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China-Venezuela: When Economic Statecraft Creates Economic Power

By Alexander Ernesto Gutiérrez

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Faculty Advisor: Matthias Staisch
Preceptor: Manuel Lopez

Abstract

This paper identifies a causal path between economic statecraft and economic power using Chinese economic statecraft in Venezuela as a case study. Chinese economic statecraft has become a unique phenomenon in the global economy. From investments in infrastructure projects to energy mining opportunities, foreign direct investments, and patient capital loans, Chinese economic statecraft differs from previous examples of statecraft. China has implemented its economic statecraft with the goal of achieving its strategic interests in overseas markets and expand its economy by gaining access to resources. This trend has resulted in the Chinese Belt and Road Initiative (BRI), a massive overseas economic investment project aimed to connect China with the rest of the world's economies. While the conventional wisdom on Chinese economic statecraft would agree that China is expanding its economic power, the conventional wisdom lacks a clear path between economic statecraft and economic power. Additionally, the literature on Chinese economic statecraft seldom includes sufficient case studies analyzing the effects of economic statecraft in Latin America.

This paper argues that there is a two-way path that clarifies when economic statecraft creates economic power. First, a state is said to achieve economic power when its economic statecraft capitalizes on material or power resources from a target state. Second, a state can achieve economic power over a target state when its economic statecraft includes economic coercion and economic inducements that result in a target state's changing its behavior. Evidence of change in a target state's behavior includes adoption, maintenance, refrainment, or abandonment. In the context of Chinese economic statecraft in Venezuela, China has been able to gain economic power by gaining access to valuable geostrategic resources such as oil and gold. Additionally, China has been able to gain economic power in Venezuela by using methods of

economic inducements and economic coercion that have influenced the Venezuelan government into adoption reforms to its economy.

Introduction

On September 2013, Chinese Communist Party (CCP) General Secretary Xi Jinping announced the launch of the country's Belt and Road Initiative (BRI), an ambitious infrastructure project meant to connect China with contracts and markets across Asia, Europe, Africa, and Latin America (Kaplan 2021). The project consists of foreign direct investments (FDI) where the CCP will subsidize and direct Chinese policy banks – usually the China Development Bank (CDB), the Export-Import Bank (Ex-Im), the China National Petroleum Corporation (CNPC), or the Agricultural Development Bank (ADBC) – who then finance overseas infrastructure or energy projects. The policy banks are typically state-owned enterprises (SOEs) with the CCP owning a large stake in the company. The policy banks will either fund overseas private companies, foreign SOEs, or help Chinese-owned companies that are directly leading construction projects in other countries.

Although China announced BRI in 2013, China's outward FDI has been a prominent form of the nation's economic statecraft for decades. In fact, China's FDI catapulted after the financial crisis of 2008 when developing countries throughout the world but specifically in Latin America and the Caribbean began experiencing economic setbacks. These countries took on Chinese investments as alternative financing from traditional western-backed financing from the International Monetary Fund (IMF) and the World Bank (Kaplan 2021). China is now the second largest source of FDI in Latin America behind the United States (Kaplan 2021). Additionally, China's economy expanded, with some scholars like John Mearsheimer (2019) arguing that China has reached great power status and created a multipolar international system.

China's rise and multipolarity have had significant implications for how China interacts with other states in the international system like the United States. U.S. officials are especially concerned with the BRI's investments in Latin America and the Caribbean, fearing that China is using its economic statecraft as a form of debt trap diplomacy in the region. Concerns for debt trap diplomacy can be summed up in Mansi Mishra and Vivek Kumar Mishra's work (2021) where they argue that China's debt trap diplomacy is a form of economic power, where China can influence the behavior of countries using economic measures. Debt Trap diplomacy works, as Brahma Chellaney (2017) explains, when a creditor provides financing to a debtor with an overwhelming amount of debt that the nation would not be able to pay back. The goal is to create insolvency and then gain collateral, such as access to natural resources, or gain political or economic concessions from the state. In other words, China's BRI is a form of debt trap diplomacy that creates economic power by not only granting Chinese access to material resources in a country, but also providing Chinese influence over the behavior of states that receive its financing. Since China uses tools of economic statecraft in its BRI, China's economic statecraft is said to create economic power by gaining access to strategic goods and natural in overseas markets and then influencing the behavior of those states.

Many scholars argue that the BRI and China's economic statecraft in general are expanding China's economic power in Latin America and the Caribbean, a region with many natural resources and developing markets. These arguments prevail in the literature, especially with scholars like William Norris (2016) arguing that China uses extensive economic statecraft to achieve its strategic objectives. Other scholars like Stephen Kaplan (2021) argue that China's BRI is expanding its economic power in developing regions like Latin America by gaining collateral through the commercial conditions outlined in their contracts. But to what extent do

these notions hold true? Is China actually expanding economic power in Latin America using economic statecraft?

To determine if this is so, it is important to define what exactly economic power, or power in general means. As Joseph Nye and Robert Keohane (1977) would argue, it can be difficult to measure power especially when considering the different definitions of power. Nye and Keohane establish power as a state's influence over the outcomes of other states, while Mearsheimer (2001) defines power as a state's material resources. While one can quantify a state's resources, it is difficult to determine if states are really influencing others' behaviors. Because of the difficulty in measuring power, it is important to look at specific cases of Chinese economic statecraft to see how China gains in terms of its material power and how it leverages its material power to influence the behaviors of states.

When looking at the many cases of Chinese economic statecraft and the BRI, one can see different results of Chinese economic power, both as a measure of material resources and its influence in the behaviors of states. In the case of Sri Lanka (Hameiri 2020, Brautigam and Rithmire 2021), for example, China's Ex-Im Bank provided $757 million to Sri Lanka in 2012 to help the Sri Lanka Ports Authority (SLPA) company transform Hambantota into a container port. The construction project lost money in 2014, and SLPA brought on more experienced operators from the China Harbor Group and China Merchants Group, two engineering and construction companies with experience constructing ports.

By 2017, Sri Lanka held a tremendous amount of international sovereign bonds, making up 40 percent of the country's external debt, and so the country reached a $1.5 billion bailout with the IMF to avert a balance of payments crisis. Eventually, Sri Lanka leased out the underperforming Hambantota Port to China Merchants Group, giving the company majority

shareholder status and a 99-year lease. The conventional wisdom is that China brought Sri Lanka into a debt-trap with its financing, knowing that the country would not be able to pay back its loans and forcing the country to default so China can get access to the Hambantota port. In other words, China's gained economic power in terms of its material resources by acquiring the port. China also influenced the behavior of Sri Lanka by inducing it to give up the port.

In reality, however, only 5 percent of Sri Lanka's $4.5 billion debt consisted of loans from the Hambantota port project, with Central Bank governors arguing that Chinese finance was not the source of the country's debt problems. Regarding the 99-year lease of the Port city, Sri Lanka only received two bids, one from China Merchants Group and the other from China Harbor Group, meaning Sri Lanka offered a bid to interested parties but received only interest from Chinese commercial actors. Although a Chinese company gained a 99-year lease to the port city, it does not appear that Sri Lanka was induced by China to this decision but rather that it willingly adhered. China did gain economic power in terms of material resources by gaining access to a port, but the evidence for Chinese economic power influencing the behavior of Sri Lanka is not clear.

Question and Relevance

The Sri Lankan case may not be the only case where there is not a clear path between Chinese economic statecraft and economic power. In fact, the literature on Chinese economic statecraft can benefit from examining cases outside of East Asia since the majority of the scholarship on Chinese economic statecraft focuses on cases in East Asia. By focusing on cases outside of East Asia, scholars could see if economic statecraft alone creates economic power,

especially since China exercises non-economic forms of statecraft in East Asia like military statecraft (Chubb 2021). This fact leads to my research question, which is has China's economic statecraft in Latin America created economic power over the region? The implication of this question is significant for political scientists in international relations who study great power competition, grand strategies, and tools of statecraft. Many scholars (Mearsheimer 2019, 2021; Adam 2023) argue that the international system is now multipolar or soon to be multipolar, which makes tools of statecraft more crucial to examine as an indicator of power.

