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VENEZUELA COUNTRY BRIEF

VENEZUELA

COUNTRY BRIEF AND POLITICAL PROFILES

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VENEZUELA COUNTRY BRIEF

1. The Country

1.1 Geography

Following Brazil, Mexico and Argentina, Venezuela is one of the larger countries of Latin America. Bordered by the Caribbean (on the north), Colombia (west), Brazil (south) and Guyana (east), it has an area of 916,442 km² and is composed of four distinct regions: the Andean highlands, the Maracaibo lowlands, the central plain (Llanos), and the vast Guyana highlands. The country is extremely rich in petroleum and other mineral resources.

1.2 The People

The population of 20 million is heavily concentrated in the northern area, and 85 percent live in towns and cities, the chief ones, in order of size, being Caracas, the capital with 5 million, Maracaibo (oil industry centre), Valencia (vehicle assembly centre), Barquisimeto (a market town), Maracay (agricultural centre), and Ciudad Guyana (heavy industry including aluminum, steel and hydro power).

The large majority of the population is ethnically mixed, with strains of native Indian, black, and European blood. The significantly unequal income distribution tends to be skewed in favour of the lighter-skinned groups. There was a significant influx of Europeans (Italians, Spanish, Portuguese, Germans) in the fifties and sixties who now comprise a large part of the middle class. In recent times a very large number of Colombians have settled in Venezuela (variously estimated between one and two million!) plus lesser numbers of Ecuadorians, Guyanese and Dominicans. There are also about 300,000 of middle Eastern origin. The general education level is relatively high. Fifty percent of the population is under 20 years old.

1.3 History and Governmental System

Venezuela, first settled by Indians, was then discovered by Columbus in 1498 with European settlement beginning in 1502. Spain retained control of the country until 1821 when, after a long war, independence was achieved under the leadership of Simon Bolívar, who is venerated by Venezuelans as their outstanding national hero. With the exception of a brief period

in the late 1940s, Venezuela was ruled by dictators until 1958 when Marcos Pérez Jiménez was overthrown. Rómulo Betancourt, founder and leader of the Acción Democrática (AD) party was elected president. Since then power has alternated between the AD (social democrats) and COPEI (christian democrats). The incumbent president, Carlos Andrés Pérez, (referred to commonly as "CAP") was elected in 1988. He had previously been president from 1974 to 1979.

The 1961 constitution established a congressional system of government with a clear separation of the executive, legislative and judicial powers. The president is elected every five years by popular vote; he cannot succeed himself. The Congress, comprising a House of Representatives (201 members) and a Senate (49 members) is elected at the same time, also by popular vote, under a system of proportional representation. Along with current serious efforts to democratize the political parties, it is expected that Congress will approve a change in the electoral system so that in future a significant proportion of the deputies be elected directly, rather than designated by the party leadership.

Venezuela is a federal republic, comprising 22 states and a federal district. In another significant move towards democratization, in 1989 for the first time the state governors and town mayors were elected by popular vote, rather than appointed by the president. More recently, in December 1992, in new local elections, more than half the governors and mayors were from opposition parties, notably the Christian-Democrat party, COPEI.

2. The Current Political Situation

This year, 1993, is a highly political one for Venezuela with elections for a new president as well as a new congress to take place on 5 December, and public attention preoccupied with the debate about the candidates and the issues.

President Carlos Andrés Pérez is thus in his last year in office, and to some extent his government has the aspect of "fin de régime". Last year was a difficult one for Pérez and for the country, with two attempted military coups (on 4 February and 27 November), considerable civil unrest, and unremitting efforts by various hostile elements of the body politic to see him leave

office before the constitutional end of his term. Also the Supreme Court of Justice is currently considering an accusation against the president himself of embezzlement of public funds, which has heightened the pressure against him.

In the course of his term, Pérez' popularity has declined dramatically, since he is being largely blamed by many Venezuelans for the principle ills of their society: corruption in government, economic hardship (ascribed to the "package", a dirty word among Venezuelan politicians meaning the economic reform program), and deteriorating government services.

By the end of 1992, however, the democratic political process of renewing the system by public debate and elections had reassumed its centre-stage position, and violence in the streets and proposals for unconstitutional changes seemed to have lost any public support. This trend was reinforced by the peaceful carrying-out of state and local elections in December 1992.

