

# The Root of Hyperinflation in Venezuela: Statism, Chavismo, and Dictatorship

Xiaoqiao Wang\*

Georgetown College, Georgetown University, Washington, D.C., U.S.

\* Corresponding Author Email: xw272@georgetown.edu

**Abstract.** Venezuela, endowed with abundant oil resources, was one of the wealthiest countries in Latin America, with a promising future. However, Venezuela's economic condition has dramatically deteriorated in recent years, with the country experiencing hyperinflation and a major recession in 2016. The popular view is that Venezuela suffers from the "Dutch disease," in which a government develops an unsustainable reliance on natural resource exports at the expense of other sectors, making the economies increasingly susceptible to volatile global oil prices and capital flights. This study compares economic data from oil-dependent countries around the world and reveals that the "Dutch disease" theory can only explain Venezuela's economic downturn, not its deep recession and hyperinflation. This essay then delves into three sociopolitical causes of Venezuela's poverty crisis: aggressive Chavismo statist policies that overextended the Venezuelan economy and made it vulnerable to international oil prices, a strong presence of illegal market sectors that disrupted market equilibrium, and Venezuela's personal dictatorship under the Chávez-Maduro administration. Despite the preceding three sociopolitical factors contributing to Venezuela's hyperinflation, the country's economic outlook is positive owing to a vacancy in the global oil market as a result of the 2022 Ukrainian summer counteroffensive. This paper proposes that the key to successfully resolving the crisis is promoting private investment and tackling the resource curse, both of which require a robust democracy with an independent press and judiciary. Venezuela may seek international assistance to implement political reforms, abolish foreign exchange restrictions, and move toward economic liberalization.

**Keywords:** Venezuela; Hyperinflation; Statism; Dictatorship; Dutch Disease Model.

## 1. Introduction

Under the de-globalization and the COVID-19 pandemic, the global economy has experienced economic downturns and minor inflations. Under such a predicament, Venezuela is floundering to solve its hyperinflation crisis. Venezuela's economic position has worsened dramatically in recent years, and it is now the world's only economy experiencing hyperinflation in the second decade of the twenty-first century. According to IMF's data, since 2013, the economy has shrunk by 30% [1]. In 2018, Venezuela's inflation rate, or average consumer prices, was 6,5370%. Even though Venezuela's hyperinflation crisis had taken a turn for the better, its inflation rate in 2021 still reached 1,590%, which still falls in the range of hyperinflation [1].

Into the 21st century, only a few individual economies in the world have experienced hyperinflation, such as Zimbabwe at the end of 2008 and North Korea at the end of 2009. Even in some Middle East and North African countries ravaged by war and civil unrest, there has been no severe hyperinflation in recent years. Hence, Venezuela's hyperinflation is rare.

Venezuela's deteriorating economic situation has also been accompanied by political turmoil. The ruling United Socialist Party (PSUV, also translated as "United Socialist Party") suffered a setback in the 2015 elections, losing its majority in the National Assembly. Since then, the Venezuelan people have held large-scale demonstrations and protests many times, calling for an early general election. Soaring prices, shortages of foreign exchange, the proliferation of the black market, the lack of food and medicine supplies, and the dwindling supply of common goods have all contributed to growing dissatisfaction among the people. Maduro, who succeeded Chávez in office in 2013, faced an unparalleled political crisis.

During the ten years of Chávez's administration (2002-2013), some of Venezuela's domestic and foreign policies may seem radical and "heretic", but such policies were more or less popular in Latin America and the Caribbean, and Venezuela remained a moderate diplomatic relationship with neighboring countries. However, with a turn towards dictatorship and growing domestic conflicts, Maduro's government has been excluded by other Latin American governments. In April 2017, Chile, Colombia, and Peru each recalled their ambassadors to Venezuela. Relations between Venezuela and the Organization of American States (OAS) have also slumped. OAS's officials declared Venezuela's crisis to be a "self-inflicted coup [2]." Later in 2017, Venezuela decided to quit OAS.

