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# THE DYNAMICS OF ECONOMIC INTEGRATION IN VENEZUELA AND THEIR IMPLICATIONS FOR THE FTAA PROCESS

*Charles H. Blake\**

IN late 1994, Venezuelan President Rafael Caldera participated in the first Summit of the Americas in Miami, Florida. Although Caldera had criticized some aspects of market-oriented economics during his successful 1993 election campaign, the Venezuelan delegation backed the integration initiative central to the Miami summit. In December 1994, along with all thirty-three heads of state in attendance, Caldera signed the Miami Declaration endorsing the negotiation of the Free Trade Agreement of the Americas (FTAA):

We, therefore, resolve to begin immediately to construct the [FTAA], in which barriers to trade and investment will be progressively eliminated. We further resolve to conclude the negotiation of the [FTAA] no later than 2005, and agree that concrete progress toward the attainment of this objective will be made by the end of this century.<sup>1</sup>

Furthermore, during the second half of his presidential term, the Caldera government pursued several market-oriented reforms as part of the Venezuelan Agenda program formed in the wake of an International Monetary Fund (IMF) agreement signed in July 1996.

Although Caldera's successor, President Hugo Chávez, signed the 2001 Quebec City Declaration stemming from the third Summit of the Americas, Venezuela was the only country in the hemisphere to express written reservations regarding its potential support for the FTAA. In late 2005, Chávez participated in the fourth Summit of the Americas in Mar del

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1. Miami Summit of the Americas, *Declaration of Principles* (1994), <http://www.summit-americas.org/miamidec.htm>.

Plata, Argentina. In November 2005, along with the presidents of Argentina, Brazil, Paraguay, and Uruguay, Chávez insisted that the Declaration of Mar del Plata include the following minority report in paragraph nineteen regarding the negotiation of the FTAA:

Other member states maintain that the necessary conditions are not yet in place for achieving a balanced and equitable free trade agreement with effective access to markets free from subsidies and trade-distorting practices, and that takes into account the needs and sensitivities of all partners, as well as the differences in the levels of development and size of the economies.<sup>2</sup>

Furthermore, during the two years that followed the Mar del Plata summit, Chávez spoke increasingly of a transition in Venezuela toward “twenty-first century socialism” and of a *Alternativa Bolivariana para los Pueblos de Nuestra América* (ALBA) [Bolivarian Alternative for the Peoples of Our America] in which like-minded countries could join Venezuela in refusing to participate in the FTAA process. Chávez asserted that the FTAA was an extension of the U.S. empire in the Americas.

The prior two paragraphs illustrate a dramatic swing in Venezuela. Government support for much of the Washington Consensus agenda in the 1990s transformed to frontal opposition to that agenda by the early twenty-first century. In some respects, Venezuela’s evolution on these matters is simply a more exaggerated version of political and policy swings observed elsewhere in Latin America over the past two decades. But, the Venezuelan experience takes on added significance because of Hugo Chávez’s high-profile efforts to assist (and lead) critics of capitalism and critics of free trade with the United States. Chávez and Fidel Castro formally launched the call for ALBA as an alternative to the FTAA in December 2004. In 2005, Chávez began to talk about the “death” of the FTAA and about his plans to go the Mar del Plata summit to “bury” the FTAA. At the Third Summit of the Peoples, held concurrently in Mar del Plata with the fourth presidential Summit of the Americas, Chávez told those in attendance, “With banners held high in honor of Martí, San Martín, and Bolívar [the principal heroes of the Cuban, Argentine, and Venezuelan independence movements, respectively] we are going to bury capitalism in order to give birth to twenty-first-century socialism.”<sup>3</sup>

What do the dynamics of Venezuelan political economy tell us about the future of hemispheric integration? This study will shed light on these issues by examining economic reform in Venezuela with an emphasis on its implications for regional integration. The first section reviews the evolution of Venezuelan economic policy from the restoration of democ-

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2. Fourth Summit of the Americas, *Declaration of Mar del Plata* (2005), <http://www.summit-americas.org/Eng-2004/previous-summits.htm> (follow hyperlink below “Declaration of Mar del Plata”).

3. Dario Palavecino, *Chávez decretó “la tumba del ALCA” en un maratónico discurso*, LA NACIÓN, Nov. 5, 2005, available at [http://www.lanacion.com.ar/political/nota.asp?nota\\_id=753843](http://www.lanacion.com.ar/political/nota.asp?nota_id=753843).

racy in 1958 through the December 2007 referendum on constitutional reform initiated by Hugo Chávez and his supporters. The second section examines contemporary Venezuelan foreign economic policies, highlighting the tensions residing in the simultaneous pursuit of traditional sub-regional agreements and the recent efforts to create an ALBA bloc of hemispheric partners. The concluding section examines public opinion data in Venezuela (and elsewhere in Latin America) to develop recommendations for reinvigorating the FTAA process. From a broader regional perspective, the addition of a regional development fund to the draft FTAA accord would improve the prospects for an enduring hemispheric integration agreement.

## I. THE RISE AND FALL OF MARKET-ORIENTED POLICIES IN VENEZUELA

From the middle of the twentieth century forward into the 1970s, Venezuelan economic policy was primarily and increasingly statist. Unlike the rise of statism in most Latin American countries, however, this expansion of the public sector was driven by oil revenues. With the discovery and exploitation of oil in the Lake Maracaibo area, Venezuela became the world's largest oil producer in the 1920s. Although discoveries in some Middle Eastern countries during ensuing decades would exceed those made in the Maracaibo basin, Venezuela has remained a major oil exporter for nearly a century. Oil revenues have thus constituted a central driver of the fiscal prospects for state capitalist economic policies in Venezuela.<sup>4</sup>

### A. THE EMERGENCE OF STATE CAPITALISM (1958–1978)

On January 23, 1958, a military coup set into motion the second major attempt to establish a democracy in Venezuela. The first such effort during the years 1945–1948, known as the *trienio* [three-year era] in Venezuelan political history, had generated considerable political polarization between the electoral majority of the center-left *Acción Democrática* (AD) [Democratic Action] party and those opposed to the redistributive policies favored by AD. Tensions in the 1940s culminated in a military coup backed by the major center-right *Comité de Organización Política Electoral Independiente* (COPEI) [a Christian Democratic party].

During the years 1958–1964, the AD leadership wanted to avoid the political polarization of the 1940s. In 1958, leaders of the three major parties, AD, COPEI, and the *Unión Republicana Democrática* (URD) [Democratic Republican Union], met to discuss backing a national unity candidate for the presidency. While they could not agree on such a candidate, they did reach a pivotal agreement, the Pact of Punto Fijo. Each

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4. Much of the material in this section is a revised and updated treatment based on CHARLES H. BLAKE, *POLITICS IN LATIN AMERICA* 361–99 (Houghton Mifflin, 2d ed. 2008).

party would accept the outcome of the elections and participate in a coalition cabinet. In particular, the pact forged a centrist, programmatic consensus between AD and its main electoral rival, COPEI. AD would not push for as many socioeconomic reforms as it had in the 1940s, and COPEI would not oppose the more modest reform pursued in the late 1950s and early 1960s.

The Pact of Punto Fijo represented an about-face for Venezuelan party politics both in tone and in regard to economic policy. The shared experience of repression and exile during the 1950s reconciled the bitter adversaries of the *trienio*, AD, and COPEI. This search for consensus carried over into the coalition cabinet formed by AD founder Rómulo Betancourt (who won the 1958 presidential elections with 49 percent of the vote). Betancourt argued that increasing taxes on foreign-owned oil companies could fund increased spending on all government priorities. To mend fences with business interests, the Betancourt government tried to negotiate wage hikes while preventing strikes. The new government revenues from oil funded subsidies for industrial promotion (as well as for education and health spending hikes). Public spending also increased to two prior sources of opposition to AD, the armed forces and the Catholic Church.

