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Contemporary U.S.–Latin American Relations
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Jorge I. Domínguez and Rafael Fernández de Castro

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Edited by
**Jorge I. Domínguez and
Rafael Fernández de Castro**

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To Janet Kelly (1947–2003)

Distinguished scholar, public intellectual, and friend

**At home in both Venezuela, where she lived for over
twenty years, and the United States**

**Colleague as an author in this project from its very start,
and forever**

11 Relations between the United States and Venezuela, 2001–2009

A Bridge in Need of Repairs

Carlos A. Romero and Javier Corrales

In the 2000s, relations between the United States (US) and Venezuela became the most contentious of all bilateral relations in the region. President Hugo Chávez has earned the reputation as the head of state in the region that most virulently criticizes the U.S. government and its economic system. Chávez's animosity, evident in speeches and some policies, seems hard to stop. In September 2008 animosity reached new heights when Chávez, in a speech full of expletives, declared the U.S. ambassador in Caracas, Patrick Duddy, *persona non grata*. Even before president-elect Barack Obama took office in January 2009, Chávez was already accusing him of having the same "negative" attitudes as George W. Bush.

To understand the conflict between both nations, two questions need be addressed. First: What generates this level of conflict? This question takes us in the direction of analyzing the origins—ideological, political and structural—of conflict.

The second question goes in the opposite direction: Why have not the relations collapsed entirely? The U.S.-Venezuelan discord is mostly political and so far it has not spilled over into economics and trade. The United States remains Venezuela's main trade partner, and Venezuela complies with its foreign debt payments and sells oil uninterruptedly to the United States.

In this chapter we seek to analyze these contradictory directions in U.S.-Venezuelan relations. We begin with a descriptive account of the increasing number of disagreements between both countries, at the bilateral, regional and global levels. We show how this discord sometimes conforms and sometimes does not fit well with the concept of "soft balancing" used by some international relations scholars to describe conflict among certain states. We then focus on economic factors. Specifically we show that economic interdependence in some ways fuels this discord (contradicting what liberal theories of international relations would predict) and in other ways serves as a restraining force (in accordance with the expectations of liberal theories). We then assess the strengths and weaknesses of the different hypotheses offered by governments and analysts alike to explain the rise in tensions. We conclude with a discussion of possible scenarios in the post-Bush era.

Soft Balancing and Political Conflict between the United States and Venezuela

The Concept of "Soft Balancing"

"Do you really want to be my friend?" could have been the answer of President George W. Bush to the Venezuelan head of state, Hugo Chávez, when he informally asked the U.S. president during the 2001 Third Summit of the Americas whether he "wanted to be his friend."¹ Differences between the two governments had already surfaced.² But the relation began to deteriorate quickly after September 11, 2001.³ Chávez was one of the few world leaders to forcefully criticize the U.S. invasion of Afghanistan. He refused U.S. assistance during a national emergency brought on by flooding. By 2004, Chávez was directly accusing the United States of supporting the April 2002 coup attempt, instigating the 2002–2003 oil workers' strike, of being behind several attempts to murder him, and generally of causing most of the domestic political unrest.

One way to conceptualize Chávez's political animosity toward the United States is to invoke the concept of "soft balancing."⁴ Soft balancing refers to a country's efforts—short of military actions—to frustrate and undermine the foreign policy objectives of other more powerful nations.⁵ This theoretical concept differs from more traditional forms of "power balance" in that the challenging nation seeks not to destroy the hegemonic country but to hinder its actions—*by increasing its costs*.⁶

There is some debate among scholars over factors that give rise to soft-balancing,⁷ but there is little debate over the fact that Venezuela under the Chávez government is showing signs of soft-balancing in its relations with the United States.⁸ These signs include: Avoiding systematic cooperation (i.e. not collaborating with efforts against drug trafficking), building alliances with nations that have exhibited strong anti-American foreign policies (i.e. Iran, Cuba, Belarus, Syria, Russia), creating obstacles to consensus building in international fora (e.g. the anti-U.S. "parallel summit" during the Third Summit of the Americas in Mar de Plata, Argentina, 2005), counter-offers in regional integration matters such as the Alternativa Bolivariana para las Américas (ALBA), created in 2004, and creating diplomatic "snags and ploys" (i.e. the joint military initiatives with Cuba and Russia in late 2008).

Nevertheless, as we show below, the concept of soft balancing only provides a *partial* explanation for Venezuela's behavior. In some areas, Venezuela's foreign policy towards the United States is too soft to be considered "balancing"—it is based more on talk than concrete actions. As indicated by Maihold, there is an enormous contrast between the "great pronouncements" and Chávez's modest concrete actions.⁹ In other areas, Chávez's foreign policy has become too "hard" to count as "soft"-balancing. This is evident with respect to arms purchases, his lax attitude towards drug trafficking, and alleged secret ties with nuclear or terrorism-sponsoring states and movements. Furthermore, soft balancing is not always at the center of Chavez's foreign policy. He often resorts to alternative foreign policy objectives.

War of Words

Most of the confrontation between the United States and Venezuela is all words. Rhetorically, since the early 2000s Chávez has unearthed the old idea that developing nations need to fight off the empire and defend their sovereignty.¹⁰ Chávez accuses the United States—the empire—of complete meddling in domestic affairs. Chávez also issues personal insults to U.S. presidents and high-ranking officials. Chávez stresses the need for a multipolar world, free of U.S. arrogance, and criticizes U.S.-based or U.S.-supported organizations that are dedicated to promoting democracy. He also criticizes local civil organizations that have ties across the hemisphere, while simultaneously supporting anti-U.S. social movements all across Latin America.

One of the most notorious episodes of verbal recrimination took place on September 20, 2006. Referring to Bush during a speech to the United Nations, Chávez expressed: “The devil was here yesterday. You can still smell the sulfur.”¹¹ Although some countries applauded Chávez’s words, the majority was appalled. This speech was so excessive that it might have cost Venezuela’s chances to obtain the necessary number of votes to occupy a temporary seat in the Security Council, an objective that Chávez was keen on.¹²

Washington in turn accuses Caracas of cracking down on the Venezuelan opposition, undermining democracy and human rights in the country, and fostering a non-cooperative spirit—or refraining from cooperating—on vital hemispheric security issues, such as drug interdiction and counterterrorism.¹³

On several occasions, the Bush administration called for renewed dialogue. One such occasion occurred shortly after Chavez’s electoral victory in December 2006. The then U.S. ambassador to Venezuela, William Brownfield, aptly described the status quo: “We have differences . . . serious, deep and ample differences in areas such as socialism, capitalism, free trade, hemispheric relations, relations with countries the likes of Iran and North Korea, and it is possible that such differences will not disappear tomorrow or the day after that.” At the same time, “. . . we also share a second area where we have traditionally collaborated in matters such as the struggle against illicit drugs, energy, terrorism, trade affairs, etc.”¹⁴

Brownfield became known for trying to institute a policy of dodging verbal accusations. He managed to earn the support of the State Department, and eventually the White House, on behalf of this approach. But ultimately, this policy had limited success. At times, Chávez showed moderation, saying for instance: “We are ready for dialogue . . .”¹⁵ But by mid 2007, such moderation was increasingly rare. In Chávez’s own words: “An understanding is not possible between our revolution and the Venezuelan oligarchy or with the government of the United States. Can we coexist? Yes! But will we ever embrace each other? . . . No, no, no. That is impossible.”¹⁶

On March 2007, the United States appointed a new ambassador to Venezuela, Patrick Duddy, who attempted to sustain Brownfield’s policy of dodging verbal accusations.¹⁷ Yet again, Chávez did not show restraint. He continued to claim that the United States intended to include Venezuela in its list of terrorist-sponsoring

nations. A State Department spokesperson, Adam Ereli, indicated that his office had “no intentions whatsoever” of taking such actions.¹⁸ Chávez replied by indicating “. . . if the United States wants to end relations, it’s up to them. I have no problem in shutting down the [oil] refineries. Then we’ll see how they deal with high oil prices. We don’t want to go there; we just want to be left alone. Let imperialism face the truth, Venezuela will not become a colony of the United States.”¹⁹

