

# Executive Summary Backgrounder

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## What to Do about Hugo Chávez: Venezuela's Challenge to Security in the Americas

*Ray Walser, Ph.D.*

As the Obama Administration settles into the White House and reviews its foreign policy agenda, one significant topic likely to emerge early will be U.S. relations with Venezuela and its radical, anti-American president Hugo Chávez. Relations between the two countries deteriorated significantly when Chávez expelled the U.S. ambassador to Caracas without cause in September 2008. The press will try to make any Obama-Chávez encounter at the April 2009 Summit of the Americas in Trinidad a defining moment for the future of U.S.-Venezuela-Latin America relations.

The recent orderly transition from a Republican to a Democratic White House contrasts with the polarizing political battle underway in Venezuela over perpetuating Chávez's ability to remain in office. A new constitutional referendum, the second in less than two years, took place on February 15. Its passage will allow Chávez to run for additional six-year terms in 2012 and beyond, giving him the time he says he needs to consolidate his Bolivarian Revolution. It is increasingly apparent that President Chávez equates popular democracy in Venezuela with personal immobility in executive power.

During the electoral campaign and in the run-up to his January 20 inauguration, President Obama expressed interest in improving relations with Venezuela. Nonetheless, Obama had also signaled continued concern about Chávez's assault on liberal democracy and his support for non-state actors, such as the narco-terrorists of the Revolutionary

Armed Forces of Colombia (FARC). The Obama Administration, like its predecessor, also recognizes the potentially damaging economic and strategic consequences of U.S. dependency on imported oil from Venezuela, a challenge somewhat lessened by the current drop in oil prices.

Chávez generously used Venezuela's oil revenue to maintain popular support and subsidize a range of clients that include totalitarian Cuba, faction-torn Bolivia, and an increasingly polarized Nicaragua. Using the Bolivarian Alternative for the Americas (ALBA) and an oil facility, Petrocaribe, he broadened economic and political ties with much of the Caribbean and Central America. Argentina, battling chronic economic instability under Nestor Kirchner and Cristina Fernandez de Kirchner, remained a privileged friend of Chávez and a ready recipient of Venezuelan financial largess.

Throughout 2008, President Chávez moved aggressively to strengthen ties with Iran, Russia, and China as he undertook to build a broader, anti-American global coalition. Expanded Venezuela-

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Iran ties included regular air service between Caracas and Tehran and increased Iranian investment in Venezuela. Iranian actions drew closer U.S. scrutiny leading to measures against sanction-dodging financial agencies of the Iranian regime located in Caracas. Chávez's recent efforts to offer support to the radical Islamist Hamas regime in Gaza and his expulsion of Israel's ambassador to Caracas are indicators of a tilt in favor of Islamist extremism. Likewise, Chávez's support for Russia during the Georgia crisis, substantial purchases of Russian arms, a highly publicized visit to the Caribbean by Russian warships, and the November 2008 visit of Russian President Medvedev to Caracas highlighted a year of deepening Russian–Venezuelan ties. China has emerged as a major commercial partner, and Chávez is banking in the long run on selling his oil to China rather than to the U.S.

While many are quick to proclaim the demise of the Monroe Doctrine, the U.S. naturally recoils from continued loss of influence and leverage in the Western Hemisphere. A realistic U.S. policy toward Venezuela will also contain an adequate plan for addressing U.S. energy dependence, since President Chávez treats his nation's oil resources as a pressure tool and economic weapon.

Elements of a sound and comprehensive Venezuela policy for the next four years make it incumbent on the Obama Administration to:

- Develop a strategy for addressing Andean security concerns raised by Chávez and Venezuela.
- Assign a high priority to acquiring and reviewing intelligence on terror, money-laundering, and drug-trafficking in Venezuela, being especially

vigilant of any evidence of Venezuela's ties to FARC, Hezbollah, and Hamas.

- Increase support for elements of Venezuelan civil society that support the rule of law, pluralism, media freedom, and respect for human rights.
- Not seek *agrément* for a new ambassador to Venezuela until it is confident that Chávez is ready to address key security concerns, for example, renewed action to prevent drug trafficking (including cooperation with the U.S. Drug Enforcement Administration), an end to all support for FARC, resumption of cooperation on anti-terrorism measures, and an end to virulent anti-Americanism.
- Consider, if Chávez refuses to cooperate, 1) stepping up targeted sanctions against individual government officials and unofficial agents of the Venezuelan government, 2) sanctioning Venezuelan institutions, including banks and, potentially, the national oil company, and 3) adding Venezuela to the list of state sponsors of terrorism.
- Develop a comprehensive contingency plan for a possible disruption in oil supply from Venezuela.
- Work directly with friends, paying special attention to Colombia and Peru, particularly passing the Colombia Free Trade Agreement in order to strengthen a firm democratic counterpoint to the Chávez–ALBA alliance.

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# Background

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*Ray Walser, Ph.D.*

As the Obama Administration settles into the White House and reviews its foreign policy agenda, one significant topic likely to emerge early will be U.S. relations with Venezuela and its radical, anti-American president Hugo Chávez. The orderly transition from a Republican to a Democratic Administration in the U.S. in January 2009 contrasts with the polarizing battle underway in Venezuela over perpetuating Chávez's stay in office. A new constitutional referendum took place on February 15. Its passage will allow Chávez to run for additional six-year terms in 2012 and beyond, giving him the time he says he needs to consolidate his Bolivarian Revolution. The referendum raises the specter of further restrictions on individual freedoms and the consolidation of authoritarian rule in Venezuela.

During the electoral campaign and in the run-up to his January 20 inauguration, President Barack Obama expressed interest in improving relations with Venezuela. Nonetheless, President-elect Obama had also signaled concern about Chávez's political and economic role in the region and over Chávez's support for the narco-terrorists of the Revolutionary Armed Forces of Colombia (FARC).

These comments provoked an angry firestorm from Chávez who charged the President-elect with meddling in Venezuelan politics, and launched into a fresh diatribe against what he called the U.S.'s effort to dominate Latin America and undermine his regime.<sup>1</sup> It was a blast reminiscent of Chávez's anti-American tirade when he expelled the U.S. ambassador to Venezuela

### Talking Points

- One significant foreign policy issue likely to emerge early for the Obama Administration is U.S. relations with Venezuela and its radical, anti-American president Hugo Chávez.
- Chávez is far too friendly with Colombia's FARC narco-terrorists—over which President Obama has rightly expressed concern.
- Chávez has been consistently hostile to the U.S.—expelling America's ambassador, ending cooperation on anti-drug-trafficking measures, hurling crude, aggressive, and paranoid accusations. Therefore, absent a firm commitment for constructive and verifiable cooperation by Chávez, the White House should not renew ambassadorial relations.
- Oil Matters: Venezuela recently surpassed Mexico as the third-largest supplier of crude oil to the U.S.—after Canada and Saudi Arabia. Chávez has already demonstrated his willingness to use oil as a tool against America.
- Under Hugo Chávez, Venezuela poses the most significant, multifaceted, state-based diplomatic and security challenge to U.S. interests in the Western Hemisphere.

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last September 11.<sup>2</sup> Chávez's behavior also highlights the substantial challenge the U.S. and the Obama Administration face when dealing with a Latin American leader who has staked his international and domestic policy on hostile relations with the U.S. and on the construction of an alliance aimed at undermining U.S. influence in the Western Hemisphere.

This analysis focuses primarily on President Chávez's actions as an international actor and on Venezuela's increasingly antagonistic international role. This paper argues that coherent and prudent U.S. policy will attend first to key U.S. national and security interests in Latin America that include curbing drug trafficking, defending against potential threats of international terrorism, helping friends and allies, and preventing the formation of a global anti-U.S. coalition aimed at weakening American security.

While many experts proclaim the demise of the Monroe Doctrine and consider "spheres of influence" to be an obsolete geopolitical concept, the U.S. naturally recoils from continued loss of influence and leverage in the region. Washington should continue to view extra-hemispheric security challenges from hostile regimes or forces as matters of national concern. A sound policy for Venezuela will also contain an adequate plan for addressing U.S. energy dependence since President Chávez treats his nation's oil resources as a pressure tool and economic weapon.

The Obama Administration should refrain from dispatching a new ambassador to Caracas until it can assure the American people that it has developed an effective strategy for tackling the challenges outlined above. Absent a firm commitment for constructive and verifiable cooperation by President Chávez, the White House should refrain from renewing ambassadorial relations.

It should also consider a range of measures that include rigorous monitoring of Venezuelan banks and companies, including the national oil company, for potential acts of corruption, money laundering, or fronting to help others evade international sanctions, and additional Treasury sanctions against key Venezuelan officials guilty of criminal acts. The Administration must also step up cooperation with key regional friends, such as Brazil, Colombia, and Peru, to provide a balance for Venezuela's destabilizing activities. Finally, the Administration should prepare a contingency plan for measures to be taken if Venezuela cuts off oil supply to the U.S.

### Clashing with Hugo Chávez

Undoubtedly, Hugo Chávez will remain a polarizing figure in the years ahead. Many opinion makers, academics, and presumptive Latin American experts blame the U.S. for the friction with Chávez. They portray Chávez as a harbinger of hope, an inspiration for Latin America's poor, and a member of what one true believer dubbed the "axis of hope."<sup>3</sup> They argue that current U.S. difficulties with Venezuela and Latin America result from bad U.S. global and regional policies: the war in Iraq, "neo-liberalism," hegemonic arrogance, failed drug-trafficking policies, interventionism, unrestrained free trade, rapacious consumerism—the list is endless.

They blame free trade, markets, and rampant globalization for poverty and inequality and accuse Washington of misconstruing Chávez's allegedly noble efforts to empower the poor and powerless and bring about genuine social improvements.<sup>4</sup> They blame the clash with Chávez on the Bush Administration and a handful of meddling neo-conservatives bent on regime change. They hope the Obama Administration will make a 180 degree turn from the past.<sup>5</sup>

1. Juan Forero, "Obama and Chávez Start Sparring Early," *The Washington Post*, January 19, 2009, p. A15, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/01/18/AR2009011802325.html> (February 3, 2009).
2. Rory Carroll, "Venezuela: Hugo Chávez Expels U.S. Ambassador Amid Claims of Coup Plot," *The Guardian*, September 12, 2008, at <http://www.guardian.co.uk/world/2008/sep/12/venezuela.usa> (February 3, 2009). Chávez promised in his best unilateral fashion, "when there is a new government in the United States, we'll send a new ambassador."
3. Tariq Ali, *Pirates of the Caribbean: The Axis of Hope* (London: Verso, 2006).

Fortunately, the majority of Americans are not so easily deceived. Americans instinctively disapprove of Chávez's concentration of power, the absence of checks on executive authority, and his quest for indefinite power. They oppose curtailments of freedom and individual rights either by regulation or intimidation. They are offended by his aggressive insults and slurs against American leaders. Moreover, they worry about Chávez's cozy relations with Iran and Russia, ties to FARC, and covert efforts to radicalize and destabilize Latin American democracies. Americans distrust a leader whose objective is to drive up the price of oil and who routinely threatens to cut off sales to the U.S.

### An Oversized Personality

Determining a sound policy for dealing with the Chávez challenge requires a general assessment of Chávez's character, his attitudes, and worldview. Chávez is no ordinary Latin American political leader. He is charismatic, committed, dynamic, intemperate, impulsive, militaristic, and shameless. While at times humorous and engaging, he is often embarrassingly crude and insulting.<sup>6</sup>

Born in July 1954, Hugo Chávez Frías attended Venezuela's military academy and served as a tank-division soldier and paratroop officer, rising to the

rank of lieutenant colonel. In February 1992, Chávez participated in a failed military coup, which resulted in the deaths of 14 Venezuelan soldiers. Imprisoned for two years, Chávez received a presidential pardon in 1994 from Rafael Caldera. In 1998, Chávez launched a political campaign as a relatively unknown third-party candidate and swept the elections with 56 percent of the vote.

