

HUGO CHÁVEZ

A Test for U.S. Policy



By Michael Shifter

MARCH 2007

A Special Report of the Inter-American Dialogue

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Foreword

Since Hugo Chávez came to power in 1999, Venezuela has emerged as one of the most formidable challenges for U.S. policymakers in the Western Hemisphere. The country's role as a major source of oil for the United States, coupled with a strained and deteriorating political relationship, has created a serious dilemma for Washington.

From the outset of Chávez's rule, the Inter-American Dialogue has sought to play a constructive role in fostering an informed and vigorous debate about Venezuela and the potential U.S. policy options towards that country. We have organized a number of sessions—one with President Chávez himself—that have offered a forum for government representatives to express their positions on a variety of issues and to be questioned by informed Washington audiences. At the same time, we have tried to give representatives of the opposition an opportunity to share their perspectives as well. Given the recent political polarization in Venezuela, it has not been easy for the Dialogue to sponsor activities in which both sides were represented.

With the publication of this monograph prepared by Michael Shifter, the Dialogue's vice president for policy, we have attempted to contribute to the policy discussion on Venezuela in a more systematic way. *Hugo Chávez: A Test for U.S. Policy* seeks to help U.S. government officials navigate the multiple challenges presented by the current Venezuelan situation and come up with an effective and sustainable policy. The guidelines emerge from a careful analysis of the Chávez government and the U.S.-Venezuela relationship in the past eight years.

In this effort, Shifter has been ably assisted by a top-flight and highly distinguished group of advisors who come from the private sector, the policy community, and public service, including five former U.S. ambassadors to Venezuela. We are very grateful for their participation in a meeting held at the Dialogue in June 2006, and for their consistent and invaluable contributions to the overall effort. They do not, however, bear any responsibility for the report's guidelines and analysis.

This project is part of the Dialogue's continuing focus on democratic governance in Latin America (and the Andean region in particular), multilateral institutions, and the state of U.S.-Latin American relations. We very much hope this report contributes to a constructive U.S. policy towards Venezuela in the coming years and to more cooperative and productive relations among the countries of the Western Hemisphere. We gratefully acknowledge the support provided by the Smith Richardson Foundation for this important initiative.

Peter Hakim
President
March 2007

Preface

The task of preparing a policy report on the United States and Venezuela under the current government is fraught with risks for at least two reasons. The first is simply that the highly polarized situation in Venezuela under Hugo Chávez poses an obstacle to rational policy dialogue and makes it very difficult to reach broad agreement on how the U.S. government ought to respond. At the same time, however, after eight years of confused and inconsistent messages coming from Washington and with Chávez entrenched in power, I thought some policy guidelines might contribute, in some small way, to a more coherent and productive approach.

The second reason why writing such a report is risky business is more prosaic. Given the remarkable pace and recent acceleration of Chávez's policy announcements, there is a good chance that parts of the final report will seem out of date. Of course, this is a problem for all policy reports, but it is particularly germane in light of Chávez's distinctive style of governing. To illustrate the point, the final paper differs significantly from the draft prepared in late December 2006, before Chávez outlined his plans for 21st century socialism.

Although the report strives to shape a consensus on how the United States ought to view and respond to the particular challenge posed by Chávez, it is not a consensus report. I was fortunate to benefit from the invaluable contributions of a first-rate advisory commission (see list on page v), but I bear full responsibility for the guidelines and analysis. The diverse and highly dedicated group generously shared their views in a meeting in Washington, DC in June 2006 as well as through various memoranda and extensive commentary on multiple drafts. Their expertise and insights on

Venezuela, U.S.-Latin American relations, regional politics, and the energy sector were extremely helpful. The advisory commission does not, however, necessarily agree with the analysis and policy guidelines contained in this report.

At the Inter-American Dialogue, the monograph profited from my many fruitful conversations with Peter Hakim, the Dialogue's president, and Pete Vaky, a senior fellow at the Dialogue, both of whom also served on the advisory commission. I am grateful to Hakim for his characteristically probing questions and perceptive comments. I greatly appreciate Vaky's political and intellectual acumen as well as his deep understanding of Venezuela, Latin America, and U.S. policy-making. Dan Joyce deserves special thanks for effectively and skillfully managing this effort and offering superb research and editorial assistance on the report. Vinay Jawahar ably coordinated the initial phase of this project, and contributed excellent ideas and suggestions, including during our visit to Venezuela in March 2006.

The report is also informed by the collaboration of many Venezuelans and other Latin Americans. Thanks to the generous support from the Smith Richardson Foundation, I was able to make several trips to the region. In Venezuela, I had useful meetings with a number of key representatives of the Venezuelan government, including the vice president, the president of the National Assembly, another influential deputy, and officials from the Ministry of Foreign Affairs. I also talked to representatives of the opposition, civic organizations, the private sector, the Catholic Church, academia, polling firms, and the media. Conversations with the U.S. ambassador in Venezuela, other diplomats, and foreign journalists based in Caracas, were similarly instructive.

I also visited Brasília, Lima, and Bogotá and consulted with a variety of current and former officials, policy analysts and journalists regarding their views of Chávez and the U.S. response to him. I am indebted to all who graciously shared their thoughts on such a challenging set of questions.

Michael Shifter
Vice President for Policy
March 2007

Introduction and Summary

Since coming to office in February 1999, Venezuela's president Hugo Chávez has consistently stymied U.S. policy—first in the Clinton administration and later, more prominently, in the Bush administration. Chávez, of course, has evolved considerably over the past eight years—as has the nature of the challenge he poses to U.S. interests.

As Chávez begins his next six-year term, it is reasonable to expect him to evolve further, responding to changing circumstances and taking advantage of opportunities as they arise. In 2007, having amassed tremendous political power and feeling extremely confident, Chávez claims to be entering into a “new era” of 21st century socialism in Venezuela. Washington will continue to have to deal with Chávez's unique brand of confrontational politics and his exploitation of vast oil revenues for political aims. Since Washington has been behind the curve in understanding the Chávez phenomenon and its implications, the approaches undertaken to date have sometimes been adversarial, sometimes conciliatory—and too often confused and contradictory.