How to understand the dramatic changes in the Venezuelan economy and politics since 2014? Numerous scholars had already developed a representative view that Venezuela's economic crisis underlines the country's distorted economic structure, which is heavily reliant on a single export good, oil. This view can also be said to be the classical "Dutch disease" model. This study uncovers that the "Dutch disease" model is not a sufficient explanation for Venezuela's anomalous hyperinflation. The global crude oil price experienced a major downturn in 2014. According to the "Dutch disease" model, it is expected that all countries that are economically dependent on oil should undergo economic turmoils. The study compares the GDP growth rate of fourteen petrostates from 2014 to 2018, and the result illustrates that Venezuela's GDP growth rate was falling exceptionally. The "Dutch disease" model cannot explain the such discrepancy.

In the second section, this paper presents three potential causes of the hyperinflation crisis in Venezuela. The root of Venezuela's current macroeconomic problems lies in the policy deviations of the Chávez era (especially the progressive statist policies), the shadow economy, as well as a personal dictatorship that caused economic sanctions from Venezuela's major trading partners.

Moreover, this paper also provides an economic prognosis for Venezuela. Overall, the economy of Venezuela is expected to improve in the near future as a result of Russia's invasion of Ukraine, which may soothe US-Venezuela relations, leading to more oil exports. The surge in exports might benefit Venezuela's ailing economy. Venezuela can also adopt a few changes. To overcome Venezuela's current economic difficulties, a drastic policy shift is required, which would necessitate considerable foreign aid in reconstructing institutions like the Treasury and Central Bank, as well as balance-of-payments support through external finance. Policies aimed at mitigating the impacts of the "Dutch disease" should be prioritized as well.

## **2. The "Dutch disease" model and its insufficiency in the Venezuela case**

Venezuela is endowed with one of the largest oil reserves in the world. Since the 1970s, Venezuela increased its oil revenues four times, making Venezuela highly dependent on fossil fuel income. According to data from the World Bank, the oil rents as a percentage of GDP grew from 7% in 1970 to 35.4% in 1974. Venezuela's average oil rents as a percentage of GDP from 1990 to 2011 is 20.56%, while the aggregate average of the Latin American and Caribbean countries only ranges from 1% to 5% [3]. Venezuela is a typical petrostate. However, oil is not always a blessing. Oil booms frequently beset oil-abundant countries with a variety of afflictions, such as severe poverty, concentrated and unbalanced power, and prevalent corruption.

One common answer to Venezuela's hyperinflation is the classical "Dutch disease" model proposed by Corden and Neary [4]. Upon the discovery of North Sea oil and gas in the 1970s, the Dutch disease first came to public attention. The word "Dutch" was coined in response to the declining manufacturing sector and rising unemployment in the Netherlands at the time. This model states that a booming natural resource sector will result in a transformation of production from traded sectors to non-traded sectors. As a result, there will be an appreciated domestic currency and an over-reliance on the extractive sector, which is both price-sensitive and vulnerable to a volatile world market price.

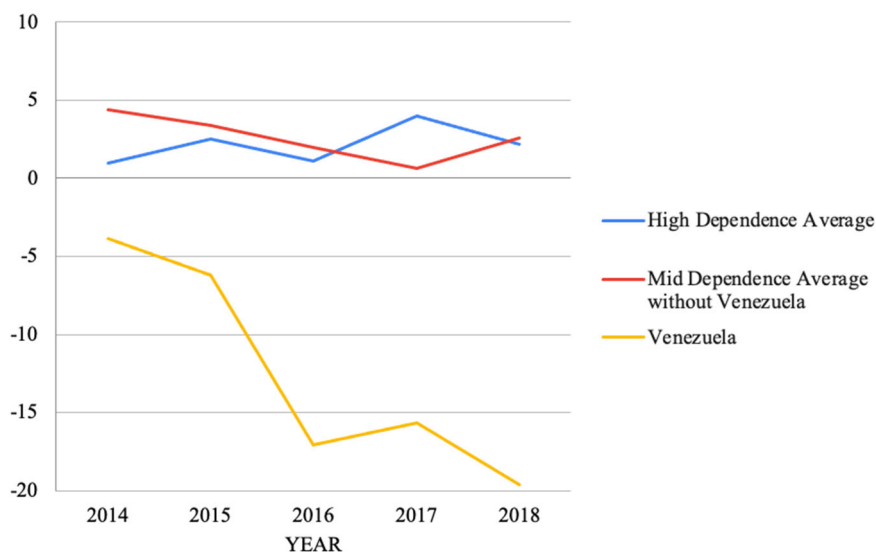
For a long time, oil exports have been the main source of Venezuela's exports and fiscal revenue. Oil exports account for up to 90% of Venezuela's total exports [5]. After Chávez came to power, he