Having ousted the reigning two-party system, Chávez oversaw the drafting of a new constitution to broaden executive power. He survived a brief opposition attempt to oust him in April 2002, a coup he erroneously claims had full U.S. backing. This coup was followed by a prolonged strike by the national oil company (PdVSA) and by a recall referendum in 2004, which Chávez won handily. Chávez was re-elected president in December 2006 with 63 percent of the vote, but suffered a setback to his ambitions when his attempt to alter the constitution to become re-electable for life failed in December 2007.

Chávez thrives on confrontation and conflict. In the opinion of veteran *Miami Herald* journalist Andrés Oppenheimer, he represents a brand of narcissistic Leninism that inflates his ego to enormous proportions.<sup>7</sup> Enrique Krauze, a prominent Mexican historian, recently concluded in a new

4. "Open Letter to Senator Barack Obama from a Group of Scholars Specializing in Latin America," October 20, 2008, at <http://www.aaanet.org/issues/policy-advocacy/upload/OpenLetterToSenatorObamaWithSignatures.pdf> (February 4, 2009). While Chávez has spent lavishly on social programs and has helped to improve conditions for millions of Venezuelans and manages to obtain continued high approvals, few have been able to express genuine confidence in the sustainability of his socialist policies or to reconcile social betterment with a loss of democratic governance. The cost-benefit analysis of Chavez's socialist strategy is an unanswered question. There is little doubt that Cuban Communism raised the living standards for many Cubans over those of the Batista era, but at what human costs?
5. There is a clear tension between the social-justice liberals and human-rights liberals. Chávez's social-justice defenders post statements frequently on the pro-Chávez Web site, [Venezuelanalysis.com](http://www.venezuelanalysis.com). They were in the forefront of defense against accusations of human-rights violations of the Chávez regime by generally liberal critics, such as the New York-based Human Rights Watch. See, for example, "More than 100 Latin America Experts Question Human Rights Watch Venezuela Report," December 17, 2008, at <http://www.venezuelanalysis.com/analysis/4051> (February 10, 2009). Human Rights Watch personnel were expelled precipitously from Venezuela following the issuance of "A Decade Under Chavez: Political Intolerance and Lost Opportunities for Advancing Human Rights in Venezuela," September 18, 2008, at <http://www.hrw.org/en/reports/2008/09/18/decade-under-ch-vez> (February 10, 2009). The last expulsion of the Human Rights Watch representatives drew a condemnation by the European Parliament, but not by the U.S. Congress.
6. A PBS program titled "The Hugo Chávez Show" aired on November 25, 2008. It is a solid and balanced presentation and focuses on Chávez's modern, media-driven style of governance. It is available at <http://www.pbs.org/wgbh/pages/frontline/hugochavez> (February 10, 2009). Also, a good overview on Chávez is Andrés Oppenheimer, *Saving the Americas: The Dangerous Decline of Latin America and What the U.S. Must Do* (Mexico City: Random House Mondadori, 2007).
7. Oppenheimer, *Saving the Americas*, pp. 247–294.

study that Chávez has a deep-rooted need for the “personification” of power and that Venezuela currently suffers from a politically unhealthy “cult of personality.”<sup>8</sup>

Unlike most Latin American leaders, Chávez is not content to govern within the confines of a single nation. Former Brazilian president Henrique Cardoso observed that Chávez is driven by a deep sense of ideological fervor and missionary zeal. Latin American intellectuals have interpreted Chávez in the light of past strongmen or *caudillos*, calling him a “Péron with Petroleum” or “Tropical Mussolini.” Latin American critics, such as Krauze or Peruvian writers Mario and Alvaro Vargas Llosa, former Mexican foreign minister Jorge Castañeda, author Carlos Fuentes, and Venezuela’s Moises Naim, editor of the American journal *Foreign Policy*, speak their minds freely and accurately about Chávez’s anti-democratic mindset and the threat he poses to democracy in Latin America.<sup>9</sup>

Three manifestations of his combative personality will fuel future tensions:

**A Compulsion to Fight the “Oppressor.”** Chávez’s Latin America is shaped by a deep, ongoing Marxian-like struggle between haves and have-nots, between oppressors and victims. In Chávez’s mind, Latin America is a prisoner held in subjugation by external powers and their internal allies and agents who write the economic rules and dispense political power.

For Chávez, history is confrontation, collision, and struggle against empires that began with the European arrival in the Americas. It is a classic representation of what the Venezuelan political analyst Carlos Rangel called the evolution from “the good savage to the good revolutionary.”<sup>10</sup>

Chávez claims he does not hate the U.S., only its past interventions in Latin America, its capitalism, its imperialism, and, of course, its elected leadership.<sup>11</sup> Yet, the U.S. he envisions is one significantly shorn of global power and international influence. Visceral anti-Americanism lies at the core of much of Chávez’s thinking and rhetoric. It is the critical unifier that draws popular support and international connections. Chávez, moreover, is taking deliberate steps to make Caracas a mecca for anti-American pilgrims, a center for “crystallizing forces in opposition to the empire.”<sup>12</sup>

**A Penchant for Political Violence.** While Chávez rose to office by the use of the ballot box, he is verbally and ideologically inclined to political violence. Many of his idols—from Mao to Che—were responsible for revolutionary carnage and the deaths of thousands, if not millions. As a soldier, Chávez participated in a military coup that shed blood, and views force as integral to political action.<sup>13</sup> The militarization of the state and use of military power is an essential tool for attaining and preserving political power. Power, he claims, once attained must never be returned

8. Enrique Krauze, *El Poder y el Delirio*, (Mexico City: Tusquets Editores, 2008).

9. A few examples of Chávez’s Latin American critics: Alvaro Vargas Llosa has drawn a distinction between the carnivorous Left and the vegetarian Left in “Beware the Carnivores,” *The Washington Post*, August 6, 2006, at <http://www.washingtonpost.com/wp-dyn/content/article/2006/08/04/AR2006080401760.html> (February 10, 2009); Mexican novelist Carlos Fuentes refers to Chávez as a “tropical Mussolini” in “Chavez es un Mussolini del Trópico,” December 1, 2008, at <http://www.mdzol.com/mdz/nota/87485-Fuentes-Ch%C3%A1vez-es-un-Mussolini-del-tr%C3%B3pico/> (February 10, 2009); and Mexican historian Enrique Krauze called him the “the son of Fidel” in his recent book *El Poder y el Delirio*. See also Mario Vargas Llosa, “El Poder y el Delirio,” *El País*, December 14, 2008, in Spanish, at [http://www.elpais.com/articulo/opinion/poder/delirio/elpepiopi/20081214elpepiopi\\_13/Tes](http://www.elpais.com/articulo/opinion/poder/delirio/elpepiopi/20081214elpepiopi_13/Tes) (February 10, 2009).

10. Carlos Rangel, *The Latin Americans: Their Love Hate Relationship with the United States* (New York: Harcourt Brace Jovanovich, 1977).

11. Most famous was Chávez’s U.N. speech in September 2006, but other comments by Chávez include calling President Bush a “genocidal assassin” and “I think Hitler could be a nursery baby next to George W. Bush.”

12. Simon Romero, “Venezuela Positions Itself as a Salon for the Left,” *The New York Times*, November 10, 2008, <http://www.nytimes.com/2008/11/11/world/americas/11venez.html?ref=world> (February 3, 2009).

13. Three current Latin American leaders have engaged in military–revolutionary operations—Raul Castro, Nicaragua’s Daniel Ortega, and Hugo Chávez. They are all exponents of the extreme anti-American Left.

to the privileged, even if it requires sending tanks to crush the opposition.

Chávez walks a thin line between flirting with and advocating political violence as a means for political change. Continued efforts to scapegoat the U.S. and attack anyone allegedly associated with the U.S. can, observes historian Alan McPherson, “turn from criticism [of the U.S.] to distrust to outright hatred [and violence] in the blink of an eye...”<sup>14</sup>

**A Desire to Don Fidel Castro’s Mantle.** As an ailing Fidel Castro clings to life, 54-year-old Hugo Chávez stands ready to assume his place as the leader of Latin America’s radical Left. When asked recently what differentiates him from Castro, Chávez replied, “Fidel is a communist. I am not. I am a social democrat. Fidel is a Marxist–Leninist. Fidel is an atheist. I am not.”<sup>15</sup> Indeed, while Chávez has adopted a far looser variety of economic policies and has yet to come near Cuba’s totalitarian controls over society, he zealously pursues an aggressive internationalist strategy similar to that of Fidel. Upon Fidel Castro’s death he may likely feel the need to radicalize his behavior, certainly eclipsing Raul Castro, to become the lodestar for the revolutionary Left in Latin America.

President Chávez is a catalytic leader who hopes to write a new chapter for the Western Hemisphere, one that equalizes the two halves of the hemisphere. Aside from oil, energy for his brand of “revolution” is derived from nationalism, cultural resentment, ethnic and social exclusion, poverty, and a sense of victimization. Historically, the U.S. faces significant difficulties in its relations with charismatic leaders able to concentrate power and cast themselves as a revolutionary antithesis to the U.S. Chávez is no exception.

### Chávez’s Three Levels of Strategy

Chávez aims to exercise power at three levels: national, Latin America and the Caribbean, and global.

**1) The National Level: The Bolivarian Republic of Venezuela.** Chávez places himself squarely at the center of Venezuela’s political, economic, and social transition from a two-party democracy to a one-party people’s democracy and from a market-based economy to one that is socialistic and state-dominated. Chávez has reshaped the nation’s political landscape, routed the once-powerful opposition, and concentrated political power in an effort to impose a vertical, top-down system of political authority.

His new political party, the United Socialist Party of Venezuela (PSUV), exercises nearly complete dominance over the unicameral legislature, while judicial independence scarcely exists in Venezuela. Ninety percent of cabinet ministers are or were military officers. In general, an increasingly militarized Venezuela reinforces Chávez’s capacity for control, binds the allegiance of the armed forces to his political agenda, and builds a power base able to defeat possible counter-currents of domestic resistance.

Under Chávez’s direction, Venezuela’s oil-dominated economy continues moving toward a socialism of the 21st century, a hybrid between socialism and mercantilism, or a form of state capitalism.<sup>16</sup> Substantial sectors of the productive economy are being nationalized. Land “reform,” collectives, and other communal economic ventures are supposed to power an agrarian transformation. The private sector is subjected to threats of confiscation, nationalization, and excessive government regulation.

On November 30, 2008, Chávez issued an order to the PSUV and the Venezuelan people to begin laying the legislative groundwork that would allow him to alter the constitution to enable him to remain in power to 2019 or 2021.<sup>17</sup> On February 15, 2009, a referendum to allow Chávez to run in 2012 passed with 54 percent of the vote. In general,

14. Alan McPherson, “The Return of Violent Anti-Americanism in Latin America,” History News Network, October 20, 2008, at <http://hnn.us/articles/55756.html> (February 3, 2009).

15. Sean Penn, “Conversations with Chávez and Castro,” *The Nation*, November 25, 2008, <http://www.thenation.com/doc/20081215/penn> (February 3, 2009).

