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## Crisis in Venezuela: A Politico Economic Understanding

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### Abstract:

More than five years down the line Venezuela had been slipping into an economic crisis. An economy wholly dependent on the sale of oil and no diversification of economic production is sure to face such a crisis. The fluctuation in oil prices is sure to hurt the market and the economy. To make matters worse, Venezuela now faces a political crisis with two individuals claiming themselves to be Presidents, Maduro and Guaidó. On the top of that, the current regime is alleged of massive corruption and an anti-democratic stance. There is always repression and suppression of democratic voices and protestors face persecution and human rights abuses. Such precarious condition of Venezuela economically and politically makes it vulnerable to external players may be private oil companies or even extra-regional States/powers. The paper will focus on the economic and political crisis in Venezuela. It will also point out at its fall out in the form of a humanitarian crisis and its impact on the neighboring countries of Latin America. As Venezuela is caught between the politics of big powers, the solution becomes more problematic and the paper will make an attempt to project that.

**Keywords:** economic crisis, political crisis, extra-regional players, Latin America, humanitarian crisis.

### Introduction

Latin America comprises 20 countries and 14 dependent territories. Venezuela was on top of all the Latin American countries as far as economic performance is considered. Venezuela is an oil-rich economy. It is a petro-state with high performing GDP, GDP Growth, and GDP per capita but it is now facing an unprecedented economic crisis. Along with the economic crisis, there is a

political crisis brewing. Two Presidents, one not willing to relinquish power and the other declaring himself as an interim President. A crisis of democracy in Venezuela has a fall out on the people of the country. This paper will look into the political and economic crisis in Venezuela. It will also focus on their impact as creating a humanitarian crisis in the region. How economic mismanagement in-

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terspersed by political ambition can turn a country towards a ruptured democracy will be a highlight of this paper.

### Economic Crisis

For the current paper, the focus will be on the timeline of the rule of Hugo Chávez to Nicolás Maduro. So, the initial question, to begin with is how was the nature of the economy under Chávez? It should not for once be forgotten that Venezuela is a petro-state. Oil reserves of Venezuela are about 300 billion barrels almost which accounts for 18% of the

world's oil reserves and it is one of the highest in the world. The sale of petroleum was the largest source of revenue. *Petróleos de Venezuela (Pdvsa)* was the biggest state-controlled petroleum producing company. If the international crude oil prices over the period from 2001 to 2012 are considered, then it will show that the high crude price led to the generation of high revenue from the export of petroleum. Fall in crude oil prices obviously led to economic hardship in Venezuela.

**Table 1**  
*International Crude Oil Prices 2001-2012 (WTI Prices)*

Price of Crude Oil (Inflation adjusted Price)	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
	\$39.74	\$28.97	\$44.49	\$58.92	\$80.02	\$78.02	\$117.86	\$54.72	\$94.84	\$107.55	\$94.88	\$94.05

**Table 2**  
*Fall in Crude Prices (WTI Prices)*

Price of Crude Oil (Inflation adjusted price)	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020 (Feb)
	\$97.98	\$93.17	\$48.72	\$43.58	\$50.84	\$64.90	\$57.05	\$52.10

### West Texas Intermediate (WTI or NYMEX) Prices (2001- Feb 2020)

**Source:** *Crude Oil Prices - 70 Year Historical Chart*

<https://www.macrotrends.net/1369/crude-oil-price-history-chart>

The main exporting destination countries of Venezuelan oil as per the US Energy Information Administration Reports from 2017-2019 were India, China, the US (amount slashed after imposition of sanctions), and some European Countries. However, the sanctions on *Petróleos de Venezuela (Pdvsa)* have definitely led to a decrease of oil production in Venezuela.

The revenue that was generated from sales of oil had helped to boost the economy and funded the state budget. Chávez had channeled the money to fund social programs like an increase in subsidies for food and energy. However, Post-Chávez, Venezuela's oil production has decreased significantly over the last three years. Production declined rapidly in 2018 with production decreasing by an

average of 33,000 b/d each month in 2018. The rate of decline increased to an average of over 135,000 b/d per month in the first quarter of 2019 only. Government borrowing from International Institutions and Countries has led to huge external debt. It was recorded that Venezuela's External Debt was about 110.2 USD bn in March 2019. It was around 108.4 USD bn in the previous quarter. GDP over the period 2001-2018 is given in Table 1.3 which shows a downward growth.

