

# ECONOMICS 620

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## **Oil, Influence, and Instability: An in-depth examination of Venezuela's Oil Dependence under Hugo Chávez**



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**Oil, Influence, and Instability: An in-depth examination of Venezuela's Oil Dependence  
under Hugo Chávez**

by

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Submitted to The Department of Economics

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## Table of Contents

### INTRODUCTION 1

#### CHAPTER 1

##### **Understanding the Past: A Brief History of Hugo Chávez and Venezuela 3**

- I. Before Chávez: 1960-1992 3
- II. Enter Chávez: The 1992 Coup 5
- III. Electoral Dominance: 1998-2012 7
- IV. Why is Hugo Chávez So Popular? 9
- V. The Bolivarian Missions: Successes, Failures, and Criticisms 10
- Conclusion: The Impenetrable Hugo Chávez 12

#### CHAPTER 2

##### **The Gift and the Curse: Venezuela's Resource Curse 14**

- I. The Resource Curse 14
- II. The Dutch Disease 15
- III. The Resource Curse in Latin America 17
- IV. Symptoms of the Resource Curse in Venezuela 19
- V. Politics and the Resource Curse: A Never-ending Cycle 20
- VI. Venezuela's Economic Future: Looming Uncertainty 22
- Conclusion: The Need for Change 24

#### CHAPTER 3

##### **Comparative Analysis of Venezuela, Saudi Arabia, and Kuwait Through the Use of the Global Competitiveness Report 25**

- I. The Global Competitiveness Report: A Basis for Comparison 25
- II. First Pillar: Institutions 27
- III. Second Pillar: Institutions 28
- IV. Third Pillar: Macroeconomic Environment 30
- V. Fourth Pillar: Health and Primary Education 31
- VI. Fifth Pillar: Higher Education and Training 32
- VII. Sixth Pillar: Goods Market Efficiency 33
- VIII. Seventh Pillar: Labor Market Efficiency 35
- IX. Eighth Pillar: Financial Market Development 36
- X. Ninth Pillar: Technological Readiness 37
- XI. Tenth Pillar: Market Size 39
- Conclusion 40

### CONCLUSION 42

## List of Tables

### CHAPTER 3 Tables

|                                         |    |
|-----------------------------------------|----|
| Table 3-1 Institutions                  | 27 |
| Table 3-2 Infrastructure                | 28 |
| Table 3-3 Macroeconomic Environment     | 30 |
| Table 3-4 Health and Primary Education  | 31 |
| Table 3-5 Higher Education and Training | 32 |
| Table 3-6 Goods and Market Efficiency   | 33 |
| Table 3-7 Labor Market Efficiency       | 35 |
| Table 3-8 Financial Market Development  | 36 |
| Table 3-9 Technological Readiness       | 37 |
| Table 3-10 Market Size                  | 39 |

## List of Figures

### CHAPTER 2 Figures

|                                               |    |
|-----------------------------------------------|----|
| Figure 2-1 Dutch Disease in Colombia          | 17 |
| Figure 2-2 Natural Resources in Latin America | 18 |
| Figure 2-3 Venezuela Bolivar                  | 20 |
| Figure 2-4 Chávez Welfare Spending Cycle      | 21 |
| Figure 2-5 AEO Oil Price Projections          | 23 |

### CHAPTER 3 Figures

|                                    |    |
|------------------------------------|----|
| Figure 3-1 GCI Development Factors | 26 |
|------------------------------------|----|

**Abstract**

Venezuela is home to the most crude oil reserves in the world. During his presidency, the late Hugo Chávez manipulated Venezuela's oil wealth to fund a set of social programs that, although not self-sustaining, were incredibly popular. The popularity of these welfare programs made it politically beneficial for Chávez to continue funneling oil funds into his programs even to the detriment of the economy. Due to the mismanagement of the country's oil wealth, Venezuela is now a country considered to be suffering what is known as the natural resource curse. With historical analysis, I explain how Chávez's political aspirations led Venezuela's economy to the resource curse. Lastly, I use comparative analysis of Venezuela's economy to other oil based economies in order to answer the question of, "What policies can Venezuela implement in order to recover from the economic struggles of the Chávez regime?"

## **Introduction**

In 1983, civil rights activist Audre Lorde published an essay titled “The Master's Tools Will Never Dismantle the Master's House”. Although Lorde’s essay focuses on the theme of discrimination in America, the title of the work is symbolic of numerous relationships throughout history (Lewis & Mills, 2003). A particularly notable example of the master and tool symbolism can be found in the relationship between late Venezuelan president Hugo Chávez and the Venezuelan oil industry. Playing the role of master, Chávez’s tool of choice was the immense oil wealth held by Venezuela. With this wealth in the palm of his hands, Chávez built himself up to be one of the most influential political and social figures of the 21<sup>st</sup> century.

The history of oil in Venezuela predates Christopher Columbus’s 1492 discovery of America. Natives in what is now present-day Venezuela were finding small deposits of oil far before Spanish colonization of Americas. Not until almost 400 years later in 1880 would oil drilling begin in Venezuela (Alvarez & Fiorito, 2005). This drilling in 1880 marked the beginnings of an oil industry that would become the dominant force in Venezuela’s economy.

Hugo Chávez’s strong relationship with oil truly begins in 1999, a year after his presidential election. Drafted in 1999, Venezuela’s new constitution contains an interesting article regarding the national oil company Petroleos de Venezuela. Article 303 of the Constitution of the Bolivarian Republic reads as follows,

For reasons of economic and political sovereignty and national strategy, the State shall retain all shares of Petroleos de Venezuela, S.A. or the organ created to manage the petroleum industry, with the exception of subsidiaries, strategic joint ventures, business enterprises and any other venture established or coming in the future to be established as a consequence of the carrying on of the business of Petroleos de Venezuela, S.A.

Article 303 clearly illustrates the powerful ties between Venezuelan politics and oil. CNN's Cyrus Sanati characterized Petroleos de Venezuela as Chávez's "personal ATM" (2013). With Venezuela's abundant oil wealth, Chávez could fund all of his political aspirations. While Chávez's political star rose, however, Venezuela's economy suffered due to his mismanagement of the country's resources.

In a nutshell, that is the story of Hugo Chávez and oil. With oil by his side, Chávez prospered while Venezuela suffered. To truly understand the dynamics of the situation though, it is necessary to give an in depth look at the past, present, and the future of Venezuela. The past reveals how Hugo Chávez has risen to political superstardom. The present reveals Venezuela's economic struggles under Chávez as well as the country's inability to escape the natural resource. A look at the present reveals the possibility of a brighter future for Venezuela through the successes of other large oil producers like Saudi Arabia and Kuwait. With understanding Venezuela's past, present, and future comes an understanding of not only where Venezuela's economy is now, but how it got there and what the country can do to improve.

## **Chapter 1**

### **Understanding the Past: A Brief History of Hugo Chávez and Venezuela**

To truly understand where Hugo Chávez and Venezuela stand now, it is important to understand where they have been. Thus, before delving into any detail about Venezuela's economy, we will take a look to the past. With a focus on Chávez, this chapter will examine the key historical events and concepts that helped mold modern day Venezuela. From the deadly riots of 1989 to the sweeping social reforms of the 2000s, a number of factors have led to Chávez's undeniable influence, an influence that made him one of the most powerful figures in Latin American history.

#### **I. Before Chávez: 1960-1992**

Driven by immense oil reserves, the 1960's and 1970's were marked as periods of prosperity for Venezuela. During this time, high oil prices allowed the Venezuela government to push a number of social welfare programs. These programs subsidized numerous vital industries including healthcare and education. Literacy increased in Venezuela and the general population lived happy and content lives. Unfortunately for Venezuela, the prosperity was not meant to be. The combination of an increase in population and a decrease in oil rents per capita, led to an economic downturn in the 1980's. With funds short, the government began to cut the welfare programs that were so loved by the Venezuelan people. On top of that, poverty levels increased from 46 % to 62% with extreme poverty increasing by 16% from 14% to 30% (McCaughan, 2004).

In the midst of an economic collapse, experienced politician Carlos Andrés Pérez began campaigning for president. Unbeknownst to Pérez, he was soon going to make a mistake that would hurt his legacy forever. Initially, Pérez was steadfastly opposed to the IMF. At that time, the IMF was offering large loans to many countries in Latin America in return for the countries

following strict neoliberal economic policies. These policies included privatization and tariff reduction policies (Keen and Haynes, 2009). Pérez received great support for his anti-IMF stance and won the presidential election of 1989. Shortly after entering office, Pérez had an abrupt change of heart. Hoping that he could help diversify Venezuela and distance the country from oil dependence, Pérez opted to accept the IMF's regulations in order to receive their aid. One of the effects of this decision was the removal of oil subsidies as ordered by the IMF. This act would have disastrous consequences (McCaughan, 2004).

Prompted by the IMF, the government instituted gas hikes in February of 1989. In response to the higher gas prices, tolls were increased throughout public transportation. A group of university students in the city of Caracas were outraged at these higher tolls and began to protest. They bunkered down in the bus terminal and refused to move. Soon the protest grew beyond the students who originally started it to become a city-wide riot. Roads were blocked off, buildings were barricaded, and looters ran rampant. Caracas was in a state of chaos. To make matters worse, Pérez was out of the country and ignored the initial protests, not realizing what it would evolve into. The riots went unchecked for three days. When the government did finally respond, it was a blood bath. While the Pérez government released an official estimate of 300 dead, unofficial estimates put the number at over 1000 people shot and killed (Keen and Haynes, 2009).