Although it is true that during the second Bush administration the war of words became a bit more asymmetrical, with verbal attacks from Miraflores Palace becoming increasingly strident while verbal attacks from the White House became less frequent, other agencies of the U.S. government occasionally join this war of words. The U.S. Defense Department Southern Command, for instance, drafted a report which indicated: “Although the Southern Command is still in search of working opportunities with the Venezuelan Army, our efforts have been hindered by the Venezuelan authorities.”²⁰ On January 2, 2006, the Venezuelan government informed the Bush administration that a navy officer assigned to the U.S. Embassy in Caracas, John Correa, had been declared *persona non grata* owing to alleged espionage.²¹ Less than 23 hours later, the U.S. government declared Venezuelan Embassy diplomat in Washington, Jenny Figueredo, *persona non grata*. Sean McCormack, State Department spokesperson indicated on February 3, 2006: “We don’t like this game of ‘give and take’ with the Venezuelan government, but they started this and the United States chose to respond.”²²

The State Department has also joined in. Its 2007 annual report on Human Rights in Latin America points out that the Venezuelan government “harasses the opposition and non-governmental organizations, and undermines judicial independence.”²³ On April 6, 2007, the State Department indicated that “Venezuela and Cuba remain isolated from democratic norms in the hemisphere.”²⁴ The department accused Venezuela of being one of the countries that least fought human trafficking and added that the country was “a source, a place of transit and destination of women and children for the purpose of sexual exploitation and forced labor.”²⁵

Nevertheless, the fact that the White House in general became, in the last years of the Bush administration, less willing to engage in a war of words, indicates that Chávez’s incendiary rhetoric has lost its capacity to provoke high-level government officials in the United States. That is to say, the war of words is a means of exercising soft power that over time became too “soft.” It seems to have decreasing impact on the United States, and may have even proven at times to be counterproductive, as Chávez’s UN defeat in 2006 suggests.

Military Sanctions and Military Impulses

The one area where the United States has exercised some form of punitive policy is the military realm. The United States managed to persuade Israel to suspend maintenance services for Venezuela’s F-16 aircrafts, Spain to stop supplying U.S. technology to C-295 aircrafts offered to Venezuela, and Brazil’s Embraer to stop selling Super-Tucan airplanes to the Chávez’s government.²⁶ On May 15, 2006, the State Department announced a ban on arms sales and military equipment to

Venezuela.²⁷ In September 2008, the State Department sanctioned sales from the Venezuelan Military Industry, CAVIM,²⁸ that could be used to help Syria, Iran, or North Korea to develop weapons of mass destruction or cruise or ballistic missile systems. As a consequence, CAVIM was banned from having commercial ties with any U.S. agency, participating in any assistance programs, and purchasing weapons or ammunition of any kind. All arms sales contracts were immediately canceled.

These military sanctions have provided the Venezuelan government enough reasons to seek alternative military suppliers, on the reasonable claim that it needs to reduce dependency on the United States for weapons modernization. However, Venezuela's effort to move away from U.S. military purchases predated these bans. It actually began as early as 1999 when Chávez decided to expel the U.S. Military Mission in Caracas and cancel all professional and educational cooperation programs, including outstanding military procurement. The Venezuelan Government also withdrew the Venezuelan Army from joint hemispheric and bilateral military exercises with the United States. Thus, the U.S. bans on arms sales do not really explain the start of Venezuela's military "divorce" from the United States.

Neither does it account for the extraordinary sums that Venezuela has allocated for weapon procurement in the last years of the Bush administration. In 2006 the country launched a process of modernization of its armed forces based on a six-year U.S.\$30 billion investment. Plans called for purchasing and updating military equipment and technology, including supersonic aircrafts, 15 submarines, 138 ships, radars, and 600,000 GPS laser-led common and intelligent bombs. From 2005 to 2007, the Venezuelan government spent close to U.S.\$4.4 billion in weapons imports,²⁹ which is an extraordinary amount (almost U.S.\$220 per capita) in weapons alone.

Non-Cooperation with Narco-Traffic Interdiction

In some areas, Venezuela has taken steps that directly challenge some of the vital security interests of the United States. One such key step was the 2005 decision to expel the Drug Enforcement Administration (DEA). Less than two years after this expulsion, drug trafficking through Venezuelan territory multiplied by three, turning the country into the main cocaine transit "bridge" between South America and Europe (by way of Northern and Western Africa). Venezuela has become one of the countries in the region that does least against drug production and transport.

Venezuela denies the accusations that it is doing little to stop drug traffic. Yet, even Venezuelan official records indicate that cocaine eradication in the country dropped by 50 percent in the 2005–2008 period.³⁰

Irrespective of the debate over figures and effort, the truth is that expelling the DEA alone had a disastrous impact in relations between the two nations, and has caused growing discomfort within the European Union as well.³¹ For good or for evil, the battle against drugs is at the top of the U.S. national security agenda in the hemisphere. Once the DEA was ousted from Venezuela, the world of drugs in the Andean region gained in Venezuela a vast theatre of operations—free of U.S. vigilance. As drug trade increases (and oil revenues continue decline due to the slump

in oil prices since 2008), Venezuela risks turning into a narco-state. This would represent a serious security challenge for the United States.

Maletagate and the Ambassadors' Farewell

Another event that indirectly strained relations between the two nations was "Maletagate" ("Suitcase-gate" in English, and known as "Valija-gate" in Argentina). This incident involved a suitcase containing U.S.\$800,000 which was confiscated at the Aeroparque airport in Buenos Aires, Argentina, on August 4, 2007.³² Venezuelan-American Guido Antonini Wilson took responsibility for the suitcase, but claimed to know nothing of its content. Antonini Wilson was traveling to Argentina in a corporate aircraft owned by *Petróleos de Venezuela (PDVSA)*, Venezuela's state-owned oil company, leased to *Energía Argentina Sociedad Anónima (ENARSA)*, the Argentine state-owned oil corporation. Several Venezuelan government officials and PDVSA executives were also on board.³³

Following this airport incident, Antonini Wilson made contact with the U.S. Federal Bureau of Investigation (FBI), requesting protection. He repeated that the money was not his and that it was intended for the presidential campaign of Argentina's first lady, Cristina Fernández de Kirchner. On December 2007, the FBI announced the arrest of three Venezuelan citizens, charged on pressuring Antonini Wilson to accept that the bag belonged to him.

The case led to trial in Miami against the detainees. Two of them made a guilty plea, and a third pleaded innocence. One of the three, Franklin Durán, was found guilty and sentenced on March 2009 to four years in prison.³⁴

The Maletagate incident is important because it suggests that an important component of Venezuela's foreign policy involves the illicit flows of monies from Venezuela into other countries for political purposes. This is becoming a matter of growing concern for the United States. The Treasury Department has already taken some punitive measures. On September 11, 2008, the department froze the assets in the U.S. pertaining to three Venezuelan government officers. The Treasury alleged that these individuals were assisting Colombian leftist irregulars, providing them with direct contacts with the Venezuelan government, facilitating a loan for 200,000 Euros to purchase guns, launder drug money, and obtain false documentation to travel across the Colombian border.³⁵

Immediately after the "Suitcase-gate" episode, tensions between Venezuela and the United States escalated. Chávez declared U.S. ambassador Patrick Duddy *persona non grata*, giving him 72 hours to leave the country, and recalling Venezuela's ambassador, Bernardo Alvarez. Chávez did not exactly connect the Treasury with his decision to expel Duddy, but the public justifications he offered for the expulsion were not terribly compelling. The Venezuelan government justified the expulsion, first, by accusing the United States of participating in the alleged coup of 2002 and being behind assassination attempts against the Venezuelan president. Chávez never presented any evidence.³⁶ Second, the government also claimed to be acting in solidarity with Bolivia's president Evo Morales and his decision to expel the U.S. ambassador in Bolivia. It's hard to dismiss the idea that a possible trigger was the

Treasury's action. The United States retaliated by declaring the already-departed Venezuelan ambassador, Bernardo Álvarez *persona non grata*.

