

## Venezuela under Chávez:

99-5

# A bold and timely formula or an old and discredited route?

### Executive Summary

Venezuela is undergoing a dramatic upheaval and Canadians have good reason to pay close attention. The assumption of power by populist, reform-minded President Hugo Chávez, elected democratically in a landslide victory in December 1998, may prove to be an historic turning point, although the direction and outcome of this turn is open to competing views. Chávez rode to office on the wave of popular despair arising from increasing poverty and pervasive corruption in the political class. His program is nothing less than a basic re-ordering of the country's institutional structure and the replacement of traditional political party elites. So far, he has enjoyed unprecedented support from the majority of Venezuelans. The challenge before him is huge, however, and the level of popular confidence may be unrealistically high.

The Chávez 'revolution' has raised many concerns about the direction of governance in the country. The new President has moved rapidly to wrest power away from existing institutions, openly defying a constitution which he denounces as outdated and delegitimized. A former military officer, he has also granted the armed forces an important role in the transformation of the country's political and social landscape. While an overhaul of the country's corrupt and inefficient

### Sommaire

Le Venezuela traverse une période de grands bouleversements, et les Canadiens ont de bonnes raisons d'y prêter la plus grande attention. La prise de pouvoir par le président Hugo Chávez, populiste et réformateur qui a remporté haut la main les élections démocratiques de décembre 1998, pourrait s'avérer être un tournant historique, même si les avis divergent quant à la direction suivie et aux résultats qui en découleront. Chávez a accédé au pouvoir porté par une vague de désespoir populaire due à une pauvreté croissante et à la corruption généralisée de la classe politique. Son programme ne vise rien de moins qu'une réforme en profondeur de la structure institutionnelle du pays et le remplacement des élites politiques traditionnelles. Jusqu'à présent il bénéficie du soutien sans précédent de la majorité des Venezueliens. Toutefois, le défi qu'il doit relever est énorme et la confiance quasiment aveugle que lui témoigne la population n'est peut-être pas réaliste.

La « révolution » Chávez a soulevé beaucoup de questions quant à l'orientation suivie par le gouvernement du Venezuela. En effet, le nouveau président a rapidement pris des mesures pour déposséder de leur pouvoir les institutions existantes, au mépris total de la constitution qu'il dénonce comme totalement dépassée et sans légitimité aucune. Ancien officier militaire, il a également confié aux forces armées un rôle important

### Resumen Ejecutivo

Venezuela está atravesando tiempos agitados y dramáticos que, por varias razones, merecen la atención de los canadienses. La elección del Presidente Hugo Chávez, populista, de ideología reformista, elegido democráticamente con un triunfo electoral aplastante en diciembre de 1998, puede representar un cambio histórico, aunque las opiniones están divididas acerca de la dirección y el resultado de este cambio. Chávez asumió la presidencia en medio de un clima de desesperación, resultado del aumento de la pobreza y de la extendida corrupción de la clase política. Su programa es nada menos que la reorganización de la estructura institucional del país y la sustitución de las élites de los partidos políticos tradicionales. Hasta ahora, ha disfrutado del apoyo sin precedente de la mayoría de los venezolanos. Sin embargo, se encuentra ante un gran reto y es probable que la enorme confianza que el pueblo muestra no sea tan real.

La 'revolución' Chávez ha generado mucha preocupación sobre la futura gobernabilidad del país. El nuevo Presidente ha actuado con rapidez y ha arrebatado poder a las instituciones existentes, desafiando abiertamente la constitución que, según él, es obsoleta y carece de legitimidad. Habiendo sido oficial militar previamente a su elección como Presidente, Chávez ha garantizado a las fuerzas armadas un papel importante en la transformación política y social del país. Si bien un

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**FOCAL**

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institutions is a vital task, critics fear a reversion to the authoritarian-style *caudillismo* which reigned throughout much of Latin America until recent decades.

Venezuela is Canada's third largest trading partner in Latin America. Over the past decade, the country has become an attractive host for Canadian investors and tourists, and a key diplomatic ally in various hemispheric issues. In all these areas there is high potential. Among Canadian investors and policy makers, however, the arrival of President Chávez has raised some questions regarding Venezuela's economic program, the climate for investment, and the future of democracy in the country. Canada, like most of the hemisphere, is still uncertain of the course to take with the man who is displacing Fidel Castro as the most 'intriguing and colourful' leader in Latin America.

dans la transformation du paysage social et politique du pays. S'il est vrai que la reconversion des institutions corrompues et inefficaces du pays constitue une tâche vitale, les critiques du nouveau régime redoutent un retour au *caudillisme* autoritaire qu'ont connu la plupart des pays latino-américains jusqu'il y a à peine quelques décennies.

