

The Natural Resource Curse of New Populist Countries: A Case Study Based on Chavez Doctrine in Venezuela

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Abstract. Venezuela, a nation with abundant oil and natural gas resources, had anticipations of a successful and optimistic future. Nevertheless, political instability, economic downturns, and societal tensions have gradually undermined that prospect. This paper explores the issue of the resource curse in Venezuela, resulting from both resource abundance and the Chavezist philosophy of government in the country. Using the methodological aspect of process tracing within case studies, this paper outlines the continuing impact of Chavezist policies on the economy and national resources and their subsequent effects. The article's format consists of an introduction to the Venezuelan background, an examination of the literature, a discussion of the main study, an analysis of its significance, and suggestions for further research. The main findings reveal that Venezuela, a country rich in resources, is confronted with various political, economic, and social difficulties under Chavismo's direction. The factors behind the resource curse are intricate and interdependent, mutually influencing one another. Through a detailed review of Venezuela's specific case, we can better understand the obstacles encountered by countries endowed with natural resources, as well as the interrelationships between the resource curse and their politics, economy, and society. At the same time, gaining insight into the resource usage challenges that resource-endowed countries face can aid governments in effectively devising and executing policies. The full potential of resources can be achieved while avoiding the resource curse's negative consequences.

Keywords: Venezuela, Chavismo, Resource Curse, Economic Reform.

1. Introduction

Against abundant natural resources such as oil and natural gas, Venezuela was once entrusted with hope and potential, looking forward to a prosperous future. The South American country, however, has found itself in a thought-provoking situation. Political turmoil, economic recession, and social tensions are eroding its prospects, with no path ahead. When natural resources are the main drivers of national development, they are expected to bring prosperity, opportunity, and well-being to societies. However, in some cases, these precious resources can become an impossible curse, bringing economic hardship, political unrest, and social instability to the country. This "curse" phenomenon of natural resources is especially thought-provoking in some new populist countries, revealing the intricate interaction between natural resources and populism. This article aims to analyze the case of Chavismo in Venezuela in depth. To explore the challenges faced by the new populist countries in using natural resources and the resource curse in this situation.

The value and impact of natural resources go beyond the economic dimension and involve countries' political, social, and environmental stability. Countries rich in resources are often placed in high hopes that these resources will lead to better living conditions for their people. However, such expectations have only sometimes been realized. The case of Venezuela, as an example of a new populist country, illustrates that the exploration, extraction, and utilization of natural resources can bring forth a series of challenges, especially when these nations are caught in the grip of populist political movements.

As a political phenomenon, new populism emphasizes the concern for "ordinary people," the confrontation with the elite, and the vital maintenance of national sovereignty. The rise of this movement is often associated with factors such as social inequality, economic imbalances, and widespread dissatisfaction with the status quo. However, the governance of new populist movements often encounters various challenges, one of which is how to effectively utilize natural resources to

achieve their policy objectives while simultaneously avoiding the pitfalls of falling into the trap of the resource curse. Chavismo dominates the political scene in Venezuela in the 21st century. Chavismo, named after its founder, former President Hugo Chavez, is a political movement based on socialism. The core idea of Chavismo is to achieve social equality and fairness through government intervention and resource redistribution. The Chavez government implemented a nationalization policy to nationalize the significant oil industry and other strategic sectors to control the country's resources. In addition, Chavismo emphasizes social programs and popular participation to reduce poverty and inequality.

However, over time, the Chavismo government faced many challenges in practice. The economy is highly dependent on oil exports, making the economic structure simple and vulnerable to fluctuations in international oil prices. In addition, nationalization policies and large-scale government intervention have led to financial imbalances and efficiency problems, further exacerbating inflation and financial distress. Politically, the implementation of Chavismo has triggered social division and political confrontation, leading to social unrest and political instability. The situation underscores the complex issues facing new populist states about natural resource use.

Venezuela and Chavismo provide a thought-provoking case in this context, while the resource curse theory provides an analytical framework. Through an in-depth analysis of the Venezuelan case, we explore how the new populism interacts with the phenomenon of the resource curse and the political, economic, and social mechanisms behind this phenomenon.