The riots in Caracas left Venezuela in a state of flux. Emotions were high with the violent nature in which the government handled the riots. Many of the people who voted for Pérez voted based on his anti-IMF rhetoric. Despite this, Pérez was pursuing exactly what he campaigned against and people were struggling as a result. Even though Pérez was still the active president,

the scene was set for a new face in Venezuelan politics. By the time 1992 rolled around, the country would be introduced to just that.

## **II. Enter Chávez: The 1992 Coup**

Hugo Chávez was born on July 28, 1954 in the rural Venezuelan state of Barinas. Chávez was not born into wealth, but rather a lower-middle class family. He would enter the military academy and graduate in 1975. Upon graduation, Chávez entered the army where he would meet many of his future political allies. A natural leader, Chávez secretly formed a group of his constituents behind the army's back in 1982. The group would come to be known as the Revolutionary Bolivarian Movement-200 or MBR-200 for short. Essentially, the MBR was a movement for and by those distraught by Venezuela's current situation. Participation in the group increased after the riots in 1989. Officers were upset at the brutal way in which the government murdered the rioters. Due to their distaste with the current government, the group began plotting a coup d'état (Kinsbruner & Langer, 2008).

On February 4, 1992, Chávez set the plan into action. The MBR had five units throughout the country attempting to gain control of pivotal strategic locations like military bases. The unit controlled by Chávez was tasked with securing the military airport in Caracas. President Pérez was scheduled to be returning by plane that day. Chávez himself was in charge of capturing Pérez upon his return. Chávez's unit gained control of the airport, but there was one problem; Pérez never arrived. A co-conspirator who had gotten cold feet informed the government about the planned coup. Although not at the airport, Pérez was still in Caracas, at the presidential palace of Miraflores (Nelson, 2009).

Undeterred, Chávez led an attack on Miraflores Palace. A gunfight ensued, but Pérez was able to escape and inform the rest of the military through a television broadcast. The rebels were quickly out gunned and out manned. Chávez realized that fighting further would only lead to the unnecessary deaths of his allies. Accepting defeat, Chávez surrendered, though the conflict was not over because the other units were unaware of the surrender. In order to inform the rest of the conspirators, Chávez was put in front of a television to announce the surrender. After his speech, the conflict was over (Nelson).

Despite failing at its ultimate goal of capturing President Pérez and toppling the current administration, the coup was far from a failure. Chávez's televised surrender launched him into the national spotlight. During the speech, Chávez often used the words "por ahora" meaning "for now". Venezuelans took his words as a sign that Chávez would return one day. Disgusted with Pérez and the current government, Venezuelans actually cheered as Chávez gave his surrender speech. They had found their new national hero. Chávez passed into celebrity status. People wearing masks of his face during their Mardi Gras festivities and children even recreated his green and red uniform worn during the coup (Nelson, 2009).

Despite the overwhelming support, Hugo Chávez had still clearly committed a crime against the state. Thus, Chavez was put on trial and sentenced to prison. Fortunately for Chávez, his prison sentence would be short lived. In 1994 veteran politician Rafael Caldera was elected president of Venezuela. After the 1992 coup, Caldera realized the popularity of Chávez and decided to capitalize on it by speaking in support of the coup. In 1994, Caldera made the decision to released Chávez from jail on a presidential pardon. Not one to rest on his laurels after catching a break, Chávez immediately began preparing his new movement. This time, however, he wasn't creating a military movement like the MBR. Rather, Chavez began to piece

together his political movement, the Movement of the Fifth Republic or MVR. With his popularity still incredibly high and Venezuela's economy in shambles, Hugo Chavez was prepared to be a key player in the 1998 presidential elections (Nelson, 2009).

### **III. Electoral Dominance: 1998-2012**

The elections of 1998 revealed a Venezuela that was disenchanted with politics and politicians. The country had not yet returned to the glory days of the 1960's and 70's and people were tired of politicians and their false promises. The voting turnout reflected a general feeling of apathy among Venezuelans with only half of the electorate casting votes. Despite the poor turnout, Hugo Chávez easily won with 56% of the vote (Nelson, 2009). The man that six years earlier lead a failed coup d'état, was now president.

One of Chavez's platforms during the campaign was the drafting of a new constitution. He quickly followed up on this promise with a new constitution drafted and ratified by December 1999. The new constitution called for elections to be held once again. The elections would take place in July of 2000. Not surprisingly, Chávez won the elections again, but this time by a larger margin with 59% of the vote (Kinsbruner & Langer, 2008).

The year 2004 brought about Chávez's biggest challenge yet, a recall election. The opposition, upset with Chávez's populist policies and oil dependence, pushed for a referendum that called for a recall of the 2000 elections. Since the 2000 elections, the opposition had seemed to close the gap between themselves and Chávez. Many even saw the recall election as too close to call with both sides confident about their chances (Glaister, 2004). Once all the votes were tallied, however, the opposition's confidence was revealed to be ill-founded. Chávez won the

recall with 59%, the exact same percentage that he earned in the 2000 elections (Kinsbruner & Langer, 2008).

The recall election marked the third presidential election won by Chávez before even finishing a single term. After the recall election, Chávez went on to finally finish his first term in 2006. The 2006 presidential elections showed that not much had changed since the last elections. If anything, Chávez may have actually gained popularity since 2000. Earning 63% of the vote, Chávez completely dominated the elections. In fact, his 63% was the largest share since the modern election era started in 1958. By the 2006 elections, Chávez had solidified a strong relationship with Cuban dictator Fidel Castro and proclaimed himself a socialist and anti-United States (Kinsbruner & Langer, 2008). If the election results were any sign, the Venezuelan people agreed with these stances.

Considering the two term limit for presidents, 2012 was expected to be the end of Chávez as president of Venezuela. However, a 2009 referendum to the constitution prevented that. The Chávez-pushed referendum allowed for presidents to serve indefinitely assuming that they won reelection. In June of 2012, Chávez announced his bid for president. With his health failing due to cancer and questions of corruption, Chávez faced his toughest elections yet. Although much closer than his previous victories, Chávez won once again, earning 53% of the vote in the 2012 elections (Rodrigues, 2012).

As a politician, Hugo Chávez has reached a level of support that is somewhat unprecedented. Elections victories have seemed like forgone conclusions and nothing, besides his health, seems to indicate that Chávez will fall out of favor anytime soon. The question that then arises is “Why?” Why is the former leader of military conspiracy one of the most popular

politicians of all time? In reality, this is a question which has no single answer. Chávez has capitalized off a number of factors to increase his influence and popularity a few of which will be discussed in the following section.

#### **IV. Why is Hugo Chávez So Popular?**

The political career of Hugo Chávez began on a fortunate note for several reasons, not the least of which was timing. Chávez's appearance in 1992 was an ideal time for a radical face to appear on Venezuela's political scene. The IMF policies adopted by President Carlos Andrés Pérez had failed to revive Venezuela's stumbling economy. Even worse, government forces had just slaughtered upward of a 1,000 citizens as a result of the 1989 riots in Caracas. Venezuelans were thoroughly displeased with Pérez's government and Chávez came to challenge it with a coup d'état. Although a failure, Chávez's coup d'état gave him the opportunity to present his face to the country on a large scale. This was a face that Venezuelan's would not soon forget.

Part of Chávez's initial appeal was certainly his appearance. Venezuela, like most of Latin America is constituted of a wide range of skin tones. Hundreds of years of Spanish colonization resulted in the inter-mixing of Native, African, and European races and cultures. Chávez represented this inter-mixing. His tan skin and humble origins made him relatable. In Chávez, Venezuelans saw themselves as well as a man who was willing to put his life on the line for the betterment of the country (Nelson, 2009). It's undeniable that Chávez's appearance played an important role in his early years and ascension to presidency.

The popularity of Chávez is also forever tied to Simón Bolívar. Known as "The Liberator", Bolívar was instrumental in the independence movements of Latin America in the 19<sup>th</sup> century ("Simón Bolívar", 2013). Chávez has always had a close connection with Bolívar,

Latin America's George Washington. Speaking on his infancy, Chávez is quoted as saying "In times of Superman, my hero was Bolívar" (Marcanao & Tyszka, 2004, p. 147). Bolívar's name has been invoked by Chávez on numerous occasions. From his Revolutionary Bolivarian Movement to the renaming of Venezuela to the Bolivarian Republic of Venezuela, the spirit of Bolívar is forever interlinked with the politics of Chávez. The omnipresence of Venezuela's greatest historical figure with Chávez promotes a high level of pride and nationalism among Venezuelans. Naturally then, Bolívar would be a part of the programs that are believed to have saved Chávez's popularity and political career.