To be sure, the task of devising a coherent and sensible policy towards the Chávez government is not easy. Chávez differs from other Latin American leaders and in key respects represents a throwback to the mutual distrust and divisions of the Cold War era. From the outset, his political posture towards Washington has been hostile. Most Latin American presidents and governments—even those that are not part of a regional move to the “left”—often seek greater distance from the United States and disagree with Washington on particular issues.

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The combination of political strain and economic dependence poses a fundamental dilemma for U.S. policymakers responsible for dealing with Venezuela and advancing the national interest.

They do not, however, share Chávez's aggressive stance nor echo his belligerent tone. They certainly are not committed, as he is, to constructing a broad alliance in opposition to the U.S. agenda in Latin America and the world. In spite of his rhetorical antagonism, however, Chávez heads a government that provides some 12 to 14 percent of oil imported into the United States. In 2006, Venezuela's oil exports to the United States exceeded \$30 billion. This combination of political strain and economic dependence poses a fundamental dilemma for U.S. policymakers responsible for dealing with Venezuela and advancing the national interest.

Chávez's approach to domestic governance similarly sets him apart from other Latin American heads of state. He was democratically voted into power in 1998, 2000, 2004, and again in 2006, but many in the opposition maintain that some of these elections were manipulated, and Chávez has resorted to autocratic and authoritarian practices to consolidate his rule. He now enjoys an extraordinary concentration of power and faces few, if any, checks and balances on his decisions and actions. For the Clinton and Bush administrations, which both deemed democracy promotion a high policy priority, such conduct has raised serious concerns.

Moreover, the model of governance Chávez has fashioned and fostered holds scant appeal to the Latin American governments that are responding to the frustration of their electorates by striving to render democratic institutions more effective. Still, while Chávez's model is ultimately not exportable, some of his allies have been elected elsewhere in the region. In addition, Chávez can further undermine hemispheric relations and seriously disrupt the U.S. agenda in Latin America on a variety of key questions, including trade and democracy.

Chávez's political position is strong, particularly in light of his December 2006 reelection and the continuing high price of oil. At the same time, however, his governance model displays a number of weaknesses that could become very problematic for the government over the course of his current six-year term. For starters, it is not clear that most Venezuelans, including Chávez

supporters, approve of their president's zeal and determination to concentrate power and remain in office indefinitely. Many also question the government's bureaucratic and management capacity to address day-to-day concerns, particularly mounting crime and corruption. And despite some beneficial social programs, unemployment remains a serious, stubborn problem and there are signs that price controls are creating food shortages.

Furthermore, Chávez's substantial spending outside of Venezuela—at the expense, for example, of necessary improvements in public infrastructure at home—is a potential area of vulnerability that was exploited with some success by the opposition in the last presidential race. Despite high economic growth rates fueled by oil profits in recent years, there is a real risk that badly needed foreign direct investment will significantly decrease as Chávez moves ahead with his nationalization program. In addition, declining revenue due to underinvestment in the petroleum sector could become a problem if oil production drops dramatically or prices continue to fall. Chávez won reelection due to a consumer boom, his control of key institutions, and the lack of a compelling opposition platform, but there are clear signs in Venezuela of growing disillusionment with the government's misplaced priorities and poor performance.

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Guidelines for U.S. Policy

The contours of the Chávez government's grandiose domestic and foreign policy ambitions are increasingly clear. In 2007, the Venezuelan president has gone into high gear, intent on dramatically overhauling the economy, suppressing independent sources of political and economic power, and spreading his radical agenda throughout the region and the world. At this critical juncture, it is timely and valuable to set out some guidelines for U.S. policymakers. The recommendations that follow take into account and seek to advance the national interest and values of the United States. They are intended to fashion a more coherent and effective approach towards a corrosive and complicated bilateral relationship and help repair the image of the United States in Venezuela and throughout Latin America. The United States should:

- 1. Take Chávez's talk and actions seriously.** With ample resources and waning U.S. regional influence and attention, Chávez's determined pursuit of an agenda hostile to Washington is cause for concern. He is intent on extending his influence and power throughout Latin America and even globally. However tempting it may be for the United States government to ignore him, it has tried that course with little to show for it. Experience suggests that when the United States avoids dealing with Chávez, disruptions in bilateral and hemispheric relations tend to accumulate.
- 2. Only support democratic and constitutional means of addressing the challenge posed by Chávez.** Employing, condoning, or encouraging "regime change" is morally reprehensible as well as a clear violation of U.S. law and the Inter-American Democratic Charter of the Organization of American States

(OAS). It would also be entirely counterproductive and have negative repercussions throughout the hemisphere. The Bush administration's ill-advised initial response to the 2002 coup against Chávez—immediately recognizing and supporting the short-lived opposition administration—fueled distrust towards the United States in Venezuela and elsewhere in the region, while boosting Chávez's popularity and power.

- 3. Drop its unrealistic expectations and calls for a “united front” among friendly Latin American governments to oppose the Chávez government.** Such appeals have alienated key Latin American allies in the past, and are likely to continue to do so. For mainly economic but also domestic political reasons, Latin American governments are often understandably reluctant to denounce the Chávez government, unless extreme circumstances warrant. It is neither productive nor wise for Washington to force other countries to take sides, in a manner reminiscent of the Cold War era. By pushing this difficult choice, Washington tends to distance itself from moderate, friendly democratic administrations in the region.
- 4. Closely track political developments in Venezuela and publicly identify violations of democratic norms and practices, preferably via multilateral channels.** In light of the negligible, and declining, checks and balances within the Chávez government, the risks of abuse are significant and apt to increase. The situation merits great and constant vigilance. Media laws that border on censorship, regulations that limit international support for civic organizations, and efforts to undermine judicial independence should continue to draw proportionate reaction and criticism. While this is an appropriate area for U.S. policy, any public statements or actions tend to be far more effective when carried out multilaterally, preferably through the OAS. The OAS secretary general's expression of concern about Chávez's decision not to renew the license of Radio Caracas TV (RCTV), for example, was valuable and justified.

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The emphasis of U.S. policy initiatives should be on offering its natural allies incentives to join with Washington to pursue common interests on an array of questions, including trade, security, and democracy.

