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Venezuela's Changing Role in Central America



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An Intelligence Assessment

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ALA 83-10092
June 1983

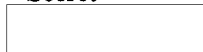
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Venezuela's Changing Role in Central America



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An Intelligence Assessment

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Office of African and Latin American Analysis. It
was coordinated with the Directorate of Operations
and the National Intelligence Council. Comments and
queries are welcome and may be directed to the
Chief, South America Division, ALA, 


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**Venezuela's Changing Role
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Key Judgments

*Information available
as of 9 May 1983
was used in this report.*

We believe that Venezuela's substantial involvement in Central America will be scaled back because of several key economic and political considerations. The presidential election campaign now under way, in which the governing Social Christian Party (COPEI) badly trails the moderate left Democratic Action Party (AD), has diverted the Herrera government's attention and some of its key personnel. The country's serious economic problems, at the same time, have reduced administration interest in Central America and jeopardized some of the aid programs that are at the heart of Caracas's regional influence.

As a result, the Herrera government will probably become less active in Central America and more inclined to shift from bilateral approaches to safer multilateral channels—such as the Contadora Central American peace initiative—that will expose the administration to less political risk at home. For the same reason, Herrera will be more reluctant to appear to be associated with Washington's policies in the region.

We believe that Jaime Lusinchi—the Democratic Action Party's presidential candidate, a 3-to-2 leader in the polls, and the expected winner in next December's election—will focus on domestic problems, even at the expense of Venezuela's traditional interest in Central America. He has publicly singled out economic recovery as the country's most pressing problem. He probably also hopes to avoid stirring up differences over Central America within the party, where it is a controversial issue. In addition, an expected large congressional leftist bloc—comprising representatives of the Communist Party, the Movement of the Revolutionary Left, and the Movement Toward Socialism—could hold Lusinchi's economic policies hostage to Central American issues.

To the degree that a new Venezuelan AD administration does take initiatives in Central America, its policies are likely to be more troublesome to the United States than has been the case. We expect that the AD faction headed by former President Carlos Andres Perez—who has been the party's unofficial spokesman on Central America—will eventually exert strong influence on the new administration's regional policy. Lusinchi's expertise and the interest of party moderates are on domestic

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rather than foreign issues and could thus clear the way for Perez to exercise decisive influence on Central American issues. Perez is a sharp critic of Washington's policies in Nicaragua and El Salvador, opposes the exclusion of Cuba from hemispheric deliberations, and may succeed in moving Venezuela's position on Central America closer to that of the Socialist International, of which he is a vice president.

