

Venezuela seeks an alternative without Chávez

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Spotlight



The international community has again put eyes in Venezuela, that faces an eventual future without Mr. Chávez and wonders who will take the reins of the country and if a new political project will be able to steer the country's ailing economy and to promote foreign investment.

Venezuelan economy has been so influenced by politics in the last decade that it is impossible to understand one without the other.

Foreign Direct Investment has suffered in recent years, partially because of the exchange control policy established after the escape of foreign exchange that took place at the beginning of the 2000s.

In fact, FDI fell 20% in the first half of the year, though this trend could reverse: some analysts say that the Venezuelan bonds have become a 'refuge' against the crisis, especially

in the case of a possible devaluation of the local currency (which would increase revenues by exporting of petroleum).

In recent years the country's economy has experienced strong growth (4.2% in 2012), encouraged by the rise in prices of oil and a relative political stability that now looks again at risk.

On October 8, the electoral triumph of the "eternal President" cleared the doubts about his hold on power, assuring the Government until 2019 just when it first appeared



◀ that the opposition had managed to confront him. His opponent, Henrique Capriles, had gathered enough support to believe he had a chance.

Now, the announcement of the recurrence of the cancer that the President suffers, poses again a future without Mr. Chavez, whose health remains weak.

Much speculation has surrounded whether the disease would play in favour of Chavism - arising solidarity in the voters - or the opposition, - given the uncertainties about the balance of power in the chavists rows.

An eventual Government run by Mr. Capriles, would probably

be milder with foreign investment and the interests of multinational companies than Mr. Chávez's, probably opening new gates for business opportunities. But analysts and investors fear the instability that could follow the eventual death of Mr. Chavez.

Still it remains a mystery whether Mr. Chavez's successor will undertake the measures to address the challenges of the Venezuelan economy.

Illness strengthens 'Chavism'

For now it seems that the illness of the President strengthened 'Chavism.' Hugo Chávez's United Socialist Party of Venezuela (PSUV) swept the

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regional elections that took place on Sunday 16, December, in Venezuela, winning in 19 out of 23 states of the country.

On a day marked by abstention (participation barely reached 54 per cent), the opposition did not manage to take advantage of the possible power gap that the absence of the President leaves in the chavists rows, although Capriles managed to retain the State of Miranda (that includes the capital, Caracas).

When Chavez's, for the first time considered "the worst" could happen to him, he appointed its Vice-President, Nicolas Maduro, as his successor.

The questions go beyond the opposition's ability to come to make their way in the polls. The greater uncertainty is what project will be carried out by the ruling party: the moderate socialist revolution that Mr Maduro allegedly represents, or that promulgated by the hard section of Chavism, the military that supported him in the coup d' état of 1982.

Chavez's successor

The Venezuelan Constitution provides for elections in 30 days in case the President-elect could not assume in January the 10th, date in which President Hugo Chávez should be sworn to the 2013-2019 period after winning elections on October 7.

Venezuela's future depends in good part of who turns out to be Chavez's successor in the Presidency.

On the one hand, there's the opposition, which main figure is Henrique Capriles, a Young 40 year-old advocate, Christian and

auto defined as a “man of God who had managed to reap a significant support after an intense campaign in which he travelled up and down the geography of Venezuela. He promises to promote foreign investment and to and decentralize the management of a highly politicized country.

Some of Capriles’s proposals for the last general elections were:

- To keep popular (and useful) social programs created by Chavez, with transfer of resources to families in extreme poverty, but through the regular national budget.
- Capriles’s advisers have in advance that they would stop nationalizations and would revised the status of companies taken by the State to return them to private hands in some cases.
- To create flexible business procedures to facilitate private entrepreneurship.

On the other hand there’s the ‘Chavism’ which main candidate is, for now, Vice-president Nicolas Maduro.

