

China's Cautious Approach to the Venezuelan Crisis: Strategic Overdraft and Nonintervention Principle

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| Contents |

I. Introduction	Nonintervention
II. Strategic Overdraft and the Nonintervention Principle	V. Benefits and Overdraft: Flexible Involvement
III. China - Venezuela SSC: Overview and Risks	VI. Challenges to China
IV. Dual Overdrafts and	VII. Conclusions

| Abstract |

The current China - Venezuela relationship adheres to the South-South cooperation (SSC) model wherein the two countries have established an integrated cooperative approach with “loan-for-oil” deals at its core; however, in contrast with its recent softening stance on interventions, China has taken a cautious approach to the crisis in Venezuela since 2014. Nevertheless, not many studies highlight the reasons for China's cautiousness. This paper tries to mitigate the gap by examining China's strategic overdraft as exposed by this response and exploring the challenges in SSC model. It is herein argued that dual overdrafts of material power and credibility constitute the reason for China's nonintervention in Venezuela. Meanwhile, as the country hoped to continue its presence in Venezuela and is concerned over the overdraft credibility risk by withdrawing, it chose adopt

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hedging as a form of flexible involvement. To avoid a similar situation in the future, China should neither rely on economic complementarity nor rigidly stick to nonintervention. With national economic and political interests and cooperative sustainability as a guide, China should clarify and redefine its nonintervention principle and adopt preventive measures for risk assessment and cooperation practices to innovate a more sustainable SSC model.

▪ Key words: Nonintervention Principle, Strategic Overdraft, South-South Cooperation, China, Venezuela

I . Introduction

A strong supporter of South-South cooperation (SSC), China along with other developing countries in the Global South engages in economic and development cooperation for mutual benefit. Venezuela is one of China's critical cooperative partners in Latin America and their relations have improved rapidly since the start of this century, with both countries agreeing to form a comprehensive strategic partnership in 2014,¹⁾ which is considered an innovative model of SSC (Hao 2019).

The development of these innovative relations, however, was not easy. The steep drop in oil prices in 2014 strongly hit Venezuela's economy and triggered political turmoil. Venezuela's key SSC partner, China, followed a nonintervention principle and adopted a cautious approach to the crisis (Rosales 2018).

However, it is worth noting that China has gradually shifted away

1) China State Council (2014), "Zhongguo He Weineiruilu Jianli Quannian Zhanlue Huoban Guanxi de Lianhe Shengming [Joint Statement on the Establishment of Comprehensive Strategic Partnership between China and Venezuela]," http://www.gov.cn/xinwen/2014-07/22/content_2721652.htm. (accessed on August 6, 2021)

from noninterventionism (Hirono et al. 2019). For example, China has previously engaged in its partner countries' domestic affairs to secure overseas interests, including peacekeeping operations in Africa (Lanteigne 2019) and conflict mediation in the Gulf Region (Mansour 2019) and Afghanistan (Hirono 2019). Why, then, did China follow nonintervention in the case of Venezuela?

Important to this discussion is the fact that Chinese academia has shown concern over China's strategic overdraft, as well as its softening stance on nonintervention. Shi (2015) has voiced concerns that as China expanded its international involvement, the risk of strategic overdraft rose. Chen (*China National Defense News* 2015/01/20) has argued that China's diplomacy should be alert to the risk of strategic overdraft. Further, Yan (2017) has suggested that China should avoid rash international advances and prioritize neighboring areas. By such accounts of scholarly concern, it can be hypothesized that China's cautious approach to the Venezuelan crisis is related to concerns over potential strategic overdrafts.

This paper attempts to shed light on China's prudent response to the Venezuelan crisis from the perspective of strategic overdrafts by attempting to answer the following questions: (1) For China, what strategic overdraft risk was exposed through the Venezuelan crisis? (2) What led to such an overdraft risk? (3) How and why did China respond cautiously? (4) What challenges for China were exposed through such a position?

This paper is structured as follows. Section II reviews existing literature on China's strategic overdraft, the nonintervention principle, and a definition of "strategic overdraft" in the context of SSC. Section III presents an overview and involved risks of the China-Venezuela relations. Sections IV and V investigate its response to the crisis and explain the subsequent cautiousness. Section VI explores the challenges to China's position in SSC. Section VII concludes.

II. Strategic Overdraft and the Nonintervention Principle

1. Literature on China's Strategic Overdraft Risks

Concern over China's strategic overdraft risks stems from a reflection on its recent diplomatic shift. After President Xi Jinping came to power in 2013, China became active in the international circuit and adopted a proactive paradigm in multiple dimensions of international affairs (e.g., constructing new norms, providing more international public goods, and propelling initiatives; Wang 2019). Fundamentally, "overdraft" is a financial term that describes a situation where the withdrawn amount exceeds the available balance. Scholars have since adopted this term to define the decline of great powers that engage unsustainably in expansion and conquest (Liu 2017). Recent examples include the Soviet Union's failure in Afghanistan (Sun 2017) and the United States' ongoing challenges in Iraq (Burbach & Tarbell 2004). When specifically discussing international affairs and intervention, strategic overdraft refers to a situation in which a great power implements an expansionary strategy wherein investment exceeds capacity. Because of this imbalance, the power must then access additional resources by sacrificing other strategic goals, ultimately leading to a decline of power (Liu 2017). Thus, a key indicator of strategic overdraft is the cost - benefit ratio between resource investment and goal achievement.

Several scenarios can trap great powers in an overdraft bind. With respect to competition for power, if an emerging power initiates a challenge to the dominant power's interests, it is likely to fall into a strategic overdraft as its goal outpaces its means (Sun 2017). From a geopolitical perspective, an overdraft occurs when a power attempts to

expand into an area too far afield from its core sphere, as its costs could outweigh the strategic benefits (Zhang & Xu 2020). Regarding international commitments, Yan (2017) points out that assuming international responsibilities and providing public goods should not exceed the nation's power capacity, i.e., when a great power provides excessive assistance to other countries, it could face overdraft as its assistance goals outpace its resources (Liu 2017).

Despite these points, the existing literature highlights two flaws. First, there are few academic discussions around the risks in China's approach to SSC. Most existing research on strategic overdraft concentrates on the competition between great powers. Although Zhou (2017) does consider the possibility of China's overdraft in SSC, he optimistically believes that no relevant overdraft problems exist because China's overall SSC investment is not significant as China is currently raising its scale of SSC and overseas commitments. Resultantly, some Chinese scholars warn that if China cannot deal well with its costly commitments, the country may become incapable of promoting its strategies, especially under economic pressure and downward trends (*China National Defense News* 2015/01/20). Furthermore, Zhou's optimism reveals the second shortcoming in the literature: the lack of a discussion of international credibility as it relates to strategic overdraft. International credibility refers to a country's global prestige and reputation as judged by whether it lives up to its commitments (Zhang & Wang 2021). These can include, for example, whether the country assumes its due responsibility in major economic events and crises and its compliance with existing commitments and treaties. International credibility is essential to the functionality of China's global affairs, as is true for every great national power. In short, other countries will examine the SSC model based on China's international credibility. Moreover, strong international credibility, along with material power, is one of the necessary components of

international leadership, as it promotes other countries' bandwagoning (Zhang & Wang 2021). Thus, successful SSC cases will generate a positive demonstration effect conducive to China's international credibility and SSC model.