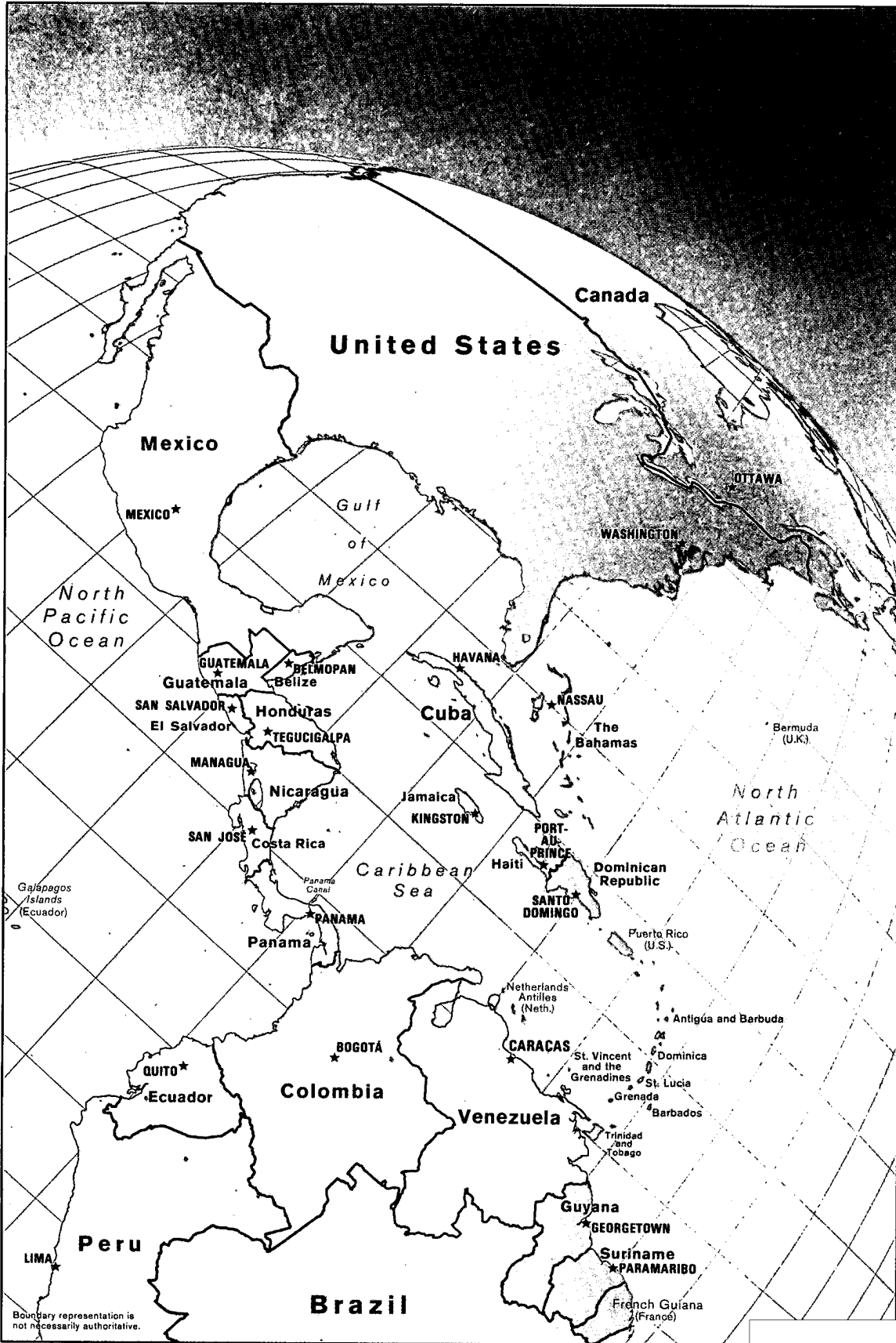


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**Venezuela's Changing Role
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Introduction

Over the past decade, Venezuela has used its massive oil wealth and political stature to influence Central American affairs. By promoting progressive and democratic governments in the region, Caracas generally has paralleled US efforts there. We believe that Venezuela's regional activism is now being sharply circumscribed by its own serious financial problems, political distractions, and shifting priorities. [Redacted]

This paper examines the evolution of Venezuela's Central American policy and surveys the growing economic and political constraints on Caracas's role in the region. It predicts the likely regional role of what we see as a weak, lameduck Herrera administration, projects Venezuela's Central American policy during the first year of the next administration, and assesses the implications for US-Venezuelan cooperation in Central America. [Redacted]

Emergent Foreign Policy

In the 15 years before the energy crisis of 1973-74, Venezuela was quietly and gradually emerging as an important actor in hemispheric and international affairs. It helped found OPEC, sought to enhance its moral influence in the region by quarantining dictatorships of the right and left, and stressed Latin American solidarity and Hispanic nationalism as a counterpoise to US dominance in the hemisphere. The Arab oil embargo and the attendant dramatic rise in world oil prices accelerated Venezuela's entry into high-stakes international diplomacy and hemispheric politics. At the same time, Carlos Andres Perez of the Democratic Action Party (AD)—a social democratic party and affiliate of the Socialist International—became President of Venezuela (1974-79). According to US Embassy reporting, his government's political and economic initiatives in the region reflected Perez's ego and ambitions as well as his vision of Venezuela's hemispheric destiny. Perez, partly by the force of his own personality, achieved prominence in Latin American affairs and bolstered his popularity at home. [Redacted]

