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Venezuela under President Chavez: Political Conditions and U.S. Policy in 2000

Mark P. Sullivan and Tracy Bius
Foreign Affairs, Defense, and Trade Division

Summary

Although Venezuela has had a history of democratic rule since 1958, the election of former coup leader and populist Hugo Chavez as President in December 1998 has raised speculation about the future of Venezuelan democracy. The watershed election, in which Chavez captured 56% of the vote, illustrated Venezuelans' rejection of the country's two traditional parties. Chavez pledged to improve Venezuelans' declining standard of living, reform Venezuela's corrupt political system, and curb the autonomy of the state-owned oil company. Since 1998, Venezuela has undergone enormous political change and has a new constitution in place. Voters once again went to the polls on July 30, 2000 for a so-called mega-election, in which Chavez won re-election to a six-year term under the country's new constitution. Some observers fear that President Chavez is moving toward authoritarian rule and point to his domination of state institutions. Meanwhile, Venezuela has yet to rebound from a deep recession caused by the fall in world oil prices in 1998, despite a rise in the price of oil, the country's main export. U.S. interests in Venezuela include the continued flow of oil exports at a reasonable and stable price; the preservation of constitutional democracy; and continued close anti-narcotics cooperation. This report will not be updated.

Political and Economic Situation

Background. From 1958 until 1989, Venezuela had one of the most stable political systems in Latin America, but since that time the country has been plagued by numerous economic and political challenges. After former President Carlos Andres Perez was inaugurated once again in February 1989 to a five-year term, he initiated an austerity program that fueled riots and street violence in which several hundred people were killed. In 1992, two attempted coups by military factions threatened the Perez presidency, but were put down by forces loyal to the government. A leader of the first coup attempt, Lt. Col. Hugo Chavez, attacked corruption and poverty in Venezuela. In May 1993, President Perez was dismissed from office on charges of misusing public funds, although some observers assert that his unpopular economic reform program was the real reason for his ouster. The election of elder statesman and former President Rafael Caldera as

President in December 1993 brought a measure of political stability to the country, but the Caldera government soon faced a severe banking crisis, because of years of financial mismanagement, that cost the government more than \$10 billion. While the macro-economy began to improve in 1997, a rapid decline in the price of oil brought about a deep recession beginning in 1998. Over the past decade, the standard of living has declined for most Venezuelans. Over 70% of Venezuelans are reported to live in poverty.¹

Chavez Elected. On December 6, 1998, Venezuelans elected former coup leader Hugo Chavez as President with 56% of the vote, 16% more than his closest rival. The watershed election illustrated Venezuelans' rejection of the country's two traditional parties, Democratic Action (AD) and the Social Christian party (COPEI), that had dominated Venezuelan politics for much of the past 40 years. Elected to a five-year term, Chavez was the candidate of the Patriotic Pole, a left-leaning coalition of 15 parties. The main party in the coalition was Chavez' own Fifth Republic Movement (MVR). This nationalistic party, formed in 1997, developed from the Revolutionary Bolivarian Movement (MBR-200), a strongly nationalistic group of junior officers involved in Chavez' popular February 1992 coup attempt. The MBR-200 was named after the 19th century South American liberator Simon Bolivar, whom Chavez often invokes.

Most observers agree that support for Chavez can be explained by the disillusionment of Venezuelans with politicians who they view as having squandered the country's oil wealth through poor management and endemic corruption. A central theme of his campaign was constitutional reform. Chavez asserted that the current constitution had allowed a small elite class to dominate Congress. He further charged that revenues from the state-run oil company, Petroleos de Venezuela (PdVSA), had been ill-spent.