However, most existing studies have only examined China's strategic overdraft by weighing the country's material investments and benefits. As a loyal realist, Yan (2017) highlights the material elements of power when judging China's international responsibilities, and although Gao (2017) includes immaterial elements, she does not mention international credibility. Since China has existing commitments to the international community, including the nonintervention principle, compromise on its commitments could question China's international credibility, thereby, elevating the overdraft risk.

2. Literature on Nonintervention in China's SSC

Nonintervention is the key characteristic of China's approach to SSC that is rooted in two principles. First, the *Five Principles of Peaceful Coexistence* detail that nonintervention implies that all countries have the right and freedom to choose their political system and development path and that no country can forcefully, or otherwise, interfere in the internal affairs of another country (Li 2014). Second, the *Eight Principles for Economic Aid and Technical Assistance* highlight that China respects the sovereignty of recipient countries, never asking for privileges or attaching conditions to its aid (Ping 1999). Thus, nonintervention in internal affairs and a "no strings attached" approach to international aid are the two core elements of its nonintervention strategy and have become the country's fundamental principles to its SSC approach.²⁾

2) China State Council (2021), "China's International Development Cooperation in the New Era," http://english.www.gov.cn/archive/whitepaper/202101/10/content_WS5ffa6bbbc6d0f72576943922.html. (accessed on April 15, 2021)

However, Chinese officials have not clarified what exactly constitutes intervention (Sørensen 2019), making it difficult to clearly define and understand nonintervention in any context. Existing literature classifies China's international peacekeeping operations and conflict mediation as intervention (Lanteigne 2019; Hirono 2019), but few discuss it in relation to China's role in SSC.

As such, this paper defines a dual criterion to detect intervention behaviors in SSC, beginning with whether China requires SSC partners to conduct political or economic reform as conditions of partnership. If so, this represents a clear violation of its "no strings attached" approach while offering aid. This is particularly important because the supposed unconditionality of China's role in SSC often attracts developing countries than proposals of cooperation by Western countries, which are generally linked to required governance, environmental, and social standards as well as debt sustainability (Brautigam 2008). Second, whether China interferes with SSC partners' domestic affairs to reshape local agendas for concentrating on SSC projects in its favor (e.g., China made Pakistan alter existing domestic policies and regulations to focus on implementing the China - Pakistan Economic Corridor of its Belt and Road Initiative; Kurita 2021).

Here, it is necessary to point out the tension between China's nonintervention policy and its growing overseas interests that motivate China to intervene in others' domestic affairs (Pang 2009). Conversely, Wang (2013) argues that as China's overseas interests expand, its development is intricately tied to the affairs of the outside world and its foreign policy and strategy must consider this new reality and implement broader safeguards for its international interests. Thus, it is urgent to enrich and revise China's principle of nonintervention to align with the new era.

Moreover, sticking to nonintervention may also hurt China's international credibility as commitment to future international responsibilities may be difficult while practicing nonintervention. The international community

expects China to shoulder more responsibilities and costs. As such, Chinese academic literature on the topic has reached the consensus that more flexibility and creativity should be applied to practicing the nonintervention principle (Zheng 2016).

Nevertheless, there are two deficiencies in the existing literature on China's role in SSC. First, few studies have used case studies to examine the reasons for China's intervention or nonintervention but have instead described China's behaviors (e.g., Kurita 2021). Second, scholars have not analyzed the risks brought to China after compromising on the nonintervention principle, which includes strategic overdraft. As intervention requires greater resource input than nonintervention it is likely to impair China's international credibility as it represents a departure from its commitments.

<Table 1> Summary of China's Strategic Overdraft in South-South Cooperation Model

	Overdraft of Material Power	Overdraft of Credibility
Judging Standard	Invests more resources than benefits obtained and/or other goals being threatened	Failing to match rhetoric with deeds
Possible Scenarios	Challenges the hegemon's interests	Does not comply with commitments and treaties
	Expands in areas far away from its core sphere	Does not assume responsibility in economic events and crises
	Affords endless amounts of assistance to other countries	
Relations to Intervention	Possible when intervening	Possible in either case

Based on the aforementioned discussion, nonintervention and strategic overdraft represent two sides of the same coin. Compromise to the former

implies that China must at times interfere in the domestic affairs of other regions or countries to secure its overseas interests and concern over the latter reflects that China may be too interventionistic, spending more than it can afford. When the risk of credibility overdraft is accounted for, the situation becomes more complicated. Whether China chooses to intervene or not, it may incur damage to its credibility. Therefore, China's response to the recent crisis in Venezuela serves as a lens to examine its position and response when a bilateral SSC relationship partner gets into trouble.

III. China - Venezuela SSC: Overview and Risks

1. Cooperative Mechanism and Pillars

The loan-for-oil deal is the foundation of SSC between China and Venezuela and the two countries have established an integrated mechanism for oil supply, trade, and infrastructure construction. With their economic complementarity becomes the driving force, their political goals guarantee the development of their SSC relationship.

Starting in the 1990s, China entered a phase of rapid economic development amidst massive energy demand, and Venezuela's abundant oil reserves fulfilled China's needs. In 1997, the China National Petroleum Corporation (CNPC) won the bid for the exploitation rights of the Intercampo and Caracoles oil fields (Lu et al. 2018) followed by an agreement to jointly develop Orimulsion in 2001 after which CNPC and Petroleum of Venezuela (PDVSA) established Orifuels Sinovensa SA (Lu et al. 2018). During the Venezuela's nationalization campaign, China reduced its share in these two projects in 2006 and 2007 (Xie 2019).

The early oil cooperation between these two countries cemented the loan-for-oil model, a financing mechanism in which China provided loans to Venezuela which repaid in oil supply (Giacalone & Ruiz 2013). Established in 2007, the China - Venezuela Joint Fund marked the beginning of the model that was initially funded with 4 billion USD and 2 billion USD from the China Development Bank (CDB) and Venezuelan National Development Fund, respectively. Venezuela promised to repay Chinese loans by increasing oil supply to China (Cui & Zhang 2016). Both sides rolled in funds in the following years to keep the fund size around 5 billion USD.³⁾ In 2010, CDB signed the framework agreement on long-term financing cooperation with the Venezuela Bank of Social and Economic Development for a 10-year term for 10 billion USD and 70 billion CNY (Lu et al. 2018). Parallely, PDVSA and CNPC signed oil purchase and sale contracts as repayment guarantees.⁴⁾

From 2007 to 2017, Beijing financed Venezuela at more than 60 billion USD, accounting for over 40% of China's loans to Latin America⁵⁾ and the country became one of the primary sources of oil supply to China. From 2008 to 2017, China's imports of Venezuelan crude oil increased from 6.47 million tons to 21.77 million tons. It also imported a large amount of Venezuelan refined oil from 2008 to 2016, with an annual average of 4.29 million tons (Xie 2019).