Yet, the connection between economic statecraft and economic power needs further development. Specifically, there needs to be a clear causal path where economic statecraft creates economic power. Despite the need for clear causality, the conventional wisdom on Chinese economic statecraft guides much of the literature, claiming that China is gaining power and influence over its recipients of economic statecraft. The majority of the literature and news outlets claim that China's BRI is a form of debt-trap diplomacy that allows China to gain economic power over countries. Scholars like Lind (2018), Mearsheimer (2019), and Urdinez (2023) go a step further and argue that the BRI and China's economic statecraft in general are revisionist strategies, with China attempting to achieve regional hegemony in East Asia and counter the United States' influence in other regions of the world such as East Asia, Africa, and Latin America.

There are further gaps in the literature on Chinese economic statecraft in that very few prominent cases focus on Chinese economic penetration into Latin America. Cases that examine Chinese economic statecraft outside of East Asia mainly focus on cases in Africa and South Asia, and only a handful of cases review Latin America. The majority of the BRI cases covering Latin America and the Caribbean come from media outlets and non-profit organizations (Council on

Foreign Relations, Center for Strategic and International Studies), with only a handful of scholars focusing on Latin America. Because of these gaps in the literature, the aim of my research thesis will be to unveil a causal path between economic statecraft and economic power and see if China's economic statecraft in a specific Latin American country is creating economic power.

Main Argument: Hypothesis and Roadmap

My hypothesis is that not only does Chinese economic statecraft create economic power for China in terms of material resources, but it also allows China to use its economic resources to influence the behaviors of other states. By investing in various energy and infrastructure projects across Venezuela, China has been able to gain access to commodities like oil and minerals. Chinese policy bank investments allow China to gain collateral in oil payments, which expand China's access to geostrategic resources. Additionally, Chinese economic statecraft has changed the behavior of Venezuela, leading to economic power in terms of influence. By initially providing Venezuela with open lines of credit, vast infrastructure projects and FDI, and other ventures, China economically induced Venezuela into not only providing its resources but also adopting policies in line with China's interests, such as severing ties with Taiwan. But then, China economically coerced Venezuela by restricting investments, which forced Venezuela to adopt economic reforms and change its internal policies.

The independent variable of this study is Chinese economic statecraft in Latin America. I will use Venezuela as my case study since Venezuela has received the most Chinese FDI out of all countries in Latin America and the Caribbean and has had the longest financial relationship

with China (Roy 2023, Council on Foreign Relations; Maggiorelli 2017). This long-term and vast economic relationship make Venezuela a useful case to examine if China has truly acquired material resources and has been able to influence Venezuela's behavior.

The dependent variable will be China's economic power using both definitions of power provided by Mearsheimer (2001) and Nye and Keohane (2012). In other words, the dependent variable will be measured by the amount of material resources that China's economic statecraft has acquired; such resources include natural resources, strategic raw materials, and commodities. The dependent variable will also include instances of how China has been able to coerce or induce Venezuela into changing behavior. The changing behavior will be based on Emily Meierding and Rachel Sigman's (2021) framework for determining when states influence others. They argue that influence is when a state gets a target state to adopt, maintain, refrain, or abandon a behavior. Using a case study of Chinese economic projects in Venezuela, one finds that China has indeed gained economic power in terms of material resources and also gained economic power in terms of influence over Venezuela.

The roadmap of my thesis is as follows: I will clarify the causal path on how economic statecraft creates economic power. Secondly, I will provide additional background on China's economic statecraft and the BRI in general, as well as China's historical and economic relationship with Latin America. Thirdly, I will include a literature review that will provide the theoretical foundations for power as material resources and as a method of influencing behavior. The literature review will contain scholars who facilitate the conventional wisdom on Chinese economic statecraft, as well as those who disagree. Lastly, I will include a case study of BRI projects and other economic statecraft measures in Venezuela. The contribution of this thesis is that it would shed light on exactly what economic power looks, describe how economic statecraft

creates economic power, and highlight if China's economic statecraft is achieving economic power in Venezuela.

The Causal Path: When Economic Statecraft Creates Economic Power

Figure 1 outlines the causal path for when economic statecraft creates economic power. I designed the causal path by using concepts from scholars that I will discuss more thoroughly in the literature review. Figure 2 provides a description of each process.

Figure 1: Descriptions of Each Process

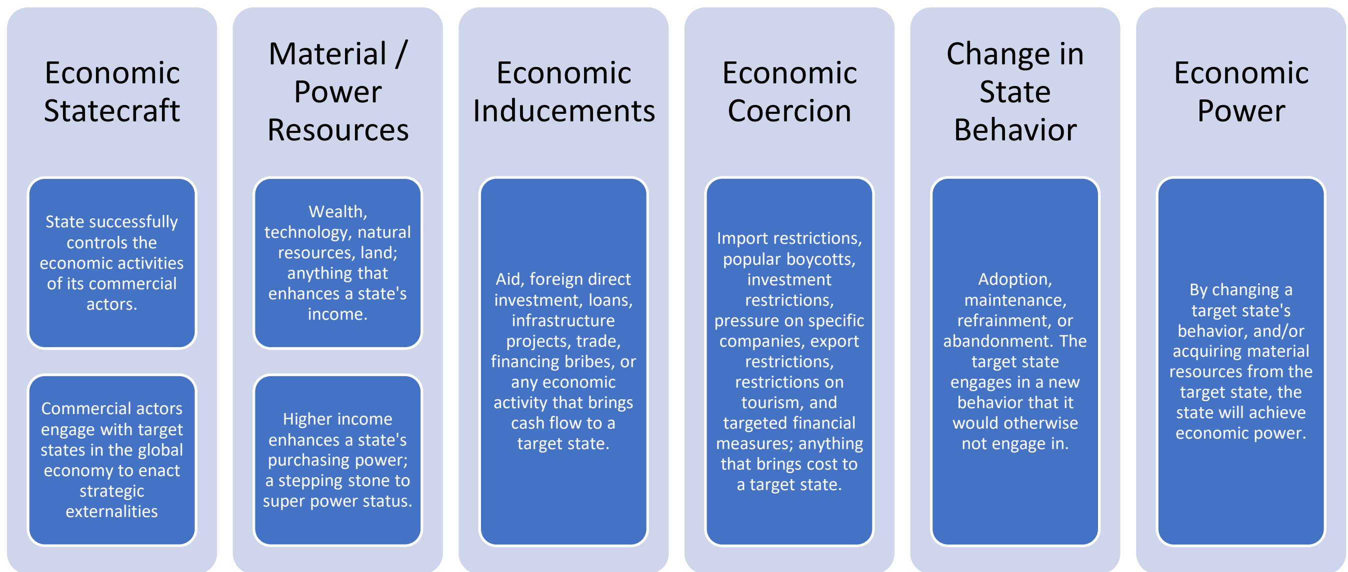
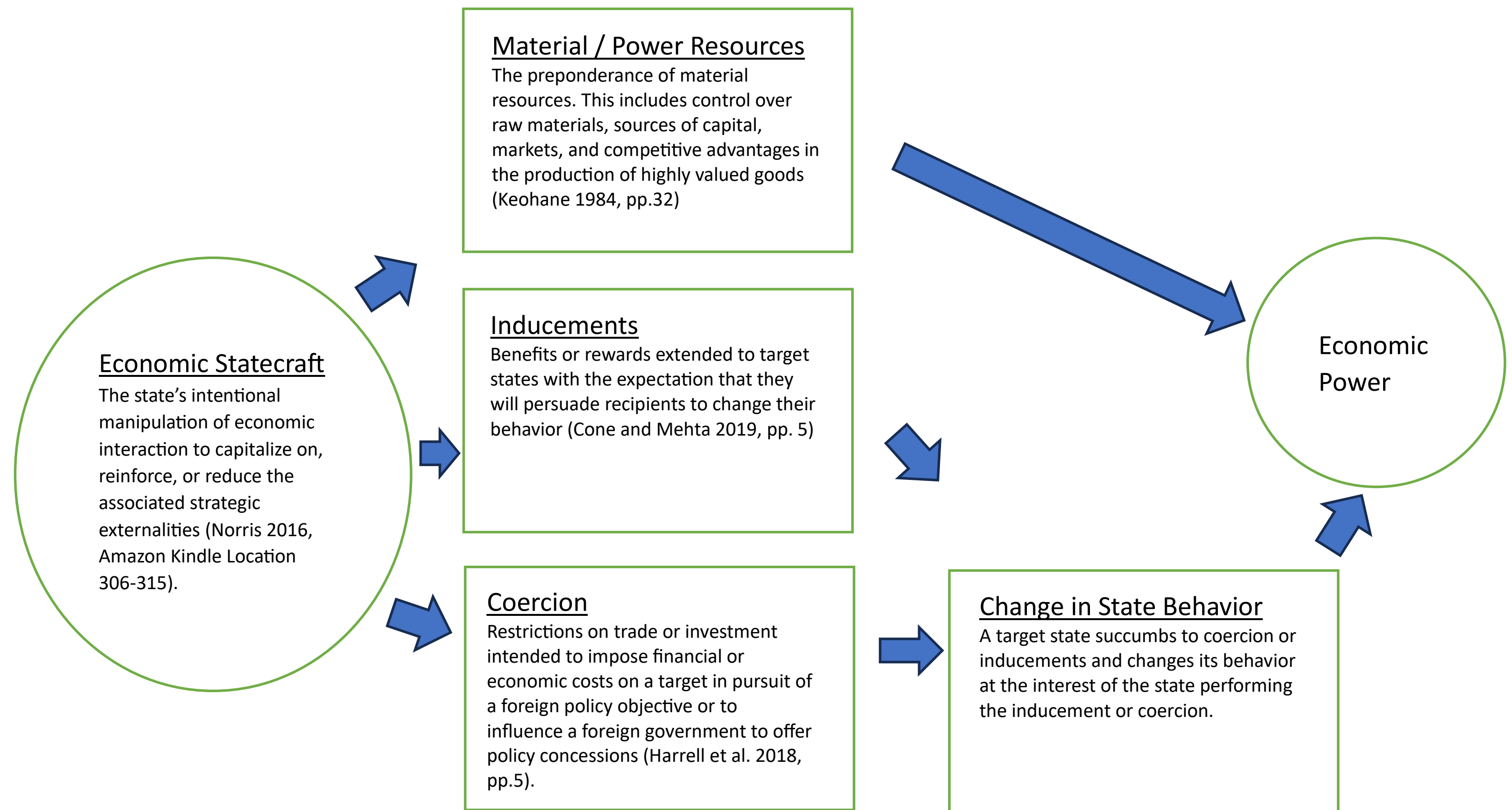


