Venezuela – U.S. Research File

In January 2006, the sixth gathering of the World Social Forum, during which Hugo Chávez as well as other left-leaning and socialist leaders fiercely criticized imperialist practices, was held in the Caracas Hilton Hotel. As James Surowiecki noted in an article for The New Yorker six months before the conference opened, a meeting sponsored by the Venezuelan Ministry of Finance took place at the same hotel. The aim of the aforementioned meeting was meant to promote American investments in Venezuela. How can one explain such a paradox? Are Venezuela and the United States only rhetorical political foes? Or, is there an underlying economic relationship between these two countries that renders them important trading partners?

Opposite Ideologies and the Escalation of Political Hostilities
Since Chávez took office in 1999, Venezuela has rapidly moved from being a stable and compliant partner of the U.S. to a fire-breathing anti-imperialist power. The Venezuelan leader came to power with the will to awaken his Bolivarian dream. At the same time the U.S. was entering into an archly neoconservative spell. Specifically, while the U.S. interventionist and market-based ideology was being fortified by George W. Bush's election, Chávez was praising political sovereignty, economic self-sufficiency and the union of Latin American countries against imperialism. These fiercely contested ideological contentions subsequently led to an escalation of tensions between the two countries through a succession of well-known explosive events. Such events included Chávez's visit to Saddam Hussein in 2000, the U.S. recognition of the Pedro Carmona government after his coup in April 2002 in which Chávez was detained against his will, and the eviction of a U.S. military attaché from the U.S. Embassy in Caracas in 2006 after he was declared persona non grata. These represent only a few of the many political clashes that darkened the lens between the two countries. The situation was embittered by a number of provocative declarations from both sides, the most famous one being Chávez's "devil speech" at the 61st United Nations General Assembly. Tensions finally reached a peak when Venezuela completely broke off its diplomatic ties with the U.S. in September 2008, only later to reestablish relations in June 2009, primarily due to Barack Obama's election, an event that disappointingly only briefly ameliorated U.S.-Venezuelan relations.

"The enemies of my enemies are my friends:"
Venezuela's New Economic Partners The aforementioned political strains have been obvious and have had a direct effect on the choice of Venezuela's economic partners. After accusing the Chávez administration of at least indirectly supporting the leftist FARC guerilla in Colombia, the U.S. banned the export of weapons to Venezuela and pressured Israel and Spain to do the same. In reaction, Chávez signed a military agreement with Russia. This was but one of the numerous economic ties created by Chávez with countries who shared, to one degree or another his opposition to the United States. All told, 181 bilateral agreements were signed between Venezuela and U.S. designated pariah regime, Iran. Tehran specifically helped Venezuela to institute nuclear research in the country. Furthermore, several rather opaque banking ventures were created with Venezuela in order for Iran to avoid the repercussion of U.S. sanctions against the financing of nuclear-related and other controversial projects such as the Banco Internacional de Desarollo, the Banco Binacional Irán-Venezuela and an investment fund, the Fondo Binacional Venezuela-Irán.

Hugo Chávez repeatedly used his country's own oil resources to develop new partnerships. For instance, while he was presiding over the Organization of the Petroleum Exporting Countries (OPEC) in 2000, he clearly asserted a desire to make OPEC into an even more powerful economic cartel by calculatedly reducing the world's oil supply in order to raise prices. Venezuela was also able to win over allies in the Caribbean basin through the PetroCaribe initiative, an agreement that guarantees preferential prices and favorable financing terms for most of the Caribbean countries interested in obtaining Venezuelan oil. In 2004, the Castro brothers and Chávez signed an agreement stipulating that oil sold to Cuba will be discounted by as much as 40% of the world price in exchange for the medical treatment of Venezuelan citizens by brigades of Cuban-provided doctors. This Cuba-Venezuela agreement led to the further creation of the Bolivarian Alliance for the Americas (ALBA, which also means "dawn" in Spanish), an organization clearly seen as meaning to thwart the U.S.-backed Free Trade Area of the Americas (FTAA) project, which would have establish trade rules applicable to all of the Americas except Cuba.

