

“Venezuela’s Domestic Politics and Foreign Policy: Current Trends”

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Subcommittee on the Western Hemisphere

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Mr. Chairman, Ranking Member Dan Burton, and Members of the Subcommittee: thank you for the opportunity to appear at this hearing entitled “Venezuela: Looking Ahead.”

In reviewing Venezuela, it is tempting for this committee to focus attention on potential security threats such as whether Venezuela sponsors terrorism, provokes an arms race, or disrupts oil markets. These are legitimate worries. But I would like to discuss two different issues that are receiving less attention. The first is the possibility of rising instability within Venezuela. The second is Venezuela’s petro-diplomacy, or what I would call, the use of “social power” as a tool to balance the United States. Both issues pose challenges for the United States.

I. The First Challenge: Potential political instability in Venezuela

The Chávez administration has entered a “second wave” of political discontent. The first wave took place between 2001 and 2004, when the number of government critics was greater than the number of supporters, and critics were protesting *en masse*. This first wave of discontent almost brought down the government. The second wave, which started in mid 2007, is less threatening to the government, but it may nonetheless produce political instability.

The current wave of discontent has two roots. First, discontent stems from the government’s increasingly radical domestic policies launched since late 2006. President Hugo Chávez was reelected in December 2006 with 62.84% of the vote, his third major electoral victory since his first election in 1998. Chávez interpreted his 2006 reelection as a mandate to further radicalize policy, meaning, the expansion of the state’s presence in key sectors of the economy and the Executive branch’s control over institutions. He thus proceeded to enact a series of radical policies immediately following his reelection. The two most obvious examples were the May 2007 decision not to renew the operating license of Radio Caracas Televisión (RCTV) and the proposal to reform the constitution to allow for permanent re-election among many other forms of power concentration. Neither policy was popular. Each produced a backlash. The decision to suspend RCTV’s license led to the most serious street protests since 2004. The 2007 referendum produced the first electoral defeat for the government, together with rumors of open military discontent.

The second source of discontent is the country’s economic woes. Paradoxically for a country experiencing its most impressive oil windfall in history, the Venezuelan economy is experiencing serious strains, mostly the result of ill-advised policies. The six most important policy mistakes are:

- 1) Discouraging private sector investment, in both the oil and non-oil sectors, which has depressed the oil sector's productivity and employment-generation in the rest of the economy.
- 2) Encouraging labor conflicts between Chavista labor unions and private firms, which produces work stoppage and, often, subsequent nationalizations.
- 3) Fiscal profligacy, which is fueling one of the highest rates of inflation in the world.
- 4) Price controls, which in the context of high inflation, is producing consumer good scarcities.
- 5) Exhaustion of social missions, which in 2007, stopped offering visible results in terms of poverty alleviation, and are instead showing signs of increasing inefficacy and corruption.
- 6) Inattention to urban-based services, such as trash collection, crime, housing shortages, collapsing hospitals, decaying schools, and decrepit infrastructure.

As a result of these political and economic trends, the government's popularity has declined. A February 2008 public opinion poll revealed that the percentage of respondents who rated the Chávez administration as either "very bad" or "bad"—the disapproval rate—hovered around 41 percent, while approval ratings hovered at around 50 percent. This approval rating is 20 points lower than it was in 2006.

How serious is this second wave of discontent? It would be a mistake to overstate its effects. This second wave will not bring the government down. The disapproval rate is still below the levels registered during the peak of the first wave, of 67.5 percent.

Nevertheless, as it stands today, this second wave of discontent is sufficient to make the government insecure as it prepares for the elections scheduled for November 23. Approximately, 588 state positions will be contested (22 governors, 332 mayors, 1 metropolitan mayor, 219 state legislators and 13 metropolitan councilpersons). There is no question that the opposition is heading toward this election in its best political position since 2003. If it manages to produce unified candidacies, the opposition may win four, maybe more, new governorships. The government faces no risk of being unseated, but it will have to share institutional space with the opposition, something it has not done since 2004. It is therefore a high-stake election for the government.

The key issue for the United States will be how to respond to potential instability in this high-stake electoral period. One possible scenario might be the government breaking the law to minimize the opposition's prospects. Already, there are signs of irregularities. The most worrisome is the February 2008 decision by the Comptroller General Clodosbaldo Russián to disqualify ("*inabilita*r") 238 (originally 445) Venezuelan citizens from running for office. Two prominent opposition leaders are included in this list, Chacao mayor Leopoldo López, and former governor of the state of Miranda, Enrique Mendoza. The government argues that these individuals have violated the law and are therefore ineligible to hold public office (and thus, run for office). One could argue instead that the government is seeking to:

- a) prevent popular opposition figures (and the least loyal government civil servants) from running, thereby hurting the opposition's electoral chances; and
- b) provoke either a confrontation with the opposition or a distraction, so that opposition forces pay less attention to other irregularities that may occur between now and the elections.