Figure 2: Economic Statecraft and Economic Power Causal Path



First, I use Norris's 2016 book *Chinese Economic Statecraft* as the basis for this paper. Norris defines economic statecraft as "the state's intentional manipulation of economic interaction to capitalize on, reinforce, or reduce the associated strategic externalities" (Norris 2016, Amazon Kindle Location 306-315). By strategic externalities, Norris refers to the consequences that result from economic activity in which a state tries to capitalize. States who exercise economic statecraft use commercial actors to engage in overseas economic activities that benefit the state's strategic interests. Examples of economic statecraft include lending,

foreign assistance, sanctions, and trade agreements. Economic statecraft as outlined by Norris focuses primarily on the use of a state coordinating the activities of its commercial actors. In a further study, Norris expands on economic statecraft by arguing that it is "the strategic use of economics to pursue national objectives as part of a nation's broader foreign policy" (Norris 2021, pp. 295). One of the overall goals of economic statecraft is to expand a state's economic power.

Norris uses the definition of power as established by Klaus Knorr (1973), Robert Gilpin (1976, 1981), Robert Keohane (1984), and Keohane and Joseph Nye (1977). These scholars argue that economic power in international relations is when a country has access to wealth, valuable natural resources, monopoly power, and advance technology needed to improve the living standards of the country's citizens. Economic power is the starting point to achieving superpower status, or as Keohane (1984) would say, the starting point to achieving hegemony. In sum, this view of economic power places a strong emphasis on the material resources that create economic power. If a state can expand its access to wealth, natural resources, and technology, for example, it can expand its economic power. Likewise, if a state's use of economic statecraft can expand its access to these material resources, then economic statecraft creates economic power.

However, I am also incorporating another view of economic power as established by Keohane and Nye in *Power and Interdependence* (1977) and Nye's *Soft Power: The Means to Success in World Politics* (2005). The following table, taken from Nye's book (2005, pp. 31), shows the various types of power:

	Behaviors	Primary Currencies	Government Policies
Military Power	coercion deterrence protection	threats force	coercive diplomacy war alliance
Economic Power	inducement coercion	payments sanctions	aid bribes sanctions
Soft Power	attraction agenda setting	values culture policies institutions	public diplomacy bilateral and multilateral diplomacy

In this view, economic power is the ability to use inducements and coercion, either through payments or sanctions, to get a state to change its behavior. Economic statecraft can be appropriate tools to coerce or induce a target state. Economic inducement, or what Paige Cone and Rupal N. Mehta (2019) refer to as positive economic inducement, is when a state uses economic aid to persuade a target state to change its behavior. While positive economic inducement is the "carrot" meant to change a target state's behavior, economic coercion is the "stick," a more threatening method of changing behavior. Harrell et al. (2018) provide a framework for understanding coercive economic measures as any restrictions on trade or investments that create a financial or economic cost on a target state. Examples of coercion can include economic sanctions. Both economic inducement and coercion can be tools of economic statecraft that can change the behavior of target states, ultimately creating economic power.

But how does a state change? Meierding and Sigman (2021, pp.5) highlight the development process for influence as follows:

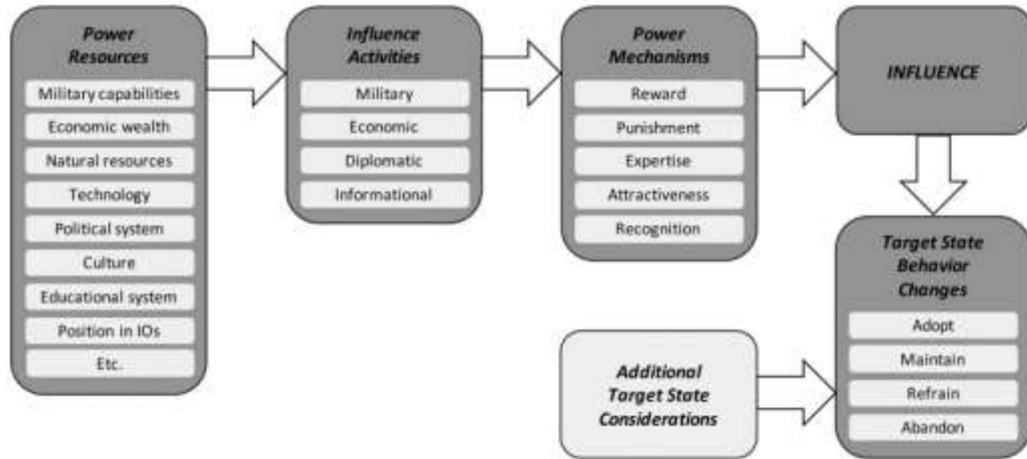


Figure 1. The influence development process.

This development process begins with power resources. Ultimately, power resources and power mechanisms create a set of influencing behavior and result in a target state changing its behavior through adoption, maintenance, refrainment, or abandonment. These four key behaviors are what result from power in general and will be the behaviors I will examine in my case study.

In sum, I have established the causal path between economic statecraft and economic power in two directions. Firstly, a state can achieve economic power by maximizing its material resources. Using economic statecraft, the state coordinates the economic activities of commercial actors. The commercial actors will perform an economic activity (usually FDI projects, construction, or mining) with a target state. This economic activity will allow the commercial actor to gain a return from the target state, which usually includes some form of material resource like wealth, technology, or natural resources. By obtaining these resources, the commercial actors will add to the state's overall material resources and expand its economic power in that regard.

Secondly, a state can achieve economic power by influencing the behaviors of target states. Through economic statecraft, and by engaging its commercial actors in economic activity,

the state will inevitably create some form of positive inducement on a target state by enticing it in projects where the target state can generate a return. On the other hand, the state can coerce the target state using economic sanctions. After being induced or coerced, if the target state shows adoption, maintenance, refrainment, or abandonment of a particular behavior or policy, then the target state would be said to have changed its behavior. Thus, economic statecraft would create economic power.

