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Venezuela shows US will use the stick if carrots fail

FRANCISCO URDINEZ, one of the leading scholars of China-Latin America relations, is known for his concept of "economic displacement", a theory that also gives its name to his Cambridge University Press book published last November. The idea holds that China's rise has reduced US relevance in the region by making partnerships with Beijing more consequential and ties with Washington less so for many governments. Now, in the wake of US attacks on Caracas and the abduction of Nicolas Maduro, Urdinez speaks to IGOR PATRICK as part of our OPEN QUESTIONS interviews with global thought leaders on whether this American move supports or challenges his theoretical model.

Can you please explain your concept of economic displacement, how that applies to the US-China competition in Latin America?

I had a feeling that it was impossible to really explain China's amazing economic rise in the Global South, in Latin America, but also Africa and Southeast Asia, without taking into consideration how the US behaved during that same time. To do this, I thought I needed a metric, an index, a parsimonious variable that could exemplify or show me at a certain time, in a certain year, in a certain country, how much leverage and economic weight China exerted on one country. And to me, it was very important to have a similar comparison to the US.

What I did was use the existing literature in political science and international relations to compose an index of the main variables, which include trade, aid, finance and investment, into one single metric, which is weighted or measured relative to the country's gross domestic product. You end up with a measure of relative weight: how much China's activities represent in a certain country vis-a-vis what the United States is representing.

By doing that, which is a very simple idea but very hard to bring to reality due to lack of good data, as the simple metrics of China's engagement in the world sometimes are lagging behind and are of not good quality, I observed the first trend, which is the graph that you see in chapter one, how the US retrenched, coming from what was in the 2000s a pretty strong presence to half of it in 2020. You see the US reducing its economic weight by half. And in the meantime, China's economic weight grew 15-fold in Latin America. But you also see the same trend in the rest of the world.

> Venezuela becomes a limiting case that demonstrates how far the US is willing to go to try to reverse displacement when it occurs in countries considered strategically critical or ideologically hostile

Between 2001, we could say, when China entered the World Trade Organization, and 2023, when I finished the analysis, the dramatic growth of China was, of course, of historic dimensions, and that story has been told many times. We have read many people expressing how China's growth is unprecedented.

To me, the US parallel reality had to be taken into account because of one key variable, which is that China grew as an outside option, or an alternative supplier of economic goods, meaning credit, trade opportunities, investment opportunities that formerly the US would provide, first almost on its own, and eventually in tandem with Western countries, the European Union.

But the 20th century was the century in which the US was the main economic player in Latin America. The USSR did not compete in economic terms. And then we find this new player, China, filling a void, occupying spaces, becoming extremely competitive in very little time.

Latin American actors, especially subnational governments and economic elites, like businesspeople and economic chambers, were very eager and very willing to engage with China and to bring the Chinese players into town.

Rather than a top-down dimension in which China simply has this abstract grand strategy of conquering Latin America economically speaking, I wanted to show a more nuanced story of hundreds of actors simultaneously engaging and creating this web of engagements, of entanglements, that now make China the most important extra-regional economic actor, at least in South America and in most Latin American countries. Some 60 per cent of the population in the region lives in a country where China is the main extra-regional economic actor.

Let's try to apply this concept to what's happening now in Venezuela. Over the past few years, Venezuela has become both the most extreme case of economic dependence on China in South America and the site of the harshest American response in the region in decades. This exposes a clear limit to the process you describe in the book, the moment when an economic relationship starts getting treated by the US as a security threat. How does understanding this limit help us make sense of what's happening right now?

Absolutely, the securitisation of the relations with Venezuela by the US does not fundamentally alter the displacement mechanism I described. But as you point out very well, it drastically increases the political cost for both the US and countries that maintain economic relations with China.

We are now shifting the paradigm that I described. Displacement continues to operate as a structural phenomenon based on relative economic weight, but now with an additional layer of geopolitical risk. Venezuela becomes a limiting case that demonstrates how far the US is willing to go to try to reverse displacement when it occurs in countries considered strategically critical or ideologically hostile.

What will change is that securitisation creates this new type of cost for the local agency that I described of Latin American countries. It's a huge challenge for us Latin Americans now being forced to choose sides.

While between 2001 and 2020 countries could freely choose between alternative economic providers with relatively low political costs, they now face the possibility of sanctions, isolation or even intervention if their economic choices are interpreted as geopolitical alignment.

On the other hand, you have Argentina being rewarded for its loyalty to the US and committing, at least outwardly, to stop using the swap that the Bank of China landed years before.