## **V. The Bolivarian Missions: Successes, Failures, and Criticisms**

In 2003, Hugo Chávez began to implement a set of social programs that would define his presidency. The Bolivarian Missions, as the programs came to be known, were aimed at improving conditions in several sectors including education, healthcare, housing, food, nutrition, and agriculture. Overall, the results of the missions have been mixed. In healthcare and education, great strides have been made. The *Inside the Neighborhood* mission aimed at increasing and improving healthcare throughout Venezuela. With an increased number of physicians and health centers, infant mortality has reduced by 20% and over 300,000 lives have been saved. A focus was put on education with the *Robinson* and *Ribas* missions. The *Robinson* mission is a literacy campaign that has had great success. Since 2006, Venezuela has been considered a "Territory Free of Illiteracy". The *Ribas* mission was a program that provided secondary education throughout the country. 500,000 adult Venezuelans had received their secondary education within the first 3 years of the program (Dickey, 2011). Unfortunately, not all of the missions have been as successful as *Inside the Neighborhood*, *Robinson*, and *Ribas*.

The *Habitat* and *Housing Venezuela* missions are housing programs that have fell short of their goals. The *Habitat* mission had a goal of 150,000 new homes being built during the first half of 2006. In reality though, only 35,000 homes were built during that period. An even more bold projection was made with *Housing Venezuela*. Between 2011 and 2017, Chávez promised that 2 million homes would be built under *Housing Venezuela*. To date, only 284,000 houses have built in the last 12 years (Dickey, 2011).

Crime is another issue that the missions have failed to address. A 2011 survey reported that 85.3% of the country considered security to be the biggest problem in Venezuela (Dickey, 2011). The concern of security is legitimate considering that Venezuela has the 4<sup>th</sup> highest homicide rate in the world with 49 per 100,000 people (United Nations Office on Drugs and Crime, 2011). Chavez has diverted blame away from himself by blaming the crime rate on poverty and values associated with U.S. capitalism (Dickey). Regardless of who is to blame, there has not yet been a mission that properly focuses on and addresses the problem of crime in Venezuela.

Interestingly though, the biggest criticism of the Bolivarian Missions has nothing to do with the missions themselves. Time and time again, critics have panned Chávez for his use of oil revenues to fund social programs that many believe are politically motivated. The basis for these criticisms is the timing of the Bolivarian Missions. Chávez began the mission program in 2003 with the 2004 presidential referendum looming. Michael Penfold-Becerra, author of “Clientelism and Social Funds: Evidence from Chávez’s Misiones”, argues that Chávez clearly implemented the missions to win the 2004 recall (2007). Penfold-Becerra uses Chávez’s own speech to support his claim.

You all must remember that after the coup . . . there was a moment that, as a result of the economic crisis and our own political mistakes, the opposition was very close to us. There was an international pollster that was recommended by a friend of mine that came over to the presidential palace in mid-2003 and gave me the bad news: “Mr. President, if the referendum were held today, you would lose.” That piece of information was like a bomb to me because you know that people usually don’t tell you things directly. . . . It was at that point that we started to work on the misiones, and we designed the first programs and started to ask Fidel to help. . . . Doctors started to arrive by the hundreds, airplanes went back and forth, the economy started to improve, we started to organize the shantytowns and the different communities . . . and we started to invent the misiones. . . . How shall we call this program? Robinson. And all the people started cheering, and then we invented Ribas and Vuelvan Caras, and we all started to get involved, PDVSA . . . and then we started recovering in the polls. . . . It’s not magic, it’s politics. (Chávez, 2004)

This speech seems to give credence to critics like Penfold-Becerra that accuse the president of funneling oil revenues to fund the missions, thus funding his reelection. This theory will be further investigated in the following chapter. For now though, the Bolivarian Missions have left a somewhat neutral legacy. Regardless of the motivation behind their creation, the missions have led to huge improvements in the healthcare and education sectors. At the same time, however, the missions have failed to quell the incredible violence and crime that persists throughout Venezuela. As they stand currently, the missions are best judged as a set of programs that have had some success, but have failed to reach their full potential.

### **Conclusion: The Impenetrable Hugo Chávez**

The history of Hugo Chávez is one muddled in controversies and close calls. From leading a failed coup d’état, to being jailed, to having his presidency challenged by a referendum, Chávez faced an uncountable number of obstacles after his introduction to the world in 1992. Despite all of these trials, Chávez came out unscathed and his supporters are as steadfast as ever.

Chávez has reached a rare status for politicians, a status only reached by figures like Barack Obama where he is loved as not only a politician, but a person as well. This status helped Chávez dodge several metaphorical bullets that could threaten his position, most notably from Venezuela's struggling economy. Unable to fix the economic problems that have plagued the country since the 80's, Chávez continually mismanaged Venezuela's immense oil wealth. Venezuela's economic struggles have led some experts to suggest something quite troubling. Maybe, just maybe, Venezuela's economy is suffering a curse, a curse that Chávez only helped worsen.

## Chapter 2

### The Gift and the Curse: Venezuela's Resource Curse

In 1975, former Venezuela politician Juan Pablo Perez spoke these words, “I call petroleum the devil's excrement. It brings trouble...Look at this *locura*—waste, corruption, consumption, our public services falling apart. And debt, debt we shall have for years.” (“The Devil's Excrement”, 2003).

Interestingly, Alfonso was the Venezuelan Oil Minister and co-founder of OPEC. It seems strange then, that a man so connected with Venezuela's oil industry would speak in such a manner. After all, most countries would love to even have half of the oil reserves that Venezuela was blessed with. Is it safe to say that Alfonso was just a crazy politician? No. In fact, Alfonso's words reveal that he understood something that many still struggle with; there is a fine line between being blessed with oil and being cursed with oil. Venezuela is cursed with oil. But rather than something drawn up by an evil witch, this curse is of an economic nature that has devastated numerous unsuspecting countries.

#### I. The Resource Curse

Many countries that are rich in natural resources suffer or are at risk of suffering what is known as the “resource curse”. The resource curse is a relatively new concept that attempts to explain how so many countries that are abundant in natural resources can perform worse economically than a country that doesn't have the same level of resources. Aggregate output per capita is used to measure whether or not a resource rich country is suffering from the resource curse (Larsen, 2006). While the resource curse is a 20<sup>th</sup> century concept, it can be used to explain many economic collapses throughout history. Possibly the most notable example is 16<sup>th</sup> century

Spain. After finding gold in the Americas, Spanish Monarchs spent heavily on defense. They also used gold to fund conquistadors who aimed to find more gold in the Americas. Eventually, there was no more gold. Having pushed so many resources towards finding gold, Spain didn't have the funds to feed its country, resulting in the filing of bankruptcy (Useem, 2003).

Writing for FORTUNE Magazine, Jerry Useem explains the fundamental problem of the resource curse in just a few lines, "Oil is not an economy. Creative economic activities have spillover effects that become self-sustaining. Oil spills only into a barrel--and from there usually into the hands of a favored few" (2003).

Through Useem's words, anyone can see the basic idea behind the resource curse. However, the economic impact of the curse is more complicated than just saying that resource based economies aren't sustainable. To further analyze the resource curse it is necessary to look further at one of its impacts, the Dutch disease.

## **II. The Dutch Disease**

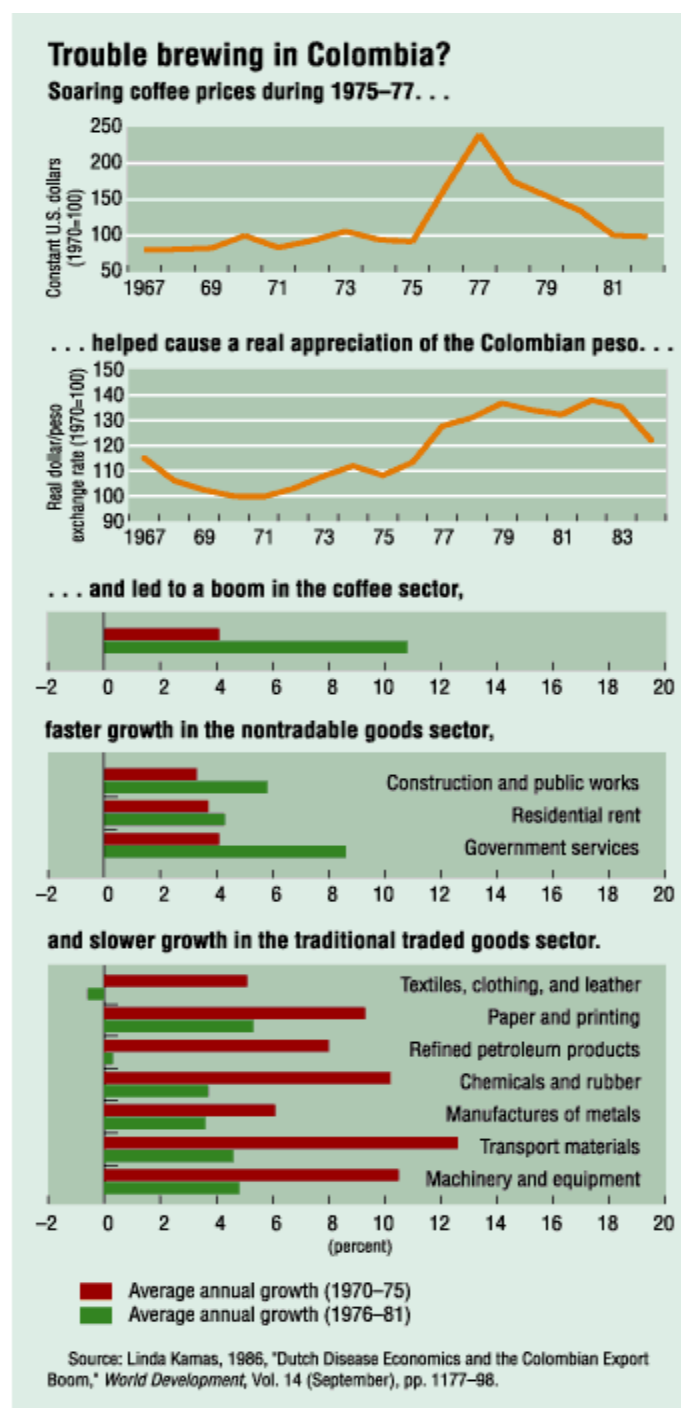
The Dutch disease is by far the most well recognized effect of the resource curse. In 1977, the British newspaper *The Economist* coined the "Dutch disease". The name is a reference to what unraveled in the Netherlands' economy after discovering oil in the North Sea ("It's Only Natural", 2010).