2. Models of Development in Petrostates: Based on the Discussion of Ecuador and Saudi Arabia

Most current research on the relationship between petroleum resources and economic development has focused on regional studies. Common studies include Ecuador and Saudi Arabia.

Ecuador is located in the northwestern part of South America and is rich in ecological diversity. From the Amazon rainforest to the Andes to the Pacific coast, the country's ecosystems are diverse and host many species and ecological niches. This makes the environmental protection here become the focus of attention at home and abroad. Specific ecosystems in Ecuador, such as the Amazon rainforest and island ecosystems, are very fragile. Oil extraction usually needs to be carried out in the ecosystem, which may cause pollution to water bodies, soil, and air. This conflicts with Ecuador's rich ecological diversity, as there needs to be a balance between environmental protection and resource exploitation. Environmental disturbance and pollution can cause long-term and irreversible damage to these ecosystems. Therefore, the Ecuadorian government must balance the economic benefits of oil extraction with the need for environmental protection. Whether to develop a specific oil area may involve considering the impact on the ecosystem and society. Ecuador has oil and rich natural resources, including minerals, forests, and water resources. However, among them, oil is the country's most important export commodity and a vital pillar of the economy.

Ecuador's oil industry was nationalized in the 1970s. However, in the 1990s, Ecuador adopted liberalization measures to attract foreign investment and increase production. However, this has resulted in environmental damage and waste of resources, sparking social discontent. In the early 2000s, the Ecuadorian government reemphasized state control over oil resources. After Rafael Correa became president in 2007, the government stepped up its nationalization policy, bringing oil operations under state control. This policy attempted to increase the government's control over oil resources and increase oil revenues for social programs. However, as time passed, international oil prices fell, and Ecuador's economy was hit hard, resulting in a budget deficit and having to cut social spending. Nationalization policies can have destabilizing effects on the economy when oil prices fluctuate.

Most of Saudi Arabia is desert and semi-desert, with a dry and hot climate. Such environmental conditions limit water resources and agricultural development, challenging the country's self-sufficiency. Saudi Arabia needs more water resources, making irrigated agriculture and drinking

water supplies problematic. Governments rely on expensive desalination and water management technologies to meet people's needs. Ecosystems in Saudi Arabia are susceptible to climate change and human activities. Due to Saudi Arabia's rich oil reserves, oil extraction and refining may lead to soil and water pollution, impacting the local environment. Therefore, the government needs to balance the relationship between resource development and environmental protection. Overexploitation and oil extraction can lead to land degradation, water source contamination, and ecological disruption.

Saudi Arabia nationalized oil in the early 20th century. In the 1930s, Saudi Arabia signed agreements with foreign oil companies. Still, in the 1950s, the country gradually nationalized the oil industry, culminating in the national oil company, Saudi Aramco. The move strengthened the government's control over oil resources. The 1973 oil crisis is a notable example when oil-producing countries such as Saudi Arabia announced an oil embargo, causing global oil prices to soar. The incident underscored Saudi Arabia's geopolitical clout as an oil exporter, revealing the international economy's high dependence on Saudi oil supplies. However, overall, the nationalization of oil has brought about significant changes in Saudi Arabia. Oil export revenues significantly boosted the country's modernization and infrastructure development, rapidly transforming it from an agrarian society to a highly industrialized country. This has also led to potential problems, such as an over-reliance on the oil economy and high sensitivity to fluctuations in international oil prices.