Political Changes Under the Chavez Government. Under Chavez, Venezuela has undergone enormous political changes with a new constitution in place and even a new name for the country, the Bolivarian Republic of Venezuela. In 1999, Venezuelans went to the polls on three occasions and each time delivered victory to President Chavez. In April, 92% of those voting approved the establishment of a National Constituent Assembly to draft a new constitution.² Chavez and his supporters believed that a new constitution would end corruption and result in a more participatory and egalitarian democracy. In July 1999, voters elected members of the new assembly, and Chavez supporters won an overwhelming majority, securing 121 of 131 seats. Moreover, the two traditional parties that had led Venezuela for a generation, AD and COPEI, did not win one seat in the assembly. Finally, in December, 71% of voters approved the new constitution. The new document outlines a series of social guarantees for Venezuelans, and revamps Venezuelan political institutions. It eliminates the Venezuelan Senate and establishes a unicameral 165-member National Assembly. It also expands the presidential term of office from 5 to 6 years while allowing for successive reelection.

As a result of Venezuela's new constitution, voters once again went to the polls on July 30, 2000, in a so-called mega-election, in which the president, national legislators, and state and municipal officials were selected. President Chavez easily won election to a new

¹ U.S. Department of State. *Venezuela Country Report on Human Rights Practices for 1998*, February 1999.

² "Venezuelan Political Situation Update," International Republican Institute. May 1999.

six-year term, capturing about 59% of the vote while his opponent, fellow former coup leader Francisco Arias, received 38%. Chavez' Patriotic Pole coalition also captured 14 of 23 governorships and 60% of the 165-member National Assembly.

Some observers fear that President Chavez is moving toward authoritarian rule, and point to his domination of the judiciary, Central Bank, the Comptroller, a majority of state governorships, and a majority (although not a two-thirds majority) of the National Assembly. Others point to the increased role of the military in the government, with Chavez appointing dozens of retired and active duty officers. Another sign of concern for some is Chavez' desire to serve two presidential terms under the new constitution, which means that Chavez could remain in office until 2012. While Chavez remains popular, some tension in his ruling coalition arose in February 2000 when three retired military officers that had participated with Chavez in the 1992 coup attempts criticized President Chavez for having betrayed the revolution that they supported and for surrounding himself with corrupt civilian politicians. One of those officers was Francisco Arias, who was defeated in the July 2000 presidential election.

Economic Problems. Chavez to date has focused his efforts on revamping Venezuela's political system, but his most difficult challenge could be contending with the country's economic problems. Venezuela's oil-based economy (in which oil accounts for more than 70% of exports and over 60% of government revenues) has yet to rebound from a deep recession caused by the fall in world oil prices in 1998. The economy contracted by over 7% in 1999, and there has been little sign of economic recovery in 2000.³ Contributing to the country's economic problems, devastating floods in coastal states in December 1999 killed up to 30,000 Venezuelans, and resulted in some \$10 to \$15 billion in destruction.

It was thought that the Venezuela's economic recovery this year would be fueled by the rapid increase in price of oil that resulted from an agreement among OPEC countries, including Venezuela, to cut production in order to revive oil prices. Oil prices more than doubled since OPEC began to curb production in March 1999, and this has increased government revenues for the Chavez government. Early forecasts for economic growth in 2000 were 2-5%, but estimates have been revised to no more than 2%. Analysts have criticized Chavez for doing little to revive the economy, with the pace of reconstruction quite slow, and both capital flight and unemployment increasing.

Although some critics of Chavez acknowledge that Venezuela's political system is corrupt and in need of reform, they argue that a new constitution will not necessarily be a cure-all for the country's various economic ills. They argue that Chavez is devoting too much time and energy to political reform and failing to enact substantial economic reforms needed to offset the current crisis, including, but not limited to, an increase in gasoline prices and devaluation of the currency, which is reportedly overvalued by at least 30%. Chavez and his supporters believe, however, that reforming the public sector and making the political process more equitable and transparent will inevitably lead to an improved economic situation.

³ "Venezuela Economy: Rebuilding Effort Will Aid GDP Recovery," *EIU ViewsWire*, February 15, 2000; and "Venezuela Economy: Real GDP Growth," *EIU ViewsWire*, August 2, 2000.

