



LAC Focus: Venezuela



Coordinadora Regional de Investigaciones Económicas y Sociales

CRIES is a Latin American and Caribbean Think Tank aimed at mainstreaming network-based analysis of regional, hemispheric and global issues. With its headquarters in Buenos Aires, Argentina, the CRIES network extends to all of Latin America and the Caribbean, gathering over 100 research centers, NGOs and experts that specialize in foreign policy, integration, security, citizen's diplomacy, conflict prevention and mass atrocity prevention.

Abstract

Since President Maduro won the last presidential elections by a very small margin, instability seems to reign in the Caribbean nation. Although 2015 has not been witness to the outburst of protests and violent state repression in the streets, it has presented Venezuela with few positive prospects in the upcoming months.



Since President Maduro won the last presidential elections by a very small margin, instability seems to reign in the Caribbean nation. Although 2015 has not been witness to the outburst of protests and violent state repression in the streets, it has presented Venezuela with few positive prospects in the upcoming months.

In the last two months, Venezuelan oil prices have stayed below the 40 USD per barrel mark, which has intensified the scarcity of foreign currency in Venezuelan treasuries. This has led to the inability of the government to offer solutions to the scarcity of a variety of goods in the country, most importantly food products, medicines and other goods such as spare parts for vehicles and electronics.



According to a Bank of America report dated 2nd of November 2015 *“this picture leads many observers to conclude that the country must be on the route to a default in 2016”*. The report points out that Venezuela is experiencing one of the worst external shocks in its history. Since 2012, oil exports have declined from \$94bn to \$41bn (56% drop). This drop in the

availability of funds has led to the public sector using \$43bn less dollars than in 2012, year in which it was already operating with a \$13bn deficit. The report estimates that Venezuela needs \$20bn to cover the gap between its spending and revenues in foreign currency. The country needs additional money to cover its amortizations if it is to avoid defaulting. If we add the \$5bn in amortization payments that the country must make on its financial obligations to bonds markets, we estimate that Venezuela needs a total of \$25bn to stay afloat (with an estimated average yearly price of \$50.6 a barrel, while if oil were to stay at today’s price of \$39.5/bl, the country would need an additional \$7.7bn). Lack of transparency of the Venezuelan treasury makes it difficult to assess with precision the availability of assets, although the data of the Bank of America report estimates that the country has \$56.4bn of potentially liquid assets left that it could use to cover debt payments. An earlier report, dated 29th of October 2015, states that *“CDS markets are pricing in a 68% probability of a default before the end of 2016”*, bringing about a worrisome economic and financial scenario for the upcoming 12 months. According to economist Ricardo Hausmann, when it comes to debt contracted with China, the Chinese government negotiated the loans in a manner in which if Venezuela was unable to payback, the funds from Chinese oil importers would be used to repay Venezuelan loans instead of paying Venezuela for its oil. This means that in case of a worsening of the economic/financial crisis in Venezuela, China’s debt would have seniority over other debts contracted by Venezuela and would be paid first.

The reduced oil prices, growing debt, lack of access to foreign currencies and the threat of default also affects directly the life of most Venezuelans. Food and medicine shortages have not only continued, but they have grown. Venezuelan government has been unable to fill the demand for these goods with imports, and Venezuelans are finding it harder and harder to access such essential goods. Simultaneously, the Venezuelan government is cracking down on national food industry, specifically the largest food producer in the country: Polar. The government is accusing Polar of not producing to its full potential. Yet Polar is having problems accessing goods it requires, due to the government owing foreign providers of Polar over 450 million dollars. In recent days, the government imposed a penalty fee of 87 million Bolivares (almost 14 million USD) for limiting its own production.

When goods due become accessible to the general public, it is usually through the black market where prices have boomed and have become unreachable to most Venezuelans. University professors and other professionals who 20 years ago were classified as middle class due to their income, now cannot even afford the basic foods basket with their salaries. A useful reference is that the cost of a single pack McDonalds French fries in Venezuela is now equivalent to 10% of the minimum wage.