On the whole, Ecuador, Saudi Arabia, and Venezuela face the same national conditions and oil situation. Still, their economic development is much better than Venezuela's, as seen in the following aspects. Firstly, Political Stability: Ecuador and Saudi Arabia have been relatively politically stable for long periods, with the governments adopting prudent economic policies in some areas. Political stability helps to attract foreign investment and promote economic growth. In contrast, the political environment in Venezuela is more volatile, and social and political instability can negatively impact the economy. Secondly, Economic diversification: Ecuador actively promotes the development of other economic sectors besides oil, such as agriculture, tourism, and manufacturing. Saudi Arabia is also actively promoting the development of other economic fields besides oil, such as finance, tourism, and military industry. This helps reduce dependence on oil revenues and increases the economy's resilience. Venezuela, by contrast, has been less economically diversified and more reliant on oil revenues for extended periods. Thirdly, Resource management and extraction costs: Saudi Arabia's oil resources are relatively concentrated and easy to extract, making its oil extraction costs relatively low. Venezuela and other countries face more complex geological conditions and mining technology, leading to higher mining costs, and more than Venezuela's domestic technology is needed to support mining.

3. Economic Development and Reforms in Venezuela under Chavismo

Hugo Chavez's victory in the 1998 Venezuelan presidential election was decisive. As a charismatic ex-military officer, Chavez inspired a generation weary of socioeconomic disparity and the political establishment. Chavez motivated political class and social inequality-weary individuals. His presidential campaign promises were poverty, neoliberalism, and social inequality. These assurances encouraged him to run for office. Chavez was viewed as a defender of the powerless and a check on injustice and corruption [1]. After Hugo Chavez became president, Venezuelan politics underwent a significant transformation.

The key to Chávez's political success was his skillful use of populist rhetoric, which struck a chord deeply with a wide range of society. Chávez appealed to a widespread sense of national pride and identity by framing his discourse as a fight against "imperialist" forces and special interests, portraying himself as the defender of Venezuelan sovereignty [2]. His persuasive communication style and dedication to redistributive measures won him a great deal of support, especially from economically underprivileged groups who perceived in him a sign of rising living standards and increased social welfare [3].

Chávez quickly put into effect populist-leaning policies after taking office. He nationalized important businesses, most notably the oil industry, of enormous economic importance to Venezuela. To increase revenue from foreign oil companies, the government under Chávez exercised state control over the country's oil resources [4]. The primary aim of this initiative is to fund social projects and diminish reliance on external sources [3]. Motivations for nationalization include increasing state revenues, increasing government-held resources, and reducing the control of foreign companies over the oil industry.

The Government also employs its price control policy to regulate the prices of goods and services, safeguarding consumers from the detrimental effects of inflation and protecting their interests to a certain extent. Price controls decrease price fluctuation within the market and increase the predictability of the economy. It can also prevent market monopolization and unfair competition and ensure fair and reasonable prices.

Chavezism emphasizes national sovereignty and autonomy, arguing that the state should have the power to control its economic resources and currency. That is why the Chavez administration enforced exchange controls, restricting the acquisition and exportation of foreign currencies. The logic behind this policy was to safeguard domestic money's worth and regulate capital outflows—the Chávez administration's decision to impose foreign exchange controls aligned with the Chávezism economic doctrine.

An important policy influenced by Chávezism is the implementation of social welfare programs like "Misión Mercal." Misión Mercal is a social welfare program initiated by the Venezuelan government, designed to offer accessible food and fundamental requirements. The scheme is designed to cushion the impact of inflation on food prices by setting up food distribution centers and stores to make food available to the population at low prices. This program has been effective in several underprivileged communities, assisting families with low incomes in fulfilling their fundamental requirements. Some programs, including healthcare and education, aid individuals residing in deprived regions and on the fringes of society. This aligns somewhat with Chavezism's emphasis on social justice.

4. The Limitations of Chavismo's Economic Reforms.

According to the resource curse idea, a nation may paradoxically experience poor economic and political outcomes if it has abundant natural resources, particularly minerals and oil. Resource-rich countries frequently experience stalled growth, elevated corruption, and political instability rather than encouraging prosperity [5]. This phenomenon calls into question the widespread belief that abundant natural resources lead to economic growth. The idea is supported empirically by the fact that many resource-rich nations have suffered from the resource curse. For instance, despite being a major oil producer, Nigeria faces significant underdevelopment, inequality, and poverty [6]. Similarly, oil and mineral-rich nations like Angola and Equatorial Guinea have struggled with pervasive corruption and inadequate governance systems [7]. These instances emphasize the difficulties in managing resource richness and the dangers of relying too heavily on such resources.