Le Venezuela est le troisième partenaire commercial du Canada en importance parmi les pays d'Amérique latine. Au cours des dix dernières années, le Venezuela est devenu un pays attrayant pour les investisseurs et les touristes canadiens, ainsi qu'un allié diplomatique de poids pour plusieurs dossiers hémisphériques. Sur tous ces plans, le potentiel n'est pas à négliger. Toutefois, pour les investisseurs et les décideurs canadiens, l'arrivée du président Chávez a soulevé certaines questions relatives au programme économique du Venezuela, à sa réglementation des investissements et à l'avenir de la démocratie dans ce pays. Le Canada, comme la plupart des autres pays de l'hémisphère, reste indécis sur les mesures à prendre face à celui qui remplace Fidel Castro comme le dirigeant latino-américain « le plus haut en couleur et le plus imprévisible ».

replanteo de las instituciones corruptas e ineficientes del país es indispensable, los críticos temen un retorno al caudillismo autoritario que reinó en gran parte de América Latina hasta hace pocas décadas.

Venezuela es el tercer socio comercial de Canadá en América Latina. Durante la década pasada, este país se ha convertido en una sede atractiva para inversionistas y turistas canadienses, además de un aliado diplomático clave en varios temas hemisféricos. Existe un gran potencial en todas estas áreas. Sin embargo, la llegada del Presidente Chávez ha provocado inquietudes entre los inversionistas y dirigentes canadienses sobre el programa económico de Venezuela, las regulaciones sobre inversiones y el futuro de la democracia en el país. Canadá, al igual que la mayoría de los países del hemisferio, aún no está seguro cómo reaccionar ante un hombre que está desplazando a Fidel Castro como el líder más 'intrigante y colorido' de Latinoamérica.

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### **The Venezuelan Revolution: A Priority for Canada?**

Venezuela is undergoing a dramatic upheaval, peaceful so far, but fraught with dangers. Canadians have significant interests at stake in the country.

The assumption of power on February 2, 1999 by populist, reform-minded President Hugo Chávez, elected democratically in a landslide victory December 6, 1998, appears to mark a political turning point in Venezuela. But the question is 'in which direction is the country

turning?' Though resources such as oil, hydropower and minerals are abundant, the economy is in a morass. Worse still are the social inequities and skyrocketing poverty levels. And yet this country over the past decade has become an increasingly important partner for Canada in both trade (two-way trade is second only to Brazil among South American countries) and investment (totalling nearly two billion dollars). It has also been a key diplomatic ally for Canada in various hemispheric issues, particularly during the presidency of Carlos Andrés Pérez.

The Canadian Foundation for the Americas (FOCAL) considered it opportune to prepare a policy paper after launching a study of the country and its relations with Canada. In November 1998, on the eve of the presidential elections, we issued as a 'backgrounder' an initial paper on the leading presidential candidates. We continued to monitor developments as the new government took office and set its sails. FOCAL analysts were able to get a first hand view of the new president during his stopover in Canada on January 16, 1999. Subsequently, we convened a round-

table workshop of senior Venezuelan analysts along with informed Canadians from the private sector and government who are involved with the country.

This paper first offers a brief analysis of the present Venezuelan political, economic and social situation, and notes the main Canadian interests at stake and the risks and opportunities involved.

## **The Chávez Revolution**

### **The Years of Hope**

While Venezuela has been blessed with a rich resource base, favourable geography and a delightful climate, most Venezuelans see the political and economic structures in place in their country as painfully inadequate. One view is that the problem originates in the political system, which was set up in 1960 and based on a pact between two main political parties. Over the years the party leadership became an oligarchic elite, running key governmental and business sectors. For the first couple of decades the system was judged to work well. During these years the socially minded government brought in massive, free and, of course, very popular social programs in education, health and social security. Money was in ample supply for the government and the people, thanks to the oil boom of the 1970s. The currency was strong, inflation was low, businesses thrived, and overnight trips to Miami and back for a hairdo were not unusual.

### **The Problems Emerge**

In the course of the 1980s as the inherent problems became more visible, the mood of Venezuelans and their attitude toward the government began to change. Again the world price of oil was a factor, but this time

it was going down. The overstuffed bureaucracy had become fat and ineffective. The cronyism and patronage of the traditional political parties had permeated the entire public sector and labour unions, controlling, for example, access to jobs. Some hold the view that in the end Venezuelans were ultimately cursed by their blessing – the abundance of oil wealth which skewed priorities and eroded the work ethic.