At present, therefore, the intense electioneering has already started with the major presidential candidates have emerged. They are:

- Oswaldo Alvarez Paz, presently Governor of Zulia State, as candidate of the leading (in the polls) political party, COPEI;

- Claudio Fermín, former mayor of Caracas, as candidate of Acción Democrática, the party of Pérez, which has held the presidency for the past two five-year terms.

- Rafael Caldera, 77-year old ex-president (1969-74), still enjoying considerable popularity, and outspoken critic of Pérez, supported by the socialist party "MAS".

- Andrés Velasquez, Governor of Bolivar State, and anti-corruption crusader, leader of the trade-unionist grouping "Causa R", with "R" standing for "radical".

The main issues in the election debates are corruption in government, economic policy (with the question being whether, and if so how, the painful economic reform policies brought by Pérez should be continued), the electoral system itself (with much public support, but resistance from party hierarchies, for direct by-name elections - known as "uninominalism" - as opposed

to the present system of party slates and proportional representation), and the inadequacy of government services including education and health.

Finally it should be noted that the Venezuela has one of the oldest and most stable democracies in Latin America, dating from the overthrow of the last military dictatorship in 1958. This stability has in part been ensured by a dominant political party system that has been firmly entrenched but is increasing subject to criticism as no longer democratically representing the people's interests, and is sometimes described pejoratively as a "partidocracy".

3. Foreign Policy

The chief aims of Venezuela's foreign policy are the promotion and defence of democracy, particularly in the hemisphere, and the advancement of economic integration and political harmony, again primarily with her neighbours. Under CAP, foreign policy has been activist and personal, with the president on close terms and in regular contact with most leaders of the hemisphere and a number of Europeans.

The United States is by far the country's most important economic partner, with half of both its imports and its exports (including two thirds of its oil exports) as well as half the foreign direct investment in the country. Venezuela's steadiness as a supplier of oil, even increasing production during the Gulf crisis, as well as CAP's outward-looking economic policies and passionate promotion of democracy make him a popular figure in the U.S.

Among Latin American countries, Venezuela is a leader in developing various arrangements for political cooperation and economic integration: with Mexico and Columbia - "the Group of Three", with Columbia, Peru, Bolivia and Ecuador - the Andean Pact within which has been established a free trade area and a customs union (although Peru has dropped out), as well as bilateral agreements with others, including Brazil and Chile.

Although under CAP relations with Venezuelas neighbours have been excellent there has been some friction with Guyana, over a large section of territory (generally recognized internationally as belonging to Guyana) and with Colombia over

the precise demarcation of maritime borders. The relationship with Colombia is very important and sensitive, given not only boundary questions but also the large number of Colombians in Venezuela, the growing bilateral trade, the close cooperation in fighting narco-traffic and common foreign policy efforts within the region. Venezuela's largest embassy is in Bogota.

Also with Peru, Venezuela has been in the forefront of those demanding a return to constitutional democracy following President Fujimori's "self-coup" of last April and as of year-end diplomatic relations remained suspended as a result.

Venezuela sees itself, historically, geographically and in terms of current economic interests, as being as much a Caribbean country as a South American one. It has pursued special relationships with this area and with Central America. These include the San Jose Accord whereby Mexico and Venezuela provide oil at concessional prices to the area, unilateral free trade by Venezuela to the Caribbean countries and a pending Venezuelan application to join Caricom. Venezuela has also been centrally involved, as had Canada, in dealing with the current Haiti crisis. President Aristide spent several months in exile in Caracas. The relationship with Cuba also has long historical roots and continuing importance.

Venezuela is among the most progressive members of the Organization of American States, often arguing, as does Canada for a more active OAS role and a multilateral approach to problems.

In international oil policy, Venezuela has consistently been one of the "moderate" influences within OPEC. Also CAP has played a leadership role in promoting formalized consumer-producer dialogue in energy matters.

The bilateral relationship with Canada is dealt with separately.

4. The Economy

The oil sector has dominated the Venezuelan economy since the 1920s. It currently provides 80 percent of export earnings and 70 percent of government revenues, although less than one percent of the country's employment. To a large extent oil wealth has promoted a measure of prosperity based on "a free ride" and this has affected basic attitudes of the society.

