

Venezuela Forum

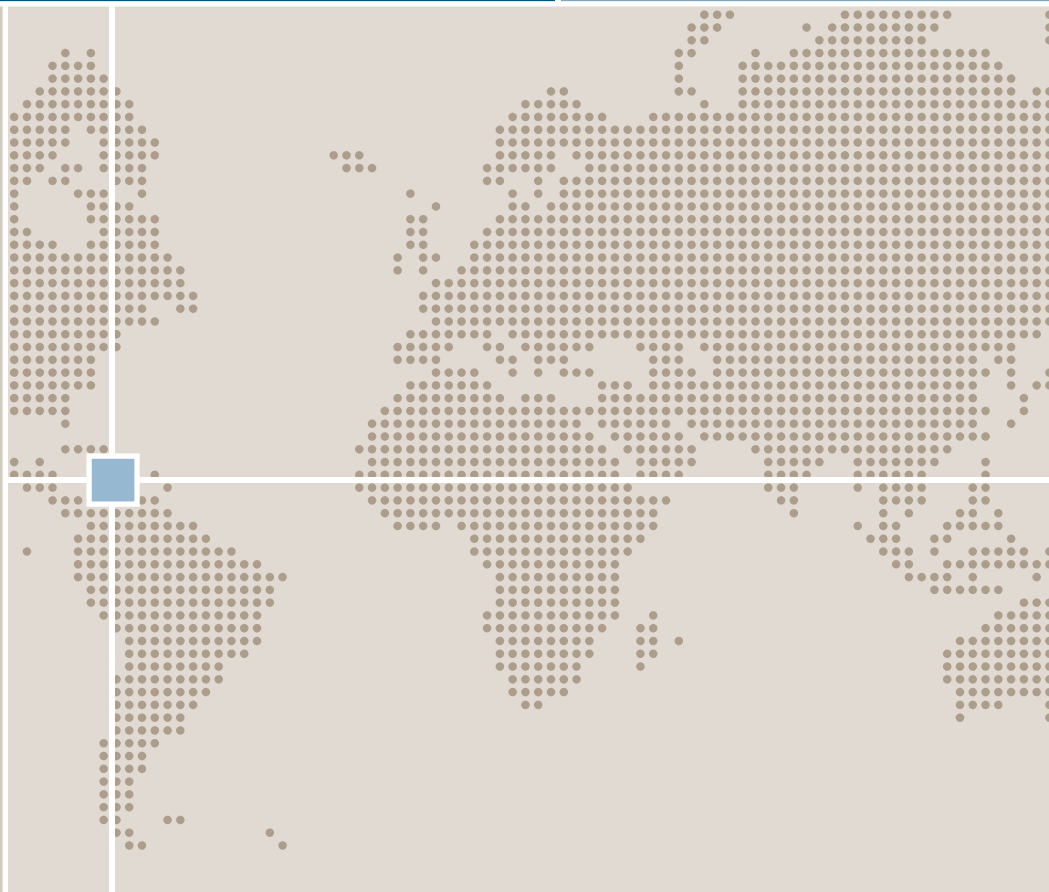
Conclusions and Future Implications

A Report of the CSIS Americas Program

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VENEZUELA FORUM

CONCLUSIONS AND FUTURE IMPLICATIONS

Peter DeShazo

Introduction

The Americas Program of the Center for Strategic and International Studies held five panel presentations under the title “Venezuela Forum” between July 2007 and March 2008. The purpose of the project was to examine developments in key areas: politics, the economy, energy, social conditions, foreign relations, and civil-military relations in Venezuela since 1999. Presenters on the five panels consisted of leading Venezuelan experts as well as several U.S. academicians.

The following report provides a summary of conclusions derived from the collected presentations of all five panels, with implications for the future.

Conclusions

Politics and Governance

The Bolivarian Republic (1999-present) demonstrates many of the characteristics of pre-1998 regimes in Venezuela, especially in terms of the predominance of executive power, although since 1999 this trend is greater still, with a decided anti-private-sector bias and a strongly anti-U.S. ideological orientation. Though Venezuela remains a democracy, it is a democracy with greatly weakened institutions and a high level of individual control by President Hugo Chávez.