A giant sculpture stands near the headquarters of Venezuela's state-run oil company PDVSA in Caracas. Photos: Reuters, Simon Song

Banners display Venezuelan currency at the central bank building in the capital, Caracas, from where Nicolas Maduro was abducted by US forces.

[Note: Argentina's currency swap with China is a line of credit between the two countries' central banks that allows Buenos Aires to draw on yuan in exchange for pesos, easing pressure on scarce dollar reserves. The agreement allows about 130 billion yuan (HK$146 billion) and has been used to shore up reserves and keep payments flowing amid chronic foreign-currency shortages.]

This does not eliminate displacement, but forces countries to calculate not only economic benefits but also security risks. And this is paradoxical because this may even accelerate displacement in countries already economically integrated with China, because it could incentivise them to deepen these relationships as a counterbalance to American pressure.

It would be very hard for countries like Brazil, Argentina, Peru and Chile to disentangle what I described for the last 20 years. It would take many years to bring back the US and expel China from these countries.

The case of Venezuela, as you very well pointed out, is very particular, because Venezuela didn't have many alternatives to China. China was mostly the sole provider of economic benefits to this country. We will see. But certainly, there's a change in the paradigm. We are getting into the securitisation of the economy now.

The case you're arguing here is that instead of making countries cautious, that can actually accelerate this trend of economic displacement. Mike Waltz, the US representative for the United Nations, stated during the Security Council meeting that Washington will not accept having the world's largest oil reserves controlled by enemies. A day earlier it was Marco Rubio, the secretary of state, who went on several television networks saying that the time has come for the US to do something about "non-western hemisphere actors operating in the region".

So, how are the other South American countries likely to read this Venezuelan episode? As an extreme and isolated case or a signal that certain levels of economic dependence on China might end up triggering hard political responses from the US? And what kind of caution might this generate in the region?

This is a great question. I think that Venezuela poses a great threat to the region. The decision to intervene is an implicit recognition that the US does not have the economic resources necessary to reverse displacement through traditional means, but is willing to use other resources. And what's interesting is that, as I mentioned, reversing displacement would require sustained and massive provision of alternative economic goods, something that incentives like Build Back a Better World or the Americas Partnership never managed to deliver.

President Donald Trump's administration now is trying to rely less on multilateral agencies like the World Bank and the International Monetary Fund and strengthen the DFC [US International Development Finance Corporation]. They have now provided loans again in the rescue of Argentina. But military intervention becomes essential here as an admission that this economic path is not available or is politically unfeasible in the short run, also because of domestic resistance in the US. There's domestic resistance to why the US would invest taxpayers' money in this region that no one cares about.

This confirms the book's central finding, although times are changing. Displacement was caused both by America's retrenchment and China's expansion. In a way, the US has delegated the provision of economic goods, and now it has to reinvent itself and learn how to do this again.

I mentioned a few cases in which this has happened, like the Humboldt cable in Chile, in which Google was able to offer an alternative to Huawei's offering to Chile to create this transoceanic cable.

But in general, American enterprises are very reluctant to engage in economic activities that are politically risky. This bet from Trump on bringing Chevron, Exxon and other oil companies into rebuilding Venezuela's oil industry, to me, is still to be seen. It would be massive, because it would mean that American firms are once back, like they did 200 years ago, 100 years ago, following the flag, engaging in economic statecraft, as the famous Chiquita Bananas did during the Cold War.

Reversing the displacement that is now a structural variable would require a long economic commitment that the American political system now seems incapable of sustaining, and then military intervention becomes the last resort, the easiest resort. Because, to be very clear, and you know this very well, the economic competition that China poses in Latin America is by no means comparable to the military might that the US has, which is by far uncontested. It's an easy resort. So far, public opinion supports it, and it will work better for them.

I think we're going into a world of spheres of influence. Trump, through the corollary of the Monroe Doctrine, the Monroe Doctrine 2.0, is stating that the western hemisphere belongs, so to speak, to American interests. That is, at least in my opinion, recognising that Russia can get what it expects in Ukraine, and it could eventually mean that also China is free to have the South China Sea as its own area of influence. To some degree, I think China and Russia end up winning from this situation, because they get support or legitimate, potential legitimacy for their claims in their own backyards. I guess we will see.

Well, you mentioned former US president Joe Biden's Build Back Better and the American Partnership as examples of failed cases of the US trying to engage with the region without managing to achieve much. Also, there's strong resistance to investing money elsewhere when there are so many problems at home. Do you think the moment we're having now is a feature of this Trump administration and the so-called Trump Corollary, or do you think this is a structural flaw of the political system that's likely to continue even if the next president is a Democrat?

