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"Venezuela's Crisis: Implications for the Region"
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Chairman Duncan, Ranking Member Sires, and members of the Committee, thank you for the opportunity to speak here today and to discuss how the ongoing crisis in Venezuela impacts the U.S.-Venezuela commercial relationship.

The Department of Commerce's International Trade Administration (ITA) is one of the primary agencies responsible for strengthening the competitiveness of U.S. industry in the global market, promoting U.S. exports, monitoring compliance with U.S. trade agreements, and enforcing U.S. trade laws. ITA's efforts are driven by the needs of our primary constituency – the U.S. business community.

ITA's commercial service staff in over 100 locations across the U.S. and in 75 markets around the world – including 13 countries in the Western Hemisphere – is dedicated to helping companies enter new markets and expand in current ones. The Western Hemisphere contains five of our top twenty-five priority export markets, representing nearly 39 percent of our total world exports. The 33 economies in the region account for nearly 45 percent of U.S. exports, totaling roughly $668.9 billion dollars. Areas where we are seeing the most opportunities in the region are in the healthcare, energy and infrastructure sectors.

For more than 15 years, Venezuela's anti-market orientation has complicated U.S.-Venezuela commercial relations and made it harder for U.S. businesses to operate in Venezuela. We have advised U.S. exporters to, and investors in, Venezuela to be mindful of the considerable challenges when assessing opportunities in the Venezuelan market.

Doing business in Venezuela means building considerable risk into business plans – including, concerns over the possibility of expropriation by the Venezuelan government; an overvalued currency; the chance for further currency devaluations; potential non-payment due to foreign exchange controls; and, concerns over political and economic instability.

On January 1, 2012, the Commerce Department (Commerce) closed its Commercial Office in the U.S. Embassy in Caracas – in recognition that an active export promotion program did not serve U.S. commercial interests. During that period, Commerce closed a number of commercial offices around the world for budgetary reasons and in an effort to streamline operations. In the region, Commerce also closed offices in Quito and Vancouver.

From a commercial and economic perspective, what we are seeing in Venezuela is the rejection of open market principles that have driven growth, prosperity, and poverty reduction throughout the world. Dependence on oil exports, which provides 95% of Venezuela's foreign-exchange earnings, had long masked the damaging effects of Venezuela's command controlled economy and the protectionist, anti-competitive policies the government has promulgated for almost two decades.

Since 1999, under the leadership of the late President Hugo Chávez, the Venezuelan government has nationalized private enterprises run by both domestic and foreign investors, undermined private-property rights, and violated contractual agreements, all with the effect of severely constraining private-sector activity. Under his successor, President Maduro, the government has continued to encroach on the private sector by accusing companies of price-gouging and hoarding products. The Maduro government has further limited the amount of foreign exchange available to businesses.

The tight foreign exchange controls have paved the way to the current shortage of dollars, impacting companies' ability to pay their foreign suppliers for imports of raw materials and inputs. Venezuela's strict currency control system also makes it difficult for companies to repatriate profits or import finished goods. As a result of these anti-market policies, American companies have been forced to write off billions of dollars to maintain a presence in a market where they worked hard to build a loyal customer base and to compete for market share. Some U.S. firms have abandoned the market while many others remain out of a sense of loyalty to their Venezuelan employees and the local communities.

Given these policies, and with oil prices having dropped precipitously from their peak to current levels, it is not surprising that Venezuela is one of the worst performing economies in the world today. Venezuela's economy is likely to contract by eight percent this year and inflation could reach a stunning 720 percent according to the latest projections from the International Monetary Fund.[1]

The resulting effect on trade has been significant. U.S. goods exports to Venezuela dropped by over $4 billion dollars from 2011 to 2015. U.S. imports of Venezuelan goods dropped by $27.7 billion dollars over the same period. Roughly 84.7 percent of these imports were petroleum products alone. However, the United States remains Venezuela's most important trading partner, claiming 35 percent of Venezuela's exports, primarily petroleum and petroleum products, and 24 percent of its imports.