- 5. Expand the resources and attention devoted to the pursuit of a positive agenda in Latin America.** Being more engaged on a variety of fronts is the best way to effectively contest Chávez's claims that he has the answers to profound social problems. To offset his influence throughout the region, a rival set of ideas revolving around redistribution needs to be developed and shown to be viable. The emphasis of U.S. policy initiatives should be on offering its natural allies incentives to join with Washington to pursue common interests on an array of questions, including trade, security, and democracy.
- More specifically, and in accordance with this general guideline, these additional considerations should be kept in mind:
- a. Priorities should include but go considerably beyond bilateral trade deals and even a reinvigorated hemispheric free trade agenda. Though commerce is an important element in the relationship, the United States should also emphasize other economic policy instruments and demonstrate a greater concern for Latin America's acute social conditions. A narrow focus on free trade agreements offers fertile ground for Chávez's bombastic criticisms of the United States as imperialistic and uncaring. Migration reform and investment in infrastructure are examples of other areas worthy of more serious attention.
 - b. A more constructive policy towards Latin America would necessarily entail buttressing the efforts of the OAS on a range of questions, including defense of democracy, human rights protections, counter-narcotics cooperation, and greater transparency in security issues such as arms purchases and trafficking. Instead of pressing allies to show their loyalty through votes at the OAS, the United States should focus on reaching consensus on constructive solutions to the problems of greatest concern to most Latin American leaders.
 - c. Without neglecting any part of the region, the United States should concentrate its efforts in Latin America on some select, strategically significant countries. Natural partners that show promise for even stronger relations

include Brazil and Chile. Andean countries such as Colombia and Peru, already allies, should be treated with greater generosity and far-sightedness on critical questions concerning trade and development assistance. While they may not be the primary focus of U.S. attention, countries that appear to challenge the United States, such as Bolivia and Ecuador, should be made to understand that Washington remains open to cooperation.

- i. The U.S. Congress should make every effort to overcome partisan divides and approve the pending trade agreements with Colombia and Peru as soon as possible. Trade preferences should be extended for Bolivia and Ecuador to avoid social and economic turmoil as well as to maintain and develop connections with those new governments.
- ii. The United States should sustain the level of its counter-narcotics aid while exercising proper oversight over the use of these funds and directing additional money toward social programs focused on alternative development and employment generation.
- iii. Though they may differ on particular policy questions, the United States should encourage a moderate country like Brazil in its pursuit of greater regional and global leadership, such as its role in the G-20 group during the Doha round of World Trade Organization negotiations or advocacy of United Nations Security Council reform.
- iv. Millennium Challenge Account (MCA) funds have just begun to be dispersed in Honduras, El Salvador, and Nicaragua. The program could help refurbish the U.S. image in Latin America and help the region develop if it were extended more widely. Current discussions between the U.S. and Bolivian governments should serve as a foundation for an expanded MCA program in the region.

6. Exercise restraint in issuing highly public denunciations.

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subdued way in which Washington dealt with Chávez's strident and abusive speech at the UN General Assembly, which wisely went unanswered and hurt his image, reflected progress in effective diplomacy in the region. But too often U.S. officials have gone for Chávez's bait, heightening antagonism with Venezuela and alienating potential Latin American allies. Chávez thrives on heated exchanges with U.S. policymakers, which only put the spotlight on him and cement his carefully cultivated image as an underdog fighting for the downtrodden. The political costs of this sparring have been considerable.

- 7. Only assist open and professional civil society organizations and avoid backing explicitly partisan groups with narrow political agendas.** In the past, support for such groups has played into the Chávez government's hands and undermined the credibility of the United States on democracy. And backing these organizations is inconsistent with the aims of strengthening democratic institutions and fostering reconciliation in such a polarized society. In contrast, open and independent civic organizations committed to democracy that lack a partisan character deserve to be considered for external assistance.
- 8. Develop a thorough inventory of diplomatic levers to respond to explicitly anti-U.S., adversarial actions taken by the Chávez government.** It should avoid political retaliation disguised as differences in principle, which have been utilized in the past (such as withdrawing U.S. support for \$250 million in international loans to Venezuela in response to human trafficking allegations). They have been little more than pinpricks, accomplishing virtually nothing while weakening the ability of the United States to credibly address substantive issues. Instead, when absolutely necessary, the United States should be ready to use ongoing programs and established channels to communicate its displeasure in ways that are subtle but clear to Venezuelan government officials. Washington's decision not to permit other governments that use U.S.-made parts to sell military hardware to Venezuela is an example of such a response. It effectively

conveyed displeasure about a Chávez policy and made it more difficult for him to pursue his goal.

9. Reduce dependency on Venezuelan oil, and oil in general, in anticipation that Chávez could eventually divert exports away from the United States.

As Senator Richard Lugar has rightly pointed out, deteriorating relations between the United States and Venezuela—and the real possibility of an eventual oil cutoff—constitute a compelling case for contingency plans and greater energy diversification. Setting aside the environmental debate, a robust alternative energy sector would give the United States much greater flexibility in dealing with Chávez and his successors. A June 2006 report from the General Accounting Office argues that the United States is not adequately prepared to address this potentially critical problem. Part of this contingency plan should include collaboration with reliable Latin American energy partners. The recent Bush administration move to forge a stronger alliance with Brazil revolving around ethanol production represents a welcome step in this direction.

10. Seek to open channels of communication with Venezuelan officials.

U.S. officials should make every effort to initiate discussions at a formal or informal level in order to bridge the sharp divide between the two governments. The talks may start at lower levels and may not address specific policy issues at first, but they will build mutual trust over time. One of the top priorities in these discussions should be reaching a working agreement with Venezuela to control narcotics trafficking. Over the past several years, the Venezuela-Colombia border has become a major cocaine transit point and a particularly dangerous area, rife with illegal armed groups and drug traffickers. Reaching a solution will require vigorous diplomacy and skillful compromise—it is unrealistic to expect the Chávez government to welcome U.S. forces with open arms. Venezuela may be willing to cooperate, however, and even an informal or low-profile collaboration is preferable to the current situation.