During this time, Chinese loans supported Venezuelan infrastructure,

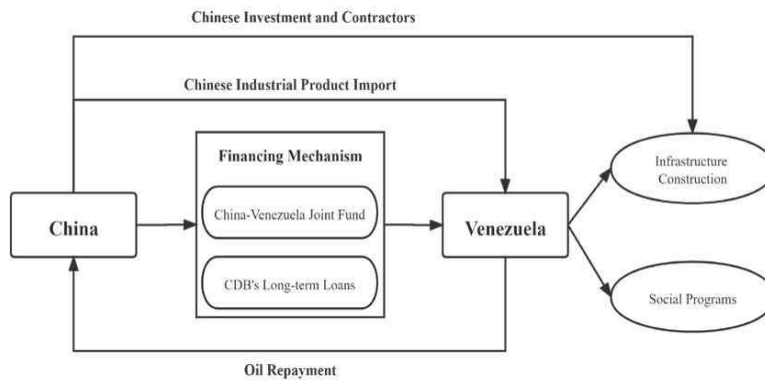
3) Xie, S. H. and S. J. Zheng (2017), "Zhongguo Touzi Zai Weineiruila Tingbai: Yi Shiyou Huan Daikuan Zhende Shuangying Ma [Chinese Investment Stalls in Venezuela: Is Oil for Loans a Win-Win Deal]," https://www.thepaper.cn/newsDetail_forward_1598520. (accessed on August 6, 2021)

4) China State Council (2010), "Zhongshiyou Yu Weineiruila Qianshu Shiyou Ji Changqi Rongzi Hezuo Xieyi [China National Petroleum Corporation and Venezuela Signed an Oil and Long-Term Financing Cooperation Agreement]," http://www.gov.cn/jrzq/2010-04/19/content_1586722.htm. (accessed on August 9, 2021)

5) Guevara, C. (2020), "China's Support for the Maduro Regime: Enduring or Fleeting?," <https://www.atlanticcouncil.org/blogs/new-atlanticist/chinas-support-for-the-maduro-regime-enduring-or-fleeting/>. (accessed on August 9, 2021)

housing, and agriculture sectors, further stimulating bilateral trade and Chinese investment in the developing country. With financial support, Venezuela imported desired industrial products from China, and the bilateral trade volume increased from 0.351 billion USD in 2000⁶⁾ to 23.8 billion USD in 2012.⁷⁾ Similarly, Chinese enterprises easily contracted several infrastructure, communications, housing, and agricultural projects in Venezuela during this time (To & Acuña 2019),⁸⁾ marking a robust example of China's "Going Out" strategy aimed at expanding overseas markets. As such, China - Venezuela cooperation formed an integrated mechanism with loan-for-oil at its core and extending to trade and infrastructure (see <Figure 1>).

<Figure 1> China - Venezuela Integrated Cooperation Mechanism



- 6) China Embassy in Venezuela, "2000 Nian Yilai Zhongguo He Weineirula Shuangbian Maoyie Tongji [Statistics of Bilateral Trade between China and Venezuela since 2000]," <http://ve.china-embassy.org/chn/smw/qian410/t216005.htm>. (accessed on August 9, 2021)
- 7) MOFCOM (2017), "Duiwai Touzi Hezuo Guobie (Quyue) Zhinan: Weineirula (2017) [Guide to Countries (Regions) for Foreign Investment and Cooperation: Venezuela (2017)]," http://www.sh-beltandroad.net/article/fxfnew/gbznnew/201809/1460141_1.html. (accessed on August 9, 2021)
- 8) Others refer to the following. Xie, S. H. and S. J. Zheng (2017), "Zhongguo Touzi Zai Weineirula Tingbai: Yi Shiyou Huan Daikuan Zhende Shuangying Ma [Chinese Investment Stalls in Venezuela: Is Oil for Loans a Win-Win Deal]," https://www.thepaper.cn/newsDetail_forward_1598520. (accessed on August 6, 2021)

This development depended on two pillars, i.e., economic complementarity and parallel political purposes, with the former being the driving force. Venezuela received necessary funds while China gained access to oil resources that furthered its expansion efforts (Sanderson & Forsythe 2013), allowing it to diversify its oil supply sources, effectively use its foreign exchange reserve, and internationalize the Renminbi (CNY; Ma 2019).

For Venezuela, Chinese loans were preferred because of its nonintervention policy. Chinese creditors viewed macroeconomic and institutional environmental standards, emphasized by Western creditors, as political conditions. What China valued, rather, was Venezuela's debt-paying ability as secured by oil supply instead of the borrower's rule of law, governance, transparency, budget framework, or the extent of incurred debt.⁹⁾ Further, China offered a lower interest rate on loans than Western creditors (Sanderson & Forsythe 2013).

The complementarity of economic structure also factors in as Venezuela has an oil-dependent economy with a singular economic structure. Its foreign exchange income, fiscal revenue, and government expenditures depend highly on oil weakening its industrial foundation. The country imports approximately 80% of industrial raw materials,¹⁰⁾ creating a demand for low-priced industrial products from China.

Parallel political purposes further ensure the development of the China - Venezuela cooperation. Apart from diversifying oil supply to lower its geopolitical risks, China hopes to set this cooperation as a model for SSC promotion in Latin America. Generally, China has three targets in the

9) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

10) MOFCOM (2020), "Duiwai Touzi Hezuo Guobie (Quyue) Zhinan: Weineiruila (2020) [Guide to Countries (Regions) for Foreign Investment and Cooperation: Venezuela (2020)]," http://obor.sh-itic.net/article/ffnew/gbznnew/202106/1514419_1.html. (accessed on August 9, 2021)

region: promoting South-South relations, ensuring food and energy security, and accelerating financial internationalization (Hsiang 2016)—all of which are consistent with the aforementioned cooperation's political purposes—to promote the overall development of China - Latin America relations and align with China's political and diplomatic interests in the region (Lu & Peng 2018). Particularly, the loan-for-oil model is central to this demonstration effect because it has been applied to other Latin American countries, such as Brazil and Ecuador (Cui & Zhang 2016).

For Venezuela, cooperation with China serves a political leverage in its relationship with the United States (US) as it can capitalize on the rivalry between the two great powers to implement soft balancing toward the latter to ensure its own autonomy (Mijares 2017). Former Venezuelan President Hugo Chávez clarified his intention to embrace China as a socialist counterweight to Venezuela's dependence on the US (*The National Interest* 2014/07/13), and his successor, President Nicolas Maduro, continues a hardline policy toward the US as well. Hence, China's political importance becomes more prominent in Venezuela's political strategy.