Expelling or recalling ambassadors is evidence of both the seriousness as well as the inane nature of the matter. On the one hand, it is not a common practice for Latin American presidents to expel U.S. ambassadors, and vice versa. To our knowledge, the last time a U.S. ambassador to the region was declared *persona non grata* was in 1973 (Vincent de Roulet in Jamaica).³⁷ On the other, expelling the ambassadors hardly affected trade relations between the two nations. There seems to be a pattern. Each nation grows increasingly frustrated with the other, and yet retaliatory measures don't amount to much.

Soft Balancing at the Regional Level

Chávez has attempted to convert the region into an arena for his soft-balancing policy. To compete against the United States for influence in the region, Chávez has developed an alternative to U.S. "soft power." Soft power refers to the values or goals that a country tries to promote abroad that might have intrinsic appeal among other nations. In the case of the United States, core elements of its soft power include the respect for democracy, the rule of law, human rights, and political minorities at home, and for some, the value of entrepreneurship. In order to compete against these liberal values professed by the United States, Chávez has developed what one of us has denominated as "social-power" diplomacy: the value of investing in social development programs and empowering new political groups above other goals. In promoting this social-power diplomacy, Chávez pays little attention to the actual results of the social programs he helps finance (i.e., he hardly worries about the cost-benefit ratio of his investments). He also shows no regard for preserving the system of checks and balances that limit the power for presidents, if such presidents have popular support. And he privileges public sector without much regard for public transparency.³⁸

Promoting social power—which entails both intangible (a strong dose of anti-imperialistic ideology) and tangible assets (plenty of economic subsidies)—has allowed Chávez to promote a model of governance that is different from the liberal values that the United States promotes, especially those agencies concerned with fostering development and democracy, all of which place a high value on government accountability. Call it "participatory democracy" (the preferred term during the early years of the Chávez administration) or "XXI Century Socialism" (the preferred term today), the defense of unrestrained statism, not seen in Latin America since the early 1980s, is a hallmark of "chavismo."³⁹

Spreading this model of governance in the region—through supra-national institutions, state-to-state relations, and support for leftist opposition forces—has had mixed results. On the one hand, it has allowed Chávez to create allies, or at least, tacit agreements with other governments not to criticize each other. This agreement includes even many non-radical governments. On the one hand, social-power diplomacy has failed to unite the region against the United States, and in some cases, has actually made political forces in the region turn highly critical of Venezuela, and in some cases, electorally victorious.

Supra-National Efforts: The OAS and Free Trade Agreement of the Americas (FTAA)

Chávez has tried to use the OAS as an arena for his soft-balancing policy and especially social-power diplomacy. He has opposed most positions supported by the United States and other nations regarding the organization's role as a guarantor of democracy and human rights in Latin America and the Caribbean, including active participation in electoral observation missions and support for non-governmental organizations involved in electoral oversight.

Chávez has also attempted to block regional integration through the U.S.-supported promotion of regional free trade. He calls instead for integration based on state property (agreements among state-owned enterprises) rather than with private direct investment. This statism is a key element of ALBA.⁴⁰

Since 2003 Venezuela has received enough oil revenues to develop an energy and financial assistance program worldwide, especially for Latin America and the Caribbean. Chávez disburses this aid through bilateral and multilateral schemes such as Petroamérica, PetroCaribe and the San José Energy Agreement. Venezuela's economic contributions to these programs are estimated to have amounted to U.S.\$40.3 billion, including a poverty fund for America, long-term financing under privileged conditions of Venezuelan oil supply to more than fourteen countries in the region, infrastructure investments, purchase of other governments' debt papers; subsidized or free heating oil for low-income communities in the United States through the Venezuelan state-owned CITGO, in collaboration with U.S. municipal governments or non-governmental organizations.

State-to-State and State-to-Society Relations: Ties with Other Left-wing Governments

At the start of the twenty-first century, Latin American politics experienced what came to be known as the leftward shift, with the election of candidates and movements that campaigned on the left of the political spectrum. It soon became clear that at least two "Lefts" emerged.⁴¹ A Left that was more willing to negotiate with Washington and undertake social change through democratic parameters while preserving market forces, and a radical Left committed to statism and anti-party politics, distrustful of checks and balances that may constrain the executive branch, and repeating anti-American and anti-market slogans.⁴²

Hugo Chávez's foreign policy objective towards the radical Left has been to become its undisputed leader, and towards the moderate Left, to make it less critical of Chávez and less moderate, at least in its relations with the United States. In order to achieve these goals, Chávez has resorted to two tools: (1) provision of subsidized "goods" (economic assistance, loans and subsidized oil) without many economic conditionalities, and (2) threatening the moderate Left with governance problems by appearing capable of either stirring trouble or tempering domestic tensions across each country's more radical factions.

The strategy's main achievements have been twofold. First, Latin America's radical Left—in power or in the opposition—certainly considers Hugo Chávez a

prominent leader, at least in economic terms. Second, many of these leftist presidents owe their electoral victories in part to technical and financial assistance from Venezuela: Evo Morales in Bolivia, Rafael Correa in Ecuador, Daniel Ortega in Nicaragua, Fernando Lugo in Paraguay, and Mauricio Funes in El Salvador. Néstor and Cristina Kirchner in Argentina and José Manuel Zelaya in Honduras may not owe their elections to Chávez's help, but once in office, they received substantial help. With Zelaya, Venezuela became the predominant external source of financing in Honduras.

The closest ties seem to be reserved for Bolivia. President Chávez provided financial, technical, and political advice (including personnel) to Evo Morales's campaign, and direct advice and financing during Morales's drive to change the Constitution (2006–2008). Chávez offered to create a bi-national company, PetroAndina, dedicated to oil development, to collaborate with the Argentinean-Bolivian project to build a liquid gas plant, to create the Organización de Países Productores y Exportadores de Gas del Sur, Opegasur (Organization of Gas producing and Exporting Countries of the South),⁴³ and to finance an unknown portion of the Bolivian state fiscal expenditure.

Ecuador has also benefited from Venezuela's assistance, although the relationship does not seem to be as close as Bolivia's. President Rafael Correa has indicated on several occasions that he accepts Chávez's "ideological package" and apparently also received counseling during the country's constitutional reform (2007–2008). Venezuela sponsored Ecuador's 2007 reentry into the Organization of Petroleum Exporting Countries, after a fifteen-year absence. Ecuador is now a member of ALBA and OPEC. Although Correa occasionally claims not to be aligned to Caracas, their foreign policies are similar, especially with respects to OPEC (supporting supply restrictions). The closest that Chávez has acted on behalf of Ecuador was shortly after the March 2008 conflict with Colombia, which prompted Venezuela to call for military mobilization against Colombia in solidarity with Ecuador; but less than a week later, Chávez retracted and lessened his support for Correa in his quarrel with Colombia.

Like Morales and Correa, Nicaragua's President Daniel Ortega owes his 2006 electoral victory to Chávez's support. But unlike Morales and Correa, he came to power with minority support: 38 percent. Ortega therefore has not been able to accumulate as much power as these other leaders, even though he has generated similar levels of polarization.

Despite these victories for Chávez, his policy of promoting the Left in the region has had major failures as well. Caracas has failed to convince the nonradical Left to align behind Venezuela, embrace its policy of soft balancing the United States, sever ties with the DEA, or turn its back on U.S. trade in general. A clear example of this failure was the vote for the two non-permanent seats in the United Nations Security Council in 2006. Venezuela lobbied hard for a seat, competing heavily against Guatemala, which had U.S. support. Neither country obtained a majority of votes and in the end, Panama won as a form of compromise.⁴⁴ One could even argue that Chávez has actually made some members of the moderate Left turn friendlier toward the United States: Luiz Inácio "Lula" da Silva in Brazil, Tabaré Vázquez in

Uruguay, Alan García in Perú are all closer to the United States than they were during their presidential campaigns, and Chile has maintained the same closeness to Washington since the beginning of 1990s. In many countries, Chávez has become a very unpopular figure, as unpopular as George Bush, according to some polls.⁴⁵ Chávez is more of a polarizing than a uniting figure across the Latin American electorate, with some of the deepest divisions within the Left itself, especially in Argentina, Peru, Colombia, and Mexico.