This dependency on oil has been a determinant factor in the evolution of the economy. In the seventies the oil price increases produced a sudden boom of private consumption and government investment, including efforts to develop the non-oil sectors such as hydroelectric power, steel and aluminium. The sky seemed to be the limit. In the eighties, lower oil prices, inadequate macroeconomic policies, irresponsible government administration, and the generalized Latin American debt crisis led to massive capital flight, large budget deficits, and a decline in the economy. The bubble had burst. The necessary rude awakening and the bringing in of a difficult program of economic reform in 1989 fell to the newly elected president, Carlos Andres Perez.

The reform program, which was backed by the IMF and the World Bank, included:

- the drastic cutting of the pervasive system of subsidies and price controls
- the introduction of a single, free-floating exchange rate for the national currency, the Bolivar
- a liberal, outward-looking trade policy (to replace a closed, import-substitution development model) with tariff rates reduced dramatically and most non-tariff barriers
- liberalization of the banking system
- the privatization of many state enterprises. (eg in 1991 the major national airline, Viasa, and the phone company, CANTV, were privatized.)
- tax reform (including introduction of a VAT)

Much of this reform package has been put into place, but with respect to the last three mentioned items, there are significant remaining elements yet to be accomplished. Liberalization of the banking system should finally pass Congress early in 1993. The privatization program slowed down in 1992, after successful sale

to private sector interests in 1991 of the main national airline, VIASA, and the phone company, CANTV. As to the tax system, following income tax reform in 1991, there has been increasingly serious delay in bringing in a much-needed sales tax.

In macroeconomic terms, the performance of the economy since the reform package was brought in has been impressive. The initial reaction, in 1989, was a deep but short-lived recession (8.6% economic decline). This has been followed by strong, sustained growth in GDP, at 6.4% in 1990, 10.4% in 1991 and 7.3 percent in 1992, the strongest sustained growth of any economy in the western hemisphere. (The IMF indicates 2.7 percent growth in Latin America as a whole in 1992) The growth has been registered across the broad range of economic sectors, with the exception of a continuing slump in mining. (To provide a perspective, about 25% of GDP originates in the oil sector, 15% in manufacturing and 15% in commerce). The unemployment level dropped from an average of 10.9% in 1990 to 8% in 1992 and is still declining. (Note that more than half - 57% - of the labour force is in the service sector, about 15% in manufacturing and 11% in agriculture. The oil sector employs less than one percent.)

Inflation, after shooting up to 81% in 1989 when prices were suddenly decontrolled, fell to 36.5% in 1990, 31% in 1991, and thereabouts it still remains, at the end of 1992. Inflation is a major social problem.

The major source of inflationary pressure, and the single most important economic policy challenge, is the growing budget deficit, this year at 6.1% of GDP, and the related failure of the political system to agree to an increase in taxes (specifically a proposed general sales tax). Venezuelans pay about 3% of their national income in taxes, compared with about 20% on average for other Latin American countries, and 40% for Canada.

If fiscal policy is lax, monetary policy is restrictive. Interest rates are extremely high, reaching as high as 80% of late, which constitutes a drag on investment activity, especially by small and medium-sized firms.

On the external side, international oil price changes continue to affect significantly Venezuela's current account. Thus, after having sunk to a serious deficit situation in the

late eighties, for three years it registered a surplus, while last year it again showed a deficit. In addition to oil prices, other factors are the continuing rising imports (due to trade liberalization, economic recovery and an overvalued currency) and high interest payments on the external debt.

On the capital account Venezuela moved to a surplus position in 1991 and 1992 as fresh money came in from multilateral lenders (resulting from the country's positive reputation with the IMF and others). Despite some political unrest, investor confidence grew and the private international capital market was sourced. External debt, estimated at US\$34 Billion, four fifths of which is long term government debt, was largely restructured in 1990 following a Brady-type deal with commercial banks which reduced the debt servicing burden to manageable proportions. Recently foreign investment inflows have slackened somewhat as the fiscal imbalance continues to be an unresolved issue. International reserves, seriously run down by 1989, now stand at a fairly comfortable US\$12 billion.