The political outlook on the country is also critical. Recent setbacks in the national and international spheres have translated into important hits on chavismo as it is being accused of links with drug-trafficking, human rights violations, political prosecution and



generalized corruption. The most recent case is that of the nephews of Cilia Flores, President Maduro's wife, who have been arrested in Haiti by the DEA on the charges of attempting to transport and sell 800 kilograms of cocaine into the United States. The nephews hold close ties to the presidential couple not only because of the obvious blood link, but because one of the nephews was raised by Cilia Flores herself after her sister perished. The detentions were made after a prolonged investigation based on information leaked by Leamsy Salazar, former Hugo Chavez bodyguard who fled to the United States under DEA protection. In addition to the direct link with Hugo Chavez and Nicolas Maduro, the nephews used a civilian aircraft belonging to Eveba, a fish processing company of which Diosdado Cabello (President of the Venezuelan General Assembly) is a partner, and some sources indicate that during their interrogation in the US the nephews said the cocaine belonged to Diosdado Cabello and Tareck El Aissami, current governor of Aragua State. To further the controversy, new information indicates that the aircraft would have been flown by Venezuelan military pilots.

Official response to the accusations by the DEA has not followed a single line. Some government outputs have denied the information while others have made contradicting statements regarding the issue as an attack against the Venezuelan government. Either way, it is having a negative impact in the polls for chavismo, as it is a very clear link between governing elites and widespread corruption in the country.



In other matters in the international sphere for Venezuela, political exile Carlos Vecchio presented his case to the International Criminal Court denouncing President Maduro for crimes against humanity in the political persecution, imprisonment, illegal detentions, torture and murder of opposition members. The 190 page

document presented in The Hague gathers and details the accusations, yet the case has still not been officially accepted by the International Criminal Court. Recently appointed Secretary General of the Organizations of American States and former Foreign Affairs Minister of Uruguay, Luis Almagro, published a letter directed at Tibisay Lucena (President of the Venezuelan National Electoral College) stating that in the country there are no guarantees for justices and transparency for the upcoming December legislative elections. The accusation was supported by the left-wing Uruguayan government and on November 19th the Chilean Supreme Court issued a decision forcing President Bachelet government to intercede at the Organization of American States in defense of human rights abused in Venezuela. During the Argentine Presidential Debate, candidate Mauricio Macri who is currently leading the polls for elections on the 22nd of November, said that the MERCOSUR Democratic Clause should be implemented in the case of Venezuela because of the current human rights violations, which could lead to a suspension of Venezuela from MERCOSUR. These, and other indicators such as Dilma Rousseff's declaration stating UNASUR's interest in the liberation of political prisoners in Venezuela, shed light on the future of Venezuela's international dynamics in the region, as allies try to increase their distance and new governments and new leadership the region commit to dealing with human rights violations, political prosecution and undemocratic actions in Venezuela. The recent arrival to Caracas of a UNASUR commission chaired by former Dominican Republic Lionel Fernández to supervise the December elections was criticize by the opposition because of it bias towards the government. UNASUR is the only regional organization that was accepted by Maduro's government to monitor the legislative elections. In this regard, the offers made by more experienced organizations such as the OAS and European Union were rejected by the Bolivarian government.

These elections, to be held on the 6th of December, are likely to become a turning point in recent Venezuelan politics, as polls indicate that the opposition will win by a landslide. This means that

the opposition would be able to retake majority control of the legislative, maybe even a qualified majority (two thirds of the National Assembly), which would allow it to call for a national referendum to oust President Maduro out of the presidency or to call for a Constituent Assembly to reform the Constitution. Even without the qualified majority for the opposition in the legislative, simple majority would be a major hit for chavismo as it would be unable to pass laws and approve new superpowers for the Presidency, but also, it would mean that Diosdado Cabello (second in power in Venezuela) would lose his position as President of the National Assembly.