2. Risks and Conflicts

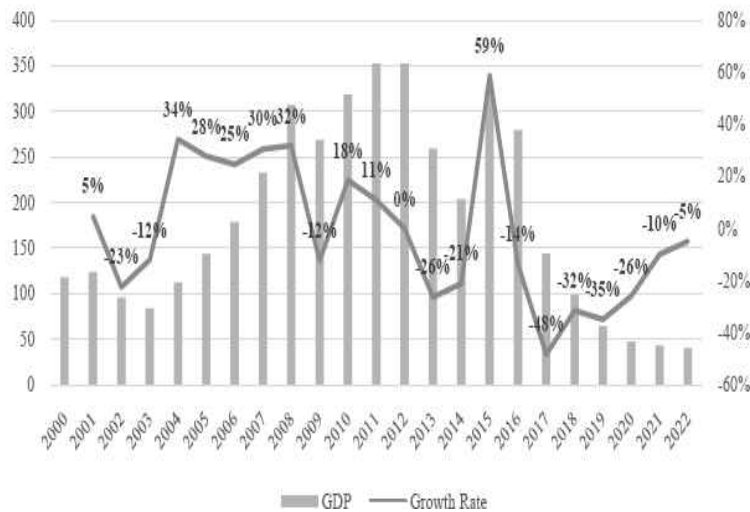
Despite the two pillars of the China - Venezuela cooperation, risks and conflicts still exist. Venezuela's overdependence on oil revenue renders it economically vulnerable and ill-formed economic policies and the negative effects of nationalization have worsened its economy. Moreover, China and Venezuela's political purposes have proven to not be entirely compatible.

Venezuela's heavy dependence on oil activities is the key unstable factor threatening China's interests and the sustainability of the China - Venezuela cooperation. For example, vast revenue from oil activities and China's unconditional loan-for-oil policy have further entrenched its oil dependence. In 2016, Venezuela's oil export revenue accounted for >50%

of its GDP and nearly 96% of total exports.¹¹⁾ As such, Venezuelan economy is extremely sensitive to oil prices. Worse yet, Venezuela did not use its booming oil revenues to diversify its industries or increase the productivity of its oil industry.

The 2014 oil price crash provided a huge blow to the Venezuela's national economy. The decline in oil prices was accompanied by a decrease in Venezuelan crude oil production, from 2.5 million barrels per day in 2014 to only 0.6 million barrels per day in 2020.¹²⁾ Consequently, its foreign exchange income and GDP shrunk significantly. Statistics show that Venezuela's economy witnessed a sharp decline after 2013 despite a significant rebound in 2015 (see <Figure 2>).

<Figure 2> Venezuela's Economic Performance (Current Prices, Billions of USD)¹³⁾



11) Hecimovich, J. P. (2017), "The Roots of Venezuela's Failing State," <https://origins.osu.edu/article/roots-venezuelas-failing-state>. (accessed on August 1, 2021)

12) EIA (2020), "Venezuela Executive Summary," <https://www.eia.gov/international/analysis/country/VEN>. (accessed on August 14, 2021)

13) IMF (2021), "World Economic Outlook (April 2021)," <https://www.imf.org/external/datamapper/datasets/WEO>. (accessed on August 13, 2021)

Venezuela's problematic economic policy is the second source of risk to the China - Venezuela SSC. To cope with the economic decline, the Venezuelan government issued more currency to ease the fiscal deficit, leading to high inflation (He 2016). Venezuela's inflation rate began to worsen, surging from approximately 41% in 2013 to approximately 255% in 2016.¹⁴⁾ High inflation caused currency devaluation and a decline in the Venezuelan population's real income that further discouraged foreign investment, reducing Venezuela's foreign exchange reserves, and aggravating inflation (Zhou & Li 2017).

Beyond oil dependence and economic policy, an even bigger risk to the China - Venezuela relations lies in Venezuela's social and economic institutions. After President Chávez took office in 1999, he implemented radical nationalization and expanded its control over various economic sectors, including oil, agriculture, transportation, telecommunications, power, banking, steel, and heavy industries.¹⁵⁾ Nationalization drove out foreign investors and made the economy uncompetitive, reducing efficiency and fostering corruption. At the same time, Venezuelae nforced price controls and in vested excessively in social welfare, subsidies, and preferential measures (Zhou & Li 2017), a distorted resource allocation that consumed much of Venezuela's oil revenue that could have been reinvested in oil or other profitable in dustries.

Further, China and Venezuela's divergent attitudes toward the US also represent a political risk in their relationship. Particularly, the relationship between the US and Venezuela is deteriorating. Their relationship worsened in the 1990s with the rise of socialism and Hugo Chávez's presidency, and successive US administrations have all imposed sanctions on Venezuela. However, its domestic economic crisis triggered domestic political turmoil,

14) World Bank (2021), "World Bank Open Data," <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=VE>. (accessed on August 13, 2021)

15) Hecimovich, J. P. (2017), "The Roots of Venezuela's Failing State," <https://origins.osu.edu/article/roots-venezuelas-failing-state>. (accessed on August 1, 2021)

giving the US an opportunity to intervene in the country's affairs. The Trump administration escalated economic sanctions on Venezuela and supported the opposition leader Juan Guaidó in 2019 (Wang 2020).

In light of this, Venezuela's soft balancing puts China on the frontline of its confrontation with the US, which does not suit the latter's political purposes. *In China's Policy Paper on Latin America and the Caribbean*, China states that the China - Latin America cooperative partnership does not target or exclude any third party.¹⁶⁾

<Table 2> Pillars and Risks of the China - Venezuela Cooperation

	Economic		Political	
	China	Venezuela	China	Venezuela
Pillars	Promote oil import	Obtain funds	Secure oil supply	Balance the United States and keep autonomy
	Use foreign reserves			
	Internationalize RMB	Import industrial products	Promote SSC	
	Expand investments and exports			
Risks	Venezuela's oil dependence		Divergent stance on the United States	
	Venezuela's nationalization and bad policies			

Nevertheless, the US continues to hold a heavy presence in Latin America. Since the Monroe Doctrine in the 19th century, it has been deeply involved in the affairs of Latin American economics, politics, and military. Thus, as a close economic partner of the US, China is wary of

16) MFA (2016), "Zhongguo Dui Lamei He Jialebi Zhengce Wenjian [China's Policy Paper on Latin America and the Caribbean]," https://www.fmprc.gov.cn/web/ziliao_674904/tytj_674911/zcwj_674915/t1418250.shtml. (accessed on July 31, 2021)

Venezuela's anti-US ideology and the use of China as a counterweight to this relationship. China tends to acquiesce to the US Monroe Doctrine, which claims sole intervention rights in Latin America for the US alone, and is therefore reluctant to follow up on anti-US rhetoric in Venezuela (Dosch & Goodman 2012).

IV. Dual Overdrafts and Nonintervention

China followed nonintervention during the Venezuelan crisis because intervention would have plunged the country into material and credibility overdrafts. Thus, due to this nonintervention, Venezuela was not required to implement institutional reforms or prioritize repayment obligations.

1. Cautiousness and Tolerance

At the time of the crisis, Venezuela's debt to China was approximately 20 billion USD (*Global Times* 2018/05/22). The economic crisis hurt the country's debt-serving ability. Meanwhile, many Chinese-funded Venezuelan projects were delayed or suspended.¹⁷⁾ Default risks and trapped investments created challenges for China's interests in Venezuela and the China - Venezuela cooperation as a whole.