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Venezuela has suffered a painful decline in social and economic conditions since the early 1980s, and corruption has come to pervade most public institutions. Last year, Transparency International listed Venezuela as the eighth most corrupt country in the world. Crime in the streets is prevalent, as is police abuse, especially in the poorest sectors, with little hope of protection by the police or the justice system for those who can't pay for it. A culture of criminal violence, particularly among adolescent boys, flourishes in the slum barrios. When it is accessible, public health care is subject to long delays and poor service. Schools, especially at the primary level, suffer

low attendance (a quarter of school age children never go to school), poorly-trained teachers with minimal pay, poor facilities and frequent teachers' strikes. Prisons are an overcrowded nightmare of violence, drugs and abusive treatment. In the cities and countryside, lack of maintenance has produced a generalized deterioration of public buildings, roads, bridges, electrical and water supply and waste disposal facilities. Environmental degradation – especially land and water pollution – is rampant; despite good laws on the books, polluting practices go unchecked and the authorities do very little about it.

Venezuelan political and social institutions have shown themselves incapable of coping with declining living standards. A per capita GDP of US \$3,200 masks that reality. Poverty has exploded over the past two decades as real wages have dropped to about one third of their 1979 levels. A recent study by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) found urban poverty to have increased from 18 percent in 1980 to 41 percent in 1998. Other surveys estimate that up to 85 percent of the total population is now living in poverty. Unemployment has also reached unprecedented heights; from 1998 to 1999 alone the rate rose from 12 to 18 percent, a figure which ignores the millions of 'underemployed' Venezuelans.

The short-term macroeconomic prospects offer little relief from this situation. Since the second quarter of 1998, the economy has been in recession. Inflation at between 25 and 30 percent is higher than any other major Latin American country. There is little new investment, and estimates on economic performance predict a

drop in GDP of between 4 and 8 percent for 1999. The government has a fiscal deficit amounting to 4 percent of GDP, corrupt and otherwise inadequate tax collection, heavy foreign debt which consumes two fifths of government expenditures, and a bloated government bureaucracy. A buoyant U.S. economy (Venezuela's primary investment and trading partner) has been a solace and, apart from Canada, little comfort can be found elsewhere.

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### **The Arrival of Chávez**

For the large mass of discontented Venezuelans, the reappearance of Hugo Chávez represents release and hope. Through his romanticized leadership of the abortive (and poorly orchestrated) February 1992 coup attempt, he had already become a popular icon, and with his military background and bearing, he has cultivated the image of the soldier-hero. His hero is Simon Bolívar, revolutionary leader and the universally revered father of the Venezuelan nation. With his populist instincts, laid-back rhetoric that mixes baseball and army jargon, and charisma (some would say demagoguery), he has forged a bond with his people and articulated their desires and frustrations. Particularly for Venezuela's poor, Chávez's dramatic promises for a 'social

revolution' through the redistribution of oil wealth have made him a sort of political messiah, enjoying a popular legitimacy far greater than any of the country's traditional institutions or parties.

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### **Policy Directions**

Chávez began giving shape to his policies months before his inauguration. Seven months into his government many of the main lines are now evident:

#### **Political and Social**

The keystone of the Chávez reform program is to bring in a new constitution. He is determined, in this way, to end the clientelism and hegemony of the traditional parties and the ruling elite they represent, entrenched as they are by constitutional agreements now forty years old. The President has used his tremendous electoral success to aggressively pull power away from the old regime's institutions, moving towards a personalized style of governance which has accommodated a significant role for the armed forces. As Chávez aims for a radically transformed Venezuela to begin the new millennium, many observers fear the onset of an authoritarian regime.

#### ***Congress, the Supreme Court, and the National Constituent Assembly***

President Chávez has repeatedly claimed that Congress and the Supreme Court have no legitimacy in the eyes of Venezuelans, publicly declaring them to be corrupt and

unrepresentative. He has further accused the institutions of using stalling tactics to impede the Chávez 'revolution' in order to hurt the President's credibility. With his massive base of continuing popular support and the deep resentment held for traditional institutions, Chávez has seized the opportunity to push for a complete transformation of the country's political structures. Enter the National Constituent Assembly (NCA), an institution which Chávez created after an overwhelming referendum victory on the issue in April 1999. The NCA will sit for six – or possibly as few as three – months in order to rewrite the 1961 Constitution, a document which the President has called 'moribund' and 'wormeaten'. The final steps will be a referendum on the new constitution and the election of a new congress, to be carried out as early as December 1999.

The National Constituent Assembly will be, according to the President, the country's most powerful institution. He vows it will be a panacea for all Venezuela's problems, from its economic recession to the destructive levels of corruption within the political class. Despite court rulings to the contrary, Chávez claims the NCA will have the authority to dissolve both Congress and the Supreme Court, and he hinted loudly that it should do exactly that after the election. It is also expected that Chávez will seek the right to succeed himself in office through the NCA by pushing for a change in the current constitution's one-term limit on the presidency. In defense of accusations that the Assembly is simply a tool to gain additional individual powers, Chávez reminds critics that the NCA will also have power over the President, proving, in his estimation, that he is a 'great democrat'.