16. Gregory Wilpert, “The Meaning of 21st Century Socialism for Venezuela,” *Venezuelanalysis.com*, July 11, 2006, at <http://www.venezuelanalysis.com/analysis/1834> (February 10, 2009).

the Chávez project calls for the creation of a socialist economy and a monolithic political system that nurtures a new generation of politically indoctrinated loyalists and clients while tightening the noose of control and restriction around traditional mainstays of pluralism in Venezuelan society: multiple political parties, the Catholic Church, independent unions, student movements, civil society, and a free media.<sup>18</sup>

**2) The Latin American and Caribbean Level: Glorious Unity.** The second tier of Chávez's ambitions centers on what Argentinean writer Tomás Eloy Martínez calls "the utopian dream of Latin American political unity" advocated by the liberator Simon Bolívar and other 19th-century visionaries.<sup>19</sup> In flights of political fantasy, Chávez imagines a resurrection of "Gran Colombia."<sup>20</sup> He also envisions economic and eventual political integration of Latin America and its development as an independent counterweight to the U.S.

Chávez views race and ethnic and class identity as critical tools in the struggle for continent-wide influence. He accentuates polarization throughout the continent between the traditional "haves," notably the Europeanized elites, and the historic "have nots," from the generally less privileged but numerous *mestizo* to the largely excluded indigenous and Afro-Latin Americans. He holds out a promise of transfers of wealth and political power from the elite to the masses.

Chávez recognizes he cannot entirely dictate the regional agenda for Latin America. He must, there-

fore, remain sufficiently flexible to support projects such as the recently created Union of South American States (UNASUR). He must also adjust economic and trade policies sufficiently to preserve membership in South America's common market, MERCOSUR. Chávez also stakes his reputation for leadership on an ability to either finance or promise large-scale infrastructure, such as pipelines, refineries, and trade and market integration schemes.<sup>21</sup> In exchange, Chávez hopes others will join him in opposition to U.S. policies and influence. Chávez works hard to win support for organizations, such as the Rio Group and the Organization of American States (OAS).

**3) The Global Level: The World According to Chavez.** Unlike other Latin America leaders who are largely content to govern within the political and economic confines of their nations, Chávez aspires to a broader, international role. A relentless world traveler, Chávez roams the planet searching for platforms and venues through which to cultivate new friends, attack U.S. "imperialism," and lay the foundation for an alternative international order, reminiscent of the 1960s and 1970s Third World demand for a new international order. From the rise of radical Islam to the crisis in the international financial system and the return of great-power competitors to the U.S. like China and Russia, Chávez applauds and encourages a changing "correlation of forces" and shifts in the distribution of international power favorable to his views and particular interests.

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17. Simon Romero, "Chavez Again Seeks to End Term Limits," *The New York Times*, November 30, 2008, at [http://www.nytimes.com/2008/12/01/world/americas/01venez.html?\\_r=1&scp=1&sq=chavez%20ends%20term%20limits&st=cse](http://www.nytimes.com/2008/12/01/world/americas/01venez.html?_r=1&scp=1&sq=chavez%20ends%20term%20limits&st=cse) (February 3, 2009).
18. Growing reports on the assault on democracy and individual rights in Venezuela come not from the Bush Administration, but from organizations such as Human Rights Watch, the International Crisis Group, and Freedom House. For a scholarly study, also see Jennifer L. McCoy and David J. Myers (eds.), *The Unraveling of Representative Democracy in Venezuela* (Baltimore: The Johns Hopkins University Press, 2004).
19. Tomás Eloy Martínez, "La Ilusión de Ser Bolívar," *La Nación*, March 7, 2008. See also James M. Roberts, "If the Real Simon Bolívar Met Hugo Chávez, He'd See Red," Heritage Foundation *Backgrounder* No. 2062, August 20, 2007, at <http://www.heritage.org/Research/LatinAmerica/bg2062.cfm>.
20. Ray Walser, "Hugo Chávez Eyes Colombia," Heritage Foundation *WebMemo* No. 1784, January 28, 2008, at [http://www.heritage.org/research/latinamerica/upload/wm\\_1784.pdf](http://www.heritage.org/research/latinamerica/upload/wm_1784.pdf).
21. Kelly Hearn, "World's Largest Gas Pipeline Proposed to Run Through Amazon," National Geographic News, January 4, 2007, at <http://news.nationalgeographic.com/news/2007/01/070104-gas-pipeline.html> (February 3, 2009).



## The Power of Petroleum: Tool and Weapon

U.S. policymakers would undoubtedly pay less attention to Chávez and Venezuela were it not for its giant reserves of oil and gas. It is estimated that Venezuela possesses the seventh-largest amount of oil reserves. It is currently the world's eighth-largest producer of crude oil. Oil exports account for as much as 94 percent of Venezuelan export earnings and 50 percent of its government revenue. Just recently Venezuela surpassed Mexico as the third-largest supplier of crude oil imported to the U.S.—after Canada and Saudi Arabia. (The U.S. imported 1,162,000 barrels a day from Venezuela in October 2008.) Oil revenues allowed Chávez to increase social spending by 314 percent in one decade in power. For Chávez, oil is a tool for an aggressive foreign policy and a potential weapon against the U.S.

Chávez uses Venezuela's oil wealth to sustain his domestic popularity, provide subsidies to the poor, and as the source of generous international assistance and influence. Chávez began providing oil assistance to Cuba in 2000. In June 2005, he launched Petrocaribe to offer discounted oil to an expanding list of member nations. Currently, 19 Caribbean and Central American nations benefit from Petrocaribe. Members consume about 300,000 barrels per day, roughly 10 percent of Venezuela's daily output on concessionary terms. While payment terms vary according to rises and falls in the price of oil, the standard Petrocaribe mechanism requires payments of 40 to 50 percent in the first 90 days, and the balance over 20 years at 1 percent interest.

The political strings associated with Petrocaribe are unclear, but Chávez certainly seems to believe that membership and receipt of Venezuela's assistance will translate into favorable influence abroad and in regional bodies like the OAS. Chávez has also used special arrangements to send petroleum and other aid to assist Daniel

Ortega and the Sandinistas in Nicaragua and the Farabundo Marti National Liberation Front (FMLN) in El Salvador.<sup>22</sup> He even sends heating oil to poor Americans.

Within OPEC, Chávez acts as a price hawk pushing for higher prices at the pump. At the annual OPEC meeting in 2007, he pushed for the oil cartel "to become a stronger player in the geopolitical domains," calling on it to assume an active role in battling poverty and assisting development. In short, pressing OPEC to act as a tool for the global redistribution of wealth and the establishment of a new international economic order. When OPEC met in December 2008, Chávez pressed for a throttling back of OPEC production and for higher prices of between \$70 and \$80 per barrel in order to advance Venezuela's socialist development.<sup>23</sup>

On repeated occasions, Chávez has absurdly denounced the U.S. for either plotting to overthrow him and invade Venezuela, or for meddling in the domestic economy. At each turn, Chávez has relished playing the role of alarmist, repeatedly threatening to cut off oil to the U.S. He has also made it clear that he intends to redirect Venezuelan oil that generally is sold to the U.S. to new clients with more compatible political views such as China and Vietnam.

A rush to punish the U.S. might result in economic suicide for Chávez. While oil is a fungible commodity, the nature of Venezuela's product—heavy sour crude—requires specialized and costly refining in nine refineries either in the U.S. or in the Caribbean, which are primarily structured to serve the U.S. market. Cutting off sales to the U.S. could thus prove disruptive to American oil supply, but would likely have disastrous economic consequences for Venezuela as well.<sup>24</sup> The logic of the current situation is that the U.S. should undertake a concerted effort to wean itself from its reliance on oil from Venezuela, doing so at a pace that outstrips Chavez's capacity to find the new

22. Mary O'Grady, "Hugo Chávez Spreads the Loot," *The Wall Street Journal*, November 10, 2008, at [http://online.wsj.com/article/SB122628351346312589.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB122628351346312589.html?mod=googlenews_wsj) (February 3, 2009).

23. Frank Jack Daniel, "Big Spender Venezuela's Chávez Shrugs Off Cheaper Oil," Reuters, November 4, 2008.

24. Report to the Chairman, Committee on Foreign Relations, U.S. Senate, "Issues Related to Potential Reductions in Venezuelan Oil Production," June 2006, at <http://www.gao.gov/new.items/d06668.pdf> (February 10, 2009).

clients he claims will make the enormous investments in exploration, shipping, and refining to meet his long-term goals.

**PdVSA: Corruption's Energy Giant?** The fortunes of Venezuela hinge on the success of the national oil company Petroleos de Venezuela, S.A. (PdVSA). PdVSA generates revenue in excess of \$100 billion annually. Its ability to develop Venezuela's precious oil efficiently and honestly is critical to the lives of all Venezuelans. Yet, according to most experts familiar with the company, PdVSA is an increasingly opaque entity, a combination black box and an automated teller machine for the Chávez regime.

The mystery begins with accounting and production figures. Many experts believe that in recent years, despite touted investments, production has declined. PdVSA produces, it claims, 3.2 million barrels of oil per day, although experts believe this figure is exaggerated by as much as 0.5 million barrels per day. Management of PdVSA is reportedly disorganized, with frequent changes in ministers and with politicization of the industry to advance Chávez's political agenda.<sup>25</sup> PdVSA resources are used to pay for nationalization of the non-energy sector and to fund a broad array of social programs. Venezuelan oil is, as noted above, freely used to assist friends with subsidized sales or for barter-like agreements with Cuba.

With transparency and accountability continuing to decline in Venezuela, PdVSA increasingly appears to be a vehicle for corrupt practice. In November 2008, a Miami federal jury convicted Venezuelan citizen Franklin Duran of acting as an unregistered for-

eign agent after he accepted a mission to enter the U.S. and offered to pay a certain Guido Antonini Wilson for his silence. This was the same Antonini Wilson who was arrested in Buenos Aires in August 2007 carrying a suitcase filled with \$800,000 in cash after landing in an aircraft owned by PdVSA.

The money, the prosecutors contended, was intended for the campaign of Christina Fernandez de Kirchner, who was then running for president of Argentina. Witnesses at Duran's trial claimed that Venezuelans acting on behalf of the Chávez government were passing as much as \$5 million in cash to the Kirchner campaign. They also stated that Chávez had ordered Venezuela's intelligence chief Henry Rangel Silva to silence Antonini Wilson with bribes.<sup>26</sup> The lengthy trial provided a disturbing look at corruption within Venezuela and left unclear the role of PdVSA assets in the operation.<sup>27</sup>

While unfamiliar names in the U.S., Ricardo Fernandez Barruecos, a Colombian-Venezuelan rags-to-riches beneficiary of the largesse of the Chávez regime, or Walter Alexander del Nogal, a pardoned murderer and high-flying Venezuelan who fled Argentina at the time the Antonini Wilson "suitcase" case broke in Argentina in 2007, constitute what is referred to as the new "Bolivarian bourgeoisie," or *boliburguesia*, an unsavory crowd infatuated with expensive cars, high-priced real estate, and lavish life styles.<sup>28</sup> The range of credible allegations regarding these and other prominent individuals range from illegal enrichment and corruption to money-laundering and narcotics-trafficking.<sup>29</sup> Given the protective smoke-

25. A bleak but forcefully argued assessment of PdVSA is provided by Dr. Norman A. Bailey in his "Testimony Before the Western Hemisphere Subcommittee of the Foreign Affairs Committee, U.S. House of Representatives," July 17, 2008, at <http://foreignaffairs.house.gov/110/bai071708.pdf> (February 3, 2009). Also of continued value is Gustavo Coronel, "Corruption, Mismanagement, and Abuse of Power in Hugo Chávez's Venezuela," The CATO Institute, November 27, 2006, at <http://www.cato.org/pubs/dpa/dpa2.pdf> (February 3, 2009).