Furthermore, Chávez's foreign policy toward leftist governments in the region is not without competition. At the end of the Bush administration, Venezuela started facing a sort of soft-balancing response from Washington and Brasilia. One of the most remarkable changes in U.S.–Latin America relations, which began under Bush's and Lula's second terms, was a dramatic rapprochement between Washington and Brasília. In the United States, this rapprochement counts on the full support of the White House, Congress, the press, and many sectors of U.S. society, left and right. Although not openly expressed, analysts acknowledge that Brazil and Venezuela are clearly competing to establish their influence in the region,⁴⁶ and it is clear that the United States has placed its bets on Brazil, and that Brazil enjoys far more prestige in the region than Venezuela.

Another way in which the United States has tried to soft-balance Venezuela is by offering free trade agreements bilaterally. After failing to obtain hemispheric-wide free trade agreements, Bush switched toward a policy of bilateral trade negotiations with any takers. Many countries in the region have welcomed these negotiations, frustrating Chávez's desire to have an alternative trade association free of U.S. influence.⁴⁷

Alliance with Cuba

Hugo Chávez's warm welcome in Havana on December 1994 and his electoral victory in 1998 marked the beginning of a new chapter in Venezuela–Cuba relations. This new chapter has had two parts, thus far. The first from 1999 to 2004 focused mostly on bilateral issues. Since 2004, the relationship has acquired a closer and more multilateral dimension.⁴⁸

During a first stage, Venezuela committed to helping Cuba soften the impact of the U.S. trade embargo and the harsh economic conditions brought about by the collapse of trade with the USSR. Venezuela also committed to helping Cuba lessen its dependence on private foreign investment. These commitments became formal with the October 2000 Comprehensive Cooperation Agreement, calling for more trade, including "selling" 57,000 barrels of Venezuelan oil in Cuba at the subsidized price of U.S.\$27 a barrel, with Venezuela paying for transportation and insurance costs. In exchange, Cuba began exporting to Venezuela initially 13,000 Cuban workers mainly from the health sector (physicians, nurses, and paramedics), and sports and education professionals.⁴⁹ The number of military personnel and intelligence exported is unknown, although certainly a much smaller yet much more influential group than the crew of social workers.

The second stage began with the launch of ALBA, initially signed only by Venezuela and Cuba in 2004 but since then signed by Bolivia and Nicaragua in

2006, Dominica and Honduras in 2008, and St. Vincent and the Grenadines in 2009. ALBA veered the relation with Cuba towards a regional strategy.⁵⁰

Even in this new stage of greater multilateralism, both nations continued on their path toward deeper bilateral relations. In 2005, for instance, Venezuela increased its daily oil shipments to 95,000 barrels per day, which represent 54 percent of the total 175,000 barrels per day consumed by the island (Cuba produces some 80,000 barrels per day). Cuba is a member of PetroCaribe, a Venezuelan oil cooperation mechanism for the Caribbean created in 2005, and receives by this means an additional sum of 41,000 barrels.⁵¹

Overall, trade of goods and services between Venezuela and Cuba increased from U.S.\$388 million in 1998 to U.S.\$10.9 billion in 2008. Between 2007 and 2009 alone, trade almost doubled, from U.S.\$2.6 billion to U.S.\$5.3 billion. It has been estimated that some 39,000 Cuban “personnel” were in Venezuela in 2007, 31,000 of them in the health sector, which represents 75 percent of all of Cuba’s international health staff.⁵²

The relationship with Cuba has a military component as well. As soon as Chávez declared the United States the top enemy in Venezuela’s war scenarios, the Venezuelan armed forces adopted a military doctrine to counter a potential attack from the United States commonly known as the asymmetrical war doctrine. Accordingly, Venezuelan armed forces receive technical and ideological training to fight a war and to inflict losses on a decidedly more powerful adversary. This war scenario includes the possibility of fighting the United States over Cuba. There is also a joint Cuban-Venezuelan proposal to create a defense block different from the Inter-American Treaty of Reciprocal Assistance, with the participation of Cuba but not the United States, and to provide strategic assistance to friendly governments and revolutionary movements in the region. Venezuela has also adopted a Cuban inspired military iconography (e.g., the new motto of the Bolivarian National Armed Force is: “Country, socialism or death”).

However, it remains unclear whether, in the event of a Cuba–United States military confrontation, Venezuela would provide military support for Cuba, allow Cuba to use Venezuelan military facilities, or provide any type of advice.⁵³

Ever since Raúl Castro succeeded Fidel Castro as president of Cuba, there is talk that relations with Venezuela have soured a bit. In September 2008, Raúl Castro seemed to have taken a stand toward the Bolivian situation that differed from that of Venezuela, making no reference to the deteriorating relations between Venezuela and the United States while still asking the U.S. government to allow for a six-month period for the purchase of U.S. goods by a credit line.⁵⁴ However, both countries deny that there are any rifts. The Cuban president officially visited Venezuela on December 13–15, 2008, his first visit abroad as president.⁵⁵

There are good reasons to expect the Cuban-Venezuelan alliance to remain strong as long as Chávez and the Castros rule. To understand the strength of this alliance, it helps to think of a double analogy. For Cuba, Venezuela has become the “new Soviet Union,” a provider of significant economic subsidies in exchange for no conditionalities on how the Castros run the island. For Venezuela, Cuba has become in turn a sort of issuer of a certificate of good “radical” conduct and an exporter of technical personnel. Thus, each country supplies the other with a set of

assets that are inexpensive for the sending party but highly valuable for the receiving party.⁵⁶ This suggests that the relationship is stronger than any differences of personality between Chávez and Raúl Castro.

Soft Balancing Outside the Region: Iran, China and Russia

In his extra-hemispheric relations, and especially with authoritarian regimes, Chávez seeks to achieve (1) soft balancing of the United States, but also these other goals: (2) maximizing weapons acquisition; (3) finding trading partners who do business mostly through state-owned enterprises rather than private investors; and (4) cooperating with nations whose governments are not subject to democratic accountability.

These four objectives explain relations with Iran, and to some extent, Russia and China. Because Iran is an avowed adversary of the United States, links with this nation contribute to Venezuela’s goals of soft balancing the United States. Links with Iran also provide arms and ammunition, and this has alarmed the United States, which fears that Iran may help Venezuela develop nuclear capabilities without international verification, or vice versa. Although nuclear arms cooperation between Caracas and Teheran has not been confirmed, it cannot be ruled out either.⁵⁷ Venezuela supported Iran’s dispute with the United Nations regarding Iran’s nuclear program and was the only nation to twice oppose the resolutions adopted by the International Agency of Atomic Energy sanctioning Iran in September 2005 and February 2006.

Iran also serves as a trading partner that does business through mostly state-owned enterprises. Trade between the two nations climbed from U.S.\$1.1 million in 2004 to U.S.\$50.7 million in 2006. In 2006 trade peaked at U.S.\$37.4 million in Iranian exports to Venezuela and U.S.\$13.3 million imports from Venezuela, a highly favorable trade balance for Iran. In April 2008, both nations signed 192 cooperation agreements in areas such as transportation, agriculture, auto manufacturing, health, and construction.⁵⁸ Iran’s state-owned Petropars began surveys of oil reserves in the Orinoco Belt’s Block 7. Both nations founded the joint venture Venezirian Oil Company and the Venezuela-Iran Petrochemical Company.⁵⁹ A joint Iran-Venezuelan company is producing tractors.

