



FORUM

Protests, Polarisation, and Instability in Venezuela: Why Should the Caribbean Care?

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Abstract: *Owing to generalised participation in Petrocaribe and increasingly also the Bolivarian Alliance for the Peoples of Our America (ALBA), the destinies of certain Caribbean states have rarely been so intertwined. Yet, with Venezuela – the undeniable lynchpin of these schemes – shaken by violent unrest, there is a real threat to continuation of the generous funding that it provides. Indeed, because ALBA and Petrocaribe funding is channelled largely through parallel governance structures centred on the state oil company PDVSA, this threat is even more significant than many realise, albeit not as imminent as suggested by foreign media. With few alternative donors or investors lining up to replace the support offered by Venezuela, Caribbean recipients of Venezuela’s special and differential treatment must think carefully of about how to respond to the current crisis.*

Keywords: Venezuela, Protests, Governance, Petrocaribe, ALBA, Caribbean Relations

VENEZUELA AND THE CARIBBEAN IN THE CHÁVEZ ERA

As those of a certain age will realise, there is nothing new about Venezuelan involvement in the wider politics of the Caribbean.¹ As far back as the 1970s Trinidadian PM Eric Williams was denouncing Venezuelan attempts to ‘re-colonise the region’ through ‘petrodollar politics’.² What is new, however, is the sheer extent of Caribbean reliance on Venezuelan financing and funding.

Petrocaribe

The huge importance of Petrocaribe's core oil-financing function is clear if we consider two crucial points. First, even after Petrocaribe's introduction virtually all of its signatories have been spending far more foreign exchange on imports than they have received for exports, with the cumulative value of current-account deficits over the last decade running into the tens of billions. Second, in the absence of Petrocaribe, this situation would have been immeasurably worse. Oil prices doubled in the two years prior to Petrocaribe then skyrocketed to \$140 (six times their 2003 low) over the following three years. As Figure 1 (below) shows, Petrocaribe's establishment in June 2005 arrested this upward trend, with the soft-loan portion absorbing 40 per cent of this sudden pressure on the public finances. When oil prices peaked in 2008, Petrocaribe's conditions were relaxed again (with up to 70 per cent financing), providing an even softer cushion for this oil-price shock. With oil prices stabilising around the \$100 mark, Petrocaribe has continued to modulate volatility, with the upfront portion hovering at \$40. In fact, over the lifetime of Petrocaribe the average upfront price has been \$42, with \$39 offered as a soft loan (of an average total price of \$81). Excepting momentary dips in 2005 and 2008, the normal price has not plumbed such depths since 2004.

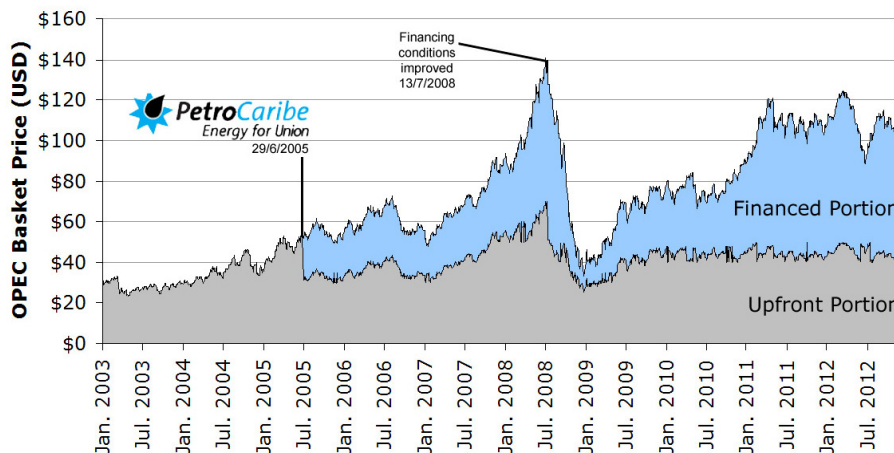
Figure 1 - Petrocaribe

Figure 1: Estimated impact of Petrocaribe on effective price (USD) of oil imports for signatories, 2003-2012 (source: author's elaboration based on data from OPEC.org).³

But per-barrel figures only hint at Petrocaribe’s real significance for Caribbean economies. In the absence of clear data on Petrocaribe-related debt levels – a point to which I will return – research has tended to overstate Caribbean indebtedness and its effects on PDVSA’s finances because they have wrongly assumed that signatories receive the permitted maximum. But by cross-referencing our calculations of effective prices with data on *real* levels of supply, we can produce credible estimates of Petrocaribe’s impact in individual states.⁴