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Background and History

Hugo Chávez: Latin America's Pied Piper

To his most ardent backers in Venezuela and among the international left, Chávez is a hero driven by humanitarian impulses to redress social injustice and inequality. They believe he is tackling problems that were long neglected by a traditional ruling class that was intent on protecting its own position while denying the masses their rightful share of wealth and meaningful political participation. Chávez is bravely fighting for Latin American solidarity and standing up to the overbearing United States. With his charisma and oil dollars, he is seizing an opportunity to correct the imbalances in power and wealth that have long characterized Venezuelan and hemispheric affairs.

To his opponents—the embattled domestic opposition and many in Washington—Chávez is a power-hungry dictator who disregards the rule of law and democratic process. He is on a catastrophic course of extending state control over the economy, militarizing politics, and carrying out wrongheaded social programs that will set the country back decades. He is an authoritarian whose misguided vision and policies make him a formidable menace to his own people, his Latin American neighbors, and U.S. interests.

These caricatures have defined the poles of a debate that has obscured the reality of the Chávez phenomenon. Chávez's appeal cannot be understood without acknowledging the deep dissatisfaction with the political and economic order felt by much of the population in Venezuela and throughout much of the rest of Latin America—the world's most unequal region. Chávez's claims that he can remedy Venezuelans' legitimate

grievances have won him the support of many in his country and the wider region.

Venezuela was ripe for major change when Chávez was elected president in 1998. For 40 years, an alliance of two parties—Democratic Action (AD) and the Christian Democratic Party (COPEI)—had dominated the political order. By the 1970s, both were rightly considered guilty of chronic corruption and mismanagement; the exclusionary political system they managed was divorced from the central concerns of most Venezuelans. The political elites often overlapped with the economic elites, whose behavior was similarly feckless. The poor received little benefit from the country's ample oil wealth (Venezuela is the world's fifth-largest producer), which only deepened their rage.

In fact, during the 1980s and 1990s, no South American country deteriorated more than Venezuela; its gross domestic product (GDP) fell some 40 percent. In February 1992, with unrest already widespread, Chávez, a lieutenant colonel and former paratrooper, led a military coup against the government. Although the coup failed and Chávez spent the next two years in prison, his brash defiance catapulted him onto the national political stage and launched his career.

When Chávez entered politics six years later, his combative style and populist charisma served him well in a country marked by pervasive discontent. His fierce indictment of the old political order—and his promise of a “revolution” in honor of South America's liberator, Simón Bolívar—held wide appeal among poor Venezuelans. Unlike the corrupt and “out of touch” politicians, Chávez projected a sincere concern for those living in poverty. In Venezuela, that meant three-quarters of the population.

Taking Control

To carry out his Bolivarian Revolution—an eclectic blend of populism, nationalism, militarism, and socialism—Chávez has consolidated political power to a remarkable degree, facilitated by the collapse of the old political order. A series of elections and referenda have provided a veneer of legitimacy to the

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constitutional and institutional reforms that transfer more and more power to the executive. Chávez set out to remake Venezuela's political order from a corrupt and unresponsive oligarchy into what he calls a "participatory democracy," which he sees as reflecting the wishes of the country's long-neglected masses.

In pursuing this grand project, Chávez has dismantled or drastically altered many of the country's political and social institutions. A measure passed by the Chávez-controlled national assembly in February 2007 granted him the power to issue decrees over an 18-month period on a variety of dramatic potential policy changes—from eliminating private education to redrawing Venezuela's territorial divisions. This "Enabling Law" was a logical culmination of a process put in motion at the outset of his rule. The proposal to permit Chávez's indefinite reelection, similarly assured of approval, leaves little doubt about his desire to remain "president for life."

Indeed, immediately after his first election, Chávez began his overhaul of the established order by rewriting the constitution. He altered electoral rules to favor his already-popular party, the Fifth Republic Movement, which enabled him to gain a large majority in the pivotal constitutional assembly. These maneuvers cleared the way for the passage in 1999 of the new constitution, which lengthened presidential terms from five to six years, allowed the president to be consecutively reelected once, and changed legislative power from a bicameral Congress to a single National Assembly. The military gained a greater role in politics, as did instruments of direct democracy—including referenda and recalls. The new constitution, approved through a national referendum, was only the first of many political and social changes that have shifted the balance of power in Venezuela and placed virtually all key decisions in the hands of the president.

For the most part, the opposition in Venezuela has been unable to unify and provide a viable alternative to Chávez's populist Bolivarian revolution. The opposition's general ineptitude has been reflected in prolonged infighting and poor decision-making. Chávez's shrewd institutional manipulations and public spending on social programs have made its task even more difficult. To

be sure, the opposition has tested the Chávez administration on various occasions, but they have so far failed to capitalize on these opportunities and mount a significant political challenge. For example, massive protest demonstrations in 2001 and 2002 came to a head on April 11, 2002, when violence erupted in the streets of Caracas and the armed forces helped remove Chávez from power temporarily. Confusion ensued as opposition factions vied for control and the new government sought to dismantle democratic institutions. Two days later, the military shifted its allegiance back to Chávez, who was reinstated. In the end, the attempted coup only allowed Chávez to bolster his control over the military and justify cracking down on the opposition.

At the end of 2002, the opposition tried a different course to oust Chávez. Labor unions and business organizations called for workers to strike at Venezuela's national oil company, *Petróleos de Venezuela (PDVSA)*. Though it lasted for months, Chávez was eventually able to use the military and other workers to break the strike and bring production back on line. Ultimately, the strike backfired, allowing the president to fire thousands of workers he deemed to be disloyal, fill executive positions with like-minded individuals, and exert nearly complete control over Venezuela's immensely profitable oil industry.

And in 2003, a coalition of opposition organizations was able to force a recall referendum against Chávez by collecting the signatures of over 20 percent of the total electorate. Chávez won the referendum, held on August 15, 2004, with a 59 percent "No" vote. Although observers from the Carter Center and the OAS certified the elections as fair, some sectors of the opposition insisted there were irregularities in the voting lists, machines, and procedures. Still, in the end, the recall process enhanced Chávez's legitimacy and further marginalized the opposition.

