



**THE STATECRAFT OF DOING NOTHING:
THE U.S. APPROACH TO VENEZUELA'S ONGOING CRISIS¹**

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Venezuela is in the midst of a massive societal breakdown, with institutions throughout the country in various states of decline, disrepair, and dissolution. The political strength of the *Chavismo* revolution that late President Hugo Chavez developed and took advantage of has waned considerably in the face of chronic economic stagnation and societal malaise. The oil industry and state-owned PDVSA, long a source of domestic pride and economic might, is facing deep problems, rocked by low oil prices and damage done from years of political tinkering in business operations. Basic services are increasingly impossible to maintain and stories about the incredible struggles Venezuelans face in trying to get food and medicine have become a regular fixture of the news.

At the same time, the Venezuelan government continues to be wracked with internal dissension. The residual clique of *Chavismo* (nominally headed by President Maduro, who inherited the country after Chavez died in 2013) has fought a rear-guard action through the Supreme Court to invalidate the legislative decisions made by the Venezuelan parliament, which became reform dominated in elections that took place on December 6, 2015. The result is a stand-off and one in which the people of Venezuela are the victims. The opposition has scored a victory by passing the first hurdle toward a referendum on Maduro's presidency. The National Electoral Council, which the opposition has accused of stalling to protect the administration, has yet to lay out a timeline for the next step. Should Maduro lose in a vote held after January 10, 2017, he would be replaced by his hand-picked vice-president.

Not surprisingly, politicians in Washington have used this moment in time to underscore their opposition to the Maduro regime. Rep. Ros-Lehtinen of Florida, who is a senior Republican member of the House Foreign Affairs Committee, pointedly observed "the Maduro regime has shown a dangerous contempt for freedom of expression and human dignity, using its control over Venezuela's judicial system and security apparatus to carry out a comprehensive and violent intimidation campaign against anyone who voices opposition to its disastrous policies. We cannot stand by and watch as Maduro and his lackeys keep trying to muzzle their critics and the media who shed light on the regime's corruption, damaging economic policies, and lack of due process."¹ Senator Marco Rubio offered similar views on April 28, stating "The Maduro regime's abuses of

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power and violations of human rights are hurting innocent people in our hemisphere and threaten the national security interests of the United States...”ⁱⁱⁱ

This view of Venezuela is deeply rooted in hostile U.S.-Venezuelan relations that developed since former president Hugo Chavez came to power in Caracas in 1999. Though this hostility has been expressed mostly in terms of adversarial diplomatic posturing and verbal sparring, the economic ties between the countries have led both to take more measured steps in response to the other side’s objectionable policies. It was reasonable to expect that these relations could take a far more sour turn following the December 2015 elections, given that they were disputed even before they were held, and that the result could be the imposition of new U.S. pressure on Caracas (including through economic sanctions) in order to change the situation on the ground and support reformists.

However, this did not occur. Instead, Venezuela has largely been left to its own devices, with internal turmoil, low oil prices, and the absence of any real progress on economic reform doing the service of any conceivable sanctions initiative. It is notable that the two quotes mentioned above were with respect to the continuation of existing pressure tools: the human rights report issued annually by the State Department on conditions around the world, and the preservation of existing U.S. sanctions that target senior Venezuelan officials involved in human rights abuses. Rather than urge new measures, Ros-Lehtinen and Rubio – two anti-*Chavismo* hawks – sought a continuation of the status quo.

The question is: why? There is any number of reasons why Washington lawmakers could decide to instead seek a ramping up of pressure against Venezuela, particularly during an election year. But, an even more compelling case can be made that the appropriate strategic choice was *not* to act and to instead permit the situation in Venezuela unravel on its own. In this, the United States has demonstrated a considered approach to statecraft by avoiding the temptation to involve itself in the situation in Caracas.

US-Venezuelan Relations since 1999

Relations between the United States and Venezuela began to show strains after Hugo Chavez took office in 1999, even in unexpected ways; Venezuela was one of the few countries to oppose the US invasion of Afghanistan following 9/11. Relations took a bigger turn for the worse following a short-lived coup in 2002 against Chavez, the culmination of massive protests by opponents concerned that his leftist policies would turn the country into another Cuba, with which Chavez had strong ties. Chavez claimed Washington had a hand in the coup. While the United States has denied these charges, it is important to note that Washington was quick to recognize the short-lived government put in place after Chavez was ousted, an act for which it has come under criticism. In the years that followed, Chavez frequently claimed that the United States was plotting his assassination and meddling in Venezuelan affairs and warned that Venezuela could cut off oil supplies to the United States in retaliation.