Figure 2-1 on the following page illustrates how the Dutch disease functions. The Dutch disease always begins with a rise in exports of some good. That good can be anything; it doesn't

necessarily have to be a natural resource, though that is the most common case. In fact, the image focuses on the Dutch disease in regards to coffee in Columbia. The increase in exports leads to an influx of foreign currency that the economy can not necessarily handle. As a result, local currency appreciates. This appreciation causes a boom in the particular good, but at the same time causes other industries to have trouble competing. Also, as one industry booms and others struggle, resources including capital and labor are moved from the struggling industry to the booming industry.

At first glance, the previous described situation doesn't sound so bad. After all, the newly booming industry can pick up the slack of the industries that can't compete. This is all true, if and only if the booming industry is expected to be around forever. The problem arises when the booming industry isn't permanent (Embrahim-zadeh, 2003). To use our Spain example again, everything was great and the economy was booming as gold and silver was pouring in. However, Spain wasn't prepared once the gold stopped coming. Rather than reinvesting the gold and silver revenue into other sustainable projects, Spain allocated a vast amount of resources towards the gold and silver industry as well as to costly wars. Thus, when the gold was gone, Spain had no industry that could even remotely replace the revenues created by the gold industry. At its heart, the Dutch disease is the economic version of putting all of your eggs in one basket.

Figure 2-1



### III. The Resource Curse in Latin America

In order to better understand how Venezuela fits into the resource curse, it is useful to examine how Latin America as a whole fits into the picture. As an incredibly resource rich

region, Latin America is at an extreme risk of the resource curse. It is fair to say that Latin America's dependency on natural resources is at dangerous levels. Truthfully, Latin America has been dangerously dependent on natural resources for decades.

**Figure 2-2**



In the 1970's, natural resources accounted for 86% of the regions exports. That number has been significantly reduced today, but still sits at the high level of 52%. Looking at the above chart, one can also see there is an overreliance on resources for tax revenues. This overreliance grew significantly between 1998 and 2008. In 1998 the average tax revenues from natural resources for Latin America and the Caribbean was less than 20%. By 2008 the average was over 30% ("It's Only Natural", 2003). These numbers show that Latin American economies are relying heavily on natural resources.

It's not all doom and gloom for Latin America though. While few and far between, there are a few Latin American countries that are taking steps to avoid the resource curse. Some notable examples are Brazil and Chile. Brazil has been attempting to find renewable energy sources. They have had some success with ethanol from sugarcane. In Chile, the country has taken advantage of high copper prices by saving some of the money produced by the boom. By 2008, Chile had amassed 20 billion dollars or 12% in a stabilization fund ("It's Only Natural", 2003). Unfortunately, Venezuela falls into the category of the other Latin American countries that are mingling with the resource curse.

#### **IV. Symptoms of the Resource Curse in Venezuela**

Now that we've covered the resource curse and its influence in Latin America, we can analyze Venezuela's oil economy. Probably more so than any Latin American country, Venezuela shows clear signs of suffering a resource curse. As mentioned before, Venezuela has immense oil reserves which account for 30% of GDP. Under President Chávez, this reliance on oil hasn't resulted in a booming economy. During Chávez's time in office from 1998-2012, annual GDP growth has averaged 2.9%. While this number is not terrible, Venezuela's massive oil reserves could allow for much higher growth if used to diversify the economy. Arguably more concerning is that growth has been incredibly inconsistent. In 2003, growth reached a record low of -26.7% in March of 2003. One year later in March of 2004, growth reached a high of 36.1% ("Venezuela GDP Annual Growth Rate", 2012).

Another sign of the Dutch disease, and thus the resource curse, is currency appreciation. Appreciation has consistently risen under Chávez. Averaging 1.62, appreciation peaked in March 2010 at 4.3 ("Venezuelan Bolivar", 2012).

**Figure 2-3**



Possibly the greatest proof of Venezuela's resource curse lies in the country's reaction to fluctuations in oil prices. Ironically, the poor reaction to oil price drops in the 80's actually aided Hugo Chávez as years of economic turmoil left many Venezuelan's disenchanted with the current regime and ready for change. Chávez himself would experience a similar issue in 2009 as low oil prices led Venezuela into a deep recession ("Economic recession deepens in Venezuela", 2009). These dramatic reactions to oil prices, along with low GDP growth and high appreciation, strongly point to the resource curse. Based on these symptoms, it's reasonable to diagnose Venezuela as yet another country suffering a resource curse.

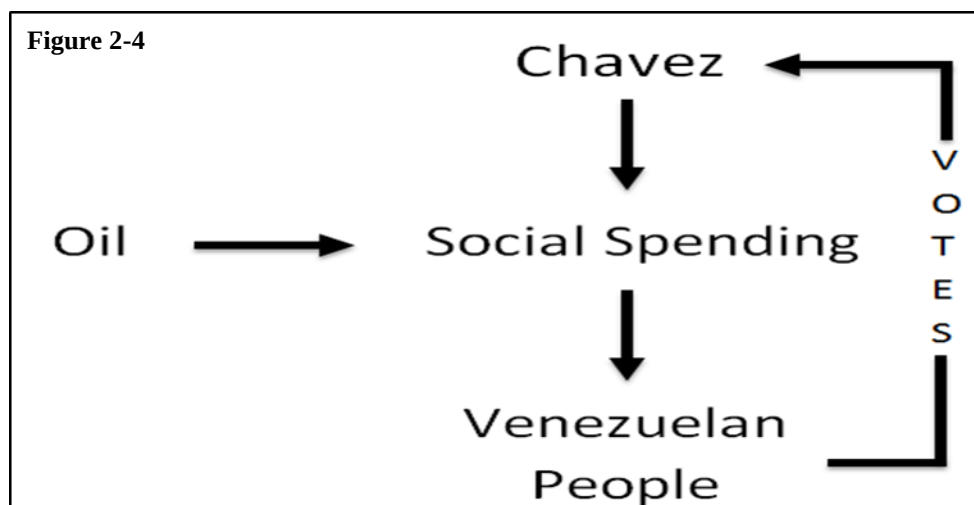
## **V. Politics and the Resource Curse: A Never-ending Cycle**

The last chapter briefly mentioned the idea that Hugo Chávez's Bolivarian Missions may have been politically motivated. Though the timing of the missions is suspicious, the fairness of

such an accusation is debatable. Regardless of the true motivations behind the missions, a disturbing trend is clear when one analyzes the missions in context of the resource curse.

Figure 2-4, illustrates how the resource curse and the Bolivarian Missions interact with each other. At the top, there is Chávez, who of course developed the missions. The missions must be funded in some way, which is where oil comes in. Venezuela's economy is so reliant on oil that in essence, oil is funding for any social spending that the government chooses to do. The oil revenues that could be used for diversifying Venezuela's economy are instead being used to fund the missions. By and large though, the Venezuelan people enjoy the missions and voice their support through votes for Chávez. After reelection, the cycle begins anew with Chávez who has a strong incentive to continue the cycle based on public support.

Beckinger, D. (2012) Finding the good in the resource curse: Venezuela under Hugo Chávez. Allegheny College



Whether or not the Bolivarian Missions were initially politically motivated is unknown for certain. However, the popularity of the missions has made them powerful political tools.

Through votes for Chávez, the Venezuelan people are telling him that it is ok to continue on the same path. In turn, the Venezuelan people are supporting the resource curse that has crippled their economy for years.

