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Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:
Evan Ellis, R. (2018). Scenarios for the future of Venezuela. *IndraStra Global*, *4*(1), 1-10. https://nbn-resolving.org/urn:nbn:de:0168-ssoar-55586-7

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Mitglied der Leibniz-Gemeinschaft

Date of Publication: Jan 10, 2018

Scenarios for the Future of Venezuela

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The Venezuelan government's **arrest** of former oil minister Eulogio del Pino and former head of PdVSA Nelson Martinez at the end of November 2017, and its **sacking** of former PdVSA head Rafael Ramirez as Venezuela's ambassador to the United Nations suggests that the crisis in Venezuela may be entering a dangerous new stage in which the Chavistas, although seeming to strengthen their hand, are beginning to "eat their own," unwittingly changing calculations of leaders and military elites upon whose continuing tolerance the Maduro Government's survival depends.

Events in Venezuela in recent weeks suggest that the Maduro regime has improved its position, winning a series of symbolically important contests as divisions in the opposition grow deeper. The ruling party's unexpected victory in **18 of Venezuela's 23 states** in overdue regional elections, broadly denounced **as fraudulent**, and its winning of **308 of 335 seats** in December municipal elections after key opposition parties boycotted the election, further demoralized and split opposition ranks.

AIDN0040120180012 / INDRASTRA / ISSN 2381-3652

Even before the setbacks of November-December 2017, the opposition had been frustrated over its inability to secure political change through **massive and sustained street protests** pressure from the international community via the **12-nation Lima Group**. Nor was the opposition or international community able to block the **election** and **August 2017 seating** of an unconstitutional constituent assembly, which appears poised to rewrite the constitution to provide a legal veneer to the **authoritarian state** gradually created by Nicholas Maduro and his predecessor Hugo Chavez.

The boycott of the December municipal elections by parts of the opposition has also given Maduro the excuse to **exclude from 2018 presidential elections** those parties who boycotted municipal elections, eliminating two of Maduro's chief rivals for the Presidency, Leopoldo Lopez (under house arrest) and Henrique Capriles. Such machinations, if validated by the new Constituent Assembly, leave Maduro as the frontrunner for the 2018 Presidential election, if held. Indeed, even if Maduro lost to an opposition presidential candidate, in theory, the constituent assembly has the self-delegated power to **remove the victor**.

Despite such appearances, the financial collapse of Venezuela, almost completely **dependent on oil revenues** to sustain the government's activities, including the military, and buy off its supporters, continues apace. As of the end of November 2017, both the country and PdVSA were in **technical default** on hundreds of millions of dollars of bonds and associated interest payments, creating the possibility that international creditors could begin to execute default provisions in that could lead to the seizure of PdVSA assets globally, precipitating a revenue and payments crisis which could finally force the military to move to oust Maduro.

Yet nothing is guaranteed. How Venezuela's international creditors will treat **ambiguous default events**, what assets they might seek to attach in international tribunals, and whether PdVSA has insulated itself from such actions by how it has structured its contracts, and by moving its current accounts to **China's CITIC Bank**, are all unclear. Similarly, while the majority of people in Maduro's own government, as well as his Chinese, Russian, and Cuban backers arguably would prefer someone more competent at the helm, it is difficult to judge at what point they will judge that it is less risky to replace him, than to continue to tolerate his economic mismanagement and impulsive statements and actions.

Events in Venezuela are also playing out in the context of substantial changes within the country, in the region, and in the international arena more broadly. Domestically, the ***collectivos***, like Central American street gangs, have become de facto governments in their own right, controlling territory, and often engaging in illicit activities. The presence of a range of criminal actors with interests in the country from non-demobilized elements of Colombia's ***Fuerzas Armadas Revolucionarios de Colombia (FARC)***, to homegrown criminal organizations such as the *Tren de Aragua*, adds to the unpredictability. It is arguably difficult for both the government and opposition actors to anticipate whether such groups will choose to "keep their heads down," or fight, in the context of various ways in which order could break down in the country.