China's dilemma in Venezuela is correlated to its nonintervention approach. For example, although the cooperation between the two countries is based on complementarity, China's influence on its Latin American partners' economic structure leads to their dependence on the

17) Xie, S. H. and S. J. Zheng (2017), "Zhongguo Touzi Zai Weineirula Tingbai: Yi Shiyong Huan Daikuan Zhende Shuangying Ma [Chinese Investment Stalls in Venezuela: Is Oil for Loans a Win-Win Deal]," https://www.thepaper.cn/newsDetail_forward_1598520. (accessed on August 6, 2021)

powerful nation (Dosch & Goodman 2012). After all, China's unconditional loans and great demand for resources make it easy for a country like Venezuela to become dependent on commodities with a comparative advantage. However, economic complementarity is subject to a vigorous market and becomes a weakness for countries that rely on exports to China when commodity prices fall.¹⁸⁾

Further, China's emphasis on Venezuela's oil-guaranteed debt-paying ability and ignorance of its internal economic and social risk factors led to an optimistic risk assessment of its relationship with the latter. Unfortunately, the loan-for-oil model is based on China's assumption that Venezuela's oil industry would sustain and that its regime would remain stable, but both assumptions were proven incorrect (Rosales 2018). However, examining the state of Venezuela's domestic affairs and assessing risks based on macroeconomic standards would have constituted political conditions in China's view, counter to the principles of its nonintervention policy.

Nonintervention prevented China from interfering in Venezuelan policies and requiring institutional reforms along with the side effects of nationalization and Venezuelan government's ill-formed economic and industrial policies contributed to the economic crisis. Under these circumstances, the nonintervention principle could not guide China's policies unless it considered helping Venezuela build healthier economic, social, and political institutions,¹⁹⁾ a clear departure from nonintervention.

Despite the relevant critiques, China followed its nonintervention commitment in the case of Venezuela as it did not require the Venezuelan

18) Ferchen, M. (2015), "China and Latin America: Challenges in Pursuing Prospects," <https://carnegietsinghua.org/2015/02/05/china-and-latin-america-challenges-in-pursuing-prospects-pub-58990>. (accessed on August 14, 2021)

19) Ferchen, M. (2014), "China-Latin America Relations: Creative Engagement Versus Non-Intervention," <https://carnegietsinghua.org/2014/07/16/china-latin-america-relations-creative-engagement-versus-non-intervention-pub-56175>. (accessed on August 14, 2021)

government to implement institutional reform. In 2016, Chinese economic experts were sent to Venezuela to discuss its macroeconomic problems, but both sides only exchanged views on how to solve them.²⁰⁾ Prior, in 2010, China had dispatched an economic consulting team, but team leader Zheng Xinli revealed that his team only provided advice rather than imposing any expectations on Venezuela.²¹⁾ Thus, the Chinese consulting teams largely adhered to the principle of nonintervention.

To further prove the absence of intervention, the Maduro government's failure to adopt effective reforms also proved that it did not receive reformative pressure from China. Faced with a deepening debt crisis, Venezuela opted to reduce imports to ease its financial difficulties instead of implementing economic reform.²²⁾ However, with oil prices and depleting production, it was difficult for Venezuela to earn enough foreign exchange. By 2018, its account surplus was near zero²³⁾ and President Maduro admitted that his government's development model was so far, a failure (*Sina* 2018/08/02).

Additionally, China did not exert pressure to force the Venezuelan government to prioritize its repayment obligation. On the contrary, it presented a tolerant attitude. In 2015, former Chinese MFA speaker Hong

20) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

21) CCIEE (2010), "Zouchuqu Zhanlue Yao Fangda 'Weineiruila Moshi' [Going Out Strategy Should Enlarge 'Venezuela Model']," <http://www.cciee.org.cn/Detail.aspx?newsId=3210&Tid=231>. (accessed on August 14, 2021)

22) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

23) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

Lei said that China understood the impact of declining oil prices on Venezuela's economy. The two sides had established a mature and effective cooperation mechanism, and therefore, tolerance and cooperation were maintained (*China Daily* 2015/02/14).

More importantly, China agreed to extend Venezuela's debt. In 2016, China and Venezuela negotiated a 2-year debt extension²⁴⁾ and China loosened the payment terms on approximately 19 billion USD in loan-for-oil deals, under which Venezuela was allowed to repay in oil and make interest-only payments (*Reuters* 2018/04/28). China also lowered Venezuela's minimum oil shipment quantities.²⁵⁾ In 2018, Venezuela reportedly won another 6-month grace period (*BBC* 2018/09/15) and a subsequent grace period on its 19 billion USD loan until the end of 2020 (*Reuters* 2020/08/12).

2. Pressures of Intervention

If China had chosen to intervene in Venezuela's crisis, it would have faced the risk of material power and credibility overdrafts that constitutes the reason for China's nonintervention. The risk of China's material overdraft is reflected in two aspects. First, institutional factors contributed to the Venezuelan crisis, including nationalization and a singular economic structure. If China had intervened, it would have needed to provide a great deal of aid to control the crisis in the short run and invest many resources to help Venezuela carry out institutional

24) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

25) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

reforms in the long run. However, China is not interested in the domestic affairs of Latin American countries²⁶⁾ as long-term reforms are slow, costly, and risky processes, which would likely put China in an overdraft situation.

As such, China showed that it was unable to settle Venezuela's crisis. Liu Dajiang, the counselor of the Chinese Embassy's Venezuelan commercial office, commented that Venezuela was the country with the highest business risks and unstable domestic circumstances and that the Venezuelan government's policies lacked effectiveness and continuity.²⁷⁾ Both the Chinese government and enterprises felt exposed and helpless in the face of internal instability in Venezuela.²⁸⁾ During the 2016 meetings between China and Venezuela in Caracas, a Chinese official revealed that the top Chinese officials sent a message of letting Venezuela fall,²⁹⁾ suggesting that the Chinese were not delusional of being able to save Venezuela (Mijares & Creutzfeldt 2020).

Another reason could be that intervening in the turmoil in Venezuela could have put China in a confrontation with the US. The Trump administration sanctioned Venezuela's oil exports and companies that maintained business with it, froze its assets in the US, strengthened financial and trade sanctions, and supported its opposition force to remove

26) Mehta, K. (2018), "China in Latin America: A Rising Power's Forays into US Backyard," https://www.orfonline.org/wp-content/uploads/2018/01/ORF_Occasional_Paper_141_China_LatinAmerica.pdf. (accessed on July 28, 2021)

27) MOFCOM (2020), "Duiwai Touzi Hezuo Guobie (Quyue) Zhinan: Weineiruila (2020) [Guide to Countries (Regions) for Foreign Investment and Cooperation: Venezuela (2020)]," http://obor.sh-etc.net/article/xfnew/gbznnew/202106/1514419_1.html. (accessed on August 9, 2021)

28) Ferchen, M. (2014), "China-Latin America Relations: Creative Engagement Versus Non-Intervention," <https://carnegietsinghua.org/2014/07/16/china-latin-america-relations-creative-engagement-versus-non-intervention-pub-56175>. (accessed on August 14, 2021)

29) Ferchen, M. (2017), "Can China Help Fix Venezuela?," <https://carnegietsinghua.org/2017/07/24/can-china-help-fix-venezuela-pub-71564>. (accessed on August 16, 2021)

President Maduro from power (Wang 2020). Competing with the US in Latin America could have harmed China and undermined its core interests.