The characteristics of the regime have taken shape over time, with a preliminary stage (1998–2002) marked by growing conflict with the opposition; a stage of consolidation of power (2002–2004) in which the executive branch extended its control over other branches of government and the economy; a stage of deepening the revolution (2005–2006) following victory in the 2004 presidential recall referendum, marked by total control over the National Assembly and the political effect of the *misiones*; and a subsequent stage (2007) in which the pace of the revolution has been further quickened. The timetable of the revolutionary process was set back by Chávez’s loss in the constitutional referendum of December 2007.

Chávez retains a solid base of support of around 30 percent. This is a high level of core support by traditional Venezuelan standards. He is a charismatic leader who makes excellent use of the media and government spending to shore up his support base.

The largest political group in Venezuela is the so-called *ni-nis* at about 41 percent. These are voters who are neither automatically pro-Chávez nor anti-Chávez and will be the deciding force in future elections.

The opposition in Venezuela has been characterized by fragmented leadership, competing objectives, and lack of a national plan to present to voters as an alternative to *chavismo*. While the opposition was invigorated by the government's failure to have its proposed constitutional amendments approved in 2007, little credit for this goes to the opposition itself.

Political influence in Venezuela in the past was closely tied to the price of oil. The percentage of total votes obtained by Acción Democrática (AD) and COPEI peaked during the oil boom of the 1970s and fell with oil's decline beginning in the early 1980s.

Oil continues to be the main sustenance of the Venezuelan economy and provides the basis for the social spending that is key to Chávez's support base. A significant fall in oil prices or in oil income would have a strongly detrimental political effect for Chávez.

Very large-scale social spending through the *misiones* programs (calculated by some as more than \$6 billion from 2004 to 2005) has generated considerable support for Chávez and helped power his victory in the August 2004 presidential recall referendum.

Following his loss in the December 2007 constitutional referendum, Chávez is dedicated to reviewing his past policies, making whatever changes he feels necessary and "relaunching" his efforts to achieve "21st Century Socialism" in Venezuela.

His first challenge will be the regional elections scheduled for fall 2008. To sustain his overwhelming advantage in state governorship positions, he will have to maintain unity within his own political camp, where divisions between moderates and hardliners have surfaced. By some estimates, the opposition could win 8 of 24 governorships in the election.

Beyond 2008, Chávez must amend the 1999 constitution if he wishes to be reelected to another term in office. That will become increasingly difficult if the political equilibrium begins to flow in favor of opposition to his government.

Chávez's "revolution" revolves around himself—he is the personification of the Bolivarian Republic. There are no institutions on which his program or government are based. The future of the revolution therefore depends on the figure of its leader.

The Economy and the Energy Sector

There has been a dramatic increase in the size of the state since Chávez took office. Public spending as a percentage of GDP grew from 20 percent in 1999 to 35 percent in 2006. This trend

was most pronounced beginning in 2004 when social spending in support of the *misiones* went into high gear and as state income rose because of large increases in the price of oil.

Venezuela has been in a period of high growth since recovering from the 2002–2003 crisis triggered by the Petróleos de Venezuela SA (PDVSA) strike. GDP growth topped 10 percent in 2005 and 2006, dropping to a still strong 8 percent range in the following two years. Unemployment was reduced by half between 2003 and 2007, down to 9.4 percent. Job creation, however, was by far strongest in the public sector.

The rapid expansion of the non-oil sectors of Venezuelan economy since 2004 has been broad based, but the manufacturing and other sectors have not been able to keep pace with demand. The money supply has grown rapidly, with a very large increase in imports resulting in a notable drop in the current account and trade balances between 2005 and projections for 2008. Demand pressures and ballooning demand for dollars has resulted in a rapid growth in inflation, projected to rise into the 20 percent range in 2008.

Although Chávez's ideological inclination is for an ever-larger state role in the economy, there is considerable popular attachment to private property in Venezuela and respect for the private sector. This presents a contradictory picture between Chávez's calls for socialism and the persistence of a non-oil sector still dominated by private activity.