In the region, the political identity of key friends and opponents of the Maduro regime may change in the coming months, and with it, their posture toward the government. Among Venezuela's friends, Cuba's leader Raul Castro will step down in February 2018, while Ecuador's new president Lenin Moreno, has already demonstrated **a more thoughtful, less unconditionally supportive posture**toward Venezuela than his predecessor. A final determination of victory by Salvador Nasralla in Honduras, a further turn to the left by Salvadoran President Salvador Sanchez Ceren, or the election of Andres Manuel Lopez Obrador in Mexico, would all potentially create breathing room for the Maduro regime.

Beyond the Western Hemisphere, a military action in North Korea could shape China's willingness to underwrite the Venezuelan government, while a major change in oil prices, upon which Russiadepends to fund its government as well as it oil investments, could impact the options of state oil company Rosneft to continue **providing financial support for the regime.**

While, as the preceding arguments suggest, the future of Venezuela depends on a myriad of factors, the nation's future will be less shaped by the ability of the opposition to **negotiate with the regime,** but rather, by the unfolding of the current debt default, the associated decision of the military if or when to force a regime change, and the posture of the nation's **two principal financial backers, China and Russia**, as the crisis unfolds.

Although there is a myriad of ways in which the situation in Venezuela could play out in the coming months, it is useful to organize such possibilities into a limited number of scenarios that can be used by the U.S. and regional policymakers for planning. This work suggests four:

Scenario 1: Muddling Through / Chinese-Russian Vassal State

In this scenario, Maduro stays in power, with either a fraudulent victory in the presidential election held in 2018 **or its suspension**. Due in part to the continuation of Maduro, his policies, and the kleptocratic leadership with which he is associated, Venezuela's poor economic performance and international isolation also continues. Previously mentioned elections in Latin America and the Caribbean could modestly expand the pool of neighbors expressing sympathy for the regime, but Venezuela's exclusion from international credit markets would continue. Although the Maduro regime might be buoyed somewhat by rising international oil prices, it would become increasingly dependent on direct oil sales to Russia (with its petroleum likely refined in Essar's Vadinar Refinery, acquired by Rosneft through its **$12.9 billion purchase of Essar**), and the PRC (with the petroleum refined in the new **Guangdong refinery**, once it came online). The regime would likely eventually default on much of its sovereign debt held by Western creditors, as well as PdVSA's bonds, which generally do not enjoy sovereign immunity. The defaults would add to the growing number of judgments against Venezuela in international courts, extending even further the regime's dependence on Russia and China, owing to the legal risks of exposing Venezuela's assets to Western courts through commercial transactions.

Indeed, the regime's **billion-dollar settlement** with the mining firm Crystallex, after the latter sought to attach the overseas assets of PDV Holdings to a previous judgment, shows how vulnerable PdVSA is to such international actions.

Through alteration of the Venezuelan constitution by the Constituent Assembly, Russia and China would be able to expand their claims on Venezuelan oilfields and other assets assets, and possibly even assume a degree of day-to-day management over the Venezuelan economy, effectively running certain parts of the country to include a de facto veto over certain policies, while paying Maduro and the other Venezuelan elites rents to tolerate the situation. The leverage that both already have over the desperate, cash-strapped Maduro regime was illustrated by the rapidity with which PdVSA**settled a $23 million debt** with Sinopec when the later reluctantly took it to court in the US over the matter. Similarly, in mid-December, PdVSA gave the Russian oil firm Rosneft, which it owes $6 billion, lucrative contracts for offshore gas fields, **Patao and Mejillones**, including the right to sell all gas extracted there on international markets.

While the rationality of Venezuelan economic management might improve somewhat with the oversight of the Russians and Chinese, Maduro would likely be free to continue to promote a radical leftist agenda, including political (but only modest economic) support for the **São Paolo Forum**, and various leftist politicians and criminal groups across the region.

In this scenario, Venezuela could provide base access to the Russians, and could host an expanded relationship with the Iranian regime of Hussain Rouhani, empowered by his reelection, the ending of sanctions, the freeing up of **$150 billion in frozen financial assets** previously embargoed by the U.S., and possibly provoked by **the scrapping of the Iran nuclear agreement** by the Trump administration, with an interest in working on Venezuelan territory to continue its proliferation activities.