In my case study, I will use this framework to determine if Chinese economic statecraft has created economic power in Venezuela. But before going into the case study, I will provide further background into this topic.

Background

Norris (2021) outlines China's economic statecraft since the end of the Cold War and how it has changed over time. He argues that China has changed its economic statecraft throughout the past three decades to reflect broader foreign policy goals. China's domestic economic make-up allows for the CCP to intervene directly into most commercial activities. For example, it can use SOEs to carry out economic activities in favor of the CCP's broad interests. Additionally, Norris contends that China has achieved great power status through its profound economic growth. In 1978, Chairman of the Central Advisory Commission, Deng Xiaoping, introduced reforms to modernize its economy and open it up to world. These modernization efforts, along with China's admittance into the WTO in 2001, put China on massive economic growth. Its gross domestic product (GDP) has grown at an average of 8.77 percent annually. The country's banking system has had growing influence in the international financial system,

owning over 40 trillion dollars' worth of U.S. assets. China has also become the largest trading nation in the world. Norris argues that due to this economic expansion, China has achieved great power status.

Norris continues by explaining how throughout China's rise and evolution of its economy, China's economic statecraft experienced an evolution as well. From 1998-1997, having been sanctioned from major countries due to the Tiananmen Square incident, China took the initiative to integrate its economy in the world order by engaging in trade and FDI with Japan, South Korea, and Taiwan. Its grand strategy was primarily concerned with reintegrating China into the international economic order. In 1997, during the Asian Financial Crisis, many Southeast Asian countries in the region began experiencing stark market conditions like capital flight, which China was able to avoid. Resultingly, China began providing aid to countries like Thailand, Indonesia, and other countries affected by the crisis. It provided over 4 billion U.S. dollars in aid and offered countries export credit and emergency medicine (Ministry of Foreign Affairs of the People's Republic of China, 2014).

The 1997 Asian Financial Crisis started China's growing economic integration. The crisis also developed China's financial system, beginning a new phase of economic statecraft. From 1998-2008, Norris outlines how China's economy vastly opened up, with its accession to the WTO in 2001, which developed China's export economy. China was able to expand its foreign capital stock and grow its outward foreign direct investment (FDI). Its economic relationship with Southeast Asia strengthened. Throughout this period, as it rose into the international system, China stressed to its partners that its rise was mutually beneficial to all parties. It stressed the idea of win-win scenarios, where China's rise would not create regional instability for actors in its region.

From 2008-2017, Norris notes how China's economic statecraft changed to reflect that of a great power and not a rising power. The 2008 Financial Crisis put China in a unique position as it recovered quickly and avoided the worse of the crisis, and even surpassed Japan as the second largest economy. China began to impose more state control on its financial system, noting the mistakes of the American financial system during that time. With additional state control, China started using economic statecraft to carry out broader foreign policy objectives. Xi Jinping came into power with the desire to carry out China's role as a great power, and as Norris explains, to use any means of statecraft to achieve broader objectives.

As a result, Xi Jinping introduced BRI in 2013 during visits to Kazakhstan and Indonesia, which Norris characterizes as the "hallmark of Xi's economic statecraft that seeks to advance both China's influence and economic interests" (Norris 2021, pp. 304). Following the aftermath of the 2008 Financial Crisis, BRI helped to provide countries with much needed capital. It provided investments to Europe, as well as Asia through the Asian Development Bank. China began noting that the traditional multilateral financial institutions, namely the IMF and World Bank, did not respond to many countries in need during the Financial Crisis, and created the Asian Infrastructure Investment Bank (AIIB) to counter these delays and help countries in need. It also created the New Development Bank and the BRICS Contingency Reserve Arrangement (CRA).

For Latin American and Caribbean countries, China's economic statecraft helped the region overcome the 2008 Financial Crisis. As Jie Guo (2023) argues, China and Latin America have a strategic and economic partnership that has strengthened since 2008. China has cherished a foreign policy of Win-Win Cooperation, rooted in the traditional Chinese cultural values of peace and cooperation (Xulong 2017). This concept is also rooted in The Five Principles of

Peaceful Co-Existence, which are “mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence” (Embassy of the People’s Republic of China in the Islamic Republic of Iran 2014, pp.1). These values embody China’s bilateral and multilateral relationships with the developing world, and especially with Latin America. As Guo (2023) outlines, from 2013-2018, China created a comprehensive strategic partnership with Brazil, Mexico, Peru, Argentina, Venezuela, Ecuador, and Chile, and strategic partnerships with Costa Rica, Uruguay, and Bolivia. These ten states have strong commercial partnerships, interdependent economies, and engagement in international organizations.

Cuba is China’s largest trading partner in the Caribbean, and China has a strong partnership with Panama and Venezuela (Guo 2023). In addition to bilateral relationships, China also frequently engages with the region through the Community of Latin American and Caribbean States (CELAC) after establishing the China-CELAC Forum (CCF) in 2014. It also engages with Brazil directly through BRICS. Trade between China and Latin America is around $451.6 billion, with Latin America being a major supplier of energy and minerals (iron ore, copper, and oil), and agricultural products. China has a high demand for these materials as inputs, which has fueled China’s consumption economy while also fueling Latin America’s export economy.

This strategic relationship between China and Latin America serves as the benchmark for the BRI and enhances the motivation for Chinese economic statecraft. As I will highlight in the literature review, China uses the BRI in Latin America to not only capitalize on special projects and markets, but also to gain access to the same raw materials that it imports from Latin

America. These measures are meant to expand China's economic power in a resource-rich region.

Literature Review

There are many scholars who have provided the theoretical framework surrounding economic power. While some scholars develop the idea of power as states having influence over the behavior of other states, other scholars focus on the resources that create power. These varying definitions of power have made it hard to measure power, especially in international relations. Yet, some of the earliest scholars who wrote about economic power in international relations used both definitions in their analyses. In fact, these scholars developed a framework of economic power in which a state needs to have the proper material or power resources needed to have a strong economy, which can then be used to exert influence in the global economy.

Klaus Knorr (1973) is one of the earliest scholars who distinguished between the two views of power. In *Power and Wealth,* Knorr establishes the terms putative power and actualized power. Whereas putative power is something that states can have and accumulate, actualized power is an effect, a phenomenon when a state can influence another state. Knorr also establishes economic power by explaining that "economic power with reference to coercive threats is used to deny some sort of economic advantage to another state, often… for the purpose of gaining some economic benefit" (Knorr 1973, pp.20). Robert Gilpin in *U.S. Power and the Multinational Corporation* (1975) contributes to the idea of power as "the necessary means to achieve these goals" (1975, pp.23), and argues that "the distribution of power is important because it

profoundly affects the ability of states to achieve what they perceive to be their interests (1975, pp.23).

Throughout history, states have not only tried to obtain power but also exercise power, as power is both a means and an end. In his 1981 book *War and Change in World Politics,* Gilpin argues that hegemons, or economic powers, exert power and influence in the global economy. As he argues, the "objective of states… is to control or at least exercise influence over the world economy, or what may more properly be called the international division of labor" (Gilpin 1981, pp. 24). To exert control and have an influence over the world economy, hegemonic states must provide public goods to other states, which can take the form of providing free trade and investment capital or supplying the international currency. Through this process, the hegemonic state will create an international order that advances its interests and maintains its power over the world economic order. Great Britain and the U.S., as some of the most recent hegemons in world history, have created a "liberal international economic order," a system that fosters "free trade and freedom of capital movements" (Gilpin 1981, pp. 145).

Robert Keohane (1984) in his work *After Hegemony* expands on this notion of power by explaining how material resources expand a state's economic power, or hegemony. As Keohane states, "The theory of hegemonic stability, as applied to the world political economy, defines hegemony as preponderance of material resources. Four sets of resources are especially important. Hegemonic powers must have control over raw materials, control over sources of capital, control over markets, and competitive advantages in the production of highly valued goods" (Keohane 1984, pp.32). He continues, "The importance of controlling sources of raw materials has provided a traditional justification for territorial expansion and imperialism, as well as for the extension of informal influence" (Keohane 1984, pp.32-33). In sum, Keohane defines

economic power as having control over raw materials, capital, and other goods that produce income. Thus, a powerful state that seeks to maximize economic power in the international system can do so by using the international economic order, or the world economy, and obtain the material resources by engaging with other states in the global economy.

