



VENEZUELA

Rank: **130**
 Score: **3.65**
 Category: *Mostly Unfree*

Trade Policy	4	Government Intervention	3	Foreign Investment	3	Wages and Prices	4	Regulation	4
Fiscal Burden	2.5	Monetary Policy	5	Banking and Finance	3	Property Rights	4	Black Market	4

Venezuela still suffers from political chaos, dependence on oil, and growing poverty. Over the past year, leftist President Hugo Chávez has tightened his grip on the government and civil society, encouraging an atmosphere of political and economic uncertainty. He proposed replacing independent civic groups and labor unions with those controlled by his Fifth Republic (MVR) political movement. He angered parents and teachers by placing military officers in charge of some public schools and establishing a National Education Project headed by a Marxist sociologist to inculcate students with what he calls “Bolivarian” values. In June, he proposed partisan neighborhood watch committees similar to surveillance groups used in Cuba to monitor dissent and enforce one-party rule. Chávez also has threatened to expel foreigners who speak out against him and has declared himself the official censor of the media. Strikes and protests have plagued Venezuela’s schools, transportation sector, and steel and oil industries. Although the government encourages foreign investment, Chávez continues to discourage local entrepreneurs, referring to them as a “rancid oligarchy.” Because the government depends on revenues from *Petróleos de Venezuela, S.A.*, to finance most of its budget, Chávez needs high prices to maintain his populist agenda, but his “give-away” programs have failed to benefit Venezuela’s majority poor who account for close to 60 percent of the population. Without petroleum exports, according to economic researchers at Andrés Bello Catholic University, Venezuela’s poverty statistics would be comparable to Haiti’s. Venezuela’s black market score is 1 point better this year; however, its government intervention and wages and prices scores are both 1 point worse. As a result, Venezuela’s overall score is 0.10 point worse this year.

TRADE POLICY

Score: 4—Stable (high level of protectionism)

Venezuela’s average tariff rate is 13.1 percent. Non-tariff barriers take the form of import licenses on a number of products and a bureaucratic customs clearance process. According to the U.S. Department of State, “Another time-consuming paperwork prerequisite that went into effect at the end of last year is the Importers Registry before the MPC [Ministry of Production and Commerce]. All importers of agricultural commodities and by-products must be registered at the MPC, and must demonstrate their importing history (volume, value, country of origin, final sales and final destinations, among other items). This prerequisite is a must before an importer applies for import permits.”

FISCAL BURDEN OF GOVERNMENT

Score—Income and Corporate Taxation: 2.5—Stable (moderate tax rates)

Score—Government Expenditures: 2—Stable (low level of government expenditure)

Final Score: 2.5—Stable (moderate cost of government)

Venezuela’s top marginal income tax rate is 34 percent; the average taxpayer faces

Scores for Prior Years:

2001: 3.55 **2000:** 3.30 **1999:** 3.30
1998: 3.40 **1997:** 3.40 **1996:** 3.50
1995: 3.00

Population: 23,707,000

Land area: 912,050 sq. km

Major industries: petroleum, iron ore mining, construction materials, food processing, textiles, steel, aluminum, motor vehicle assembly

Major agricultural products: corn, sorghum, sugarcane, rice, bananas, vegetables, coffee, beef, pork, milk, eggs, fish

GDP: \$76 billion

GDP growth rate: -7.2%

GDP per capita: \$3,213

Exports of goods and services: \$22.9 billion

Major export trading partners:

US 50.4%, Colombia 7.3%, Brazil 3.7%, Germany 1.4%, Japan 1.4%

Imports of goods and services:

\$17 billion

Major import trading partners:

US 42.0%, Colombia 6.7%, Italy 5.5%, Germany 4.8%, Brazil 3.9%

Foreign direct investment (net):

\$530 million

a 6 percent marginal tax rate. The top corporate tax rate is 34 percent. In 1999, government expenditures equaled 19.3 percent of GDP.