After Betancourt's term, AD and COPEI leaders did not renew their coalition cabinet. However, both political parties retained the centrist economic platforms they had developed during the Pact of Punto Fijo. They both backed state capitalist policies calling for oil revenues to finance import-substituting industrialization (ISI). Both parties also supported increases in social spending. By 1968 the Venezuelan government spent more per person on education and health care than did other Latin American governments. COPEI's founder, Rafael Caldera, won a tightly contested four-candidate race for the presidency in 1968, with 29 percent of the vote. Caldera called for an extension of many policies pursued by two prior AD presidents. State capitalism had become Venezuela's economic approach.<sup>5</sup> By raising taxes on the oil sector, AD and COPEI could spend more on nearly all areas of government activity without raising tax rates on individual Venezuelans. Oil companies paid the Venezuelan government under two-fifths of their total production in taxes and royalties in 1959 at the start of the new democracy.<sup>6</sup> By 1973, their payments to the government comprised nearly two-thirds of their production.<sup>7</sup>

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5. For more on Venezuelan economic policy and economic performance from the 1950s through the Caldera government, see James Hanson, *Cycles of Economic Growth and Structural Change Since 1950*, in *VENEZUELA: THE DEMOCRATIC EXPERIENCE* X, 64-89 (John D. Martz & David J. Myers eds., 1977).

6. See FRANKLIN TUGWELL, *THE POLITICS OF OIL IN VENEZUELA* (1975); Franklin Tugwell, *Petroleum Policy and the Political Process*, in *VENEZUELA: THE DEMOCRATIC EXPERIENCE* 64-89 (John D. Martz & David J. Myers eds., 1977).

7. See TUGWELL, *THE POLITICS OF OIL IN VENEZUELA* *supra* note 6; Tugwell, *Petroleum Policy and the Political Process*, *supra* note 6.

Carlos Andrés Pérez assumed the presidency in March 1974, six months after the first oil price hike pursued by the Organization of Petroleum Exporting Countries (OPEC). As a result, Venezuela's considerable oil reserves quadrupled in value. The avalanche of new fiscal resources produced a massive increase in spending on nearly all fronts. Government subsidies reduced the cost of many foodstuffs and other consumer goods. Also, government spending on education and health care increased further. In addition, the Venezuelan Investment Fund decided to share a portion of the oil windfall with neighboring countries through grants and low-interest loans to Andean, Caribbean, and Central American countries.

Numerous substantive changes occurred as a part of the expansion of state capitalist development plans. The government launched many new state-owned manufacturing firms. The government formed the Venezuelan Corporation of Guyana to manage ambitious investments in steel, aluminum, and hydroelectric power. The Pérez government also used oil wealth to nationalize several existing firms. In January 1975, the government purchased the two major U.S.-owned iron-ore mines for over \$100 million. In August 1975, the government created a publicly owned holding company, *Petróleos de Venezuela, S.A.* (PDVSA) [Venezuelan Petroleum Incorporated], to purchase the fourteen existing foreign-owned oil companies for roughly \$1 billion. In both cases, the former owners received lucrative contracts to provide technical and managerial assistance to the newly nationalized enterprises.

Venezuela also had enjoyed some enviable economic outcomes during the 1960s and 1970s. Poverty rates fell slightly and GDP per capita rose considerably. Pérez's presidency during the 1970s marked the height of Venezuela's development ambitions and the economy grew at an annual rate of 6 percent.<sup>8</sup>

While most Latin American countries endured military dictatorships in the 1970s, Venezuela received regional and international praise as a model democracy. Most citizens supported one of the two major parties, AD or COPEI. Some analysts asked whether Venezuela's democratic exceptionalism during this period contained lessons for other countries. Others countered that Venezuela's success in maintaining democratic rule had been fueled primarily by oil.<sup>9</sup> Despite their disagreements, both

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8. UN Economic Commission for Latin America and the Caribbean [ECLAC], CEPALSTAT online database, <http://www.eclac.org/estadisticas/bases/default.asp?idioma=in> (last visited Mar. 15, 2008).

9. See TUGWELL, THE POLITICS OF OIL IN VENEZUELA, *supra* note 6; TERRY LYNN KARL, THE PARADOX OF PLENTY: OIL BOOMS AND PETRO-STATES 219 (1986). Karl acknowledged that oil alone did not forge what she called Venezuela's "pacted democracy" as political leadership also played a role. Nonetheless, she emphasized the vulnerability of any oil-rich state. In the spoils system used for divvying up oil wealth, political actors focus on increasing and retaining their respective shares of easy money rather than on improving the efficiency of public and private sector activity. Karl concluded (p. 219) that "the long-term viability of

sides of this debate saw the Venezuelan political system as enviably stable.

#### B. THE CRISIS OF STATE CAPITALISM (1979-1988)

Inside Venezuela and beyond, some already questioned the sustainability of the economic approach employed during the mid-1970s. By the end of Pérez's term, total public employment had doubled. Amid the rapid expansion, corruption scandals proliferated regarding padded contracts for the construction of public facilities, kickbacks paid to gain public contracts, and ghost employees who were kept on the public payroll while doing little or no work. COPEI candidate Luis Herrera won the 1978 presidential campaign by promising to impose limits on this free-spending approach.

After a short-lived doubling of oil prices in 1979-1980, Venezuela's economic fortunes took a turn for the worse. A world recession in the early 1980s, along with sharp declines in oil prices in 1982 and in 1986, sent shock waves throughout the country. Since two-thirds of government revenues (and the pace of economic activity more generally) depended on oil revenues, the Venezuelan economy found itself with a rising foreign debt and a stagnating economy. Amid the crisis, the Herrera administration had the Central Bank seize nearly \$5 billion of PDVSA's financial reserves to help the government make its debt payments. The move challenged the publicly owned company's traditional managerial autonomy.

In the 1983 presidential election campaign, AD challenger Jaime Lusinchi won the presidency primarily by criticizing the economic downturn under Herrera. His somewhat successful efforts to reschedule Venezuela's debt and to reactivate the economy ran headlong into a second major drop in oil prices (crude oil prices fell by 50 percent during 1986). Lusinchi decided to spend the government's fiscal reserves and borrow additional funds in an effort to stimulate an economic recovery, spending relatively freely in 1987 and 1988. This approach helped to spark economic growth after the oil price drop, but left an empty treasury to his successor. The government deficit in 1988 equaled nearly 10 percent of GDP.<sup>10</sup>

Although AD and COPEI continued to receive between 85 and 90 percent of the vote in the 1978, 1983, and 1988 presidential elections, calls for change among voices outside these two parties had become louder and louder as the 1980s progressed.<sup>11</sup> In addition to a focus on corruption

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this form of pacted democracy and its value as a model for other countries may become clear only when the oil money begins to disappear."

10. UN ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN, [ECLAC], *Balance preliminary de la economía de América Latina y el Caribe* 1994 (Santiago, Chile: ECLAC 1994).

11. See MICHAEL COPPEDGE, *STRONG PARTIES AND LAME DUCKS: PRESIDENTIAL PARTYARCHY AND FACTIONALISM IN VENEZUELA* (1994); RICHARD S. HILLMAN, *DEMOCRACY FOR THE PRIVILEGED: CRISIS AND TRANSITION IN VENEZUELA*

and rising concern over the electoral process, critics of the two major parties in the 1980s noted that conditions for impoverished Venezuelans had not improved much even during the oil boom. For example, despite the rise in social spending during Pérez's presidency in the 1970s, conditions for the poorest two-fifths of the population had improved minimally and income inequality worsened.