The defeat of the constitutional amendment package in the referendum of December 2007 was a setback for Chávez's plan to take still greater personal control over the economy by eliminating the last vestiges of Central Bank independence, directly administering monetary policy and international reserves, and diminishing private property rights.

Venezuela's hydrocarbons sector is shaped by Chávez's ideological vision of a Bolivarian revolution and his strategy to put that in motion. That vision implies a politicized PDVSA with a social mandate that supersedes the production mandate. Resource nationalism drives the process of rolling back the effects of the *apertura* of the sector during the 1990s, when private investment was encouraged, to put in place a regime of state control.

In the wake of the 2002–2003 strike/lockout and declining private and PDVSA investment, oil production in Venezuela has fallen from over 3 million barrels per day (mbd) in the 1990s to a figure of around 2.4 mbd (according to OPEC estimates) in 2007. PDVSA official production figures are 3.3 mbd.

While PDVSA's business plans forecast strong growth in production to over 5 mbd by 2010, current levels of investment preclude any major rise in production. For this reason, Venezuela will continue to take a position—shared by Iran—within OPEC favoring the maintenance of high prices.

Venezuela is seeking to diversify its foreign markets to reduce dependence on the United States. China is seen as the most likely market to replace the United States, although there are many factors that inhibit this from taking place, including lack of refining capability, high shipping costs, reliable alternative suppliers located closer to China, and the fact that China does not share

Venezuela's anti-U.S. motivations and has no political reason that would overshadow the economic realities of its potential energy relationship with Venezuela. China's presence in the production side in Venezuela may, however, continue to grow, though the logistical barriers make this a long-term investment.

Private investment in Venezuela's very substantial natural gas sector will be delayed until regulations governing that sector become clearer. Foreign investment in the entire hydrocarbons sector remains inhibited by the government of Venezuela's fiscal voracity and by political uncertainties.

Venezuela will remain a petro state whose economy is closely tied to oil production and the price of oil. Income from oil will continue to drive state spending, especially in the social sector, fuel the regime's foreign policy initiatives, and pay the bills for a large state sector. Fluctuations in price or production levels will, therefore, have strong repercussions in the government's ability to carry out its revolutionary vision.

Social Factors

State spending has been the principal motor of economic growth, especially since 2003. As the economy boomed, household incomes grew, unemployment was reduced from over 19 percent to the current rate of under 9 percent, and levels of poverty were reduced substantially.

Measurements of the reduction in poverty vary widely, however, ranging from (1997–2007 percentages) 56 to 45, 50 to 35, and 43 to 27.7, according to different sources.

A highly visible component of government spending has been social spending, focused since 2003 on the *misiones* programs financed by transferring oil revenues directly from PDVSA into a special fund managed by the presidency. The *misiones* have been generally but not exclusively focused on Venezuela's poorest urban neighborhoods, in areas such as education, health, civil registry, literacy, and nutrition. In terms of the number of persons affected, by far the largest *misiones* have been "Mercal" (subsidized markets), "Identidad" (civil and voter registration), and "Barrio Adentro" (medical outreach based on Cuban health workers). Only the smaller "Ribas" *misión* (remedial high school education) involves cash transfers.

While the economic and social effects of the *misiones* have been relatively modest, their political effect is greater. Illiteracy rates in Venezuela have decreased from 6.5 percent in 2003 to 5.6 percent in 2005, according to one measurement, although President Chávez declared Venezuela to be free of illiteracy that same year. The large decrease in unemployment is mainly a factor of increased hiring in the state sector and Venezuela's sustained economic growth since 2003. Substantial reductions in poverty rates are likewise explained more by overall economic growth than by government cash transfers or the effects of the *misiones*. The impact of the *misiones* is mainly short term, with little health or educational infrastructure resulting. The "Mercal" program of food subsidies has, over time, fostered price distortions, product scarcity, and the rise of a black market.

The *misiones* and large-scale government spending in a favorable economic environment have been an important political boon for the Chávez administration. The *misiones* have also served to enhance Chávez's image outside of Venezuela as a friend of the poor.