In line with this idea of economic power as material resources, John Mearsheimer (2001) argues that to ensure security in the international system, great powers ought to maximize power as much as possible. As he argues, "The overriding goal of each state is to maximize its share of world power, which means gaining power at the expense of other states. But great powers do not merely strive to be the strongest of all the great powers, although that is a welcome outcome. Their ultimate aim is to be the hegemon—that is, the only great power in the system… Since no state is likely to achieve global hegemony, however, the world is condemned to perpetual great-power competition" (Mearsheimer 2001, pp. 22-23). Through his account, Mearsheimer expands the definition of power as the "specific assets or material resources that are available to a state" (Mearsheimer 2001, pp. 88). He develops the concept of latent power, which is the population and wealth of a state that can directly build its military. Thus, if states can expand their wealth and population, they can use those resources to expand their military, and become a rising power or regional hegemon.

Economic power requires not just an expansive wealth, population, and other material resources, but also requires the ability to exert influence over the behaviors of others. But how exactly can states exert influence? Keohane and Nye explain that "Power can be thought of as the ability of an actor to get others to do something they otherwise would not do (and at an acceptable cost to the actor). Power can be conceived in terms of control over outcomes" (Nye and Keohane 2012, pp.10). Nye and Keohane explain that power is more than just states'

resources but also includes how states can use those resources to create desired outcomes. Economic power is a special type of power phenomena that states can use to create desired outcomes in the global economy. There are two main strategies of economic power: inducement and coercion.

Inducement can be a more attractive strategy than coercion, but there are different types of inducements. Cone and Mehta (2019) provide an overview of positive and negative inducements. As they explain, "Inducements are often defined as external instruments of statecraft extended to a target state with the goal of persuading leaders to change their behavior. This could be with the goal of ending nuclear weapons activity, ending human rights violations, or behaving more desirably in a trade relationship… Both positive and negative inducements can be focused on political, economic, or security areas." (Cone and Mehta 2019, pp. 5-6). Economic aid is the most common positive inducement, and economic sanctions are the most common form of negative inducement.

Economic coercion, on the other hand, uses more forceful means to get a state to change its behavior. Harrell et al. (2018) provide a framework for understanding coercive economic measures in the context of China's economic statecraft. They "define coercive economic measures as China's restrictions on trade or investment intended to impose financial or economic costs on a target in pursuit of a foreign policy objective or to influence a foreign government to offer policy concessions to China. As used here, coercion indicates the use, or threatened use, of economic "sticks," but not the use of positive inducements or other tools, as commonly included in academic definitions" (Harrell et al. 2018, pp. 5). Examples of Chinese economic coercion includes import restrictions, popular boycotts, investment restrictions, pressure on specific companies, export restrictions, restrictions on tourism, and targeted financial measures. These

measures bring significant costs to a target state. China has performed such coercion through measures like halting exports of rare earths to Japan from 2010-2012, cutting salmon imports from Norway after awarding Chinese dissident Liu Xiaobo the 2010 Nobel Peace Prize, and raising fees on Mongolian mining products.

While economic coercion and positive economic inducements are clear tools of economic statecraft, as established by these scholars, what is not clear is how these strategies change states' behaviors. That is where Meierding and Sigman (2021) and their contributions come to play. They provide a framework for measuring power as outcomes, or as they refer to as influence. The authors explain that "If an influencing state's activities successfully generate influence, the influencer can pursue four types of behavioral 'changes' from its target: first, the target adopts the influencer's desired behavior; second, the target maintains a behavior that it otherwise would have jettisoned; third, the target refrains from adopting a behavior that it otherwise would have embraced, and, fourth, the target abandons an undesired behavior" (Meierding and Sigman 2021, pp.8). These behavioral changes are indications of states influencing a target state.

In sum, economic power is made up of material resources that expand a state's national income and purchasing power. It is also the ability of a state to use its material resources to influence the behavior of other states. Yet, there are still limitations on the study of economic power. One major limitation is that the earliest studies on economic power examined cases of economic measures and economic activities between countries that either no longer take place or are not common in the modern international system. Economic statecraft looks much different today than what it looked like during the times of Kindleberger, Knorr, Gilpin, Keohane, and Nye. Technology is much more advanced; countries are more interdependent; and power is shifting towards Asia and away from the west (Nye 2011). Thus, modern strategies of economic

statecraft are worthy of examining to determine if these new strategies can still create economic power. Chinese economic statecraft is an appropriate case to examine given that it is ubiquitous, funded heavily, and is providing a new source of financing outside of traditional western investments.

But what makes Chinese economic statecraft so successful? Norris' (2016) framework explains the conditions under which economic statecraft can allow states to achieve their strategic objectives in the 21st century. His concept of security externalities, where economics and national security overlap, helps to understand when economic statecraft is successful. Examples of security externalities that result from economic transactions can include "sensitive technology transfer, loss of strategic industries, concentrated supply or demand dependence (in areas of trade, investment, and monetary relations), the forging of common interests resulting from currency unions, joint ventures, macroeconomic coordination, or even simple trade complementarity" (Norris 2016, Amazon Kindle Location 292). When these security externalities that result from economic activity are in the state's strategic interests, then economic statecraft is said to be successful.

When can a state ensure successful implementation of its economic statecraft? After all, governments usually are not the ones engaging in economic activities directly. Norris says that when a state has control over its commercial actors, it can guide its economic activity more easily and thus result in a higher chance of implementing a successful economic statecraft. The state will create incentive structures for its commercial actors, recommend projects, guide their planning, and can even subsidize certain projects. On the other hand, the state can also impose costs on its commercial actors if they refuse to engage.

Norris argues that China's economic statecraft has been successful in many instances when the CCP easily coordinates the policies and ideas of its commercial actors that then create security externalities by engaging in the global economy. China carries out its economic statecraft primarily through SOEs. Because the PRC has a large stake in SOEs, the PRC can direct the behavior and activities of SOEs like the CDB or Ex-Im Bank and have these entities engage in strategic projects. Such strategic projects include BRI investments where China will not only get a return out of the project, but also receive collateral payment in the form of commodities and raw inputs. These material resources are crucial for China's economic development and for improving its national income. Thus, the security externalities that the commercial actors create from engaging in BRI have allowed the Chinese state to diversify the inputs of raw materials it imports from the world. Thus, many BRI projects and other infrastructure projects have been successful tools of economic statecraft.

But what are China's strategic interests? Andrew Scobell et al. (2020) discuss China's strategic interests are to achieve national rejuvenation and realize the "China Dream" (Scobell et al. 2020, pp.18). The "China Dream" is one of constructing a wealthy and strong China. Scobell et al. argue that one of the main themes from China's national rejuvenation strategy is to promote continued economic development, which includes an economic strategy of rebalancing China's economy. To achieve this rebalancing, China is using its BRI and other economic statecrafts with the developing world to 1) persuade countries that "China is a positive, rising force" and 2) advancing the development of the Chinese economy (Scobell et al., pp.42). Scobell et al. characterize BRI as an effort to restructure the Chinese economy and its imbalances, such as low consumption levels and high reliance on exports. Thus, economic statecraft is a highly important foreign policy strategy for China to achieve its strategic objectives.

Chinese economic statecraft is unique and different from previous measures of economic statecraft not just in scale and popularity but also in its mechanics. Kaplan (2021) contributes to the literature on Chinese economic statecraft by detailing China's BRI investments, specifically in Latin America. He explains that China's economic growth since being admitted to the WTO put it in a unique position to fund the investments of its SOEs, or as Kaplan refers to as policy banks. The state subsidizes its policy banks, who administer BRI investments and other economic statecrafts in the form of patient capital. Patient capital investments are long-term loan commitments intended to secure vast returns in the future. These investments sacrifice short-term gains for long-term wins and have allowed policy banks to maintain an enduring presence in a target state. Patient capital loans have been the main type of financing that policy banks provide.