But this did not happen. Despite the fiery rhetoric, the ideological divide, and the actions taken by both Venezuela and the United States, both sides have been careful not to roil the oil relationship critical to both economies. In fact, even when PDVSA was sanctioned for its business with Iran’s oil



sector, the sanctions did not extend to measures that would have interfered with crude-oil exports from Venezuela to the United States. Venezuela remains one of the top four suppliers of oil and refined products to the United States, which is the largest buyer of Venezuela's crude and its top-trading partner. While the volume of Venezuelan oil heading to the United States has declined since Chavez took office (largely because of a general decline in Venezuelan production, customer diversification, and a decline in U.S. imports overall), the only serious disruption came during the oil stoppage of 2002–2003, when production virtually ground to a halt as thousands of PDVSA officials went on strike to force Chavez's resignation. Chavez subsequently fired half of PDVSA's workforce, leading to a drain of talent many have blamed for some of the state company's operational problems since then.

It is also worth noting that though US imports of Venezuelan oil have declined, US shipments of refined products to Venezuela are on the rise. While the volumes are relatively small in comparison to the overall oil trade between the two countries, data from the US Energy Information Administration shows Venezuela imported more than 81,000 bpd of products (including large volumes of unfinished oils) in 2015, up from just 20,000 bpd in 2010.ⁱⁱⁱ

But, even as the United States and Venezuela have maintained business with one another, they have not relented in their criticism of each other's policies, particularly as the human rights situation in Venezuela worsened upon Maduro assuming the presidency in a tightly contested race in 2013 following the death of Chavez.

Maduro's election took place in a deeply politicized atmosphere and the Venezuelan government has come under criticism for not properly investigating the deaths of forty-three people and the injuries of hundreds more, and the detention of over 3,300 people during protests in February 2014.^{iv} A Ministry of Defense resolution in January 2015 allowed "all sections of the armed forces to be deployed in public order operations, including the policing of public protests," and authorized the use of firearms in those situations.^v There are also concerns about the number of political opponents of the government who have been arrested since Maduro took office, including opposition leader Leopoldo Lopez, who was sentenced to fourteen years in prison in September 2015 for inciting violence and for his role in the February 2014 protests.^{vi}

The election of an opposition parliament in December 2015 has intensified the internal scrum within Venezuela, particularly as the Venezuelan economy has collapsed.

Venezuela's Economy

The Venezuelan economy began its downward spiral in 2013, which has been hastened by the collapse in oil prices in 2014. Venezuela's export earnings come almost solely from the sale of oil abroad, according to Venezuela's own statistics.^{vii} Critics have pointed out that despite Venezuela's significant oil endowment, the Venezuelan government has badly mismanaged the revenues derived from the oil sector and has failed to make appropriate investments into it, while at the same time pursuing costly statist and populist economic programs.



Professor Francisco Monaldi of Rice University published a paper via the Center on Global Energy Policy in 2015 that details the extent of Venezuela’s oil-sector decline.^{viii} His two major findings were:

1. First, Venezuelan oil production was decreasing long before global oil prices dropped. But this fact can obscure, to some degree, the true measure of the oil industry’s decrepitude. Though production dropped from around 3 million bpd in 2008 to around 2.6 million bpd, increased domestic consumption and smuggling have deepened the impact of this reduction on oil exports. This has had a negative impact on Venezuela’s overall balance of trade. But, the impact was made still worse by the fact that Venezuela was offering extremely generous financing on much of its oil exports as part of Chavez’s general diplomatic strategy to build friendship and alliances through cheap oil. Monaldi noted in his paper that Venezuelan state oil company PDVSA only received cash flow from slightly more than half of its total oil production as a result. Another statistic from Monaldi helps to paint the economic picture: “Venezuela’s foreign-exchange reserves only rose by \$7 billion USD in 1999–2014, a period in which accumulated exports were more than \$850 billion USD, according to the Central Bank of Venezuela.” At the same time, “the external public debt went from \$37 billion (USD) in 1998 to \$102 billion (USD) in 2013, according to official figures.
2. As a result, Venezuela is in no position to make the kind of domestic-led investments necessary to spur growth in oil production. Yet external-driven investment is unlikely in the near term because of Venezuela’s uncertain political situation, high levels of crime, PDVSA’s own shortcomings as a now-bloated state organ, and the continued fear that foreign investments may be subject to nationalization (in addition to the current difficult investment climate caused by the collapse of oil prices). It is for this reason that Venezuela has ranked last in the Fraser Institute’s survey of oil investors’ perception of the attractiveness of investment not just in 2014 but also in 2013 and 2011 as well (in 2012 and 2010, it was second to last, ahead of Bolivia).^{ix}