There's a huge tension now in American foreign policy that I would exemplify in the different views that Marco Rubio and Vice-President J.D. Vance have. Marco Rubio is, so far, the winner in pushing for an interventionist neoconservative goal in which the end goal eventually would be to even end the rigid authoritarian regime in Cuba. We need to remember that the current situation in Venezuela will put a lot of pressure on Cuba, and that's the end goal of the Republican elite that Marco Rubio speaks to in Florida and elsewhere.

That rhetoric has some resistance from the pure Maga kind of position that J.D. Vance expresses: non-intervention, focusing on domestic issues, not putting our military at risk, not putting our taxpayers' money at risk, focusing on recovering the economy. Those are potential presidential candidates, granted that Donald Trump would not be able to go for a third term, and this case now becomes extremely relevant for the political future of the US.

> Military intervention becomes essential here as an admission that this economic path is not available

The Venezuela operation will probably deepen the US legitimacy deficit in the region, especially among political elites and public opinion, because I showed in the book, in the chapters on soft power and public opinion, that American legitimacy eroded when the US ceased to be seen as a provider of solutions to development problems and came to be seen as a source of instability or constraint to autonomy.

A military intervention, even if technically successful, reinforces the image of the US as a coercive power rather than a beneficial economic partner. But it's been also deeply celebrated by right-wing governments in South America and also by the Venezuelan diaspora, which is extremely important. In Santiago, where I live, there are almost a million Venezuelan migrants that went to the streets, and they were very happy about this.

There is a scenario in which American influence could recover if this military intervention is followed by a sustained and massive commitment to economic reconstruction, not only in Venezuela but also throughout the region, something like a new Marshall Plan, or as you said, perhaps a more pragmatic version of Build Back Better or the Americas Partnership, which lacked the concrete measures by which the US would help the economy of the region.

If Trump manages to create a plan that would provide economic goods, the ones that the US has not

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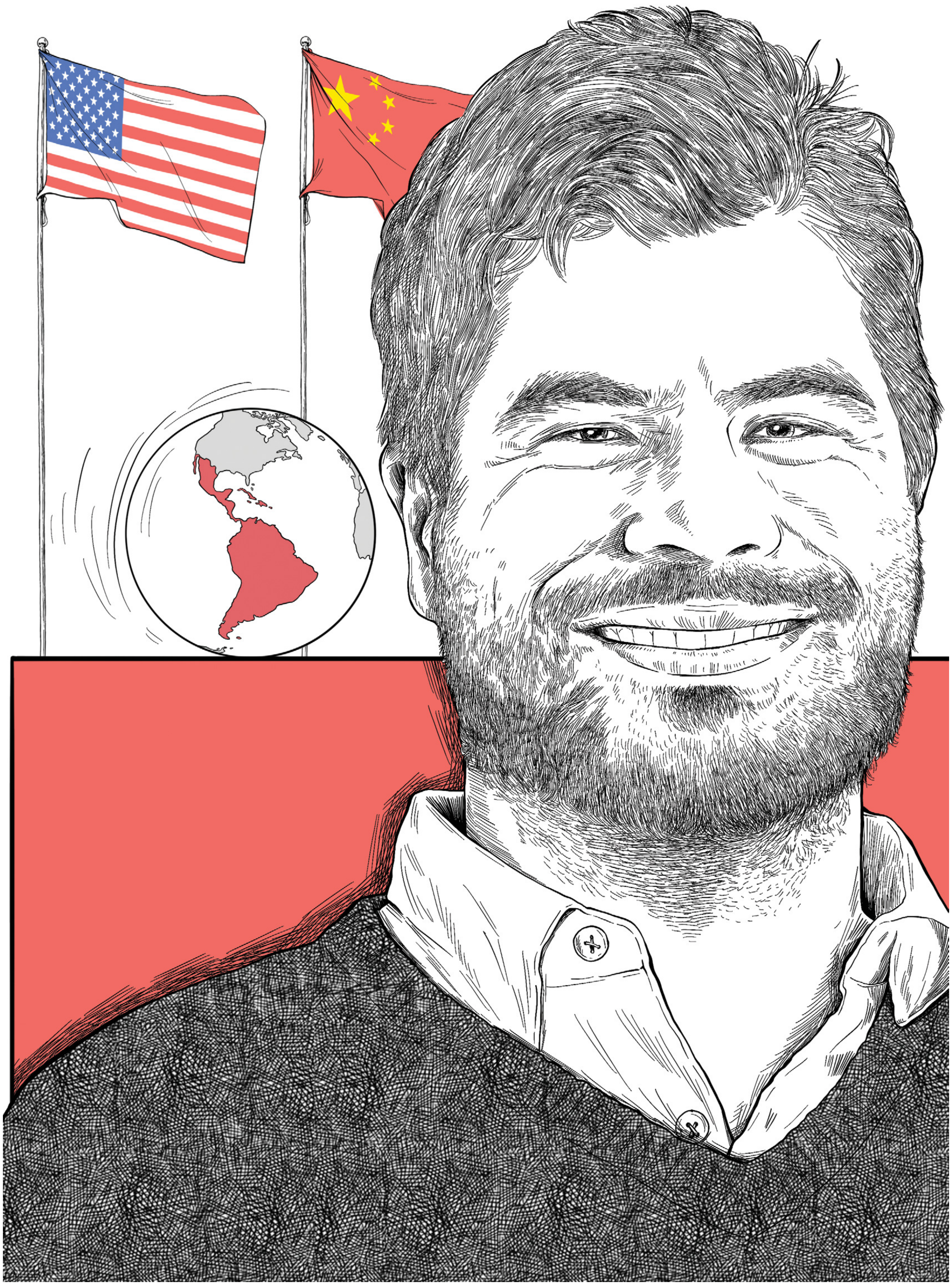
Illustration: Lau Ka-kuen

