

Wednesday, November 21, 2007



**Q** Venezuelan President Hugo Chavez has suggested that Spanish investments in Venezuela could be in jeopardy if Spain does not work to repair relations damaged by a confrontation between Chavez and Spain's King Juan Carlos at the Ibero-American Summit in Chile earlier this month. What is the future of Venezuela-Spain relations and of Spanish investment in the South American country?

**A** Guest Comment: Theresa Paiz Fredel:

"President Chavez has made various threats over the years with respect to private investment in general. Some of these threats materialized in the nationalizations of the leading telecommunications company (CANTV) and of all the electricity-generating companies in the country. Others have yet to materialize, as in the case of nationalizing banks if they didn't prioritize lending to industrial sectors at a low cost earlier this year. Spanish companies currently have about \$3.4 billion in investments in Venezuela ... Fitch estimates that the government has close to \$34 billion in assets, which indicates that sufficient resources are available if it were to choose the nationalization route with these companies. However, given the limited impact that these actions would likely have on these large Spanish companies' balance sheets, Fitch believes that the Venezuelan government has more at risk than the Spanish government in playing this game of chicken. If the Venezuelans nationalize the Spanish companies, it would be one more move that would negatively affect the investment climate in Venezuela, at a time when private investment outflows from the country are expected to top \$1 billion this year alone. Venezuela will eventually need private investment if it is to sustain even modest growth rates as historically high petroleum prices revert to trend. The future of Venezuela-Spain relations could deteriorate, as ideological and political considerations have guided policy choices during the Chavez mandate. However, there is still a chance that relations may normalize with time and that this diplomatic spat will eventually fade away, even without an apology from the Spanish king."

**A** Guest Comment: Javier Corrales:

"Two points are worth emphasizing. First, Spain received only a small dose of Chavez's suffocating verbal aggression. It was enough to drive both Zapatero and King Juan Carlos crazy. US officials (and Chavez's domestic opponents) routinely have to put up with this sort of attack and in more vulgar forms. Spaniards and world opinion now understand that these attacks are not simply colorful folklore, but a strategy intended to preclude dialogue. They also understand how difficult it is to remain quiet *vis-à-vis* this behavior, which is precisely what so many analysts always demand, perhaps unrealistically, of the US and Chavez's opponents. Second, Chavez spoke the sad truth. In a world of high oil prices and in a petro-state where budget controls are nonexistent, the state has little need for private foreign investment. The country might benefit from more investment, no doubt, but the government does not really need it because its main government policies (state spending) are well covered by oil export revenues ... [Chavez] only wants a favorable discretionary state spending climate. If anything, private investments are a nuisance for Chavez, since they entail negotiations and contracts, institutions to which Chavez seems to be allergic. When governments lose interest in private investment, as the Venezuelan state has, foreign counterparts lose bargaining

leverage with that government. What Chavez needs is more markets for its oil (which Spain cannot provide) and, to a lesser extent, more military planes and boats (which Spain is supplying). The latter might be the only area of bargaining leverage that the Spanish government has left."

**A Board Comment: Carlos Paz- Soldan:** "Chavez will take full advantage of King Juan Carlos' reprimand to excite his constituencies both within Venezuela and Latin America in support of his populist, 'anti-imperialist' agenda. The symbolism of a Spanish king and former colonial power publicly rebuking the leader of the 'Bolivarian Revolution' and self-appointed heir of Libertador Simon Bolivar—who helped seal the fate of the Spanish Empire in South America—is much too great for Chavez to pass up quickly and quietly despite Spain's best diplomatic efforts. In the interim, Chavez will extract as many concessions as he can from heavily invested Spanish companies and banks, and leverage this incident to his advantage, as Venezuela's population faces a series of votes/referendums that will consolidate the country's path to socialism and eliminate most limits to his power. If the past is any guide, there will likely be more noise and threats coming from the Venezuelan leader toward Spain and its investments, until another world leader responds to one of his provocations. Cuba, where the Spanish presence is strong, may be able to play a moderating role. Past incidents with former Presidents Lagos (Chile) and Fox (Mexico), as well as President Garcia (Peru) and leaders of Brazil's Congress, reverberated for several months, but were eventually patched up. The king's tongue lashing, while unfortunate within the context of Chavez' grab for power and attention, is likely to go down in history as one of his most memorable statements and will be well remembered the day Chavez' dictatorial regime comes to an end."