The economic picture looks far worse when looked at from the perspective of Venezuela’s current account balance. According to the Economist Intelligence Unit (EIU), Venezuela is estimated to have had a \$3.7 billion current account surplus in 2014, with \$22 billion in international reserves.^x

Venezuela has found itself so desperate for cash that those countries to which it had previously extended generous financing for oil purchases are now negotiating early payback arrangements to settle their debts for pennies on the dollar. For example, on July 24, 2015, Jamaica announced that it had negotiated a 50 percent reduction in its obligation in exchange for paying \$1.5 billion to Venezuela now.^{xi} The Dominican Republic had arranged similar terms for repayment in January 2015.^{xii} Uruguay arranged for a 35 percent reduction in its own negotiations with Venezuela, adding a deal for \$300 million in grain, dairy products, and poultry.^{xiii}

But the EIU forecasts a current account deficit of \$15 billion in both 2015 and 2016, with depleted reserves of \$14.5 and \$13.4 billion respectively. In sum, to maintain even its present import spending—which is forecast to be a little more than half of what Venezuela managed in 2012—Venezuela is likely going to have to borrow still more, adding to its national debt. The EIU has forecast further economic contractions of 6.1 percent in 2015 and 5.8 percent in 2016. Some relief



has come from China. China's Development Bank, which has lent Venezuela \$37 billion since 2008 for repayment in oil, has agreed to ease the repayment terms. In addition, China agreed, in September 2015, to loan Venezuela another \$5 billion to boost oil production.^{xiv} But even with this loan in place, Venezuela appears set to run through its existing financing at any time. The EIU's conclusion is stark: "If the government refuses or is unable to correct these imbalances, the situation will worsen and the depletion of assets will continue."^{xv}

As such, it is reasonable to assert that Venezuela is in danger of economic collapse. Press reports highlight the degree to which the economy has been hollowed out, with empty shelves in stores and long lines to buy basic goods.^{xvi} Venezuela has even changed the local time, moving clocks forward by 30 minutes so as to maximize the number of normal waking hours in the country during natural daylight; this was itself not a new trick, Chavez having done the same in 2007.^{xvii} The IMF forecast at the beginning of 2016 that Venezuela will reach 720% inflation^{xviii}, matching Zimbabwe in 2006.^{xix} This figure was later revised by the IMF, down to 481% inflation in 2016 and followed by 1,642% in 2017, which also forecast 17% unemployment in 2016 and 21% in 2017.^{xx}

A complicated system of exchange rates has further accelerated the decline of the Venezuelan economy.^{xxi} In this system, importers of certain goods can access government-supplied USD reserves at a privileged rate. But, rather than import the goods, some have simply pocketed the money by selling the dollars on the open market for a profit.^{xxii} Still others have taken advantage of their position to charge exorbitant rates on simple products.^{xxiii} In part as a result of this endemic corruption issue, Venezuela's often at the bottom of Transparency International's Corruption Perception Index; it ranked number 161 out of 174 countries in 2014 and tied with Haiti as the lowest in the Western Hemisphere.^{xxiv}

Venezuela Under New Sanctions

Given Venezuela's precarious economic situation and indications of continuing violations of Venezuelan human rights, as well as the hostility that exists between Caracas and Washington, it would not be unreasonable to anticipate consideration of new U.S. sanctions against Venezuela at the present time.

Venezuela's economy is certainly vulnerable to such a move. To do so would be to lower already-depressed expectations for Venezuelan economic performance, contributing to reduced foreign interest in investment in the country and a sense of panic within the country.

For example, sanctions on Venezuela's ability to export oil would be potentially very damaging and could largely be conducted by the United States as a unilateral, domestic step in the first instance. According to the Energy Information Administration, US imports of Venezuelan crude oil (excluding refined products) from 2015 averaged 779,000 barrels per day, worth \$35.2 million dollars a day or \$12.8 billion per year, based on the average 2015 Venezuela oil basket price of \$45.24 per barrel. Even a negligible 10 percent reduction of US imports would have cost Venezuela \$1.28 billion per year, something the Venezuelan economy would not be able to afford in the current environment; a complete boycott would damage Venezuela far more.



The United States could even simply just withdraw its exports of refined products to Venezuela and thereby choke off Venezuela's own ability to sell oil worldwide. The financial cost to the United States overall would be negligible (though some companies would doubtless have difficulties).