Some of Chavez’s proposals were:

- The “irreversibility” of the model of the “Bolivarian socialism of the 21st century”, after years of centralization, massive nationalizations, economic controls and bureaucracy to start and operate ventures.
- To expand social property, both in the hands of communities, such as the State or a combination of both; and that at least 68% of Venezuelans live in communes in 2019.
- To create new massive social plans for assistance in health, education, housing and grants in cash to vulnerable sectors, financed with oil revenue.

It is a fact that the Chávez regime did decrease poverty and inequality, improving the lives of millions of people. The GINI index has fallen in the last years of 0.49 in 2005 to 0.39 in 2011, staying well below countries such as Brazil, with an index of 0.52.



Also poverty levels have fallen and the country is now the fifth in the ranking of Latin American countries.

But according to analysts, Chavism is an amalgam of trends and movements that have a single element in common, it’s charismatic leader.

In it there are two fundamental pillars: a moderate civil-trade unionist wing that Mr Maduro represents and the military that accompanied Chavez in the coup two decades ago, whose man is the President of the National Assembly, Diosdado Cabello.

Right hand of Chavez since October this year and Foreign Minister since 2006, Mr. Maduro is a convinced leftist who started when

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he was half as Maoist student leader grade and, without going through the University, worked as a driver of the Caracas Metro buses, becoming a prominent trade union leader in the 1990s.

In August of that same year, Chávez became more durable Foreign Minister of the Chavez era. As a man of utmost confidence, Mr Maduro has been the only Minister to not be separated Chavez all three times that it was operated in Havana, and it has even been commissioned to inform the health of the President.

But half of the new chavists Governors are ex officials of the army, which gives renewed forces to the military wing of the ruling party. According to analysts, one of the Cabello’s strengths is the Party’s control mechanism and the channel to the privileged access with the military, two big sources of power and legitimacy in the Bolivarian Venezuela.

The military hold key positions from the economic point of view, as the body responsible for managing the rigid control of changes, Cadivi, the collection of taxes (Seniat), ports, airports and Banks, analysts say.

Instable stability

Another triumph of Chávez’s PSUV would imply a certain ‘Instable stability’. At the end of its mandate, the “Bolivarian revolution” will have had two decades to develop its project, but this not necessarily brings stability. The President tends to understand the policy of

◀ a capricious way, having even to proclaimed and approved legislation on a live broadcast, during his daily TV program, *Aló Presidente*, and that could also be expected from its Party, whoever runs it in the future.

The risk of an eventual nationalization does not guarantee the stability and security of the investment either.

“Venezuela is an exceptional case because of the policy of nationalizations and expropriations carried out Chavez during his term. A victory of Mr. Capriles, in this sense, would be more interesting for private enterprises, for the incentives that could be found to invest in the country,” said Flavia Freidenber, Director of the Spanish Institute of Latin America, to the Spanish journal *20 Minutos*.