Inevitable consequences for China also existed at the time, even amidst nonintervention. For example, the US financial sanctions on Venezuela increased the risk of Chinese companies' funds being frozen by the former. Some Chinese oil companies had to stop remittance, overseas collection, and payment based on US financial platforms. Further still, due to the difficulties of US currency payments in Venezuela, they had problems purchasing equipment and materials, which affected project progress (Lu & Peng 2018). Chinese contractors in other industries were also under threat. For example, the China National Electronics Import & Export Corporation was reportedly accused of supporting President Maduro, and the US government froze the company's assets in the US and barred US citizens from conducting business with the corporation (*DW* 2020/12/01).

Neighboring countries are the priority of China's diplomatic strategy and neighborhood diplomacy is critical to its rise (Yan 2017). In his 2015 speech at the National University of Singapore, President Xi stressed that China had always placed its neighboring partners at the top of its diplomatic agenda (*Xinhuanet* 2015/11/07). Venezuela's geographical distance from China means that it does not fall under this category. For instance, China did not sign a memorandum of understanding with Venezuela to jointly build the Belt and Road Initiative until the second half of 2018 (*Xinhua Silk Road* 2018/09/18), demonstrating Venezuela's low rank among its diplomatic priorities.

Further, the American government intensified the containment against China in its surrounding areas. The Trump administration challenged China on trade wars, technology sanctions, Taiwan and Hong Kong issues, and the South China Sea. The incumbent Biden administration has

stepped up its efforts to play the “Taiwan card” and formed AUKUS with the United Kingdom and Australia to jointly deal with China in the Indo-Pacific region. These issues are closely related to China’s national security, unification, and development and confrontation with the US in Venezuela, far away from China’s influential sphere, would have run counter to its diplomatic interests and political purposes.

Credibility overdraft issues another cause for concern. As mentioned above, nonintervention is a fundamental principle in China’s SSC with Venezuela. Since they first established diplomatic relations, the two have reached a consensus on nonintervention. In the *Joint Communique on the Establishment of Diplomatic Relations between China and Venezuela*, the two sides established diplomatic relations based on equality, mutual respect for sovereignty and territorial integrity, noninfringement of other countries, nonintervention in internal affairs, and peaceful coexistence.³⁰⁾ In the *Joint Statement between China and Venezuela on the Establishment of Comprehensive Strategic Partnership* in 2014, they reaffirmed the principle, and China further stated that it understood and respected Venezuela’s independent and autonomous foreign policy (*People’s Daily* 2014/07/22).

Moreover, on the topic of credibility overdraft, China’s “no strings attached” loan policy was attractive as it gave the Venezuelan government more discretion on how to use the funds. Therefore, the principle of nonintervention runs through the bilateral relations between the two countries and is the root of their consensus on practical cooperation. For China, intervening in Venezuela and requiring the implementation of institutional change would violate existing consensus and agreements, causing a gap between its rhetoric and behavior along

30) MFA (2000), “Zhonghua Renmin Gongheguo Yu Weineiruila Gongheguo Jianli Waijiao Guanxi de Lianhe Gongbao [Joint Communique on the Establishment of Diplomatic Relations between China and Venezuela],” https://www.mfa.gov.cn/web/ziliao_674904/1179_674909/t4934.shtml. (accessed on August 17, 2021)

with creating an overdraft of credibility. Beyond Venezuela, nonintervention is China's commitment to Latin America as a whole and if it were to compromise on this principle, it would create a negative demonstration effect contrary to China's diplomatic goals.

In 2014, the China - Latin America and Caribbean Countries Leaders' Meeting was held in Brazil, after which both sides issued a joint declaration emphasizing respect for self-determination, sovereignty, and territorial integrity, insisting on nonintervention in each other's internal affairs, and extended support in exploring development paths that suited their respective national conditions,³¹⁾ which were re-emphasized in *China's Policy Paper on Latin America and the Caribbean*.³²⁾

Further, Latin American countries are especially sensitive to external intervention due to their antipathy to US interference and have committed to the process of de-Americanization to reduce US influence in the region (Hsiang 2016) along with adopting a multiangular approach to maintain relations with various actors to secure their autonomy.³³⁾ China is thus, an alternative to the US. They emphasize finding a balance in cooperation with China and the US, attempting to further diversify foreign relations and deepen regional integration (Yakovlev 2019).

Therefore, given the nonintervention commitments made by China and the sensitivity of external intervention in Latin America, if China

31) MFA (2014), "Zhongguo-Lamei He Jialebi Guojia Lingdaoren Baxiliya Huiwu Lianhe Shengming [Joint Declaration of the Brasilia Meeting of Leaders of China and Latin American and Caribbean Countries]," https://www.fmprc.gov.cn/web/ziliao_674904/1179_674909/t1175758.shtml. (accessed on August 17, 2021)

32) MFA (2016), "Zhongguo Dui Lamei He Jialebi Zhengce Wenjian [China's Policy Paper on Latin America and the Caribbean]," https://www.fmprc.gov.cn/web/ziliao_674904/tytj_674911/zcwj_674915/t1418250.shtml. (accessed on July 31, 2021)

33) Noesselt, N. and A. Soliz-Landivar (2013), "China in Latin America: Competition in the United States' 'Strategic Backyard'," https://www.ssoar.info/ssoar/bitstream/handle/document/35972/ssoar-2013-noesselt_et_al-China_in_Latin_America_competition.pdf?sequence=1&isAllowed=y&lnkname=ssoar-2013-noesselt_et_al-China_in_Latin_America_competition.pdf. (accessed on July 29, 2021)

interferes in Venezuela during the crisis, it is likely to arouse the vigilance of other countries in the region and would undermine its political purpose of promoting South-South relations in Latin America and increase the risk of its credibility overdraft.

V. Benefits and Overdraft: Flexible Involvement

Nonintervention is not risk free. For China, nonintervention means a decline in returns from the loan-for-oil deals and the added risk of China's credibility overdraft. Therefore, China responded to the Venezuelan crisis with a flexible approach to continue its presence and secure its interests.

1. Hedging the Crisis

China employed hedging in the face of the Venezuelan crisis. While maintaining an economic presence and helping the Venezuelan government, it adopted economic and political counteracting measures. China's hedging is a risk-averse behavior but does not reach the extent of intervention defined in this paper.

In terms of political hedging, China opposed US interference in Venezuela's internal affairs. In 2019, Ma Zhaoxu, the Chinese representative to the United Nations, said that China opposed external interference and military intervention in Venezuela and the use of humanitarian issues to achieve political goals (*Xinhuanet* 2019/04/11). China voted against the US draft resolution submitted to the United Nations Security Council that called for a new presidential election in

Venezuela and recognition of self-proclaimed President Guaidó.³⁴⁾ Nevertheless, China engaged with Venezuela's opposition force. Foreexample, it was reported that Guaidó held a meeting with the Chinese delegation in Caracas (*RFI* 2019/10/21). Guaidó also revealed that he was seeking to gather China's support for his candidature (*Nikkei* 2019/10/01). China also invited key Venezuelan opposition leaders to visit Beijing.³⁵⁾ A representative of the Venezuelan opposition said they respected China's economic interests in Venezuela and wanted to continue trading and they pledged to repay the Chinese loans (Ma 2019).