Moreover, citing concerns that voter secrecy would be compromised and the election would be rigged, opposition parties boycotted the congressional election in late 2005. Such a decision, calculated to provoke an international outcry about the regime, only ensured that pro-Chávez parties would fill all 167 seats in the National Assembly. A year later, Chávez

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requested the “Enabling Law” to bypass even this nominal check on his power.

In August 2006, nearly eight years after his first election, opposition political figures and parties finally agreed to unite behind a single presidential candidate in an attempt to unseat Chávez in his bid for reelection. Though their chosen candidate, Manuel Rosales, the governor of the state of Zulia, ultimately lost by 23 points, this should not be viewed as a crushing defeat in light of Chávez's tremendous institutional advantages. Rosales gave the opposition what it long was missing: a political strategy. In the campaign, he made some headway by criticizing Chávez's foreign aid and response to rampant crime. Since the election, however, Rosales has not capitalized on his previous leadership and the opposition has struggled to forge a unified response to Chávez's most recent push for nationalization and centralization. Though it has shown flashes of promise, the opposition still has a long way to go to pose a serious challenge to Chávez's dominance.

After defeating the opposition in the 2006 presidential elections, Chávez made several moves to remove any rival power bases from among his supporters. He reshuffled his cabinet, replacing Vice President Vicente Rangel and Minister of Interior Jesse Chacón—two of the most experienced and influential politicians in the Chávez government—and others with a crop of younger loyalists. He also moved to consolidate his loose coalition of parties into a single entity, the United Socialist Party of Venezuela, an umbrella organization replacing his Fifth Republic Movement party. Some parties in the coalition, worried about losing influence and flexibility, reacted warily to the decision, but are acquiescing to the move towards concentration. Chávez's proposal to create communal councils, which would supplant locally elected officials, is part of the same consolidation scheme.

Even as Chávez was amassing political power, his supporters could always point to the fact that dissent and criticism of the government were permitted. But with Chávez's January 2007 decision not to renew the license of RCTV—one of the few major media outlets that have been critical of Chávez—the space for dissent is likely to be limited significantly. This is hardly the first

sign of Chávez restricting press freedom, however. According to the new criminal code, it is an offense to show disrespect for the president and other government authorities, punishable by up to 20 months in jail. The Law of Social Responsibility in Radio and Television, passed in early December 2004, comes close to censorship by imposing “administrative restrictions” on radio and television broadcasts. The measure has been strongly condemned by various groups, including the Inter-American Commission on Human Rights, a body of the OAS, and the Inter-American Press Association. The possibility of arbitrary enforcement of these restrictive laws for political reasons has had a chilling effect on the press.

The Venezuelan Congress has already taken the first step toward passing the Law of International Cooperation, which would require every domestic and international non-governmental organization (NGO) that receives international funding to register with the government. The law restricts the type of activities in which NGOs can engage and grants the executive the authority to determine the conditions the NGOs must meet in order to register—an invitation to abuse. There is also credible evidence that government officials have practiced a form of political discrimination—for instance, using referendum petitions to single out opposition sympathizers and deny them access to social programs or government jobs.

In addition, the military is becoming increasingly involved in political affairs in contemporary Venezuela. Chávez, after all, was a decorated lieutenant colonel in the Venezuelan armed forces before he led the coup that earned him a two-year jail term—along with widespread popular approval. Chávez knows the military well and uses these connections as president. He changed Venezuelan law in order to remain an active military officer. More than one-third of the country’s regional governments are controlled by soldiers directly linked to Chávez. Many military officers have even been appointed to senior positions in vital enterprises such as PDVSA, development corporations, and food distribution agencies. The role of the military under Chávez has expanded to include a variety of internal security

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and development tasks. As the armed forces develop as political actors, the lines that separate civilian from military control are becoming increasingly blurred. For now, Chávez appears to have gained the loyalty of the armed forces by enhancing their role in public life.

While raising the political profile of the armed forces, Chávez has also undertaken a major effort to upgrade and modernize Venezuelan military equipment. This includes a \$3 billion deal with Russia for 24 Su-30 fighter jets and 53 military helicopters. The contract came about after the United States banned arms sales to Venezuela and blocked a deal with Spain for military aircraft, which contained U.S.-made parts (even though Spain is going ahead with an agreement to supply four military patrol boats to Venezuela). Over U.S. objections, Russia is shipping 100,000 AK-47 rifles to the Venezuelan army, and constructing a Kalashnikov munitions factory in Venezuela. The combination of the armed forces' increasing political influence and a string of arms purchases has raised concerns in the United States and from Venezuela's neighbors. Chávez, asserting national sovereignty, claims the new weapons are necessary to repel a potential U.S. invasion and fight drugs. But Venezuela is already awash in cheap, powerful firearms, and this influx may exacerbate the recent rise in violent crime. They could prove to be destabilizing internationally, particularly if they end up in the hands of Colombian insurgents or drug traffickers, provoke territorial disputes with Colombia and Guyana, or fuel a regional arms race.

On the social, domestic front, Chávez has announced and implemented over a dozen *misiones*, which are programs aimed at reducing poverty and providing an array of social services to Venezuela's poor. The focus of this Chávez innovation is improving conditions in critical areas such as food, health, literacy, housing, and education. Thousands of Cuban doctors and teachers have participated in the social programs, particularly in the areas of medicine and literacy. The record of these and other programs is uneven, but the bulk of the evidence suggests that they address critical needs and have benefited the poor in

many cases. Evaluating their ultimate value is more problematic, and some *misiones* have been carried out largely according to political criteria—that is, loyalty to Chávez and his government.

Chávez is able to fund these social programs from the massive oil revenues brought in through PDVSA. When Chávez came to power in 1999, oil was selling for less than \$10 a barrel. During his administrations, the price rose to over \$75 a barrel before dropping off. Most experts agree that in the short and medium term the price will probably stabilize at \$55 to \$60 per barrel. Oil revenue accounts for roughly one-third of Venezuela's total GDP and 80 percent of its export revenue. This influx of cash gives Chávez flexibility in setting his budget that few other leaders have in mostly cash-strapped Latin America (or, for that matter, anywhere in the world). It also allows him to spread the wealth around the country, thereby building a solid political base through traditional, clientelistic politics.