26. Curt Anderson, "Conviction in Cash-Suitcase Case," *The Washington Post*, November 4, 2008, p. A13, at <http://www.washingtonpost.com/wp-dyn/content/article/2008/11/03/AR2008110303235.html> (February 3, 2009).

27. Gerardo Reyes, "Suitcase Trial Cast Light on Venezuelan Corruption," *The Miami Herald*, November 9, 2008, at <http://www.miamiherald.com/news/world/latin-america-and-caribbean-politics/story/763313.html> (February 3, 2009).

28. David Adams, "Politically Connected Venezuelans Live High Life," *St. Petersburg Times*, December 17, 2007, at [http://www.sptimes.com/2007/12/17/State/Politically\\_connected.shtml](http://www.sptimes.com/2007/12/17/State/Politically_connected.shtml) (February 3, 2009).

29. "Se Descubre la Línea del Narcotráfico," *Nuevo Encuentro*, August 15, 2007, in Spanish, at <http://www.nuevoencuentro.com/modules.php?name=News&file=print&sid=2239> (February 3, 2009).

screen provided by the Chávez regime and a lack of independent investigative agencies, men like Fernandez Barruecos and del Noyal, only serve to raise suspicions about presumably legitimate businesses in Venezuela. The equivalent of modern-day buccaneers, they are attracted to PdVSA's hidden treasure.<sup>30</sup>

Earlier in 2008, files from a laptop computer belonging to FARC guerrilla leader Raul Reyes con-

tained a cryptic discussion of a Venezuelan offer to provide FARC with oil that could then be sold to support military operations.

The Duran case, the activities of Fernandez Barruecos or del Noyal, and evidence from a dead guerrilla's computer were quickly dismissed by Chávez as fabrications. Yet for others, they may represent the tip of a dangerous, undirected iceberg. It is plausible that the top management of

## Chávez's Global Connections

Unlike many Latin American leaders, Venezuelan president Hugo Chávez is looking beyond his borders in an attempt to gain influence. Chávez is seeking alliances across the globe that will provide a counterweight to what he perceives as American imperialism.

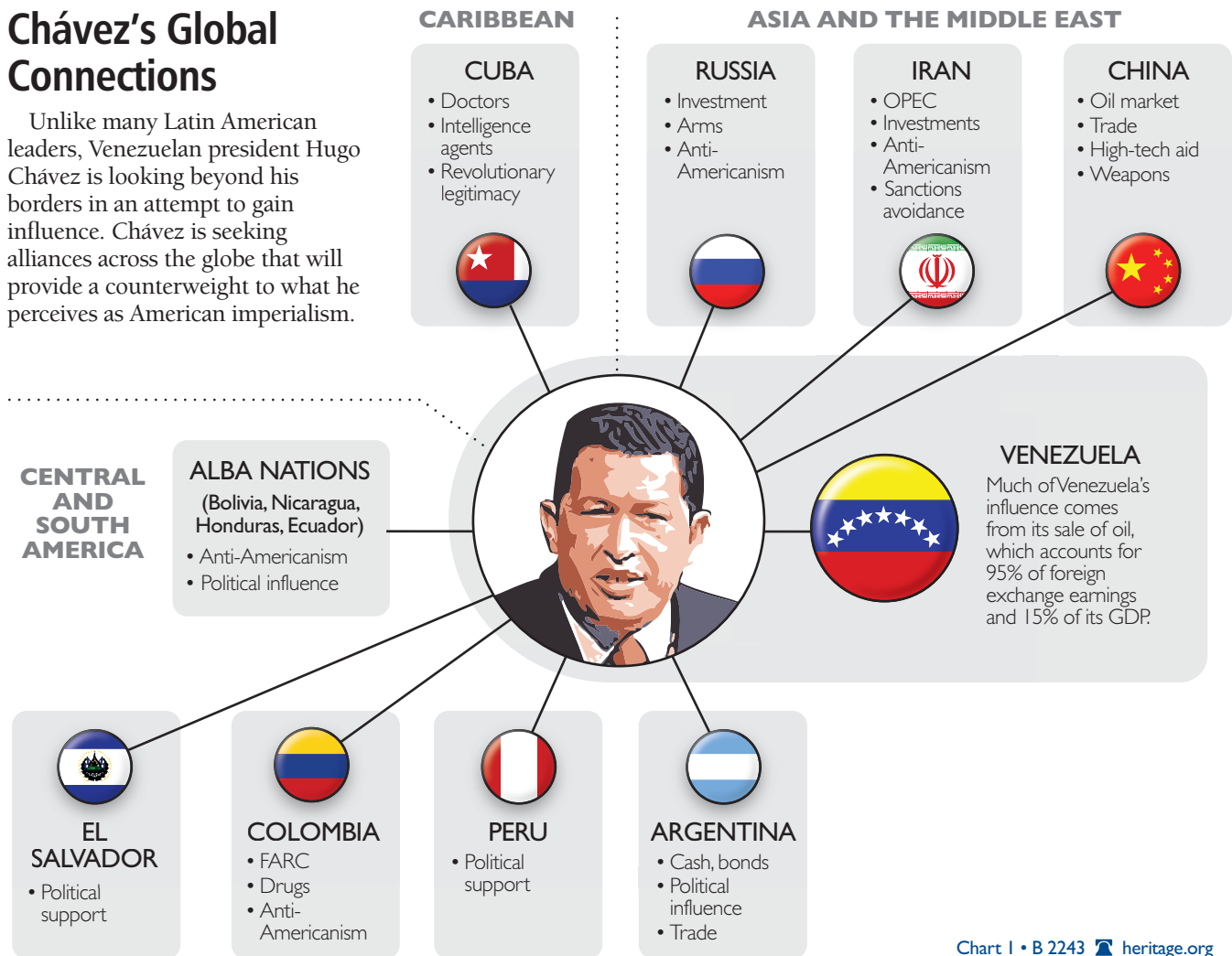


Chart 1 • B 2243 heritage.org

30. Sandy Ulacio, "La\$ Conexione\$ de Alex del Noyal," *Versión Final*, October 12, 2007, in Spanish, at <http://www.versionfinal.com.ve/wp/2007/10/12/las-conexiones-de-alex-del-noyal/> (February 3, 2009). See also Benedict Mander, "Boligarchs' Rise to Top in Socialist Venezuela," *Financial Times*, December 2, 2008, at <http://www.ft.com/cms/s/0/cd1bcace-c0b5-11dd-b0a8-000077b07658.html> (February 10, 2009).

PdVSA has been politically compromised by corruption, mismanagement, and bad actors as to cause harm to the interests of the Venezuelan people and to the security interests of the U.S. Understanding PdVSA will certainly challenge U.S. financial forensic skills as it continues to track the money passing in and out of Caracas that sustains corruption, drugs, political instability, and, potentially, terror around the world.

### **ALBA: Autarky, Intervention, or Instability?**

In 2004, Chávez joined with Cuban dictator Fidel Castro to launch the Bolivarian Alternative for the Americas (ALBA). The initial conception for ALBA was to make it an alternative for profit-driven and allegedly unregulated free trade and a bulwark against the U.S.-led Free Trade Area of the Americas. Since then, Bolivia (2006), Nicaragua (2006), Dominica (2007), and Honduras (2008) have signed up for membership in ALBA. Ecuador under Rafael Correa has aligned itself with ALBA, but is not yet a full member.

In the most recent gathering of ALBA heads of state in Caracas on November 26, 2008, Chávez vowed to end the “hegemony of the dollar” and proposed creating a “solidarity-based commercial exchange system” centered on a single monetary zone and the establishment of a joint currency, the “*sucre*,” to be established within two to three years. Chávez pressed for ALBA members to loosen ties with the Inter-American Development Bank (IADB) because it exerts political pressure on loan recipients and endorsed Ecuadorian President Rafael Correa’s idea of conducting an audit or debt tribunal to determine which foreign debts are legitimate.

While ostensibly an economic integration program, ALBA views itself as representing an exportable ideology and is working to support a political shift to the radical left. ALBA’s march, while erratic, has been persistent. One authoritative confidential source claims that Chávez pumped as much as \$18 million into the presidential campaign of ALBA

partner Evo Morales in Bolivia. He also injected himself into political campaigns in Mexico, Nicaragua, and Peru in 2006. Gifts of cheap petroleum, fertilizers, and promises of help with electrical energy helped Daniel Ortega win Nicaragua’s presidential election in 2006.

A current target for election support and potential destabilization from the ALBA group is El Salvador, where in March 2009 the Farabundo Marti National Liberation Front (FMLN) stands a strong chance of unseating the ARENA party that has held executive office since the mid-1980s. The electoral scene in Panama is more complicated, where elections to replace Revolutionary Democratic Party (PRD) leader Martin Torrijos are scheduled for May 2009. A former housing minister of one-time military strongman Manuel Noriega, Balbina Herrera of the PRD is in a hotly contested race with supermarket tycoon Ricardo Martinelli. The vital Panama Canal, a booming financial sector, a strong Chinese presence, growing narcotics ties, and the proposed free trade agreement with the U.S. make Panama a country of interest to Chávez. There is considerable speculation that Chávez is prepared to back the more leftist candidate.

Peru, with its substantial indigenous population, vigorous if not always equitable economic growth, serious governance problems, and free-trade agreement with the U.S. is also a prime target for ALBA members. With elections in Peru in 2010, concerns rise regarding what lengths Chávez will go to support a second bid by Ollanta Humala for the presidency, as he did in Humala’s 2006 bid for the Peruvian presidency. A continued proliferation of so-called ALBA houses—training and solidarity centers for Chávez’s Peruvian followers—in Peru has caused national alarm and prompted a legislative investigation of their activities.<sup>31</sup> It is a reasonable assumption that Peru will be targeted for high-intensity electoral support in 2010.

### **FARC’s Best Friend?**

On January 11, 2008, in a major address to Venezuela’s National Assembly, Chávez lauded the

31. James M. Roberts, “Fighting for Freedom in Rural Peru: ‘ALBA Houses’ Threaten Democracy,” Heritage Foundation Backgrounder No. 2173, August 18, 2008, at <http://www.heritage.org/Research/LatinAmerica/bg2173.cfm>.

FARC and a smaller insurgent group, the National Liberation Army (ELN), as “true armies” with a progressive political agenda and capable of exercising control and governing a segment of Colombian territory. Even if armed, deadly, and repugnant to the vast majority of Colombians who must live with these violent groups in their country, Chávez praised the FARC and ELN because they fought for the Bolivarian cause, i.e., socialism, nationalism, and “anti-imperialism.” In the same speech, he denounced the elected government of Colombian President Alvaro Uribe and demanded the expulsion of “the U.S. imperialist” from Colombia. He urged Europeans and others to remove FARC and ELN from their terrorism lists and grant them belligerent status.<sup>32</sup> The speech marked an apogee of support for the FARC.

For years evidence has grown regarding the links between Chávez and FARC. In 2007, as international attention focused on FARC’s holding of hostages and on Colombian President Uribe’s readiness to allow Chávez to act as an emissary to FARC, contacts and ties between Chávez and FARC grew. On the public level, Chávez’s involvement in the hostage negotiations helped to demonstrate an image of conciliation and humanitarian concern. Beneath the surface, Chávez was deepening channels of contact with the FARC leadership and moved toward closer collaboration aimed at the changing political landscape in Colombia. Chávez offered FARC a hope of reviving its waning political fortunes, helping it to escape the status of an international pariah with recognition as a belligerent force, as well as logistical and financial support.