China also engaged with the Venezuelan National Assembly. As the opposition parties won a big victory in the 2015 parliamentary election, the National Assembly competed with the president over the right to approve debt acquisitions and investment accords and declared that those that did not comply with this standard, would be deemed invalid (Rosales 2018). China was inclined toward the National Assembly because Chinese officials connected new credit lines to the Venezuelan government to the formal approvals of the National Assembly.³⁶⁾

In terms of economic hedging, China continued providing new loans to Venezuela but in a risk-offsetting manner. In 2018, China reportedly granted Venezuela a new 5 billion USD loan,³⁷⁾ showing that China was still

34) UN (2019), "Venezuela: Competing US, Russia Resolutions Fail to Pass in Security Council," <https://news.un.org/en/story/2019/02/1033832>. (accessed on August 18, 2021)

35) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

36) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

37) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf.

financially supportive of its partner. After all, it was hard for Venezuela to earn foreign exchange through trade apart from gaining new loans in the short term to ease financial difficulties. Conversely, China began to set non-reform conditions for such a financing, reportedly conditioning its new loans on Venezuela's currency devaluation (*Reuters* 2018/09/13). Further, the new 5 billion USD loan flowed into the China - Venezuela joint ventures in the oil industry to help increase Venezuela's oil production for repayment in the loan-for-oil deals instead of handing it to the Venezuelan government.³⁸⁾ By financing joint ventures, China increased its management role in the crisis while maintaining its noninterventionist, yet flexible stance (Rosales 2018).

At the same time, China increasingly shifted toward macroeconomic assessments of its commercial projects with Venezuela, a behavior that had previously been regarded a political condition. For example, Chinese state-owned insurance companies, such as Sinosure, began to adopt macroeconomic risks metrics in their project evaluations.³⁹⁾ Thus, despite new loans to Venezuela, China tied its loans to oil production and attempted to restrict the Venezuelan government's discretion on the use of loan funds.

2. Concerns Over Nonintervention

For China, nonintervention eliminated the immediate risk of material

pdf. (accessed on July 28, 2021)

38) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

39) Kaplan, S. B. and M. Penfold (2019), "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," https://www.wilsoncenter.org/sites/default/files/media/documents/publication/china-venezuela_relations_final.pdf. (accessed on July 28, 2021)

overdraft but the financial risk from the loan-for-oil model remained. In addition, if China had let its important partner in Latin America fall, this would have resulted in a negative demonstration effect of China's SSC approach in the region. Therefore, China adopted a flexible hedging approach. China intends to continue its oil-based cooperation with Venezuela since the loan-for-oil deals are profitable, and Venezuela's enormous oil reserve is attractive. The loan-for-oil model gives China access to Venezuelan oil supplies and drives Chinese exports and overseas investment. Total withdrawal from Venezuela would mean that early investments and loans could sink and that China would be giving up the potential of the Venezuelan market.

Moreover, the internationalization of the Chinese CNY has an opportunity to get a value boost since Venezuela is under US sanctions and settling oil in CNY is safer and more stable. In 2017, Venezuela announced oil and fuel prices in Chinese currency (*Reuters* 2017/09/16). In 2019, PDVSA received payment in CNY, marking the start of the country's official use of CNY to price oil, and Venezuela also called on oil countries around the world to switch to CNY to settle oil transactions (*CNPC* 2019/10/12).

Venezuela's oil reserves remain a big draw for China. Even during the crisis, Venezuela managed to export 500,000 barrels of crude oil per day to China, which shows its sincerity in repaying China's loans along with its capacity as an oil supplier.⁴⁰⁾ Further, it could be stated that there is an opportunity for Chinese oil companies within Venezuela's crisis. Specifically, if the Venezuelan government adopts liberalization reforms by privatizing part of PDVSA's assets and transferring part of its equity to raise funds to respond to the debt crisis, this could be a good chance for Chinese oil companies to establish new cooperation projects in the

40) Xie, S. H. and S. J. Zheng (2017), "Zhongguo Touzi Zai Weineiruila Tingbai: Yi Shiyou Huan Daikuan Zhende Shuangying Ma [Chinese Investment Stalls in Venezuela: Is Oil for Loans a Win-Win Deal]," https://www.thepaper.cn/newsDetail_forward_1598520. (accessed on August 6, 2021)

country (Lu et al. 2018).

Regarding credibility, China must maintain a degree of presence in Venezuela due to the pressure of credibility overdraft as Venezuela's overdependence on oil activities and the absence of healthy and sustainable institutions in the country play a role in China's nonintervention. Although the economic complementarity and integrated cooperation mechanism create a "win-win" model for China's SSC approach, the Venezuelan crisis challenges its sustainability in Latin America. This win-win complementarity obscures the growing economic dependence of commodity-rich Latin American countries on China.⁴¹⁾ Some Latin American countries that rely on exporting raw materials to China (e.g., Chile's copper export and Brazil's iron ore export),⁴²⁾ increasingly view economic complementarity as a source of weakness, i.e., they are becoming alert to the reciprocity of China's SSC. Hence, if China withdrew from Venezuela, its promotion of the SSC model in the region would be hindered, and the responsible image it hopes to maintain would be undermined.

It is important to note that the loan-for-oil model is not limited to Venezuela. Some Chinese scholars have pointed out that the challenges encountered by the cooperation between China and Venezuela are not isolated and that there are similarities in China's relations with Sudan, Niger, Chad, Kazakhstan, and Iran regarding the establishment process, cooperation characteristics, and risks (Lu & Peng 2018). If China had completely withdrawn from Venezuela during the economic crisis, this might have a negative demonstration effect among these countries, adversely affecting China's oil supply.

41) Ferchen, M. (2017), "Can China Help Fix Venezuela?," <https://carnegietsinghua.org/2017/07/24/can-china-help-fix-venezuela-pub-71564>. (accessed on August 16, 2021)

42) Ferchen, M. (2015), "China and Latin America: Challenges in Pursuing Prospects," <https://carnegietsinghua.org/2015/02/05/china-and-latin-america-challenges-in-pursuing-prospects-pub-58990>. (accessed on August 14, 2021)

Therefore, it remains economically beneficial for China to maintain its presence in Venezuela. Besides, in light of the risk of credibility overdraft, China had to sustain its cooperation with the Venezuelan government to support the rhetoric of SSC and prevent its SSC model with other countries from being negatively influenced. However, given that the Maduro administration was unstable, China adopted the aforementioned counteracting measures to hedge the risks of its continuous presence. By attaching non-reform conditions and engaging with the opposition and the National Assembly, it aimed to restrict his access to more loans, reduce the legal risk so fine dealings with the Venezuelan government, and confirm the opposition's attitude toward Venezuela's debts and future oil policies if he was removed from power.