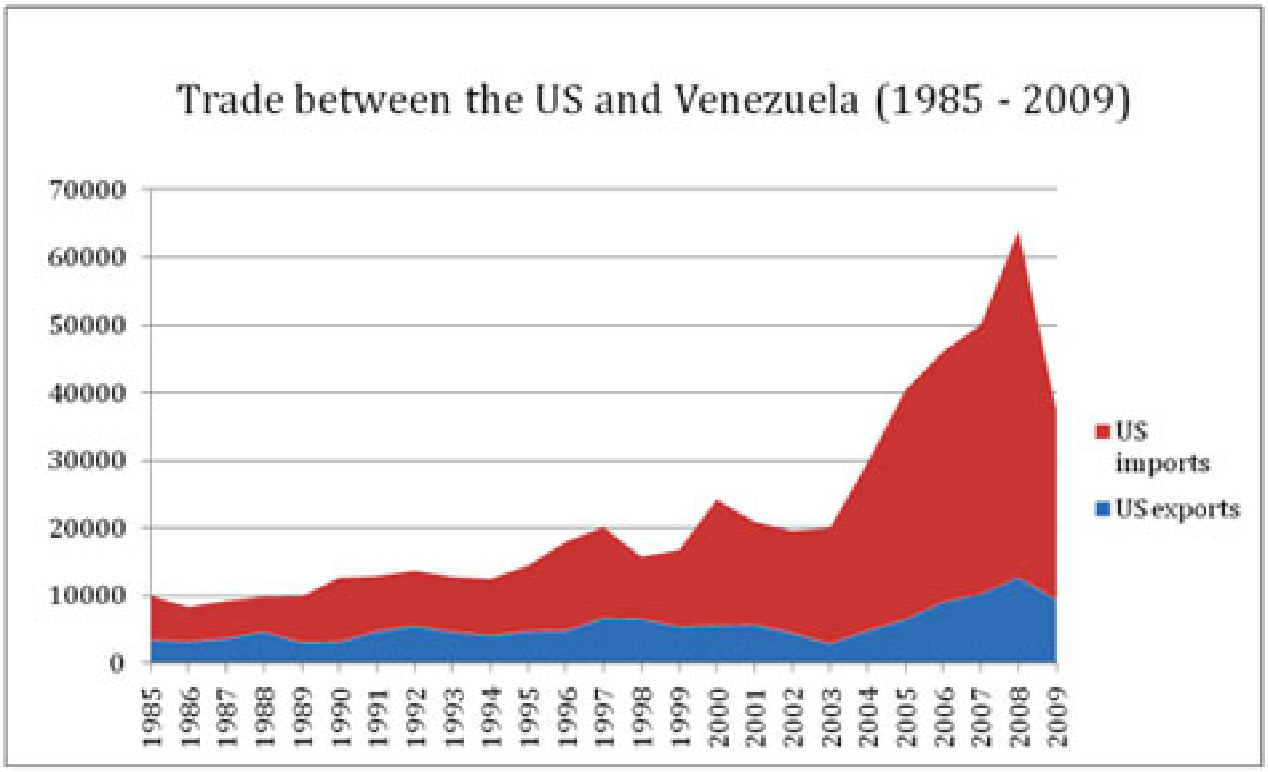
Insignificant Repercussions on U.S.-Venezuela Trade: Bark Not Bite

Despite Venezuela's new economic stakeholders, the political agitation between the U.S. and Venezuela, and Chávez's heavy-handed anti-imperialistic rhetoric, the fundamental economic relation between the U.S. and Venezuela has remained relatively unaffected. The United States is still Venezuela's preeminent trading partner, accounting for 60% of its exports. Additionally, Venezuela is Washington's second largest economic partner in Latin America (following Mexico) and the fourth largest supplier of oil after Canada, Saudi Arabia and Mexico. Venezuelan oil accounts for 11% of U.S. oil imports; amounting to 1.5 million barrels sold daily.

The U.S. is the largest consumer of Venezuelan oil (with its production representing 95% of U.S. imports from Venezuela), generating approximately 80% of the country's export revenue, half of the government's income and one third of its GDP. The oil industry is a keystone in Venezuela's economy. What's more, most of President Chávez's reforms and social policies are financed by Petróleos de Venezuela SA (PdVSA), Caracas' state-owned petroleum company and the world's third largest oil company. The recent oil discoveries in Venezuela now project that it possesses 99.4 billion barrels of proven oil reserves, along with an additional 300 billion barrels of extra heavy oil. The value of the reserves compounded by the spike in oil prices, give an idea of PdVSA's financial clout and therefore provides a tangible, though incomplete, explanation of the resources that Chávez can call upon.

Oil Sales and Tensions Co-exist

In spite of the tense political atmosphere between the two countries, their bilateral trade has skyrocketed since Chávez was elected, as can be seen from the graph below. One explanation is that the two countries are too dependent on each other to take measures to seriously restrict their trade, despite their mutual bellicose invectives, including such Chávez classics as, "Continue and you will see that we won't send one drop of oil to the empire of the United States." It is well known that the American economy heavily depends on oil; therefore, it is logical to presume that if its fourth biggest provider stopped selling petroleum, dramatic consequences would ensue.



Source: US Census bureau, Foreign Trade division, Data Dissemination Branch.
All figures are in million dollars (nominal value)

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