### ***The NCA Election***

Due to its strong mandate from an increasingly powerful President, the NCA election campaign generated a great deal of interest with over 1,000 candidates competing for the 128 seats (3 seats were reserved for indigenous representatives). Although the election was to be nominally non-partisan and the National Electoral Council ruled that he could not actively participate in the campaign, Chávez realized his revolution was at stake and openly supported his own candidates at every opportunity. He was defiant towards the Council's warnings, daring them to put him in jail and later setting up stands in the street to collect donations to pay the fines it imposed.

The July 25 vote confirmed the President's unprecedented popularity and paved the way for the imminent transformation of Venezuela's political system. The candidates from Chávez's leftist coalition, the Patriotic Pole (PP), won 120 of the 131 seats in the new assembly, including 20 of the 24 seats for national representatives. These 24 individuals will have the widest authority in the writing of the new constitution, and among them are several of Chávez's close allies and ex-ministers in his government who had resigned to run, as well as his wife Marisabel – the NCA's second leading vote-getter. The election results have served their purpose by further centralizing power in the hands of a small entourage close to Chávez. Neither of the two traditional parties which dominated Venezuelans politics for nearly forty years managed to win a single seat.

### ***Personalizing Power***

The President's aggressive attitude towards the country's courts and democratic institutions, along with the consolidation of his personal

power, have raised significant concerns about the erosion of checks and balances on executive authority. During the first few weeks of its existence, the NCA has indeed moved swiftly to disarm Chávez's opponents and the country's countervailing institutions. By the end of August 1999, Congress had essentially been shut down as a result of the prohibition of its ability to pass laws, govern budget expenditures, approve presidential trips, or even meet as a full body.

The President of the Supreme Court, meanwhile, resigned in protest over the NCA's interventions in the judiciary. Chávez has now vowed an attack on regional authorities, aiming to gain a stranglehold on all levels of government in the country.

As President Chávez pushes for the dissolution of institutions which could challenge his policies, democracy in Venezuela becomes less about mechanisms to ensure accountability of all actors and more about the ability to win majoritarian support in popular votes. For this, Chávez is very well prepared. He hosts several popular television and radio programs, and in July launched his own newspaper to drive home his revolutionary message. As long as he has the population on his side, Chávez sees little reason to pay heed to obstacles such as an inconvenient constitution or critical opposition voices.

### ***Militarizing Democracy***

The new President has not forgotten his military roots. A former paratrooper, Chávez has made clear he wants the armed forces to have a central role in Venezuelan politics and society. He has appointed over 50 active or retired officers to key government positions, bringing such

functions as customs, taxation and the secret police under their control. Four members of cabinet with civilian portfolios are former officers, including one fellow coup leader from 1992. Chávez has promoted a total of 34 military officers that supported his attempted coup, calling them 'patriots and anonymous heroes'.

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The visibility of the military throughout the country has risen dramatically as a result of Chávez's huge public works projects. Manifesting his populist approach to governance, he has launched a program led by 70,000 soldiers and involving about 200,000 civilians formed into work teams on grassroots projects to improve infrastructure in health, education, transportation and other sectors. Chávez intends to deepen the military's presence in the everyday life of Venezuelans, including a plan to send soldiers into public schools in September to teach 'military doctrine' to children.

Many important concerns have been raised over the increased militarization of Venezuelan politics and society. Opponents fear that power is being torn away from civilians as the number of officers in

government rises, the presence of soldiers increases, and tolerance for opposition falls. Chávez has warned on several occasions of his willingness, and ability, to take control by force should he not get his way (as he hinted before the presidential election), and he has used intimidation tactics to strike fear into those who speak out against him. During the NCA election campaign, opposition leaders' appearances were frequently interrupted by aggressive Chávez supporters, and members of the press privately admit to having avoided harsh criticism of the President over fears for their personal safety. As the country's leader continues to use highly confrontational rhetoric, some disturbing trends are taking shape within the Venezuelan social landscape. In May 1999, for example, the U.S. State Department temporarily suspended licenses for exports of firearms and ammunition to Venezuela because of the alarming increase in the flow of weapons to the country.

### ***Economic***

To cope with the more immediate, and very grave, economic situation, President Chávez has sought an increased freedom to act without congressional approval. After threatening to declare a state of emergency and suspend the constitution, Chávez was granted sweeping new economic powers by Congress through an enabling law passed in April. The law gives the President the freedom to bypass Congress for six months on issues such as raising taxes, negotiating the foreign debt, and streamlining the public service. Chávez also has the power to decree legislation for the power, mining, and gas sectors, as well as to promote their opening to the private sector.

Although he originally campaigned against the country's privatization program before the presidential elections, Chávez has eased some of the business community's fears with his sale of state aluminum and power companies. His promise of a transformed society must deal with an economy which remains relatively poor (having a per capita GDP lower than Mexico or Brazil), and more profound structural changes than simple redistribution are clearly needed to carry out his 'social revolution'. As a result, many analysts believe that Chávez recognizes the need to be market friendly and not to alienate the business community or foreign investors. To this effect, the President has recently urged foreigners to take advantage of his changes, claiming that Venezuela now offers a healthier environment for investment.