Relations with China comply with objectives 3 and 4, less so with objectives 1 and 2. Venezuela sees China through two levels: as an important trade partner, and as a potential “revolutionary” partner in international politics. However, China has been reluctant to join Venezuela’s efforts to balance the United States or to supply Venezuela with significant arms. Venezuela has acquired fighting equipment and technology from China (24 K-8 airplanes and ten radars JYL1). China has increased oil imports from Venezuela (approximately 150,000 bpd). However, China is still a long way from buying the 1.5 bpd that the United States imports from Venezuela. China has also refused to join any form of strategic-military alliance, and has never really embraced Venezuela’s “ideological package.”⁶⁰

Relations with Russia fulfill all four objectives, but the focus is on arms acquisition, and, increasingly on soft balancing.⁶¹ Since 2005, Venezuela has signed more

than twelve escalated arms purchase agreements worth over U.S.\$4.4 billion with cash payment from Venezuela and a U.S.\$2.2 billion credit line from Russia.⁶² In 2007, Venezuela became the third world's largest buyer of Russian arms, after China and India. In arms imports per capita, Venezuela is by far Russia's best customer: in 2007, Venezuela spent \$33 per person on Russian weapons; China U.S.\$0.96 and India U.S.\$0.79. In 2008, Venezuela was the eighth largest arms importer in the world (up from the 39th spot in 1999).⁶³

Venezuela surprised many in late 2008 with the announcement of joint Russian-Venezuelan tactical communication maneuvers and navy exercises, the so-called Joint Venus Operation of November 29 to December 2, 2008. On September 10, 2008, the Russian government announced that the two Tu-160 strategic Russian bombers would fly the Caribbean air space for a few days, departing from a Venezuelan military base. During Russian president Dmitri Medvedev's visit to Caracas on November 26–27, 2008 to inspect joint military maneuvers and sign bilateral agreements, no reference was made whatsoever to possible military alliance.⁶⁴ However, there was talk of nuclear cooperation. Russia proposed to construct atomic power reactors in Venezuela. Atomstroyexport, the same company that constructed the Bushehr plant in Iran, confirmed its participation in negotiations for an agreement of nuclear cooperation with Venezuela. During Medvedev's visit to Caracas, an agreement was signed establishing "cooperation in the matter of controlled thermonuclear fusion, nuclear power plant security and development, construction of the experimental reactors and nuclear power plants." One of the elements briefed in the agreement is development of uranium.⁶⁵ In late 2009, Chávez announced his intention to acquire short-range missiles from Russia, capable of hitting Colombia and the islands of Aruba and Curaçao, where the United States operates surveillance flights.

So far, this military rapprochement with Russia has not set off too many alarms in the United States. The then U.S. Secretary of State, Condoleezza Rice, expressed that the alleged Russian advance in the region was "anachronistic."⁶⁶ Nevertheless, Russian-Venezuelan links are profoundly political, not just commercial/military. Unlike China, Russia has embraced Venezuela's open desire to build a multi-polar world and even end the so-called "dictatorship of the dollar." Consequently, we can expect greater cooperation. Venezuela supported Russia during the conflict with Georgia in 2008.⁶⁷ By September of 2009, Chávez visited Russia for the eighth time. This last time, Venezuela agreed to create a joint bank with Russia, and became one of the only three countries in the world (after Russia and Nicaragua) to recognize Abkhazia and South Ossetia, separatist republics of Georgia.

Economy and Trade as both a Driver and a Break on Soft Balancing

Economics is both the main driving force and the main restraining force on Venezuela's soft-balancing policy. The nation has benefited from two advantageous international developments: (1) the highest oil export revenue income in its history, close to U.S.\$700 billion in a ten-year period, which is a staggering sum for a country of 26 million inhabitants, amounting to U.S.\$27,000 per inhabitant, and

(2) the certainty that the United States will not declare an economic embargo on Venezuela.⁶⁸

Venezuela oscillates between being the fourth and the fifth largest supplier of oil and oil derivatives to the United States (see Table 11.1) In 2008, Venezuela exported a total of U.S.\$51.4 billion to the United States, or 55 percent of its total world exports (see Tables 11.2 and 11.3). The United States also supplied the bulk of

Table 11.1 U.S. Oil Imports by Country of Origin, 2008 (millions of barrels per day)

Canada	1.9
Saudi Arabia	1.5
México	1.2
Venezuela	1.0
Others (Nigeria, United Arab Emirates, United Kingdom, etc.)	4.2

Table 11.2 Venezuelan Exports by Destination (millions U.S.\$)

<i>Years</i>	<i>World</i>	<i>United States</i>	<i>European Union</i>	<i>Latin America</i>	<i>Andean Zone</i>	<i>Others</i>
1998	17,564	9,181	1,926	N/A	1,953	4,504
1999	20,915	11,334	838	N/A	1,406	N/A
2000	34,038	18,650	2,350	4,506	3,902	N/A
2001	25,722	12,802	2,963	5,501	1,479	3,405
2002	20,515	10,853	3,076	N/A	2,191	2,915
2003	22,475	9,175	2,560	3,809	1,410	4,720
2004	36,630	11,655	4,580	6,053	2,333	11,699
2005	55,487	33,978	3,360	N/A	2,255	N/A
2006	65,210	37,133	6,000	N/A	2,535	N/A
2007	70,838	39,896	2,517	N/A	N/A	N/A
2008	93,500	51,423	N/A	N/A	N/A	N/A

Sources: MIC, BCV, Venezuelan Government.

Table 11.3 Venezuelan Exports by Destination (percentage of total)

<i>Years</i>	<i>World</i>	<i>United States</i>	<i>European Union</i>	<i>Latin America</i>	<i>Andean Zone</i>	<i>Others</i>
1998	100	49.2	10.9	N/A	11.1	28.8
1999	100	54.1	4.0	N/A	N/A	42.1
2000	100	55.3	6.7	22.6	9.5	N/A
2001	100	49.7	11.5	21.3	N/A	13.2
2002	100	52.9	14.9	N/A	10.67	14.2
2003	100	40.50	8.9	12.4	6.2	21.0
2004	100	45.20	10.1	16.8	6.3	21.8
2005	100	61.33	6.1	N/A	4.1	N/A
2006	100	56.95	9.2	N/A	3.9	N/A
2007	100	55.38	6.2	N/A	N/A	N/A
2008	100	55.22	N/A	N/A	N/A	N/A

Sources: MIC, BCV, Venezuelan Government.

Table 11.4 Venezuelan Imports by Place of Origin (millions in U.S.\$)

Years	World	United States	European Union	Latin America	Andean Zone	Others
1998	14,816	6,545	2,661	2,320	1,094	2,196
1999	11,751	5,353	1,736	2120	1,082	1,460
2000	16,073	5,550	1,573	2,079	1,561	2,709
2001	18,534	5,976	2,803	3,015	2,123	3,210
2002	20,800	6,007	2,511	3,824	1,478	4,115
2003	22,584	6,840	2,412	3,505	1,001	4,806
2004	24,014	7,905	3,595	4,980	2,133	5,401
2005	23,955	6,879	2,813	8,700	3,115	2,448
2006	32,226	9,325	3,500	8,640	3,225	7,536
2007	52,987	10,199	2,561	22,678	2,957	14,592
2008	45,100	9,611	3,200	13,900	6,403	11,986
2009	31,664	8,552	2,800	8,756	4,990	6,556

Sources: MIC, BCV, Venezuelan Government.

Table 11.5 Venezuelan Imports by Place of Origin (percentage of total)

Years	World	United States	European Union	Latin America	Andean Zone	Others
1998	100	44.2	17.9	15.6	7.3	14.8
1999	100	45.6	14.7	N/A	8.1	31.1
2000	100	35.7	14.9	19.8	9.7	25.1
2001	100	32.5	15.0	16.2	11.4	17.3
2002	100	30.1	10.8	18.3	7.1	20.8
2003	100	32.8	9.50	19.3	4.4	31.4
2004	100	33.4	10.5	20.7	8.8	29.1
2005	100	25.5	11.7	36.7	11.2	14.9
2006	100	19.2	10.8	26.7	12.3	31.1
2007	100	19.2	2.9	42.8	5.6	29.4
2008	100	21.3	7.1	30.8	14.2	26.6
2009	100	27.0	8.9	27.6	15.7	20.8

Sources: MIC, BCV, Venezuelan Government.

