


MEMORANDUM**January 22, 2002**

TO: Bill Garvelink
THROUGH: Greg Gottlieb
FROM: Russell Porter 
RE: 36 Hours in Venezuela

Executive Summary

On Friday, January 18, I had nine meetings in Caracas, including a meeting with U.S. Ambassador Donna Hrinak. While my trip was brief and limited to the capital, it was apparent that Venezuela is precariously close to falling off of the democratic path it began in 1958. While it is possible that Venezuela could right itself, the recent rhetoric and actions of President Hugo Chavez makes that outcome appear remote. Indeed, there is a belief among nearly everyone I spoke with that Chavez will not finish out the year as president - either by being forced to resign or through a military coup - and for democracy to have any chance of being preserved, immediate support is needed for independent media and the civil society sector. I recommend that OTI send an assessment team to Venezuela as soon as possible with a prejudice toward starting an active program to support civil society and the media.

Background

OTI was asked to consider a program in Venezuela by the State Department's Office of Andean Affairs on January 4. In subsequent briefings and discussions, it became clear there is growing concern about the political health of the country. OTI was asked if it could offer programs and assistance in order to strengthen the democratic elements that are under increasing fire from the Chavez government. The decision was made that I would stop in Caracas to meet with the U.S. Embassy and various NGOs on my way back from Colombia. The political and economic sections in the Embassy organized the trip and the meetings, and Embassy officers accompanied me on each visit.

Observations

On January 18, I met with representatives from eight different organizations, as well as Donna Hrinak, the current U.S. Ambassador (see Annex I for the schedule). These groups represented both the left and the right of the political spectrum in Venezuela.

It is my observation that Venezuela is at a crossroads in its history. President Hugo Chavez, who led a military coup against the government in 1992, is rapidly losing support. He has failed to come through on the populist policies that he ran on in 1998

and again in 2000 after he re-wrote the constitution, and the public is feeling yet again the victim of unfulfilled promises from its leaders. His “revolutionary” vision to oust the old elite has impaired the public sector, scared away foreign investment and resulted in higher unemployment. These economic and social troubles will soon pose a serious political problem (see Annex II for more detail).

At this point, Chavez has not actually done anything illegal or taken any direct action in subverting the democratic process. His popularity poll ratings are around 40 percent. Groups are still able to march and to speak out against the government. Newspapers are able to print what they want. However, Chavez is using extremely fervent authoritarian rhetoric to threaten the independent media, civil society, and others speaking out against the government’s policies. Everyone I spoke with believes it is only a matter of time before his rhetoric turns to action against the opposition. Democracy is clearly under threat and there are few organizations that can stand up to a hostile government.

One of the large weaknesses in Venezuela is the lack of a vibrant civil society. There appears to be several dozen NGOs in Caracas, but few outside the capital, providing a scant buffer between the government and the people. The two major political parties have disintegrated in the wake of Chavez’s 1998 presidential landslide. In their absence, there is a cacophony of groups expressing opposition to the government. But by having no central or united opposition, Chavez is perhaps enjoying artificially high poll numbers.

It appears from Chavez’s rhetoric that he is looking for a reason to declare emergency powers in order to crack down on the opposition. That reason could come as early as January 23, when a march of over 40,000 protestors is scheduled. Chavez has organized his groups to march at the same time and violence is possible.

What seems apparent is there is a battle – both figuratively and literally – brewing between Chavez and the democratic sectors of society. Both political and economic problems will increase, and if nothing is done to support democracy, Chavez will be either forced out of office or will have to resort to repression because tensions will mount in the near term. On the other hand, those who oppose him sense weakness and are waiting for a time to strike.

Rumors of a coup are pervasive. Those I met with indicated they had heard something was on the horizon, although no one provided any direct evidence or admitted to having heard anything first hand. The idea of military involvement was upsetting to everyone, both in democratic terms and in economic terms because it would be a tremendous setback for Venezuela – even if Chavez were removed from power as a result.

There was also a belief among many that talk of Chavez’s downfall was euphoric and his ability to hang on to power may be greater than many people give him credit. However, the consensus is he will become increasingly violent against those who oppose him.

The National Endowment for Democracy has a \$900,000 program in Venezuela that works with NDI, IRI and the Solidarity Center to strengthen political parties and the

Unions, and to reduce corruption. This program is useful, but not nearly sufficient. It is not flexible enough, nor does it work with enough new or non-traditional groups. It also lacks a media component.

OTI Options and Recommendations

It is hard to discern in 36 hours what precise prescription to assign Venezuela. Tensions are very high and they continue to mount. In other countries, civil society would attempt to step in to reduce tensions, but in Venezuela there are very few groups capable of doing this and the government will likely try to quash those that do. Furthermore, Chavez is openly trying to create tension to justify his radical policies. The next election is four years away. Given the situation now, Chavez will not likely be around to participate in it.

Civil society needs to be strengthened in order to reduce social conflict and begin to rebuild the democratic infrastructure. While OTI is not the right office to rebuild long-term democratic infrastructure, it is the office that can best reduce social conflict by working with the media and civil society. In addition, with no USAID Mission in Venezuela, OTI is the natural office to start a high-impact program quickly. Success, however, is far from guaranteed. No matter how good the program, anti-democratic forces may well overrun democracy, but then OTI will need to be there to pick up the pieces and strengthen those democratic elements that remain.