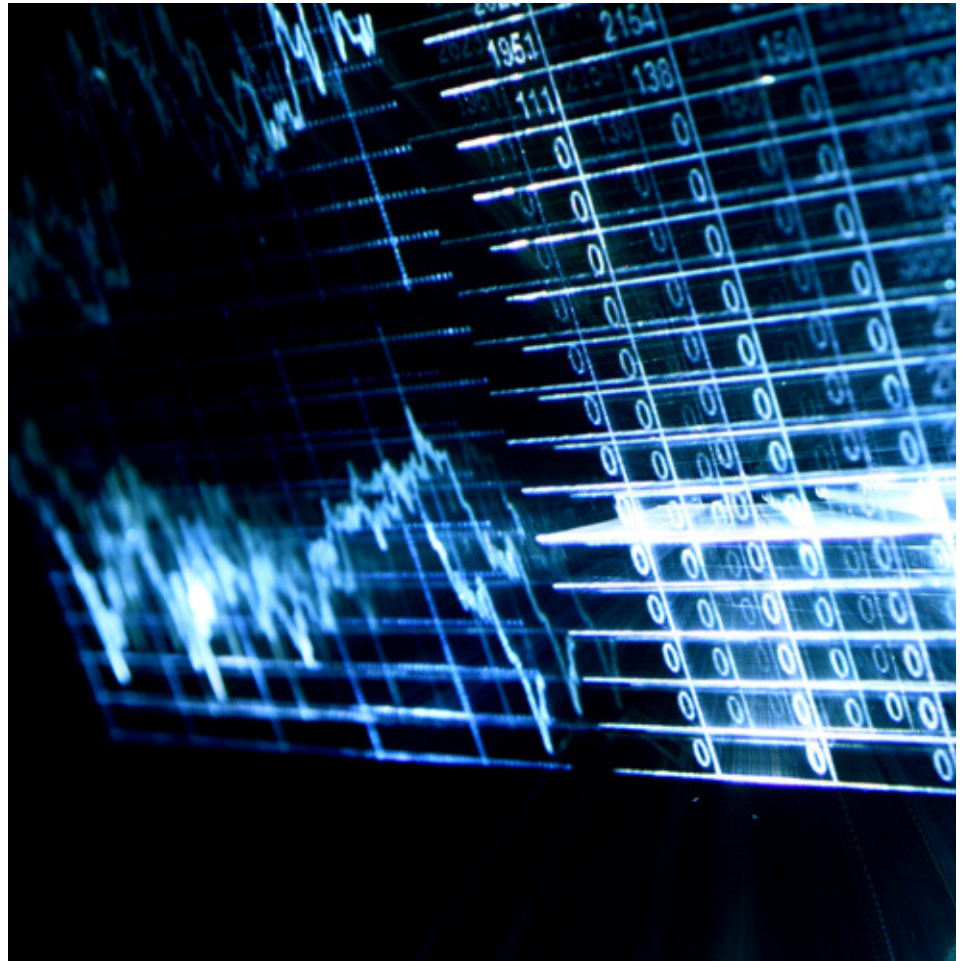
“Chavez was especially controversial with foreign investment, although there were other operations, such as exports of oil to the United States, which were kept constant”.

Finally, violence in Venezuela also does not favour a stable climate, with the risk of an eventual coup like the one of April 11, 2002 and the danger of urban violence, a growing problem that the ruling party admitted having failed to deal with. Caracas is one of the most violent capitals of America and the world, and the scourge of this violence particularly affects the poorest, hindering the growth of an emerging middle class.

Doing business in Venezuela

If Mr. Chávez’s successor desires to attract foreign investment in diversified areas, he should implement deep reforms that minimize the overwhelming bureaucracy and reinforce law and legal protection.

According to the World Bank’s annual report *Doing Business*,



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Venezuela is positioned below most Latin American countries, and also well below regional media at the “business ease ranking”. The Bolivarian republic occupies the 177 position, below Brazil (126), a country where foreign investors have already serious difficulties, and below their allies Bolivia (153) and Ecuador (130), that are lower income countries. The regional average, of Latin America and Caribbean, is 95.

The worst indicators are registered in aspects such as trading across

borders (166), paying taxes (183), protecting investors (179, on a ranking of 183 economies), and getting credit (189), but other issues are not easy either, such as getting electricity (155) and starting a business (147).

All these indicators are low, due to bottlenecks such as large numbers of procedures, long delays or high costs, (common problems in Latin American region) and weak legal rights and transparency in the business environment. The performance of Venezuela is especially negative when it comes to trading across borders, given that the average process takes 49 days to export and 71 to import and costs around USD2.600 and USD 2.900 for a container. And starting a business requires 5 months and 17 procedures.

◀ Venezuela's economic challenges

But the biggest macroeconomic problems his Government will have to face are the excessive dependence on oil and the Venezuelan national petroleum company inefficiency, PDVSA. Fluctuations in oil revenue have led to a predictable cycle of deficit spending, currency devaluation, inflation, recession, and unemployment.

The nation suffers from crumbling infrastructure and an underperforming industry. Oil accounts for at least 90% of export earnings, compared with about 80% 10 years ago.