Since the global recession, Chinese policy banks have provided more than $130 billion in loan commitments to Latin America. Latin America now holds about 14 percent of China's total outward investment and is the second largest global destination for Chinese Policy Bank lending outside of the Asia-Pacific region. What makes these loan commitments unique and attractive is that they avoid credit being contingent on a country's macroeconomic performance, allowing China to extend patient capital investments to high-risk economies. These high-risk countries will usually be subject to policy conditions from the IMF or World Bank where they would have to adopt austerity measures like decreasing public spending and increasing taxes, which are unpopular for the target state. Thus, the Chinese policy banks' patient capital investments are more attractive for these target states. Because policy banks receive funding from the state, they are able to administer these loans to many high-risk economies on a massive scale.

But how do Chinese policy banks provide investments without evaluating the macroeconomic policies of each country? The policy banks only require that borrowers meet the

following commercial conditions: 1) Commodity guarantees, which are contractual obligations between policy banks and the borrower where in the case of default, the borrowing country will provide resources such as oil or land as loan collateral; 2) commodity-backed loans, where debt is repaid through daily commodity sales to Chinese importers; and 3) cross-default clauses, where even if a country defaults on one project, that country will be considered to be in sovereign default.

Kaplan argues that these commercial conditions allow Chinese policy banks and the state itself to gain immense economic power in material resources, especially through the commodity-backed loans. If a borrowing country defaults, then China will receive even more material resources through collateral. Kaplan explains that many countries who receive BRI investments or other economic statecrafts already had high debt. By getting into business with the policy banks, these countries expanded their balance sheets further and allowed the Chinese state access to its commodities. This form of economic power is what U.S. policy makers claim is "'debt diplomacy' to expand [China's] influence, offering unsustainable infrastructure loans that mire borrowers in a growing debt burden until they must repay China with key strategic assets" (Kaplan 2021, pp. 573).

The notion of debt trap diplomacy as enhancing China's economic power has proliferated in the literature. Nasicimento and Pires (2020) confirm Kaplan's argument that Beijing is using BRI to extend global dominance through dependency and debt. They explain that the increasing number of Latin American and Caribbean countries who have signed onto BRI in the past decade is a sign that China's economic influence is growing. The following table, taken from Nascimento and Pires' article (2020, pp.128), shows the number of Latin American countries that have signed BRI:

Table 1. Connection of Latin American and Caribbean States with the Belt and Road Initiative

<table>
<tr><th>Latin American countries that have joined the Belt and Road Initiative</th><th>Caribbean countries that have joined the Belt and Road Initiative</th><th>Non-aligned countries receiving significant investment from China</th></tr>
<tr><td colspan="2">Signed memorandums of understanding</td><td rowspan="5">Argentina, Brazil, Colombia, Mexico</td></tr>
<tr><td>Bolivia, Chile, Costa Rica, Panama, Peru, Uruguay, Venezuela</td><td>Antigua and Barbuda, Barbados, Dominica, Grenada, Trinidad and Tobago</td></tr>
<tr><td colspan="2">Signed cooperation agreements</td></tr>
<tr><td>Cuba, Dominican Republic, Ecuador, El Salvador</td><td>Guyana, Jamaica, Suriname</td></tr>
</table>

Source: [Dabus, Basu, Yao, 2019].

12 Latin American and Caribbean countries have already signed memorandums of understanding to join BRI, while 7 have signed cooperation agreements to join BRI. Ecuador is one country that has signed a cooperation agreement with BRI, despite its Coca Codo Sinclair Hydroelectric power plant project experiencing massive faults. The plant has about 7,648 cracks and can only generate power a few hours during the day and a few times during the year (Casey and Krauss 2018). Not to mention, Ecuador has to make repayments to China via oil barrels because it cannot pay back its debt, falling into the debt trap concept. Nascimento and Pires argue that Latin America and the Caribbean have geostrategic resources that are valuable to China, and that China will continue to take advantage of these resources with the BRI.

In sum, the literature on how economic power and economic statecraft has been developed in many ways since the 1970s when influential figures like Keohane, Nye, and Gilpin developed the discipline of international political economy. Yet, there are still gaps or empirical puzzles in the literature. First, scholars do not really provide clear cases of how China's economic statecraft in Latin America has created economic power over the region. Yes, Kaplan provides examples of commodity-backed loans, but how successful are these loans in generating

commodities for China? Second, there is still the disconnect in what type of economic power China's economic statecraft is creating. Is China not only gaining economic power in terms of material resources but is it also using economic statecraft to influence the behaviors of states? To solve this puzzle, I will apply the causal path of how economic statecraft becomes economic power in a case study. The case study between China and Venezuela will show the steps in which Chinese economic statecraft successfully obtains material resources from and also influences the behavior of a Latin American or Caribbean country.

Empirical Analysis: Case Study of China-Venezuela

Venezuela is the country in Latin America that has received the most Chinese aid (Roy 2023, Council on Foreign Relations; Maggiorelli 2017). If in fact Chinese economic statecraft creates economic power, it would make sense to look at countries that receive the most aid to see if they are truly being influenced by China. Venezuela has a strategic partnership with China (Guo 2023), which helps to provide more background into why this country has a high economic relationship with China. I will provide a history of Venezuelan economic relations with China, highlight some key projects, and review the outcomes of each project. Has Venezuela's behavior changed in accordance with Chinese interests? Has China economically induced or coerced Venezuela? What collateral does China receive from Venezuela? The case study will highlight the observations.

Venezuela. Venezuelan and Chinese economic partnership stems back to 2001, when Venezuela became the first Latin American country to enter into a strategic partnership with China (Hermoso and Fermín 2019). As Hermoso and Fermin highlight, China has about 790

investment projects in Venezuela, from infrastructure, oil, and mining to other industries, with loans totaling about $60 billion (Chinese Loans to Latin America and the Caribbean Database 2023). Venezuela has signed a memorandum of understanding to join the BRI, but its economic relationship with China began way before Xi Jinping introduced the BRI. As Aid Data, a Research Lab at the College of William & Mary, reports, one of the first investments in 2001 was when the Bank of China provided an $18 million credit line for agricultural improvement projects in Venezuela. Another source that maintains data on Chinese investments is The China Global Investment Tracker. This source maintains a comprehensive public data set covering China's global investment and construction. Figure 3, taken from the China Global Investment Tracker, provides six major investments since 2010, where policy banks like the CNPC and CDB have had large transactions. The transactions total $4.57 billion.

Figure 3: Chinese Investments & Contracts in Venezuela (2005-2022)

Year	Month	Investor or Builder	Sector	Country	Amount	Type
2018	September	China National Petroleum Corp. (CNPC)	Energy	Venezuela	360M	Investment
2018	July	China Development Bank	Energy	Venezuela	250M	Investment
2016	November	China National Petroleum Corp. (CNPC)	Energy	Venezuela	1460M	Investment
2013	September	China Petroleum and Chemical (Sinopec)	Energy	Venezuela	1400M	Investment
2011	May	Chery Auto	Transport	Venezuela	200M	Investment
2010	April	China National Petroleum Corp. (CNPC)	Energy	Venezuela	900M	Investment

Source: The China Global Investment Tracker

Figure 4: Chinese Investments in Venezuela (2007-2015)

DATE	TYPES	PURPOSE	LENDER	AMOUNT
Nov-07	Energy	Joint Fund - Tranche A	CDB	$4.0B
Apr-09	Energy	Joint Fund - Tranche B	CDB	$4.0B
Dec-09	Mining	Mining project credit	CDB	$1.0B

Dec-09	Energy	Not specified	Ex-Im Bank	$500M
May-10	Other	Trade-related credit facility	CDB and Portugal's BES	$1.1B
Aug-10	Energy	Joint Fund - Long-Term Facility	CDB	$20.3B
Jun-11	Energy	Joint Fund - Tranche A renewal	CDB	$4.0B
Feb-12	Energy	Purchase of oil-related products	CDB	$500M
Aug-12	Energy	Joint Fund - Tranche B renewal	CDB	$4.0B
Jun-13	Energy	Sinovensa production in Orinoco	CDB	$4.0B
Nov-13	Energy	Joint Fund - Tranche C	CDB	$5.0B
Sep-13	Mining	Las Cristinas gold mine	CDB	$700M
Sep-13	Infrastructure	Pequiven marine terminal	Ex-Im Bank	$391M
Jul-14	Infrastructure	Joint Fund - Tranche A renewal	Ex-Im Bank	$4.0B
Jan-14	Energy	Working capital, PDVSA	CDB	$1.5B
Apr-15	Energy	Joint Fund - Tranche B renewal	CDB	$5.0B

Source: Chinese Loans to Latin America and the Caribbean Database

Figure 4 provides more data on Chinese investments and are taken from the Chinese Loans to Latin America and the Caribbean Database, maintained by the Inter-American Dialogue and the Bostin University Global Development Policy Center (2023). Figure 4 provides specific projects from 2007-2015. As shown by Figures 3 and 4, the majority of Chinese investments in Venezuela are devoted to energy projects (China Global Development Tracker). However, the economic sectors that China has been able to penetrate into Venezuela include telecommunications, agricultural, financial and credits, transportation, housing, defense, electricity, hydrocarbons, and much more (Freitas et al. 2020).