nationalized the Venezuelan oil industry, made bids to acquire the equity of many foreign oil companies, and further integrated the oil industry into the Venezuelan state-owned oil company *Petróleos de Venezuela, S.A. (PDVSA)*. Originally established in 1976, PDVSA expanded rapidly during the Chávez era and in recent years has become the world's fifth largest oil exporter. PDVSA not only pays a lot of taxes to the Venezuelan government but its profits are also shared with the government in various forms.

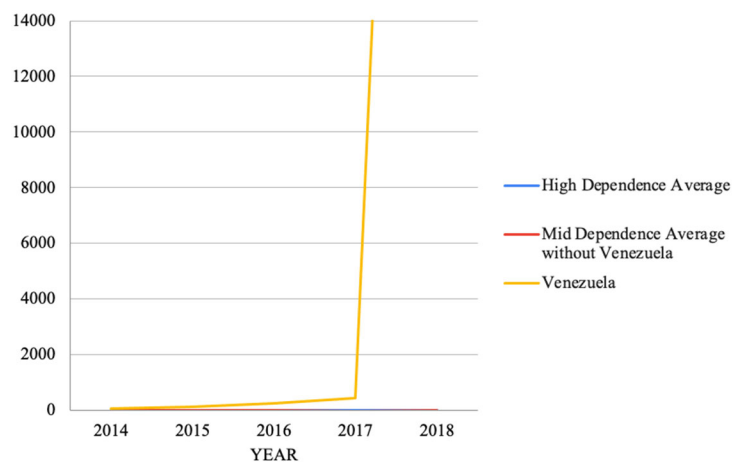
There have been numerous pieces of research made on Venezuela's oil economy. For instance, Costa and Olivo investigated the correlation between fiscal dependence and oil dependence, and they used Venezuela as an exemplary case [6]. They carried out a quantitative examination of the data covering the period 1979-2005 and found that fiscal revenue, currency growth, and government spending of oil-exporting countries are highly correlated with oil prices. Oil export earnings are mainly related to oil prices and less closely related to export volumes. For petrostates, if the foreign exchange of oil is mainly controlled by the government and a fixed exchange rate system is adopted, when the shock of oil price rise occurs, the market intervention to maintain the exchange rate will expand the currency. This will result in an increase in the prices of tradable and non-tradable goods so that the central bank will eventually have to abandon the price stability objective, and then the inflation rate will rise. Venezuela clearly falls into the category of what Costa and Olivo call "oil-dominated" and "fiscal-dominated". Venezuela's central bank is responsible for routine intervention in the foreign exchange market to maintain exchange rate targets but often sacrifices its domestic additional stabilization target before and after oil price volatility, allowing inflation to fluctuate significantly [6].

The extreme dependence on oil export can indeed explain the volatility of Venezuela's economy and the high inflation rate, as shown by the study of Costa and Olivo. However, many other countries that are equally dependent on oil and gas wealth did not experience hyperinflation as Venezuela did after 2014. For example, Russia is also a country that is highly resource-dependent. In 2015, Russia was facing numerous economic sanctions, but its GDP decreased only between 2% to 4%, and Russia's CPI was 15%. In contrast, Venezuela's CPI in 2015 was 1,246, and its GDP fell by 6.22% [7-8].