While Venezuela could behave in a more radical fashion toward its neighbors under this scenario, and possibly could serve as a conduit of Russian, Chinese, Iranian and Cuban influence in the region, it would arguably lose some of its credibility as a thought leader, due to the negative perception of the regime among those with a more ideologically-based leftist posture.

From the perspective of the region, the *"muddling through"* scenario would continue to generate refugees, flowing into Colombia, Brazil and the Caribbean as those who opposed the regime, or could not survive economically, chose to leave. The level of refugees would, however, be less and more gradual than if the state collapsed (discussed as part of scenario four, in this paper).

Scenario 2: Transition to more rational authoritarian kleptocracy

In this scenario, Maduro would be forced out by other members of the government and military elite, likely in coordination with the Cubans, and possibly involving consultations with the Chinese and Russians. They would arguably do so, in order to create the basis for a more economically and politically rational regime that could re-engage with foreign investors, and would thus be less likely to financially and politically implode. In short, they would act to reduce the risk of a less controlled political transition, in which the significant numbers of persons in the current regime involved with illicit enrichment and other crimes might be extradited to the United States.

There are multiple possibilities for a transition, all producing similar results. On the more consensual end of the spectrum, Maduro could declare success and voluntarily retire. Alternatively, the newly empowered Constituent Assembly could forcibly retire him. Within the framework of the Constituent Assembly, he could be arrested and tried for crimes.At the extreme, Maduro could suffer an unfortunate accident and receive a hero's burial, before his crimes were posthumously exposed by the new leadership. The result, in practical terms, would be similar (although the appearance of putting Maduro on trial might assist the kleptocratic elite in creating the impression that they were conducting *"real change,"* for the purpose of reaching out to the opposition, the global community, and international lenders and investors). In all such variants, this scenario does presume that a significant split would not occur within the military over the transition.

Whatever the specifics, the post-Maduro kleptocratic leadership would likely seek to bring elements of the opposition into the coalition and give particular attention to using the constituent assembly as a constitutional and legislative instrument to create a veneer of legality, in order to most successfully attract the return of some foreign investment.

As in the previous scenario, the Venezuelan Constituent Assembly would likely modify the constitution to give Russia and China expanded equity stakes in the country's resources, as well as other guarantees to attract the new loans and investments the regime requires to maintain its liquidity and recapitalize petroleum production. Yet by contrast to the greater need and more simplistic logic of Maduro in the first scenario, the kleptocrats in scenario two would arguably be less inclined to cede day-to-day economic management and other decision authority to Russian and Chinese technocrats. Rather, to attract the needed capital, they would more likely reach out to select state actors and major petroleum companies, offering them the opportunity to be among the first to have access to the nation's 300 billion barrels of petroleum reserves on preferential terms, with the incentive of more rational economic management, stronger legal guarantees and expanded protections for their investments under the country's *"new management."* It would be a Faustian bargain that some, although not all, of the actors, might accept.

While the compromise between the private sector and the interests of the elites might resemble the approach of the Sandinista regime in Nicaragua, the approach to dealing with Venezuela's tremendous accumulated debt might resemble Argentina after its 2001 debt

default, seeking to settle some outstanding international cases in order to preserve some access to the international financial arena, while legally maneuvering to escape from others.

In its foreign policy, by contrast to the first scenario, the new regime in the second would likely exercise restraint from excessively provocative types of engagement such as military basing agreements with the Russians, visible ties with criminal and terrorist groups, or close ties to Iran, in order to escape from the *"pariah"* label, and thus isolation by the international financial community. The new regime might even offer the U.S. and Europe normalized political ties and limited cooperation against organized crime, albeit not agreeing to extradition. The regime would also likely continue to quietly bankroll politically acceptable leftist causes such as the São Paolo forum, in order to maintain its own leftist credentials, and would ironically be in a better condition than in the first scenario, to fund that support.

The ability of the regime to reintegrate itself with the Latin America and the Caribbean more broadly would depend, in part, on the previously mentioned unfolding of key elections in the region. There is similarly a range of possibilities regarding the regime's ability to reach settlements with international creditors or attract the participation of conventional international investors.

With respect to refugees, this scenario would be the least burdensome of the four on Venezuela's neighbors, albeit not without persons wishing to leave the country.