U.S. Relations

The United States has traditionally had close relations with Venezuela, characterized by an important trade and investment relationship and cooperation in combating the production and transit of illegal narcotics. There are three major areas of U.S. interest: the preservation and strengthening of constitutional democracy; continued U.S. access to Venezuelan oil reserves, the largest outside of the Middle East, with stability in the price of oil; and continued close anti-narcotics cooperation. Protecting and promoting U.S. exports and investments in Venezuela, especially in the oil sector, is also an important U.S. interest. The Administration also is considering a request by the Andean Community⁴ to include Venezuela as a beneficiary of the Andean Trade Preferences Act (ATPA), the one-way U.S. preferential trade program for Bolivia, Colombia, Ecuador and Peru, and to extend the ATPA for several more years beyond its expiration of December 2001. The goal of ATPA has been to expand economic development alternatives in the region to counter drug production and trafficking.

At various junctures, there has been friction in U.S.-Venezuelan relations under the Chavez government. Amidst Venezuela's significant political changes in 1999, the State Department expressed concern that the changes be carried out in a constitutional framework, and that institutional checks and balances be retained in the political system. In January 2000, critical remarks by Peter Romero, Acting Assistant Secretary of State for Western Hemisphere Affairs, on Venezuela's lack of attention to economic diversification and reform were met with condemnation by Venezuelan officials. Another bilateral row occurred in the aftermath of Venezuela's devastating floods in December 1999. The United States provided over \$8 million in emergency assistance through the U.S. Agency for International Development and the Department of Defense. However, in mid-January 2000, a U.S. Navy ship that was en route to Venezuela with some 450 Marines and Navy engineers to help rebuild a coastal road reversed course when President Chavez said that he did not want the U.S. soldiers in Venezuela. U.S. officials were dismayed because the Venezuelan defense minister had requested the assistance.⁵ Finally, another area of friction in the bilateral relationship has involved the extent of Venezuela's cooperation with the United States on antinarcotics efforts. Since 1999, President Chavez has denied overflight authority for anti-drug flights.

Status of Venezuelan Democracy. The United States has a strong U.S. interest in the preservation of constitutional democracy in Venezuela. The Clinton administration supported Venezuela's plans to change its constitution, provided that they were carried out within the country's democratic tradition. The State Department, while noting that Venezuela's process of constitutional change was an internal matter, expressed concern that the Constituent Assembly retain institutional checks and balances when it is drafting a new constitution.⁶ When President Clinton met with Chavez in New York in September 1999, he reportedly was reassured by the fact that Chavez emphasized that his reform

⁴ A subregional economic integration organization consisting of Bolivia, Colombia, Ecuador, Peru, and Venezuela.

⁵ "Despite Venezuela Rebuff, U.S. Will Keep Aiding Flood Victims," *New York Times*, January 19, 2000, p. 11.

⁶ U.S. Department of State. Daily Press Briefing, August 30, 1999.

agenda would be carried out within the framework of democratic institutions.⁷ After the July 2000 mega-election, the State Department congratulated President Chavez on his victory and noted that the election process was managed professionally and successfully.

A fundamental question for U.S. policymakers is whether President Chavez is strengthening Venezuelan democracy or moving toward authoritarian rule. Although Chavez insists he wants to make Venezuela more democratic by ending corruption and increasing citizen participation, some of his statements and actions have been viewed as anti-democratic, and have made investors and international observers nervous. For some observers, his actions to strip power from the Supreme Court and Congress in the summer of 1999 called into question his commitment to democracy. Chavez also worked to change the constitutional prohibition against consecutive presidential terms. While some observers view this as an ominous sign that Chavez already wants to prolong his power, others point out that several other Latin American nations have adopted such constitutional changes allowing for presidential re-election.

Another sign of concern for some observers is the increased role of the military in the Chavez government. This has included dozens of retired and active-duty officers in key government positions. As part of his social development program, *Proyecto Bolivar 2000*, Chavez has employed thousands of military personnel in distributing foodstuffs, providing medical care, and building schools and roads. While the poor appreciate the assistance, some observers are worried about what it portends for the future of the military in Venezuelan society. Some fear a creeping militarization of society.

