

CHAPTER II

THE TRANSITION OF ECONOMIC DEVELOPMENT IN VENEZUELA

In this chapter will describe the transition of economic development in Venezuela and economic policy of Hugo Chavez to address the economic crisis in Venezuela after he becomes the President. In 1999, Chavez was won significantly in the elections and brought the revolution to Venezuela.

A. The economy of Venezuela Before Hugo Chavez

In the colonial era, Venezuela discovered as the Garden of Eden. All natural resources could find there, the pearl could provide wealth to Spanish. Christopher Columbus arrived in 1498, during his third voyage to the new world. Columbus is the first European Explorer stepped out the Latin America after saw Peninsula de Paria near Trinidad Island on August 1, 1498 (Heckel, 2018). He was spending 2 weeks to observe the region of Delta Rio Orinoco then find out the so-called Garden of Eden. Even Columbus acknowledges with the letter that sends to the Spanish Empire “all the natural resources proves that this region is the paradise of the world”. Agriculture is the main of income in Venezuela over 400 years.

From Coffee to Petroleum

Cacao became first a crop that Venezuelan depends on it. But all had changed after the independence of Venezuela. Coffee more profitable rather than cocoa, require only five years instead of cacao’s eight or ten years. Coffee

replaced dependence of single crop, cocoa. Under Jose Antonio Paez coffee prices fell and the planters suffer losses found themselves cannot pay a debt. The government could not save the planters towards their policy.

In Guzman Blanco administration, Venezuela faced world strong market, impact coffee and cacao prices high. Higher prices of cacao and coffee in the world market cannot be apart from Guzman role in advancing agriculture. Guzman attracts foreign investment to Venezuela to invest their money such as for Venezuela railroads. At that time, the success of the economy encouraged the development of modern infrastructure.

Venezuela began to discover petroleum in 1917 under Juan Vicente Gomez. He ruled Venezuela from 1908 until 1935 and at that time Venezuela becomes world's largest exporter. Gomez encouraged the extraction and sale of petroleum as the future of Venezuela, more than cocoa and coffee. Gomez oversaw petroleum as the future of Venezuela, proves that the invention of transportation and the car began used in the world. The modernized of industry and foreign companies invited to Venezuela to manage the oil. Royal Dutch Shell and Standard Oil of New Jersey (would become Exxon) foreign companies have a right to drill the oil and pay for it. The companies kept pay for the oil was taken from Venezuela and the income did not use to the development program. The single crop of Venezuela changes into oil, a single crop that economy would depend.

In Venezuela proceedings, oil is not entirely supporting Venezuela's economy. The manufacturing, construction, and service sector were growing faster and support the economy. Proved by certain policies which been took by Marcos Perez Jimenez in 1950. The telephone company was nationalized named *Compania Anonima*

Nacional Telefonos de Venezuela (CANTV). And also, the government established the petrochemical company called *Instituto Venezolano de Petroquímica* moreover, there are so many of development banks was set up by the government.

The similar decision did not take by Romulo Betancourt, he was focused to reform oil industry, devalued the currency, high the taxes even undertake a land reform. Betancourt was influenced in a Marxist way to recover the economy. The administration built a central planning office which adapts to a mixed economy, called CORDIPLAN. In case of oil, the government established *Corporación Venezolana de Petróleo* the state-owned oil company, he also plans to nationalized foreign oil company but realized by Carlos Andres Perez. The growth miracle happened in 1960, Venezuela gross domestic product (GDP) per worker relative comparable measure for the United State was 0.837. Every the progress in the economic equivalent of Venezuela the average output per workers have shown from the same ratio was 0.797 for Canada, 0.825 for Switzerland, and 0.788 for Australia (FARIA, 2008, p. 520).

During his presidency, the income tax tripled rate, rising from 12 percent to 36 percent and become complex, introduced tax brackets. A tax system in which taxation progressively increases as an individual income grows. Toward devalued of bolivar currency of the dollar, rising from 3.30 – 4.50 the serious injuries inflicted on the Venezuelan economy causes the government implanted the exchange control.