Regardless of the objectives, the opposition claims that the “Russián list” violates the Constitution, which stipulates that disqualification can only be applied as a result of a judicial ruling (Article 42), finding the defendants guilty as charged (“*condenados por delito*”, Article 65). No court ruling has taken place. It is worth remembering that for the 1998 election, candidate Hugo Chávez was not “disqualified” from running, despite his participation in a coup d’état.

In short, given this second wave of discontent, the government may be tempted to become an even more irregular enforcer of the law, which in turn could anger the opposition, increasing the chance of protests.

II. A Second Challenge: Venezuela’s “social spending” abroad

The issue of domestic instability in Venezuela, or elsewhere for that matter, while worrisome, is not a new topic for this committee. Historically, this committee has been well apprised of the difficulties U.S. officials confront in dealing with electoral turmoil throughout the world. There is not much I can add to that body of knowledge, other than alert you to that possibility for Venezuela.

However, there is a topic that I feel this committee, and the United States government in general, could spend a bit more time thinking about: Venezuela’s oil diplomacy. The real challenge that Venezuela poses to the United States has less to do with aggressive actions that Venezuela could take against the United States, but rather, something else in Venezuela’s arsenal: the use of generous handouts in its foreign policy, peppered with a pro-poor, distributionist discourse. Let’s call this weapon: “social power.” In the United States, we are used to discussing the requirements of “hard power” (military and economic might) even “soft power” (the spread of appealing ideas and values), but spend less time discussing the requirements of social power—either as something to project or to contain.

As a foreign policy tool, social power is a spectacularly effective way for world leaders to earn allies, even admirers abroad. Spending lavishly on social projects is almost impossible to criticize. At a minimum, it serves to deflect potential criticism and scrutiny from other nations. It essentially makes it impossible to launch any type of multilateral initiatives to contain this regime. Furthermore, social power is easily *imitable*. Other petro-states—with nastier, gutsier, and more competent leaders—could replicate Venezuela’s social-power foreign policy model, and improve on it. The result could be the meaner rogue states masquerading as international humanitarians. For all its power, the United States is simply unprepared to meet this potential new development in international politics.

A. Social Power as a Foreign Policy Tool

There is plenty of evidence that Chávez has gone on an international spending spree. According to the United Nations, Venezuela in 2006 invested US\$2.1 billion abroad, which represents more than 8 percent of its fixed capital. This is far more than Venezuela’s average prior to Chávez (3 percent in the 1990-2000 period). Furthermore, this 8 percent is far greater than the average for most petro states, which hovers around 2 percent.¹ In fact, Venezuela’s investments abroad are

¹ This includes petro-states for which there is data: Iran, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen, Algeria, Angola, Republic of Congo (Brazzaville), Egypt, Gabon, Lybia and Nigeria. Kuwait was excluded from this list because, with 47 percent of outward FDI, it is a prominent outlier.

greater, in relative terms, than those of other bigger economies in Latin America. In terms of share of GDP, Venezuela's investments abroad are second in the region.

Venezuela's investments abroad have two salient characteristics. First, they are mostly carried out by the Venezuelan state (rather than private firms). Second, they include large sums for development projects. I estimate that Chávez has committed a total of US\$43 billion in investments abroad by 2007, of which, US\$17 billion (or 40.1 percent of total) could be classified as "social" investments. This includes oil subsidies to Cuba and the members of Petrocaribe; the acquisition of Argentine commercial paper, which exempts the Argentine government from having to pay the IMF; cash donations to Bolivia; medical equipment to Nicaragua; and heating oil subsidies to more than 1 million U.S. consumers. Some estimates suggest that Chávez has provided or promised as much aid to Latin American countries in real terms than the U.S. spent on the Marshall Plan in Europe after World War II.

Projecting social power as a diplomatic tool is not a Venezuelan invention. Great powers have used it. Small powers like Cuba have used it. Even previous Venezuelan administrations have used it. The Chávez innovation is to make social power the centerpiece of its foreign policy, while abandoning the goal of promoting democracy abroad. Few other countries have utilized social power to the same degree. And once a foreign government accepts this aid, Venezuela begins to provide this assistance with almost no strings attached.

The policy works at some levels. As a publicity stunt, converting social policy into a primary foreign policy tool has brought Venezuela huge rewards. It has allowed Chávez to win two types of allies: other states, which refuse to criticize Chávez, especially if they receive petrocash, and intellectuals on the left, especially in Europe. In the region, most Latin American leaders understand that Venezuela's so-called development aid is mostly a publicity stunt meant to camouflage serious domestic abuses and dubious international pretensions. Yet, even these governments refuse to engage in a public fight with someone who gives the impression of having his heart in the right place.