**Table 3**  
**GDP 2001-2018**

Year	GDP Growth
2001	3.4%
2002	-8.9%
2003	-7.8%
2004	18.3%
2005	10.3%
2006	9.9%
2007	8.8%
2008	5.3%
2009	-3.2%
2010	-1.5%
2011	4.2%
2012	5.6%
2013	1.3%
2014	-3.9%
2015	-6.2%
2016	-17%
2017	-15.7%
2018	-18.0%

**Source:** *Venezuela GDP-Gross Domestic Product, 2019,*

<https://countryeconomy.com/gdp/venezuela?year=2019>

The mismanagement of the economy could not deliver long-term stability to the economy which is evident from Table 1.3. There was no growth in economic productivity and there was an absence of diversification

of economic production with sole reliance on oil as a product for sale. This was short-sightedness from the economic point of view as oil prices fluctuate, therefore, earnings from it to gets volatile. Venezuelan economy was under too much state control which could not attract Foreign Direct Investment. Corruption and mishandling of the economy made the Venezuelan economy vulnerable. So it was on a point of crashing and with the fall in crude prices as is shown in Table 1.2 it got a jolt. This happened after the death of Chávez when Nicolás Maduro became the President of Venezuela in 2013.

Some economic mismanagement included price control measures to curb inequality. Controlling the prices of basic commodities like cooking oil, flour, and toiletries ultimately led to low production because profit could not be generated. This meant the closure of business units. Shortages of goods became inevitable. With the money from the sale of oil Chávez procured basic commodities from foreign countries. Chávez also tightened the state hold on the economy by expropriating private companies like sugar plantations and dairy firms. He also restricted currency exchanges by fixing the exchange rates of Bolivar to dollars which led to difficulty in trade. On the other hand, black market for currency exchange flourished. Still, Chávez could survive because the petrol price was quite high in the international market.

When Maduro assumed Presidency after Chávez in April 2013, the economic crisis spiraled due to fall in crude prices in the global market. Massive corruption and the US sanction against Venezuela hit hard at the backbone of the economy. Printing money became an option that led to further hyperinflation, acute shortage of food grains, fuels, etc.

What is of concern is the fear of 'stealth privatization' or secret privatization to cope with the crisis. Decades of state-controlled oil policy is gradually being compromised to lower the risk of Maduro's political career. Petr6leos de Venezuela (Pdvsa), the largest oil company and backbone of the economy is slowly passing onto the hands of foreign partners. It seems whoever is able to steer clear of US sanctions imposed in 2019 is welcome to be a partner of Pdvsa. It seems the majority of operational responsibilities and decision making along with export lineup and other matters are managed by foreign partners. Chevron (an US-based Oil Giant) has become the largest foreign producer of oil in Venezuela for which the Trump administration has waived the 2019 sanctions. Others in line are Rosneft of Russia and Eni of Italy. A host of other foreign companies may have an eye on Venezuelan oil but that future can only tell.

Underhand liberalization has helped the staggering economy to import food, medicine, and other basic amenities but the sovereignty over the country's resources has been diluted. Is this colonialism recreated or dependency revisited it will be discussed in the later subsection of this paper.

### **Political Crisis**

The political crisis has only helped the slipping of the economy to private partners. Pdvsa once nationalized by Ch6vez as well as Exxon and others now experience a reversal of policies. Underhand privatization by Maduro is just nothing but a means to hold on to his position. In a way he has to work now in a nexus with these companies to explore and produce oil to stabilize the economy. He is desperate as Venezuela experiences a unique political crisis with two persons claiming to be Presidents. Juan Guaid6 declared himself

as President in January 2019. Unfortunately, Guaid6 has not been able to dislodge Maduro from his position as the army refuses to switch loyalty and the electoral bodies and the Supreme Court are packed with Maduro loyalists.

In an unconstitutional move Maduro in 2017 constituted a new National Constituent Assembly in place of National Assembly making the later redundant. He packed it with his followers as the opposition boycotted the elections and several other elections in 2017. There were massive protests but those were suppressed with vigor.