Apart from the high dependency on oil, another structural weakness of the economy is the inadequate state of the country's investment in both physical and social infrastructure. Inadequate maintenance and deterioration in the communications and transportation systems, education, health and other social services, indeed the whole range of government services, tend to slow down economic progress and create generalized resentment in public opinion.

5. The Oil Sector

With proven oil reserves of 62 billion barrels plus much more in heavy crude deposits and with exports (half of which go to the USA) of 2.1 million barrels per day, Venezuela is of major importance as an oil producer. Its state oil monopoly, PDVSA, (nationalized in 1976), although the government's main source of revenue, is facing serious financial restraints due to lower oil prices and heavy taxation, has had to cut back heavily on its ambitious investment program, and, of interest to Canada, is increasing seeking foreign investment partners.

5. **The Armed Forces**

Venezuela has four distinct armed forces: The Army (with 34,000 personnel), the Navy (10,000), the Air Force (7,000) and the National Guard, which is a federal police force (20,000), for a total of 71,000 personnel, one of smallest defense forces of Latin America. All four have ground and air components.

The military has generally been apolitical. Declining living standards among the lower level officers combined with a kind of misguided heroic vision of saving the country called "Bolivarianism" have fostered subversive elements which led to the two coup attempts, but these seem to be a small minority.

The Defense Minister is traditionally chosen by the President from among the military.

7. **Canada/Venezuela Bilateral Relationship**

Canada and Venezuela have a significant and growing bilateral relationship based on variety of respective **national interests**. Canada sees Venezuela as a major Western hemisphere oil producer, an open, market-oriented trade partner, a resource-rich investment partner, a leader in the new wave of democracy that has swept Latin America, a strategic actor (and often collaborator) in hemispheric, including Caribbean affairs and a holiday site for large numbers of Canadian winter tourists.

Venezuela sees Canada as a welcome moderating influence and counterweight to the U.S. within the interamerican system, a source of investment and trade partner (a new source of interest being the eventual extension southwards of NAFTA), a like-minded partner in dealing with various regional issues (eg Haiti, Cuba) and a friendly, trustworthy interlocutor from the industrialized countries of the G-7 and the OECD.

Political Consultation. In recent years the practice of frequent consultation between the two governments has grown up. There is a growing number of issues of common concern and interest related to global, regional and bilateral affairs. The problem of Haiti, and OAS developments have been particularly active subjects of our consultation between us. The Canadian Prime Minister and the Venezuelan President are often in direct contact with each other

and the number of consultations, formal and informal, between the respective officials has multiplied greatly. Senior officials meet regularly to exchange views on foreign policy issues and to take stock of the various elements of the bilateral relationship. There is a separate consultation mechanism involving regular meetings of officials in the energy field.

Trade and Investment. After Mexico and Brazil, Venezuela is Canada's largest trading partner in Latin America. **Canadian exports**, which have grown consistently over the past three years amounted to over \$ 300 million in 1992. The major exports are agricultural products (mainly wheat, plus peas and beans and potatoes), forest products (newsprint, wood pulp, paper products) and motor vehicles and parts. There is also a significant and growing market for Canadian consultants and manufactured products in the environmental, power and transportation sectors.

Venezuelan exports to Canada, \$ 335 million in 1992, predominantly (95%) comprised **petroleum**. This represents about 6% of Canadian oil imports. This proportion has declined in the past few years but Venezuela still is the third largest source of Canadian oil imports, following Saudi Arabia and the North Sea.

Canadian **direct investment** in Venezuela is estimated to be about \$ 100 million mainly in pulp and paper, hotels and tourism, mining and distilling. A Foreign Investment Protection Agreement and a Double Taxation Treaty, both now being negotiated, will further improve the investment and trade climate for Canadian firms.

Tourism. Since the mid 1980s, Canadian tourists have been coming to Venezuela at the rate of about 40,000 per year although last year there was a sharp drop, to 30,000, as Canadians seemed to overreact to the news of Venezuelan coup attempts (which never directly affected the main tourist areas). Canadians still represent 7 to 10 percent of all foreign tourists in the country. The great majority go to Margarita Island and the Puerto La Cruz area. In these areas, there is also a considerable, and growing amount of Canadian investment in the tourism sector, mainly in hotels and apartment buildings. Moreover Canadian tour operators have been pioneers in developing the Venezuelan market. Approximately 10 to 11 thousand Venezuelan tourists visit Canada per year.