Perez took strong positions on such issues as the Panama Canal treaty negotiations, the Guatemala-Belize controversy, and the Nicaraguan revolution. He volunteered to mediate other hemispheric disputes, and he regularly lectured regional leaders on their own internal problems. Venezuela's influence in Central America was significant largely because of its economic and commercial role in the region. In December 1974, for example, a meeting of Central American chiefs of state arranged by Perez led to bilateral agreements under which Venezuela funded a variety of developmental projects, such as a regional coffee marketing agency and a Caribbean merchant fleet. [Redacted]

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With Venezuela's regional policy relying so much upon its economic resources, an element of paternalism was inevitable. According to press and US Embassy reports, some beneficiaries resented this, and, although Caracas rejected charges of expansionism, it did not deny its intention to extend Venezuela's influence in a region vital to its security interests. US officials were specifically told by high-ranking Venezuelan representatives that they especially feared that economic and political instability could be exploited by Cuba, which along with Mexico is Caracas's major competitor for influence in the area. [Redacted]

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The doubling of world oil prices in 1979 allowed Perez's successor as president, the Social Christian Party's (COPEI) Luis Herrera Campins, to expand Venezuela's assistance program at a time of increasing political turmoil in Central America. Herrera shifted the focus of Venezuela's aid from predominantly multilateral channels to bilateral agreements. The President's advisers believed, according to Embassy sources, that multilateral programs diluted the political benefits for Venezuela, while direct bilateral aid was simpler, more effective, and could be used to help Social Christian governments. [Redacted]

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Luis Herrera Campins

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The cornerstone of this aid effort was the joint Venezuelan-Mexican Petroleum Financing Facility (1980), which increased the volume of assistance and extended it to most countries of the Caribbean Basin. Venezuela and Mexico jointly guaranteed oil deliveries at concessional terms that represented total financial assistance of as much as \$400 million a year. Separate, annually renewable agreements with each beneficiary gave Venezuela more potential leverage in Central America to further its foreign policy interests, as well as an opportunity to blunt criticism of Venezuela's and OPEC's oil policies.

Venezuelan Objectives in Central America

Primary Goals. Venezuela's concern about Central America's future is more immediate and probably more fundamental, in our view, than about its interests elsewhere in the hemisphere. Venezuelan officials have expressed concern to US officials that growing polarization, revolutionary violence, and the ascendancy of radical groups in the region could undermine political and economic stability in Venezuela. Successive governments have sought to shield and strengthen Venezuela's democratic system by fostering democracy in Central America and augmenting Caracas's economic and political roles. In pursuit of its goals, Venezuela has adopted policies aimed at:

- Latin American solutions to the region's problems.
- Nonalignment.

- Major power acceptance of a "zone of peace" for Latin America as a whole.
- A more effective Organization of American States.
- A Latin American foreign policy under Caracas's leadership.
- Cuba's interference in the region.

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Major Policy Differences. Although Venezuela's two major political parties generally agree on these overall goals, they frequently differ—internally and between the parties—on specific priorities, tactics, and actions. Both parties have a high stake in Central American developments because of party competition at home and their desires to promote the respective interests of the Social Democratic and Christian Democratic movements abroad. US Embassy observers think that these factors, as well as deep rivalries among the principal foreign policymakers in both major parties, have generally frustrated efforts for bipartisan support for the government's Central American policies.

According to US Embassy officials, this has been especially evident in policy toward Nicaragua and El Salvador—where the splits are becoming deeper. President Herrera has attempted to reverse the radicalization in Nicaragua in part by assisting the private sector, the democratic parties, and the Church. In private conversations with Nicaraguan representatives, Herrera has been at times brusque and sharply critical of recent Nicaraguan actions. At the same time, his government has continued its contact with Sandinista leaders in hopes of moderating their positions and exploiting their rivalries, and it has extended limited aid to Nicaragua in hopes of gaining leverage. According to US officials, administration leaders also believe that continued support for the Sandinistas serves a useful domestic political purpose by balancing Herrera's controversial support for the government in El Salvador.