The Presidential election of 2018 was itself a controversial election. Opposition leaders either fled the country out of fear or were imprisoned by Maduro to avoid competition. Opposition parties also boycotted the elections. Under such circumstances the 2018 election in real sense raises the question of the authenticity of the poll results. The National Assembly where the opposition is a majority rejected the validity of the election and labeled Maduro as a 'usurper' of power. Being the leader of the National Assembly acting upon the provisions of the constitution, Guaid6 declared himself as the President. What is astonishing and a word of caution is the reaction of the international community. While they have been very cautious about their reactions, there is a clear bifurcation of for and against Maduro position. While the US and around 50 countries have recognized Guaid6 as the legitimate President, Russia and China have given their support for Maduro.

US had imposed sanctions on the Venezuelan Government from a long time. President Obama had imposed sanctions on those who were alleged to be linked with corruption scandals. President Donald Trump has been more severe in the Maduro regime. Maduro

has for long been a target of US sanctions as President Obama already had imposed sanctions on individuals linked to corruption scandals in 2015. The US Office of Foreign Assets Control (OFAC) targeted 8 Supreme Court members in August 2017 because they were involved in the usurpation of legislative powers. In July 2017, the US assets of Maduro were frozen. Within a period between 2017 to 2018 individuals occupying high positions like Ministers, Vice Presidents facing allegations of corruption were listed to be brought under the sanctions.

The US has imposed fresh sanctions on the Maduro government in the year 2019 in a bid to pressurize him. The US has also vouched to freeze all Venezuelan assets in the US and stop any sort of transactions with Maduro led government. Financial sanctions include blocking all access of Maduro Government and state oil company Pdvsa's to financial markets. However, they have failed to break the zeal of Maduro and he holds on to the political power. As the US sanctions slip the economy into darkness, Maduro searches for ways and means to tackle the crisis as discussed above through stealth liberalization and inviting foreign partners/companies.

For Maduro things have become difficult because of a fall in oil prices. Chávez could hold onto his popularity because of the high oil prices shown above. Maduro faces a situation where international oil prices fluctuates as shown in Table 1.3 and as a result price of Venezuelan crude also fluctuate adding to his difficulty to manage the economy. Maduro lost in the December 2015 mid term elections and the opposition won a majority in the National Assembly for the first time. However, as seen above they have become helpless and cannot remove Maduro from power. Even Maduro loyalists Judges in the Supreme

Court have struck down eighteen laws/ motions passed by the Assembly. Even Leopoldo López, the opposition leader was jailed in a false case. Venezuela ranks 173<sup>rd</sup> (out of 180) in the corruption perception index prepared by Transparency International for the year 2019. On the democracy index Venezuela ranks almost near the bottom defined as authoritarian regimes. Venezuela occupies the 140<sup>th</sup> position (out of 167 countries) in the Economist Intelligence Unit (EIU) ranking of world political systems into full democracy, flawed democracy, hybrid and authoritarian regimes. Therefore, it is proved beyond doubt that economic, as well as political situations in Venezuela have reached a breaking point.

No solution seems to be in sight. What is the major issue is the condition of the people of Venezuela. A humanitarian crisis has unfurled in Venezuela without even a war or epidemic. Simply because of political stifling exacerbated by the economic downturn.

### **Humanitarian Crisis and Refugee Problem: Impact on Region**

With the crisis deteriorating each day, hardships of the people being increased in leaps and bounds, Venezuelans are forced to live their country. By 2015 almost 3.4 million people fled from Venezuela to the neighboring countries. Latin America and the Caribbean host approximately 2.7 million refugees, with nearly 1.5 million in Colombia. The United Nations High Commissioner for Refugees reported that, as of November, more than 3 million of an estimated 32 million Venezuelans had fled their country since 2014. According to UN estimates of the mid-2018 report over 2.3 million Venezuelans have fled since 2015. In Colombia alone, the number of Venezuelans has most likely have touched 1 million people.