### C. THE TUMULTUOUS PURSUIT OF MARKET-ORIENTED REFORM (1989-1998)

Carlos Andrés Pérez won the 1988 presidential election with a nostalgic political campaign in which the veteran politician recalled many events from his presidency in the 1970s, when oil prices were booming. He noted that the country faced great challenges but promised to use his experience to raise wages and to spark an economic recovery. Similar to Carlos Menem's victorious populist campaign in the May 1989 presidential election in Argentina, however, Pérez did not inherit the economic resources necessary to implement the state capitalist economic approach that their respective speeches evoked.

After his victory in the 1988 election, Carlos Andrés Pérez inherited serious economic and political problems. The Venezuelan government could obtain financing only at exorbitant rates of interest and foreign exchange reserves were not sufficient to meet existing debt obligations that would come due during Pérez's second presidency. While some saw a shift toward market capitalism as a way to solve these problems, others viewed the shift away from state capitalism as undesirable. The debate over political reform also proved increasingly divisive. For three decades, Venezuela had enjoyed a level of democratic stability in an era characterized by military rule in much of Latin America. Over time, however, concerns multiplied that AD and COPEI were maintaining their electoral dominance through a combustible mix of clientelism, corruption, and electoral fraud.

This combination of worsening economic and political conditions presented Carlos Andrés Pérez with governance challenges that he had not faced during the 1970s oil boom. In his first presidency, AD controlled a majority in the legislature and Pérez used rising oil revenues to dampen opposition and to extend his political support. In 1988, AD fell just short of controlling a legislative majority and Pérez would need to devise new governing strategies that did not rely as heavily on oil profits. As time went on, it became clear that a significant bloc in his own AD party would not support his plans for market-oriented reform.<sup>12</sup>

Two weeks after his early February 1989 inauguration, Carlos Andrés Pérez announced a market-oriented economic plan that he labeled *el*

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(1994); *REINVENTING LEGITIMACY: DEMOCRACY AND POLITICAL CHANGE IN VENEZUELA* (Damaris Canache & Michael R. Kulisheck eds., 1998).

12. JAVIER CORRALES, *PRESIDENTS WITHOUT PARTIES: THE POLITICS OF REFORM IN ARGENTINA AND VENEZUELA IN THE 1990s* (2002).



*viraje* [the great turnaround], which most Venezuelans tended to refer to as “the package.” The government announced an end to most price controls and government subsidies, varied plans to freeze salaries and cut government spending, and a currency devaluation. On February 27, 1989, buses in Caracas raised their fares, several in excess of the announced price hike. Some poor Venezuelans who, like most low-income Latin Americans, tend to bring exact change for traveling to work by bus, reacted angrily. In several situations, people turned buses over and burned them. As police responded to these incidents, hundreds of other people began looting businesses in a wave of violence that spread to many areas of the capital. When Pérez declared a state of siege and called in the military, hundreds of people died. These so-called *caracazo* disturbances dramatized the level of popular frustration with Venezuela’s worsening economic conditions in 1989. By year’s end, the economy had shrunk by nearly 8 percent and inflation doubled to an annual rate of 81 percent.<sup>13</sup> Pérez’s turn to market capitalism and his use of force to restore order cost him support among many poor Venezuelans who had voted for him in December 1988 as a potential national savior.

The Pérez administration held firm, though, to its plans for market-oriented reform.<sup>14</sup> The average tariff dropped by three-fifths, and the government eliminated nontariff barriers on most manufactured goods. Pérez overhauled the tax system by introducing a value-added tax that increased government revenues but also raised the level of taxation on low-income citizens. Restrictions on foreign investment fell by the wayside and the government announced an ambitious privatization program. By 1991, the government sold the national airline, the telephone company, several public banks, and additional firms. It then announced plans to sell most remaining public utilities and a wide variety of manufacturing firms. Economic growth resumed in 1990 and 1991, but much of the recovery could be attributed to the doubling of oil prices associated with the Persian Gulf War. The brief oil boom did little to improve conditions for most low-income citizens. Pérez continued to find it difficult to build public support for his adoption of market-capitalist economic policies. Instead, Venezuelans’ perspectives were closely tied to their socioeconomic status: the lower one’s income, the more likely one would support government intervention in the economy. During the Pérez reform push from 1989-1991, a majority of low and lower-middle income residents opposed the government’s neoliberal economic reforms, while a majority of middle and upper-income residents supported the program.<sup>15</sup>

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13. UN Economic Commission for Latin America and the Caribbean [ECLAC], CEPALSTAT online database, <http://www.eclac.org/estadisticas/bases/default.asp?idioma=in> (last visited Mar. 15, 2008).

14. See MOISÉS NAÍM, *PAPER TIGERS AND MINOTAURS: THE POLITICS OF VENEZUELA’S ECONOMIC REFORMS* (1993).

15. See Kenneth Roberts, *Social Polarization and the Populist Resurgence in Venezuela*, in *VENEZUELAN POLITICS IN THE CHÁVEZ ERA: CLASS, POLARIZATION & CONFLICT* 64 (Steve Ellner & Daniel Hellinger eds., 2003).

Into this difficult scenario stepped a military lodge called the Bolivarian Revolutionary Movement 200 (MBR-200) [*Movimiento Bolivariano Revolucionario 200*]. These young officers (many of them from low-income and lower-middle-income families) discussed public affairs in Venezuela and elsewhere in Latin America. As Latin America's lost decade of the 1980s took its toll on the Venezuelan economy, the officers' discontent grew, especially when the government turned toward market capitalism in 1989. When President Carlos Andrés Pérez ordered the military to restore order amid widespread looting in Caracas during late February 1989, some MBR-200 members asked themselves if they had used force against the wrong side.<sup>16</sup>

In early 1992, when the return of economic growth did not seem to reduce poverty or inequality, the MBR-200 launched a coup against the Pérez government on the evening of February 3, 1992. The rebels did not achieve their initial objective of arresting the president, nor did they seem to have the support of the military high command. By 9 a.m. on February 4, 1992, one of the leaders of the coup attempt, Lieutenant Colonel Hugo Chávez, surrendered and received television time to ask other rebels to stand down and avoid bloodshed. Chávez took full responsibility for the coup and characterized his actions as a pursuit of national interests that had failed—"for now."

Chávez's 178-word address made him a symbol of many citizens' growing rejection of the political and socioeconomic order. On March 10, many Caracas residents participated in a pot-banging march (*cacerolazo*) demanding Pérez's resignation and shouting, "Long live Chávez!" While Chávez served a prison sentence for sedition, some poor Venezuelans began to wear red paratrooper berets in solidarity with his cause, and wrote folk songs, graffiti, and poems praising him.