GOVERNMENT INTERVENTION IN THE ECONOMY

Score: 3–Worse (moderate level)

Government consumes 8 percent of GDP. In 1999, Venezuela received less than 1 percent of its total revenues from state-owned enterprises and from government ownership of property, down from 30.9 percent in 1998. However, there is reason to believe that these numbers do not accurately reflect the level of government involvement in the economy. According to the Economist Intelligence Unit, “Venezuela has one of the most pervasive governments in South America, in so far as it is involved in the economy.... The state still dominates the production of oil, liquefied natural gas, aluminium and basic petrochemicals.... Other sectors dominated by the state include electricity generation and distribution and petrol retail sales, though both are being opened to the private sector.” As a result, Venezuela’s government intervention score is 1 point worse this year.

MONETARY POLICY

Score: 5–Stable (very high level of inflation)

From 1991 to 2000, Venezuela’s weighted average annual rate of inflation was 21.90 percent.

CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: 3–Stable (moderate barriers)

The Chávez administration has tried to promote foreign investment, but the political and economic changes that have marked the administration continue to generate uncertainty among prospective investors. Officially, the new constitution accords foreign investors national treatment, and most sectors are open to foreign investment. Foreign ownership of a few service industries, including television, radio, the Spanish-language press, and some professional services, is limited to no more than 19.9 percent, and foreign investment in mining and petroleum is restricted (even though the majority of foreign investment is in this sector). All foreign investments must be registered with the government within two months of local mercantile registration, and Congress must approve projects that affect the “national interest.” Other issues such as lack of transparency in the regulatory system and government intervention in the economy continue to present concerns to foreign investors.

BANKING AND FINANCE

Score: 3–Stable (moderate level of restrictions)

In 1993, the Banking and Other Credit Institutions Law removed most restrictions on foreign bank branches; today, the foreign presence controls 50 percent of total banking activity, including an interest in four of Venezuela’s five largest banks. Although an assiduous re-privatization effort following the 1995 banking crisis has reduced the level of state involvement, the government also has continued to intervene in some troubled banks, most recently in April 2000 when it took over Cavendes, a domestic investment bank. The government af-

fects the level of credit through interest rate controls. According to the Economist Intelligence Unit, “Weak demand for credit in the first half of 1999 prompted the banking association to reach an agreement with the government under which lending rates would be reduced and deposit rates increased in return for the government increasing the proportion of legal reserves that earn interest from 2% to 4%.” The *Financial Times* reports that Venezuela is considering legislation that would impose interest rate caps on lending and deposit rates.

WAGES AND PRICES

Score: 4–Worse (high level of intervention)

The government has the authority to control most prices. According to the Economist Intelligence Unit, “The government maintains price controls on petrol, a handful of agricultural products and some medicines.... The Ministry of Agriculture [MOA] has the power to fix minimum prices...on certain goods within the framework of the Andean System of Prices and tariffs on a bi-weekly basis. These include pork, milk, wheat, rye, yellow and white maize, soy grain, unprocessed soy and palm oil and sugar. The MOA may also fix the domestic wholesale price of a number of products, including maize, sorghum, rice, milk and certain vegetables.... The [government] can set maximum wholesale and retail prices and establish special conditions for the circulation, sale and consumption of articles declared to be of prime necessity.... [It also] sets maximum rates for internal transport of persons and goods.... Public services rates, specially utilities and telephony, are strongly controlled.” Venezuela maintains a minimum wage. As a result of new evidence of price controls, Venezuela’s wages and prices score is 1 point worse this year.

PROPERTY RIGHTS

Score: 4–Stable (low level of protection)

Venezuela’s protection of private property is weak. The Economist Intelligence Unit reports that “the judiciary remains of poor quality and is open to political and financial pressures. Seeking justice is a costly and time-consuming venture, and legal insecurity remains one of the principal concerns to investors.”

REGULATION

Score: 4–Stable (high level)

According to the Economist Intelligence Unit, “The government continues to exert considerable control over business. Venezuelan public entities are infamous for the red tape they produce and generate.” Although the government has reduced the number of ministries from 17 to 14, it has not made any of its promised cuts in the bureaucracy. The government employs about 16 percent of the workforce. The rule of law is not reliably enforced, and corruption continues to be a major impediment to business, according to the U.S. Department of State.

BLACK MARKET

Score: 4–Better (high level of activity)

Transparency International’s 2001 score for Venezuela is 2.8. Therefore, Venezuela’s black market score is 4 this year.