The planned of Betancourt to nationalize the oil industry can be realized under Carlos Andreas Perez presidency. Perez gave the big push to socialism in his first

time to ruled Venezuela. He had nationalized oil buying up the foreign companies for \$1 billion, steel and iron industries, subsidized food and oil prices and canceled the \$350 million in debt to the government by Venezuelan farmers. Perez spent money were not sensible, huge public works costly \$53 billion for infrastructures and social programmed. Venezuela hit the oil boom at that time impact of Arab oil embargo but Perez never thought to increase external debt from \$0.7 billion in 1974 to \$6.1 billion in 1978 (Economist, 2011).

Perez wanted Venezuelan believed that he would not depend on IMF from his statement. In fact, neo-liberal form implemented under his presidency called Washington Consensus. The series of policy against he had done before, privatizing state companies, removing subsidies, and devaluation. The inflation never fell below 30 percent before. The average income per person had dropped by more than 75 percent since 1977.

The first President who under arrested by Supreme Court. Perez is proven guilty, he diverting \$17 million of public money to secret fund; it had gone to help Violeta Chamorro win the presidency in Nicaragua (Economist, 2011). Perez arrested in jail in case of corruption. Caldera was elected after Perez and neither could handle economic crisis was left-handed by his former. Venezuelans still continue to collapse. Caracazo is a chaotic protest of Venezuelan toward the rise of oil price in 1989. The massive protesters were down to the street in Caracas, the capital city of Venezuela. Three days of riots cause 200 people died.

Adjustment Program for Economic Reform

The deep economic crisis faced Venezuela when Perez reelected in the second term. He signed a readjustment programme with IMF who offered \$4.5 billion to stabilize the economy. Contrary to what he said in the campaign,

The economist on the World Bank's payroll as "genocide workers in the pay of economic totalitarianism" and the IMF as "a neutron bomb that killed people, but left building standing." (Ali, 2006)

President Carlos Andreas Perez accepted the first loan with IMF in 1989 to readdress economic situation in Venezuela which has suffered from slow growth because of oil price was fall. Perez announced to make an economic reform program to reduce dependency on oil export. Comprehensive adjustment program from IMF's recommendation coincides with the loan. The program designed to restore external viability and set the condition for sustained economic growth so- called Washington Consensus.

UPI business writer, Carlos (Brezina, 1989) reported that IMF approved the first load to Venezuela \$443 million credit for support of the government's economic reform project. Venezuela also could receive \$4.5 billion in additional loans over the next three years. The agreement with IMF towards the loan and program was in Washington but in Venezuela, it was 'Black Friday.' The riots of Venezuelans towards the crisis causes of dynamic of oil prices and difficult to meet the payment of external debt about \$30 billion. IMF was able to promote that view throughout the developing world by attaching policy conditions, known as stabilization and structural adjustment programs, to the loans they made. The Washington consensus reflected the set of policies that became their standard package of advice attached to the loans.

Adjustment program coming with the economic package is actually a group of policy with three different conceptual aspects: 1. Adjustment as a mechanism for establishing short-term equilibrium in the main macroeconomic indicators and pay foreign debt 2. Structural reform of the economy based on private, non-traditional

exports; and 3. The transformation of the “populist” political system tends to transform of Latin America to a “modern” system that will adjust to the demands of the “objective” form the new international economic order (Fierro, 1996, p. 15). The main point of this package is to transform Venezuela from ‘old’ version into modern and neo-liberal. Through to the adjustment of reform structure economy based on private and nontraditional export. John Williamson, a Senior Fellow in Institute for International Economics stated that Washington Consensus emphasized the three big ideas; are macroeconomic discipline, a market economy, and openness to the world at least in respect of trade and Foreign Direct Investment (Joseph, 2005).

Macroeconomic policies such as, reduce government spending and higher interest rates that are prescribed for the reel in increasing budget deficits and accompanying inflation. Public sector privatizes and the embraces of market principles intended to reduce smothering state intervention of industry and the possibility for damaging government corruption. As it is believed opening Latin America through the public sector, deregulation and trade and capital liberalization will attract foreign investment and improve health competition.

As the interpretation of Perez administration for the adjustment of the economy package formulated the Eight National Development plans (1989) for Venezuela development. The objectives following are:

1. To reduce state intervention and of the weight of the state in the economy;
2. To reduce dependency on oil as single revenue;
3. Sustained growth without inflation;
4. Priorities export-oriented industrialization;
5. Increasing the productivity of labor;

6. Increasing social expenditures and the elimination of extreme poverty;
7. To Improve distribution of incomes, the democratization of property and management, and transfer of property to associative forms of labor and;
8. Consolidation of the democratic system (Fierro, 1996, p. 56).