Venezuela's imports of goods and services: 12.6 billion, or 28 percent of Venezuela's world imports (see Tables 11.4 and 11.5).

Venezuela's oil production is decreasing considerably, and exports to the United States have fallen in volume (they increased in dollar values, at least until mid 2008, because of increases in the price of oil, see Table 11.6). However, export revenues from other countries have dropped more than export revenues from the United States.⁶⁹ Consequently the Chávez administration is today more dependent on the United States for its exports than at the start of his administration (see Table 11.3). Venezuela's oil exports to the United States in 2008, the year that this oil price boom ended, still represented a 22 percent increase from 2007.⁷⁰ Furthermore, Venezuela does not have any major export other than oil and oil-derived products (see Table 11.7), which creates a double dependence: on one market (the United States) and one commodity (oil).

This dependence on the United States market serves both as driver and restraint on Venezuela's soft-balancing policy. The U.S. market remains guaranteed, which

Table 11.6 Price of Venezuelan Oil per Barrel in U.S.\$ (annual average)

Years	U.S.\$ price per barrel
1998	10.80
1999	16.00
2000	26.14
2001	20.21
2002	21.95
2003	25.62
2004	31.13
2005	45.39
2006	56.45
2007	65.74
2008	86.81
2009*	52.91

* Up to August 2009.

Sources: PDVSA, Venezuelan Government. El Universal: http://www.eluniversal.com/2009/10/09/en_eco_art_venezuelan-oil-baske_09A2873331.shtml.

Table 11.7 Venezuelan Exports to the United States by Type of Product, 2008

Product	Millions U.S.\$
Oil	40,457.0
Oil Products	3,674.0
Fuel Oil	912.1
Bauxite and Aluminum	554.3
Organic Chemical Products	315.6
Iron and Steel Products	572.0
Car Spare Parts	32.6
Carbon and Carbon Products	181.0
Liquid and Natural Gas	3,636.0
Others	1,890.0
Total	51,423.0

Note: Oil, Oil products and Fuel Oil represents 88 percent of the total.

Source: FTD Webmaster, Foreign Trade Division, U.S. Census Bureau, Washington, US

provides the cash that finances Chávez's international deals, but it also means that Chávez has nowhere else to go to place its oil exports. There simply is no other oil market that is as large, as geographically close, and as equipped to refine Venezuelan oil. China could be the only possible replacement, but it is located at a substantially greater distance (considerably increasing transportation costs), does not have the oil tankers necessary to make trans-oceanic oil shipments affordable, nor does it have the necessary refineries to process Venezuela's special type of heavy crude.

The two areas in international economics where Chávez has met his diversification objectives are foreign investments and imports. Under Chávez, U.S. investments in Venezuela declined from 87 percent of total gross capital income in 1998 to 55 percent by 2007 within the decreasing tendency observed in recent years.

Imports from the United States declined from 45.6 percent of total imports in 1999 to 28.1 percent in 2008 (see Table 11.5) However, it is noticeable that some U.S.\$150 billion in Venezuelan private hands are placed in bank deposits, financial products, and other financial instruments in different U.S. financial institutions or under U.S. registry.⁷¹

High oil prices between 2003 and 2008 enhanced the Venezuelan state's bargaining leverage vis-à-vis private energy multinationals as well. The state was able to impose business-unfriendly conditions on private energy companies (higher taxes and royalties, more discretionary terms, forced conversion of contracts into joint-ventures). However, the fact that U.S. oil companies remained and continued to invest in the country (see Table 11.8) despite these statist conditions is proof that the favorable oil prices granted the state the most bargaining leverage and still left room for private companies to make profits. To this day, U.S. oil companies are participating in joint ventures in exploration of oil and off-shore gas, in the Orinoco River Basin, Delta Platform, the Venezuelan Gulf and the Falcon state coast, by means of oil tankers for liquid natural gas (LNG) transportation; and, in the long term, through a gas pipeline through Colombia or an underground pipeline through the Caribbean and on to Florida, in conjunction with Trinidad and Tobago.

Venezuela's economic expansion cycle ended in mid 2008 with the drop in world oil prices and the global financial crisis starting in the fall of 2008 (see Table 11.9). This double shock (in price and demand) has somewhat impaired Venezuela's capacity to carry out soft balancing, and maybe even its approach to foreign private investors. By April 2009, the Venezuelan government was courting, for the first time since the early 2000s, private oil companies to invest in Venezuela, offering them the chance to own minority stakes in lucrative Orinoco River Basin oil projects.

Nevertheless, it is clear that Venezuela seeks two economic goals that are difficult to reconcile with each other: (1) increase capital and technology investments in the

Table 11.8 U.S. Investments in Venezuela

Years	U.S.\$ millions
1998	622
1999	1,396
2000	3,798
2001	461
2002	150
2003	462
2004	-1,093
2005	2,073
2006	2,045
2007	1,229
2008	1,472

Source: Bureau of Economic Analysis, U.S. Department of Commerce: <http://www.bea.gov/international/>.

Table 11.9 Selected Macroeconomic Indicators for Venezuela and Latin America

	Venezuela: GDP Growth Rates	Venezuela: Annual Inflation Rate	Latin America: Annual Inflation Rate	Venezuela: Unemployment Rate	Latin America: Unemployment Rate	Venezuela: Exchange Rate (Official)	Venezuela: Exchange Rate (Paralelé)
1999	-7.0%	20.2%	9.7%	15.4%	11.0%		
2000	3.8%	13.4%	9.0%	14.0%	10.4%		
2001	2.9%	12.3%	6.1%	13.4%	10.2%		
2002	-8.9%	31.2%	12.2%	15.8%	11.0%		
2003	-9.7%	27.1%	8.5%	18.0%	11.0%		
2004	17.9%	19.2%	7.4%	15.3%	10.3%	2.150Bs	
2005	10.3%	14.4%	6.1%	12.4%	9.1%	2.150Bs	2.500Bs
2006	10.3%	17.0%	5.0%	10.1%	8.6%	2.150Bs	6.100Bs
2007	8.5%	19.5%	6.1%	8.5%	8.0%	2.150Bs	5.10BsF
2008	6.2%	30.9%	9.30%	7.2%	NA	2.15BsF	
2009*	-1.20%	40.2%	6.00%	9.4%	NA	2.15BsF	5.91BsF

* Figures are provisional.

Source: Venezuela GDP, Inflation: Banco Central de Venezuela, <http://www.bcv.org.ve/EnglishVersion/c2/index.asp?secc=statistinf>. Latin America Inflation and Unemployment: ECLAC, http://www.eclac.org/cgi-bin/getProd.asp?xml=/de/agrupadores_xml/&xsfl=/agrupadores_xml/agrupa_listado-i.xsl&base=/tpl-iftop-bottom.xsl.

oil sector, which is something that can best be delivered by private energy companies, and (2) reduce dependence on private companies from democratic countries, since these are accountable to third parties (shareholders, governments, courts) which makes them unappealing to Chávez's anti-transparency administration. So far Chávez has privileged the latter objective. The sacrifice of capital and technology investments is one reason that Venezuela's oil sector is experiencing declining productivity and frequent industry-related accidents.

Hypothesis Revision

We can now return to our initial questions. What explains the rise in conflict in U.S.–Venezuela relations, and why haven't such conflicts culminated in a complete breakdown? In this section, we review four sets of answers.

