

# CHAPTER I

## INTRODUCTION

### A. Background

Venezuela is Latin America country which having potential in economic growth through its natural resources and considered as a country with stable democracy. Venezuela is the rich country of its natural resources, the world fifth largest oil producer until the end of the 1990s. Venezuelan journalist Francisco Toro explained (Levin, 2007, p. 69),

“Venezuelans saw themselves and were seen by others as the successful democracy in Latin America: they were different, better, more modern than other countries in the region. They drank the most expensive Scotch Whiskey and drove Jaguars. They were *Venezuela Saudita*, “Saudi Venezuela”, rich and modern.”

The statement came out before the riots in Caracas, the capital of Venezuela in 1989. *Caracazo* was the name of chaotic protest towards President Carlos Andres Perez deemed to bring Venezuela into economic crisis. Carlos Andres Perez has led Venezuela twice; 1974-1979 and 1989-1994. Perez succeeded to bring Venezuela to had very low inflation and a strong currency, contrary he also brought inflation soared; from 7.2% in 1978 to 81% in 1989 (Gracia, 2017). In his first term, Perez gave the effort to Venezuela economy growth; nationalized the iron, steel, and especially for oil industries that have been a mainstay of Venezuela income. Food and oil prices were subsidized; the Bolivar also got his support at the high value so it could always be

exchanged for the high price in dollars at the bank. Beside Carlos Andres Perez started to build public works such as; housing project, industrial parks, a subway in Caracas and *El Sistema*, a music-teaching programmed for the poor.

In his administration, Perez tried to reduce the dependence on oil as the single commodity to Venezuela's revenue. Within the development plans reformed by the government it is hoped that it can reduced on oil by developing non-traditional exports, besides that Venezuela also openness as wide as possible to foreign investors. The formed of development plans comes from the prescription of the IMF which stated that could help the problems faced by Venezuela. In fact, the values applied to economic development in Venezuela indicate the values of neo-liberalism which reduce the government intervention in controlling the market. As a result some of oil companies in Venezuela were privatized and unfair competition arose between external and domestic industries.

Unwittingly, Perez never thought to pay off against everything he had done to develop Venezuela's economy. When Perez took Presidential for the second time, he left behind Venezuela's external debt \$8 billion to IMF (Levin, 2007, p. 60). Those number of Venezuela's external debt he borrowed for cover the budget of his development plans because he seems to think that oil price would never go down. Contrary, the nationalized of oil industries revealed the fragility of the single resource on economy dependent, yet it poorly managed. After the embargo of the Arab oil, the price of oil had quadrupled, through the worst of his second term Venezuela ended up borrowing \$4.5 billion from the IMF.

Venezuela was faced terrify economic crisis under Carlos Andres Perez Presidency, the country that rich through its natural resources especially oil left with a huge external debt

to IMF. The consecutive administrations which took office in the middle of Perez twice period; President Luis Herrera Campins and President Jaime Lusinchi could not handle it after tried to stabilize the currency by imposing price controls and foreign exchange controls (Gracia, 2017). In term of economic crisis, brought Perez administration to privatizing state companies, removing subsidize, and let the bolivar value felt down.

Washington Consensus is the series policies that developed to address 1980s crisis, above explanation are included in the policies as the measurement to stabilize the economy (Levin, 2007, p. 68). The policy is the form of neo-liberalism that required of him to IMF. Hugo Chavez believed the policies gave the benefit to big business but as a suffering for the poor. It was the stepping stone for Chavez against the Perez administration, the triggered to coup d' eta in 1992 crisis.

Unfortunately, coup d' eta by Hugo Chavez in 1992 failed because of chaotic unprepared led. But the failure of coup d' eta inspired Chavez to fight through democratic way by mobilizing society in view of revolution. The election of Hugo Chavez as President in 1998, become the most dramatic political transformation in the history of Venezuela (lapper, 2006).

Bolivarian Revolution is the social struggle that puts people's consciousness as a center of the movement to liberate Venezuela from neoliberalism (Hira & Morden, 2004, p. 3). Inspired by a local struggle to fight imperialism of European colonialism which has been exploited in Latin America. Socialism had been captured by the following election mechanism but carries the revolutionary forms in each of its policies. The Naming of Bolivarian Revolution

intended as awards Chavez to Simon Bolivar as the father of liberation in Latin America.

Hugo Chavez offered 21<sup>st</sup> Century socialism (Harnecker, 2010, p. 62) as a form of socialism in the present. Socialism in Latin America sets it apart with the practices of socialism that ever existed in Europe. Socialism which gives an idea that there are other alternative forms of developed this world which more equitable and humanity which also author interest to explain in this research.