Table 1: Estimated mean annual value (USD) of Petrocaribe financing relative to macroeconomic indicators, 2008-12

	Dominica	St Vincent & Grenadines	Antigua-Barbuda
Quota (kbd)^a	1	1	4.4
Supply (kbd)	0.36	0.3	0.8
Annual Value of PC Financing	\$6,073,074	\$5,470,398	\$14,076,416
PC Financing/ GDP	1.3%	0.8%	1.2%
PC Financing / Total Revenue	3.9%	2.9%	5.8%
PC Financing / Per Capita	\$86	\$50	\$160

Source: Quota and supply data from PDVSA Informes Financieros (pdvsa.com); GDP, revenue, and population data from IMF (imf.org).

^a thousands of barrels per day.

As Table 1 reveals, the difference between quotas and real supply is massive, yet Petrocaribe’s impact remains hugely significant. Over the period 2008-2012, the average annual value of the financed portion ranged from \$5.5 million to \$14.1 million. This translates into 6 per cent of government revenue in Antigua, 4 per cent in Dominica, and 3 per cent in St Vincent. In the most extreme individual country year within this sample, Antigua and Barbuda’s 2012 soft loan was worth nearly \$31 million, approaching 13 per cent of revenue, \$350 per inhabitant, or 2.6 per cent of GDP. The

most striking comparison, however, is with fiscal deficits. In 2011 the net deficit for Dominica was \$21.1 million, whereas for Antigua it was \$32.6 million;⁵ even excluding Petrocaribe's other benefits, it goes a long way towards keeping Caribbean economies on an even keel.

Of course, soft loans are still loans, and they do need to be paid back, but Petrocaribe at least allows participating states to catch their breath, gather their thoughts, and attempt to come up with viable development strategies without the bank manager hammering on the door. And in reality Petrocaribe debt provides various side benefits to those contracting it. The conditions are so generous that debts actually lose as much as a quarter of their real value to inflation (assuming dollar inflation of 3 per cent) over their lifetime; funds set aside for future repayments can be used for social-development projects in the meantime; and there is a suggestion that Venezuela may have simply written off some long-term Petrocaribe debts.⁶ Furthermore, the misleadingly named ALBA Caribe fund – actually a part of Petrocaribe – provides millions in grant funding, and via Petrocaribe Venezuela has also footed the bill for various oil-infrastructure upgrades that have provided investment and employment. Though only relevant in a disappointingly small number of cases (Guyana, Dominican Republic, and especially Nicaragua), Venezuela has also accepted repayment in kind, with debtor countries' offering their surplus production at fair-trade prices. Overall, it is hard to disagree with David Jessop of the Caribbean Council, who noted in 2011 that:

No one should be in any doubt about the critical importance of Venezuela's PetroCaribe programme. If it were not for the energy lifeline that it has provided to every Caribbean nation other than Trinidad and Barbados, much of the region would by now be in economic freefall.⁷

The Bolivarian Alliance for the Peoples of Our America (ALBA)

The impact of ALBA is narrower but often deeper. Clearly, Venezuela's deepest involvement has been with co-founder Cuba, but this cooperation actually predates ALBA and is so wide-ranging as to be incomparable to the experience of other Caribbean ALBA members. Given the trend towards increased involvement of Caribbean Community (CARICOM) countries (most recently St Lucia and Suriname), ALBA's role in the Anglophone Caribbean is more relevant here.

On the whole, academic interest in this subject has been infrequent and superficial, yet Norman Girvan's heroic solo efforts have provided enough clear evidence for us to reach certain conclusions.⁸ Based on official data, Girvan estimated in 2011 that development funding (including ALBA Caribe grant funding) had reached \$44 million (USD) in Dominica, over \$50 million in St Vincent and the Grenadines, and more than \$65 million in Antigua and Barbuda.⁹ But having surveyed ALBA's involvement in all three countries myself, I can confidently say that this is an understatement, since there are many more ALBA programmes than those listed in Girvan's research.¹⁰

But the advantage of ALBA funding is not purely financial. At points of acute crisis this support has come with a rapidity of approval and disbursement that only highlights the relative sloth and bureaucracy of traditional donor relationships. Not only that, ALBA funding has imposed only the lightest 'social purpose' conditionality, meaning that recipients have been able to direct it towards areas that they – rather than anonymous technocrats in Washington and Brussels – consider priorities.