Chávez responded angrily to a March 1, 2008, Colombian military raid on a FARC camp just

within Ecuador’s boarder that resulted in the death of Raul Reyes, FARC’s number two, and two dozen guerrillas, with threats of war against Colombia, provoking a brief but intense international crisis.

Recovered in the raid were laptop computers containing a wealth of detail on FARC–Venezuelan ties. Central to the discussions between FARC and Chávez’s agents were apparent promises of substantial financial and logistical assistance, which, had they been granted, would have eased pressure on FARC and given it improved capacity to wage continued war against the Colombian state and people.<sup>33</sup>

Following the death of FARC’s historic leader Manuel Marulanda in March 2008 and the Interpol authentication of the Reyes computer files in May, Chávez announced that the era of the armed guerrilla in Latin America has ended.<sup>34</sup> The dramatic, bloodless rescue of former Colombian presidential candidate Ingrid Betancourt, three Americans, and other high-value hostages by Colombian special military forces in early July 2008 also helped dampen Chávez’s interest in FARC.<sup>35</sup>

In September 2008, the U.S. Department of the Treasury continued its follow-up investigation of the FARC–Venezuela connection. On September 12, 2008, it added the names of Hugo Carvajal, director of Venezuela’s Military Intelligence Directorate; Henry Rangel Silva, director of the Venezuelan Directorate of Intelligence and Prevention Service (DISIP); and Ramón Rodríguez Chacín, former Minister of the Interior and Justice to its list of specially designated foreign nationals and forbade U.S. citizens from engaging in financial transactions with any of the three men.<sup>36</sup> The Treasury Department charged that all three senior govern-

32. Christopher Toothaker, “Chávez Praises Rebels in Colombian Conflict As Being ‘True Armies,’” *The Washington Post*, January 12, 2008, p. A11, at <http://www.washingtonpost.com/wp-dyn/content/article/2008/01/11/AR2008011103416.html> (February 3, 2009). See also Ray Walser, “Terrorism, Insurgency, and Drugs Still Threaten America’s Southern Flank,” Heritage Foundation *Backgrounder* No. 2152, June 30, 2008, at <http://www.heritage.org/Research/LatinAmerica/bg2152.cfm>.

33. Ray Walser, “Hugo Chavez, Colombia, and the FARC: A Change of Heart?” Heritage Foundation *WebMemo* No. 1956, June 16, 2008, at <http://www.heritage.org/Research/LatinAmerica/wm1956.cfm>.

34. Ray Walser, “Colombia v. Venezuela: An Endgame for the FARC?” Heritage Foundation *WebMemo* No. 1986, July 11, 2008, at <http://www.heritage.org/Research/LatinAmerica/wm1986.cfm>.

35. Ray Walser, “Hostage Rescue Major Blow to the FARC: U.S. Support for Colombia Increasingly Effective,” Heritage Foundation *WebMemo* No. 1982, July 3, 2008, at <http://www.heritage.org/Research/LatinAmerica/wm1981.cfm>.

ment officials had “armed, abetted, and funded the FARC, even as it terrorized and kidnapped innocents” and, in essence, blacklisted them. Since September, fresh reports continue to circulate regarding FARC’s expanding presence in western Venezuela.<sup>37</sup>

The Obama Administration can ill afford to lose sight of Chávez’s apparent ideological affinity for the FARC or underestimate his readiness to lend logistical and political support to FARC and its anti-American allies in Colombia as the 2010 elections approach.

### Cocaine’s Hottest Route

While Venezuela does not grow coca leaf or produce any significant amount of cocaine, it has a rapidly growing drug problem. Cocaine is arriving in increasing quantities from neighboring Colombia for transshipment to foreign destinations. U.S. drug-enforcement officials point to increasing complicity between Colombian cocaine producers, FARC middlemen, and Venezuelan military and civilian officials.

In 2006, Chávez ended cooperation with the U.S. Drug Enforcement Administration (DEA) after he accused its agents of spying. Venezuela claims it is pursuing active drug-control efforts, but offers little in the way of independently verifiable evidence. The amount of cocaine shipments believed to be originating in Venezuela has continued to rise from approximately 50 metric tons [MT] in 2002 to more than 250 MT in 2007.<sup>38</sup>

Chávez promotes this new spirit of non-cooperation in matters relating to the drug trade. His opinions and actions buttress decisions made by presidents Morales in Bolivia and Correa in Ecuador. In Bolivia, Morales has advanced the cause of the coca growers and drawn back from cooperating

with the U.S. on counter-drug efforts. On November 1, 2008, Morales ordered the suspension of DEA operations in Bolivia.<sup>39</sup>

In Ecuador, Rafael Correa is also moving to distance his country from cooperation with the U.S. and will close the forward operating aviation base for detecting drug shipments at Manta in 2009. Manta has been a key for advancing drug seizures in the Andean and Pacific areas.<sup>40</sup> Preserving an effective anti-drug strategy for the region will face serious challenges as a result of the distrust and distortions begun and encouraged by Chávez.

### Provoking a Regional Arms Race?

Of all its calamities in the 20th and early 21st centuries—civil wars, insurgencies, and devastating crime—Latin America has been largely spared interstate conflict. The last clash of military forces between nations took place in 1995 in a short border conflict between Peru and Ecuador. In recent years, Latin American nations have reduced the size and burden of their military institutions, established greater civilian control over their militaries, and made a broad commitment to preserving a nuclear-weapons-free region and to preventing the pursuit of weapons of mass destruction. Overall, Latin America’s share of the world arms market has remained low.

Regional diplomacy helped diminish potential conflicts as it did when the Rio Group convened in March 2008 to reduce Colombia–Ecuador–Venezuela border tensions and dampened domestic tensions in the Bolivia political crisis in October 2008. Many Latin American states have accepted the need for security concepts based on interdependence, transparency, conflict resolution, and enhanced security cooperation.

36. Press release, “Treasury Targets Venezuelan Government Officials Supporting the FARC,” U.S. Department of the Treasury, September 12, 2008, at <http://www.treas.gov/press/releases/hp1132.htm> (February 3, 2009).

37. Jose de Cordoba, “Chávez Lets Colombia Rebels Wield Power Inside Venezuela,” *The Wall Street Journal*, November 25, 2008, at <http://online.wsj.com/article/SB122721414603545331.html> (February 3, 2009).

38. “U.S. Drug Czar Points to Venezuela,” CBS News, August 22, 2008, at <http://www.cbsnews.com/stories/2008/08/22/world/main4376373.shtml> (February 10, 2009).

39. Patrick J. McConnell, “Bolivia Accuses DEA of Spying, Halts Agents’ Work,” *Los Angeles Times*, November 2, 2008, p. A-3, at <http://www.latimes.com/news/nationworld/world/la-fg-bolivia2-2008nov02,0,1301705.story> (February 3, 2009).

40. Venezuela, Bolivia, and Ecuador all argue that they have continued the anti-drug fight independent of the U.S.

Chávez and the Venezuelan government are working to reverse this trend. Chávez's nationalism and his reassertion of rights of unrestricted sovereignty, especially when dealing with transnational threats—the reluctance to deal with shared challenges, such as control of FARC or to cooperate in a meaningful way to curb narcotics trafficking—are a step backward from well-enshrined, cooperative security principles.

Chávez has also put Venezuela in the vanguard of a new Latin American competition in arms. The Stockholm International Peace Research Institute noted in its 2008 report that South America has increased its defense spending by 33 percent, after inflation, since 2000. This amounted to expenditures of \$40 billion for armed forces in 2007. Venezuela increased its military spending by 78 percent, followed by Ecuador and Chile with 53 percent and 49 percent, respectively.<sup>41</sup> Brazil announced major increases in arms expenditures, which it argues correspond to its much larger national defense needs than any other South American states.<sup>42</sup>

Venezuela's acquisition of arms, primarily from Russia, is fueling new concerns and uncertainty among its neighbors about its intentions. Chávez claims his country needs an infusion of arms to defend itself against the prospects of a U.S. invasion. Conflicting disputes over land and maritime borders with Colombia and Guyana and Chavez's recent support for the destabilizing FARC coupled with the increased militarization of Venezuelan society is creating a climate of unease in South America's northern countries.

Forgetting a promise made in 1999 not to waste resources on arms purchases, Chávez is committing to build a more powerful military to defend the Bolivarian revolution against supposed U.S. imperialism.<sup>43</sup> While arming his country may be a sovereign right, Chávez is clearly leading Venezuela

down the wrong track. In an area of general peace and during an economic downturn, the increased burden of arms expenditures—unlike Brazil, Venezuela must import all its weapons—will reduce resources for social programs and poverty reduction, undercut more positive trends in hemispheric security, and miss the main challenge entirely, which is citizen security.

### Viva Fidel! Viva Hugo!

Following the failed 1992 coup and his two years of imprisonment and subsequent pardon, Hugo Chávez turned to Fidel Castro. After his release, Chávez immediately visited Cuba and began an association with Castro that continues to deepen. Chávez made Cuba's Communist dictator his mentor, strategic advisor, and spiritual inspiration. He recently referred to Fidel Castro as "Our Father Who Art in Havana."<sup>44</sup>

Since Chávez became president, ties between Cuba and Venezuela have continued to thicken, even after Fidel passed the reins of power to his brother, Raul. Cuba's abysmal economic record under Communist command economics makes Cuba heavily dependent on foreign credits and on the export of its people rather than goods or services, leaving one observer to note its status as a "gigolo economy." Cuba has been a ready recipient of the relief Chávez has provided.

The centerpiece of the Cuba–Venezuela alliance remains an oil-for-services agreement between the two countries that sends doctors, health workers, sports trainers, and Cuban specialists in security and intelligence to Venezuela in exchange for an estimated 92,000 barrels of oil per day. Cuba and Venezuela have signed a reported 300 cooperation projects. Targets for Venezuelan assistance include Cuba's unproductive and beleaguered agricultural sector. Showcase

41. Andrés Oppenheimer, "Latin American Arms Buildup Wasteful, Alarming," *The Arizona Daily Star*, August 12, 2008, at <http://azstarnet.com/sn/byauthor/252223> (February 10, 2009).

42. "Speak Fraternally But Carry a Stick," *The Economist*, May 29, 2008, at [http://www.economist.com/world/americas/displayStory.cfm?story\\_id=11455155](http://www.economist.com/world/americas/displayStory.cfm?story_id=11455155) (February 4, 2009).

43. Oppenheimer, "Latin American Arms Buildup Wasteful, Alarming."

44. "Padres Nuestros que Estás en La Habana," in Jaime Lopez, "Chávez, el Presidente Predicador," *El Mundo*, November 17, 2008, at <http://www.elmundo.es/papel/2008/11/17/mundo/2544561.html> (February 10, 2009).

projects in Cuba include a proposed \$5 billion petrochemical complex and renovated oil refinery in Cienfuegos, a city that has languished following the collapse of the Cuba–Soviet tie.<sup>45</sup> Venezuela is also reportedly putting \$700 million into a nickel plant in eastern Holguin province that will send raw materials to a stainless steel plant in Venezuela. Estimates of the total value of the economic exchanges run as high as \$7 billion.<sup>46</sup>

Although some experts predicted that because of his adulation of Fidel, Chávez's ties with Fidel's less charismatic brother Raul might weaken, there has been no evidence that this is occurring. Chavez has continued to feature the Cuba–Venezuela connection, and received Raul Castro in Caracas during the Cuban leader's first foreign trip as president in December 2008.<sup>47</sup> Inter-American dialogue scholar Dan Erickson wrote in his recent book that, "Fidel Castro might have retired, but Hugo Chávez was more than ready to play the role of regional provocateur and adversary of Washington."<sup>48</sup>

After 50 years of Castro's totalitarian rule, a transition away from Communist rule to a more democratic society in Cuba is long overdue. Venezuela's economic assistance and political support extends the Cuban dictatorship's lease on life. The extent to which Chávez retards democratic change and helps the Communist gerontocracy retain power works against a long-stated, bipartisan goal of a free, democratic Cuba.