Venezuela also has several interrelated factors influencing the occurrence of the domestic resource curse. One significant factor is the volatility of commodity prices. Venezuela's economy was exposed to economic volatility and uncertainty due to its substantial reliance on oil exports, making it susceptible to changes in the price of crude around the world [8]. The oil market's erratic swings were deeply entwined with the nation's economic fortunes, causing times of economic boom to be followed by slumps and financial difficulties.

In addition, resource-rich economies often need help diversifying their economies. The attractiveness of resource rents (additional income from resource extraction) can hinder the growth of other economic sectors. Venezuela's neglect of non-oil industries is a clear example of the effects of the resource curse. Investment in diversification and the development of alternative businesses needed to be increased as oil revenues dominated the economic landscape [3]. Due to over-reliance

on a single resource, non-resource sectors' exports have become non-competitive, leaving Venezuela vulnerable to external shocks and economic fluctuations—the obsession with resource extraction has limited opportunities for sustainable growth. The government's emphasis on extractive industries slowed development instead of diversifying the economy and adopting renewable energy [3]. This strategy impeded the development of environmentally sound and resilient communities by ignoring potential green sectors and leaving the country vulnerable to erratic global commodity markets.

The Chavismo social welfare program aims to establish a state-centered social welfare system. The purpose is to provide a wide range of social services and economic assistance to the masses to improve the living standards of the lower social groups and promote social equity. Among the policies closest to the people include social services and wealth redistribution, relying on various means to increase the population's wealth, alleviate poverty, and reduce inequality. However, these seeming measures aimed at promoting social equality have hurt Venezuela's economy and society, becoming one of the limitations of economic reform in Venezuela. Under the demands of Chavismo's social welfare policies, the government must provide a wide range of social welfare services, including healthcare, housing, and food subsidies. The government needs a continuous source of funding to support the maintenance of these programs. However, due to the substantial social welfare expenditures, the government may experience fiscal deficits. The government may need to borrow externally to cover these deficits, increasing the country's debt levels.

Meanwhile, the government may use continuous currency printing to compensate for fiscal deficits and support social welfare programs, leading to inflation. High inflation adversely affects domestic purchasing power and price stability, seriously compromising the citizens' standard of living. This is the vicious fiscal cycle caused by Chavismo's social welfare programs, which have stagnated economic development in various sectors within Venezuela.

Venezuela is located in the north of South America, between the Caribbean Sea and the Atlantic Ocean, bordered by Colombia, Brazil, and Guyana. Venezuela is at an essential junction of energy and geopolitics. For such an oil-rich country with few other resources, it was necessary to rely on the capital accumulated from oil initially to develop technology in other areas later. These include renewable and green energy technologies to reduce overdependence on oil and offer the possibility of diversifying energy supplies. However, countries like Venezuela, which need to catch up in technological advancement, must depend on foreign investment to develop various technologies. In this national context, Chavez's policy of nationalizing resources has necessitated greater government control and taxation requirements from international oil companies. These Venezuelan government policies have heightened the concern of both local and international investors. To spread risk, numerous investors are lowering their investments in Venezuela and transferring their funds to nations more receptive to foreign capital. Not only has the oil sector been affected, but other sectors in Venezuela, including electricity, agriculture, and manufacturing, have also experienced significant impacts, all of which have contributed to the outflow of investment. The departure of investors and technology led to Venezuela's subsequent inability to develop technology and new industries.

Meanwhile, the domestic economy, already in disarray due to economic reforms, did not benefit from foreign investment. Domestic hyperinflation further devalued the currency. However, the withdrawal of foreign capital resulted in a reduction of foreign currency, leaving people unable to exchange sufficient dollars and even plunging into a severe existential crisis.