The economic policies would create the stability by controlling inflation and also reducing the budget deficit. Reform the market policies (trade and exchange-rate) that could be integrated the country into the global economy. Lifting the state restrictions in imports and exports includes the devaluation of the currency. In addition, the government tends to allow the market free by removing subsidies and state intervention and involves its privatization program.

The Failure of Adjustment Program

International Monetary Fund and some economist who arrange the set of economic policies 'Washington Consensus' believed that state intervention has damaged economic growth and causes external debt in the 1980s. The prescription arranges by three ideas; stability, privatization, and liberalization. Universal prescription address to developing countries such as Latin America, contrary they have their own problem and mostly different between the countries. In the case of Venezuela instead to reduced dependency on oil revenues but more dependent on it.

IMF adjustment policy is not designed to carry out structural changes or sustainable growth goals. Enzo del Bufalo on his article in *Nueva Economía* with the title *La política de ajuste y el cambio* structural stated that their true purpose is always to achieve a positive balance of payments of member countries of the system, which has been IMF created for this purpose. Basically, the adjustment policy

seeks to ensure that the debtor country would achieve the solvency required to pay the debts, and from this perspective, they are undoubtedly efficient (The Impact of Neoliberal Adjustment in Venezuela, 1989-1993 , 1996, p. 71).

The debt increased annually, coming with the economic package as the support to economic reforms program of Perez's administration caused the dependence into it. The 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 as the definition of Vincent (Ferraro, 1996) of dependency. Venezuela's economy was dependence on oil, far from decreasing, became more extreme in period Carlos Andreas Perez. Besides, the external debt has increased annually to finance the development program towards reducing the oil dependence.

Table 1. Evolution of the Public External Debt, 1988-1992
(US\$ millions)

	1988	1989	1990	1991	1992
Interest Payments		2,589	2,488	2,199	2,334
Principal Payments		2,112	1,963	977	881
Total Payments		4,701	4,451	3,176	3,215
New Debt		1,044	1,340	1,673	2,341
Total Debt	26,586.3	27,152.3	26,811.5	25,856	27,105.1

Source:

(The Chávez Administration at 10 Years: The Economy and Social Indicators, 2009)

Based the table 2, the total outstanding debt had increased by US\$518 million over the debt outstanding in

1988. Total public external debt payment from 1989 until 1992 US\$6.4 billion, interest payments on the public external debt reached about US\$9.6 billion and the payment of the principal about US\$5.9 billion.

These policies can only be evaluated as a complete failure. Contrast to the economic policy under Perez administration Eight National Development Plans, the oil industry continued to develop major projects that increased the economy's dependence on it. Its contribution to net investment in the capital increased from 8.37 percent in 1988 to 33.15 percent in 1992 (Fierro, 1996), for the fourth consecutive year exceeding that of the private sector. The share of the oil industry in gross investment in fixed capital, which had reached 12.4 percent in 1988, increased to 30.6 percent in 1992.

According to neo-liberalism, trade and capital liberalization would attract foreign investment and increase healthy competition. In Fact, with the policy of trade liberalization, the value of imports of assembled passenger vehicles increased from \$40 million in 1988 to \$1,292 million in 1992 (Fierro, 1996). The free market created the new dependency for Venezuela towards the foreign products and reduced the productivity of the domestic industry. Besides, free market means competition, neo-liberalism stated means quality is kept high, prices kept low, and it drives innovation, and distribute resources efficiently to the people who want them the most.

The competition between domestic industry and private sector went wrong, their particular conditions responded in different ways to the challenges posed by the new conditions of trade liberalization and increased

competition, and the conflict between the various entrepreneurial sectors emerged. y, The Federacion Nacional de Camaras de Comercio y Produccion (National Federation of Chambers of Commerce and Production-FEDE CAMARAS) (Fierro, 1996), The chambers of commerce were in favor of trade liberalization, the association of the textile, apparel, and footwear industries and small and medium-sized enterprises charged that increased pressure from unfair competition and smuggling were threatening to bankrupt an increasing number of firms.