## **VI. Venezuela's Economic Future: Looming Uncertainty**

### **A. Signs of Sustainability**

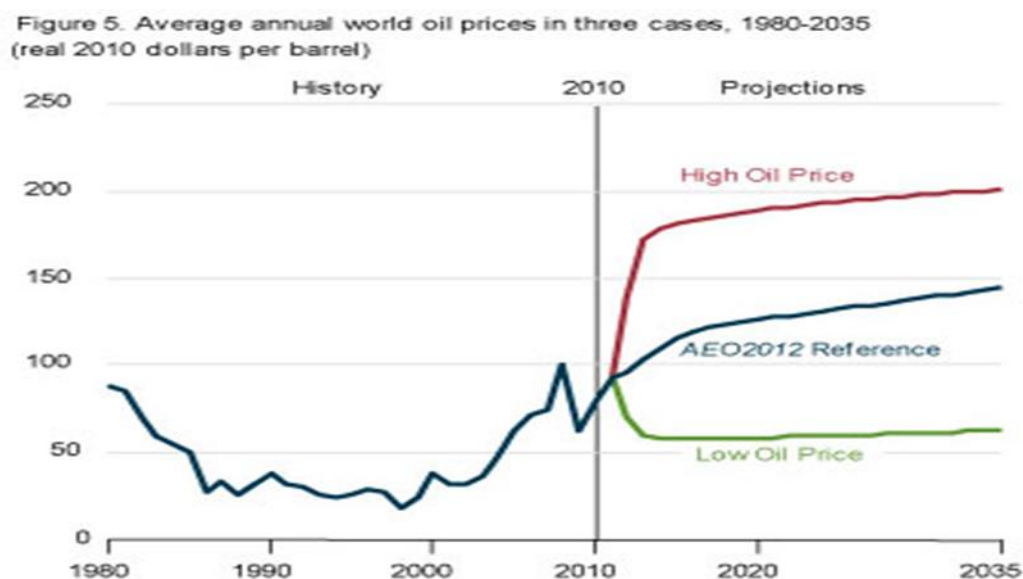
The current economic situation in Venezuela indicates that the resource curse has been somewhat subdued. In November, Venezuelan officials reported a 3<sup>rd</sup> quarter growth of 5.2%, greater than last year's 3<sup>rd</sup> quarter growth of 4.4%. Despite the overall low growth rates under Chávez, Venezuela's GDP has grown in the last eight quarters. Based on these results Planning Minister Jorge Giordani is quoted as saying that Venezuela's growth is "stable, sustainable" ("Venezuela Economic Growth at 5.2 Percent", 2012). For the moment it seems that Venezuela has escaped the resource curse.

The Energy Information Administration seems to give weight to Minister Giordani's claims with their projected oil prices. In conflict with the National Intelligence Committee's report, the EIA estimates that oil prices will steadily grow through 2035. The high estimates by the EIA place oil prices at \$200 per barrel, representing a double in today's oil prices (*Annual Energy Outlook 2012*, 2012). Should EIA's projections hold true, they will be pivotal in the continued growth and sustainability of Venezuela's economy.

In September 2012, The Center for Economic and Policy Research (CEPR), a Washington D.C. based "think-tank", put out their report on Venezuela's economic recovery from the 2009

recession. Using EIA's projections, CEPR argues for Venezuela's economic sustainability. Citing 2012's growth as well as the numerous failed predictions of Venezuela's economic collapse, CEPR believes that Venezuela will sustain and grow with what they call "reasonable macroeconomic policies" (Weisbrot and Johnson, p. 27-28).

**Figure 2-5**



## **B. Signs of Instability**

Although Venezuela's economy seems to be stabilizing, their oil based economy is always at risk if for no other reason than the uncertainty of oil prices. Due to a slight drop in oil prices, Bank of America's Francisco Rodriguez suggests that Venezuela will need to devalue the bolivar, their national currency, by 74%. In regard to this situation, Rodriguez writes, "Correcting this fiscal gap will require a substantial fiscal and exchange rate adjustment in early 2013. The result will be a deep recession, which could be exacerbated by further oil price declines." (Devereaux, 2012)

Another issue that could cause falling gas prices and disaster for Venezuela's economy is fracking. According to a report by the National Intelligence Committee, fracking in the US could have a significant impact on oil prices in the near future. The report states that US may increase its oil production to 15 million barrels a day by 2020. Even more troubling for Venezuela, the report suggests that the US could become energy independent within 10-20 years (Snyder, 2012).

The reason this report is problematic for Venezuela is that currently the OPEC accounts for 40% of the world's oil production. Venezuela is one of the 12 member countries of OPEC. With control over so much of the oil production in the world, OPEC can affectively manipulate oil prices. The possibility that the US will become a major oil supplier threatens this power (Snyder, 2012). British newspaper *The Times* reports that the discovery of shale oil worldwide could result in a drop of oil prices of 25-40%. The latter of which would cause a \$50 drop per barrel of oil (Hopkins, 2013). Such a drop would undoubtedly have a damaging effect on Venezuela's economy in its current state.

### **Conclusion: The Need for Change**

With the death of Hugo Chávez, a new era is set to begin in Venezuela. Whomever succeeds Chávez will find themselves in charge of a country which finds itself in a precarious situation. While the economy is currently experiencing solid growth, the possibility of economic collapse is always just around the corner. A steep drop in oil prices could happen at any moment and devastate Venezuela's economy as has occurred several times in the country's history. An overreliance on oil has Venezuela skating on thin ice, but all is not lost. Saudi Arabia and Kuwait

are two oil based countries that are doing quite well. A look into these countries' economies can help Venezuela begin the long journey to escaping the resource curse. If the success of Saudi Arabia and Kuwait is any indication of the usefulness of oil for a developing economy, Venezuela may have a chance at turning their curse back into a blessing.

## Chapter 3

### **Comparative Analysis of Venezuela, Saudi Arabia, and Kuwait Through the Use of the Global Competitiveness Report**

In order to fairly assess Venezuela's economic situation, it is useful to look towards countries with similar standings. For example, it would be unfair to try to compare Venezuela to a modernized and technically advanced country like the United States. A better idea would be to look at the economic performance of other developing countries with oil based economies. These qualifications make Saudi Arabia and Kuwait perfect countries for comparison. All three countries are members of OPEC and have economies that rely heavily on oil. The budget revenues of Venezuela, Saudi Arabia, and Kuwait rely on oil to the tune of 50%, 75%, and 80% respectively. All three countries also have some of the largest oil reserves in the world. Venezuela has the most reserves with 297.57 billion barrels of crude oil reserves. Saudi Arabia follows in a close second with 265.41 billion barrels in reserve. Kuwait is also in the top 10 of oil reserves with 101.5 billion barrels (OPEC, 2013). Considering the similar economic structures and resources of each country, it is fair to use a judge Venezuela's economic performance based on the performance of Saudi Arabia's and Kuwait's economies.

#### **I. The Global Competitiveness Report: A Basis for Comparison**

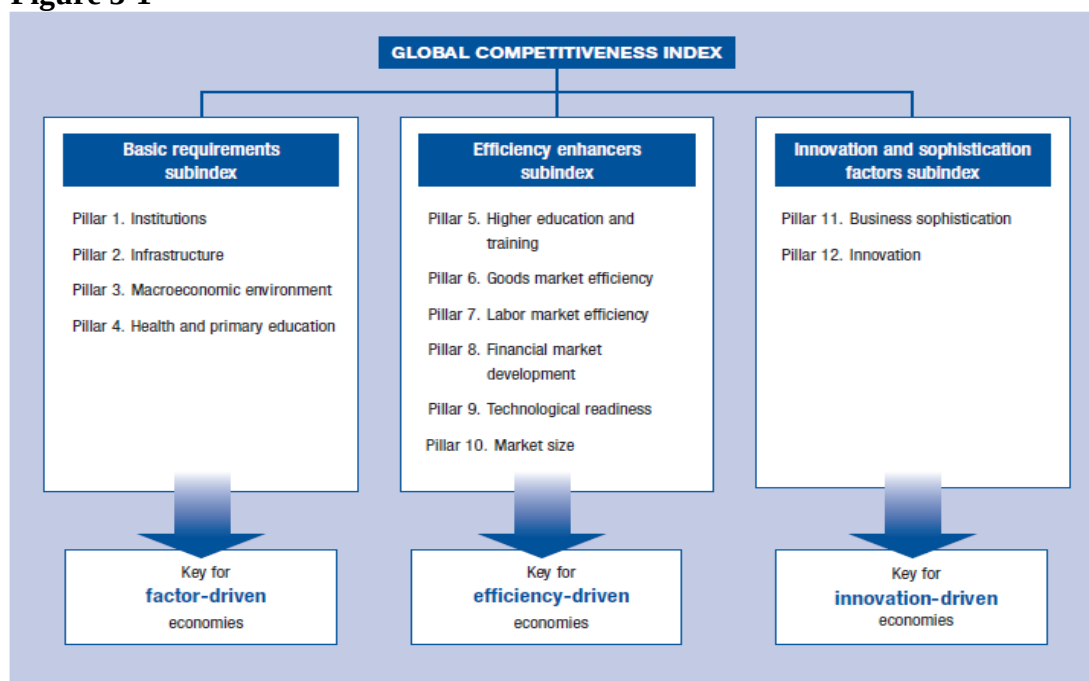
Now that we have chosen countries to compare Venezuela to, we have to decide on what basis to compare them. While GDP is a good tool for judging economic performance, it is not the be-all and end-all of economic performance. There are just certain factors that GDP can't show, like corruption or red-tape that inhibits business activities. That is where the Global Competitiveness Report (GCR) comes in. The GCR is a report that the World Economic Forum (WEF) has been releasing for more than a decade. The aim of the report is to measure and rank

144 countries based on their level of competitiveness. The WEF gives the following definition for competitiveness.