5. Why Superior Resource Endowment cannot be Realized as a Development Advantage

The Chavez administration initiated the nationalization of critical domestic industries and implemented significant policies to regulate the trajectory and tempo of economic growth. At the same time, the government's promotion of social welfare has mobilized voters from disadvantaged backgrounds and established a robust political foundation, thereby enhancing both the government's sway and esteem in domestic and international arenas. However, excessive government intervention

and the centralization of power have hindered the prompt correction of errors in government decision-making. Furthermore, democratic institutions and accountability procedures may be weakened by the concentration of political power around resource management [9]. This centralization could harm long-term development initiatives and promote authoritarian inclinations. Institutional checks and balances were destroyed due to the Chavez Doctrine's centralization of power. Key democratic institutions previously intended to uphold accountability and stop power abuses eventually lost their efficacy [10].

The economic development of a nation hinges on political stability. Even within the context of one-party rule in Venezuela, the Chávez administration has been unable to establish a dependable political climate. After Maduro's reelection in the 2018 election, many voices, both within the country and abroad, raised concerns regarding the authenticity of the results. Venezuela has witnessed a power struggle between two opposing governments: Nicolás Maduro's and Juan Guaidó's administrations. Debates regarding the validity of the government, erratic execution of policies, and conflict between political factions within the nation predominantly mark the row. Venezuela has experienced various political disputes, protests, economic turmoil, and humanitarian crises during the ongoing battle between the two governments. Chavismo somewhat contributes to this struggle, as the government's augmented control over the economy and resources renders the regime more appealing. The Venezuelan economy faces a crisis due to domestic and international economic and political pressures.

The increasing inequalities and divisions in Venezuela due to the influence of Chavezism have had a noteworthy impact on society. Venezuela's heavy reliance on oil income has resulted in an imbalanced economic climate and an increasing disparity between affluent and impoverished individuals. The Chavez administration has implemented several social welfare programs aimed at redistributing wealth. However, these policies only benefit some citizens equally. Wealthy households can sidestep tax and resource allocation measures or acquire additional entitlements. However, low-income families typically only receive social welfare, which is inadequate in improving poverty levels throughout the population. Moreover, this unequal redistribution of resources may result in an expanding disparity between affluent and deprived households. So, in this case, inequalities in society were made more pronounced by the concentration of resource wealth within a small number of individuals [6]. Although Chávez's policies have attempted to address the issue of social inequality, in reality, the core problems of Venezuelan society arise from the interaction between unequal resource redistribution, currency inflation and devaluation, recession and unemployment, and there is no fundamental remedy to the issue of social inequality. Social cohesion and public trust in Venezuela have declined due to the policies implemented under Chavezism.

6. Conclusion

The array of policies and economic reforms implemented by the Chávez administration presents an essential case for study. The case illustrates how political concepts can impact resource management and the durability of a nation's economy. It also demonstrates how excessively radical political ideologies and reforms may affect the nation's future development. This study addresses gaps in the current literature by providing a detailed analysis of Venezuela's resource curse as a neo-populist state. The example of Venezuela addresses the challenge of resources and explores the impact of political, economic, and social factors. This case study offers vital insights for other countries with abundant resources concerning resource management and economic reform. Future studies could explore wider angles and comprehensive investigations that scrutinize additional dimensions of the resource curse phenomenon in Venezuela. However, the study was limited by the availability of data and an insufficient amount of literature to cover all aspects. It is also restricted by the intricacy of the investigated country, necessitating a comprehensive examination of numerous political, economic, cultural, and diplomatic factors.

Future research directions could investigate how countries like Venezuela have responded to the resource curse by implementing new policy interventions and reform strategies. These strategies

might entail fresh approaches for resource management, anti-corruption measures, and enhancements in social welfare programs. Objectively, it is feasible to investigate the impact of global factors on a nation's political strategies and economic advancement. Continuous attention is also given to the diplomatic situation in Venezuela, price fluctuations in international markets, support from international organizations, and the impact of global political relations on Venezuela. Future research could investigate resource-rich nations beyond the present case study to compare the resource curse across various contexts and establish the similarities and differences of the phenomenon.

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