Scenario 3: Break and successful reestablishment of order by military

In the third scenario, Venezuela would suffer a breakdown in governance, with a brief period of significant violence and contested sovereignty, after which the military would succeed in restoring order, creating the opportunity for a modestly more significant political transition than in the first two scenarios.

The contemplated breakdown would likely be triggered, in part, by the financial crisis currently unfolding in the country, in combination with a precipitating event. In addition, further criminalization and removal of leaders from the regime by the Maduro government could forge a critical mass in the military who perceive that as the regime began to "eat its own," inaction (rather than action) had become riskier to their personal fortunes and prospects for avoiding jail. The assassination of Maduro or another key leader could also act as a trigger event.

For this scenario to occur, the Cuban government would probably have to decide that the time had come to discretely not mention the emerging threat to Maduro; their considerable penetration of the Venezuelan military and society by their intelligence services would make it unlikely that they would not perceive an attempted coup against Maduro as it developed.

Similarly, for the present scenario, the Russians, and Chinese would have to refrain from impeding successful military resolution of the conflict, such as they could achieve by withholding resources from their Venezuelan military and government counterparts as the situation develops.

Finally, this scenario assumes that the U.S. would not extensively intervene as the violence plays out, and that the mobilization and violent actions by groups across the country such as the *collectivos*, and domestic and international criminal actors, will not get so out of control so as to surpass the ability of the government to manage the situation.

As with the first two scenarios, this one contains multiple variants. If the violence was initiated by a faction within the kleptocratic leadership, and if the Russians, Chinese and Cubans tacitly supported the military response, the prospect of the military successfully restoring order in the near term would arguably be higher, although the probability of meaningful political change would be lower. On the other hand, if the violence were precipitated by junior officers rebelling against their corrupted superiors, or refusing to follow unlawful or unethical orders, the prospect for disorder spiraling out of control would be greater, but the possibility of meaningful change following the restoration of that order would also be higher.

Whatever the path to disorder, the military force restoring order would likely scapegoat and conduct trials against a range of leaders for violation of the previous constitutional order, cloaking themselves in their traditional role as defenders of the constitution. The transitional government that they set up would likely focus on the established presidential elections in 2018, or schedule new elections (depending on when the event took place) as a path to legitimation and acceptance by the international community. In this process, the military would be particularly motivated to reach out to the opposition as part of their legitimation, and depending on the level of violence and reaction of the international community, might even be willing to accept international observers or peacekeepers.

The number of refugees generated by this scenario would probably be greater than for the two previously examined scenarios, but lower, over the long run than scenario four, to be discussed next.

Scenario 4: Breakdown of order and disintegration into chaos

The breakdown of order contemplated by scenario four, following a precipitating chain of events, parallels the dynamics discussed for the previous one, except that the military would be unable to quickly regain control, leading the country to degenerate into a situation mutually reinforcing violence and economic collapse. The unfolding violence would likely further provoke the participation of local and international criminal groups, the *collectivos*, and other armed actors with stakes in the outcome, to possibly include select external actors such as the Cubans. Such violence could also give rise to incursions across the Colombian border, or even a

deliberate invasion of Colombia by the regime as its power crumbled, in a desperate gambit to unify the country and avoid the internal crisis. Such a scenario, if it occurred, would likely involve a thrust into the La Guajira region by Venezuelan armor, and possibly operations by Venezuelan-operated Russian combat aircraft against targets in Bogota and elsewhere in the country, before such an advance was stopped or had to be suspended because of the inability to support it logistically.

As suggested in Scenario 3, attempts by the Russians or Chinese to control such a scenario by suspending funds to the Venezuelan state, or blocking the use of their military equipment, could actually contribute to the escalation of the crisis by impairing an effective response as the violence spiraled out of control. Similarly, junior officers could refuse to follow the orders of their superiors, contributing to a dynamic and confusing situation with significant uncertainty regarding the loyalties of units across the country.

In such an environment, the Russians and Chinese would likely find themselves both attempting to protect their assets in the country, such as the oilfields, while simultaneously attempting to evacuate their personnel, to include conducting selective interventions in the conflict to support these objectives, or to selectively guide events to their advantage.