Other elements of the bilateral relationship include:

- An active program in Venezuela of visits and presentations by Canadian cultural groups and artists
- A growing interest in Canadian studies in Venezuelan universities, recently enhanced by the creation of a Venezuelan Association of Canadian Studies, as well as an active program of scholarships for Venezuelans in Canadian universities.
- Organized exchanges of visitors of various types, such as the Canada World Youth.
- Developing programs of cooperation in technology, of different kinds and environment, including ecotourism.
- Canada and Venezuela police and legal authorities are cooperating increasingly closely in combatting the problem of narco-traffic.

POLITICAL PROFILES

FERNANDO OCHOA ANTICH

Foreign Minister

General Fernando Ochoa Antich, who was born in Caracas in September 1934, is a career army officer who has earned his promotion steadily since he became a Second Lieutenant in 1962.

He was appointed Defence Minister in June 1991. (Venezuela Defence Ministers are always drawn from the most senior ranks of the armed forces, on a rotational basis between the services: the current incumbent is an air force general.) In this position, he rose to high national prominence by his wise and steady handling of the February 1992 attempted military coup and its aftermath. His loyalty to President Pérez was confirmed at all times, and he also worked hard to re-establish control and unity within the severely troubled Armed Forces.

The appointment of Ochoa Antich by CAP as foreign minister in June 1992 was a surprise, but was widely praised. He has been a regular minister, not only with his colleagues on the international stage, but within the ministry, particularly in as much as he has introduced some reforms in the structure and personnel of the Venezuelan foreign service.

POLITICAL PROFILES

He speaks a little English and fluent French.

He and the Canadian Secretary of State for External Affairs, Mrs. McCrellin, have a good and friendly personal relationship.

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He and the Canadian Secretary of State for External Affairs, Mrs. McDougall, have a good and friendly personal relationship.

OCTAVIO LEPAGE

**President (equivalent to our Speaker) of the Senate
and, therefore, also President of Congress**

Born in 1922 in a small town in eastern Venezuela, Lepage (pronounced lay-pa-hay), after obtaining a law degree from the Central University of Venezuela, has spent his entire adult life in active politics as a member and leading figure in the Acción Democrática party (AD) which is also the party of President Pérez.

He was first elected Deputy (MP) in 1946, in Venezuela's first, and short-lived attempt at parliamentary democracy. In 1948, following the country's last successful military coup, as Secretary-General of AD, he dissolved the party due to persecution by the dictator's military police, and became an underground resistance fighter. He was imprisoned from 1950 to 54, and in exile from 1954 to 58, when the dictatorship was overthrown and parliamentary democracy restored.

Since 1958 he has been a Deputy and then a Senator. Once before he was President of Congress, has been Chairman of the Senate Foreign Affairs Committee, and twice was Minister of the Interior, in the first presidency of Carlos Andrés Pérez in the mid-70s, and then in the AD government of then President Jaime Lusinchi in the mid-80s.

In 1988, he competed with Pérez to become the presidential candidate of AD, and although he had the support of Lusinchi, he lost. Following this, Lepage has not been considered a political ally and supporter of Pérez.

Lepage was chosen President of Congress in April of this year.

As President of the Congress, Lepage would take over as Acting President in the event of Pérez resigning, and would remain in this position for up to a month, by which time Congress is required by the Constitution to name a Provisional President until the end of the constitutional term, 2 February, 1994. At that time, the winner of the 5 December 1993 elections will take over as President.

Throughout his political career, Lepage has been a faithful AD team member and obedient cabinet minister.

ARISTÓBULO ISTÚRIZ

Mayor of Caracas

Born in December 1946 of a middle class family in a town near Caracas, Aristóbulo, partly from his father who was an active member of Acción Democrática fighting against the dictatorship, became interested in politics at a very early age. He was active, first in student politics in the 60s, and then with various groupings through the 70s and 80s, seeking those which at different times seemed to be most oriented towards radical reform.

He graduated with a teacher's degree in 1965, and then taught high school for twenty years in Caracas.