We define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to sustain growth (World Economic Forum, 2013, p. 4).

The GCR breaks competitiveness into twelve pillars, with each pillar further broken down into sub-categories. For example, the first pillar is institutions, which includes categories like *property rights* and *organized crime*. The twelve pillars are used to determine at which stage of development a country is at. The three main stages of development are *factor-driven economies*, *efficiency-driven economies*, and *innovation-driven economies* (WEF, 2013). Figure 3-1 shows how the pillars fit into the stages of development.

**Figure 3-1**



**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

The stage of development that Venezuela falls into is actually considered a transitional stage between stage 1 and stage 2. This transitional stage contains 16 other countries including Saudi Arabia and Kuwait. Due to this position in the hierarchy of stages, we will be comparing Venezuela, Saudi Arabia, and Kuwait based on ten pillars: the four pillars of stage 1, and the six pillars of stage 2. Stage 3 only accounts for a small portion of competitiveness and should not be a focus for countries like Venezuela that have yet to reach stage 2 of development. By analyzing the three countries based on these pillars, we can begin to understand where each country is having success and where each country is coming up short. Ultimately, this information will be instrumental in helping determine where and how the Venezuelan economy can begin to make changes to advance past the mistakes of the Hugo Chávez regime.

## II. First Pillar: Institutions

Table 3-1

|                                 |                                                         | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |           |           |
|---------------------------------|---------------------------------------------------------|------------------|------|---------------------|---------------|-----------|-----------|
|                                 |                                                         | Value            | Rank |                     |               |           |           |
| <b>1st pillar: Institutions</b> |                                                         |                  |      |                     |               |           |           |
| 1.01                            | Property rights .....                                   | 1.8 .....        | 144  | 5.6 .....           | 20            | 5.1 ..... | 38        |
| 1.02                            | Intellectual property protection .....                  | 1.7 .....        | 143  | 5.1 .....           | 27            | 4.0 ..... | 46        |
| 1.03                            | Diversion of public funds .....                         | 1.7 .....        | 143  | 5.1 .....           | 24            | 3.4 ..... | 63        |
| 1.04                            | Public trust in politicians.....                        | 1.7 .....        | 137  | 5.6 .....           | <b>5</b>      | 3.2 ..... | 53        |
| 1.05                            | Irregular payments and bribes.....                      | 2.6 .....        | 134  | 5.6 .....           | 24            | 4.4 ..... | 52        |
| 1.06                            | Judicial independence.....                              | 1.3 .....        | 144  | 5.3 .....           | 26            | 4.9 ..... | <b>36</b> |
| 1.07                            | Favoritism in decisions of government officials .....   | 1.9 .....        | 142  | 4.6 .....           | <b>12</b>     | 2.7 ..... | 99        |
| 1.08                            | Wastefulness of government spending.....                | 1.9 .....        | 143  | 5.5 .....           | <b>5</b>      | 2.9 ..... | 100       |
| 1.09                            | Burden of government regulation .....                   | 2.1 .....        | 143  | 4.1 .....           | 28            | 2.4 ..... | 137       |
| 1.10                            | Efficiency of legal framework in settling disputes .... | 1.9 .....        | 144  | 4.6 .....           | 31            | 4.0 ..... | 57        |
| 1.11                            | Efficiency of legal framework in challenging regs. .... | 1.7 .....        | 144  | 4.6 .....           | 24            | 3.7 ..... | 67        |
| 1.12                            | Transparency of government policymaking.....            | 3.0 .....        | 142  | 4.8 .....           | 34            | 3.8 ..... | 110       |
| 1.13                            | Gov't services for improved business performance        | 1.7 .....        | 139  | 5.2 .....           | <b>5</b>      | 2.8 ..... | 127       |
| 1.14                            | Business costs of terrorism.....                        | 5.1 .....        | 100  | 6.3 .....           | <b>16</b>     | 5.6 ..... | 60        |
| 1.15                            | Business costs of crime and violence.....               | 2.3 .....        | 140  | 6.3 .....           | <b>4</b>      | 5.8 ..... | <b>24</b> |
| 1.16                            | Organized crime.....                                    | 2.7 .....        | 142  | 6.6 .....           | <b>6</b>      | 6.2 ..... | <b>23</b> |
| 1.17                            | Reliability of police services .....                    | 2.1 .....        | 142  | 5.6 .....           | 27            | 4.8 ..... | 47        |
| 1.18                            | Ethical behavior of firms .....                         | 3.0 .....        | 137  | 5.2 .....           | 27            | 4.0 ..... | 60        |
| 1.19                            | Strength of auditing and reporting standards .....      | 4.2 .....        | 99   | 5.6 .....           | 19            | 4.7 ..... | 60        |
| 1.20                            | Efficacy of corporate boards .....                      | 3.9 .....        | 129  | 5.2 .....           | 19            | 3.9 ..... | 130       |
| 1.21                            | Protection of minority shareholders' interests .....    | 3.2 .....        | 130  | 5.5 .....           | <b>9</b>      | 3.9 ..... | 96        |
| 1.22                            | Strength of investor protection, 0-10 (best)* .....     | 2.3 .....        | 140  | 7.0 .....           | <b>17</b>     | 6.3 ..... | <b>29</b> |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

Institutions, the first pillar of the GCR, is arguably the most important of all the pillars. Whether public or private, good institutions help build confidence in investors. People are more likely to invest in a country or start their own business when institutions are solid and they know their investment and/or business will be safe from factors like crime, violence, and corruption (WEF, 2013).

A quick look at Venezuela's performance in this pillar shows that the country has very poor institutions. In fact, Venezuela is ranked dead last of all countries in this pillar. Areas like *property rights* and *judicial independence* are the worst spots for Venezuela, both with rankings of 144/144. Venezuela's rank of 137<sup>th</sup> in *public trust in politicians* is interesting to note considering that Hugo Chávez's success in the 1998 presidential election was in part due to the public's disenchantment with current politicians. Overall, Venezuela struggles in the institutions pillar with its best overall ranking being very high at 99 for *strength of auditing and reporting standards*.

In comparison, Saudi Arabia and Kuwait have much better institutional frameworks. Kuwait's ranking of 51 in the pillar is not phenomenal, but still is much better than Venezuela's. In general, Kuwait has work to do as far as government deregulation goes, but does well at keeping crime out of business. Saudi Arabia, on the other hand, has very good institutions, ranking number 15 in the world. Saudi Arabia performs well in all aspects of the first pillar, but especially excels in areas like *organized crime* and *business costs of crime*. Also, the country ranks fifth in the world regarding *public trust in politicians*. With great institutions all around, Saudi Arabia, and on a lesser scale, Kuwait, have a much more open and safe environment for investment than Venezuela.

### III. Second Pillar: Infrastructure

Table 3-2

|                            |                                                  | <u>Venezuela</u> |      | <u>Saudi Arabia</u> |    | <u>Kuwait</u> |     |
|----------------------------|--------------------------------------------------|------------------|------|---------------------|----|---------------|-----|
| 2nd pillar: Infrastructure |                                                  | Value            | Rank |                     |    |               |     |
| 2.01                       | Quality of overall infrastructure .....          | 2.8              | 135  | 5.8                 | 23 | 4.5           | 60  |
| 2.02                       | Quality of roads .....                           | 2.6              | 128  | 6.0                 | 12 | 4.9           | 44  |
| 2.03                       | Quality of railroad infrastructure .....         | 1.4              | 113  | 3.7                 | 38 | n/appl.       | n/a |
| 2.04                       | Quality of port infrastructure .....             | 2.5              | 139  | 5.3                 | 28 | 4.1           | 73  |
| 2.05                       | Quality of air transport infrastructure .....    | 3.3              | 126  | 5.7                 | 34 | 4.2           | 87  |
| 2.06                       | Available airline seat kms/week, millions* ..... | 258.2            | 57   | 1,065.4             | 25 | 237.3         | 59  |
| 2.07                       | Quality of electricity supply .....              | 2.0              | 131  | 6.3                 | 21 | 5.0           | 63  |
| 2.08                       | Mobile telephone subscriptions/100 pop.* .....   | 97.8             | 89   | 191.2               | 3  | 160.8         | 9   |
| 2.09                       | Fixed telephone lines/100 pop.* .....            | 24.9             | 49   | 16.5                | 75 | 20.7          | 62  |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

In order for commerce to flow smoothly, a country must have good infrastructure.

Business becomes much easier when quality roads, transportation, and means of communication are available. However, business becomes much more difficult when this infrastructure is not set in place. It is very difficult to buy and sell a product when there are no paved roads and a lack of public transportation. The same applies to international transactions. A solid infrastructure for railroad, port, and air travel makes trading between countries less of a hassle. Maybe the biggest impact of having a good infrastructure is the easy and fast exchange of information (WEF, 2013). With good telecommunications, information can travel all over the world in a matter of seconds. All of these aspects make infrastructure vital for supporting growth in any country.