In the months that followed, Pérez's support continued to decline. In early November 1992, a COPEI proposal to shorten his term was blocked by AD opposition in the Senate. On November 27, 1992, a second coup attempt failed amid considerable fighting among all three military branches; a few hundred people died in the rebellion. Not surprisingly, the AD candidates in state and local elections in December did poorly. Pérez tried to reverse his fortunes and clear the air by proposing a constitutional convention. The legislature rejected this proposal in early March 1993. A few days later, the Supreme Court accepted allegations from the center-left *Causa R* party that charged Pérez with the illegal diversion of government funds into the political campaigns of governing parties in Bolivia, Haiti, and Nicaragua. With Pérez's approval rating in public-opinion polls standing at less than 10 percent, the legislature moved swiftly to

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16. For more discussion on the formation of the MBR and of civil-military relations more broadly, see HAROLD A. TRINKUNAS, *CRAFTING CIVILIAN CONTROL OF THE MILITARY IN VENEZUELA: A COMPARATIVE PERSPECTIVE* (2005) and CRISTINA MARCANO & ALBERTO BARRERA TYSZKA, *HUGO CHÁVEZ SIN UNIFORME: UNA HISTORIA PERSONAL* (Kristina Cordero trans., 2007).

investigate the matter and began impeachment proceedings by midyear. Congress removed Pérez from office on August 31 and made veteran AD senator Ramón Velázquez the interim president until Pérez's term expired in February 1994.<sup>17</sup>

Rafael Caldera, the COPEI founder who had served as president of Venezuela from 1969-1974, had been one of the few established politicians in the early 1990s who sharply criticized the two major political parties. He cited their failures as the primary motivator for the February 1992 military coup attempt. In the next legislative session after the incident, he addressed Congress: "It is difficult to ask the people to burn for freedom and democracy while they think freedom and democracy are not able to feed them and impede the exorbitant increase in the cost of subsistence; when it has not been able to deal effectively with the blight of corruption."<sup>18</sup>

Caldera followed this rhetorical rupture with the two traditional political parties with a more tangible break when he left the COPEI party that he had founded forty-seven years earlier. Caldera ran as the presidential candidate of the *Convergencia* [Convergence] coalition of many small political parties. He also enjoyed the support of the largest party on the political left, the *Movimiento al Socialismo* (MAS) [Movement Toward Socialism]. On the campaign trail, Rafael Caldera criticized the move toward market-oriented policies under Pérez's second presidency.

Once in office, Caldera initially attempted to return to a state capitalist model. He halted plans for many privatizations and slowed the pace of further tariff reduction. In June 1994, Caldera issued a decree in which he suspended five basic liberties, including the right to private property, the right to receive compensation for property expropriated by the state, and the right to pursue profitable activities. He claimed these powers in the name of an economic emergency. When the Venezuelan Congress overturned the decree, he issued a new decree that addressed the specific issue raised by Congress, but reinstituted the suspension of these constitutionally entrenched rights. Caldera used this authority to regulate prices, control the movement of foreign currencies, and to restructure wobbly banks in the financial system (the country's second largest bank failed just before his inauguration). Although Congress relented in this matter, Caldera could not build majority support for a restructuring of the tax system to put government services on a more secure financial footing. While Caldera's state capitalist efforts initially lowered inflation and restored economic growth, the economy reentered a recession by

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17. For an insider's account of the Pérez government's economic reform efforts, see NAIM, *supra* note 10. Additional analyses of the politics of reform in Venezuela in this period include CORRALES, *supra* note 9, and KURT WEYLAND, *THE POLITICS OF MARKET REFORM IN FRAGILE DEMOCRACIES: ARGENTINA, BRAZIL, PERU, AND VENEZUELA* (2002).

18. Daniel Hellinger, *Political Overview: The Breakdown of Puntofijismo and the Rise of Chavismo*, in *VENEZUELAN POLITICS IN THE CHÁVEZ ERA: CLASS, POLARIZATION & CONFLICT* 27, 32 (Steve Ellner & Daniel Hellinger eds., 2003).

1996 and inflation surpassed triple digits for the first time in the modern Venezuelan history.

As Venezuela's economic fortunes worsened, Caldera changed course and approved a traditional, market-oriented stabilization policy in April 1996 as part of a loan agreement signed with the IMF. To make this policy shift more palatable politically, Caldera chose an unusual messenger to serve as his economic minister, Teodoro Petkoff. Petkoff had spent his entire life as a leftist political activist associated with MAS and as a journalist. Petkoff became the face of these market-oriented reforms including budget cuts, tariff reductions, devaluation, an end to the prior investment and exchange controls, and a promise to earmark revenues for the repayment of outstanding foreign debt. The economy recovered in 1997, only to stagnate in 1998 as oil prices fell yet again, losing one-third of their value. Erratic economic performance under Caldera's government made poverty reduction difficult. The poverty rate fell slightly below 1994 levels in the middle of Caldera's term and back above that level by the end of his term.

In a decade of stop-and-go attempts at market-oriented economic reform, neither Pérez nor Caldera built broad public support for market capitalism. In 1995, amid Caldera's return to some state capitalist measures, both lower and middle class Venezuelans supported government intervention in the economy. After the disappointing economic outcomes that followed Caldera's 1996 adoption of the *Agenda Venezuela* set of market-oriented reforms, by 1998 a healthy majority of over 80 percent of all socioeconomic classes, including the upper class, expressed support for government intervention in the economy.<sup>19</sup> As Venezuela headed toward new presidential elections in December 1998, most Venezuelans found themselves light years away from the historical peak of prosperity that Venezuela enjoyed in 1980.

#### D. HUGO CHÁVEZ: FROM REFORM FATIGUE TOWARD TWENTY-FIRST CENTURY SOCIALISM (1999-2007)

Hugo Chávez's 1998 campaign speeches on economic policy did not advocate socialism but rather a restoration of the state capitalist model. He called for "as much state as necessary and as much market as possible."<sup>20</sup> Once in office, he reviewed the legal framework for recently privatized economic sectors and tried to reduce tax evasion to increase funds available for poverty reduction. His Bolívar Plan 2000 called for the armed forces to assist other government agencies to improve the provision of health care, sanitation, transportation, housing, and poverty relief. Chávez also restored the long-running government standard for

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19. Damarys Canache, *Social Polarization and the Populist Resurgence in Venezuela*, in *THE UNRAVELING OF REPRESENTATIVE DEMOCRACY IN VENEZUELA* 32 (Jennifer L. McCoy & David J. Myers eds., 2004).

20. Ludmila Vinogradoff, *Asumió Chávez y pidió poderes especiales*, CLARÍN, Feb. 3, 1999, available at <http://www.clarin.com/diario/1999/02/03/i-02801d.htm>.

severance pay that had been eliminated under the Caldera government in 1997. Amid rumors among his opponents that Chávez planned to lead Venezuela toward a socialist economy, investors reacted cautiously. Catastrophic flooding in December 1999 caused enormous property damage, which along with low oil prices, helped to shrink the economy by 7 percent in 1999.

Chávez then turned his attention to reforming the oil sector abroad and at home. The Venezuelan government successfully pushed OPEC for production cutbacks that helped raise world crude oil prices by over 50 percent in 2000. The government then set its sights on reforming the national oil company, PDVSA. From the 1980s onward, PDVSA executives had reduced their tax obligation via manipulation of the royalty formula and clever use of their foreign subsidiaries (most notably, their ownership of CITGO in the United States). PDVSA's activity made up four-fifths of all national exports, two-fifths of government revenues, and one-fourth of the GDP. To increase government revenues, Chávez proposed to revise the formula for royalty and taxation payments. From the 1976 nationalization through 1990, PDVSA consistently paid the government around 70 percent of its gross income. However, following the emergence of a more market-oriented environment at home and abroad, PDVSA executives took advantage of both its growing internationalization and the new policy context to steadily lower their firm's fiscal burden. As a result, in 2000 they paid only thirty-nine cents on the dollar to the government. The Chávez government responded by backing a new hydrocarbons law (eventually passed in 2001) that revised taxation and royalty calculations.<sup>21</sup>