The economic damage that could be wrought by the aforementioned sanctions is substantial, but it might be overshadowed by their political consequences. Certainly, should the Venezuelan economy lose an important source of external financial support, there would be significant consequences for the political situation on the ground in the country.

But these consequences are not necessarily all negative for the Venezuelan government. True, the government would have to explain the nature of its failure to prevent such a foreign-policy problem. But the government would also then be granted a clear scapegoat for its problems, or at least for any escalation of the current problems, and one that part of the Venezuelan population is conditioned to accept as plausible after over fifteen years of *Chavismo* and a negative historical legacy of US control throughout the region. A more nuanced conversation with the Venezuelan population could lead to a more nuanced understanding on its part as to where the responsibility for the economic turmoil truly lies (particularly if sanctions are fairly modest in their direct economic impact). Having such a conversation, though, would be very difficult, and the Maduro government would, for obvious reasons, seek to preclude it. Instead, Maduro would likely posture to his people that it was the economic warfare of the Americans that led to the underlying Venezuelan economic problems, with the most recent steps being simply the latest. The humanitarian crisis that Chavez and Maduro have helped to create would, in a short period of time, become the responsibility of the United States.

It is for this reason that the United States has, thus far, been disinclined to pursue such options. There is fear that, rather than empowering political opposition figures and deepening popular discontent with the region, Maduro could instead wrap himself around the Venezuelan flag and Bolivarian principles and retrench his regime's control. Some could argue that the likelihood of Maduro being able to escape his own responsibility for Venezuela's economic performance is marginal, even if the picture were complicated by US action. For example, Jose Cardenas, an acting assistant administrator for the US Agency for International Development (USAID) under the George W. Bush administration, has pointed to polling data gathered by Keller and Associates suggesting that the Venezuelan population has a very clear picture of Maduro's culpability in the ongoing economic crisis and the relative innocence of the United States.^{xxv} That said, such polls were conducted prior to the imposition of any dramatic new sectoral sanctions on the part of the United States. It is possible that with such a new development, popular views would shift and blame on the United States would not be so unreasonable.

Recommendation

For this reason, the U.S. government should continue to resist any pressure for new sanctions now. The Maduro government has been eager to find any indication of official U.S. support for opposition groups and culpability for Venezuelan economic failure. For example, the Venezuelan oil minister blamed the United States for the failure of the Doha meeting of oil producers in April to come to agreement on a production freeze, saying: "The United States was behind the pressure. They have a problem with Venezuela, Russia... They are doing this for political reasons and are



ignoring their own people suffering. Ask any oil company in the U.S. -- they are all very sad because of what happened yesterday.”^{xxvi}

From a statecraft perspective and taking into consideration the basic hostility between Washington and Caracas, the best option for the United States at the moment is to permit Maduro’s economic policies to continue to bear their poisonous fruit and to demonstrate once and for all to the people of Venezuela that a system based on *Chavismo* principles will not succeed. However, there is another angle that ought to be considered in this context: whether instead to offer humanitarian assistance to the Venezuelan people.

This could come with risks and rewards.

First and foremost, the simple offer of assistance could help to undermine the Maduro government’s position that the United States seeks to harm the Venezuelan people. Taken in combination with specific terms for assistance, the United States government may be able to improve its public image in the country and lay the foundation of a new relationship if and when the Maduro government ends. And, of course, if taken, the assistance could improve the lot of the Venezuelan people.

Second, making such an offer could improve the image of the United States in the region. Though the Obama Administration’s decision to change U.S.-Cuban relations has already changed the tenor of the conversation in the Western Hemisphere, the mistrust of Washington in some circles in Latin America persists. From the perspective of improving U.S. ties with these countries, it may be valuable to signal once more that U.S. arguments with local governments need not have a populist dimension.

Third, the offer would put the Maduro government in a political quandary, particularly if there were divisions emerging in the administration itself as to the future direction of the country. Creating pressure on the internal decision-making channels of Venezuela could, in time, lead to changes in the overall shape and direction of the Venezuelan government. In fact, while more sanctions could ease the pressure on Maduro, an offer of assistance could sharpen it, both outside and within his inner circle. Of course, for this reason, it is unlikely that Maduro would accept any such assistance and he is far more likely to instead argue that the offer is itself a plot against his rule. But, either way, when faced with the decision to spurn badly needed assistance, Maduro would have to make a decision as to whether to continue with the present approach or instead embrace a new way. This is the essence and ultimate end goal of all forms of statecraft.



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