One of Chávez's key campaign promises in 1998 was that he would combat criminal violence and public insecurity. Venezuela's murder rate had risen at a rapid clip during the 1990s, but it has grown even faster during the "Bolivarian republic," from some 33 per 100,000 in 2000 to 49 in 2006.

While about half of Venezuela's murder rate can, as in the case of Mexico and Brazil, be explained by high rates of poverty, social inequality, widespread availability of firearms, and high alcohol consumption, the other half—which puts Venezuela well higher than those other two countries—may be attributed to political variables. These include ambiguity in policies and statements by government officials against crime and violence, lack of comprehensive police reform, and steps to demoralize and discredit the police.

Venezuela's social pact is dissolving, undermined by an atmosphere of political and social confrontation and lack of tolerance.

Foreign Policy

Venezuela's foreign policy during the Chávez administrations has gone through stages that track closely with domestic political developments and the consolidation of a revolutionary ideology. During the first years of government (1998–2001), Venezuela sought to promote an image of democratic continuity, giving rise to a second phase (2002–2004) of developing partnerships in the region in harmony with the emerging concept of the "Bolivarian revolution." A third stage (2004–2006) was marked by a much more vigorous effort to cultivate allies and support with increased use of economic resources, and a fourth stage began in 2007 to promote, on an international level, Chávez's concept of "21st Century Socialism."

Chávez's plan in the foreign policy area (*Nueva Geopolítica Internacional*), which was scheduled to be launched following the expected approval in December 2007 of a packet of constitutional reforms, had several key components: the creation of a "multipolar" world in which U.S. hegemony would be broken, using special partnerships with Latin allies (Cuba, Bolivia, Ecuador, Nicaragua), as well as friends outside the region, such as Iran, Russia, Belarus, Syria, Vietnam, China; the promotion of Venezuelan-sponsored mechanisms of integration in Latin America, including ALBA (Bolivarian Alternative for Latin America), Petrosur, Petrocaribe, the Banco del Sur, Telesur; a deepening of energy integration in the hemisphere under Venezuela's lead; and greater political efforts to reach out to revolutionary movements in other countries.

To carry out these objectives, the Venezuelan Foreign Ministry has been restructured and its staff recalibrated to mold a diplomatic corps that is loyal to the revolutionary precepts of the government.

Chávez places special importance on the relationship with China, which he sees as a growing economic rival to the United States and an important energy partner for Venezuela, potentially supplanting the United States as a market for Venezuelan oil.

Despite the defeat of his constitutional reform package, Chávez can be expected to carry out a vigorous effort to promote his foreign policy agenda in 2008. Factors favoring his agenda include severe energy needs in several areas of the hemisphere, most notably Central America and the Caribbean; faltering traditional economic integration mechanisms (Andean Pact, FTAA, U.S. bilateral free trade agreements on hold with Panama and Colombia); weak democratic institutions in many countries of the region and popular dissatisfaction with economic and social conditions; and the perception of U.S. disengagement in the region.

Other factors inhibit Chávez's foreign policy, including: growing political opposition at home; foreign policy embarrassments and missteps, such as the clash with King Juan Carlos of Spain in Santiago and the ill-advised expression of support for providing belligerent status to the Revolutionary Armed Forces of Colombia (FARC); growing concern in Latin America, Europe, and the United States with the state of democratic institutions in Venezuela following the Radio Caracas Televisión (RCTV) takeover and the content of the constitutional reform package; and the vulnerability of a foreign policy highly dependent on oil income.

Civil-Military Relations

While, unlike in other Latin American countries during the 1960s and 1970s, the Venezuelan military did not assume control of the government via a coup, it nonetheless was never really subordinated to civilian authority either. Within its sphere of autonomy on national security and border issues, it had very broad autonomy.

Venezuelan political elites before 1998 did not assign to the Venezuelan military a national development role that it had long sought, but the military did engage in civil action projects around the country.