Chávez then received economic decree powers for one year beginning in November 2000. During this period, he issued forty-nine decree laws. Many of the decree laws regulated elements of all three economic sectors, agriculture, manufacturing, and services, in ways that gave advantages to small farmers, small fishing interests, small manufacturing firms, and small retail businesses. A new hydrocarbons law doubled royalty payments, although it also conceded a nearly 50 percent reduction in the highest income-tax rate relevant to the sector. Additionally, a new land reform program was put in place, aimed at reducing ownership inequality in an agricultural sector in which 3 percent of the owners controlled 70 percent of all agricultural land. Chávez's program set a maximum farm size that varied according to productivity. Farmers who used less than 80

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21. For a concise yet detailed treatment of the paradoxical reduction of the government's share of oil revenues in the post-nationalization period of the 1980s and the 1990s as well as the Chávez government's response to this issue, see Bernard Mommer, *Subversive Oil*, in *VENEZUELAN POLITICS IN THE CHÁVEZ ERA: CLASS, POLARIZATION & CONFLICT* 131, 131-45 (Steve Ellner & Daniel Hellinger eds., 2003). For more historical perspective, see TUGWELL, *THE POLITICS OF OIL IN VENEZUELA*, *supra* note 6; JORGE SALAZAR-CARRILLO & BERNADETTE WEST, *OIL AND DEVELOPMENT IN VENEZUELA IN THE 20TH CENTURY* (2004).

percent of their land faced fines and, under certain conditions, potential expropriation.

Many propertied Venezuelans criticized Chávez's economic program. In this contentious debate over economic policy, PDVSA executives tried to reverse several reforms, and oil workers went on strike in April 2002. Chávez then fired seven members of the PDVSA board. This conflict spread as the major business and labor confederations launched strikes and protests. The protests culminated in Chávez's temporary removal in a military coup later that month. After a matter of days, however, massive popular mobilizations, international diplomatic pressure, and the unpopular hamfisted measures decreed by the interim government in its first hours (which included the summary dissolution of the new 1999 constitution, the legislature, and the supreme court) motivated the military to restore Chávez to the presidency.

The events of April 2002 did not end conflict over economic policy. In early December, oil executives and oil workers went back on strike. Ship captains anchored their tankers at sea, oil well supervisors took their wells offline, and most PDVSA activity ground to a halt. The strikers called for Chávez's immediate resignation. Several business owners in comfortable Caracas neighborhoods launched a sympathy strike, but most employees and managers in the national economy kept working. Nonetheless, given the centrality of oil to the Venezuelan economy, the ten-week "resign now" strike cost the Venezuelan government millions of dollars in tax revenues and precipitated a nationwide recession. A bitter Chávez government fired one-third of PDVSA's employees. The oil strike ended in February 2003 when the opposition agreed to a recall election aimed at ending Chávez's presidency. It then took several months to get oil production back to prestrike levels. The GDP shrank by 9 percent in 2002 and by another 8 percent in 2003.<sup>22</sup>

The end of the oil strike in Venezuela coincided with a dramatic (and sustained) upswing in global crude oil prices. The basket price averaged across all OPEC producers had stayed between \$23 and \$28 per barrel during 2000-2003.<sup>23</sup> Then, in 2004, OPEC crude prices rose to \$36 per barrel and kept on increasing; by 2007 the OPEC basket cost \$69 a barrel.<sup>24</sup> Rising world oil prices spurred a boom in Venezuela as GDP grew by an annual average of over 11 percent during 2004-2007.<sup>25</sup> Economic growth and an increase in social spending during the Chávez era from 9 percent of GDP in the late 1990s to over 11 percent during the years

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22. UN Economic Commission for Latin America and the Caribbean [ECLAC], CEPALSTAT online database, <http://www.eclac.org/estadisticas/bases/default.asp?idioma=in> (last visited Mar. 15, 2008).

23. Organization of the Petroleum Exporting Countries [OPEC], Reference Prices – OPEC Basket Price, <http://www.pec.org/home/basket.aspx> (last visited Mar. 15, 2008).

24. *Id.*

25. UN Economic Commission for Latin America and the Caribbean [ECLAC], CEPALSTAT online database, <http://www.eclac.org/estadisticas/bases/default.asp?idioma=in> (last visited Mar. 15, 2008).

2000-2005 fueled a reduction in poverty.<sup>26</sup> The poverty rate had worsened dramatically during the initial implementation of the economic opening during the early 1990s, rising from 40 percent in 1990 to 48 percent in 1994, and not dropping in the ten years that followed.<sup>27</sup> Economic recovery and increased social spending during the 2004-2007 oil boom did decrease the poverty rate from 49 percent in 2002 down to 37 percent in 2005, and then to 30 percent by 2006.<sup>28</sup>

The oil boom, coupled with Chávez's domestic political triumphs in the 2004 recall election, the 2005 legislative elections, and the December 2006 presidential campaign, emboldened the Venezuelan government. After his reelection, Chávez spoke frequently about a new stage in his Bolivarian Revolution in which Venezuela would develop what he called a "twenty-first century socialism." After Chávez began his new term in January 2007, he asked the National Assembly to grant him the power to legislate by decree for eighteen months to pursue reforms in eleven strategic areas including defense, education, the judiciary, telecommunications, and the energy sector. After the legislature delegated its authority over these areas in late January, Chávez presented plans to renationalize both telecommunications and the exploration of oil and natural gas. In March 2007, Chávez formally announced plans to merge his main political party and its smaller, allied parties into a single party by the year's end, the *Partido Socialista Unido de Venezuela* (PSUV) [United Socialist Party of Venezuela]. Chávez placed his new vice president, Jorge Rodríguez, in charge of the formation of the new party with the goal of recruiting five million members. By May 2007 Rodríguez announced that PSUV had over 3.2 million candidates for membership.<sup>29</sup> Soon thereafter, the smaller allied parties began internal debates about whether to join the PSUV or not. While Chávez, Rodríguez, and other government officials sometimes spoke of continuing respect for different opinions as a central aspect of their vision for a new socialism, at other moments they emphasized the need for revolutionary unity and opposition to the government as unpatriotic. When the Supreme Tribunal of Justice permitted the May 2007 replacement of the only nationwide private television network (RCTV) with a new government-run channel (TVES), large street demonstrations followed in which anti-Chávez groups criticized the court's ruling, while pro-Chávez groups celebrated what they termed the closure of a destabilizing, anti-government channel.

It was in this climate that Venezuelans were called to the polls in early December 2007 to vote on a package of sixty-nine constitutional reforms

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26. *Id.*

27. *Id.*

28. CEPAL, PANORAMA SOCIAL DE AMÉRICA LATINA 2007 (2007), translated in ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN, [ECLAC], Social Panorama of Latin America, 2007 (2007), available at [http://www.eclac.org/publicaciones/xml/9/30309/PSI2007\\_Sintesis\\_Lanzamiento.pdf](http://www.eclac.org/publicaciones/xml/9/30309/PSI2007_Sintesis_Lanzamiento.pdf).

29. Posting of Ricardo to eBlogger, *PSUV: 3 millones 200 mil "por el buche"* (May 22, 2007), <http://psuv.blogspot.com/2007/05/psuv-3-millones-200-mil-por-el-buche.html>.

that had been endorsed by Chávez and by a National Assembly dominated by his supporters. The proposed reforms included the elimination of term limits for the presidency (but not for other offices), a reduction in the autonomy of the Central Bank and subnational governments, a reduction in the minimum voting age from eighteen to sixteen years, a decrease in the maximum working day from eight to six hours, and the incorporation of informal workers into the social security system. Chávez's government backed these changes as essential elements of the pursuit of twenty-first-century socialism while his opponents labeled it the end of capitalism and of democracy in Venezuela. In the end, the constitutional referendum was narrowly defeated by a vote of 51 percent against and 49 percent in favor, amid the lowest voter turnout of the Chávez era for a national election. Chávez's opponents celebrated his government's first electoral defeat, while Chávez himself called for 2008 to become a year of "revision, rectification, and renewed impetus" for his movement.