Whether most Venezuelans are marginally better or worse off under Chávez—the evidence is mixed and raises methodological questions—it is clear that the government has not devised policies that generate employment and take advantage of the abundant resources it has at its disposal for Venezuela's broad-based development. There are serious and valid questions regarding the sustainability of Chávez's formula for social betterment. A number of signs strongly suggest the Chávez experiment may be another lost opportunity for the country's poor.

U.S.-Venezuela Relations

In the past, relations between the United States and Venezuela have been mostly cordial and cooperative. During the 1960s and much of the 1970s, Venezuela represented a model of political stability and economic progress in an often turbulent Latin America. There has long been substantial U.S. investment in Venezuela, particularly in the petroleum sector, and the two countries have also had close cultural ties. To be sure, there have also been moments of some tension and conflict, such as during the 1970s and 1980s, when Venezuela's foreign policy diverged somewhat from that

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For Chávez, the U.S. government and the Venezuelan opposition are virtually indistinguishable.

of the United States, especially toward Cuba and the conflicts in Central America. These were brief aberrations, however, from a generally warm bilateral relationship.

Chávez's defiance of and hostility toward Washington has been a defining characteristic of his regime from the outset. His unremitting critiques of Venezuela's old order—which he often refers to as the “rancid oligarchy”—have been closely linked to the support it received from various U.S. administrations over the decades. For Chávez, the U.S. government and the Venezuelan opposition are virtually indistinguishable. His speeches are filled with strident anti-U.S. rhetoric, charging Washington with imperialist designs and systematic exploitation of the poor.

Over the past eight years, the U.S.-Venezuela relationship has gone through various stages. The first was from the onset of the Chávez administration until the terrorist attacks in New York and Washington on September 11, 2001. Although Chávez frequently employed heated anti-U.S. rhetoric during this period, the United States emphasized that the Venezuelan president's actions, which had been relatively benign, were more important than his words. To be sure, there was some tension and disagreement on issues such as anti-narcotics cooperation. But the relationship was workable, not fundamentally antagonistic.

The second phase of the relationship followed the September 11 attacks. Chávez's comments comparing the U.S. military effort in Afghanistan to the Al Qaeda attacks on U.S. soil outraged Bush administration officials. The relationship became increasingly hostile. Another critical turning point was the April 2002 military coup against Chávez. Initial statements from the U.S. government expressed support for the new, unconstitutional Venezuelan government. Chávez repeatedly accused the United States of direct involvement in the coup and of having a close association with plotters within the Venezuelan opposition. Though Chávez has publicly claimed to have proof of such a role, to date he has failed to offer any convincing evidence.

Once the coup failed and Chávez returned to office, the Venezuelan government's relationship with the United States continued to deteriorate. The two additional tactics pursued by

the opposition—the general strike that affected the oil sector (2002) and the recall referendum (2004)—were widely seen as having the blessing of the United States. Both efforts failed to meet their objective of removing Chávez from office and instead drove a wedge between Washington and Caracas while intensifying the mutual mistrust.

The period following the August 2004 recall referendum constitutes a third stage of the U.S.-Venezuela relationship under Chávez. Attempts to pursue some areas of cooperation such as fighting drugs have proved to be very difficult. The bilateral relationship has been marked by growing hostility and contentiousness. There has been a series of sharp exchanges of words between senior U.S. and Venezuelan officials. Over the past two years, mutual recriminations over a variety of questions have escalated and the governments have appeared to be increasingly on a collision course.

At the same time—and to illustrate the basic dilemma faced by U.S. policymakers—the United States and Venezuela have continued to engage in a substantial and mutually profitable commercial exchange. Bilateral relations may have markedly deteriorated on the political front, but Venezuela still supplies the United States with a sizeable share of its total oil imports. That relationship remains essentially unchanged.

Nonetheless, in early 2007 there were growing and valid questions about whether Chávez's political decisions would begin to damage the economic relationship between the United States and Venezuela. In February, Chávez nationalized the CANTV telecommunications company, privatized in 1991, and Electricidad de Caracas, the largest private electrical company in Venezuela. These decisions affected large U.S. corporations, including Verizon and AES, which had substantial assets invested in the nationalization targets. Moreover, Chávez said he plans to move towards greater nationalization of the petroleum sector in the Orinoco region, where major U.S. companies like Chevron and Exxon have invested heavily in refineries. By May 1, 2007, Chávez has said, at least 60 percent of petroleum operations in the Orinoco would be under Venezuelan control.

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Given the thrust of Chávez's autocratic moves on a variety of fronts—and heightened uncertainty about continued U.S. investment in Venezuela—it is unrealistic to hope for an improvement in the overall bilateral relationship.

If implemented, the move would go considerably beyond the previous policy of imposing stiffer taxes and royalties on U.S. companies, which were applied in May 2006 to the dismay of investors in the petroleum sector. In February 2007, Chávez reached deals with and offered acceptable compensation to Verizon and AES. He may avert a further deterioration in bilateral economic relations if he follows this path in future deals. Nevertheless, given the thrust of Chávez's autocratic moves on a variety of fronts—and heightened uncertainty about continued U.S. investment in Venezuela—it is unrealistic to hope for an improvement in the overall bilateral relationship.

In addition to his nationalization efforts, Chávez has previously expressed a desire to close down some refineries in the United States and to seek other markets for Venezuela, especially in China and India. These statements signal the new direction that Chávez would like to take in order to reduce the country's dependence on the U.S. government and its vulnerability to a potential decision not to buy more Venezuelan oil. Still, experts agree that there are formidable technical and economic obstacles to the pursuit of that course, at least in the near term. There is a constant tradeoff between Chávez's political vision of 21st century socialism and the economic exchange with the United States that is essential to generate the resources needed to achieve this vision.

What is the Problem?

For the United States, the fact that Venezuela supplies a significant share of all U.S. oil imports is a fundamental reason why the increasingly deteriorating bilateral relationship poses a problem that should be addressed rather than ignored. Energy issues are and should be a central concern for Washington in dealing with Venezuela given the continuing, mutual dependence between the two countries.

