

Chávez Builds His Sphere Of Influence

Venezuelan Spends to Counter U.S.
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CARACAS, [Venezuela](#) President Hugo Chávez of Venezuela has long pledged to buck Washington-backed economic policies in Latin America. Now, two months after winning reelection and consolidating his hold on the country with new powers to rule by decree, he is strengthening economic ties in the region in a bid to limit U.S. influence.

Chávez recently announced that his government would build housing, a highway and an oil refinery in Nicaragua, part of an aid package that would benefit one of Washington's most tenacious Cold War adversaries, President Daniel Ortega.

Farther south, Venezuela has pledged to provide Ecuador with \$1 billion in credit, a gesture that would soften the blow if that country's leftist government follows through on its threat to default on foreign debt payments. And, along with President Mahmoud Ahmadinejad of [Iran](#), a foe of the Bush administration, Chávez has announced a \$2 billion international investment fund for Latin America.

Taken together, economists and others who track the country's affairs say, the investments signify an effort by Venezuela to curb the reach of the U.S. government, whose influence has waned in Latin America. For Chávez, the goal is nothing less than to kill the so-called Washington consensus, the economic prescriptions championed by the International Monetary Fund and the U.S. Treasury, which press governments to limit spending, raise interest rates and open their economies to foreign trade and investment.

Backing such economic principles as privatization and trade liberalization, the consensus rooted out bloated bureaucracies and helped tame hyper-inflation. Yet even those countries that have run their economies along Washington consensus lines have generally seen disappointing rates of economic growth and deepening poverty. The electoral success of such leftist leaders as Chávez, Ortega, [Bolivia's](#) Evo Morales and Ecuador's Rafael Correa is in part the result of the failure of previous policies to generate growth and raise incomes, economists say.

"All of this IMF stuff has actually benefited a very small sector of our economies," said Hernando de Soto, a Peruvian economist who champions free markets and has criticized elements of Chávez's political program. "That's where Chávez and company come in, because they pick up on the resentment."

Chávez's campaign to persuade countries to break with fiscal orthodoxy, a strategy funded by revenue from the largest oil reserves in the Americas, has had mixed success. Some of the region's most important economies -- [Mexico](#), [Brazil](#), Chile, Colombia and Peru -- maintain solid relations with multilateral lenders and continue to follow market-oriented principles, such as welcoming foreign investment, limiting government spending and attacking inflation.

For its part, the United States still has enormous influence in and close ties with most Latin American countries. Free-trade agreements now cover nearly two-thirds of economic output in the Americas, according to Thomas A. Shannon Jr., assistant secretary of state for Western Hemisphere affairs. And although voters in the region have increasingly elected leftist governments in the past several years, most of them are like those headed by Luiz Inacio Lula da Silva in Brazil and Michelle Bachelet in Chile -- concerned about social inequality but fiscally austere and on friendly terms with Wall Street.

Although Chávez frequently travels to foreign capitals to lambaste Washington, it's not so clear that Latin Americans favor the Venezuelan president's prescriptions, even if their governments are happy to accept his aid. According to a recent survey of 20,200 people in 18 countries by Latinobarómetro, a Chilean polling firm, most Latin Americans lumped Chávez with Fidel Castro and President Bush as bad leaders, citing Brazil's Lula and Chile's Bachelet as the best. And most of those polled classified themselves as political moderates .

Still, U.S. efforts to reach a free-trade agreement with South America's two biggest economic powers, Brazil and Argentina, are stalled, and Washington's efforts to influence economic policies through the IMF and its sister organization, the World Bank, have diminished.

Chávez vs. the IMF

In a policy marked by 1960s-style rhetoric, Chávez is promising to "liberate" Latin America from the "imperialist North American plot" to enslave the region, as he put it recently during the inauguration of Correa in Ecuador. Given new powers to pass economic decrees for 18 months, the Venezuelan president has a free hand to control his country's purse strings.

"In Latin America and the Caribbean, there's more consciousness that these financial organizations are a curse that have taken our countries to hunger, misery and exploitation," said Saúl Ortega, a member of the Venezuelan National Assembly's foreign relations committee.

Economists say other factors have helped leaders sever ties with the IMF, perhaps most notably the booming commodity prices that have filled government coffers from Bogota to Buenos Aires with international reserves and led to three years of robust economic growth. "The region doesn't need IMF financing, and we're happy about that," said Anoop Singh, director of the IMF's Western Hemisphere department. "The main reason is that the world economy is healthy, commodity prices are high and countries in the region are generally following much stronger policies than during previous expansions."

Chávez is most closely allied with those governments furthest from Washington's reach, including [Cuba](#), which each year gets as much as \$2 billion worth of cut-rate oil from Venezuela. He has also found allies in newly ascendant, like-minded political leaders: Ortega and Correa took office in January, and another beneficiary of Venezuelan aid,

Bolivia's Morales, who rose to prominence opposing globalization, took office in January 2006.