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The opposition Democratic Action Party has publicly expressed some concern over developments in Nicaragua, but the party hierarchy is less inclined than the Herrera administration to pressure Managua for

Conflicting Positions on Central America

The Herrera Administration

Former President Perez (who is likely to be the dominant influence on the winner of the December presidential elections)

El Salvador

Supplies oil through the Venezuelan-Mexican joint petroleum facility.

Actively opposes the Salvadoran Government and insists that various leftists be included in peace talks.

Trained two Salvadoran special ranger battalions in 1982 and [redacted]

Would sharply reduce economic assistance and funding of Salvadoran programs in social development, information, and propaganda until a new broad-based government is formed.

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Provided \$14 million Central Bank loan and earmarked 85 percent of project loans for Central America in 1982 for El Salvador.

Would seek to reorganize the Salvadoran military by purging rightist and promoting progressive officers.

Helps fund Salvadoran programs in social development, information, and propaganda through Venezuelan Institute of Popular Education.

Would be more inclined to see Cuban involvement in regional peace efforts.

Permits ruling party (COPEI) to fund Salvadoran Christian Democratic Party.

Nicaragua

Channels funds to various Nicaraguan democratic opposition political, private-sector, and Church organizations.

Would continue to defend Nicaragua's authoritarian government and friendship with Cuba and the USSR as understandable overreactions to pressures from the United States and other external forces.

Publicly and privately urges Sandinistas to pursue moderate policies.

Would oppose efforts to single out Sandinista support for insurgent groups elsewhere without similar treatment of other external intervention in the area.

Gives some balance-of-payments support and loans for development projects in hopes of exerting influence on Managua.

Believes Nicaragua must be a major participant in any diplomatic effort aimed at political stability in the region.

Would probably seek some increase in financial and material help to the Sandinistas.

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moderation. Indeed, some party spokesmen have accused the government of doing so on Washington's behalf. Democratic Action leaders have done little to formulate a position on Nicaragua, we believe, for fear that an internal party debate on this issue—pitting moderates against Perez's well-known support for the Sandinistas—could divide the party during and after a presidential election campaign. [redacted]

Central America. Working with the Salvadoran Christian Democratic Party, a key participant in the ruling government coalition in San Salvador, Herrera has channeled economic, political, and military support to the regime, according to the US Missions in both countries. This support has been publicly and vigorously opposed in Venezuela by both the more leftist political parties and the Democratic Action Party, although their respective positions are different. The leftists have demanded inclusion of Salvadoran insurgents in the government and a reorganization

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The Herrera government's disillusionment with Nicaragua has stimulated in part its growing involvement in El Salvador, to stem disorder and radicalism in

of the Army, while AD's less radical position calls for a new government that will represent all sectors except the extreme left. AD leaders also have charged—with some justification—that the Venezuelan Government and ruling party have favored the Christian Democratic Party in El Salvador. [redacted]

The Cuban Factor. The divergence of attitudes in Venezuela on Cuba's increasing involvement in Central America also cuts across party lines. Hardline elements in the government, including the military and security forces and many COPEI leaders not serving in the executive branch, favor strong and direct challenges to Cuban initiatives in the region. According to US Embassy reports, these groups believe a tough approach is necessary to force Havana to abandon what they believe to be its ultimate objective of overthrowing Venezuela's democratic government. The Herrera government's official policy on Cuba is less aggressive, seeking more subtle initiatives that minimize the risk of polarizing the region and involving Venezuela in a direct confrontation with Havana. The administration believes that engaging Cuba in efforts to achieve peace in the region limits Castro's options, stands a chance of moderating his regime's policies, and reduces Caracas's close identification with the United States. [redacted]

For many in the left wing of AD, better relations with Cuba are in line with the party's left-of-center Socialist International philosophy. Most party leaders, however, particularly those associates of AD's late anti-Communist founder Romulo Betancourt, are more wary because of their experience with Cuban-supported leftist insurgents in the 1960s. [redacted]

Emerging Constraints on Venezuela's Involvement

A combination of domestic political and economic concerns already is causing Caracas to scale back its involvement in Central America. As part of this process, the Herrera government is turning back to multilateral rather than bilateral channels to achieve a consensus at home and with other regional powers.¹ [redacted]