In the term of Venezuela conditions seemingly unchanged and harming the society, Chavez led his members and asserted his views against the concern society's welfare, social justice, and equality. Chavez then does the action in politics. Chavez voiced demands over policy changes by following the general election in 1998. The election was followed by the party that formed Chavez such as; MVR (Movimiento Quinta Republica) opposite by AD (Accion Democratica) and COPEI (Comite de Organization Politica electoral Independence) (Manwaring, 2005). Chavez succeeds to led the election by comparison of the vote not significantly. As the elected President in 1999, Chavez introduced the Bolivarian Revolution, a constitutional revolution which adds the rights of marginal society and changes the structure of the government. A Victory of Hugo Chavez is the beginning of the radical change in Venezuela, which led the process of restoring economic crisis and the changes of a political system in Venezuela.

December 1999, a new constitution was done and the vote to approve the constitution (Gracia, 2017). The constitution of 1999 also named after the idea of revolution which brings by Hugo Chavez – *Constitucion Bolivariana*, Simon Bolivar's thought and philosophy was behind the spirit of the Bolivarian revolution. For the first time, the society involved to deciding

their constitution by a referendum. The way to build the Constitution indicates Chavez tend to involve and listened to the society at decision-making process which did not do by the former.

Bolivarian Constitution or the Constitution of 1999 contains 350 articles, including the article about economic changes, had been a highlight. Chavez believed that economic changes are the most fundamental thing in the revolution. It was confirmed in the new constitution in order to arrange the economic order and the function of the country to meet the demand of society, states on the Article 229;

The economic regime of the Bolivarian Republic of Venezuela is based on the principles of social justice, democratization, efficiency, free competition, protection of the environment, productivity and solidarity, with a view to ensuring overall human development and a dignified and useful existence for the community. The State, jointly with private initiative, shall promote the harmonious development of the national economy, to the end of generating sources of employment, a high rate of domestic added value, raising the standard of living of the population and strengthen the economic sovereignty of the country, guaranteeing the reliability of the law; the solid, dynamic, sustainable, continuing and equitable growth of the economy to ensure a just distribution of wealth through participatory democratic strategic planning with open consultation (Constitution 1999).

The article 229 of the new constitution above shows that economic changes supposed to state with private initiative

join to promote the harmonious development the national economy in a way to prospered the society even for utilizing their own wealth that was mentioned on it. Inversely to what have done before by the former, neo-liberal government was let the private investor exploited their own wealth especially oil. Since 1970, the foreign investors have controlled the oil sector such as Chevron Corps; Royal Dutch Shell, Repsol, and Exxon (Soyomukti, 2007, p. 109). Instead of being used for the development and meet the demand of society income of oil were just rotating on the elite of the government and the investor. Moreover, 50% of the biggest company in Venezuela ties by US financier since 1977.

The economic policy pursued by Chavez emphasized the nationalized the assets and wealth of Venezuela in financing social programs and public services that will be analyzed in chapter II. Some policies arranged to return the economic rights to the society, briefly (Soyomukti, 2007, pp. 83-148);

1. Nationalized PDVSA (Petroleos de Venezuela)

This policy aiming to nationalize the wealth in case of oil and natural gas companies that initially by the private sector. PDVSA is the biggest oil company in Venezuela. In fact, the income cannot meet the demand of society, besides, the resources exploited by the private sector. Therefore, nationalized PDVSA impact the income that is used to financing the social and public services such as; giving the credit to the poor farmer, free education, health service, and rising labor income.

2. Workers Empowerment

As the Marxists teaching, Chavez really cares about the welfare of labor. According to him, there are no differences between the classes of workers. Labor Association was built to support the revolution beside, labor empowered to manage some of the state company.

### 3. Indigenous Development

Development based on the logic of cooperation and humanist against a capitalistic individualism in the global economy. This for stimulating the indigenous people which not being concerned by the former to improve the national industry under Chavez's policy, such as the establishment of *Convisa* (airline company) and *Covotel* (telecommunication company).

In addition of the economic policies have been mention there is the foreign policy affected the economic development not only for Venezuela but also Latin America. Chavez initiated the establishment of ALBA (Alternative Bolivariana Para Las Americas) as the protest of FTAA (Free Trade Area of America). With the purpose to building the future of Latin America, destroying the social inequalities ALBA tend to against the brutal logic of neo-liberal economic policies that impose restructure in the economy of Latin America (Soyomukti, 2007, pp. 138-139). Neo-liberal economics seeks to eliminate the protection of national industries; to impose the logic of making products for the benefit of the market; the termination of the restrictions of foreign capital in the national economy; the privatization of

the whole assets and the wealth of nation; and the last elimination of subsidies to the society.

## **B. Research Question**

Based on background that has been explained above can be formulated as follows; “Why Hugo Chavez implement socialism in Venezuela for economic development in 2001-2006?”