### ***Neglect of a Troubled Economy***

Although concerns of a movement towards significantly increased state intervention in the economy have yet to be justified, President Chávez has been criticized for his neglect of economic issues at the expense of a preoccupation with the constitution. Essentially, very little has been done to address the desperate state of Venezuela's economy since his coming to power, and current economic policies remain vague. The business and financial sectors have adopted a prudent 'wait and see' attitude, as yet unable to determine a clear tendency in the new President's policies.

### ***Foreign Policy***

- As president-elect, President Chávez travelled to speak to industrialists and political leaders in Europe, the US and Canada to ensure them that their investments would be safe and welcome, their

loans paid on time, and his economic policy moderate and sensitive to international realities. He spoke a good line. He surprised and impressed with his eloquence and plain speaking, but not always with his grasp of international economic realities.

- President Chávez is pressing actively for trade liberalization agreements, notably between the five Andean Pact countries and Mercosur, and has given high priority to supporting, however he can, sister-country Colombia's internal peace negotiations. He believes that Latin American integration is essential to strengthen the region's negotiating power internationally.
- President Chávez has developed a personal rapport with Fidel Castro and has pledged support for re-integrating Cuba into hemispheric institutions. He has revitalized Venezuela's trade and political relations with the Cuban government, in particular, and with the Caribbean nations, in general.

### ***Relations with the United States***

As its largest source of petroleum imports, Venezuela is a key US partner. While US officials have avoided harsh criticism of the new President, they are showing concern over the direction of governance in the country, particularly with regard to Chávez's promises to reverse the economic adjustment measures imposed under previous administrations. The anti-American attitudes of many of his political allies have also been noted. It is important to remember that Chávez had been banned from entering the US as a result of his 1992 coup attempt. While this was lifted upon his election to office, American policy makers are keeping a watchful eye on Venezuela's new leader and sent

Under Secretary of State Thomas Pickering to Caracas in July 1999.

The United States has recently turned its focus to Venezuela in its ongoing fight against drug trafficking in the region. Venezuela has long been a major exit point for drugs coming to both the US and Canada. It is estimated that one-sixth of all narcotics produced in Latin America now pass through Venezuela, amounting to between 110 and 115 metric tons of heroin and cocaine in 1998. The US is seeking the country's assistance in its anti-drug campaign, although Chávez has refused to allow interdiction planes to overfly his country and he initially cancelled his meeting with US drug czar Barry McCaffrey in July 1999. The meeting did finally take place, and the US is expecting Chávez to cooperate with their efforts.

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### **Where is He Going?**

The course President Chávez has set for his government raises some fundamental questions even if definitive judgements are premature:

#### **Does Chávez have the capacity to institute real social reform?**

President Chávez is attempting a basic re-ordering of established institutions and the replacement of a ruling elite. In short, a revolution. Hopefully peaceful. Can he do it? A number of factors are in his favour:

he has articulated a clear mission; he has demonstrated sure and sharp political instincts. He appears to be a fast learner; a charismatic politician he plays to his strengths – the poor and the military; and he enjoys, for the time being, sufficiently overwhelming popularity to overcome opposition.

Giving rise to doubts, however, is the uncertain cohesion of his supporters. He does not have an organized and established party structure under his control – his Patriotic Pole coalition includes leftists and centrists who will have to overcome many differences. Most of all, Chávez must respond to the limited patience of the masses who have placed all their hopes in him; over half the population have said the NCA will resolve their economic problems. As Chávez assumes increased power over the political, social, and economic landscape of the country, he will become solely responsible for carrying out his dramatic promises with no 'old order' to blame should he fail. Will the honeymoon end before he is able to 'deliver'?

#### **Can his government turn the economy around?**

While President Chávez's broad economic objectives have been well received by the population, there is concern (including in the markets) about his specific policies that are still not well elaborated. There are also doubts about the talents and capacity of his economic policy team. He has picked a relative unknown as the critically important finance minister. In the longer term, however, Venezuela's strong resource base, notably its huge oil reserves, as well as its relatively advanced infrastructure do allow some optimism about the country's economic future, if Chávez can

harness the horses of expectations of his supporters and the confidence of the financial community.

Foreign investors, for their part, have not yet jumped ship altogether. At the same time, many have expressed significant concern over the new President's unpredictability, his interventionist promises, and the need for more specific legislation to regulate investment and protect private property. The new government has not attracted badly needed new investment to the country, and although most investors have not yet pulled the plug on existing projects, Chávez's actions have many beginning to look elsewhere should the situation deteriorate.