In order to reveal the uniqueness of Venezuela's economy from the rest of the oil-dependent economies, this study presents a comparative analysis of petrostates' GDP growth and inflation rates. The GDP growth rates and inflation rates of 14 oil-dependent countries between 2014 to 2018 are collected from the World Bank databank. These 14 countries are selected according to Costa and Olivo's categorization of petrostates. Using the share of oil in total exports in 2005 and the ratio of oil exports to GDP, Costa and Olivo categorize petrostates into two different categories: highly dependent countries (such as Saudi Arabia, Kazakhstan, and Venezuela) and moderately dependent countries (such as Algeria, Kuwait, and Nigeria) [6]. As shown in Figure 1, many economies that are highly dependent on oil exports have experienced economic downturns since 2014, mainly due to the drop in international oil prices, but no economy has experienced a deep economic recession like Venezuela's hyperinflation. From 2014 to 2018, the average GDP growth rate is -1.177% for highly dependent countries and 2.148% for moderately dependent countries. However, when taking Venezuela off from the highly dependent category, the average GDP growth rate of the category increases to 2.593%. Similarly, for the highly dependent category, the average inflation rate is 3315.4%, but the average drops significantly to 3.8% once Venezuela's unusually high inflation rate is removed from the dataset. Venezuela's annual inflation rate reached 65374.1% in 2018. This discrepancy is clearly beyond the scope of the conventional "Dutch disease," that is, the "Dutch disease" model is not inadequate in explaining Venezuela's hyperinflation in recent years.



**Figure 1.** GDP growth rate of Venezuela and two groups of oil-exporting countries (2014-2018)



**Figure 2.** The inflation rate of Venezuela and two groups of oil-exporting countries (2014-2018)

### 3. Alternative Explanations for Venezuela’s Hyperinflation

The root of Venezuela’s economic problems lies in the statist policies and overextended fiscal system resulting from Chavismo, the shadow economy, and the political turmoil caused by a growing dictatorship.

#### 3.1 Chavismo and Statist Policies

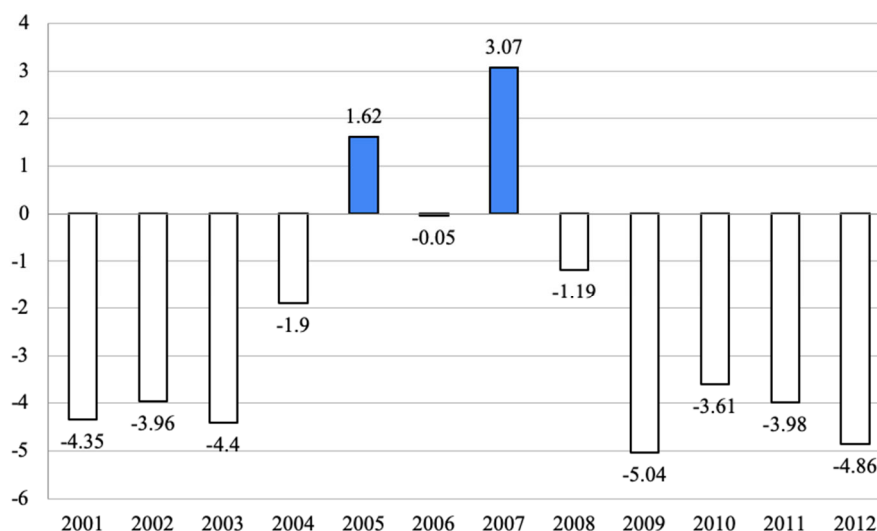
One of the most fundamental explanations for hyperinflation will be Chavismo. Chavismo is a left-wing political ideology based on the ideas and policies of former President Hugo Chávez that combines elements of democratic socialism and socialist patriotism.