The Political Impact of Venezuelan Generosity

Aside from the obvious boon to economic stability provided by Venezuelan support through ALBA and Petrocaribe, it has also had a political impact. In Anglophone ALBA countries there is little doubt that without Venezuelan support incumbent governments re-elected by slim margins (Antigua's Baldwin Spencer and St Vincent's Ralph Gonsalves) would have been defeated by now. The impact of Venezuela-led initiatives in these countries has even seen right-of-centre opposition parties reverse initial scepticism in the face of popular support (with the exception of Arnhim Eustace's New Democrats in St Vincent). And right-of-centre governments elsewhere have been obliged at least to give the impression of using Petrocaribe funds to social expenditure; contravention of the vague 'social purpose' rule could jeopardise the huge financial benefits of annually renewed Petrocaribe deals.

Bilateral and Regional Issues

Beyond ALBA and Petrocaribe, there are many bilateral and regional issues in which Venezuela's role is key. Despite much brouhaha, Venezuela's Chávez-era stance on territorial disputes

with both Dominica (Bird Island) and Guyana (Essequibo) has been conciliatory. And though Petrocaribe may have ruffled feathers in oil-producing Trinidad and Tobago, the two governments have since settled their differences and reached agreement on an extremely rare joint-exploitation contract for the huge Loran-Manatee gas field that traverses their maritime border. At a time when traditional partners like the US and the EU have lost interest in the Caribbean, Venezuela has also been more forceful than any other Latin American neighbour in underlining the region's importance to new supranational institutions like the Community of Latin American and Caribbean States. If the Anglophone Caribbean is to make good on its commitment to strengthening relations with Latin America, the continued presence of a powerful and enthusiastic cheerleader with a foot in both camps is certainly desirable.

THE DANGERS OF RECENT VENEZUELAN INSTABILITY FOR THE CARIBBEAN

Given what we know about the impact on the Caribbean of Venezuela-led regional initiatives, the basic threat of instability is obvious. As Sir Ronald Sanders' pointed out in a recent Jamaica Observer column, this threat is both economic and political.¹¹ But while this is true, the ways in which it is true relate to peculiarities of Venezuelan political economy.

Opposition Anti-Constitutional Measures: At the Root of ALBA and Petrocaribe

Ironically, the current precariousness of Petrocaribe and ALBA stems back to early opposition attempts to destabilise the country and unseat Chávez by unconstitutional means, as it was the coup and PDVSA management strike in 2002-03 which led to the subsequent turn towards '21st Century Socialism'. Prior to these events, Chávez had only tinkered with the levers of the economy, favouring a 'Third Way' in the Tony Blair mould. But the intransigence of the opposition in refusing to accept his legitimacy despite various election victories convinced him that there could be no meaningful cooperation. Facing a recall referendum in 2004 he found he had to consolidate his core support far more quickly than inefficient, factionalised, traditional institutions would ever have allowed. His solution was to use PDVSA – flush with foreign

exchange and free of obstructionist officials following the oil strike – to establish new parallel institutions that could deliver immediate benefits to his core constituency. The first were social programmes called ‘*misiones*’ (missions), the most famous of which brought Cuban doctors into poor areas of Venezuelan cities in exchange for subsidised oil. This exemplified the idea of complementarity which would become central to ALBA. Since the US had also backed opposition attempts to unseat him, Chávez also looked to reduce its leverage on Venezuela by diversifying exports away from the US market, which is the one element of self-interest within Petrocaribe’s dominant solidarity logic.

The Precariousness of Parallel Governance

From Chávez’s perspective another advantage of these new parallel institutions built around PDVSA was that they were under his quasi-direct control, with the unassuming energy minister Rafael Ramírez playing Robin to his Batman. The initial results achieved through these parallel structures were impressive in terms both political and social, with continued electoral success driven by marked improvements in health, literacy, and poverty indicators. This only encouraged Chávez to expand their functions and financing, with special funds being established to invest portions of PDVSA foreign-exchange at home and abroad according to presidential discretion (most notably, BANDES and FONDEN). This matters to the Caribbean because Petrocaribe is governed and funded through PDVSA, and its ALBA Caribe grants often come from these latter discretionary funds. Regionalised ALBA social ‘missions’ are likewise executed and paid for by PDVSA, whereas large loans and grants associated with ALBA – as in the case of the ALBA Bank – tend in reality to come from funds at presidential discretion.