The recent rise in OPEC-pegged oil prices could play a role in turning around the Venezuelan economy, depending on the government's ability to construct a clear long-term economic strategy. To his credit, President Chávez has played an important role in reviving OPEC cohesion and securing important short-term gains for Venezuela's oil sector. His actions were recognized when Venezuela was selected to host next year's OPEC Heads of State meeting. While the higher prices will certainly mean an immediate increase in revenue, the challenge for the Chávez government will be to avoid the temptation to spend its way out of current economic problems instead of addressing their structural roots.

#### **Do Chávez' revolutionary goals and his style of government threaten democracy?**

Venezuela has the second largest (after Costa Rica) record of constitutional democracy in Latin America – a record that was, of course, almost broken by Chávez

himself in 1992. Is he threatening Venezuelan democracy again? From his perspective that may simply be a matter of interpretation. President Chávez believes that he was authorized by 'the voice of the people' (in the December elections, the April referendum, and now the NCA elections) to bring in his revolutionary program. That *vox populi* must be obeyed, whatever the opposition from the (also elected) Congress or other institutions may be.

President Chávez's populist interpretation of democracy translates electoral victory into unencumbered executive authority, and thus challenges important tenets of legitimate democratic governance. He appears to accept few limitations on his personal power, including the presence of counterbalancing democratic institutions, and he is allowing the military to operate beyond the reach of civilian authorities. Chávez has made it clear that if seriously thwarted by the opposition's use of constitutional impediments, he would remove such obstacles by force. Over the course of a brief and dramatic period of time, political power in Venezuela has become concentrated in the hands of a strong-armed president, his family, a small group of advisors and the armed forces. In short, Chávez appears to be pushing the country back towards an authoritarian-style populism which most of Latin America was thought to have left behind in the 1970s and 80s. A more charitable view is that Chávez is simply redefining the existing practice (in several Latin American countries) of the highly centralized and discretionary powers of a 'constitutional *caudillo*'.

During his presidential campaign and throughout his time in office, Chávez has continuously denounced the

corruption of the old political order and pledged to offer a new and transparent leadership to Venezuelans. While this would come as a welcome change from a system which had become a bloated, inefficient bureaucracy ravaged by partisanship and patronage, Chávez himself has largely ignored the country's legal system. He disregarded court rulings regarding the powers of the NCA, dared electoral officials to imprison him for his breach of campaign regulations, violated the constitution's ban on active military officers holding high-level public posts, and generally operated as though the country's rules were inapplicable to his presidency. Some critics also claim the NCA's complex electoral system was structured to assure a skewed representation of PP members well above their actual proportion of votes.

While President Chávez has thus far enjoyed heroic status among many Venezuelans and thereby, in the minds of his followers, is justified in his actions, his radical transformation of the country's institutional framework creates an uncertain future for governance. Opponents fear that Venezuelans are handing Chávez widespread powers which will result in an 'untouchable' president sheltered from, and intolerant of, opposition voices. Should the President's credibility begin to drop in the eyes of the population, Venezuela's political landscape could become further destabilized.

At the same time, democratic as they are, the Venezuelans have ensured until now that there remain various independent poles of opposition to the president. One such pole has traditionally been the country's press,

although Chávez has set his sights on controlling a large share of the mass communications industry. Another is the Roman Catholic Church. Moreover, a number of grassroots community groups speak out freely and articulately, promoting democratic values and practices. These forces may have, over the long run, some power to influence the popularity that sustains the President. He also listens to international opinion, since he understands Venezuela's dependency on it (although if cornered or chastised, this openness could shut).

### **The Canadian Connection**

Venezuela is going through a revolutionary process. What does this mean for Canada which has important trade and investment stakes in the country, as well as a concern about the very possible weakening of the democratic process?

### **Trade**

Canada's annual exports to Venezuela, our second largest market in South America, are now approximately \$500 million according to Statistics Canada, a figure which does not include services or 're-exported' goods. Nearly one third of the total is wheat, about a fifth is pulp and paper, especially newsprint, about ten percent is in other agricultural products, and there are significant sales of various manufactured products including automobile parts and telephone equipment. There is also a thriving market in services, particularly consulting services in environmental, oil and gas, and business and financial management sectors.

In the other direction, imports from Venezuela approach one billion dollars annually, 95 percent being petroleum which represents about a tenth of Canada's oil imports. Of

strategic importance indirectly to Canadian interests is the fact that Venezuela for some years now has been the largest supplier of crude oil to the US, ahead of Canada, Saudi Arabia and Mexico, and through its ownership of Citgo, distributes about a fifth of the US consumer's gasoline supply.

Fluctuations in Canadian exports have followed the ups and downs of Venezuelan economic performance and thus Canadians have a stake in Venezuela's economic prosperity. For example, in 1998, a year of recession, these exports fell some 20 percent.