However, under Chavez's administration was still dependent on oil export as the revenue. But at that time the non-oil sector increased significantly from 11.7 percent of GDP in 1998 to 14.2 percent of GDP in 2004 due to improving the tax collection (Mark Weisbrot, 2009). The government wisely to their spending, not all government spending is for central government finances. They had been carried out directly from PDVSA for public expenditure and social programs. Chavez made Venezuela regardless of the dependence of the external forces such as IMF and began to manage development from the income.

B. Venezuela Under Hugo Chavez

A military figure which got attention after his involvement of coup in 1992 against Carlos Andreas Perez, Hugo Chavez. Hugo Rafael Chavez Frias was born on July 28, 1954, in the Illanos region of Venezuela. The second child of Hugo de Los Reynes Chavez and Elena Frias de Chavez. He entered the military academy in 1974, spent most of the time in Caracas. Young Chavez interested in many things such as baseball and radio including politic, history and "Marxism-Leninism". He got the influenced by his friend Jose Ruiz, the first book he read on communism and socialism.

Ruiz also pursued Chavez's interest in Simon Bolivar and began to speak Bolivarianism toward Latin America United. In 1982 he able to speak in front of 1200 officers and troops, Chavez talked about Latin America's history and sound like a politician. Simon Bolivar (*Simon Jose Antonio de la Santisima Trinidad Bolivar Palacios*) is the Latin America greatest hero, he was not liberated his country but also into Columbia and down the Pacific Coast; Ecuador, Peru, and Bolivia. He is the President of Grand Colombia and hoped to unite countries from Mexico to Argentine but he was failed. Venezuela was the first country to secede from Gran Colombia and become a sovereign country. The spirit of revolution grew since he was young and from what he has learned from socialism figure. Revolutionary movement – 200 a new organization created after that. Named after the 200th anniversary of Bolivar's birth.

Heavily armed personnel carriers drive through Caracas, Venezuela when Caracazo riots. Chavez saw the violent riots toward protester, he believed it happened to respond after the Washington Consensus. The series policy implemented by Carlos Andreas Perez caused the rise of oil prices. The economic crisis under Perez remained very poor people. The condition made Chavez bethink the role of the military, supposed to secure the people not killing them. And also the organization which Chavez and his friend built, this would a good sign to reform the country.

Coup 1992

Chavez and some other officers arrange of plotting a coup against the government. In 1991, Chavez was able to plan a coup, Plan Zamora. Zamora is general who Chavez so admired because he still fights for the Simon Bolivar thought in the nineteenth century. The coup has gone wrong because of could not arrange the plan well. The first coup was attempted on February and the second attempted on

November. Chavez gave the statement to take the responsibility of coup against the government. Chavez's tape air live on TV, he said in part:

“Comrades, the objectives we set for ourselves have not been possible to achieve for the moment but new possibilities will arise again, and the country will be able to move forward to a better future.... I alone take responsibility for this Bolivarian military uprising.” (Levin, 2007, p. 74)

Hugo Chavez jailed for two years after, he did not take it as a bad experience because he had a plaster bust of Simon Bolivar to talk to and allowed TV, radio to interviews. President Caldera elected and Chavez released from jail.

Presidential Election

After leaving jail, Hugo Chavez invited to Cuba and got the chance to meet Fidel Castro in September 1994. Returning from Cuba he began to travel around the country. Chavez talked to the people about the problem and asked the suggestion for what the government supposed to do. He also wanted the people to support him if Chavez took political action in Venezuela. His campaign started in 1996 and he formed the Bolivarian Movement-200 to Movimiento Quinta Republica (Fifth Republic). AD and COPEI the two strong parties he wanted to end. Punto Fujismo is referring to the party system who over controlled Venezuela.

Venezuelan seems to have lost their trust to AD and COPEI who lasted long over control Venezuela. Hugo Chavez won the election for about 54 percent of the vote. After the election, even more, people with money left the country, and foreign investors pulled \$1.7 billion out Venezuela. In 1999, 600,000 jobs would be lost (Levin, 2007, p. 81). Hugo Chavez took his office on February 2, 1999.