At 120<sup>th</sup>, Venezuela ranks near the bottom of all countries regarding infrastructure. The quality of Venezuela's roads is quite poor, coming in at 128<sup>th</sup>. Transportation infrastructure in general is poor with *quality of railroad, port, and air transport* ranking 113<sup>th</sup>, 139<sup>th</sup>, and 126<sup>th</sup> respectively. Venezuela does rank 49<sup>th</sup> in fixed telephone lines, though that could be a result of the overall problems with electricity. *Quality of electric supply* in Venezuela is one of the worst in the world at 131<sup>st</sup>.

Although Kuwait is near the middle of the pack at number 52, Saudi Arabia is closer to the top at 26<sup>th</sup> in infrastructure. Both countries best Venezuela in almost every category of the

infrastructure pillar. Most notably, both Saudi Arabia and Kuwait are top 10 countries in *mobile telephone subscriptions per 100 people*. Saudi Arabia also ranks quite high in *quality of roads*, coming in at number 12. In regards to *available airline seats*, Venezuela actually ranks higher than Kuwait, though Kuwait ranks higher in quality of all other transportation. By and large, Saudi Arabia and Kuwait have built a stronger infrastructure than Venezuela, allowing for a smoother movement of information and goods.

#### IV. Third Pillar: Macroeconomic Environment

| Table 3-3                             |                                      | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |
|---------------------------------------|--------------------------------------|------------------|------|---------------------|---------------|
| 3rd pillar: Macroeconomic environment |                                      | Value            | Rank |                     |               |
| 3.01                                  | Government budget balance, % GDP*    | -5.3             | 113  | 15.2                | 31.0          |
| 3.02                                  | Gross national savings, % GDP*       | 31.3             | 23   | 43.0                | 59.6          |
| 3.03                                  | Inflation, annual % change*          | 26.1             | 144  | 5.0                 | 4.7           |
| 3.04                                  | General government debt, % GDP*      | 45.5             | 86   | 7.5                 | 7.3           |
| 3.05                                  | Country credit rating, 0–100 (best)* | 36.2             | 87   | 74.4                | 75.8          |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

The third pillar of the GCR is macroeconomic environment. The macroeconomic environment of a country affects its competitiveness in several manners. Firstly, a government that is in debt will not be able to provide public services to its people efficiently due to high debt payments. Another reason that the macroeconomic environment is important is investment. A country that is in debt will have a difficult time making the investments that will help grow the nation. Thirdly, high inflation rates make it difficult for firms to compete on a global scale (WEF, 2013). For these reasons, it is vital that a country has macroeconomic stability if it wishes to grow and stay competitive.

Much like with the previous two pillars, Venezuela's performance in the third pillar is severely lacking. Venezuela's overall rank in macroeconomic environment is 126. This ranking includes an *annual percentage change in inflation* of 26.1%, which is last among all countries. Despite the poor ranking, there is one bright spot for Venezuela's macroeconomic environment,

*gross national savings*. Venezuela's *gross national savings* is 31.3% of GDP which leaves a large portion of money that could potentially be invested to grow the economy.

For both Saudi Arabia and Kuwait, macroeconomic environment is the strongest pillar. According to the GCR, Saudi Arabia has the 6<sup>th</sup> best macroeconomic environment in the world and Kuwait has the 4<sup>th</sup> best. With a *gross national savings* of 59.6%, Kuwait is ranked 1<sup>st</sup> among all countries in regards to saving. Looking at *government budget balance*, Saudi Arabia and Kuwait are doing extremely well ranking 4<sup>th</sup> and 3<sup>rd</sup> respectively. Interestingly though, neither country has a particular high ranking for *percentage change in inflation*. Still, the numbers of 5% for Saudi Arabia and 4.7% for Kuwait are significantly lower than the 26.1% inflation change in Venezuela. All in all, with low government debt and reasonable inflation, the macroeconomic environments of Saudi Arabia and Kuwait are some of the best in the world, allowing for more public and private investment as well as more competitive firms.

## V. Fourth Pillar: Health and Primary Education

Table 3-4

|                                                        | <u>Venezuela</u> |        | <u>Saudi Arabia</u> | <u>Kuwait</u>   |
|--------------------------------------------------------|------------------|--------|---------------------|-----------------|
|                                                        | Value            | Rank   |                     |                 |
| <b>4th pillar: Health and primary education</b>        |                  |        |                     |                 |
| 4.01 Business impact of malaria .....                  | 5.3 .....        | 96 ..  | 6.3 .....           | 75 n/appl. .... |
| 4.02 Malaria cases/100,000 pop.* .....                 | 301.8 .....      | 104 .. | 0.3 .....           | 76 (NE) ....    |
| 4.03 Business impact of tuberculosis .....             | 5.1 .....        | 85 ..  | 6.3 .....           | 27 5.6 .....    |
| 4.04 Tuberculosis cases/100,000 pop.* .....            | 33.0 .....       | 59 ..  | 18.0 .....          | 40 41.0 .....   |
| 4.05 Business impact of HIV/AIDS .....                 | 4.9 .....        | 93 ..  | 6.1 .....           | 23 5.8 .....    |
| 4.06 HIV prevalence, % adult pop.* .....               | 0.7 .....        | 95 ..  | 0.0 .....           | 1 <0.2 .....    |
| 4.07 Infant mortality, deaths/1,000 live births* ..... | 15.7 .....       | 70 ..  | 15.0 .....          | 69 9.6 .....    |
| 4.08 Life expectancy, years* .....                     | 74.1 .....       | 59 ..  | 73.9 .....          | 63 74.6 .....   |
| 4.09 Quality of primary education .....                | 2.8 .....        | 117 .. | 4.4 .....           | 45 3.4 .....    |
| 4.10 Primary education enrollment, net %* .....        | 92.5 .....       | 78 ..  | 89.9 .....          | 94 92.1 .....   |

Source: World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

The fourth pillar is a somewhat unique pillar because there are large ethical and moral concerns that come along with health and education. Even when these concerns are ignored, health and education are significant factors that can make or break an economy. To look at it in an economic sense, poor health is bad for business. A sick worker will work less efficiently or might not even work at all. Education also plays a huge role in the competitiveness of a nation. A

solid education, even at the primary level, will allow a worker to complete more complicated tasks that a worker with no education would struggle with. It is also important to consider that innovation tends to trend upward with higher education. With a poor education system, there will be fewer innovations, thus causing a less competitive country (WEF, 2013).

Unlike with the previous pillars, there is not much that Venezuela can learn from Saudi Arabia and Kuwait regarding health and primary education. The fact is that all three countries need to improve in this pillar. Venezuela comes in at 84<sup>th</sup> place, only slightly behind Kuwait, which sits in 72<sup>nd</sup> place. Saudi Arabia finds itself in the middle of the pack at 58<sup>th</sup> in the world. There is no one area that brings all of the countries down, though the high prevalence of diseases like malaria, tuberculosis, and HIV is troubling. It is important to note that Venezuela's life expectancy ranking of 59<sup>th</sup> is in large part due to the success of Hugo Chávez's Bolivarian Missions. Still, the *quality of primary education* is also a problem, particularly for Venezuela and Kuwait. Venezuela's *quality of primary education* is ranked 117<sup>th</sup> in the world and Kuwait's is ranked 89<sup>th</sup>. Ultimately, the bottom line is that Venezuela, Saudi Arabia, and Kuwait desperately need to place more emphasis on the healthcare and education sectors in their country if they hope to obtain sustained economic growth.

## VI. Fifth Pillar: Higher Education and Training

| Table 3-5                                        |                                                      | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |
|--------------------------------------------------|------------------------------------------------------|------------------|------|---------------------|---------------|
| <b>5th pillar: Higher education and training</b> |                                                      | Value            | Rank |                     |               |
| 5.01                                             | Secondary education enrollment, gross %* .....       | 82.5 .....       | 86   | 100.6 .....         | 29            |
| 5.02                                             | Tertiary education enrollment, gross %* .....        | 78.1 .....       | 11   | 36.8 .....          | 69            |
| 5.03                                             | Quality of the educational system .....              | 2.8 .....        | 122  | 4.4 .....           | 32            |
| 5.04                                             | Quality of math and science education .....          | 2.9 .....        | 120  | 4.5 .....           | 37            |
| 5.05                                             | Quality of management schools .....                  | 4.2 .....        | 72   | 4.6 .....           | 45            |
| 5.06                                             | Internet access in schools .....                     | 3.4 .....        | 101  | 4.9 .....           | 42            |
| 5.07                                             | Availability of research and training services ..... | 3.4 .....        | 116  | 4.7 .....           | 35            |
| 5.08                                             | Extent of staff training .....                       | 3.6 .....        | 104  | 4.4 .....           | 35            |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

As an economy continues to grow, a natural need for more skilled labor will arrive. This is where the GCR's fifth pillar becomes important. While basic reading and writing skills allows

workers to move from manual labor-based jobs to more complex fields, there are some fields like engineering, for example, that require a higher level of education. A high quality secondary and tertiary education system allow countries to diversify into more skill based industries. Once a country reaches that point, however, it is vital that quality job training is available. After all, very few people know exactly how to do a certain job as soon as they start. For a nation to have an efficiency driven economy, it must have a solid base in higher education and training (WEF, 2013).