In the early 80s he joined up with Andrés Velásquez, at present Governor of Bolívar State and a presidential candidate, in a grouping called "Causa R", or The Radical Cause. Causa R has in the past ten years become an important rising political force in the country. It has a trade-unionist orientation and has managed to gain labour support away from the AD (traditionally the trade-unions' party), mainly because it presented a credible image of representing the views of the common person and being fiercely opposed to corruption, at a time when AD's reputation on both accounts was failing.

This, then, is the political/philosophical background from which Aristóbulo is coming. He was elected Deputy in 1988, and became one of those most critical of CAP and his government, particularly following the 4 February 1992 coup attempt.

In December 1992, he ran in the municipal elections for Mayor of Caracas, and against all expectations, defeated the incumbent, Claudio Fermín, who is from Acción Democrática. (Notwithstanding this loss, Fermín, a populist young politician with considerable support from AD party members, managed later to be chosen his party's presidential candidate for the coming elections.)

Aristóbulo's performance so far as Mayor has received mixed ratings. The problems of Caracas, particularly personal security and maintenance of infrastructure, however, are enormous.

OSWALDO ALVAREZ PAZ

Governor of Zulia State and Presidential Candidate of COPEI

Oswaldo Alvarez Paz is from an upper-middle class Maracaibo family of professionals, 50 years old and married with six children. Having joined the COPEI party at 14, he studied law in Maracaibo and since then has spent his entire adult life in politics, including 24 years in the Chamber of Deputies, of which for a five-year period in the 80s he was President (ie Speaker)

Sensing the trend in Venezuelan political evolution, in 1989 he moved to state politics and became the first elected Governor of Zulia, the most westerly state, surrounding Lake Maracaibo. (Previously governors were appointed by the President.) His government there earned the reputation of being clean, efficient and business-oriented. He was thus re-elected Governor last December with a huge majority.

On April 25 last, COPEI, which is currently leading in the opinion polls, chose Alvarez Paz as its presidential candidate through the unprecedented device of an "open primary" in which all Venezuelans registered on the voters' lists could vote. More than 2 million turned out, and Oswaldo received an overwhelming majority of 64%, which puts him in a very favourable position for next December's election.

The win is seen as a concrete sign of a real change in the style of political leadership in the country. Oswaldo, although a long-standing COPEI politician, has distanced himself in recent years from the established party hierarchy at a time when public opinion has been swinging against the entrenched character of parties, party machinery and what is pejoratively referred to as the reigning system of "partidocracy". Oswaldo's popular image as a new breed of leader also stems from his articulate, self-confident and charismatic projection to the public.

Alvarez Paz has a strong and well-defined profile with respect to the central policy issues currently dominating public debate in the country. Paramount in his view of government is a pronounced economic liberalism. "I believe in God and in the market", he said in a recent interview. On CAP's much reviled economic reform package he unhesitatingly asserts that it is not the package but CAP's implementation of it that is bad, since the president did not make efforts to secure broad political support for it. Also he categorically places the fiscal imbalance problem, including the need for new taxes, at the top of his list of priorities for governmental action. (Rightly, in our view). He tends to surround himself with, and draw his advice from, technocrats much more than party politicians, and in this regard criticizes CAP for having

OSWALDO ALVAREZ PAZ (cont.)

alienated and at the same time become subservient to his party (Acción Democrática) in implementing economic reform. It is noteworthy that Alvarez Paz is well regarded by the business community, both domestic and international. For example, the day after his victory in the open primary, the stock market reacted to his win by shooting up 11%.

In addition to economic liberalism, equally central to Oswaldo's political agenda are his emphasis on decentralization of government functions and his championing of direct by-name (as opposed to by-party-slate) election of congress members. These reforms are both burning issues in the country at this time, with strong popular support behind them but stubborn resistance being exerted by the party hierarchies and incumbent congressmen who see their vested interests threatened, especially as regards by-name elections.

Of special interest to Canadians is Oswaldo's connections with Canada. He is more familiar with and actively well-disposed towards our country than almost any other senior Venezuelan political leader and certainly than any other presidential candidate. He has visited Canada four times, including Ottawa as recently as November 1991 and again in March 1992 when he came as Governor regarding EDC-financed Canadian projects in his state. In fact in Zulia there are some \$ 200 million of Canadian contracts that have been or are in the process of being made. He is very conscious of Canada (both private sector and government) being Zulia's (and possibly Venezuela's) primary foreign partner in environmental, water distribution and irrigation development.