Despite concern over his methods, it is clear that Chavez has the backing of the majority of Venezuelans. This was in evidence most recently in the July 30, 2000 presidential election in which Chavez received about 59% of the vote. Nevertheless, there has been increasing dissatisfaction over the government's inability to reduce crime and improve economic conditions.⁸

Oil Issues. Since Venezuela is a major supplier of foreign oil to the United States, a key U.S. interest is ensuring the continued flow of oil exports at a reasonable and stable price. From 1995 through 1998, the country was the largest supplier of foreign oil to the United States. In 1999, Saudi Arabia, which accounted for 13.8% of total U.S. oil imports, slightly edged out Venezuela, which accounted for 13.7% of total U.S. imports, or an average of 1.447 million barrels of oil per day.⁹

In March 1999, Venezuela cut production in line with an OPEC agreement in order to counter a drop in oil prices, and as a result prices more than doubled from about \$12 per barrel in February 1999 to around \$30 per barrel in February 2000. U.S. officials expressed concern about the repercussions of the oil price increase on the world economy. In February 2000, Secretary of Energy Bill Richardson traveled to oil producing nations

⁷ "Transcript: Clinton Meeting With Venezuelan President Hugo Chavez," United States Information Agency, Washington File, September 22, 1999.

⁸ "Crime, Unemployment Reduce Ratings for Venezuela's Chavez," Caracas Venevision, *Foreign Broadcast Information Service*, February 23, 2000.

⁹ Energy Information Administration. "Petroleum Supply Monthly," February 2000.

in an effort to convince them of the need to increase production levels. The president of Venezuela's state-oil company stated that oil prices were too high, and recommended an OPEC production increase.¹⁰ OPEC ultimately agreed to oil output increases in April and July 2000, which led to a lowering of oil prices below \$30 a barrel.

During the 1998 electoral campaign, Chavez promised to reverse the 1996 opening of the oil sector to foreign investment, which raised concern among U.S. oil investors. (Major U.S. oil companies currently invested in Venezuela include CONOCO, Mobil, Phillips, and Texaco.) Since his election, however, Chavez has reversed his stance, recognizing the need for foreign capital infusion into the Venezuelan economy. In addition, considerable concern was raised over Chavez' selection of Hector Ciavaldini, a close ally, to head the state oil company. However, some observers maintain that Ciavaldini has done better than expected, and on several occasions has demonstrated his ability to resist political pressure, at least publicly.¹¹

Concern in the U.S. Congress over increased oil prices led to the House passage of legislation on March 22, 2000, H.R. 3822 (Gilman), that would encourage the President to consider action to convince OPEC nations to increase oil output in order to decrease prices. An earlier version of the bill would have required the President to reduce, suspend, or terminate assistance to each country determined by the President to be engaged in oil price fixing to the detriment of the U.S. economy. The Senate has not acted on H.R. 3822 or on S. 2182 (Grassley), a measure identical to H.R. 3822 as originally introduced.

Counternarcotics Efforts. Venezuela is a major transit country for illicit drugs from South America to the United States and Europe, and bilateral cooperation on counternarcotics measures has been an important objective of U.S. foreign policy since the 1980s. In 1997, Venezuela and the United States signed a "Strategic Alliance Against Drugs," which has served as a framework for bilateral counternarcotics cooperation. On March 1, 2000, President Clinton certified Venezuela as fully cooperating with the United States on anti-drug efforts. The Administration's statement of explanation for the certification noted that Venezuelan law enforcement agencies had increased success in drug interdiction in 1999 and that there was a high level of tactical cooperation between U.S. and Venezuelan law enforcement agencies.

Although President Chavez has pledged continued cooperation with the United States on counternarcotics efforts, since May 1999 his government has denied the United States overflight authority for anti-drug flights. Barry McCaffrey, Director of the Office of National Drug Control Policy, noted that there has been criminal penetration of Venezuelan airspace by drug traffickers from Colombia since that time. U.S. planes now need an additional hour and a half to circumvent Venezuela for many drug interdiction missions. Chavez cited national sovereignty as the rationale for not allowing drug overflights, but insists that his country cooperates closely with the United States on anti-drug efforts.

¹⁰ "PdVSA Says Oil Too High," Tulsa World, February 19, 2000, p. 1.

¹¹ Colitt, Raymond. "PDVSA Chief Decries Critics," Financial Times, January 13, 2000.