The Aggressive Giant

The first hypothesis places most of the blame on the United States. The argument is that the lack of cooperation between the United States and Venezuela is the result of punitive policies applied by the United States against the Venezuelan government. The key idea behind this hypothesis is that the Venezuelan government would cooperate were it not for Washington's antagonistic attitude. The most relevant pieces of evidence in support of this hypothesis are the role played by the United States in the events leading to the 2002 coup,⁷² the ongoing debate in the U.S. administration over Venezuela's alleged cooperation with terrorist organizations, the U.S. ban on arms sales to Venezuela, and sanctions against Venezuelan officials.

However, this hypothesis faces significant empirical difficulties. Venezuela's distancing from Washington began much earlier than the 2002 coup (Venezuela's refusal of U.S. assistance during the 1999 natural disaster in the state of Vargas and its severe criticism of the 2001 U.S. invasion of Afghanistan). Second, initially the Venezuelan government did not consider U.S. actions during the events that led to the 2002 coup to be all that relevant. Third, anti-Venezuelan rhetoric and policies by the United States have diminished since 2005 and, yet, the anti-American rhetoric and policies from Venezuela have increased since then. Fourth, the ban on arms sales to Venezuela may have driven the country to closer relations with Russia and maybe Iran, but it does not account for the expansion of Venezuela's arms spending.

The corollary to this hypothesis ("The United States is the aggressor") is that the United States sides with Chávez's domestic enemies (whom Chávez calls the "coup-plotting" opposition)⁷³ and regional rivals (Colombia), while harboring secret intentions, as Chávez claims, to invade the country or murder the president. Gregory Wilpert, for instance, analyzes this "side with the enemy" line by arguing that the National Endowment for Democracy (NED) has increased the amount of funds allocated to the opposition. According to Wilpert such aid climbed from U.S.\$232,831 in 2000 to almost U.S.\$10 million in 2003. Chávez accused the Venezuelan NGO "Súmate," which helped organize the recall referendum of 2004, of having received U.S.\$53,000 from the NED and U.S.\$84,840 from USAID.⁷⁴

However, the aid provided by the United States to non-state actors seems puny in comparison to aid that other nations receive, and to the resources the Venezuelan government itself administers. It is estimated that, in 1973, the United States contributed U.S.\$8 million in aid to opposition groups in the Chile of Salvador Allende,⁷⁵ which is equivalent to U.S.\$36 million in 2006 dollars. This makes it hard to sustain the claim that aid to the Venezuelan opposition is significant.

Yet another corollary to the "US is the aggressor" thesis is based on the idea that Chávez is acting preemptively. The problem is that any argument based on preemption is hard to corroborate or disprove. It is based on information—real or imagined—that we have no access to. Nevertheless, the T-72 tanks that Venezuela is purchasing from Russia would be of no use against an alleged invasion from the United States, or for a campaign to invade Colombia given the topographical conditions of the country. In the end, one cannot rule out the possibility that all this talk of preemption is mere cover for a Chávez's own fabrication.

There Is no Aggressive Giant

If the conflict between the United States and Venezuela stems, at least, from Chávez's own fabrication, then the key question is: What does Chávez gain by provoking or sustaining this degree of confrontation? Two answers are possible. One is based on a thesis that is the exact opposite of the "the US is the aggressor" argument: Venezuela pursues soft balancing because it knows that U.S. retaliation—an economic embargo or even a military invasion—is unlikely.

This idea has theoretical and empirical support: The United States seems to be treating South America increasingly as a region of declining importance for national security. Commentators during the Bush years often talked about the administration's lack of attention to the region. The security threats posed by the Middle East and Asia overshadowed any problems from Latin America.

Nevertheless, it is easy to exaggerate the extent to which U.S. interest in the region is waning. No doubt, the region poses smaller threats in comparison to other world regions and fewer economic opportunities than Asia. This does not necessarily mean, however, that the United States has lost complete interest. Venezuela, for one, has incurred in domains that are vital to the United States: threat of oil embargos, alleged links to terrorists and nuclear regimes, inattention to drug trafficking, anti-Semitic actions, expropriation of private enterprises, and weapons acquisition, production and distribution. Historically, these types of actions would have drawn attention from high-ranking White House officials, Congress or both. Therefore, is it unclear whether U.S. policy of tolerance towards Venezuela is the result of the low salience of the issues at stake.

Generating Conflict for Different Political Reasons

A different explanation is based on an entirely different argument: the idea that conflict is instrumental to the party generating such conflict. This is based on the more traditional international relations theory that governments often pursue international conflict in order to neutralize and contain domestic unrest.⁷⁶

The question then is: What domestic objectives does Chávez achieve, if any, by creating conflict with the United States? Two possible hypotheses may be explored. One is diversion: the state promotes external conflict in order to divert attention from domestic problems. The other is patriotism: The state pursues external conflict to encourage nationalism and win partisans at national and international levels.

The strongest evidence on behalf of this thesis is that conflict with the United States takes a turn for the worst precisely at a time when the Chávez administration is experiencing its worst political moment: the 2002–2004 period, characterized by massive rallies, the coup attempt, the oil workers' strike, and the fight for the recall referendum. During this period Chávez's disapproval rate exceeded his approval rates. In such a situation, it would not seem unreasonable to assume that Chávez discovered that resorting to conflict with the United States could help him overcome political weakness by gaining support from nationalists groups.

It is worth remembering that Hugo Chávez came to power with the idea of dividing Venezuela's democratic history into two periods, the so-called Fourth and Fifth Republics. He initiated a transforming process that displaced many of the traditional political actors and elevated the power of the president in a way that no other elected leader in Venezuela ever has. Likewise, Chávez abroad aspires to become a sort of *primus inter pares*, a political, economic and ideological leader among developing countries, not just Latin America.

However, this thesis does not account for the intensification of U.S.-Venezuelan conflict once political instability waned, from 2004 to 2008. Moreover, critical anti-American policies such as ending cooperation with the DEA, the United Nations speech, accusing the United States of murder attempts, and threatening the United States with an asymmetrical war have received little popular support, which makes it difficult to think that such stances have some electoral basis. His anti-American policies do earn him the support of radical groups—both at home and abroad—but it also earns him many detractors. It is a strategy that pleases radicals, but not a strategy that delivers majority support.

Structural Factors: The Impact of Economic Interdependence

Structural factors (not just political considerations) also influence U.S.-Venezuelan relations. First, Venezuela has practically no non-oil exports and, therefore, no alternative sources of hard currency income (see Table 11.7). Second, Venezuelan oil—which is heavy and has a high content of sulfur and other impurities—can only be processed in special oil refineries. Most of these refineries are in the United States. Thus, the Bolivarian Revolution has little choice but to continue to rely on the U.S. market.

The only other possible large-scale buyer is China. But China has alternative oil suppliers (in Central Asia and Africa), does not have any oil refineries to process the special type of Venezuelan heavy crude, and its shores are almost forty-four sailing days away from Venezuelan waters. For structural reasons alone, Chávez's threats of cutting off the oil supply to the United States are vacuous. Without U.S. oil trade, Chávez would have to sacrifice the Bolivarian Revolution.

On the other hand, structural dependence on the United States does help explain Venezuela's shift towards Iran, and to a certain point, towards Russia. With Iran, Venezuela seeks to balance Saudi Arabia and the United States. In other words, Venezuela and Iran—both countries experiencing a fall in oil production—constitute a bloc within the Organization of Petroleum Exporting Countries (OPEC) that supports high oil prices through supply restrictions. Such a position goes, in effect, against Saudi Arabia and other OPEC members, not to mention the United States, which feels the goal should be to keep prices stable and affordable. As long as Venezuela is tied to oil sales to the United States, an anti-U.S. Venezuela will remain interested in high oil prices to extract as much revenue from the United States as possible. Likewise, economic factors explain Venezuela's veering closer to Russia. When OPEC reduces supply, Russia, a non-OPEC country, seizes the opportunity to increase its oil sales. One of Venezuela's objectives may be to favor Russia with arms purchases so that Russia would be more prone to cooperate with OPEC.