One of the reasons for this trend is Venezuela has mining sites that reap minerals that are crucial for the production of goods that have been important for China's strategic route (Hermoso and Fermín 2019). In 2012, China and Venezuela signed an agreement to develop a mining map that groups sites all across the country where they can obtain precious minerals. Some minerals include coltan, used in inputs for products like smartphones and medical equipment. As Hermoso and Fermín report, these mineral reserves are worth at least $100 billion. China and Venezuela

signed another agreement in July 2017 to mine additional reserves and promote the Orinoco Mining Arc, an area of at least 111,800 square kilometers designated for mining. This area contains other strategic minerals such as iron, gold, bauxite, diamond, copper, coal, quartz, titanium, tin, nickel, and coltan.

On top of these minerals, there are also gold and iron reserves in Venezuela that each total $180 billion. China has also been able to reap these reserves with their investments. But a more valuable mineral in Venezuela is thorium, which has the possibility of being used for nuclear fuel. This mineral can be found in the Orinoco Mining Arc, which China is set on using for its thorium reactors. Thorium is a mineral that China aims to use as part of its strategy to replace fossil fuels. The Orinoco Belt is a rich area that will provide China with strategic resources. The area also includes oil, which China has also invested in. According to Aid Data, CDB signed a $4.015 billion loan agreement with Petrolera Sinovensa, S.A. for the Sinovensa Oil Field Development Project in June 2013. This project would create oil field facilities to extract oil within the Morichal oil field.

Based on China's economic patterns in Venezuela, China is achieving economic power in terms of material or power resources from Venezuela by gaining access to its rich resources. From oil to minerals, Chinese SOEs and policy banks, with the help of the PRC's subsidies, have been able to use investments in energy projects to secure access to these commodities. By securing access to these commodities, Chinese commercial actors contribute to the overall economy of the Chinese state. Additionally, China is also gaining material resources from Venezuela in its collateral. As Corina Pons et al. (2016) explain, Venezuela pays its loans to China with crude and fuel in an oil-for-loans deal. In this oil-to-loan deal, Petróleos de Venezuela, S.A. (PDVSA), a state-owned oil company, provides barrels of oil for debt services.

In 2014, PDVSA shipped 630,0000 barrels of oil and fuel to China, with 45 percent of the value of those shipments used to pay its debt (Pons et al. 2019). In addition to oil, China is also getting access to land as capital. As Rendon and Baumunk (2018) explain, Venezuela provided China a 25-year land grant for a 40 percent investment in a portion of the Orinoco Belt.

In terms of using its economic power as influence, China has been able to economically induce Venezuela into adopting new policies. Briceno-Ruiz and Molina Medina (2020) outline how Venezuela in 2007 began adhering to the One-China-Policy and suspended visas for Taiwanese commercial actors and tourists. Although Venezuela began recognizing the PRC in 1974, it had long-standing economic and diplomatic ties with Taiwan. However, this relationship began eroding in 2007 (Sun 2009). As she reports in a 2009 Bloomberg article, Yu-Huay Sun outlines how Venezuela seized oil assets from state-run CPC, Corp Taiwan, a petroleum, and natural gas company that long operated in Venezuela. President Hugo Chavez at the time suspended CPC's rights in February 2007, despite CPC having invested $78.7 million on the Corocoro field. CPC also owned 6.5 percent of operations in Corocoro, which at the time was producing 20,000 barrels of oil a day. Venezuela's change in relations with Taiwan and its gradual realignment with China show how China was able to induce Venezuela into adopting a more hardline attitude towards Taiwan.

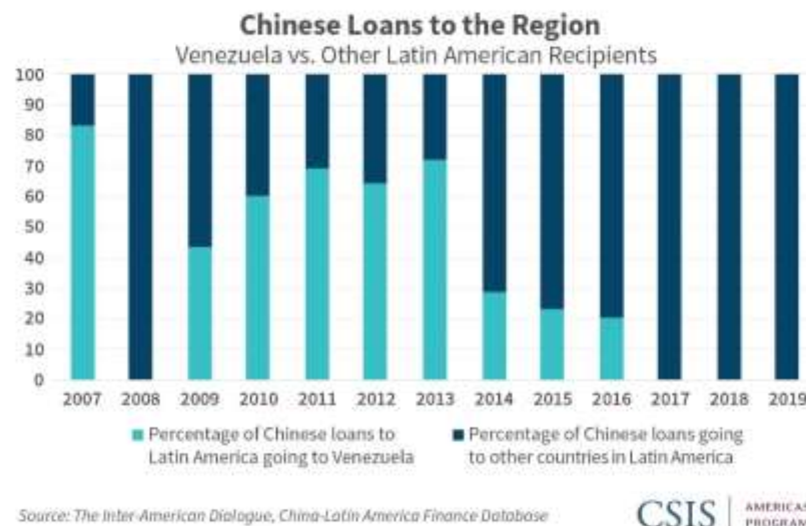
Additionally, China has used economic coercion in Venezuela by restricting investments. Between 2007-2017, as Cristina Guevara (2020) notes, although China provided more than $60 billion in financing to Venezuela, China has not offered additional lines of credit to Venezuela since 2013 when President Nicolás Maduro came to power. Since Maduro came to office, Venezuela has been experiencing an economic depression and hyperinflation due in part to rampant corruption and economic mismanagement. U.S. sanctions on Venezuela in 2018 also

contributed to the Venezuelan economic crisis (Congressional Research Service 2022). Of the $60 billion in Chinese financing, $20 billion remain outstanding as of 2020, with Venezuela struggling to produce additional oil output. In 2016, Venezuela's oil output fell, and oil prices collapsed, which made it difficult for PDVSA to continue shipping barrels of oil to China. Additionally, Venezuela sought a one-year grace period where it would only be responsible for covering interest on the loans, as long as crude remained below $50 per barrel.

The Venezuela economic crisis is posing a large risk for China as Venezuela's largest creditor. As Matt Ferchen (2018) argues, the loans-for-oil agreement has not secured China its oil imports as agreed in the original agreement. Ferchen argues that "the collapse of Venezuela's oil sector, and with it the entire economy, has meant that the country has been unable to make loan repayments and oil shipments to China according to the original loan terms. If this weren't enough to undermine Chinese energy security interests, the collapse of Venezuelan oil exports has contributed to recent rises in global oil prices, thus contributing to increases in China's massive oil import bill" (Ferchen 2018, pp. 11).