¹ For example, Venezuela is cosponsoring the Contadora initiative—an effort shared with Colombia, Mexico, and Panama—to foster dialogue among the Central American countries. [redacted]



Jaime Lusinchi

Bohemia

Election Campaign Imperatives. Venezuela's general election campaign will increasingly dominate politics until 4 December and divert the attention of both the government and the public from Central America or any other foreign policy questions. Most political observers believe voters are especially preoccupied with bread-and-butter issues this year, and the Venezuelan public has a habitually low interest in foreign policy issues. Indeed, this factor will accelerate as economic and financial conditions worsen. [redacted]

The governing Social Christian Party and the Herrera administration are attempting to salvage the candidacy of party chief and former President Rafael Caldera from what appears to be certain defeat. Recent opinion polls show Caldera trailing far behind his Democratic Action rival, Jaime Lusinchi, by at least a 3-to-2 margin. The fact that the economy is the major campaign issue makes it unlikely that Caldera, who is personally popular, can recover much of this ground. The present economic and financial crisis probably will see little abatement before the election, and

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Caldera will continue to be burdened with the public's disgust at the current COPEI government's mishandling of the economy.² [redacted]

Considering this grim outlook, President Herrera is under increasing pressure from party leaders to bring government resources—monetary and personnel—into the campaign, thereby giving foreign policy a still lower priority. Because numerous Cabinet and sub-ministerial officials have left the government to work for the Caldera candidacy, many government programs are in abeyance until after the elections. US Embassy officials have been told that even major policy matters, such as border disputes with Guyana and Colombia, are being left for the new administration. [redacted]

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The Herrera government, because of the sharp political controversy surrounding its Central American policies, would like the support of moderate leaders of the Democratic Action Party in keeping Central America as an issue out of the election campaign. Democratic Action leaders have cooperated to avoid aggravating sharp divisions on this score within their own party, thus jeopardizing what they regard as almost certain victory in December. [redacted]

Foreign Exchange Constraints. A more fundamental and enduring restraint on Caracas's activism in Central America is the country's grim economic outlook. Declining crude oil prices and reduced Venezuelan exports have caused a 20-percent drop in anticipated oil revenues and forced Caracas to make corresponding cuts in 1983 budget projections. This factor, coupled with critical mismanagement by the Herrera government, has led to continued economic contraction and shrinking reserve levels. The deteriorating financial situation has caused Caracas to partially devalue the bolivar, impose exchange controls, and declare a moratorium on foreign debt payments. As a result, Venezuelan officials have been discouraging expectations of some Central American aid recipients that Caracas will either increase aid or soften credit terms. In fact, some aid programs have been curtailed already. In addition, according to US Embassy sources, the Venezuelan Investment Fund, which

[redacted]

manages most of the country's foreign assistance, is reviewing separate bilateral aid programs with a number of Caribbean and Central American recipients. Fund officials already have told the US Embassy that they believe some of these programs should be reduced because of Venezuela's economic problems. [redacted]

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The Petroleum Financing Facility, under which Venezuela paid nearly \$400 million in 1982, also is under scrutiny. [redacted]

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The US Embassy has reported previously that the oil facility has never been popular with the public, the Ministry of Mines, or the state-owned petroleum industry. [redacted]

Because the administration's foreign policy establishment has emphasized that the facility gives Caracas leverage in Central America, and because of continuing support for it by the country's principal political parties, we doubt that the government will cancel the program outright. [redacted]

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[redacted] substantial changes will be made in the program when agreements are renewed, probably reducing the level of assistance. A high-level official of the state oil company has told the press that specific changes to be discussed with Mexican officials in June could cover present interest rates, the amount of total financing, and a reduction in the present purchaser's rebate of 30 percent. [redacted]

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**The New Government's Likely Policies
Economic Problems and Political Trade-Offs.**

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We believe that Venezuela's role in Central America under the next administration will be affected by economic and political distractions that carry over from the Herrera government. In addition, to the extent that Caracas does undertake initiatives in the region, Venezuelan and US policies are more likely to conflict because of the personalities and ideologies that will chart the new government's course. [redacted]