demonstrated political will to deliver over the past two decades, we could see a success case. But without this demonstration of capacity, it will be only military, not economic, and therefore will not resolve the structural causes of displacement. This will create a time bomb within Venezuela itself, because Venezuela eventually will need the economic stimulus to recover its economy. And I'm expecting that, in the end, American foreign policy acknowledges this and commits sustainably in the long run to the recovery of the Venezuelan economic situation. Otherwise, it will be a disaster.

Regardless of military might, I think what your work really shows is that the US doesn't lose influence because it stops being powerful, but because it stops being indispensable. Do you think Venezuela suggests there is a threshold tied to strategic assets like energy, where this loss stops being managed economically and starts being confronted through force alone from now on?

I agree. We are entering a realm of securitisation of economic means, and certain economic activities such as oil drilling, but also lithium, copper, critical minerals and any commodity that is linked to the sustained and long-run competition with China in artificial intelligence and in the energy transition will become securitised.

> The US would need a plan in which it's able to compete with China for the control of these strategic assets in the economic agenda, not in the military agenda on its own

The US may see now, in its own area of influence under this new Monroe Doctrine, the control of very important resources that it will need eventually, in the long run, for the global struggle with China. And again, that makes absolute sense from a very realistic, non-moral standpoint. It's very understandable from a realist foreign policy perspective.

But my concern, as I said before, is how much the US will be able to make its private sector follow the flag, to bring American enterprises to, in the case of Venezuela, an extremely risky market, an extremely deteriorated infrastructure, and rebuild an energy base that is now nonexistent. There's been a lot of potential, but nothing really concrete in terms of licensing.

For example, there's not a very huge presence by Chinese investors in Chile or Argentina in copper, although there is some, of course. But the presence of China, as I said in the book, displaces the US and US actors from a lot of these strategic sectors in energy and particularly in infrastructure, where the patterns are extremely clear. In renewable energy, even more so. The US would need a plan in which it's able to compete with China for the control of these strategic assets in the economic agenda, not in the military agenda on its own.

I want to turn a little bit to how this situation in Venezuela was perceived by countries individually and at multilateral forums like the United Nations and the Organisation of American States (OAS). One of the most consistent findings of your book is that the political effect of China's advance is not necessarily automatic alignment with Beijing, but rather erosion of confidence in the US.
But with this scenario now, even governments critical of Maduro have reacted cautiously to the intervention. Does this suggest that this mechanism of legitimacy loss keeps operating regardless of the regime involved?

This will definitely be a critical case to test the limits of my theory, because the logic I identify is that alignment in international organisations like the OAS, the Human Rights Council at the UN, et cetera changes because displacement alters underlying material incentives. Countries vote with whoever provides them essential economic goods, but they don't necessarily align with China all the time. The question is whether military coercion can substitute for or overcome these economic incentives.

My hypothesis would be that coercion could produce alignment in the short term through fear. That's not unreasonable. However, the structural problem is that countries still need credit, infrastructure investments and commercial opportunities that China offers.

I expect to observe, perhaps, a bifurcation pattern. Countries with a high degree of economic displacement by China may demonstrate rhetorical support for the US in the Venezuelan case out of fear of reprisal, but will continue voting with China on issues not directly related to hemispheric security. Brazil is an example.

Besides, it's possible we will see public support for American intervention be lower than governmental support, and this will reveal the dissociation between elite preferences and the population. This could be very feasible, especially through the effect of diaspora.