Some analysts supportive of Chávez's policies, like Mark Weisbrot, co-director of the Center for Economic and Policy Research in Washington, contend that Venezuelan aid has made a difference for countries in the region. They point to Latin America's poor growth in the 1990s, when privatizations, pension cuts and other austerity measures prescribed by Washington were in full swing.

"Venezuela has added an alternative source of financing without policy conditions," Weisbrot said. "This has given governments wanting to avoid IMF conditions another option, as well as increased bargaining power with international financial institutions."

In the past two years, Argentina, Bolivia, Brazil and Nicaragua have all paid off IMF loans or let lapse IMF agreements that imposed significant strictures on their governments. Among countries in Central and South America, only Paraguay, Peru and Honduras still have major agreements with the IMF, though Nicaragua has said it will negotiate a new one.

Data from the Penn World Table, an analytical unit at the University of Pennsylvania, highlight the economic difficulties that are driving some of Latin America's politics these days. In five Latin American countries that have allied themselves with Chávez -- Venezuela, Bolivia, Argentina, Ecuador and Nicaragua -- the data show that from 1980 through 2003, economic output per person shrank by more than 10 percent, when adjusted for inflation and relative purchasing power. That's a sharp contrast to the 40 percent economic growth those countries recorded from 1960 to 1979.

In Venezuela, Chávez has nationalized industries and tapped the country's oil wealth to expand public health and educational programs aimed at the poor. He has directed his aid dollars toward enabling other countries to cut ties with the IMF and similarly disregard the Washington consensus, nationalizing industries and boosting social spending even while risking inflation -- a course the IMF would not have allowed.

A New Era?

The amount of Venezuelan aid is hard to quantify. The Center of Economic Investigations, a consulting firm in Caracas, the capital, has kept track of Chávez's frequent pronouncements and says that in 2006, he pledged \$47 billion in aid and agreements -- impossible to deliver considering that Venezuela's annual budget hovers around \$50 billion. Still, the country's central bank recorded billions spent on foreign bonds and other investments in the first nine months of last year, dwarfing the amount the United States offers in assistance to Latin America.

In Venezuela, the closer ties to Ecuador and Nicaragua, coupled with Chávez's recent announcements that he will nationalize utilities and take greater control of oil projects at the expense of multinational corporations, has enthralled supporters who believe the

country is in the vanguard of a new era in Latin America. Venezuela is proposing a new multinational bank, a Bank of the South, to replace Washington-based lenders.

"We are distancing ourselves fundamentally from the imperial pretensions of the United States," said Haiman El Troudi, a former chief of staff to Chávez who studies economic issues at the state-funded International Miranda Center in Caracas. "The leftist, progressive thought is thinking the same, thinking of human beings, the installation of new social relations to get along, thinking of the conditions of people's lives and people's culture."

The Venezuelan model, which is predicated on a break with all multinational institutions with Washington ties, has plainly gathered steam in some Latin American countries.

Last year, Argentina, recovering after its 2001 economic collapse by ignoring some crucial aspects of IMF advice, paid off the last of the \$10 billion it owed the fund. It was aided by Venezuela, which had bought \$2.5 billion in Argentine debt.

In Bolivia, Morales nationalized the gas industry and renegotiated agreements with foreign investors -- measures opposed by orthodox economists. Last March, after spending nearly two decades under the strictures of an IMF program, Bolivia let its agreement with the fund end. Meanwhile, Venezuela has committed more than \$140 million in loans and grants while pledging to invest as much as \$1.5 billion in Bolivia's gas industry in coming years.

Bolivian leaders said Venezuelan aid comes with fewer strings attached. "In the case of the United States, we're locked into specific areas -- aid for roads, aid for health, aid for electricity," Álvaro García Linera, the vice president, said in an interview in his office. The Venezuelan aid "allows us greater flexibility to choose projects with more productive impact, especially those ventures that include a state presence."

With Venezuela offering loans, Ecuador, too, has moved to cut back its ties to the IMF and related lenders. The Correa administration said it would not sign an agreement allowing the fund to monitor the government's economic plan.

The question now is how long Venezuela can maintain the aid. Although the economy is growing thanks to high oil prices, it has little private investment and creates few new jobs. And, true to the predictions of economists who are skeptical of the Chávez model, inflation is skyrocketing -- so much so that Chávez recently threatened to nationalize grocery stores if they did not limit price increases.

"I don't know if Venezuela can simultaneously sustain internal spending and external spending at the level it has until now," said Teodoro Petkoff, a former leftist guerrilla and a Chávez opponent who runs a newspaper in Caracas. "I've said it before -- this year, the economy is going to begin to cost Chávez."