Previously, the region’s economy had shifted away from the statist model and toward an open, market-oriented approach to growth. The fall of the Soviet Union, which highlighted the inadequacies and inconsistencies of planned economies, bolstered this viewpoint and hailed the market economy as the only sustainable way of structuring economic interactions. In most countries in the Global South, the Washington Consensus was the dominant ideology. Hence, the political revival of the left looked unlikely. In this difficult atmosphere, a wave of socialist electoral victories swept the region. Chávez had a key role in Latin America’s “Pink Tide” phase of left-wing revival. Venezuela, under Chávez, has decisively overturned a number of traditional policies enacted by pro-market administrations in the 1980s and 1990s [9].

Some key features of Chávez’s proposition are the nationalization of companies, huge social welfare programs, and anti-liberalism fiscal policies. He introduced many populist and left-wing policies such as land redistribution, low-income housing programs, and community clinics. Many large companies were nationalized. Controls on foreign exchange were imposed in 2003. Price controls were imposed on around 400 basic products seeking to counter inflation and protect purchasing power [10].

The time of record high oil prices surely contributed to Chávez’s socialist and statist policies. Chávez was able to keep government expenditure on social programs high while maintaining financial stability. Import increase masked a 2.2% yearly fall in productivity. Despite having the world’s greatest oil reserves, Venezuela’s oil output has stalled, and the country has lost market share to other oil producers who are taking advantage of rising prices to produce more oil [10].

Figure 3 shows the size of fiscal deficits from 2001 to 2012 during the Chávez presidency [11]. While the international oil price remained quite flaccid between 1996 and 2003, Oil prices surged from an annual average of \$42.8 in 2004 to \$64.7 in 2007 and more than \$140 in 2008—nine times the amount when Chávez took office [12]. Even when the global oil price was steadily increasing during this decade, the Venezuelan government experienced consistent fiscal deficits except in 2005 and 2007.



**Figure 3.** Venezuela’s Consolidated Fiscal Balance: % of GDP from 2001 to 2012

As academics celebrated the dominance of economic orthodoxy towards the close of the twentieth century, Chávez implemented state-interventionist economic policies that deviated dramatically from neoliberal canons. Massive public expenditures, economic controls, large amounts of currencies flowing into the market, and frequent expropriations had wrecked Venezuela’s production potential.

Chávez sowed the seed for future hyperinflation. Maduro had inherited a complex economic situation, with fiscal and external accounts considerably overextended. On top of previous Chavismo policies, Maduro had also imposed more price control and money-printing. Setting price ceilings is like putting on a band-aid. Price control in the short term may help people to retain purchasing power. However, in the long term, price control may exacerbate inflation. The orthodox macroeconomic solutions to inflation are reducing money supply or increasing commodity supply. Price control, on the other hand, often decreases supply, causing a shortage of commodities, that may worsen the inflation crisis.

Moreover, inheriting the spirit of Chavismo, Maduro also possesses an anti-liberal view of fiscal policy, especially against the policies of the World Bank and the IMF. Many countries experiencing such balance-of-payments imbalances would seek emergency assistance from the IMF, but both Chávez and Maduro have espoused strong anti-IMF rhetoric; in fact, the last IMF regular economic

report on Venezuela was in 2004, and the IMF closed its offices in Venezuela late 2016 [10]. The government also halted the Sistema de Transacciones with Titulos en Moneda Extranjera (Foreign Currency Securities Transaction System, SITME), a strictly controlled trading platform that allows individuals and businesses investors to purchase Venezuelan government debt in local currency and then sell it for US dollars [10].

Finally, in 2015, with plunging oil prices, hyperinflation arrived. Chávez and Maduro's policies eventually left Venezuela's economy extremely overextended and volatile to the international oil prices. The ongoing high inflation rate also leads to the Olivera-Tanzi effect that exacerbates the inflation crisis. The Oliveira-Tanz effect refers to the fact that due to the significant time difference between the collection time and the expenditure time of government revenue (nominal money revenue), rapid inflation can lead to a significant decrease in the actual purchasing power of fiscal revenue, which in turn leads to widening of the deficit. For example, if prices rise by 50% within six months, if fiscal revenue in the first half of the year is spent in the second half of the year, its real purchasing power will drop by 25%. As such, the government will have to increase nominal fiscal spending in order to maintain the real effect of fiscal spending. Similarly, Venezuela saw a drop in revenue collection via Value Added Tax (VAT) as a result of lower domestic demand and diminishing buying power of tax receipts owing to delays and hyperinflation.