#### E. OBSTACLES TO MARKET-ORIENTED REFORM IN CONTEMPORARY VENEZUELA

The two presidents who preceded Chávez largely supported the market-oriented agenda that Chávez has opposed with increasing vigor over the course of his presidency. What factors blocked the consolidation of the market-oriented approach in Venezuela? Four major causal factors will be emphasized here: the declining legitimacy of the Venezuelan political system during the two decades prior to Chávez's 1998 run for the presidency; the lack of a severe economic crisis that might have anchored support for a shift toward market-centric policies; Venezuela's lackluster economic performance upon the initial introduction of market-oriented reforms; and the rhetorical advantages associated with presenting the FTAA agenda as a U.S.-led initiative. Let us consider each of these obstacles below.

It is essential to view the emergence of Hugo Chávez in Venezuela, and with that the prospects for market-oriented hemispheric integration, through the prism of widespread, sustained, and worsening criticism of traditional political parties over the course of the 1980s and 1990s. While there is not space in this study to examine the political critique central to Chávez's claims for the need to build a more complete democracy, the increasing corruption of the Punto Fijo regime has been examined by observers of all ideological stripes.<sup>30</sup> As a result of this atmosphere, the

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30. See Damarys Canache, *Venezuela: Public Opinion and Protest in a Fragile Democracy*, in *LATIN AMERICAN POLITICS & SOCIETY* (Steve Ellner ed., 2002), available at [http://findarticles.com/p/articles/mi\\_qa4000/is\\_200210/ai\\_n9091820](http://findarticles.com/p/articles/mi_qa4000/is_200210/ai_n9091820); COPPEDGE, *supra* note 8; BRIAN F. CRISP, *DEMOCRATIC INSTITUTIONAL DESIGN: THE POWERS AND INCENTIVES OF VENEZUELAN POLITICIANS AND INTEREST GROUPS* (2000); STEVE ELLNER, *RETHINKING VENEZUELAN POLITICS: CLASS, CONFLICT, AND THE CHÁVEZ PHENOMENON* (2008); Hellinger, *Political Overview: The Breakdown of Puntofijismo and the Rise of Chavismo*, *supra* note 14; Daniel H. Levine, *Goodbye to Venezuelan Exceptionalism*, 36 *J. INTERAMERICAN STUD. & WORLD AFFAIRS* 145 (1994), available at [http://findarticles.com/p/articles/mi\\_qa3688/is\\_/ai\\_n8733190](http://findarticles.com/p/articles/mi_qa3688/is_/ai_n8733190)



traditional party politicians that called for a shift from state capitalism to more market-driven strategies faced a very suspicious, if not outright hostile, audience in the 1990s.

To worsen the prospects for building support for the Washington Consensus set of economic reforms, the veteran politicians who led governments that came to pursue market-oriented reforms (Carlos Andrés Pérez and Rafael Caldera) made building popular support for market-oriented policies more difficult by running successful presidential campaigns that were somewhat critical (Pérez) to stridently critical (Caldera) of market mechanisms. Weyland has noted that their contemporaries in two nearby countries (Carlos Menem in Argentina and Alberto Fujimori in Peru) were able to implement similar U-turns toward the market after inauguration, yet Menem and Fujimori gained support for themselves and their policies.<sup>31</sup> Weyland argues that the depth of the inflationary crises in Argentina and Peru generated a more widespread desire for change. In contrast, Venezuelans had suffered an economic downturn in the late 1980s but not a sharp stagflationary crisis, much less a hyperinflationary emergency.

Other analysts have contended that market reformers should press ahead with or without a visible societal consensus,<sup>32</sup> perhaps winning elections while hiding their true reform intentions.<sup>33</sup> If the reforms bring desirable results, they will build a consensus; if they do not, no previous consensus will withstand the negative outcomes. Unfortunately for advocates of market oriented reform in Venezuela, the economic downturn that followed the market-oriented reforms was sharp and sustained. The poverty rate worsened dramatically during the initial implementation of the economic opening, rising from 40 percent in 1990 to 48 percent in 1994<sup>34</sup> Poverty did not decline during the second half of the 1990s either. Rather than being viewed as the solution to Venezuela's economic malaise of the 1980s, market capitalism became associated with part of the problem for many Venezuelans, especially the downtrodden.

The above paragraphs synthesize the political and economic climate within which Hugo Chávez advocated a people's democracy and criticized the Washington Consensus agenda. It is instructive to pause here to absorb the rhetorical utility of the term "Washington Consensus" for a political leader like Hugo Chávez. Chávez's speeches have a tendency to

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?tag=artBody;col1; MICHAEL MCCAUGHAN, *THE BATTLE OF VENEZUELA* (2005); VENEZUELAN DEMOCRACY UNDER STRESS (Jennifer McCoy et al. eds., 1995); *THE UNRAVELING OF REPRESENTATIVE DEMOCRACY IN VENEZUELA* (Jennifer L. McCoy & David J. Myers eds., 2004).

31. WEYLAND, *supra* note 13

32. Jeffrey Sachs, *Life in the Economic Emergency Room*, in *THE POLITICAL ECONOMY OF POLICY REFORM* 503, 503-23 (John Williamson ed., 1994).

33. ADAM PRZEWORSKI, *DEMOCRACY AND THE MARKET: POLITICAL AND ECONOMIC REFORMS IN EASTERN EUROPE AND LATIN AMERICA* (1991).

34. UN Economic Commission for Latin America and the Caribbean [ECLAC], CEPALSTAT online database, <http://www.eclac.org/estadisticas/bases/default.asp?idioma=in> (last visited Mar. 15, 2008).

blame Venezuela's ills on its domestic "oligarchy" and on its alliance with the global "hegemon" the U.S. government.<sup>35</sup> Just as some arch-conservatives in the United States try to sully any initiative associated with government activity as "liberal," the Chávez government attacks (with increasingly harsh language over time) the FTAA agenda as a creature of "hegemonic" U.S. interests that should be rejected without further thought by patriotic Latin Americans inside and outside of the Bolivarian Republic of Venezuela.

Yet, at the same time that the Chávez government's predominant rhetoric is critical of the FTAA agenda, upon winning the 1998 presidential election, Hugo Chávez inherited a complex panorama in which a sizable number of Venezuelans (and some of its most important trading partners, including the United States) were committed to the pursuit of regional and sub-regional free trade. This diverse environment shaped the context in which Chávez's government would develop its foreign economic policies.

## II. REFLECTIONS ON HEMISPHERIC INTEGRATION IN VENEZUELA UNDER CHÁVEZ

The global oil boom during 2004-2007 and the electoral triumphs that occurred without interruption from 2004 through 2006 did more than fan Hugo Chávez's ambitions at home. These favorable conditions also fueled an upswing in his international ambitions: the government amped up its rhetoric and its activity level on the hemispheric and world stages.<sup>36</sup> This section takes stock of Venezuelan foreign economic policies during the early twenty-first century.

In staking out positions contrary to the ongoing FTAA negotiations, the Chávez government pursued a two-track strategy that involved working with existing sub-regional blocs while also proposing the creation of a new ALBA bloc as an additional alternative to the FTAA approach. Over time, these two tracks came into tension with one another as Chávez's rhetoric and actions regarding integration created conflict with some of his sub-regional partners.