At its extreme, the unfolding violence could resemble the conflict in Syria, with pockets of violence flaring up in certain parts of the country before being suppressed or burning out, with the focus of conflict shifting elsewhere.

In its terminal stages, by contrast to the other scenarios contemplated herein, such a conflict could allow for the deployment of United Nations peacekeeping forces into the country, to the extent that Russia and China (with their vetoes in the UN) felt that such a force could help to protect their interests and personnel in country.

U.S. Policy Response

The prior analysis of scenarios associated with the unfolding Venezuelan crisis suggests a number of principles for the U.S. response, some applicable to all of the scenarios, and others specific to individual cases.

In general, the U.S. should coordinate with partners in the region, including, but not limited to Colombia, Brazil, and the states of the Caribbean basin, regarding the management of the flows of refugees from the country, as well as attempts to use the unconstitutional Constituent Assembly to create the veneer of false legality for any transition.

The U.S. should also avoid the temptation of intervention, with the exception of possible U.S. involvement in a United Nations-sanctioned multilateral force in the “Breakdown of order” scenario.

With respect to the "muddling through" scenario, the U.S. should leverage its strategic communications to take advantage of the demonstrated failure of populist socialism, including the importance of being vigilant against autocratic elites, who not only squander national wealth but cede national sovereignty to foreign actors in pursuit of personal power and enrichment.

In this scenario, the United States must also coordinate with China and Russia, and be particularly vigilant against their efforts to leverage Venezuela as a platform for advancing their own activities and objectives in the region.

In the scenario "transition to a more rational kleptocracy," the U.S. should coordinate with regional partners to insist on the honoring of Venezuela's previously-incurred financial obligations, and full compliance with international legal norms in areas such as extradition before taking any steps to legitimize the new regime, or unwittingly confer legal status to the actions of its unconstitutional constituent assembly. It should bring forth select criminal actions as test cases, and resist the temptation of dropping sanctions and otherwise facilitating the ability of western firms from returning to the Venezuelan oil sector until the new regime has demonstrated its unquestioning commitment to cooperate with the international legal system and extradite wanted criminals.

In the third scenario, "break and successful reestablishment of order by the military," the United States should be particularly attentive to attempts by Cuba, Russia, and the PRC to influence military outcomes, even while coordinating with Venezuela's neighbors with respect to refugees. In addition, as with the second scenario, the U.S. should coordinate with neighbors in the region so that the Venezuelan military regime understands that it will have to extradite criminals, comply with past financial obligations, abolish the unconstitutional constituent assembly, and restore the power of the elected national assembly, before being eligible for the lifting of sanctions and the legal recognition of contracts signed by the government.

The fourth scenario, "Breakdown of order and disintegration into chaos," places particular importance on international coordination regarding refugees, support for neighboring Colombia in light of a spillover of the conflict across the border, and the correct composition of a United Nations peacekeeping force, in order to restore order in the country. While the United States should strongly oppose the participation of Chinese and Russian peacekeepers in such a force (since they would be inherently protecting their own petroleum sector and other interests and position in the country), a United Nations force in Venezuela force might create an opportunity for usefully repurposing other peacekeeping contingents in the region previously dedicate to the MINUSTAH force in Haiti, while leveraging partners such as Colombia and Mexico, with an expressed interest in supporting the export of security and deploying internationally to crisis zones.

It is a testament to the deterioration of the situation in Venezuela that none of the most plausible scenarios are"good news" stories, although some are less undesirable than others. It is incumbent on the United States and its partners in Latin America and the Caribbean not only to work together to plan for what could transpire in Venezuela but also to collaborate that other unfolding tragedies do not degenerate to the same extent.

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Acknowledgment:

The author thanks, analysts from the **National Ground Intelligence Center** for their intellectual contributions to this work.

DISCALIMER 1: The article was adapted from the work originally published in Spanish by the **Mexican Navy Strategic Research Institute (ININVESTAM).**

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Cite this Article: *Ellis, R.E.*"Scenarios for the Future of Venezuela" IndraStra Global Volume 04, Issue No: 01 (2018), 0012, **http://www.indrastra.com/2018/01/Scenarios-for-Future-of-Venezuela-004-01-2018-0012.html** ISSN 2381-3652

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