## Russia and Belarus

"How we have missed the Soviet Union," Chávez remarked recently, prompting speculation as to

whether Chávez is nostalgic for the return of Joseph Stalin, purges, gulags, and the Iron Curtain—or whether he pines for the return of the aggressive Soviet power projection into the Western Hemisphere, when arms and advisers were flowing to Cuba, Peru, Nicaragua, and El Salvador's guerrillas.<sup>49</sup> His remark echoed then-President Vladimir Putin's famous 2005 assertion that the collapse of the Soviet Union was "the greatest geopolitical tragedy of the [20th century]."

What Chávez most likely means is that he misses the presence of a rival to the U.S. able to contest American influence and power around the world. The Soviet Union offered support and security to its client states around the globe, support Chávez would certainly find advantageous. Finally, for an egocentric leader like Chávez, there is the nostalgia for the drama and tension of the Cold War.

As relations between Venezuela and the U.S. soured after 2002, Chávez charged in Russia's direction for arms, joint energy and mining projects, and joint banking and investment opportunities. He shares Prime Minister Vladimir Putin's and President Dmitri Medvedev's hostility toward the U.S. In July 2008, when Chávez visited Russia to meet with the two Russian leaders, he spoke glowingly of a "strategic alliance" that "will free him from Yankee imperialism."

Venezuela's appetite for Russian weapons attracts media attention and generates regional insecurity. Between 2005 and 2007, Russia and Venezuela signed 12 arms-sales contracts valued at an estimated \$4.4 billion.<sup>50</sup> From AK-47s—the ubiquitous weapon of choice for insurgents and terrorists—to advanced fighter aircraft and tanks to attack helicop-

45. The Cuban refinery at Cienfuegos was completed with Russian help in 1991 and ceased operating in 1995. Venezuela has stepped into the historic breach and promised to make Cienfuegos the center point of its investment in Cuban oil refining and petrochemicals.

46. Marc Frank, "Cuban–Venezuelan Ties Boom Under Raul Castro," Reuters, July 21, 2008, at <http://uk.reuters.com/article/oilRpt/idUKN2142241920080721?pageNumber=2&virtualBrandChannel=0&sp=true> (February 4, 2009).

47. Tyler Bridges and Sara Miller Llana, "Raul Castro Makes Historic First Visit to Venezuela," *The Christian Science Monitor*, December 12, 2008, at <http://www.csmonitor.com/2008/1212/p25s25-woam.html> (February 10, 2009).

48. Daniel P. Erickson, *The Cuba Wars: Fidel Castro, the United States, and the Next Revolution* (New York: Bloomsbury Press, 2008), p. 276.

49. Vanessa Neumann, "Hugo Chávez Effect Finally Wears Off in Venezuela and Around the World," *The Telegraph*, December 19, 2008, at <http://www.telegraph.co.uk/comment/3563606/Hugo-Chavez-effect-finally-wears-off-in-Venezuela-and-around-the-world.html> (February 9, 2009).



ters and submarines, Russian arms makers have found an eager client in Chávez's Venezuela.

Yet, the Russia–Venezuela relationship is founded on more than arms deals. Uncompetitive in a global, high-tech economy and heavily dependent on oil, both nations are interested in exploiting energy and mineral resources to advance state power. Despite the current slide in world oil prices, Chávez and Russia's leaders are banking on scarce oil and energy resources in the future as keys to gain more power and international influence.

In the course of President Medvedev's historic visit to Caracas on November 26 and 27, 2008, the first by a Russian leader, the Russians and Venezuelans sealed a deal creating a \$4 billion development bank to finance a variety of manufacturing and mining projects. A consortium of five Russian oil companies is collaborating with Venezuela's nationalized oil company, PdVSA, to develop the rich reserves of the Orinoco basin's heavy oil. Venezuela is also turning to Russia's state monopoly GAZPROM to develop and exploit its substantial reserves of natural gas and form a gas cartel with Russia, Iran, and Qatar.<sup>51</sup> A final piece in the energy picture is Russia's apparent readiness to lend Chávez a hand in developing nuclear power-generating capability in Venezuela.

Aiding Chávez in developing nuclear power is both dangerous and unnecessary, as Venezuela has abundant energy resources, such as natural gas, to generate electricity, and lacks technological basics and expertise to support a truly viable nuclear program.<sup>52</sup> Some U.S. security analysts worry that—given Chávez's ambitions, his desire for political power, and his hostility to the U.S.—he has a hid-

den agenda and wants to become the first South American nation with a nuclear weapon.

Venezuela has also forged economic, educational, and energy agreements with the government of Belarus, another fellow traveler in the relentless opposition to the U.S. The U.S. has imposed sanctions on Belarus because of its refusal to free political prisoners and allow basic democratic freedoms. Having been called "Europe's last dictatorship"<sup>53</sup> under authoritarian ruler Alexander Lukashenko, Belarus is also selling arms to Venezuela and is used by Russia as a way to supply controversial weapons systems to Venezuela and other problematic customers.

Russia's new links with Venezuela exists foremost to annoy the U.S. and to demonstrate pique with U.S. policies—from the Balkans, where the U.S. and the European allies recognized independence of Kosovo, to NATO expansion, to ballistic missile defense and support for a sovereign, pro-Western Georgia. These links add a layer of unpredictability and uncertainty to the hemispheric security equation. Russian sources discuss possibilities of permanent Russian air and naval bases and intelligence collection stations in Venezuela and Cuba. It is true that the masters of the Kremlin may one day decide that the Venezuela connection is not worth a clash with the U.S., but for the moment they appear quite content to ride Chávez's anti-American wave.

### Ahmadinejad and Iran

When asked by a journalist to explain why he was working in Venezuela, an Iranian engineer answered simply, "I think the two presidents [Chávez and Ahmadinejad] don't like the United States—that's the only thing."<sup>54</sup> Despite their lim-

50. Chávez argues that attempts to purchase parts for his aging F-16s and modern surface warships from NATO member Spain as well as Brazil were blocked by the U.S., which controlled rights over the export of military technology, forcing him to turn to a more reliable supplier, Russia. These blocks went into effect after Chávez ceased to cooperate with the U.S. on anti-terrorism measures.

51. Ariel Cohen and Ray Walser, "The Russia–Venezuela Axis: Using Energy for Geopolitical Advantage," Heritage Foundation *WebMemo* No. 2000, July 21, 2008, at <http://www.heritage.org/Research/RussiaandEurasia/wm2000.cfm>.

52. For a good summary of Russia's recent relations with Latin America and Medvedev's visit to Venezuela, see Simon Romero, Michael Schwartz, and Alexei Barrionuevo, "Medvedev Faces Hard Sell in Latin America," *International Herald Tribune*, November 21, 2008, at <http://www.ihf.com/bin/printfriendly.php?id=18049069> (February 4, 2009). For parallels, see Ivan Krastev, "Democracy's 'Doubles,'" *Journal of Democracy*, Vol. 17, No. 2 (April 2006), pp. 52–62.

53. Desmond Butler, "Belarus Says U.S. Sanctions Illegal," *The San Francisco Chronicle*, December 17, 2007, <http://www.sfgate.com/cgi-bin/article.cgi?f=/n/a/2007/12/17/national/w093117S92.DTL> (February 4, 2009).

ited cultural ties, Iran's and Venezuela's leaders share a common anti-American ideology.

In the volatile Middle East, Chávez has found virgin territory for a Latin American leader and a new and receptive area of operation for his brand of anti-Americanism. He attracted considerable notoriety when he visited Iraq and met with Saddam Hussein in 2000, the first head of state to visit Iraq after the 1991 Gulf War. The U.S. invasion of Iraq in 2003 cut short his budding relationship with Iraq's late tyrant.

Chávez has made five official visits to Iran since coming to power in 1998.<sup>55</sup> When Iranian president Mahmoud Ahmadinejad arrived in Venezuela in early 2007, Chávez welcomed him as “one of the great fighters for peace.”<sup>56</sup> Ahmadinejad was conducting a five-day trip to Venezuela, Ecuador, and Nicaragua. Chávez and Ahmadinejad share similar historical, strategic, and apocalyptic visions.<sup>57</sup>

Iran finds other benefits in its relationship with Venezuela. In September 2005, Venezuela was alone in opposing a resolution at the International Atomic Energy Agency (IAEA) that found Iran in violation of nuclear safeguards. Chávez has since backed Iran's asserted right to enrich uranium. Support provided by Chávez and Nicaragua's Ortega added dubious legitimacy to Iran's claim of a right to develop a nuclear program free of international supervision—and the tacit right to develop a nuclear weapon.

Venezuela's relationship with Iran does not lack a commercial dimension. Between 2005 and 2007, Venezuela and Iran claimed to have signed 82 agreements stipulating Iranian investments in Venezue-

lan energy, industry, and finances. The estimated value of these agreements ranges between \$5 billion and \$20 billion, making, if realized, Iran the second-largest investor in Venezuela after China.<sup>58</sup> Iran is reportedly constructing bicycle and tractor factories, and even an automobile plant, in Venezuela. The level of bilateral trade between the two nations stands at \$2.5 billion. Iran has also demonstrated interest in mineral exports from Venezuela, including uranium. Iran and Venezuela cooperate on oil pricing and other issues of OPEC policy, seeking to steer the cartel toward higher oil prices and restricted production.

Direct cooperation intensified in 2007 when Iran Air initiated weekly air service between Tehran and Caracas through Syria's capital, employing Airbuses and Boeing 747s. Flights arrive and depart from a part of the Caracas international airport that is exempt from normal customs and immigration control.

Few people in Washington are reassured by Chávez's selection of Tarek El Aissami, a 28-year-old radical student leader with previous links to Iraq and Islamist militants to replace Ramón Rodríguez Chacín as interior minister in September 2008. As minister, El Aissami wields authority over passports and identity documents. His ministry works closely with Cuban intelligence officials. General laxity in document controls and potential criminal misuse of Venezuelan passports pose a serious concern for U.S. immigration and counterterrorism officials.

On October 22, 2008, the U.S. Treasury Department identified the Export Development Bank of

54. Ian James, “Iran Raises Profile in Latin America,” Associated Press, November 23, 2008, at [http://www.iranfocus.com/en/index2.php?option=com\\_content&do\\_pdf=1&id=16730](http://www.iranfocus.com/en/index2.php?option=com_content&do_pdf=1&id=16730) (February 4, 2009).

55. “Chávez to Visit,” *Iran Daily*, November 27, 2008, at <http://www.iran-daily.com/1387/3281/html/national.htm> (February 4, 2009).

56. Eric Farnsworth, “The Company We Keep,” *Poder*, November 2007, at <http://as.americas-society.org/article.php?id=725> (February 4, 2009).

57. Scott Peterson, “What Drives Ahmadinejad's Combative Rhetoric,” *The Christian Science Monitor*, September 23, 2008, at <http://www.csmonitor.com/2008/0924/p06s01-wome.html> (February 4, 2009).

