting down individual bad actors can have systemwide effects, and these opportunities should be exploited.

Fifth and finally, the United States needs to figure out how to help Venezuelans, not just punish the regime. Although Maduro and others in his government are principally responsible for Venezuela's humanitarian crisis, US sanctions resulted in a scenario in which Iran, not the United States, was providing the food and fuel that Venezuelans needed to survive in 2020 and early 2021. The images of Iranian assistance to Venezuela are far from the objectives the US government sought to achieve through its sanctions policies.

Notes

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1 Throughout this chapter, I reference the public dates of events as announced by the governments of either Venezuela or Iran, or by a major international media outlet with good sourcing. Given the opacity of a relationship focused on evading sanctions, it is always possible—and even likely in some instances—that events occurred that are not public or that do not have good enough sourcing to be cited.

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