The problem is that over time these parallel structures have succumbed to the same vices that undermine the effectiveness of the traditional state in Venezuela: corruption, waste, inefficiency, improvisation, and short-termism, to name but a few. Worse, because of their youth and dubious legitimacy, they have been very sloppy in terms of transparency and accountability. Planning and execution have often been deficient, and because of centralisation in the executive, logjams frequently occur when the president’s attention is diverted elsewhere. Greater transparency might help as a form of self-regulation, but the uncertain status of these

institutions means that the government is reluctant to facilitate public scrutiny.

The Compounding Effect of an Uncompromising Opposition

This government cautiousness, bordering on paranoia, is exacerbated by the knowledge that any slip will be pounced upon by an opposition that seeks Chávez's removal with an intensity bordering on the manic. By relentlessly fashioning weapons out of whatever symbolic or informational debris it finds lying around, this seething opposition renders the government even less likely to expose any weak points to potential attack. And so, even during the calms between the storms, governance problems simply persist.

During the storms, such as recent protests, these problems are aggravated, which is politically beneficial to the opposition. Because so many of the state's normal functions are run and funded via improvised parallel institutions, they are more susceptible to failure if human and financial resources are diverted elsewhere, as occurs when the state becomes absorbed in fighting the literal and metaphorical fires set by the opposition. Since the availability and efficacy of public services is a serious issue for all Venezuelans, this indirect effect of opposition-led instability has the potential to reduce support for the government for reasons quite distinct from those foregrounded by protesters. This is compounded by an inevitable 'politics fatigue' given the enduring ferocity of Venezuelan political contestation. Because the state is seen as having ultimate control over society, it is the most obvious target for those simply wanting any kind of change in order to escape the unrelenting tension of recent years.

Why Might the Caribbean Worry?

The problem for the Caribbean is that the Venezuelan opposition shares none of the current government's concern for the past, present, or future of the region. One of the refrains of opposition rhetoric throughout the Chávez/Maduro era has been that the government is 'giving away the oil' abroad rather than providing for its own impoverished citizens, and this is an argument that achieves some traction. Both ALBA and Petrocaribe are officially classed by the opposition coalition as 'gifts' that need to be reined in.¹²

Economically speaking, meanwhile, the many serious drains on Venezuelan state resources have provoked serious cash-flow problems, an issue that can be deliberately exacerbated by supporters of the opposition in particular. The most obvious problem is currency arbitrage, whereby dollars bought cheaply from the government for fake import transactions are recycled at great profit via the currency black market. Since the value extracted by this practice is proportional to the capital invested in it, those with the requisite money and wherewithal can and do gain the most. While Petrocaribe and ALBA did not create this problem, they could be affected by it, because one way of plugging any gaps would be to reduce expenditure and non-receipt of foreign exchange via these mechanisms.

If these initiatives were more fully institutionalised, then this might not be such an immediate threat, as any disengagement would have to be gradual, as when one particular party opts to withdraw from a binding trade agreement. But because they are ad-hoc and couched in the parallel institutions built around PDVSA, whose governance centres on the presidency, any change in government could see these schemes quickly dismantled. Bilateral Petrocaribe supply contracts, which are renewable annually, could only ever have a maximum of one year remaining before expiry. Most ALBA initiatives are even less binding than that.

Why Needn't the Caribbean Worry?

If there are indeed serious threats to the continuation of Venezuela-led schemes upon which the rest of the Caribbean relies, and if destabilising opposition protests only reinforce these threats, shouldn't Caribbean states be quaking in their boots? The answer is mixed.

Although the underlying problems are serious and need to be addressed, the significance of the current cycle of protests can very easily be misjudged, particularly if one makes the mistake of believing the hype. The foreign media often seem determined to portray the opposition's claims as gospel and their protesters as representatives of a majoritarian nationwide movement, but their thinking is just as wishful today as it has been for more than a decade. Though hard to believe given what we see in our media, according to Venezuela's only balanced media outlet 'at their height the protests involved 18 of [the country's] 335 municipalities'.¹³ While some are of course more populous than others, even in the