According to IOM estimates 2018, Peru and Ecuador have become a destination for 400,000 and 200,000 Venezuelans, respectively. Besides, about 100,000 are estimated to have migrated to Chile, 100,000 to Argentina, and about 75,000 to Brazil. Other countries in Central and North America, as well as some Caribbean islands, are becoming common destinations for people trying to flee.

The push factors which have forced the Venezuelans to leave their country are acute food shortage, shortage of medicines, spread of infectious diseases, hyperinflation, human rights violation, persecution due to protests and demonstration, arbitrary arrests, alleged extra judicial killings, impunity for abuses and many more factors exacerbating the humanitarian crisis. According to Human Rights Watch, 80% of the household are food insecure (2018 survey). According to the UNHCR and IOM Report 2019, the number of Venezuelans leaving their country has reached 4 million. On a global scale, Venezuelans are one of the single largest population groups displaced from their country.

There has been a mixed response from the neighboring countries. Colombia has been the most positive in its response. The Colombian government decided to extend temporary work permits to about 450,000 Venezuelans who had entered the country without proper documentation.

Almost around an estimated 250,000 had received such permits between 2017 and early 2018. New visas were given by the Chilean government which permitted the Venezuelans to reside and work in the country. Argentina has eased the requirements for Venezuelans to validate their academic and professional degrees. However, other neighbors have made a showdown on the terms of allowing the entry of Venezuelans into their country. The regional governments of north-

ern Brazil, for example, unsuccessfully requested that the federal government close its border. Ecuador declared that it would need passports to allow Venezuelans to cross the border and enter its territory but later took a back step.

Therefore, this looming crisis in Venezuela is creating a problem in the region that can have an economic and social as well as political impact in the neighboring countries. Resources are required to provide the displaced Venezuelans aid and assistance. There can be also law and order problems vis-à-vis the local population. Further, the political wrangling might jeopardize the stability of Latin America.

### **Conclusion**

Such an unprecedented humanitarian crisis has gripped humanity into difficult times. Solution seems to be feeble. Organization of American States (OAS) has tried through the LIMA Group (14 Latin American Countries and Canada) to coordinate the neighboring countries policies towards the crisis and its fall out. Within the OAS also there are sympathizers like Bolivia and Nicaragua who prevented the organization from taking actions against the Maduro government.

The point to be noted is the responses of the external players like Russia and China. Their interests are obviously related to Venezuelan oil. They are playing with the situation and all for the oil. China and Russia, the P-5 members are sure to veto any US-backed resolution in the Security Council of the United Nations against Venezuela. China has provided a huge loan to Venezuela with an objective for ensuring oil shipments and also an investment in oil fields of Venezuela. Russia operates through its oil company Rosneft through joint ventures, provides loans, and undertakes initiatives like prepaying for

future oil shipments and other moves to counter US interest in Venezuelan oil. The game has become all the more intriguing as the US joins the same list of providers of loans for assistance in democracy programs in Venezuela in 2019. One hand the US has imposed sanctions and on the other it gives loans as assistance for democracy programme and humanitarian aid in 2019-2020 with a nod from the US Congress.

The situation is grave. As humanity suffers and the humanitarian crisis assumes perilous proportions, the UN is unable to take action. The OAS and the LIMA group's efforts have not been successful either. The former U.N. High Commissioner for Human Rights Zeid al Hussein issued a report in June 2018. He documented notable cases of extrajudicial killings in anti-crime operations, excessive use of force against demonstrators, arbitrary detentions, and torture. A February 2018 announcement by the prosecutor of the International Criminal Court (ICC) to open a preliminary examination regarding the use of excessive force against protestors was followed by a May 2018 report by a panel of international experts convened by the OAS secretary general alleging crimes against humanity. The leaders of countries like Argentina, Canada, Chile, Colombia, Paraguay, Peru, and France made a direct appeal to the ICC to actively go ahead with prosecuting senior officials in Venezuela for human rights abuses. Nothing has been able to influence Maduro. In fact, he plays a victim syndrome and accuses the sanctions of the economic hardships. The politicking of pro-Maduro and Against-Maduro countries has only made things complicated. The only thing visible is intrusion of private foreign companies and dilution of the sovereignty of Venezuela over natural resource --- oil. There

might be a case of neo-colonialism revisited in Venezuela if such instability continues.

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