The Achievement of Revolution

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 involve in deciding their constitution by a referendum. The way to build the Constitution indicates Chavez tends to involved 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, includes 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. In 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 constitution lengthened the presidential term from five years to six years and allowed a president to serve two terms in succession. In what would appear to be a check on greatly enlarged presidential powers, it made a provision for a presidential recall referendum (allowing voters to call for a vote to remove the president from office once they had collected enough signatures on petitions). The new constitution also forbade state-owned oil companies to privatization and extended labor and social security benefits.

The economic policy pursued by Chavez emphasized the nationalized the assets and wealth of Venezuela in financing social program and public service. Some policies arranged to returns the economic rights to the society;

1. Nationalized Petroleos de Venezuela (PDVSA)

PDVSA is the biggest oil company in Venezuela, in fact, the income cannot meet the demand of society. Besides, the resources exploited the private. The State company PDVSA is the largest and most numerous hired labor; While Venezuela is a member of OPEC, and for the western countries is one of the fifth-largest oil exporter companies and third largest for the United States. The oil industry provides one-third full for the GDP of Venezuela. Control against PDVSA means not only gains control over Venezuela but also against the control of the world oil market. Daily crude oil production of 3 million barrels and 75% are exported. Foreign exchange earnings from oil export average between \$3 billion and \$4 billion per year.

"There can be no socialism if our country doesn't have control of its resources," Chavez declared on May Day 2007, announcing he would rip up contracts with foreign oil companies worth billions of dollars (Gluck, 2013).

Chavez decided that the government should control over the oil production in Venezuela, so the government could use the profits to finance the social programs. The government also changes the tax for foreign oil producer to 30% because for a decade the oil industry in Venezuela had enriched the foreign companies, instead it causing the poverty for the people. On the other hand, Chavez using OPEC to raising the oil prices to get more revenues. He was redistributed land to peasants and legalized the people to occupy the private land which unused. To prevent exploitation of the business that could be suffering the poor people, Chavez introduced the price controls. When businesses tried to export all of their goods to get around price controls, the state nationalized them.

Chavez did not implement the policy as a whole but he is applying periodically. He began to decrees a new oil law requiring PDVSA hold a majority in all upstream oil projects in 2011. Chavez sacks 20,000 employees, takes control of the company and quickly begins using it to finance social programs so-called Mission Robinson. The mission provides education, literacy skill and arithmetic for adults. The government raises taxes and royalties on private oil companies, collects billions of dollars through retroactive tax hikes and orders companies

running oilfield sub-contracting venture to give PDVSA control of those operations.

2. Workers Empowerment

As the Marxist teaching, Chavez has really cared about the welfare of labor. Besides, the role of worker movement or labor union is one of fundamental aspect to support the revolution till the end. Therefore Chavez calls the worker movement or labor union to play their rightful role in the revolution “I ask for the full support of the working class and of the genuinely revolutionary trade unions...I call upon the working class to once and for all play its rightful role in this revolution” (Hernandez, 2007).

Cogestion is a term that used by Venezuelan workers as a process in various participation and workers control for factory management. Cogestion also can be referred to Co-management but not similar to Europe co-management after World War II, co-management that made workers become aware of their power as a whole not only to run the companies but also to manage the society. The model of cogestion is adapted from Lenin decree on workers control, a direct control over the company or rights to vote their deputy to manage the companies as the democracy (Martín, 2006).

Thereby struggle against the former owner by the worker, because the company to cross the threshold of bankrupt. The workers faced among the choices. Either become unemployed in case of bankrupt or taking control of the company. There is the slogan from Chavez that also affected the action “factory closed, factory occupied”. For the

first occupying was Venepal in 2005, a paper industry that has been renamed became Venezuela Indigenous Paper Industry (Invepal). Worker control over Invepal was the benefit to the Venezuelan as a whole. CNV then became the second occupying by the workers against the owner named, Andres Sosa Pietry about two years. CNV is an industry that produces valve for the oil industry. Venezuelan Indigenous Valve Industry (Inveval) started their production after two years under new management and workers control. Besides, the electricity company, *Compania de Administracion y Fomento Electrico* (CADAFE) and the aluminum production plant *Aluminio del Caroni S.A* (ALCASA) their company are being run by the workers. Since the state-owned 51% compared the company 49% (Martín, 2006), the workers have rights in decision-making body neither to vote.