municipalities affected participation is concentrated within the opposition's usual constituency at the higher end of the social scale. The most recent elections were in December and the margin of victory for Maduro's PSUV party grew rather than declining. Paradoxically, though violent protests give the impression of imminent collapse, they are in fact a symptom of the opposition's failure to understand or assimilate the new reality of a more inclusive Venezuela. This more than anything else has prevented it from mounting a successful electoral challenge to the PSUV's dominance. The only opposition figure to have come close (Henrique Capriles) did so by at least feigning centrism, but recent protests have seen him sidelined in favour of more radical leaders. Thus, though Venezuela's problems are real, the threat they represent for the Caribbean may not be as imminent as one might think. It will be another two years before the opposition has the right to launch a recall referendum, and there is little doubt that they will do so. This will bring a whole new round of breast-beating and head-scratching about Venezuela, but unless the opposition can get to grips with the post-Chávez political landscape, it's quite possible that the government's remarkable longevity will be extended once again.

THE CARIBBEAN RESPONSE

So what can and should Caribbean policymakers do about it? CARICOM's response thus far has been to support the constitutional order, thereby rejecting a destabilisation strategy that ignores Maduro's twice-tested democratic legitimacy. Given the potential for long-term instability in Venezuela if respect for representative democracy were to break down entirely, this is surely the correct approach in the short term. Long-term, if Caribbean states genuinely want to bolster the sustainability of the Venezuela-led schemes from which they gain, it is Petrocaribe and ALBA's underlying deficiencies that must be tackled.

First, given the political sensitivity of 'giving away the oil' in Venezuela's domestic politics, Caribbean participants in ALBA and Petrocaribe should be doing their utmost to correct what Norman Girvan has called the 'asymmetrical solidarity' of these schemes, whereby Venezuela does the giving and everyone else the taking.¹⁴ Special and differential treatment is one thing, but one-way traffic is another thing entirely. To the extent that Caribbean states' grants and soft-loans deprive Venezuela of much-needed foreign

exchange, these states are complicit in causing the political problems that may eventually see their benefactors ejected from office. This would be a myopic approach, and certainly far worse than the best possible outcome for the Caribbean states involved. Serious consideration must be given to how the Caribbean can help to replace complicity with complementarity.

Second, though it may again seem difficult in the short term, Caribbean states should reject the shadowy governance that has characterised Petrocaribe and ALBA to date. As noted above, a lack of formal constraints is warmly embraced in a region more accustomed to having to write reports about the reports about the reports wherever foreign aid is concerned, but this too is shortsighted. One major failing of Venezuela-led initiatives is their opacity. The absence of clear data on the extent and nature of overseas finance and funding creates an informational vacuum that can be filled with even the wildest accusations. Again, this promotes a vague but significant unease vis-à-vis the Venezuelan state both domestically and internationally. Small though many Caribbean states may be, they could push for greater transparency in their dealings with Venezuela, particularly if regional forums such as the Organisation of Eastern Caribbean States and CARICOM were to fix positions jointly.

Third, the Anglophone Caribbean in particular needs to promote closer, institutionalised relations with the non-Venezuelan Latin American states of Petrocaribe and ALBA if they wish to see these organisations outlast the PSUV government in Venezuela. Though Venezuela's dominance in ALBA is sometimes overplayed, it is nonetheless the undoubted lynchpin of both schemes. Were a hypothetical opposition government to remove this lynchpin, it is hard to see how they could remain standing. Caribbean states calling for clearer institutionalisation of ALBA, for example, would find support in Bolivia and Ecuador, both of which have long favoured this approach. In Petrocaribe's case, even the simple extension of renewal periods to three years would bring greater stability, whereas publication of bilateral deals could allay the fears of electorates whose media are quick to suggest that Caribbean leaders have somehow signed away their souls. Meanwhile, real efforts must be made to develop relations between Latin American and Anglophone participants – Ecuador and Dominica in ALBA, say, or Nicaragua and Guyana in Petrocaribe – the ultimate goal being to decentralise both schemes away from Venezuela. If barter trade can function for Venezuela when importing from Nicaragua,

Guyana, and the Dominican Republic, why not in other Petrocaribe trade relations where Venezuela is not involved? If Venezuelan military aircraft can carry Cuban doctors to perform free eye surgeries in the Eastern Caribbean, why could LIAT not do the same?

But the specifics matter less than the principle: if Caribbean economies depend heavily on ALBA and Petrocaribe, which are in turn over-dependent on politically vulnerable governance structures in Venezuela, then something must be done to mitigate dependence and vulnerability at all points in the chain. The threat to Caribbean political economy may not be as imminent as it would first appear, but difficult dilemmas should still be faced sooner rather than later.