But in light of Chávez's explicitly anti-U.S. rhetoric and actions, it would be surprising if he did not eventually seek to supplant the U.S. market, in an effort to protect Venezuela from any harsh, punitive action by Washington. Indeed, Chávez has already substantially increased oil exports to China while PDVSA has set up a Beijing office. Venezuela's oil exports to China grew tenfold from 2004 to 2006—from 12,300 barrels to 150,000—and they are expected to triple again in the next five years to 500,000 barrels—a quarter of the country's total oil exports. Chávez is moving aggressively to open up and expand other markets in an effort to shift away from the United States, end dependence on his main adversary, and extend his influence in Latin America and throughout the world.

Chávez's heretofore ample supply of petrodollars has enabled him to vigorously pursue his political project, not only in Venezuela, but across Latin America and globally as well. Of course, the increasingly autocratic tendencies of Chávez's rule should be cause for concern in Washington and throughout a region that has repeatedly committed itself to democratic norms and progress. The erosion of the rule of law and woefully deficient democratic and institutional safeguards in Venezuela could lead to greater restrictions of fundamental civil and political rights.

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The difficulties the United States faces in dealing with the Chávez administration are not limited to Venezuela. They directly influence Washington's agenda in Latin America as well as sensitive U.S. national interests across the world. On regional and global levels, Chávez's rhetoric and actions counter the priorities Washington is pursuing and, as a result, pose a serious challenge to the United States.

Latin American Agenda

Chávez has consistently sought to block progress or cooperation on several U.S. projects in Latin America. To illustrate, from the outset of his rule, Chávez has fiercely opposed U.S. plans to extend free trade throughout the Americas, particularly via the region-wide Free Trade Area of the Americas (FTAA). In July 2005, Chávez said such efforts "should be buried." He has called the FTAA a vehicle of U.S. "imperialism." He has depicted Washington's position on free trade as an attempt to impose U.S. economic and political control over more vulnerable Latin American economies. In his effort to construct and fortify a counterweight to U.S. influence in the region, Chávez proposed his own regional integration mechanism called the Bolivarian Alternative for the Americas (ALBA), which he claims is based on complementary trade and cooperation rather than free-market competition. So far, the only other ALBA members are Cuba, Bolivia and, most recently, Nicaragua.

In April 2006, Chávez said that he would leave the Andean Community of Nations (CAN) because two of its members—Colombia and Peru—had negotiated free trade agreements with Washington. For Chávez, this was an unacceptable deviation from his own vision for the region. Venezuela's membership in the Mercosur trade group of South America reflects an effort to advance his political agenda and extend his influence throughout the region. Chávez is seeking to transform the arrangement into a political organization, moving it substantially away from its original purpose. So far, Argentina, Paraguay, and Uruguay have been reluctant to admit Bolivia, a strong Venezuelan ally, into

Mercosur, partly because it would give Chávez greater say over the bloc's future. These countries do not share Chávez's socialist vision—Uruguay reached a trade and investment agreement with the United States in early 2007. Such differences set up a stalemate that threatens to further unravel and undermine one of the most important regional organizations in Latin America.

To pursue his Latin American strategy, Chávez is relying on close allies such as Bolivia, led by Evo Morales, to go along with him. In 2006, despite setbacks in Peru and Mexico, Chávez supporters won the presidencies of Nicaragua, where Sandinista Daniel Ortega returned to power, and Ecuador, where voters elected Rafael Correa, a political novice who has professed friendship with Chávez and echoed his anti-U.S., anti-globalization rhetoric. It is unclear to what extent both of these leaders will follow Chávez's lead, particularly in view of their own agendas and their stated desire to cooperate with the United States as well.

In the case of Bolivia, however, despite some differences with Venezuela and cooperation with the United States, the alliance with Chávez seems to have solidified over the first year of the Morales administration. In late 2006, Venezuela pledged to send troops and spend millions to help Bolivia build military bases on its borders, which raised particular concern in neighboring Chile and Peru. The Bolivian Congress has stalled the pact so far, but civil unrest, Venezuelan pledges to fight for the Morales regime in a crisis, and the arrival of several dozen uniformed Venezuelan soldiers have done nothing to lessen the apprehension of the Bolivian opposition or its neighbors.

To carry out his grandiose schemes, Chávez is also counting on the indulgence and acquiescence of other Latin American leaders such as Luis Inacio Lula da Silva in Brazil and Néstor Kirchner in Argentina. Most of his proposed projects for regional integration—including Petrosur, Petrocaribe, and the Pipeline of the South—essentially revolve around oil, but have explicitly political aims. Estimated costs and technical feasibility are serious concerns and raise doubts that they will eventually come to fruition. Still, Chávez is pledging to proceed with a variety of regional integration initiatives, and pragmatic Latin American

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The Venezuela relationship is now a central economic and geopolitical factor in the Cuba challenge that cannot be ignored.

governments are open to an infusion of resources and prepared to wait and see what actually results. Though it is still expanding, the Petrocaribe initiative, through which Venezuela distributes nearly 200,000 barrels of oil daily to various Caribbean nations, has helped Chávez consolidate alliances in the region.

The most symbolically powerful defiance of Washington by Chávez in the Western Hemisphere has to do with his warm friendship with Fidel Castro and economic support for his regime. Chávez's supply of some 100,000 barrels of oil every day has been a significant subsidy propping up the Cuban economy. In turn, Castro has provided Chávez with thousands of teachers, doctors, and, it has been widely reported, a variety of military intelligence and security advisors, who perform a range of political functions to bolster Chávez's rule.

The nature of the Venezuela-Cuba relationship in the post-Fidel era is uncertain and subject to a great deal of speculation, but it is reasonable to assume that economic assistance and mutual support will continue on the current course, though the level of aid may change. While Raúl Castro apparently does not have the same close relationship with Chávez that his brother does, he cannot afford to forgo the substantial aid Chávez provides. The United States should seek to help make whatever transition takes place in Cuba as peaceful and democratic as possible. The Venezuela relationship is now a central economic and geopolitical factor in the Cuba challenge that cannot be ignored.

