



# Hugo Chávez's hold on power: Unstable stability

26 October 2012

By **Almudena Ortega**  
Reporter, Global Investor  
Spotlight



Hugo Chavez's electoral triumph dispelled the doubts that existed both inside and outside Venezuela about his hold on power. The "eternal" president had found, for the first time in a 14 years Government, an opponent capable of confronting him at the polls.

Henrique Capriles, a Young 40

year-old advocate, Christian and auto defined as a "man of God", had managed to reap a significant support after an intense campaign in which he travelled up and down the geography of Venezuela. Moreover, despite belonging to the upper class, Capriles had quite a presence even in areas dominated by Chavism.

If Mr. Capriles had won, he would have been milder with foreign investment and the interests of multinational companies than Mr. Chávez, probably opening new gates for business opportunities.

But the change didn't come, and the country goes again through an 'Unstable stability', where there is still room for investment and business opportunities.

It remains a mystery whether Mr. Chavez will undertake the measures to address the challenges of the Venezuelan economy.

## **Legitimised at the polls**

No one at the opposition has got any evidence of an electoral fraud, but despite being a "clean" process, it has not been a fair one. Owner of



◀ the machinery of official propaganda, the omnipresent Chavez flooded Venezuela with his messages against imperialist capitalism and in favourable to the consolidation of its "Socialism of the 21st Century".

Even so, both the opposition and the international analysts believed a defeat of the leader in the polls was possible, or at least a narrow margin between the two candidates; finally, it did not take place, as the President won by a 10 point advantage.

There are two explanations of this phenomenon. One is that of his supporters and other neutral analysts, who believe that the triumph responded to the fact that the Chávez regime did decrease

A question that has not been answered is the health of the Venezuelan leader

poverty and inequality, improving the lives of millions of people.

It is a fact that 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, considering the percentage of population below the poverty line, behind Chile, Uruguay,

Brazil and Costa Rica.

The explanation of his opponents is that the triumph is based on fear, with allegations of "intimidation" of public officials and the rumour that the vote would not be secret, with the possibility of subsequent reprisals. In any case, the argument of fear is not unwarranted, given speeches by Chavez in which he warned of a "civil war" and urged "the wealthy" to vote for him.

"A civil war would be convenient for them?" Not at all. It is only convenient for the extreme fascist right, embodied by the "loser" (Mr. Capriles). Winning is in the interest of the rich who love peace, and I invite you to vote for Chavez on October 7. Chávez ensures peace, stability and economic growth," said the President.

And, beyond the words, the campaign was stained of violence, with episodes like the death of three Capriles' militants that were fired by a chavista militant in late September.

### **Uncertainty and "decadence" of the leader**

A question that has not been answered is the health of the Venezuelan leader, recently operated on a malignant tumour and whose disease remains a mystery. If it is to make to leave temporarily or permanently the power, a substitute has yet not been clearly outlined.

But, even believing in the official version that says that Chavez is "in good shape", several analysts and international media such as The Economist ensure that the leader goes through an unstoppable process of decay. This is not only for the relatively close was falling in the polls, but because, according to several analysts, their promises to deepen the revolution cause misgivings even among his followers.

Its strong regional support do not guarantee a quiet long-term dream ▶



◀ either, with firm allies as Cristina Fernández, President of Argentina, going through periods of political instability at home.

### “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.

If the wishes of Chavez are met, Obama will also be re-elected. Both will have a second chance to rebuild. Chavez has to choose.

Therefore, we wonder how the economic scenario would have changed in the case of a victory of Mr. Capriles, something that could still happen

Is the propaganda against “the Yankee enemy” more profitable than diplomatic reconciliation?

### Instable stability

The triumph of Chávez implies a certain ‘Instable stability’. At the end of this mandate that begins, the “Bolivarian” will have had two decades to develop their project, but this not necessarily brings stability, since 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.

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 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,

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



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.

### Mr Chávez 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.

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.

### **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.

In addition, small investors may also participate in public bag bicentennial, 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. ■