On the more traditional sub-regional track, Chávez initially supported greater collaboration and integration between the Andean Community and Mercosur blocs as a path to building up greater negotiating strength in the FTAA talks. In December 2004 the members of both blocs declared their intention to form a South American Community of Nations. In mid-2005, Venezuela declared its intention to become a full member of Mercosur as part of this larger process of integrating the two blocs. As

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35. For historical perspective on the evolution of U.S.-Venezuelan relations, see JANET KELLY & CARLOS A. ROMERO, *THE UNITED STATES AND VENEZUELA: RETHINKING A RELATIONSHIP* (2002).

36. For a discussion of the potentially destabilizing aspects of Venezuelan foreign policy (both in Venezuela and beyond), see Rita Giacalone, *The Impact of Neo-Populist Civilian-Military Coalitions on Regional Integration and Democracy: The Case of Venezuela*, 33 J. Pol. & Mil. Soc. 25 (2005).

noted earlier, in November 2005, Venezuela reached a common bargaining position with Mercosur at the Mar del Plata Summit of the Americas that highlighted concerns regarding the U.S. government's position on several points.

During the same period as the start of the world oil boom in 2004, the Chávez government also promoted the ALBA concept that he had first mentioned in a Caribbean summit in 2001. In December 2004 (the same month in which Venezuela participated in the launch of the South American Community of Nations), Venezuela and Cuba initiated the ALBA by signing bilateral accords. As an alternative to the FTAA, Chávez promoted ALBA as a model centered on social welfare and mutual assistance rather than on free trade. In 2006, Bolivia joined ALBA under the newly elected Evo Morales government. In 2007, the inaugurations of Rafael Correa and Daniel Ortega were followed by the incorporation into the ALBA bloc of Ecuador and Nicaragua. In early 2008, Dominica joined ALBA as its first English-speaking member state. All four of Venezuela's partners in ALBA received a considerable increase in economic assistance from Venezuela during this period.

Since the Mar del Plata Declaration in late 2005, these two tracks of integration have come into conflict, as the anti-U.S. posture of the Venezuelan government has dominated Venezuelan integration activities. In 2006, Chávez responded to the negotiation of the U.S.-Colombia Free Trade Agreement by suspending Venezuela's membership in the AC and in the G-3 bloc linking Colombia, Mexico, and Venezuela. That same year, Venezuela reached an agreement in principle to become a full member of Mercosur. However, Venezuela's increasingly frequent adoption of socialist rhetoric at home and abroad has spawned opposition to the ratification of its accession to Mercosur. Although it had been assumed by many analysts that ratification during 2007 was a foregone conclusion, neither the Brazilian nor the Paraguayan legislature had taken this step as of May 2008. Critiques of Chávez in these two countries have focused on his centralization of power at home and his use of the oil windfall to cultivate allies abroad.

### III. VENEZUELA AND THE FUTURE OF THE FTAA IN LATIN AMERICA

In considering the prospects for hemispheric integration, it is essential to clarify the vision of integration at issue. Beyond the contrasting goals and mechanisms of the FTAA and ALBA projects, there are a myriad of opinions on the precise course that the free-trade-oriented FTAA and the international-assistance-centered ALBA systems should take in the short, medium, and long run. To provide analytic clarity, this concluding section will focus on the future of the FTAA agenda in Venezuela and in the Americas more broadly.

## A. THE PROSPECTS FOR THE FTAA IN VENEZUELA

For the immediate future, the prospects for the FTAA in Venezuela are meager. Political parties tied to Hugo Chávez control the legislature through late 2010 and Chávez's presidential term runs through early 2013. Given Chávez's strident and sustained opposition to the FTAA, it is difficult to envision a series of events that would culminate in a reversal of that stance.

Accordingly, attention turns to the electoral cycle and toward the push for constitutional reform. Without a change in the two-term limit for the presidency, Hugo Chávez cannot be a candidate in the December 2012 presidential election. Had the December 2007 constitutional plebiscite passed, this prohibition would have been removed and a series of other amendments would have reduced the space for the opposition at the sub-national level while increasing the role of the government in the economy. This raises the question: does the defeat of this set of constitutional amendments signal the dawn of a new era in Venezuelan political economy?

One should not rush to judgment in interpreting the results of the December 2007 referendum as an endorsement of a return to a pre-*chavista* economic policy. It is essential to recall that popular discontent with the centralization of power under the two major parties was a pivotal prelude to the emergence of the Chávez movement. Given that backdrop, the decline in voter turnout and the defeat of the referendum may be driven primarily by a lack of enthusiasm for extending the centralization of authority under Chávez's movement, not by a change in attitudes toward economic policy. Indeed, the 2007 *Latinobarómetro* poll (conducted across eighteen Latin American countries, excluding only Cuba and Haiti) shows an increase in statist attitudes among Venezuelans on two questions and considerable stability in the other items that examine economic attitudes.<sup>37</sup> One question asks respondents whether or not they believe that the state is capable of solving all problems. Venezuelans have been consistently more statist than Latin America as a whole, and that trend has deepened over the years 2005-2007. In 1998, 33 percent of the respondents across Latin America felt that the state could solve all problems, while 46 percent of Venezuelans held this view.<sup>38</sup> In 2005, 29 percent of the region's respondents were statist in this sense, while 58 percent of Venezuelans expressed optimism regarding the state's capabilities.<sup>39</sup> In 2007, these percentages were 38 percent for Latin America and 67 percent in Venezuela.<sup>40</sup> Another question in the poll asks respondents whether or not they believe that a market economy is best for their country. In 2002, 62 percent of Venezuelans were market-oriented in this

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37. Latinobarómetro, Informe Latinobarómetro 2007 (2007), <http://www.latinobarometro.org/> (follow "Informes de Prensa" hyperlink).

38. *Id.*

39. *Id.*

40. *Id.*

sense, while in 2007 only 49 percent of Venezuelans expressed this view.<sup>41</sup>

The defeat of the 2007 constitutional referendum notwithstanding, the available data on public attitudes do not support the notion that Venezuelans are becoming more market-oriented. Thus, the prospects for a Venezuelan political coalition in support of the FTAA agenda are tied to the emergence of a different economic and political context. Overreaching by the Venezuelan state under Chávez could perhaps produce such a scenario, but it has not done so yet.

#### B. PUBLIC OPINION AND THE PROSPECTS FOR THE FTAA IN LATIN AMERICA

That same *Latinobarómetro* poll provides an important reminder that the tide of public opinion in Latin America as a whole has shifted away from market-oriented economics.<sup>42</sup> The Venezuelan opinion trends discussed above are not the exception in Latin America; instead, they form part of the regional trend. In the 1998 poll, 66 percent of Latin American respondents expressed the view that the market economy was best for their respective countries.<sup>43</sup> By 2002 this figure had dropped to 59 percent, and by 2007 it fell to 52 percent region-wide.<sup>44</sup> Across all of Latin America, only Mexico swam against this tide and experienced a statistically significant upswing in expressed support for market mechanisms (from 51 percent in 1998 to 60 in 2007).<sup>45</sup> Only two other countries avoided a statistically significant decline in their respective support for the market, Colombia and Uruguay. Venezuela joins over four-fifths of Latin American countries in which support for market mechanisms had declined visibly over the past decades.

The electoral salience of this shift in economic attitudes is palpable. Beginning with the victory of Hugo Chávez in 1998, a majority of Latin American countries elected presidents from center-left political parties or from the center-left wing of more ideologically eclectic movements—Chile in 2000 and 2006; Brazil in 2002 and 2006; Argentina in 2003 and 2007; Uruguay in 2004; Bolivia in 2005; and Ecuador, Nicaragua, and Peru in 2006; and Guatemala in 2007. It is no accident that the only two large Latin American economies led by center-right presidents (Colombia and Mexico) are the two countries where a large (Colombia) or rising (Mexico) majority of the population expresses support for the market as the best economic approach.