The Confederation of Venezuelan Workers (CTV) is the largest labor union at that time which pro-imperialist and capitalist. They were protested towards Chavez decision to control PDVSA, a state oil company by the appointed loyalist to run the company and dismissing layer of the layer the top executives. Chaos between pro and anti-Chavez supporter crushed in Caracas streets. Workers union divided into two, the Confederation of Venezuelan workers (CVT) and the National Workers Union (UNT).

UNT is the workers union which pro to Chavez, in the other name Chivitas. They tend to support the decision towards its revolution. As already explained in the previous paragraph,

workers movement or labor union should play a rightful role in the revolution, moreover, workers movement or labor union should change them self as the instrument that can seize the power. The Revolutionary Front Workers in Co-managed Factories (FRETECO) is the front of workers which encourage by the government to “get organized and promote revolutionary trade unionism within the UNT” and appeals to the new leadership of UNT “to launch a national campaign to take over and occupy factories under workers control” (Martín, 2006).

3. Indigenous Development

Since the Independence of Venezuela, its country could not regardless of the fact that 1.5 percent of the population is the indigenous people, they are divided into 28 different ethnic groups (Exchange, 2004). Its small numbers but diverse. Back then, indigenous has been always being left out by the government. As already explained in the history, since the colonialism era 1821 the indigenous people have long exploited.

After a reform of the constitution under Chavez, indigenous people are being concerned. The government will not engage in the extraction of natural resources from native lands without consultation with indigenous groups not in a manner that would harm their culture or economy.

Based on article 123, Constitution of 1999; Indigenous peoples have the right to maintain and promote their own economic practices based on reciprocity, solidarity and exchange; their traditional productive activities, their participation

in the national economy and define its priorities. Indigenous peoples have the right to professional training services and to participate in the development, implementation, and management of specific training programs, technical assistance and financial assistance to strengthen their economic activities in the framework of sustainable local development. The state shall guarantee to workers belonging to indigenous peoples the enjoyment of rights under labor law (Constitution 1999).

The development based on the logic of cooperation and humanist against a capitalistic individualism in the global economy. This for stimulating the national industry, such as the establishment of Convisa is an Airline Company and Covotel is Telecommunication Company.

The economic condition was improved, at the end of 2004 unemployment reached the lowest point of 10.9%. Non – oil economic activity is increasing rapidly; infrastructure 40.3%, 27.2% financial institutions, transportation and industrial parks 24.8%, 20.7% manufacturing sector, the production of heavy equipment 161.3%, 132.3% wood production, textile and garment production 85.1%, 71.2% of furniture production. The inflation also decreased to 19.2% and continues to decline in 2005 (Soyomukti, 2007, p. 114). Chavez's commitment towards Venezuelan proved by the allocating of 38% of the entire state budget is used for the social program.

C. Integration Forum to Counter Free Trade Area of America (FTAA)

Chavez initiated the establishment of Alternative Bolivariana Para las Americas (ALBA) as the protest of the

Free Trade Area of America (FTAA). ALBA was established in Havana, Cuba with first signing between President Hugo Chavez and Fidel Castro the President of Cuba. With the purpose to building the future of Latin America, destroying the social inequalities ALBA tend to against the brutal logic of neoliberal economic policies that impose restructure in the economy of Latin America (Soyomukti, 2007, pp. 138-139). Neoliberal economics seek to eliminate 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.

Domestic Context

The idea of establishing ALBA was coming from Simon Bolivar which wanted to establish the Gran Colombia. They have consisted of Venezuela, Colombia, and Ecuador. Bolivar envisioned one powerful Latin American nation, subordinate to the will of one maximum caudillo and steadfast in its opposition to the United States. It is the only way that Bolivar believed, for Latin America would be stand up and prospered in the future and even would be a powerful giant rival to the north.

The inspiration to formulate ALBA came from the document "Alternative for the Americas". The document had the great influence because it was criticism towards the commercial liberalization model then become the concrete agreement for ALBA. ALBA acquired the agreement of exchange of product and services within the signing among member countries which prioritized solidarity and muncucooperation in the market.

The first agreement was signed in 2004 (Peraza, 2014), between Venezuela and Cuba. Regardless of the idea of

Simon Bolivar to makes Latin America Unity, Chavez seeks the alternative of the problem which faced the region including Venezuela. He wanted to create ALBA in contrast to FTAA which seek to increase the power and dominance capital within the exploitation of the population. A platform that more focused on the need of human life within the principles solidarity, complementarity, justice, and cooperation called ALBA-TCP (the Bolivarian Alliance for the People of Our America – People’s Trade Agreement) stands as the alternative to resist FTAA.