By attempting to lead a realignment in the Americas, Chávez is disrupting a regional agenda based on democratic politics, market economics, and better relations with the United States. The good news is that most Latin American governments, though disappointed with the results of that agenda in their own experience and increasingly distrustful of the United States, reject such a radical and divisive approach to regional politics. This offers an opportunity for the United States to reengage constructively with the region on a variety of fronts—the social and governance agendas in particular—and compete with Chávez's fundamentally unworkable and unappealing recipes for social betterment.

Though there is frustration and dissatisfaction throughout Latin America, the prospect that Chávez will take the region back to the failed formulas of the past is remote. What is more worrisome for Latin America and the United States is the possibility that Chávez will pit countries against each other, hindering cooperation and progress in an already troubled region.

World Stage

From the outset of his rule, it has been clear that Venezuela is too small a stage for Chávez's ambitions and appetites. Increasingly, there is little question that even Latin America is too small a region for his huge, anti-U.S. agenda. For Washington, Chávez's combination of unmistakable global intentions and the resources to realize at least some of his aims is problematic and should be taken seriously.

To be sure, as a member of the Organization of Petroleum Exporting Countries (OPEC) Venezuela has long had a relationship with Middle East oil producers like Iran and Iraq. Under Chávez, those relationships have continued and intensified. In August 2000, in defiance of UN sanctions, Chávez visited Saddam Hussein in Iraq, along with Libya's Muammar el-Qaddafi. Today, however, Washington is more concerned with Chávez's deepening alliance with Iran's president Mahmoud Ahmadijad. In February 2006, Venezuela, Syria, and Cuba were the only three countries on the 35-member board of the UN's International Atomic Energy Agency (IAEA) to vote against reporting Iran's nuclear activity to the Security Council. In January 2007, Ahmadijad made his second visit to the region in five months to meet with Chávez in Venezuela, visit Ortega in Nicaragua, and attend Rafael Correa's inauguration in Ecuador.

The Chávez-Ahmadijad relationship is what drives Iran's role in Latin America, which is fundamentally geopolitical rather than economic. Both countries are major oil exporters with little commercial exchange. Chávez has likened his Bolivarian Revolution to the Iranian Revolution. Of course, there have been a variety of technical cooperation agreements signed, but these

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are eclipsed by the political signals. They tell the world that Iran, an international pariah, is welcome in Latin America, which is traditionally regarded as the strategic preserve or “backyard” of the United States. For Washington, which sees Iran as an adversary and worries about its role in Iraq and its nuclear program, the relationship with Venezuela and, by extension, other Latin American governments, should be of particular concern.

Beyond Iran, Chávez is also actively seeking to consolidate ties to other major powers and use his oil wealth to establish his credentials as a serious global player. Chávez is putting particular emphasis on his relationship with China in an attempt to divert the principal market for Venezuelan oil from the United States. President Hu Jintao has met with Chávez several times and is clearly interested in deepening the economic relationship. In addition, Chávez has sought to strengthen his relationship with Russia. Arms purchases of Kalashnikov rifles, Sukhoi fighter jets, and Russian military helicopters have been an important piece of Chávez's global strategy. He also has been pursuing closer ties with countries around the world that share his social agenda and anti-U.S. stance, including Belarus, Vietnam, Syria, Qatar, Benin, and Angola.

To date, Chávez's aggressive global diplomacy has yielded mixed results at best. Though he has spent over a year away from Venezuela on foreign trips since taking power and was able to line up support from Russia and China, Venezuela failed to secure a non-permanent seat on the UN Security Council in 2006. Just as in Latin America, most governments throughout the world welcome Chávez's oil and economic deals but remain uncomfortable with his confrontational and adversarial politics. Widespread opposition and criticism of U.S. global policies—in Iraq especially—do not necessarily translate into support for Chávez.

Still, it would be a mistake to underestimate Chávez's tenacity on the world stage or his impassioned determination to forge an anti-U.S. coalition, which is the coherent thread running through many of his frenetic foreign policy initiatives. He is a notably astute tactician, sophisticated in his understanding of global politics. He is plainly trying to take advantage of U.S. weakness and defensiveness, and ride what he sees as heartening political waves in Latin America and throughout the world. The risk that Chávez can continue to disrupt and complicate U.S. policies in a variety of sensitive areas of the world should not be dismissed.

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Concluding Thoughts

In light of the myriad global challenges facing the United States, it is tempting to view Venezuela under Chávez's rule either as a sideshow that should be ignored or as a threat that should be met with an aggressive reaction. In foreign policy discussions, there is often pressure to fit it in one of the two categories.

In reality, however, Venezuela is a *sui generis* policy challenge that should be treated on its own terms. With a lot of money and a clear agenda, Chávez has relentlessly opposed U.S. interests and values in Latin America and worldwide. Though his agenda is at sharp odds with the concerns of the vast majority of leaders, Chávez has upset U.S. priorities in Latin America, fueled disarray in the region, and fomented anti-U.S. sentiment across the world. To date, both passivity and direct confrontation from Washington have only tended to worsen matters and strengthen Chávez.

Against that backdrop, this report sets out a series of guidelines for U.S. policymakers—the executive and Congress—that seek to put U.S. policy towards Venezuela on a more productive and coherent course. The guidelines are designed to help the United States keep Chávez's more disruptive and divisive actions in check, while at the same time remain open to areas of cooperation with the Venezuelan government and society. Grounded in U.S. interests and values, the guidelines strive to be realistic and recognize the narrow range of policy levers and options available. They also take into account that resources and high-level attention will necessarily be limited in the near future, as the most senior officials will doubtless be distracted by other, more urgent foreign policy priorities—Iraq in particular.

Nonetheless, as outlined here, measures can and should be taken regarding Venezuela's Chávez-led government. That situation has developed into a policy challenge that, though unpredictable, could become even more serious in coming years. Moreover, while Chávez currently enjoys political support, buttressed by high growth rates and substantial social spending, the regime's vulnerabilities are also increasingly evident. In the end, it will be hard for Chávez to sustain his enormous global ambitions based on a governance model in which virtually all key decisions are made by a single individual, regardless of his seductive rhetoric and understandable appeal. In the meantime, Washington can and should do a much better job in dealing with such a crucial hemispheric challenge. A great deal is at stake.

While Chávez currently enjoys political support, buttressed by high growth rates and substantial social spending, the regime's vulnerabilities are also increasingly evident.



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