NOTES ON CONTRIBUTOR

Dr Asa K. Cusack recently completed his PhD in the Department of Politics at the University of Sheffield. His thesis focused on the problematic implementation of the Bolivarian Alliance for the Peoples of Our America (ALBA) and involved extensive fieldwork in Venezuela, Ecuador, St Vincent and the Grenadines, Dominica, and Antigua and Barbuda. He has received awards from the Commonwealth and the Economic and Social Research Council, the latter having enabled fieldwork relevant to this article. Email: a.k.cusack@sheffield.ac.uk, Twitter: twitter.com/AsaKCusack

NOTES

- ¹ For a good recap, see 'Caricom and Latin America after Chávez', *Stabroek News (Editorial)*, 13 March 2013, <http://www.stabroeknews.com/2013/opinion/editorial/03/13/caricom-and-latin-america-after-chavez/>.
- ² Quoted in Anthony T Bryan, *Trinidad and Tobago's Strategic Culture*, FIU-USSOUTHCOM Academic Partnership Strategic Cultures Assessments (Florida International University Applied Research Center, September 2011), 25, <http://strategicculture.fiu.edu/LinkClick.aspx?fileticket=FRm-Utx1dqg%3D&tabid=112>.
- ³ Arrangements predating Petrocaribe (e.g. San Jose or Caracas agreements) are not represented here. Venezuelan crude prices are marginally lower than the OPEC basket price, but the latter was used for reasons of data availability. Individual bilateral Petrocaribe agreements are not public, making it impossible to know precisely when countries moved to new conditions. As such, this calculation assumes new conditions take effect the day after overarching agreements were signed.
- ⁴ PDVSA supply figures are given only to one decimal point, which can equate to a large difference in small economies; 0.1 thousand barrels per day (kbd) amounts to a quarter, a third, or even half of supply in some years in some states. That said, this comparison to supply rather than quotas is still a massive improvement

on the common approach of acting as if quotas were fully utilised; for example, Antigua and Barbuda's quota is 4.4kdb but its supply in 2008 and 2009 was 0.5kdb.

- ⁵ The figure for St Vincent and the Grenadines is not representative as it includes unusually high capital spending on the Argyle airport project.
- ⁶ PDVSA accounts show this occurring for 'international agreements', but it is impossible to say precisely which international agreements are affected and in what proportion.
- ⁷ David Jessop, 'Carib Energy Dependency and President Chávez', *Jamaica Gleaner*, 17 July 2011, <http://mobile.jamaica-gleaner.com/gleaner/20110717/business/business6.php>.
- ⁸ Norman Girvan, 'ALBA, PETROCARIBE AND CARICOM: ISSUES IN A NEW DYNAMIC', in *CARICOM: Policy Options for International Engagement*, ed. Kenneth O. Hall and Myrtle Chuck-A-Sang (Kingston: Ian Randle, 2010), 218–34, <http://www.normangirvan.info/wp-content/uploads/2008/05/alba-petrocaribe-and-caricom1.pdf>; Norman Girvan, 'Is ALBA a New Model of Integration? Reflections on the CARICOM Experience', *Journal of Cuban Studies* 3, no. 2/3 (September 2011): 157–80.
- ⁹ Girvan, 'Is ALBA a New Model of Integration? Reflections on the CARICOM Experience', 162–164.
- ¹⁰ Girvan relied on data supplied by officials of each state, and it is quite possible that these officials themselves were not fully aware of all of the strands of ALBA active within their own territory. Given the irregularity and improvisation involved in ALBA's governance and planning, this is perfectly understandable.
- ¹¹ Ronald Sanders, 'PetroCaribe: Are Caribbean Countries Prepared for the Worst?', *Jamaica Observer*, 23 February 2014, http://www.jamaicaobserver.com/columns/PetroCaribe--Are-Caribbean-countries-prepared-for-the-worst-_16110663.
- ¹² Primero Justicia, 'Listado Especifico de Regalos Por Pais 2009', 2010.
- ¹³ Andrés Tovar, 'Las 5 Claves de La 'Liberación' de Altamira', *Últimas Noticias*, 17 March 2014, <http://www.ultimasnoticias.com.ve/noticias/actualidad/politica/claves-fotos---las-5-claves-de-la-liberacion-de-al.aspx>.
- ¹⁴ Girvan, 'Is ALBA a New Model of Integration? Reflections on the CARICOM Experience', 174–75.