When Chávez took office in 1998, he attempted to bring the military into his power structure as if it were a political party, also granting suffrage to military personnel. Chávez at the same time tried to exercise greater control over the military by directing the promotion and assignment system.

After the 2002 coup, Chávez lost confidence in the support of the military and moved to purge its ranks. He then began restructuring the military with a new Organic Law of the National Armed Force (LOFAN) in 2005, which established a National Reserve and Territorial Guard directly under his control. Many of the new weapons acquisitions made by Venezuela have been destined for these units, which Chávez views as a counterbalance to the traditional branches of the armed forces.

A key objective of Chávez has been to wean the Venezuelan military of its former ties to the United States and largely pro-U.S. position. One means of doing so has been a change in doctrine from traditional national defense to the concept of a prolonged popular war, with the enemy

expected to be “imperialism.” New weaponry from new arms suppliers is another means, as well as severing past training links to the United States. While the military in the past was prohibited from having an overt political role, the new military under Chávez is expected to be “Bolivarian.” Finally, strict control over the commissioning and promotion of junior officers has enhanced their ideological commitment to the regime.

The role of the military in government and society has vastly expanded under Chávez, with many ex-military officers, including alumni of the 1992 coup, in key government positions. This larger role for the military does not, however, translate into an expansion of institutional autonomy for the military, which remains subordinate to the president.

The rise of “Bolivarian” doctrine, the failed attempt by Chávez to abolish the National Guard through a constitutional amendment, and the creation of parallel military units outside of the traditional chain of command may have eroded some of Chávez’s standing within sectors of the traditional branches of the armed forces, but the military as a whole apparently remains loyal. On the civilian side, it is still unclear how much opposition there might be within *chavista* ranks to further changes in the armed forces.

With the expanded role and influence of the armed forces, Venezuela is moving in the direction of a “praetorian” or “garrison” state in which the military constitutes a special elite group outside the control of any element except the president.

Future Implications

President Chávez is in firm control over the mechanisms of government in Venezuela. He can count on the loyal political support of approximately one-third of Venezuelans and has the means to broaden that base on any given issue by attracting support from among the 40 or so percent of citizens who are independent.

Chávez also benefits from a very strong resource base generated from oil exports in an environment of high prices. This resource base, while currently substantial, is however limited by PDVSA’s potential for increasing production. Income derived from oil is essential in maintaining current high levels of government spending and employment, in carrying out the politically important *misiones* social programs, and as a resource in furthering Venezuelan foreign policy objectives.

There is no indication that Chávez is considering any major variation in the orientation of his domestic or foreign policy. Both will continue to have an ideological underpinning based on the establishment of a “21st Century Socialism,” which Chávez sees as a rival political and economic system to traditional representative democracy and liberal economic policies.

On the economic front, Chávez will continue to broaden the state-controlled sector. Despite his anti-private-sector bias, however, it will be difficult for him to drastically restrict private property or the activities of the private sector, given the traditional and widespread support they enjoy across Venezuelan society.

Anti-U.S. rhetoric will continue to be part and parcel of Chávez's domestic and foreign policy planning, with follow-up to mechanisms (ALBA, Telesur, Banco del Sur, etc.) that Chávez hopes will undercut the influence of the United States and what he considers agents of U.S. influence in the Americas.

These orientations are unlikely to change in any meaningful way following the election of a new administration in the United States. They are basic to Chávez's world view.

While Chávez would like to diversify his markets for oil and decrease his dependency on the United States as a purchaser, this is a process that could be accomplished only over a considerable period of time and at substantial economic cost. Neither China nor any other buyer is in a position to replace the United States under current circumstances. The U.S.-Venezuelan energy relationship is therefore likely to continue intact.

President Chávez will likely attempt to continue the process of creating parallel military structures in Venezuela—the National Reserve and Territorial Guard—although this process may weaken his support within the traditional armed forces and result in considerable expense.

Chávez will almost certainly reintroduce constitutional reforms that, among other things, would allow for his continuation in power past 2012. Given the defeat of the reform package in December 2007, automatic support within the *chavista* camp for reforms cannot be taken for granted and will depend on reactions to their content.