58. Farnsworth, “The Company We Keep”; and Chris Carlson, “Venezuela and Iran Strengthen ‘Anti-Imperialist’ Alliance,” *Venezuelanalysis.com*, November 20, 2007, at <http://www.venezuelanalysis.com/news/2859> (February 4, 2009). Given the lack of transparency and the tendency for constant reporting of agreements, it is difficult to make an accurate inventory of commercial ties.

Iran as supporting Iran's nuclear proliferation efforts. It also named an affiliate entity, the Banco Internacional de Desarrollo, a financial institution located in Venezuela, as an arm of the Iranian bank.<sup>59</sup> The Banco Internacional de Desarrollo began operation in 2007 as part of a bilateral agreement between Venezuela and Iran.

This highlights the fact that one of the presumed values of closer ties between Iran and Venezuela lies in enlarging the capacity of Iran to exploit and manipulate Venezuela's financial system and to access an open, unsanctioned economy as a way to obtain high-tech equipment and gain greater access to the global financial system. With Chávez's enthusiastic support, Iran has certainly been able to gain greater entry into Bolivia, Nicaragua, Ecuador, and much of the rest of Latin America.<sup>60</sup>

### Harbingers of Terror: Hezbollah and Hamas Move West

Islamist terrorists struck first in the Americas in Argentina—even before the 1993 World Trade Center bombing. In 1992, Islamist terrorists bombed the Israeli embassy in Buenos Aires, killing 30 people. Two years later, they bombed the Argentine-Israelite Mutual Association (AMIA) in Buenos Aires, killing 85. In November 2006, an Argentinean judge issued arrest warrants in the AMIA case for a Lebanese member of Hezbollah and eight Iranian officials, including former Iranian President Hashemi Rafsanjani.

There is increasing evidence that Hezbollah is operating in Venezuela, where it is able to draw on support from the Lebanese diaspora. Hezbollah continues to look to Venezuela and South America

in general as a source of funding for its activities and operations and as a potential theater of operations. International attention has also focused on Hezbollah-linked communities among Lebanese expatriates on the Isla de Margarita and on efforts to spread a form of Shiite Islam to the scattered Wayuu Indians of the Guajira region of Venezuela and Colombia, often victimized and isolated by drug conflict in the region.

Israeli intelligence officials recently expressed concern that Hezbollah operatives in Venezuela and elsewhere were conducting surveillance and had potentially targeted wealthy Jewish businessmen in South America with the idea of kidnapping them and holding them for ransom. Given tensions in the Middle East, Hezbollah and Hamas seek avenues of action elsewhere in the world.<sup>61</sup>

In June 2008, the U.S. Treasury Department accused Ghazi Nasr al Din, a Venezuelan diplomat of Lebanese descent, of using diplomatic posts in the Middle East to assist in the financing of Hezbollah and of “discuss[ing] operational issues with senior officials” from Hezbollah.<sup>62</sup> Nasr al Din “facilitated the travel” of Hezbollah members to and from Venezuela for an unspecified “training course in Iran.” Al Din is also president of a Shiite Muslim center in Caracas and served as a diplomat in Damascus and later in Beirut.

Another Venezuelan, Fawzi Kan'an, a Caracas-based travel agent, facilitated travel for Hezbollah agents. He also discussed “possible kidnappings and terrorist attacks” with senior Hezbollah officials in Lebanon.<sup>63</sup>

Hezbollah's interest in the Andean drug trade has also been documented. Most recently, in mid-

59. U.S. Department of State, “Treasury Designation of the Export Development Bank of Iran (EDBI) and Affiliated Entities for Proliferation Activities,” October 22, 2008, at <http://164.109.48.103/r/pa/prs/ps/2008/oct/111150.htm> (February 4, 2009).

60. Iran has fully operational embassies in Argentina, Cuba, Bolivia, Brazil, Mexico, and Nicaragua. In November 2008, Brazilian Defense Minister Amorim visited Tehran and Brazilian officials hinted at a readiness to host a visit by Ahmadinejad in the near future. Brazil, Ministry of External Relations, “Minister Celso Amorim to Visit Iran,” October 31, 2008.

61. Chris Kraul and Sebastian Rotella, “Fear of a Hezbollah Presence in Venezuela,” *Los Angeles Times*, August 27, 2008, at <http://articles.latimes.com/2008/aug/27/world/jg-venezterror27> (February 4, 2009).

62. “Treasury Targets Hizballah in Venezuela,” U.S. Department of the Treasury, June 18, 2008, at <http://www.ustreas.gov/press/releases/hp1036.htm> (February 4, 2009).

63. Martin Arostegui, “U.S. Ties Caracas to Hezbollah Aid,” *The Washington Times*, July 7, 2008, at <http://www.washingtontimes.com/news/2008/jul/07/us-ties-caracas-to-hezbollah-aid/?page=1> (February 4, 2009).

October 2008, a two-year drug operation, Operation Titan, led to the arrest of 111 individuals worldwide. Of the 21 people arrested in Colombia, three were men of Lebanese and Jordanian descent—Charky Mohamad Harb, known as “Taliban”; Zacarias Hussein Harib, known as “Zac”; and Ali Mohamad Rahim, who were charged with providing proceeds of drug transactions to Hezbollah.<sup>64</sup>

Reports of possible training links between Hezbollah and Venezuela have not been confirmed by U.S. government sources. Chávez and the more ruthless members of his military elite seek to replicate the fanaticism, *élan*, and readiness for martyrdom associated with Islamic warriors in asymmetric warfare, fulfilling the ideal of the dedicated defenders of the Bolivarian Revolution.

### Asia Rising: China and Vietnam

Chávez also recognizes China and Vietnam as emerging markets, increasing economic players, and potential counterweights to U.S. influence in Latin America. He relies on a rising China to increasingly make its presence felt in the Western Hemisphere, and aims to play the China card against the U.S.

While official Chinese–Venezuelan relations date back to 1974, Chávez has made economic links with Beijing a cornerstone for Venezuela’s future economic development. Since 1999, Chávez has visited China five times, most recently in September 2008, just after expelling the U.S. ambassador in Caracas. On September 25, Chávez announced in Beijing that he had signed 12 agreements with China, including one that doubled a “joint investment fund” of \$12 billion, and another to update a May 2008 energy cooperation agreement that

includes the construction of a four-tanker oil fleet and the construction of a new refinery suited to Venezuela’s heavy crude—in addition to an already planned 400,000 barrel-per-day refinery in China’s Guangdong province.<sup>65</sup> Venezuela reports it has signed a total of 255 agreements with China and engaged in the development of 79 large-scale projects ranging from agricultural to technology transfer including the establishment of computer, cell phone, and domestic appliances plants, rail projects, and public housing.

China also engineered the launch of the first Venezuelan commercial satellite on October 30, the “Satellite Simon Bolivar,” which the Venezuelan government says will be used for broadcasting, long-distance education, and to facilitate the provision of medical services in the region.<sup>66</sup> It will also give the Venezuelan government greater command and control over its territory and over the maritime approaches to Venezuela’s coasts.

Trade between China and Venezuela approached \$8 billion in 2008. The centerpiece of the new relationship is a very realistic goal of increasing Venezuela’s oil exports to China to 1 million barrels a day by 2012, which would make China and the United States roughly equal customers for Venezuelan crude. As recently as 2005, Venezuela shipped only 39,000 barrels a day to China, which doubled to 80,000 in 2006, and is now estimated at 331,000 barrels a day for 2008. Venezuela estimates this amount will grow to 500,000 by 2010.

Until recently, the United States has had privileged access to Venezuelan oil because of the oil’s peculiarly thick chemistry—the only refineries capable of processing it are in the U.S. China, however, is in the process of constructing new refineries

64. Chris Kraul and Sebastian Rotella, “Drug Probe Finds Hezbollah Link,” *Los Angeles Times*, October 22, 2008, at <http://articles.latimes.com/2008/oct/22/world/fg-cocainering22> (February 10, 2009).

65. Li Xiaokun, “Joint Fund, Energy Deals Inked with Venezuela,” *China Daily*, September 25, 2008, at [http://www.chinadaily.com.cn/china/2008-09/25/content\\_7056945.htm](http://www.chinadaily.com.cn/china/2008-09/25/content_7056945.htm) (February 4, 2009). A \$5 billion China–Venezuela energy fund was launched in 2006. See “China Sets \$5 Billion for Venezuela to Lift Oil Supplier’s Output,” *The Wall Street Journal*, August 29, 2006, p. A6. *Prensa Latina* indicated in October 2006 that China would contribute \$4 billion, and Venezuela, \$2 billion, to a \$6 billion fund. See “Venezuela–China Finance Fund,” *Prensa Latina*, October 26, 2006, at <http://www.plenglish.com/article.asp?ID=%7BC0306CFC-2C9E-4BF8-AF61-58CDEB61BD31%7D&language=EN> (February 4, 2009).

66. “Venezuela’s First Satellite Launched from China,” October 30, 2008, at <http://edition.cnn.com/2008/TECH/space/10/30/venezuela.satellite/index.html> (February 4, 2009).

to accommodate Venezuela's heavier crude, which are expected to be completed early next decade. The first refinery to be completed will be capable of handling about 400,000 barrels per day.<sup>67</sup> Chávez views a new oil-supply relationship with China as a form of leverage against the U.S. as he moves to reduce dependence on sales to the North American market and redirect sales to China.<sup>68</sup>

While most Venezuelan ventures appear essentially commercial in nature, China reportedly plans to sell Venezuela 24 K-8 trainer jets and is also eyeing the possibility of selling the more advanced, Chinese-made J-10A fighter in the future.<sup>69</sup>

Venezuela is, according to Chávez, working with Vietnam in order to "raise the flag of socialism."<sup>70</sup> During a November 2008 visit to Caracas, Vietnamese President Nguyen Minh Triet initialed an \$11.4 billion agreement between PdVSA and the state-owned Petro-Vietnam for exploitation in the Orinoco basin and for the construction of a 200,000 barrel-per-day refinery in Vietnam. Both sides agreed to a \$200 million investment fund and on the construction of a Vietnamese light truck factory in Venezuela.

Chávez plays the Asian card to escape his dependency on the U.S. market and to tap into China's credit, investments, and advanced technology. China uses Venezuela, along with Cuba, where it maintains an intelligence collecting facility, as platforms for commercial and political intelligence-gathering and as a potential launch point for cyber-raids against the U.S. Venezuela and China say they stand united against "imperialism, hegemonism,

and colonialism," which is diplomatic-speak for their mutual rejection of the U.S.'s global leadership role.<sup>71</sup>

### Plenty of Vulnerabilities

While Venezuela's strength is its oil, it is also its weakness. Oil accounts for 95 percent of foreign exchange earnings and 25 percent of gross domestic product. Under Chávez, Venezuela has grown more dependent on its oil exports for survival. The current steep decline in the global price of oil will hit hard. Oil that sold for \$142 a barrel decreased to \$43 on December 5, 2008. Venezuela's budget for 2009 calls for a 23 percent increase in public spending and is based on an oil price of \$60 per barrel. Devaluation, significant inflation, and other economic woes could be headed Chávez's way in 2009.

Questions are being raised repeatedly about the flagship and life blood of the Bolivarian Revolution, the PdVSA. Is it capable of running as a growing energy giant and at the same time remaining the spigot that Chávez opens and drains when he needs to fund social programs, purchase arms, and aid clients such as Cuba, Bolivia, and Nicaragua. Will turning to other state-run energy giants, such as Russia's Gazprom, or diversifying markets to China develop integration into the global energy market? Are corruption and a loss of transparency undoing the company's corporate culture and work ethic? Is PdVSA up to the task of remaining on the cutting edge of the energy industry and generating the resources needed to move Venezuela forward?