In short, Chávez's social power foreign policy has produced for Venezuela an impressive shield against international criticism even by those who know better, and a reputation for humanitarianism among those who are less informed. This is a significant foreign policy accomplishment.

B. Venezuela's Foreign Policy Blunders

Despite having discovered a seemingly effective foreign policy weapon— social power— Chávez has not been consistently skillful at playing his own game. The overt political bias of this interventionism has generated angry responses from politicians in the opposition abroad. Far more than the denunciation coming from the U.S. government, international organizations, and even Venezuelan citizens, the denunciation coming from non-chavista forces abroad has the highest degree of resonance and capacity to contain Chávez's influence. In some countries, as in Peru in 2007 and Colombia in 2008, Chávez's interventionism has actually unified the country on behalf of anti-Chavista candidates. When he uses social spending to create or promote political clones abroad, not just a diplomatic shield abroad, Chávez frequently suffers unnecessary diplomatic setbacks. In addition, because Chávez often promises more than he delivers, he disappoints many of the politicians he is trying to court.

C. Perfecting rather than changing the model

Chávez may have begun to realize that it is necessary to correct some of these mistakes. His more moderate foreign policy statements of the past few weeks may reflect this type of learning. Since March, for instance, Chávez decided to make peace with Colombia, to tone down his support for the FARC, and even to call for closer cooperation with the Drug Enforcement Administration. This moderation could be more the result of an effort to improve, rather than jettison, his foreign policy approach of exploring alternative ways to balance the United States. Specifically, these changes may reflect the fact that Chávez is beginning to learn from his previous mistakes.

Chávez might have learned, for instance, that any effort to create a Latin American coalition against the United States is simply unpopular, both at home and abroad, regardless of how much money he spends. He may have also realized that supporting the most radical, undemocratic political movements in the region (such as the FARC) is also unpopular. He might have realized that the best way to extend his influence is, therefore, to simply focus on less conditional cash transfers, rather than in supporting radical causes. This might explain why the same weekend that Chávez met with president Uribe to formalize peace with Colombia in July 11, he also held a Petrocaribe summit to welcome Guatemala as a new member and to offer more deals to all members in July 13.

This change in tactic—a preference for more general rather than more conditional social power diplomacy—does not mean that Chávez has renounced to his effort to “balance” the United States. Chávez’s claim to fame has been, and continues to be, his willingness to defy the United States. He will continue to privilege his alliance with Iran in order to press OPEC to keep productivity low and oil prices high. In the region, he will focus on using oil revenues to projecting social power. This allows him to develop a shield that he can then use to undermine liberal democracy at home and in the region.

Conclusion

The United States must develop a counter strategy to the “social power” diplomacy that Venezuela is deploying and which other petrostates could imitate. A hard-power response—such as a military or economic aggression, or condemning the government as a whole by designating it as state sponsor of terrorism—seems disproportionate to the offense. If anything, a hard-power approach may prove counterproductive: it could give the government justifications for more violations of the constitution and undo the progress that the opposition may make in the November elections. Furthermore, a hard-power approach will do little to contain the real challenge, Venezuela’s social power foreign policy.

A “soft power” response may not work either. Preaching the virtues of liberal democracy has little impact among illiberal political movements such as Chávez’s nor does it lessen the demand for foreign aid that Venezuela satisfies. Even emulating Venezuela by increasing U.S. aid abroad may not work either. The United States already devotes a lot of aid to the region. Adding substantially to this pool may have little marginal return. Increasing U.S. aid won’t diminish the demand for more aid, and thus, the demand for the type of foreign policy that Venezuela projects, and making our aid less conditional, as Venezuela does, will undermine governance.

Perhaps the best approach is to continue to monitor the activities of Venezuelan officials abroad—making every effort to indentify individuals who are breaking the law. Identifying key law breakers rather than condemning the totality of the government seems to produce better results. Furthermore, the United States ought to continue to promote democratic politics and pluralism abroad. The most effective checks on Venezuela’s foreign policy have come from opposition parties in the countries where Chávez intervenes. Opposition actors can only be strong if they operate in

strong pluralist democracies. Thus, strong democracies can provide checks on the kind of social power that Venezuela is projecting. These checks are not infallible, but they are not worthless either. Strong democracies may not save the world from wars or yield durable allies who think and act like the United States. These were the false hopes of the 1990s. But they seem to be our best available tool, however indirect, to counteract what seems to be a new type of foreign policy threat.