## **C. Theoretical Framework**

According to the background of the topic which talks about socialism implementation for Venezuela’s economic development, the author uses the theory of Dependency:

1. Dependency theory was rooted in Karl Marx economic structuralism which has economic relations rich and poor countries. Karl Marx stated that the rich country controls and exploit the economy of the poor state. Within the world system and international relations, the rich country could control the economic system of the poor state by its power. The 1950s, the modern formations of dependency theory established by the work of Raul Presbisch. Presbisch argued poor states should make improvement through the import-substitution so that they could avoid import the products from the richer states. Instead, the poor states should improve their industry in the domestic sector. Moreover, they can sell the product to the International market.

According to Vincent Ferraro,

Dependence is a historical condition which shapes a certain structure of the world economy such that it favors some countries to detriment of others and limits the development possibilities of the subordinate economics...a situation in which the



economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected. (Santos, 2009, p. 226)

In dependency theory there are three characteristics towards the definition;

1. The characteristic of dependency consists of two sets of state. They are dominant and dependent state or in other name are the center and periphery state. The dominant states are profited and advance in industrial sectors which incorporated in the Organization of Economic Co-operation and Development (OECD). The dependent states are the state that relied on the single commodity in export for their revenue. Such as Latin America, Asia, and Africa which have low *per capita* GNP.
2. There are external forces, such as international commodity markets, foreign assistance, multinational corporations, and any other forms so, the economic interest abroad could represent by advanced industrial states. Then the external forces common importance to the economic activities for dependent states.
3. Based on definitions due to dominant and dependent states relations indicate the dependency because its tendency to be not only strengthened but also unequal patterns. Moreover, dependency is the process in a very deep-seated history which is rooted in capitalism in the international. (Ferraro, 1996)

The basis of this theory is to explain that dependent (poor state) is being economically exploited by the dominant (rich country). Dependent was described as the country in southern that being underdevelopment in term of economy and dependent by the dominant country in Northern. Dominant utilize the dependent

to export the raw materials because of the lack to manage their own resources.

In the case of Venezuela, the oil industry is a single resource on heavily economy dependence. Even Venezuela is the fifth largest oil producers in the world and nationalized, it poorly managed under Carlos Andres Perez Presidency. The formerly government let the foreign investor controlled the oil market since 1970. Instead of being used for the development and meet the demand of society income of oil were just rotating on the elite of the government and the investor. It made Venezuela dependence on IMF to recover the huge development was done. In another way, it left Venezuela behind in with huge debt to them and they were required Washington Consensus to address the trouble.

Through the condition, Hugo Chavez believed the dependence on IMF and Washington Consensus implementation just gave the benefit to big business, not to the poor. Chavez performs changes after he was elected in 1999, economic changes considered important to the revolution. Chavez tends to against the privatization of foreign investment which controls the oil sector by his policy. By the policy also Chavez aimed to make Venezuela regardless of the dependence on external (IMF) and began to manage development from the income.

#### **D. Writing Purpose**

1. To implementing international theories in an actual case which can give the contribution towards International Relations which acknowledge since in university.

2. To analysis idealism which used by some actors in International Relations; individual and state to solve the economic crisis in the state.
3. To analyze and explain the factors of socialism implementation by Hugo Chavez in Venezuela's economic development.

### **E. Hypothesis**

Based on the background of the problem and dependency theory as the theoretical framework can be obtained the reason Hugo Chavez implementing socialism towards Venezuela's Economic Development:

**First**, the implementation of socialism creates independence of Venezuela for the management of oil revenue to finance the economic development plans under Hugo Chavez.

**Second**, the implementation of socialism enable a kind of economic development that not only benefits the elite and government but benefit a large majority of people.

### **F. Research Method**

To write this undergraduate thesis, the author uses a descriptive method to explain the idealism of actors that tried to solve economic crisis through the Bolivarian Revolution by implement socialism in Venezuela.

The author would analysis factors of Hugo Chavez which decided to implement socialism in Venezuela's economic development. In this research data is found through library research. The source of information will be collecting the references from printed media such as; books, newspaper, magazine, and journal as well as electronic media such as; article and journal on the internet related to the topics in this research.

## **G. Scope of Research**

To limit the problem and research, the research area is socialism implementation towards economy policy in Venezuela from 2001-2006.

## **H. Writing System**

The outline of this undergraduate thesis is described as follows:

### **Chapter I: Introduction**

As the introduction of the topic, it is about background of the problem, research question, theoretical framework, writing purpose, hypothesis, methodology, research area, and writing system.

### **Chapter II: The Transition of Economic Development in Venezuela**

This chapter will explain the transition of economic development in Venezuela and economic policy under Hugo Chavez Era against the Washington Consensus as the repairing crisis under his formerly.

### **Chapter III: Factors of Socialism Implementation by Hugo Chavez in Venezuela**

It will explain the roles of Hugo Chavez as the actor of International Relations, then will explain about the factors of socialism implementation in Venezuela 2001-2006.

### **Chapter IV: Conclusion**

The conclusion which summarized the discussion mentioned in the previous chapters.