Thus, Venezuela became a financial liability for China, with Ferchen arguing that this relationship is a "lose-lose" scenario as opposed to a "win-win," as outlined by China's going-out strategy. Stephen Kaplan and Michael Penfold (2019) contribute to this idea by arguing how China is pulling back from economic deals with Venezuela, and instead offering limited funds. As they argue, "The fact that China has been unwinding its financial ties in Venezuela since 2014 suggests that Venezuela's economic woes are not a product of debt-trap diplomacy, nor does China's behavior represent an intentional effort to bankrupt Venezuela to seize the country's assets." (Kaplan and Penfold 2019, pp. 32)

Thus, China has not made new major investments in Venezuela due to the country's ongoing economic crisis and inability to cover its outstanding debts. China is instead pulling away and decreasing its economic presence in Venezuela. The following graph, taken from Moises Rendon and Caludia Fernandez (Center for Strategic and International Studies 2020, pp. 35), illustrates the reduction of Chinese loans to Venezuela starting in 2017:



Based on the examples of economic coercion outlined in this paper, China is economically coercing Venezuela by restricting new investments. While China has not completely cut financial ties with Venezuela (Kaplan and Penfold 2019), it is scaling back with the purpose of prompting Venezuela to handle its economy. What were the results of China's investment restrictions to Venezuela? The Maduro government adopted sweeping changes into its economic policies. As Tony Frangie-Mawad (2023) of Americas Quarterly reports, Maduro eliminated price and currency controls, import tariffs, and allowed a dollarization of its economy. As Mawad argues, "Venezuela is entering a cycle of economic liberalization" (2023, pp.2). Although economic consumption fell to 18 percent in January and the economy is losing steam, Venezuela's economy has been on a constant growth since 2020. In 2022, GDP growth was at 8

percent, and although GDP growth is expected to be at 3.4 percent by the end of 2023, it is much higher than what it was in 2020 at -30 percent. According to a BBC article (2023), Venezuela's hyperinflation dropped from 686 percent in 2021 to 234 percent in 2022, and oil production has risen.

These economic reforms marked a complete departure from Venezuela's long-standing commitment to its socialist economic policies. As Daniel Di Martino from the Manhattan Institute writes in an article (2019), President Chavez in 1999 implemented a series of socialist policies that aimed at reducing poverty and inequality. Chavez nationalized the private sector, fixed its currency, implemented price controls, and expanded its welfare program to an unsustainable level. President Chavez blamed Venezuela's long standing capitalist economic policies that existed in the country when it first discovered oil in 1918 until the 1950s (Faria 2008). As Hugo J. Faria (2008) documents, Chavez took advantage of the country's dissatisfaction with its economic woes in the 1990s and also its resentment towards a perceived U.S. imperialism that he sought socialist policies as the solution to these economic issues. These policies were met with popularity across Venezuela, and the subsequent nationalization of its economy allowed Chavez to solidify his position in office. Despite the policies of these policies, Chavez's socialism only served to weaken the economy and perpetuate the same economic mistakes of the past. Maduro tried to maintain commitment to these policies but has been moving away from socialism and modernizing and liberalizing Venezuela's economy (Mawad 2023). China's restriction on its investment towards Venezuela added further pressure to the country to capitulate on its socialist mission and introduce reforms.

Because of Venezuela's gradual economic recovery and economic policy changes, China has renewed ties with the country. As Patricia Laya and Fabiola Zerpa (2023) of Bloomberg

news report, Venezuela and China have re-established connections. Chinese officials visited Venezuela in April 2023 to negotiate on the restructuring of the country's outstanding debt. Despite its outstanding debt, Venezuela has been able to pay nearly 80 percent of its total debt to China, which as of 2023 hovers around $11-$12 billion. The CNPC saw oil output increase to 90,000 barrels from its Sinovensa joint venture. Thus, China and Venezuela have reached a rapprochement. While there is still not much evidence of China opening new lines of credit to Venezuela, it is clear from its rapprochement with Venezuela after so many years of absence that China is almost rewarding Venezuela for adopting economic reforms and changing its ways.

In sum, China's economic statecraft in Venezuela has created economic power in terms of material resources and influence. Through vast infrastructure projects, loans, energy mining projects, and other initiatives, China used positive economic inducements between 2007-2017 to get access to geostrategic resources in Venezuela and also used positive economic inducements to shape Venezuela's adoption of the One-China policy. When China saw Venezuela experiencing an economic crisis because of its corruption, mismanagement, and economic policies, China used economic coercion by restricting further investments into Venezuela with the hope that the country would take measures to reform its economy. Venezuela adopted economic reforms and was able to experience a mild recovery and create a rapprochement in Chinese-Venezuelan economic and financial ties.

Conclusion

In conclusion, by looking at how Chinese economic statecraft creates economic power in Venezuela, this paper has identified a causal path between economic statecraft and economic

power and has shown that Chinese economic statecraft in Venezuela has created economic power for China. The literature on power in international relations contains two main views on power, one as the material resources that a state possesses and also as the ability to influence other states. Knorr (1973) argued that readers can only understand which definition of power is being discussed by examining the context in which it is used. Resultingly, this creates confusion for scholars studying power in international relations, especially given the changing strategies that states are using to achieve global power in the 21st century. This confusion could result in the assumption that a state's material capabilities have allowed the state to achieve great power status, when in reality the state struggles to influence or get something it wants from other states. Additionally, there are different forms of power that states may use to influence others; there is military, economic, and political power. This paper uses both definitions of power as a material resource and as influence in assessing Chinese economic statecraft.

Unlike military power, which can be seen as a forceful and coercive tool to influence others, economic power can be mutually beneficial for states. Throughout history, great powers have used their economic wealth to influence the behaviors of others with both states benefiting from the transaction. In modern times, major economies have become so interdependent where states regularly engage in economic activities such as trade, foreign direct investment, and banking. Additionally, states' political, economic, and financial institutions have evolved as well to the point where a state can guide the efforts of its commercial actors to engage in overseas projects that achieve the state's interests. The evolution of economic and political institutions, globalization of global markets, and the perceived notion of economics as mutually beneficial have allowed states to use economic statecraft as a benign form of exercising power. Despite its benign nature compared to military power, economic power can still be coercive by invoking

major costs to a target state. Hence, economic statecraft can be an excellent tool of exercising economic power by achieving material resources and influencing the behavior of other states.

A case study of Chinese economic statecraft in Latin America confirms the reality of how economic statecraft creates economic power. China has a long-standing economic relationship with Latin American and Caribbean countries that catapulted after the 2008 financial crisis when China emerged as a leader and a lender of last resort to economically distressed countries. Latin America has vast resources that China can use as inputs to help fulfill several urgent needs in the Chinese economy, such as a need to expand its private consumption, get access to oil reserves, and diversify its market shares (Scobell et. al 2020).

Additionally, Latin America is a region where China does not exert much military power as it does in its own sphere of influence in East Asia. Aside from a few arms' sale agreements, China does not have much of a military presence in Latin America. This fact allows scholars to carefully examine Chinese power in Latin America while excluding other forms of power that may impact their findings. Yet, there are a only a handful of Scholars (Ferchen 2011, Meza and Xing 2020, Chen 2021, Kaplan 2021, Urdinez 2016, 2023) that examine Chinese-Latin American relations and Chinese economic statecraft in Latin America.

By studying Chinese economic statecraft in Venezuela specifically, I have shown how economic statecraft translates into economic power. By gaining access to land, minerals, oil, gold, and other strategic resources, China has been able to accumulate economic power in terms of material resources in Venezuela. Furthermore, because of China's economic inducement and economic coercion of Venezuela – by investing heavily and then restricting investment – China was able to make Venezuela adopt economic reforms that led Venezuela to a mild recovery. Certainly, there may have been other factors contributing to Venezuela's adoption of economic

reforms, including internal pressure to modernize its economy. However, based on the causal path that I have identified, China's investment restrictions played a role in Venezuela's adoption of economic reforms.

In terms of next step, there are still further gaps in the literature on Chinese economic statecraft and economic power that scholars can engage. For instance, there should be further case studies of specific countries that engage with Chinese economic statecraft to see how different states change behavior, if at all, to Chinese economic power. Due to the limited scope of its research design, this paper has only solely at Chinese economic statecraft with Venezuela, a country with a long-standing history of economies ties with China. The literature can benefit from looking at Latin American and Caribbean countries that do not have as much of a long-standing economic relationship with China to see how the findings compare to this paper. Additionally, the literature on Chinese economic statecraft can benefit from finding cases where countries in Latin America and the Caribbean not only adopt behaviors, but also maintain, refrain, or abandon behaviors. As the international system evolves and states find new ways to exercise power, scholars must continue using the traditional frameworks of power in political science and apply them accordingly.

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