The reaction of chavismo towards a negative outcome in the elections is hard to predict, although various analysts coincide in that it will likely lead to a sort of “power grab”. Some scenarios emphasize the likelihood of a “coup d’état” led by high ranking military personnel linked to Diosdado Cabello, although it is unclear if such coup would seek to displace President Maduro, create a civil-military junta or prepare a transition process were chavismo hold the reins and seek for ways to ensure future impunity. The second scenario is the so called “malvinization” of the Venezuelan crisis, in reference to the actions of Argentine military government in 1982, when it launched military operations to recover de Malvinas/Falkland islands in the midst of an internal economic and political crisis. In this scenario, the Venezuelan government would seek to escalate a military confrontation with one of its neighbors (most likely Colombia, although also possibly Guyana) with the objective of calling for State of Emergency, suspending constitutional guarantees, and gathering national support even from dissident/opposition political sectors.

Linked to this second scenario is the recent crisis between Venezuela and Colombia in August of 2015. The crisis started with a still unclear confrontation on the Colombian-Venezuelan border where a Venezuelan National Guard unit was attacked. According to the Venezuelan government, the attack was led by illegal armed groups linked to smuggling, although alternate sources indicate that the confrontation was between competing National Guard units. As a response, the border with Colombia was shut down and militarized in several states, and infantry units were mobilized to the border. Later, Venezuelan



forces started a deportation of illegal Colombian nationals, forcibly deporting around 1,800 Colombians who were accompanied by family members residing legally in Venezuela, totaling around 20,000 displaced Colombian citizens. The deportation was accompanied with accusations of human rights violations, and a process of systematic seizing and destruction of homes owned by illegal Colombian nationals. During such period Colombia denounced multiple military air incursions into its airspace by Venezuelan Military Aviation aircraft. One of the incidents included

the use of two Chinese built K-8W light trainer aircraft that were executing reconnaissance missions and flew over Colombian military installations.

Regarding the acquisition, use and future incorporation of Chinese military hardware such as the K-8W, Venezuela will likely continue the purchase of such systems. The recent crash of a Russian built Su-30MK2 highlighted the need for Venezuela to incorporate Lead In Fighter Trainer (LIFT)



aircraft such as the L-15 (which is most likely going to be selected). Chinese built armored and logistical vehicles being delivered to the Venezuelan Marines are receiving excellent comments, especially from observer personal from the Venezuelan Army that have been provided with Russian armored vehicles that in cases have proven unsatisfactory for the Venezuelan Army. Although the economic context is not positive, and neither are the

near future prospects, military acquisitions are likely to continue in order to appease the interest of high ranking military personal that hold a significant portion of Venezuela's political and economic power.

Overall the prospects for Venezuelan politics and economics in the upcoming 12 months are not positive. The economic situation of the country is likely to worsen, and the possibility of default is growing as oil prices don't improve, the revenue deficit is not reduced, and the need to import essential goods is likely to increase. This complex economic situation not only jeopardizes Venezuela's financial obligations outside its borders, but also puts a tremendous strain on Venezuelan society that is living the most demanding and harsh aspect of the crisis as food, medicine and other regular consumption goods become scarce and black market prices skyrocket beyond the purchase capability of the greater majority of Venezuelans. In this context, the pressure also rises for current Venezuelan government that is facing increasing demands from its citizens to provide solutions that they don't have, and this is most likely going to translate into negative results in the 6th of December elections. With such loss of power after 17 years in office, it is uncertain what the outcome will be, although the likelihood of a coup or some other strategy to preserve power in an undemocratic manner is quite possible. This would lead to a very complex scenario for Venezuela in the future, being excluded from sub regional, regional and hemispheric spaces, and receiving condemnation from the international community. In brief, most indicators point at a dark short and medium term future for Venezuela, where political/social/economic unrest become the norm and the political dynamics of the country will be probably changing drastically from the previous decade and a half.