Leaders of the Democratic Action Party—the near certain winner of the election—already have informed US Embassy officials that economic recovery will

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preoccupy Jaime Lusinchi and his Cabinet during the new administration's first year in office. Moreover, the new government will have to conduct another nationwide election on 3 June 1984, this time on the municipal level, scarcely three months after the President is inaugurated. Under these circumstances, the new government could ill afford a major policy battle that might result from greater involvement in Central America. [redacted]

The new government's Central American policy will face a much strengthened leftist bloc in the Venezuelan Congress, if present trends reflected in recent opinion polls hold. These surveys indicate that leftist parties as a group could displace COPEI and become the second-largest legislative bloc after Democratic Action. Although leftist parties have never been able to function as a cohesive political force, the prospects of a pivotal role in Congress could help them coalesce. This could force Lusinchi to adjust his government's position on Central America in order to obtain the left's support for more immediate and pressing economic programs. [redacted]

The new government's problem of what position to take on Central America will be further complicated by the question of who will take over leadership of the Democratic Action Party, which has been unresolved since the death of party founder Romulo Betancourt in 1981. The party is so divided that one of Lusinchi's major advisers described it as little more than a collection of fiefdoms headed by independent and ambitious barons who have no special allegiance to the presidential candidate. Two factions of almost equal strength have major philosophical and leadership differences, particularly on foreign affairs. This dichotomy is most evident on Central America, where former President Carlos Andres Perez and the faction that he leads publicly take positions far to the left of moderate party leaders associated with the late Betancourt. Lusinchi, according to the US Embassy and many local observers, appears to lack the background or drive to manage Venezuela's political system which calls for and responds best to clear guidance and strong leadership. He is thus likely to be highly influenced by the AD party faction that emerges dominant from the maneuvering now under way. [redacted]



Carlos Andres Perez

The Perez Influence. To the extent that one or the other faction dominates, the situation probably favors Perez, largely but not wholly because of his forceful personality and formidable reputation. Although Perez is constitutionally barred from again occupying the presidency until 1989, he exerts great influence on public opinion regarding Central America, and his activities at home and abroad are designed for maximum domestic political impact. The absence of a clearly defined AD policy toward the region already allows him by default to garner media attention, and his position as former President makes his statements newsworthy. His activity on this score has hindered the Herrera government's initiatives in Central America by increasing public scrutiny of them. In addition, his accusations that COPEI's aim in Central America is to foster Christian Democracy at the expense of other democratic alternatives have enmeshed policy toward El Salvador in a wider and increasingly bitter partisan rivalry [redacted]

In both public and private comments, Perez has revealed his conviction that the revolution in Nicaragua was a good thing and that he played a major role

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Carlos Andres Perez ^a

Perez, President from 1974 to 1979, is Venezuela's most controversial and charismatic leader, with a public career spanning Venezuela's 25-year democratic experiment. He directed the government's counterinsurgency effort as Interior Minister in the early 1960s and acquired the reputation for toughness and vigor that contributed to his presidential nomination in 1973. Perez capitalized on his detailed knowledge of his country and its people and problems, his effectiveness in informal crowds, and his carefully cultivated air of machismo to win a landslide victory over COPEI. [redacted]

Perez's energy is a natural outcome of his sense of mission—he believes he has been entrusted by destiny with the Bolivarian heritage. This is illustrated by his concern for the interests of smaller countries in the region, his continuing involvement in resolving border disputes, and his passionate advocacy of Latin solidarity toward the United States. In a recent conversation with Bolivian leaders, Perez described himself as a citizen of Latin America and not merely a Venezuelan. This position, he argued, gives him the right to criticize and comment on any hemispheric country's internal problems. Regarding himself as a world leader, and a candidate for the presidency again in 1988, his unbridled self-confidence and excessive candor have sometimes irritated his interlocutors. Perez also resents that, in his view, Washington has long ignored his position as a world leader and his criticism of US policy in Central America.