### 3.2 The Shadow Economy

An increased state presence in mining industries was expected following Chávez's statist and centralized policies. However, on the contrary, Venezuela developed a shadow economy, which further eroded the government's tax base.

With the slowdown and decline of export revenue and fiscal revenue, the Venezuelan government continues to strengthen the artificial control of the foreign exchange market and prices, and price distortions abound in the domestic economy. After Chávez came to power for the second time, in response to the strike wave and opposition protests at the time, he introduced foreign exchange control measures in early 2003 and implemented a fixed exchange rate system. Under the new system, Venezuelan exporters must sell their foreign exchange earnings to the Central Bank (BCV) at the official exchange rate, retaining a small fraction of the foreign currency in accordance with government regulations. The main foreign exchange seller is Venezuela's state-owned oil company PDVSA. Simultaneously, the Venezuelan government formed the National Center for Foreign Commerce (CADIVI), a unique foreign exchange distribution agency that will assess private sector foreign exchange purchase applications and set the appropriate foreign exchange sales price and quantity. Initially, CADIVI implemented dual foreign exchange pricing, with preferential exchange rates applied to foreign exchange applications for imported food and medicines, and normal exchange rates for applications to import other commodities. Later, the double exchange rate was converted into a triple exchange rate. Against the background of the widening spread between the two exchange rates, the Venezuelan people's inflation expectations and currency depreciation expectations are also rising, which ultimately drives Venezuela's inflation rate to continue to rise.

As a result, people start to engage in arbitrage and speculations. In Venezuela, people who are engaged in reselling and hoarding are called "bachaquero", and they are widely active in various cities and on Venezuela's long border with Colombia [11]. In this economic environment, government taxation and fiscal pressures will inevitably increase day by day.

Another consequence of the tight control on the exchange rate and the price is the prominence of the black market or the shadow economy. Since 2003, the Venezuelan currency, the bolivar, has been depreciated on the black market in foreign exchange, while the official exchange rate has lagged well behind the market rate. The rise in domestic currency inflation resulted in both a real appreciation of the home currency and a shortage of foreign exchange. Faced with the shortage of foreign exchange, the Venezuelan government has continuously strengthened the control and rationing of foreign exchange resources, which objectively led to further deterioration of depreciation expectations and domestic inflation expectations.

In addition, in the extractive sector, there was a loss of authority to illicit actors. The state negotiates its power with para-legal bodies that oversee mining, which complicates investment opportunities. Armed unauthorized organizations have expanded across the country. The *pranato minero* is a criminal network of loose nodes (*sindicatos*) that operate with the Venezuelan military's complicity or direct affiliation [14]. These *sindicatos* are armed groups that have taken control of the mines and exploit workers by collecting between 10 and 30 percent of the miners' earnings [14]. Furthermore, because of a high degree of violence, deplorable work environment for miners, and pervasive illegality in social life, this type of gang rule hinders numerous significant investment opportunities. Since Venezuela is resource-dependent, the rise of illegal mining further devastated the Venezuelan economy.

### **3.3 Chávez-Maduro Dictatorship and Political Turmoil**

Many scholars argue that Venezuela's economic crisis is deeply intertwined with its political turmoil. For instance, according to John, economic policies have contributed to increased political instability and losses in state capability [15]. In an interview with Michael McCarthy, he claims that Venezuela's predicament is caused not just by its reliance on oil, but also by the structure of Venezuelan politics itself. President Maduro's leadership has undermined the economy while strengthening the military [16].