Therefore, the Venezuela economy continues to be based on the State oil company, in the hands of Chavez, with their huge profits has invested heavily in the housing sector and in social programs, but that presents obscurantism regarding its accounting.

The opposition also accuses the President of abandoning the maintenance of PDVSA, especially after an explosion in August at the country's largest refinery, in which 42 people were killed.

Major projects of construction of social housing and infrastructure, and projects such as the national railway plan and in the field of ports promoted by the National Institute of water spaces are especially relevant.



According to his critics, inefficient public companies dominate the country, in what looks like a growing trend, with the Government heavily involved in all sectors of the economy, to the detriment of the private capital.

“Petrodiplomacy”

Therefore, we wonder how the economic scenario would have changed in the case of a victory of Mr. Capriles, something that could still happen if he waits patiently to take his place. Certainly one of the first initiatives that the young lawyer would carry out as President would be to “cut the tap” of the “petrodiplomacy” held by Hugo Chávez with countries such as Cuba,

Ecuador, Argentina, or Uruguay, whose President says “trade with Venezuela is fundamental, because of energy security”. A possible victory by Mr. Capriles would alter the balance of alliances in the region.

It is to be hoped that Mr. Capriles would keep oil as main export to China (with which Venezuela pays a great part of its debt to the Asian giant) and as the basis of the economy of a country in which “black gold” accounts for about 90% of the inflow of foreign capital. But it is expected that Capriles would be milder with foreign investment and the interests of multinational companies than Mr. Chávez, and he would probably renew diplomatic ties with countries such as Spain and EE UU.

Even in the case of a ‘Chavist’ Government, after the re-election of President Obama, the ‘Chavism’ will have to choose: Is the propaganda against “the Yankee enemy” more profitable than diplomatic reconciliation?

Opportunities for the investors

However, there are sectors of the Venezuelan market that beyond all this and are generating great benefits for those who decided to invest in the country, such as the tourism. Those who have invested in tourism in Venezuela argue that even with the problems of the country, tourism is maintained with good turnout, generating many jobs and opportunities for Venezuelans. The country also presents an opportunity to invest in real estate, infrastructure, construction and its related industries, such as construction materials and electricity.

Other opportunities arise from importing products, since Venezuela it is highly dependent on imports and once in the country, the products

◀ have a high price. And there is an interesting market in the production of food products, in an attempt of compensating food imports.

The Government also announced, in 2010, several agreements of cooperation with Italy and Portugal for areas such as education, health, infrastructure, energy, housing, goods and services, food, telecommunications, science and technology.

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Also those related to the massive interurban passenger transportation and some roads; projects, materials and equipment for the generation and transmission of electricity; desalination plants, machinery for public works and mining; projects related to vocational and educational

training and in general everything related to the publishing industry; the food industry; machinery, agricultural implements and irrigation systems; motor vehicles and automotive components.

Direct purchases from the Government (public companies) should also be taken into account, such as the acquisition of machinery, agricultural inputs and implements.

In addition, small investors may also participate in public Stock market from 2011, which is open to private companies.

Despite the complicated economic situation in the country, the profitability is often found where there is an increased risk, but the entrepreneur must pay attention to the Government operations and adapt to the new procedures.

QUESTIONS

■ What investments do you have in Venezuela?

■ What is your opinion of the country as an investment opportunity right now?

■ Do you find the country lead by Chavez is detrimental to its growth?

■ Has your business or your clients' businesses in Venezuela ever been affected by the policies of the Government, and by the current uncertainty? (ex. Bureaucracy, Construction permits, etc.)

■ In which other Latin American countries do you have investments?

■ Which other Latin American countries do you find interesting for investment?

i According to the Economic Commission for Latin America and the Caribbean (Cepal) in a report released in October, 2012. Foreign Direct Investment inflows to 17 countries of the region increased by 8% during the first half of 2012 in relation to equal period in 2011, totalling \$94.331 million, said Cepal. ■