Yet, regarding the FTAA agenda, it is also important not to overstate the shift away from the market in Latin America. A slim majority of the region's citizens continue to favor the market as the best option for their

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41. *Id.*

42. *Latinobarómetro*, Informe *Latinobarómetro* 2007 (2007), <http://www.latinobarometro.org/> (follow "Informes de Prensa" hyperlink).

43. *Id.*

44. *Id.*

45. *Id.*

respective countries. Furthermore, the current presidents that have emerged from Latin America's leftward swing have decidedly diverse economic platforms. Some welcome a substantial role for market forces, while others (like Hugo Chávez) stridently criticize the market at most opportunities. And still others position themselves somewhere in the middle between those two poles. One characteristic, however, is shared by all of these leaders, a ferocious critique of the inadequacy of the social safety nets in place when Latin American economies shifted from state capitalism toward market capitalism during the 1980s and 1990s.

The Pew Global Attitudes Survey of seven Latin American countries (Argentina, Bolivia, Brazil, Chile, Mexico, Peru, and Venezuela) sheds further light on this tension between the potential utility of market mechanisms and the desire for social policies designed to protect the vulnerable and the impoverished.<sup>46</sup> This is an issue for pro-market domestic economic policies, but also for the FTAA initiative. The bold promise of the free trade approach is the expansion of economic opportunity and prosperity in the aggregate. During the same years in which support for market mechanisms as a whole declined in Latin America, the Pew Global Attitudes Surveys conducted in 2002 and 2007 document stable or rising majorities showing strongly favorable or somewhat favorable attitudes in support of trade as beneficial in all seven of these countries, including Venezuela. In the Pew Surveys, the percentage of the population supporting "trade as beneficial" exceeded the percentage favoring "free market economies" in all seven countries by an average of 21 percentage points.<sup>47</sup> Yet, at the same time that citizens welcome trade, even larger majorities in every country either completely agreed or mostly agreed with the statement that the government should take care of the very poor.

What are the implications of the above public opinion and electoral trends for the FTAA agenda? First and foremost, one can see the potential support for hemispheric free trade. In concept, most Latin Americans embrace the idea that trade is beneficial. This has buoyed the considerable and sustained liberalization of tariff rates in Latin America.<sup>48</sup> In 1985 the average tariff rate was 49 percent, but by 1995 it had fallen to 13 percent. In 2003 it was 10 percent.<sup>49</sup> Venezuela mirrored these trends with the average tariff falling from 30 to 13 to 12 percent over the same period.<sup>50</sup> In 2006, following several years in which the economic role of the state expanded in Venezuela, the average tariff remained steady at 13 percent.<sup>51</sup>

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46. Pew Global Attitudes Survey 2007 (Oct. 4, 2007), <http://pewglobal.org/reports/pdf/258.pdf>.

47. *Id.*

48. Eduardo Lora, *Trends and Outcomes of Tax Reform*, in *THE STATE OF STATE REFORM IN LATIN AMERICA* 185, 189 (Eduardo Lora ed., 2007).

49. *Id.*

50. *Id.*

51. World Trade Organization, *World Tariff Profiles 2006* 44 (2007), available at [http://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles06\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf).

At the same time, a major flashpoint in the FTAA project has been the lack of a tangible commitment to compensate geographic regions and economic sectors that are apt to lose ground initially upon the creation of an FTAA. As long as the negotiations for the FTAA focus on eliminating non-tariff barriers in manufacturing and on obstacles to international banking and investment, rather than on non-tariff barriers in agriculture and on the enhancement of social safety nets, the FTAA negotiations will remain vulnerable to strident criticisms from political leaders as diverse in their economic policies as Hugo Chávez in Venezuela, Luiz Inácio da Silva in Brazil, and Michelle Bachelet in Chile, to name but a few.

While the rationale for the above recommendation for U.S. policymakers has a clear grounding in the political and economic realities present in Venezuela and elsewhere, this recommendation's implementation is difficult. Indeed, both the need for this revised strategy and the obstacles toward its pursuit stem from a conceptualization of trade negotiations as a two-level game in which national governments interact with one another and also with their respective national constituencies.<sup>52</sup> Just as Latin American trade negotiators face constraints from their constituents, U.S. negotiators face strong domestic pressures to pursue various forms of compensation for the structural imbalance implied by the tariff negotiations. The math of the tariff negotiations is very simple. If the FTAA were to focus solely on eliminating tariffs, the United States would be conceding (in static, monetized terms) much more market access than it would be acquiring. Thus, the domestic calls for FTAA provisions that would assist U.S. interests regarding trade in services, investment, government procurement, etc. are reinforced by the perception that a free trade agreement with no additional features could be, in the aggregate, a loss for the United States in a zero-sum, mathematical assessment of the FTAA negotiations.

Where does one go from here? From a domestic perspective, the U.S. insistence on including additional issues in the FTAA is understandable and difficult to avoid. Indeed, some would argue that a multifaceted FTAA is beneficial on the whole to the Americas.<sup>53</sup> Yet, from the same two-level game perspective, it is hard to imagine that a vigorous FTAA bloc can be formed without additional provisions that would provide regional development funds analogous to those found in the evolution of the European Union, as it incorporated economies of radically different

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52. See Robert D. Putnam, *Diplomacy and Domestic Politics: The Logic of Two-Level Games*, 42 INT'L ORG. 427 (1988); DOUBLE-EDGED DIPLOMACY: INTERNATIONAL BARGAINING AND DOMESTIC POLITICS (Peter B. Evans, Harold K. Jacobson, & Robert D. Putnam eds., 1993); HELEN V. MILNER, INTERESTS, INSTITUTIONS, AND INFORMATION: DOMESTIC POLITICS AND INTERNATIONAL RELATIONS (1997); Geneva Forwood, *The Road to Cotonou: Negotiating a Successor to Lomé*, 39 J. COMMON MKT. STUDIES 423-42 (2001); Jeffrey S. Lantis, *Leadership Matters: International Treaty Ratification in Canada and the United States*, 35 AM. REV. CAN. STUDIES 383 (2005).

53. TOWARD FREE TRADE IN THE AMERICAS (José M. Salazar-Xirinachs & Maryse Robert, eds., 2001).

sizes, levels of diversification, levels of prosperity, and levels of international competitiveness. Until U.S. negotiators embrace this inconvenient truth, the ability of Latin American politicians like Hugo Chávez to blackball the FTAA endeavor as an enterprise lacking social solidarity will remain intact. Similarly, Latin American negotiators need to recognize that an FTAA without some provisions in services, investment, intellectual property, and other issues is unlikely to generate U.S. support.

The creation of a tariff-free hemisphere will become more probable when parties on all sides support some provisions beyond tariff elimination than what they respectively prefer not to include in the FTAA. The initial concept paper in circulation regarding the Fifth Summit of the Americas planned for 2009 in Port of Spain, Trinidad and Tobago appropriately mixes themes of sound macroeconomic policies with language emphasizing the need for poverty reduction, greater access to health care, and other issues.<sup>54</sup> It remains to be seen whether the FTAA process can culminate in an effective compromise between enhancing the role of the market in some areas while financing a more effective government with regard to several other issues.

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54. Fifth Summit of the Americas, Summit Implementation Review Group, *Securing Our Citizens' Future by Promoting Human Prosperity, Energy Security and Environmental Sustainability* (2008), [http://www.summit-americas.org/V\\_Summit/CP19993E04.doc](http://www.summit-americas.org/V_Summit/CP19993E04.doc).