Chávez leveraged his popularity among the working class to strengthen the presidency's powers and propel the country into a dictatorship. He abolished term limits and assumed control of the Supreme Court. Maduro took on this path even further. Since 2014, hundreds of anti-government protestors have been killed in confrontations with police forces. Venezuela's domestic political stability and diplomatic relationships deteriorated rapidly. The Trump administration says Mr. Maduro is running a "devastating dictatorship" [17]. On January 23, 2019, the U.S. decided to recognize National Assembly President Juan Guaidó as the country's interim president, and its announcement included a direct exhortation to Venezuelan security forces "to accept the peaceful, democratic, and constitutional transfer of power" to the new government [10].

This centralization of power has two main ramifications. On the one side, Chávez and Maduro were able to consolidate power and reduce impediments to achieving their socialist initiatives. Rather than expanding Venezuela's foreign-exchange reserves or diversifying its investment portfolio, Chávez has continued to spend freely in pursuit of his ideal. Instead of following conventional macroeconomic measures, Maduro's economic advisors have advocated for more state control over manufacturing sectors and food supply.

On the other hand, such a political situation leads to economic sanctions from the U.S. and other countries such as Chile. The U.S. was one of the largest trading partners for Venezuela. U.S. sanction on PDVSA was detrimental to the Venezuela oil industry. In 2013, U.S. export to Venezuela was 132.1 billion dollars. This number shrunk by 50% to 52.6 billion dollars within two years. In 2011, the U.S. imported 438.7 billion dollars' worth of commodities, while this number shrunk by 70% to 114.4 billion dollars in 2016 [18].

From historical experience, to deal with hyperinflation, not only a strong government is needed to implement drastic economic reforms (such as in the People's Republic of China during the founding period), but financial support from the international community (such as the "Dawes Plan") is also necessary. Both prerequisites for addressing hyperinflation seem to be absent in the current political situation in Venezuela.

## **4. Economic Outlook and Suggestions**

### **4.1 Economic outlook: oil export opportunities in face of the Russia-Ukraine crisis**

What would be the future of Venezuela's economy? In general, there are some hopes that Venezuela might turn the corner in 2022 as a result of an improved relationship between Venezuela and the U.S. as well as opportunities from the global oil market. Venezuela is already showing signs

of recovery from hyperinflation since 2021. Following years of recession, the economy appears to have continued to expand in Q1 2022, as Maduro confirmed, despite a somewhat feeble rebound in H2 2021. Oil output averaged higher than in the previous quarter, moving further away from the trough of Q3 2020. This, together with increasing energy prices, most certainly supported the economy [19].

Venezuela has emerged as a viable alternative oil supplier as Washington seeks methods to inflict economic pain on Russia while minimizing the suffering for US consumers exposed to rising fuel costs. With the first US diplomatic visit to Venezuela in nearly two decades, the door may be open for a prosperous future. Furthermore, beginning in July, the US permitted two European energy corporations to export Venezuelan oil to Europe in order to replace Russian petroleum. For instance, the world's leading investment bank and financial services firm Credit Suisse sees increased oil output bolstering the Venezuelan economy. Russia's invasion of Ukraine will likely lead to a "re-composition" in the global supply of oil, bolstering efforts to resolve the Venezuelan economic problem [20].

#### **4.2 Suggestions: addressing the resource curse and liberalizing the economy**

Based on previous analysis of the sociopolitical causes of Venezuela's hyperinflation, Venezuela can address its crisis from two perspectives: getting rid of its dependence on oil and reforming its economy.

Scholars observe that a robust democracy with an independent press and judiciary serves to mitigate problems caused by the resource curse by holding the government and oil corporations accountable [21]. As a result, political change in Venezuela is not only required to end the political stalemate and humanitarian crisis, but it is also critical to alleviating the negative effects of the resource curse. Economic diversification is another typical response to the resource curse. The transition from fossil fuel generation to renewables like solar and wind will compel petroleum states to diversify their economies. The unstable power supply is already driving some Venezuelan companies such as Caracas-based Solsica to import and install solar panels for residential and commercial use. If Venezuela's government continues to promote renewable energy, the country's economic profile may be diversified, hence mitigating the resource curse. Moreover, Ismail's research has clear policy implications for oil exporters looking to lessen the negative features of their tradable sector's vulnerability to oil volatility. A strategy that encourages capital intensity diversity within manufacturing by reducing bias towards certain sectors may help lessen the detrimental impact of the oil boom on manufacturing via the Dutch disease while allowing for an increase of tradable production in the event of oil busts [22].