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He reflects the traditional Latin American caudillismo, and as President made all significant decisions and thoroughly cowed his associates. He projected vigor and commitment publicly, but could be impulsive or furious when thwarted. He remains dynamic, politically astute, and intelligent. Perez also is often flamboyant and erratic in pursuing his goals, which include Latin American and Third World solidarity, close relations with all Latin and Caribbean countries, and the development of new mechanisms for regional cooperation that exclude the United States.

[redacted]

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[redacted]

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^a This assessment is based mainly on information provided by the US Embassy in Caracas. [redacted]

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in bringing it to pass. In the US Embassy's view, Perez wants to be a leader on the side of change throughout the region. He wants Washington to recognize him as a man it must respect, listen to, and even promote as peacemaker. [redacted]

would go further by including guerrilla representatives in the talks, purging the military of rightist elements, and promoting "progressive" officers. [redacted]

On El Salvador, Perez generally reflects prevailing sentiment within AD and takes it a few steps further. He believes, according to US Embassy sources, that Venezuela is sacrificing its moral authority by aligning itself too closely with military regimes and too often assuming a role that is not identifiably different from that of the United States. Party leaders favor negotiations between the Salvadoran Government and the nonviolent opposition leading to a transition government and new elections. Perez's frequent discussions with US Embassy officials indicate that he

On Nicaragua, the differences within AD are more pronounced, principally because more political reputations are at stake. The party has been gradually pulling back from its wholehearted support for the Sandinistas. In our view, many senior leaders have refrained from speaking out, however, to avoid a confrontation with Perez, who gave the Sandinista guerrillas extensive financial and material help in his party's name during and after his term as president. For Perez, radicalization in Nicaragua is more an

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overreaction to pressure from outside forces—particularly the United States—than a Sandinista betrayal of promises of pluralism and democracy. In public and private statements, he has repeatedly urged Nicaraguan leaders to avoid falling for the trap being prepared for them. [redacted]

According to the US Embassy, Perez sees Cuba and regional cooperation as inseparably linked, because he believes that hemispheric problems cannot be solved by Havana's selective exclusion. He has criticized the United States for sabotaging efforts at Latin American political solidarity and for attempting to reduce Latin American problems to a struggle between Communism and anti-Communism. Moreover, Perez has a unique view of Fidel Castro. We believe he regards the Cuban leader as both a close friend—whom he can trust and influence—and a hemispheric rival—whom he can outwit. In our view, however, Perez has more frequently served Castro's purposes than the reverse. [redacted]

The US Embassy reports that Lusinchi and more moderate Democratic Action leaders are aware that Perez aspires to the presidency in 1989. They believe he will use his position with the party and his grassroots support—especially in the youth and labor sectors—to move the party's position on Central America leftward, closer to that of the Socialist International, of which he is a vice president. Despite the economic mismanagement, corruption, and other failings of Perez's administration, public opinion polls show that he has regained much of his popularity, that his forceful and often arbitrary leadership style is admired, and that he will be a strong candidate in the 1988 campaign. [redacted]

Implications for the United States

Preoccupation with domestic matters is traditional in an election year, but it is more intense in 1983 because of the magnitude of Venezuela's economic crisis and the unprecedented early collapse of the governing Social Christian Party's electoral prospects. The government's fading fortunes have introduced a timidity into its Central American policy, a fear that actions out of step with Venezuela's progressive Latin neighbors will leave the administration vulnerable to leftist charges of being a US surrogate. [redacted]

The prospects for Venezuelan cooperation with US policy in Central America are even poorer for 1984. Notwithstanding assurances by leaders of the Democratic Action Party that they seek a close working relationship with the United States, their determination to deal with the economy and resolve power relationships within the party will effectively preclude cooperation with US aims in Central America. Moreover, whatever Central American policies the Lusinchi government adopts probably will reflect the views of Carlos Andres Perez rather than more moderate party leaders. Perez has shown himself highly resistant to US influence or persuasion, and he will not hesitate to exploit latent anti-American feeling to aid him in his drive for the presidency in 1988. Further, his ego and confidence that he can successfully orchestrate regional affairs opens him up to exploitation by Fidel Castro and the far left. The result will be a Venezuela that is a less constructive force in Central America and a less dependable ally of the United States. [redacted]

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