The Chávez project is not uniformly popular abroad, either. Increased efforts to exert influence in

67. Chris Kraul, "China to Invest \$5 billion in Venezuela Oil Projects," *Los Angeles Times*, August 29, 2006, at <http://articles.latimes.com/2006/aug/29/business/fi-venez29> (February 4, 2009), and "Chávez, China Agree to Build Oil Refineries," *The Wall Street Journal*, September 24, 2008, at <http://online.wsj.com/article/SB122216282216966879.html> (February 4, 2009).

68. "Chavez Redirects Venezuelan Oil From the United States to China," *Kommersant*, August 21, 2006, at [http://www.kommersant.com/p698990/r\\_500/Chavez\\_Redirects\\_Venezuelan\\_Oil/](http://www.kommersant.com/p698990/r_500/Chavez_Redirects_Venezuelan_Oil/) (February 4, 2009), and "U.S., Venezuela Diplomats Meet to Try to Ease Tension," *Reuters*, April 4, 2006.

69. Andrei Chang, "China Exploring Various Oil for Arms Deals," *Energy Daily*, November 5, 2008, at [http://www.energy-daily.com/reports/China\\_Exploring\\_Various\\_Oil\\_For\\_Arms\\_Deals\\_999.html](http://www.energy-daily.com/reports/China_Exploring_Various_Oil_For_Arms_Deals_999.html) (February 4, 2009).

70. "Venezuela, Vietnam Strengthen Ties with Joint Fund," *International Business Times*, November 20, 2008, at <http://www.ibtimes.com/articles/20081120/venezuela-vietnam-strengthen-ties-with-joint-fund.htm> (February 4, 2009).

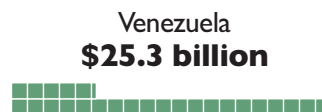
71. Bian Ji, "Venezuela, China: 34 Years of Diplomatic Relations," *China Daily*, July 5, 2008, at [http://www.chinadaily.com.cn/cndy/2008-07/05/content\\_6821807.htm](http://www.chinadaily.com.cn/cndy/2008-07/05/content_6821807.htm) (February 10, 2009).

countries, such as Colombia, Panama, and Peru, will engender future backlash. Venezuela may also have difficulty meeting the previous commitments to Bolivia, Ecuador, Nicaragua, and Cuba. Chavez is already scaling back previous offers to build refineries in Nicaragua and in Ecuador. The attempt to create an alternative to the International Monetary Fund, the Banco Sur, appears stalled, and other ambitions, such as a Venezuela to Argentina pipeline, appear mainly figments of Chávez's active imagination. In short, the global downturn, the shortage of international credit, and the decline in the price of oil will severely test Chávez's ability to engage in "checkbook diplomacy."

Over time, most revolutions alter their course. Radicalization gives way to moderation and a new center corrects deviations caused by the extreme. The Bolivarian Revolution will likely be no exception to the rule. Venezuelans have a long experience of democracy and are accustomed to a culture and society of freedom and liberty. Memories of democratic principles and concepts of individual rights and political freedom remain living yardsticks by which the likes of a Chávez are still measured. In the new, more democratic Latin America, there is less room and opportunity to suppress the opposition and impose a 50-year lock on political life and personal freedom as Fidel Castro successfully accomplished in Cuba.<sup>72</sup> Nevertheless, Chávez represents a real threat, which the U.S. ignores at its own peril.

## Comparing Assistance to Latin America

*Spurred by robust trade and direct investment, the U.S. sends at least 27 times more money in assistance to Latin American nations than does Venezuela.*

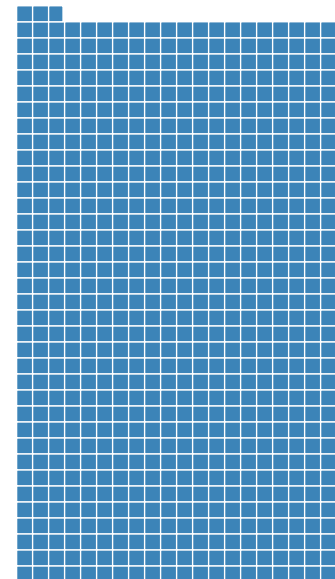


### Breakdown, in millions

Trade*	\$15,092.7
Energy funding	\$6,369.0
Argentine bonds	\$1,360.0
Financing	\$1,138.0
Development funding	\$772.0
Infrastructure funding	\$565.5
Humanitarian aid	\$18.5
Military aid	\$10.0

## United States

**\$702.9 billion**



### Breakdown, in millions

Trade*	\$329,117.0
Direct investment	\$322,228.0
Remittances	\$45,300.0
Debt forgiveness	\$4,400.0
USAID	\$1,890.6
Contributions to OAS	\$11.9

### USAID breakdown, in millions

El Salvador (MCC)	\$461.0	Democracy-building institutions	\$158.0
Humanitarian assistance	\$390.0	Peru (MCC)	\$35.6
Honduras (MCC)	\$215.0	Paraguay (MCC)	\$35.0
Peace and security	\$208.0	Guyana (MCC)	\$7.0
Economic growth	\$206.0	<b>Total</b>	<b>\$1,890.6</b>
Nicaragua (MCC)	\$175.0		

MCC — Millennium Challenge Corporation  
OAS — Organization of American States

\* Imports from Latin American nations.

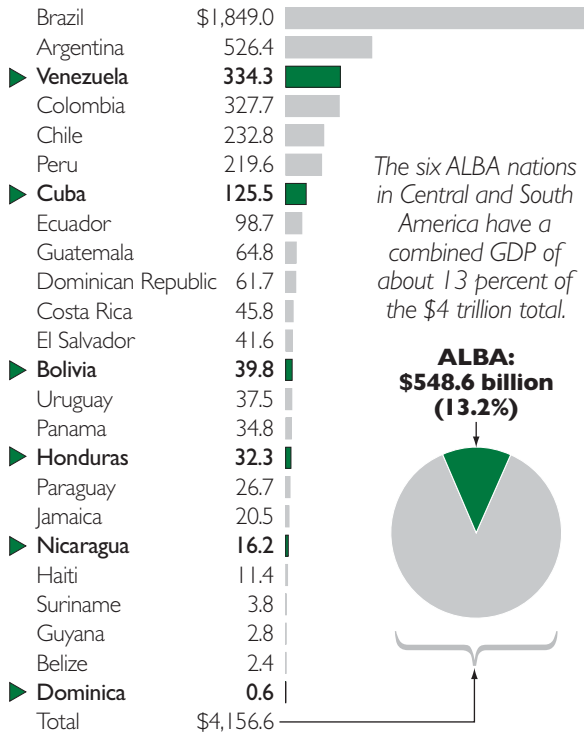
Sources: "US-LAC Trade," at <http://qesdb.cdie.org/lac/LACbook/chapter08.pdf> (October 8 2008); "Venezuela Provides 4 Times the Assistance of the US in Latin America," August 27, 2007, at <http://www.haitireborn.org/node/255> (October 10 2008); "Venezuela Says Bought \$1 bln in Argentine Bonds," August 8, 2008, at [http://economictimes.indiatimes.com/Politics/Nation/Venezuela\\_says\\_bought\\_1\\_bln\\_in\\_Argentine\\_bonds/articleshow/3331072.cms](http://economictimes.indiatimes.com/Politics/Nation/Venezuela_says_bought_1_bln_in_Argentine_bonds/articleshow/3331072.cms) (October 10 2008).

Chart 2 • B 2243 heritage.org

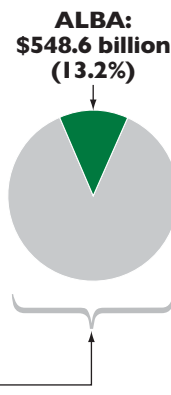
72. Ibsen Martinez, "Hugo Chávez: The Next Castro?" *The Washington Post*, August 6, 2006, p. B01, at <http://www.washingtonpost.com/wp-dyn/content/article/2006/08/04/AR2006080401767.html> (February 4, 2009).

## 25 Largest Economies in Central and South America

### GDP in Billions



The six ALBA nations in Central and South America have a combined GDP of about 13 percent of the \$4 trillion total.



Source: Central Intelligence Agency, *The World Factbook*, November 6, 2008, at <https://www.cia.gov/library/publications/the-world-factbook/index.html> (November 18, 2008).

Chart 3 • B 2243 heritage.org

- The Treasury Department, the National Counter-Terrorism Center, the CIA, and the State Department should continue to assign a high priority to acquiring and reviewing intelligence on pro-terror, money-laundering, and drug-trafficking in Venezuela, especially evidence of Venezuela's ties to FARC, Hezbollah, and Hamas.
- Despite Chávez's consistent efforts to undercut and demonize support for the democratic opposition, the Administration should not be afraid to increase support for the political opposition, especially in the area of party formation and electoral observation. It should also identify and assist opposition mayors and professional managers to improve administrative capability and service delivery at the municipal level. Such programs should also include selected members of the United Socialist Party of Venezuela (PSUV).
- President Obama and Secretary of State Hillary Clinton should not seek *agrément* for a new ambassador to Venezuela until they are confident that Chávez is ready to address key security concerns, for example, renewed action to prevent drug trafficking (including cooperation with the DEA), an end to all support for FARC, resumption of cooperation on anti-terrorism measures, and an end to virulent anti-Americanism.
- If Chávez refuses to cooperate, the U.S. should consider: 1) stepping up targeted sanctions against individual government officials and unofficial agents of the Venezuelan government, 2) sanctioning Venezuelan institutions, including banks and, potentially, PdVSA, and 3) adding Venezuela to the list of state sponsors of terrorism.
- The U.S. should develop a comprehensive contingency plan for a possible disruption in oil supply from Venezuela.
- The Administration should seek to work directly with friends, paying special attention to Colombia and Peru, particularly passing the Colombia Free Trade Agreement in order to strengthen a

## What the U.S. Should Do

- In July 2008, Congress mandated a comprehensive national intelligence assessment on national energy security, including a study of the impact of Venezuela's oil flows on the U.S. That assessment should be completed promptly and made available publicly.<sup>73</sup>
- The Obama Administration should—quickly—develop a strategy for addressing Andean security concerns raised by Chávez and Venezuela.

73. H.R. 6510, "To Require the Director of National Intelligence to Conduct a National Intelligence Assessment on National Security and Energy Security Issues Relating to Rapidly Escalating Energy Costs," at <http://www.thomas.gov/cgi-bin/bdquery/z?d110:HR06510>: (February 10, 2009).

firm democratic counterpoint to the Chávez–ALBA alliance.

## Conclusion

While threats from transnational criminal organizations, drug cartels, and terrorist groups pose a major threat to the U.S. and the Western Hemisphere, Venezuela, as currently led by Hugo Chávez, poses the most significant, multifaceted, state-based diplomatic and security challenge to U.S. interests in the hemisphere.

Ample points of contention and divergence will make it difficult to forecast anything less than a bumpy relationship for the Obama Administration. Chávez will likely continue to see the U.S. as weak, distracted, and only modestly engaged in the Western Hemisphere. He will be inclined to probe the

limits of the possible and work to shape the future of Latin America more closely aligned to his brand of authoritarian populism and anti-American nationalism than to a Latin America governed by free people and free markets and linked together by a common spirit of cooperative security.

While President Chávez calls for a new relationship with the U.S. “based on the principles of respect for sovereignty, equality and true cooperation,”<sup>74</sup> the U.S. must judge him by his actions, not his words.

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74. Jack Chang, “Obama Win Brings High Hopes to the Hemisphere,” *The Miami Herald*, November 6, 2008.