Military force works very effectively in the short-run – but again, it doesn't help much in reverting the structural trends.

The Brazils, the Perus, the countries that are deeply entangled with China have found that they can, at times, have more margin to have their own agendas in international organisations, not necessarily meaning voting more closely with China, but less aligned with the US.

You mentioned the OAS and I think this will be a big mystery now, because the OAS used to be the typical international organisation by which the US exerted a lot of political pressure and enforcement through the Cold War.

It would be interesting to see if the Trump administration, as part of this new Monroe Doctrine 2.0, rebuilds or remakes the OAS to be the channel by which it pressures Latin American countries. Now the OAS is in a very lethargic state. It's still alive, but it doesn't have the dynamism that it used to have in the 50s or 60s. But it could be reframed to become the channel by which Trump brings the "corollary" of his renewed Monroe Doctrine into practice.

What I got from your book and throughout this whole interview, actually, is that you're describing a recurring pattern where trade leads to financing which leads to control over strategic assets. And in Venezuela's case, the cycle concentrated almost entirely on oil, right? Because they don't have much else to offer by intervening in this sector, and Trump is not exactly trying to hide that he is after the oil. Do you think the US is attacking the central machinery of economic displacement or just dealing with the most visible result?

It's attacking the most important resource. China's development bank line of credit was mostly thought to be a support to [Venezuelan state-owned energy company] PDVSA to improve its oil infrastructure and improve the extraction of oil in the Orinoco Belt. Eventually, these multibillion-dollar lines of credit started to be used for other reasons, less efficiently, with corruption and capacity problems, and it lost its essence, its original meaning.

Formerly, the interest of China's policy banks in Venezuela was oil, and now certainly the US is interested in the oil. Reconfiguring the Venezuelan oil sector would certainly impact the displacement mechanism because it would probably cut the channels.

For example, as I mentioned with Cuba, it would affect the way by which Venezuela supports Cuba, and it would affect the way by which China exerts a lot of political leverage in Venezuela. Oil is the main channel of Sino-Venezuelan economic integration.

But as I show in the book, displacement operates through multiple vectors.

Even if the US manages to reorient Venezuelan oil exports, this doesn't automatically eliminate established financial relationships or commercial networks. The thing is that in Venezuela these are very much damaged.

In our research, we have found that Chinese investors haven't invested much in Venezuela for the last eight years. The relationship now goes through the exports of oil, which are in part used to repay the loans, the famous oil-backed loans, and then this extremely important line of credit that the China Development Bank provided under [late Venezuelan president Hugo] Chavez to build infrastructure. There hasn't been much new.

The Chinese, they wouldn't say this in public, have learned the hard way. China would probably rethink twice nowadays whether the risk it took in Venezuela would be worth the price. Back in time, during Chavez's time, the policy banks were not very risk averse. They had a lot of capital and incentives from government to lend and to engage in projects that were politically charged, and lots of those ended up being huge failures.

> China would probably rethink [now] whether the risk it took in Venezuela would be worth the price

Venezuela was a learning case for Chinese firms in understanding that smaller markets like Costa Rica, Peru, Argentina and Chile, especially, were perhaps less sexy due to size, less sexy because regulation is stringent and politicians are not always that friendly, but the market rules are more sustainable and it's easier to do business there. There's more long-term orientation.

In the conclusion of your book, you suggest that reversing the loss of American influence would require a much larger economic offer than what the US has been putting forward, not only during this Trump term but also during the Biden administration.
So I wonder, if you were rewriting the book's conclusion today in light of what has happened in Venezuela, would you say that economic displacement is less reversible than you imagined, or that it is now entering a new and different phase, more contained perhaps by military action, but not totally eliminated?

I would say that displacement is definitely less reversible than I imagined, but we are entering a qualitatively different and potentially more dangerous phase.

The reversibility was based on the premise that the US could compete economically if it decided to do so, that displacement was reversible through greater provision of alternative economic goods in the long run. This case suggests to me that the US recognises now that this path is not available or is not politically feasible, and is willing to resort to coercive measures instead.

This means that displacement is not being reversed, but it's being securitised, transformed from an economic phenomenon into a national security issue.

We are entering a phase where displacement continues to operate structurally in most of the region, but with a growing risk that individual countries will be isolated or punished if their economic relations with China are interpreted as geopolitical alignment.

And this again makes it more politically costly and potentially more unstable for the region.

In a revised conclusion, I would emphasise that Sino-American competition is shifting from being primarily economic to becoming increasingly security-based, and that this reflects the weakness rather than the strength of American economic influence.

Nicolas Maduro shows a new Huawei phone given to him by President Xi Jinping on a 2023 visit to Beijing.