While Chávez's current political and economic advantages are considerable, the mid-term perspectives for realizing his overall goal of a fundamental transformation of Venezuela into a socialist state or of leading an international political movement inspired by a Bolivarian revolution are limited. To accomplish these goals would require greater political commitment from Venezuelan society and a still stronger resource base than he can count on even now.

Foreign public opinion may also be turning against Chávez, a process exacerbated by the recent Colombia-Ecuador border issue and subsequent claims of ties between Chávez and the FARC. To regain the foreign initiative, Chávez would have to moderate his statements and policies on international affairs, which he is disinclined to do for ideological reasons.

Appendix. Forum Agenda

Monday, July 30, 2007

“Venezuela Forum: Politics, Democracy, and Governance”

<i>José Antonio Gil Yepes</i>	President of the Caracas polling firm DATANALISIS
<i>Andrés Stambouli</i>	Director, Center of Government Studies, Universidad Metropolitana, Caracas
<i>Michael Penfold-Becerra</i>	Professor, Instituto de Estudios Superiores de Administración (IESA), Caracas

Tuesday, October 2, 2007

“Venezuela Forum: Economics and Energy”

<i>Pedro A. Palma</i>	Founding Partner of MetroEconomica economic consultancy, Caracas; Professor of Economics at IESA, Caracas
<i>David Voght</i>	Managing Director, IPD Latin America, LLC energy consultancy, Caracas

Wednesday, December 12, 2007

“Venezuela Forum: Social Factors in the Bolivarian Republic”

<i>Roberto Briceño-León</i>	Professor, Universidad Central de Venezuela; Director, Laboratorio de Ciencias Sociales, LACSO
<i>Luis Pedro España</i>	Director, Programa Pobreza, Universidad Católica Andrés Bello, Caracas
<i>Francisco Rodríguez</i>	Assistant Professor of Economics and Latin American Studies, Wesleyan University; Chief Economist to the Venezuelan National Assembly from 2000 to 2004

Friday, January 25, 2008

“Venezuela Forum: The Foreign Affairs of the Bolivarian Republic”

<i>Elsa Cardozo</i>	Professor, School of International Studies, Universidad Central de Venezuela; Director, School of Liberal Studies, Universidad Metropolitana
<i>Javier Corrales</i>	Associate Professor and Chair of Political Science, Amherst College

María Teresa Romero

Professor, School of International Studies, Universidad
Central de Venezuela

Monday, March 10, 2008

“Venezuela Forum: Civil-Military Relations in the Bolivarian Republic”

Domingo Irwin

Professor, Universidad Pedagógica Experimental
Libertador, Caracas

Boris O. Saavedra

Center for Hemispheric Defense Studies, Washington,
D.C.; former Brigadier General, Venezuelan Air Force

Harold Trinkunas

Associate Professor and Chair of the Department of
National Security Affairs, Naval Postgraduate School,
Monterey, California

About the Author

Peter DeShazo is director of the CSIS Americas Program. Before joining CSIS in 2004, he was a member of the career U.S. Senior Foreign Service, serving as deputy assistant secretary of state for Western Hemisphere affairs and deputy U.S. permanent representative to the Organization of American States. During his Foreign Service career, Ambassador DeShazo directed the Office of Public Diplomacy and Public Affairs in the Bureau of Western Hemisphere Affairs at the State Department and was director of Western Hemispheric affairs at the U.S. Information Agency. He served in U.S. embassies and consulates in La Paz, Medellín, Santiago, Panama City, Caracas, and Tel Aviv. DeShazo received a B.A. from Dartmouth College and a Ph.D. in Latin American history from the University of Wisconsin at Madison, with post-graduate study at the Universidad Católica de Chile. He is the author of the book *Urban Workers and Labor Unions in Chile, 1902-1927* (Wisconsin, 1983) and articles in academic and foreign affairs journals. Himself a former Fulbright scholar, DeShazo was president of the U.S.-Chile Fulbright Commission. He is frequently interviewed by leading U.S. and international media on topics related to the Americas and U.S. foreign policy in the Western Hemisphere.