The First Six Months of the Obama Administration

The Barack Obama administration (2009–present) came to office promising a new era of “engagement,” rather than “confrontation,” with world nations in an effort to distance itself from what the world perceived as the more unilateral approaches taken by President George W. Bush. In Venezuela, this new commitment to engagement confronts a double problem.

First, the inherited policy from the last years of the Bush administration—avoiding direct confrontation with Chávez—is already pretty much in accordance with Obama's principle of avoiding unnecessary confrontation. In fact, the one major development in U.S.-Venezuela relations in the first six months of the Obama administration relations has been precisely the decision to retain the policy of dodging verbal attacks that former U.S. ambassador to Venezuela William Brownfield developed.

This continuity became patently clear during the April 2009 Fifth Summit of the Americas in Port of Spain. Chávez came prepared for a fight. He had spent the prior months issuing criticisms at Obama, even calling him an “ignoramus.” He managed to get the ALBA presidents to state that they would not sign the Summit's final declaration, due to lack of unanimity on a number of topics. Yet Obama's conciliatory speech and clever avoidance of verbal attacks from Venezuela disarmed Chávez. Obama earned widespread praise from most presidents at the meeting.

As was the case under the latter part of the Bush era, this policy of deliberately avoiding engaging in “YOU did”/“no, YOU did” verbal exchanges with Venezuela does help to de-escalate rhetorical conflicts and isolate Chávez. But it also means that there is little room for change in U.S. policy toward Venezuela, since the inherited policy seems to be the preferred policy.

The second problem that the United States faces vis-à-vis Venezuela is that it is not clear that more “engagement” will work, especially since Venezuela either has no interest in a more engaged United States, or wants a type of engagement that the United States (or very few nations) would be willing to deliver.

For instance, in the first months of the Obama administration, there have been some signs of more engagement, or at least, closer alignment of U.S. policies with Venezuela's. The United States, for instance, went along with an OAS effort, led by Venezuela, to revoke the 1962 resolution suspending Cuba from the organization. And in handling the Honduras crisis since June 28, 2009, the United States has taken many steps that are directly in line with Venezuela's preferences: the United States condemned the coup, refused to recognize and imposed sanctions on the de facto government in Honduras; called for the restitution of deposed president and ALBA-enthusiast José Manuel Zelaya as a non-negotiable part of any solution to the crisis; and announced that it would not recognize presidential elections held by the de facto government. Sure enough, the positions United States and Venezuela held on Honduras were not identical. Perhaps the most important area of disagreement was their viewpoints on Zelaya's secret reentry into Honduras, with the United States calling it a mistake and Venezuela calling it a brilliant move. Nonetheless, there were far more points of commonality between the United States and Venezuela over the Honduras crisis than discrepancies.

And yet, the response from Caracas has not been that positive. To be sure, Chávez has moderated his words against Obama. At the September 2009 meeting of the UN, Chávez said "it doesn't smell of sulfur" anymore, "it smells of hope," in a clear attempt to highlight his contrasting response to the new U.S. administration. But in terms of policy, there has been very little change coming from Caracas, but rather an intensification of soft-balancing approaches. Since January 2009, for instance, Chávez has intensified his belligerence toward Colombia; has further increased spending on Russian military equipment by securing a U.S.\$2.2 credit line to buy Russian weapons; recognized the independence of Russia's protégés, South Ossetia and Abkhazia from Georgia; congratulated Mahmoud Ahmadinejad on his electoral "victory," called Iran a "true strategic ally," and defended Iran's nuclear program, to the shock of many European nations. Domestically, Chávez's march toward concentrating more power continued, displacing elected opposition leaders, punishing dissenters, and silencing the non-aligned media.

Chávez essentially will tolerate no criticism. Thus, when Secretary of State Hillary Clinton warned Chávez in September that his weapons purchases could trigger an arms race, Chávez was quick to counterattack: "When efforts are made to improve relations with the government of the United States, the Secretary of State, Hillary Rodham Clinton, repeats the old practice of giving prescriptions and making judgments on Venezuelan democracy and the sovereign relations that our country has with other nations."⁷⁷ It seems that the only policy of engagement that Chávez will welcome from the United States would be a policy of political *laissez-faire* and total silence.

It is unlikely that the Obama administration will adopt a policy of strict political *laissez-faire* toward Venezuela. The security concerns are increasingly deeper, and the plight of the Venezuelan opposition increasingly dimmer, too much so for the United States to stay quiet. U.S. officials have already met with leaders of Venezuela's opposition; Hillary R. Clinton granted an interview to representatives of a television channel of Venezuelan opposition; the U.S. government signed an

agreement of military cooperation with Colombia to continue using six Colombian military bases. Furthermore, as was the case under President Bush, agencies of the U.S. government will resume their criticisms of governance issues in Venezuela. For these agencies, issuing reports on the levels of cooperation from other governments is part of their routine standard operating procedures. In 2009 the U.S. Government Accountability Office, for instance, already complained about the lack of cooperation by Venezuela in the war against drugs. The U.S. press will also continue to report misconduct on the part of Venezuela, such as the revelation, already aired, that rocket launchers sent from Sweden to Venezuela mysteriously made it into the hands of the FARC.

Furthermore, Obama faces an opposition that is very different from the opposition that Bush faced: he has the conservatives on the other side of the aisle. For Bush, therefore, it was politically viable to maintain a policy of "dodging criticism" because he had the capacity to win the cooperation or tolerance of conservatives on this policy. It's unclear that Obama has that leeway among conservatives. Conservatives have already been quite unforgiving of Obama's relaxed policy toward Venezuela, even though this policy has not been that much different from Bush's policy toward the end of his second term.

Thus, even in the unlikely event that the White House takes a political *laissez-faire* approach toward Venezuela, it will still have a difficult time blocking other parts of the government, or American society, from offering critical judgments on Venezuela's conduct. This will trigger a predictable response: Chávez will use every one of those judgments to cry foul. Already the Venezuelan Ministry of Foreign Affairs officially responded that reports about ties to the FARC constitute "a political blackmail lacking scientific objectivity and methodological seriousness." In short, Chávez will continue to be able to find justification for his soft-balancing objectives, almost regardless of what the United States does, short of staying quiet.

Conclusion

We conclude with a discussion of three possible scenarios in U.S.–Venezuela relations in a post-Bush era: (1) reconstruction of relations; (2) increasing estrangement culminating in a definite rupture; and (3) more of the same: continued conflict without a major break. With regards to the first scenario, oil and—to a lesser extent—the low domestic popularity of Chávez's belligerence toward the United States constitute key factors pushing in this direction. Furthermore, as Chávez continues to suffer the ravages of rising crime rates stemming from drug trafficking, the regime may actually reconsider cooperation with the DEA.

With regards to the second scenario, there is no question that Chávez seems interested in provoking the United States for political gain. During the second Bush administration, United States responded by seeking to contain, ignore, or de-escalate tensions. If this policy of tension-containment is discontinued and the United States starts to take more retaliatory actions, it is easy to imagine Chávez responding in kind, leading to a deepening of conflict.

The third scenario—restrained conflict—depends on domestic politics. As long as Chávez perceives the domestic situation to be under control, he faces fewer incentives to generate greater conflict with the United States. As Venezuela's oil sector suffers the impact of declining production and world oil and gas demand, Venezuela may continue to realize that a stable trade relation with the United States is vital to its security.

Is it possible for the two governments to find a common ground? Is the Venezuelan government really up for normal relations or will it continue to use conflict for its own ends? Beyond any doubt, the current situation represents a comfortable balancing act for Chávez. Yet, equilibrium entails certain sacrifices. Perhaps the two most important sacrifices are the lack of investments in Venezuela's vital industry and climbing crime rates.

In general terms, the political bridge between Venezuela and the United States is in disrepair, but it has not entirely collapsed. A broken bridge is better than a collapsed bridge: repairs are often less expensive and easier to undertake than rebuilding an entirely new structure. The problem is that Chávez has few incentives to suddenly come out as a pro-U.S. world leader. He gains a lot by maintaining a certain degree of political conflict with the United States as long as economic relations remain intact.

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