In March 2005, Chavez said that the FTAA (Free Trade Act of the Americas) was “dead” and that neo-liberalist economics had failed in Latin America (which is what some U.S. news programs said the day that Bolivia elected a left-wing, Indian President) (Peraza, 2014). Hugo Chavez was the main ideologist and promoter of the new wave of regional integration based on what himself called “diplomacy of the peoples”, which seeks to benefit all the members of our societies through economic, trade, technological, cultural, and knowledge exchange, and not just benefit business people, as occurred in the traditional cooperation processes.

At the hemispheric level, Chavez prevented, together with other historic leaders such as Nestor Kirchner and Luis Inacio “Lula” Da Silva, the establishment of proposals that violated our sovereignty and independence, such as FTAA, sponsored by the American empire. Instead, he promoted real integration agreements such as ALBA.

International Context

According to Fernando Bossi, ALBA is an alliance and also the next phase of the “ancient and permanent confrontation between the Latin America and Caribbean people and imperialism” (Hirst, 2010). The ALBA member countries tend to choose their side between the United State

domination in free market competition or choose ALBA and socialism. For the first establishment of ALBA, some of Latin America countries still required free market capitalism to their economy.

The economic model that emphasized by ALBA member states is 21st Century Socialism. 21st Century is about participatory, bottom-up, democratic socialism, involving the profound democratization of the economic sphere. It means that this economic model is trying to involve the governance-based approach support local participation related to state leaders. It is coming in different ways, for the example; in Nicaragua it is done with Citizen Power which the local committees organized and reporting President Ortega's wife, Rosario Murillo; for Cuba it is done with similar way, the committees for the Defense Revolution; the grassroots exist in Bolivia by empowering its local indigenous organizations; and the last for Venezuela is popular power through established the local level communes report directly to the President, Hugo Chavez.

According to ALBA foreign policy, ALBA is designed to support the process of a radical revolution inside member countries. The current institutional order should be brought to its knees to allow a new "multi-polar world" to appear (Hirst, 2010). The important thing is the collapse of the United States as a global superpower. As Hugo Chavez stated, this is called International Revolution and purpose is "the creation of new world order" (Hirst, 2010).

ALBA Project

In general, the forum agreed with a new form of the economic model, social, culture, ecology which socialist requirement to fulfill of the rights of people. This model requires the high people's productivity, modern technology, and a cheap source of energy, mass, ecological, and

sustainable. To achieve this idea, economic cooperation in a wide range of free market such as WTO, IMF, the World Bank, should be ended. New international economic cooperation is democratic cooperation based on the principles that complementarity than a competition, solidarity rather than domination, cooperation rather than exploitation, and respect the sovereignty toward the development of people productivity the poorest countries.

ALBA also created a Compensatory Fund, a financial institution that has the similar task with the World Bank: managing and distributing financial aid in many countries that are economically vulnerable by the crisis. With this, Compensatory Funds, poor countries are helped to reduce the risk of losses up to its national economic performance. In realization, this program made IMF unable to handle the situation. Argentina for the last time stating “goodbye” at the IMF at December 2005, to pay the remaining debt of \$9.8 billion (54 percent of GDP) Venezuela immediately inject funds \$2.5 billion. This saved Argentina from a deep crisis that the second times the big post-crisis in 2001. At the end of 2005, Venezuela also gave its commitment to purchase \$300 million Bonds in Ecuador.

Through the Compensatory Fund, Venezuela now emerged as a new donor country in Latin America, replacing the IMF. As a result, IMF aid was reported in the region to fall \$50 million, or less than one percent of its global portfolio, compared to 80 percent in 2005. According to a business daily report Bloomberg, Venezuela currently has a reverse fund of \$34 billion (Pontoh, 2007). Chavez also controls the \$18 billion Fund cash called Ponden, transferred from the Central Bank and the state oil company PDVSA. And unlike the international financial institutions and the government of G-7 countries, Venezuela's aid is not accompanied by any requirements to run recipient. This is what Chavez called as the solidarity Bolivarian.