<Table 3> Summary of China's Response to the Venezuelan Crisis

	Material Power	Credibility	Pressures	Response
Intervention	Overdraft	Overdraft	Dual Overdrafts	Follow nonintervention but employ hedging
Nonintervention	Overdraft avoided	Overdraft	Credibility overdraft and declined returns	

VI. Challenges to China

Despite this well navigated approach, the Venezuelan crisis has exposed four challenges for China. First, though nonintervention avoided material overdraft, China still faced the pressure of credibility overdraft. Choosing intervention would have meant breaking its existing promises to the region, whereas nonintervention and withdrawal during the economic crisis would also have damaged the reputation of its SSC and international image. Both scenarios presented the possibility for negative

demonstration effects among China's SSC partners.

China's second challenge is maintaining hedging. In the case of Venezuela, China carefully employed hedging as a middle policy to strike a balance between intervention and nonintervention, proving a flexible involvement since China engaged with the Venezuelan opposition forces and set non-reform conditions as counteracting measures. However, maintaining hedging is not easy because it is difficult to distinguish which policies are attributed to flexible involvement in SSC and do not constitute intervention. If China fails to maintain this balance, it may lose the space to hedge, falling into the pressures of intervention or nonintervention and inviting strategic overdraft.

Third, due to the doctrine of nonintervention, China's risk assessment was based on optimistic assumptions of Venezuela's stable political regime and oil supply. It ignored the risks of Venezuela's nationalization, ill-formed economic and industrial policies, and the two countries' conflicting political purposes. The risks associated with this nonintervention-based lack of knowledge threatened the sustainability of Venezuela's economy and the China - Venezuela cooperation.

Fourth, economic complementarity does not necessarily guarantee the sustainability of the cooperation model. Venezuelan government's poor governance was exposed through the crisis as it failed to take advantage of Chinese funds to diversify its economy and enhance oil productivity while becoming heavily dependent on oil activities. Conversely, China's nonintervention principle in the loan-for-oil mechanism gave the Venezuelan government ample discretion for using Chinese funds, which indirectly worsened its economic situation.

The aforementioned challenges reflect the necessity for China to re-examine its SSC principle of nonintervention. China should pay more attention in the future to avoid similar crises, rather than establishing passive involvement after the outbreak by fine-tuning its non intervention

principle. More specifically, regarding the concepts of intervention versus nonintervention, China should better clarify which actions constitute intervention for its SSC partners as the Chinese government does not have a clear definition at present; the vagueness of the concept may limit itself to take necessary actions to protect its own interests. With a clearer definition, behaviors that fall outside it can be safely defined as noninterventive behaviors. Therefore, by clarifying these definitions, China can create more space for itself to craft future policies and actions.

Regarding the policy, China should adopt preventive measures to ensure sustainability in risk assessment and cooperation. For example, it should consider macroeconomic risks in assessment rather than leaning on optimistic assumptions based on nonintervention. In its cooperation practices, it should be vigilant about partner countries' economic structures and institutional arrangements. It is recommended that China set conditions to avoid economic and political risks or guide partner countries' policies in directions that favor China. In the case of Venezuela, linking loans to oil production, currency devaluation, and limiting the government's discretion are appropriate examples. Through preventive measures, a more sustainable SSC model can be established.

VII. Conclusions

China took a cautious approach to the Venezuelan crisis, following its nonintervention commitment while hedging risks. Concerns over strategic overdrafts were closely related to China's response.

If China had intervened in Venezuela, it would have faced the risk of dual overdrafts of material power and credibility. In that scenario, China would have had to invest many resources to help the Venezuelan government control the crisis in the short run and support institutional

reforms in the long run. It might also have faced a confrontation with the US in Latin America. These effects would not have been consistent with its political purposes and economic interests. Further, compromise in the nonintervention principle would have impaired the foundation of the China - Venezuela cooperation and would not have been conducive to the promotion of its SSC model.

Thus, due to the pressures of dual overdrafts, China followed nonintervention. It neither imposed pressure on the Venezuelan government to conduct institutional reforms nor forced it to prioritize its repayment obligations. Conversely, China repeatedly extended Venezuela's loan repayment period.

However, sticking to nonintervention is not risk free. China still values its profitable cooperation with Venezuela, through which it can not only promote exports and investment but also further internationalize its currency, not to mention Venezuela's attractive oil reserve. As with intervention, withdrawing from Venezuela completely would have also led to credibility overdraft and China's partners may have questioned its responsible image and the win - win rhetoric of its SSC approach. Therefore, China employed a flexible hedging approach to continue its presence in Venezuela in a risk-averse manner by attaching non-reform conditions to its new loans and restricting the Venezuelan government's discretion on using funds. China tried to strike a balance between nonintervention and intervention to keep its commitment and secure its interests.

However, sustaining this flexibility proved difficult as the crisis exposed the sustainability problem of the China - Venezuela cooperation with loans-for-oil at its core. China's nonintervention principle made it too optimistic when assessing risks, ignoring Venezuela's internal economic and institutional risks. Ultimately, economic complementarity could not guarantee the sustainable development of China's SSC in

Venezuela.

To avoid facing a similar crisis in the future, China should first clarify the specific characteristics of intervening behaviors. Without a clear definition of which behaviors constitute intervention in SSC, China's policies and actions will be limited. Additionally, it should adopt preventive measures for risk assessment and cooperation practices to innovate a more sustainable SSC model, for instance, it should utilize macroeconomic indicators to assess the economic conditions of its partners. It should also moderately set non-reformative economic and political conditions in its SSC to avoid political and economic risks that may impact its partners. Finally China should practically guide the policies of its partners and limit their discretionary rights so that resultant policies will be in its favor.

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| 논문투고일 : 2021년 09월 17일 |

| 논문심사일 : 2021년 11월 23일 |

| 게재 확정일 : 2021년 12월 05일 |

| 국문초록 |

베네수엘라 위기에 대한 중국의 신중한 접근: 전략적 대월 및 불간섭 원칙

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현재의 중-베네수엘라 관계는 양국이 '석유 대역' 거래를 핵심으로 한 통합적인 협력 방식을 확립한 남-남 협력(South-South Cooperation: SSC) 모델을 고수하고 있다. 그러나 최근 개입 완화 기조와 달리 중국은 2014년부터 베네수엘라의 위기를 조심스럽게 대처하고 있다. 중국이 조심스러운 이유를 강조하는 연구는 많지 않다. 본 논문은 이러한 대응에 의해 노출된 중국의 전략적 대월을 검토하고 SSC 모델의 과제를 탐구하여 격차를 완화하려고 한다. 중국이 베네수엘라에 개입하지 않는 이유는 물질적 권력 대월과 신용의 대월이라고 주장한다. 한편 베네수엘라에 계속 진출하기를 희망하고 탈퇴로 인한 신용 대월의 리스크가 우려됨에 따라 유연한 참여 형태로 헤징을 선택했다. 향후 유사한 상황을 피하기 위해 중국은 경제적 상호보완성에 의존하거나 간섭하지 않는 것에 엄격하게 집착해서는 안 된다. 중국은 국가적 경제적·정치적 이해관계와 협력적 지속가능성을 지침으로 삼아 불간섭 원칙을 명확히 하고 재정립하며 보다 지속 가능한 SSC 모델을 혁신하기 위해 위험 평가와 협력 관행에 대한 예방조치를 채택해야 한다.

• 주제어: 불간섭 원칙, 전략적 대월, 남남 협력, 중국, 베네수엘라