[1] https://blog-imfdirect.imf.org/2016/01/22/latin-america-and-the-caribbean-in-2016-adjusting-to-a-harsher-reality/

While Venezuela faces a number of difficult challenges, it helps to take a step back and look at it from a regional perspective. Since the global financial crisis we have seen a growing bifurcation of the Western Hemisphere between nations that embraced globalization and those that attempted to isolate themselves from its effects.

One the one hand, there are nations that share a vision similar to our own—one of "open regionalism"— the idea that opening up to world trade is more advantageous if combined with the creation of a deeper regional market, in order to take advantage of economies of scale. In Latin America, this is best signified by the Pacific Alliance which was officially established in 2012 by Chile, Colombia, Mexico, and Peru. Not coincidentally, those four countries are also U.S. Free Trade Agreement (FTA) partners.

At the same time, a counter-agenda of protectionism, state-centered fiscal policy, and anti-competitive measures emerged in other countries, with Venezuela as its most extreme example. The results have been similar, albeit less drastic, for the other nations in the region who chose similar economic paths. For example:

- Ecuador's economy, which is also highly dependent on oil and other commodity revenue, is projected to contract by 4.5 percent this year.[2]

- Argentina's economy, due in large part to the previous government's policies, is projected to contract by one percent.[3]

- That being said, the people of Argentina have chosen a new course and the new Macri administration is moving decisively away from an agenda of protectionism, state-centered fiscal policy, and anti-competitive measures.

Conversely, all four Pacific Alliance countries are projected to experience economic growth in 2016, as well as year-over-year growth through 2018. As for our Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) partner markets, they are projected to experience collective GDP growth this year of just over 4 percent.

Now, all of this leads to a critical point. The countries in our hemisphere that share an economic vision similar to our own—like our FTA partners in the region and the nations involved in Trans-Pacific Partnership (TPP) and the Pacific Alliance—are faring much better than those nations that chose to take a more protectionist and anti-competitive path.

[2] https://blog-imfdirect.imf.org/2016/01/22/latin-america-and-the-caribbean-in-2016-adjusting-to-a-harsher-reality/
[3] https://blog-imfdirect.imf.org/2016/01/22/latin-america-and-the-caribbean-in-2016-adjusting-to-a-harsher-reality/

Not surprisingly, these nations have embraced sound market policies rooted in open trade and investment flows and limiting state intervention in the economy. They are pursuing a growth agenda that increases flows of goods, services, and investment; but also catalyzes the diversification of production in the value-added elements of economies, becoming less susceptible to boom-bust commodity cycles. When you compare the results, our vision of open economies that engage with the world by establishing common rules, standards, and values, is looking bright.

The Commerce Department continues to work with countries in the hemisphere to create a shared agenda for growth. This is most apparent in the free trade agreements the U.S. has negotiated with over ten countries throughout the region. While these agreements have helped to support this vision, we know the future is unpredictable. Domestic and international circumstances regularly arise that could lead countries to take a different course. This is why the Obama administration is working with Congress, the business community, and other stakeholders to raise awareness about the benefits of TPP.

TPP is putting pressure on those countries in the hemisphere that have pursued more protectionist policies and maintained relatively closed economies. In a world where TPP is completed, that puts those nations at risk of being left behind as our innovators and small businesses start to do more business with Mexico, Canada, Chile, and Peru.

TPP will help solidify our vision for mutually inclusive growth in the hemisphere by raising standards across the region in a manner that reflects some of our core values: strong labor protections, a clean environment, intellectual property rights, and many more.

And even in Venezuela, despite the severity of the economic and political turmoil and the humanitarian dimensions of the crisis that accompanies it, there is the potential that positive change can come for the people of Venezuela and to the benefit of the region as a whole.