A longer and more comprehensive assessment needs to be done within the next few weeks that can address the following questions, among others:

- Is there agreement Venezuela is at a critical juncture?
- With a limited budget, can enough be done to really make a difference?
- Who would be our partners?
- How would we work with the Embassy?

President Bush indicated last week in a speech to the Organization of American States that "our first commitment [in the hemisphere] is to democracy and political freedom." If Venezuela truly is at the crossroads of democracy then OTI has an obligation to strongly consider starting a program to shore up the democratic elements of society before undemocratic elements take over. I recommend that OTI send an assessment team to Venezuela as soon as possible with a prejudice toward starting an active program to support civil society and the media.

Annex I

Schedule for Russell Porter

Friday, January 18, 2002

07:30 (b)(6) Breakfast -- Hotel Tamanaco

09:00 Senior Staff Meeting Embassy -- 4th floor

10:15 Ambassador/DCM Embassy -- 4th floor

11:00 Michael Ferber, International Republican Institute
Marta Gava, National Democratic Institute
Rhett Doumitt, Solidarity Center (AFL-CIO)

12:30 David Natera, Bloque de Prensa Lunch

14:45 (b)(6) -- Palos Grande

16:30 -- Los Caobos

18:00 -- Hotel Tamanaco

Annex II

Venezuela Political Background

Venezuela is one of the oldest allies of the United States in the hemisphere. There is a long tradition of friendship and cooperation between us. Venezuela is one of the top three suppliers of foreign oil to the U.S., while 50 percent of its imports are made in the United States.

Venezuela's history of free and open elections since 1958 and its prohibition of military involvement in national politics earned it a reputation as one of the more stable democracies in Latin America. Over time, however, its two party system became corrupt. Deep popular dissatisfaction with the traditional political parties, income disparities, and economic difficulties were some of the major frustrations expressed by Venezuelans in the 1990s. In 1992, Hugo Chavez Frias led a bloody coup against the democratically elected government. He served time in jail, but was released and then won the presidency in December 1998 by a wide margin, after campaigning on a populist agenda for far-reaching reforms to help the poor, constitutional change, and a crackdown on corruption.

In 1999, Chavez organized a constituent assembly to rewrite the constitution, creating a unicameral legislature with far fewer authorities than the previous bicameral system. Chavez was then re-elected under the new constitution for a new six-year term that started in 2000.

The Chavez model of government is based on Fidel Castro's Cuba. The two leaders are very close and visit each other 5-6 times a year. Chavez believes in equality above freedom, creating class warfare. The social fabric is worse now than before he was elected. While he calls for participation from the masses, the real message found in his rhetoric is of violence against all those who oppose him. This has raised tensions between the classes as well as between the government and the people; perhaps all by design.

In July 2001, Chavez's popularity began to slide, as the population became frustrated with the number of campaign promises that have gone unfulfilled. He responded by passing 41 laws based on his campaign promises that provided sweeping land reform, restricted the freedom of businesses and investment, and limited freedom of association. These laws were criticized by nearly every sector and led to a general strike on December 10. Estimates are 90 percent of the country participated in the strike jointly organized by the large labor unions and the business executives (two groups that have notoriously not worked together in Venezuela). The unexpected success of the strike led Chavez to lash out at both groups and the media, which gave wide coverage. He has threatened to declare a "state of exemption," which would allow him to rule by decree.

On the positive side, some members of his own MVR party in Congress, have recently shown a willingness to vote against him. In response, however, those members loyal to Chavez recently attacked them by throwing rocks and bottles after the vote the president

of legislature in December. Chavez commented after the incident that this is what happens to those who oppose the “revolution.” It is possible Chavez could decide to close down the Congress if it votes against him on a significant issue, similar to what Fujimori did, although Chavez himself created this Congress two years ago.

Economic Background

Venezuela is a member of the Organization of Petroleum Exporting Countries (OPEC) and is one of the world’s largest oil producers. Its economic health is determined by the price of oil with 80 percent of its export earnings coming from petroleum. Over half of the federal budget is derived from oil revenue. While there are other industries, the government has focused infrastructure development on petroleum, creating a classic single-industry, or “Dutch disease,” economy.

In 2000, Chavez increased government spending by 42 percent, resulting in significantly higher deficits. The decision was predicated on the then-increasing price of oil. While the price of oil has since subsided, the government has not changed its budget and is financing these huge deficits by issuing short-term domestic debt that carries an interest rate of 35 percent per year. But the domestic absorptive capacity for borrowing is nearly saturated and the international bond market is now difficult and expensive to access due the recent meltdown in Argentina. As a result, it is unclear how Chavez will continue to finance his populist programs. If he simply prints more money, it will lead to high inflation. If he cuts programs, his popularity will tumble.

In the meantime, the currency is substantially overvalued due a weak demand for the bolivar (oil is bought and sold exclusively in dollars). According to Embassy reporting, the central bank will run out of foreign reserves within nine months and unable to defend the current exchange rate. When that happens, a devaluation will be inevitable, which will also lead to high inflation.

The economy is a train wreck waiting to happen. The recent past of Argentina may be prologue to Venezuela. People are increasingly taking their money out of the local banks and investing abroad, putting further downward pressure on the bolivar. An economic collapse will add substantially to the political pressure that Chavez faces. Inflation, which seems all but inevitable unless he cuts his social programs dramatically, will directly effect his corps constituency the most since they have no way to protect themselves from inflation.