Apart from regular support service of the Embassy in Caracas and the Export Development Corporation's sizable program (providing on average \$100 million annually in export credit financing) there has not been a highly concentrated effort by the Canadian government to promote trade with Venezuela. On his Ottawa trip in January, President Chávez publicly invited Team Canada to visit his country. The Prime Minister has led such missions to all the major Latin American countries except Venezuela. President Pérez visited Canada in 1991 and Prime Minister Mulroney visited Venezuela briefly in 1992.

### **Investment**

Despite Venezuela's economic and political difficulties over the last several years, Canadian investment there has grown substantially. Statistics Canada reported \$90 million of Canadian direct investment in 1991 and \$429 million in 1997. There has been a recent surge of new commitments that increase the stock to almost \$2 billion, bringing Venezuela into the league of Brazil and Chile as a host of Canadian investment.

These include major projects across a range of sectors: natural gas processing (TransCanada Pipelines), crude oil storage and loading (Enbridge), banking (ScotiaBank), and telecommunications (Bell Canada International). Placer Dome's \$575 (US) million investment in the Las Cristinas gold mine, however, was recently cancelled due to low bullion prices.

Canadian companies see major long term potential in Venezuela in both resource development and consumer markets. However, the workshop also revealed that there are serious concerns. Those who are investing now are anxiously watching for reforms in the legal and social system. They are worried about legal security, repatriation of profits, expropriation safeguards, access to international (especially US) financing, rationality of the tax regime, union rules, pay levels, bureaucratic inefficiencies and delay, and corruption in the judicial system. The arrival of President Chávez has now exacerbated many investor concerns regarding the future of Venezuelan governance. Some investors see the risk factor as slightly reduced by the bilateral Foreign Investment Protection Agreement, finally ratified last year, and are pressing for conclusion of the Double Taxation Agreement, under negotiation for more than five years. President Chávez promises foreign investors they are welcome and secure. However concrete reform is needed to address these concerns, and investors are understandably getting cold feet.

### **Flow of People**

The number of Venezuelans immigrating each year to Canada, while still a very small part of the total, has been steadily increasing,

amounting now to over 700. Similarly, those coming as students have increased to over 300 last year. The economic crisis, of course, serves to increase the incentive to move north.

Not surprisingly the overwhelming flow of tourists is in the opposite direction, with Venezuela being a favoured vacation spot for some 100,000 Canadians each year, mainly going to Margarita Island. This is less than to several neighbouring Caribbean countries with no better natural conditions. The problem is the relative inadequacy of the Venezuelan tourism infrastructure. On the whole, tourism facilities are rather isolated from the rest of the economy and not seriously affected by the country's economic and social difficulties.

### **Venezuela as a diplomatic Ally/ Partner in Hemispheric Affairs**

Since the early 1990s Canada has been an activist among the nations of the hemisphere, whether in multilateral forums, in sub-regional groups or bilaterally. Canada has assumed the leadership of a highly charged series of Americas-related events: pressing for the establishment of the Unit for the Promotion of Democracy within the OAS Secretariat; chairing the first year and a half of the Free Trade in the Americas negotiations; hosting and chairing the next General Assembly of the OAS; and hosting and chairing the next Hemispheric Summit of the Americas.

Venezuela is in some respects a natural partner for Canada: in the influence in its foreign policy of the United States and a variety of other regional connections (the Caribbean, the Andean countries, Brazil), in its democratic tradition, and in its position as an oil producing country. Under former President Pérez,

himself very much a diplomatic activist, this 'alliance' flourished in a wide variety of issues, an example being support for Haiti and Aristide. His successor, President Rafael Caldera, had a more reserved style and the habit of Canada and Venezuela working closely together diplomatically, subsided.

The question for Canadian leaders is whether this relationship should or can be revived now under President Chávez to give support to Canada's hemispheric objectives. On the substance of these objectives, at least Chávez seems to espouse the same broad aims as Canada in favour of regional economic integration and trade liberalization. As noted, he is actively promoting an agreement between the Andean Pact and Mercosur. During his January 1999 visit to Canada, he seemed open to working with Canada to reach whatever agreement is possible in pursuit of hemispheric economic integration, as well as preparing for the Hemispheric Summit in Canada. Moreover, Venezuela led an Andean Pact initiative to reach a Trade and Industrial Cooperation Agreement (TICA) with Canada along the lines of that already negotiated by Canada and Mercosur. This agreement was signed in May 1999 during the visit of Colombian President Andrés Pastrana. It aims to promote investment and trade liberalization, as well as to facilitate private sector participation in strengthening commercial cooperation and technology transfer.

As for his style of diplomacy, President Chávez is open and communicative, activist, and personal, with hands-on involvement, a change from his predecessor. His first meeting with Prime Minister Chrétien got off to a good start. It is likely he would welcome strengthening his

personal relationship with the Canadian Prime Minister.