While addressing the resource curse will help Venezuela to gain more robust tradable sectors and a stable economy, the key lies in a systematical economic reform. Improper control of the foreign exchange market is undoubtedly the main reason for the current predicament in Venezuela. To eliminate inflation expectations, the huge difference between the official exchange rate and the market exchange rate must be narrowed. The Venezuelan authorities have two options to close out the gap between exchange rates.

The first is to strengthen price control or even move towards full control: close the 2,000-kilometer border with Colombia, and completely cut off all economic exchanges between the domestic private sector and the international market. However, further strengthening the price control weakens the public's depreciation expectations and inflation expectations. The difficulty of this approach lies in its effectiveness and the sustainability of such extreme policy.

The second approach is to liberalize the Venezuelan economy with international assistance: cancel foreign exchange controls and turn to full relaxation. The removal of foreign exchange control is the fundamental measure to eliminate the difference between the official exchange rate and the market exchange rate in the long term. In fact, Venezuela's "crawling-band system" between 1996 and 2001 and its "free-floating" exchange rate regime in 2002 were both somewhat successful [23]. Given the scope of the humanitarian crisis and the scarcity of essential commodities, Venezuela's fiscal strategy

should prioritize reallocation above the reduction of spending. The government should shun austerity tactics in favor of spending on the Venezuelan people. Stabilizing the price level while giving relief to the country's inhabitants would need major financial aid from the rest of the globe, therefore Venezuela must acquire robust foreign financial support. Hence, the second approach of relaxing controls and opening to international assistance may be more reasonable.

## 5. Conclusion

In order to investigate the unusual economic recession and hyperinflation that happened in Venezuela, this study conducts a comparative analysis among 14 petrostates. The result illustrates that Venezuela's economic structure does have the characteristics of the "Dutch disease", that is, it is highly dependent on exports from a single industrial sector. However, many economies that also have the characteristics of the "Dutch disease" have only experienced economic slowdowns after the international oil price fell in 2014, and there is no more severe economic recession like Venezuela's.

In a nutshell, the main reason for the Venezuelan economy falling into hyperinflation and deep recession is domestic and the Venezuelan government's mistakes in economic policies, including excessive fiscal spending policies (as a result of Chavismo and Statism) and improper foreign exchange control measures. The Venezuelan government might have placed too much emphasis on the short-term positive effects of foreign exchange control measures while ignoring their long-term negative effects. When the foreign exchange resources held by the government were nearly exhausted, the expectation of depreciation generated by foreign exchange control increased rapidly, which led to an overall deterioration of domestic inflation expectations and actual inflation. Such statist policies also lead to a shadow economy that is accompanied by a progressive loss of control over mining territories to illegal actors. The shadow economy depresses the growth of GDP. Chavismo-Maduro administration's policies also developed a centralized government and personal dictatorship that caused economic sanctions from Venezuela's major trading partners. Hence, taking into account these factors, Venezuela experienced hyperinflation.

Maduro's administration was actively taking measures to solve the hyperinflation crisis in recent years, including launching a new cryptocurrency, the petro. As a result, there were some rebounds in Venezuela's economy since 2021. Looking forward, one opportunity for the Venezuelan economy may be the oil market vacancy created by the Ukraine-Russia conflict. Such an international landscape also enabled Venezuela to mitigate the relationship with one of its most important trading partners, the U.S. This study also provides two important policy implications. Politically speaking, Venezuela should turn to democracy and a more powerful judicial system in order to dispel the negative effects of the resource curse. Economically, Venezuela may loosen its control of the price and exchange system and liberalize its economy with international assistance.

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