However, there have been surprisingly few high-level visits between the two countries since the heyday of the early 1990s and prior to President Chávez's one-day visit in January. It is perhaps worth noting that at Chávez' inauguration, when many countries of the hemisphere were represented by their presidents, others by their foreign ministers, and the US by the Secretary of Energy, Canada at the last minute scrambled to produce a Senator.

President Chávez's relationship with existing democratic institutions in the country will have important consequences for Venezuela's relations with Canada and other hemispheric partners. OAS members are required to act against any country where democratic institutions are illegally dissolved (as in the case of President Alberto Fujimori's 'self-coup' in Peru in 1992) by limiting trade, investment and diplomatic relations. Opposition leaders in Venezuela have already appealed to the OAS to take actions against Chávez for his aggressive actions against Congress and the courts. Should the assault on institutions continue, Canada must be prepared to uphold important hemispheric principles and objectives.

#### **Cooperative and Civil Society Activity**

There is a modest volume of cooperative activity being carried out in Venezuela by Canadians and/or funded by the Canadian government agencies. This includes:

- CIDA's Canada Fund for Local Initiatives, run by the Embassy, supports grassroots Venezuelan development and human rights

projects with small grants, some twenty-five grants per year averaging about \$10,000 each;

- The RCMP offers training to executive level Venezuelan police officers, averaging one or two a year;
- The International Development Research Centre regularly funds small projects, including several with indigenous communities;
- Canadian consultants have carved a recognized niche for themselves in environmental cooperation, including in water management, water supply and sewage treatment, in projects funded by various multilateral and bilateral sources;
- CIDA-Inc's industrial cooperation program has funded a number of Canadian company development activities, for example involvement of NGOs in community assistance near a Canadian gold mine project;
- There are a variety of exchange programs in place between faculties of Canadian and Venezuelan universities in different development and academic activities;
- AVEC, the Venezuelan Association of Canadian Studies, is an active NGO which brings together Venezuelans and Canadians working in common areas of Canadian scholarship. It receives very modest support each year from DFAIT, mainly for its annual conference;
- The RCMP officer on staff in the Embassy has day-to-day contact with the Venezuelan police in the fight against drug trafficking and money laundering, as well as other crime.

Compared with many other Latin American countries, however, Canadian cooperative and civil

society activity in Venezuela is very limited. There is virtually no Canadian NGO presence in the country.

This appears anomalous given: a) the substantial Canadian trade and investment interests, and b) the acute and fundamental social, economic and environmental problems faced now by Venezuela, problems of a type that usually attract the interest of socially conscious Canadians. A primary factor is the absence of a bilateral CIDA program for Venezuela.

Venezuela, once considered an 'oil-rich' country, is not eligible to be a CIDA 'program country'. The current US \$3,200 per capita income figure, however is grossly misleading. In fact the country's poverty is overwhelming, with a majority of the population unable to afford basic necessities. In a continent characterized by high income disparity, Venezuela is among those with the greatest proportion of poor.

### **Conclusion:**

President Chávez remains in a 'honeymoon' period with nearly 80% support ratings, as Venezuelan voters have overwhelmingly approved of their new president's revolutionary agenda since he came to power in

February 1999. Despite low turnouts, his referendum and election victories have produced a mandate to rewrite the constitution, a huge majority in the new National Constituent Assembly, and the decimation of traditional political powers. In a matter of months, Hugo Chávez has set Venezuela on a radically transformed course fuelled by enormous popular expectations for socio-economic reform. Whether the new President can meet these expectations is another matter. Tough and dramatic measures intended to overturn the previous political establishment, reduce crime, trim state corruption and revitalize the economy will buy him time. However, he must find a formula that will bridge the often contradictory demands and expectations of a) the increasingly impoverished majority of the Venezuelan population, b) foreign investors and the Bretton Woods institutions, and c) those parts of the international community concerned that Chávez's measures will come at an intolerably high cost for the democratic process.

Concerns about the future of democracy are the result of President Chávez's insistence on rewriting Venezuela's rules, his aggressive rhetoric directed towards political

opposition, and the increased presence of the military in government posts and domestic initiatives. With a eye towards an extended stay in power, Chávez is also expected to overturn the country's one-term limit on the presidency. These preoccupations refer not only to Venezuela, but to the impact that a more authoritarian system in Venezuela might have on other less than robust democracies in Latin America.

The long-term impact of Hugo Chávez remains the subject of much debate and uncertainty, and Canadian investors and policy makers should be keeping a close eye on Venezuela in the coming months as the pieces to his agenda fall into place. Regardless of its outcome, the Chávez revolution has clearly demonstrated the importance of fighting widespread poverty and corruption in the hemisphere. When party-based democratic governance is associated with abusive cronyism, increasing social inequalities and an inability to provide the population with basic necessities, it should not come as a surprise that other styles of leadership may well be gaining in popularity in the region.

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