Considering their struggles in primary education, it is not surprising to see that Venezuela, Saudi Arabia, and Kuwait have lackluster performances in higher education and training. Overall for the fifth pillar, Venezuela, Saudi Arabia, and Kuwait rank 68<sup>th</sup>, 40<sup>th</sup>, and 82<sup>nd</sup> respectively. It would seem that Saudi Arabia and Kuwait are not doing so poorly considering that they rank in the top 30 for *secondary education enrollment*. The same goes for Venezuela, which ranks 11<sup>th</sup> in the world for *tertiary enrollment*. However, a brief look at the *quality of the education system* shows that Venezuela and Kuwait rank near the worst in the world. None of the countries do particularly well as far as *internet access in schools*. The best of the three is Saudi Arabia, ranking 42<sup>nd</sup> in the world. Venezuela and Kuwait also struggle with training. Both countries fall near the bottom 50 in *availability of research and training services* and *extent of staff training*. Although Saudi Arabia is average in the fifth pillar with a ranking of 40, all three countries could certainly improve their scores in higher education and training. High enrollment rates do not mean much if the quality of education being received is extremely low. The unavailability of good training programs only further hurts these countries' hopes of having efficiency driven economies.

## VII. Sixth Pillar: Goods Market Efficiency

| Table 3-6                           |                                            | Venezuela |      | Saudi Arabia |     | Kuwait |     |
|-------------------------------------|--------------------------------------------|-----------|------|--------------|-----|--------|-----|
| 6th pillar: Goods market efficiency |                                            | Value     | Rank |              |     |        |     |
| 6.01                                | Intensity of local competition.....        | 3.3       | 143  | ..5.7        | 14  | ..4.7  | 81  |
| 6.02                                | Extent of market dominance.....            | 2.7       | 138  | ..4.9        | 18  | ..3.3  | 102 |
| 6.03                                | Effectiveness of anti-monopoly policy..... | 2.4       | 144  | ..5.1        | 12  | ..3.5  | 106 |
| 6.04                                | Extent and effect of taxation.....         | 3.0       | 112  | ..5.1        | 10  | ..5.5  | 6   |
| 6.05                                | Total tax rate, % profits*.....            | 63.5      | 125  | 14.5         | 6   | 15.5   | 9   |
| 6.06                                | No. procedures to start a business*.....   | 17        | 141  | ....3        | 8   | ...12  | 121 |
| 6.07                                | No. days to start a business*.....         | 141       | 140  | ....5        | 10  | ...32  | 105 |
| 6.08                                | Agricultural policy costs.....             | 2.2       | 144  | ..4.8        | 9   | ..3.5  | 103 |
| 6.09                                | Prevalence of trade barriers .....         | 3.0       | 142  | ..5.2        | 19  | ..4.6  | 46  |
| 6.10                                | Trade tariffs, % duty*.....                | 12.5      | 125  | ..4.6        | 60  | ..4.6  | 62  |
| 6.11                                | Prevalence of foreign ownership.....       | 3.5       | 129  | ..4.6        | 76  | ..3.1  | 137 |
| 6.12                                | Business impact of rules on FDI.....       | 1.9       | 144  | ..5.2        | 27  | ..2.9  | 141 |
| 6.13                                | Burden of customs procedures.....          | 2.1       | 144  | ..4.8        | 31  | ..3.7  | 89  |
| 6.14                                | Imports as a percentage of GDP*.....       | 18.7      | 141  | 28.8         | 122 | 27.9   | 123 |
| 6.15                                | Degree of customer orientation .....       | 3.4       | 141  | ..5.1        | 36  | ..4.6  | 62  |
| 6.16                                | Buyer sophistication.....                  | 3.0       | 107  | ..4.1        | 29  | ..3.3  | 76  |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

To be competitive, it is a necessity to have an efficient goods market. When a product is demanded, the market should be able to meet that demand quickly and without much hassle. Closed off and restrictive markets make meeting these demands more difficult. For example, high tax rates make a country less attractive for businesses that may be able to fulfill a demand. The same goes for red tape and government regulations. It's unlikely that a business will locate itself in a country where it will take months to start up operations. Ultimately, an efficient goods market can be the difference between a success and failure for any business (WEF, 2013).

Venezuela's goods market ranks last of all countries at 144<sup>th</sup> place. No one factor is attributed to this ranking as Venezuela scores horribly in every one of the criterion for an efficient goods market. Venezuela's goods market has a plethora of problems, not the least of which is its incredibly steep *tax rate* of 63.5%. Add that to fact that Venezuela's *anti-monopoly policy* ranks last, and it quickly becomes apparent that Venezuela is not a friendly place to start a business. Furthermore, *red tape* is rampant in Venezuela where it takes 141 days to start a

business. Foreign companies do not fare any better with many *barriers to trade* as well as a 12.5% *trade tariff*.

Despite having a much lower tax rate, Kuwait's goods market isn't much better than Venezuela's. Kuwait has a ranking of 90 in goods market efficiency. Saudi Arabia, on the other hand, has a great goods market that ranks 14<sup>th</sup> among all countries. Compared with Venezuela and Kuwait, Saudi Arabia's goods market is very open and unrestrictive. Saudi Arabia has a good *anti-monopoly policy* as well as a low *tax rate* of 14.5%. Also, it only takes 5 days to start up a new business in Saudi Arabia. It takes over four months to start up a business in Venezuela and over a month to start a business in Kuwait. With low tax rates and little government regulation, Saudi Arabia has achieved one of the most efficient goods markets in the world, which has transformed it into a very attractive country for foreign and domestic investors alike.

### VIII. Seventh Pillar: Labor Market Efficiency

The seventh pillar of the GCR is labor market efficiency. With an efficient labor market, a country can avoid a number of problems like labor and talent shortages. The key to having a labor market that is efficient is flexibility. Workers should be able to enter and leave the market without difficulty. Wages should be determined by market forces rather than determined by the government. Another vital factor in an efficient labor market is participation of women. Also, efficient labor markets are able to avoid the exodus of talented and intelligent citizens that is known as the *brain drain*. Countries that follow these guidelines are more likely to not only have enough labor, but enough labor equipped with the right skills to stay competitive and grow (WEF, 2013).

Table 3-7

| Table 3-7                           |                                               | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u>     |     |
|-------------------------------------|-----------------------------------------------|------------------|------|---------------------|-------------------|-----|
| 7th pillar: Labor market efficiency |                                               | Value            | Rank |                     |                   |     |
| 7.01                                | Cooperation in labor-employer relations ..... | 3.2              | 142  | .. 4.8 .....        | 35 .. 4.5 .....   | 52  |
| 7.02                                | Flexibility of wage determination.....        | 3.6              | 131  | .. 5.8 .....        | 15 .. 5.6 .....   | 20  |
| 7.03                                | Hiring and firing practices.....              | 2.1              | 144  | .. 4.7 .....        | 22 .. 3.6 .....   | 93  |
| 7.04                                | Redundancy costs, weeks of salary* .....      | not possible     | 140  | .. 19 .....         | 88 .. 28 .....    | 122 |
| 7.05                                | Pay and productivity.....                     | 2.7              | 140  | .. 4.7 .....        | 15 .. 3.8 .....   | 79  |
| 7.06                                | Reliance on professional management.....      | 4.2              | 75   | .. 5.0 .....        | 36 .. 3.8 .....   | 100 |
| 7.07                                | Brain drain .....                             | 2.0              | 138  | .. 5.0 .....        | 13 .. 3.8 .....   | 45  |
| 7.08                                | Women in labor force, ratio to men* .....     | 0.66             | 105  | 0.24 .....          | 141 .. 0.53 ..... | 125 |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

Labor market efficiency is another pillar where Venezuela, Saudi Arabia, and Kuwait all struggle. Venezuela ranks second to last at 143<sup>rd</sup> with Kuwait sitting slightly better at 98<sup>th</sup>. Saudi Arabia falls at number 59, which certainly leaves room for improvement. A quick glance over the rankings shows that all three countries have a lack of women in the labor force as compared to men. *Redundancy costs of labor* also plague each of the countries. While none of the countries have efficient labor markets, there are certain aspects where Saudi Arabia and Kuwait perform significantly better than Venezuela. One of these aspects is *flexibility of wage determination* where Saudi Arabia and Kuwait rank in the top 20, but Venezuela ranks 131<sup>st</sup>. Saudi Arabia also does a much better job at keeping intelligent workers in their country with a *brain drain* ranking of 13<sup>th</sup>. Venezuela on the other hand struggles to keep these well-educated and trained workers as its *brain drain* ranking is 138<sup>th</sup>. Despite having better labor markets than Venezuela, Saudi Arabia and Kuwait still have a lot of work to do in order to strengthen their inefficient labor markets.

## IX. Eight Pillar: Financial Market Development

**Table 3-8**

|                                                  | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |
|--------------------------------------------------|------------------|------|---------------------|---------------|
| <b>8th pillar: Financial market development</b>  | Value            | Rank |                     |               |
| 8.01 Availability of financial services .....    | 3.7              | 122  | 5.3.....31          | 4.7.....61    |
| 8.02 Affordability of financial services .....   | 3.5              | 112  | 5.3.....14          | 4.3.....60    |
| 8.03 Financing through local equity market ..... | 1.8              | 140  | 4.7.....14          | 3.7.....57    |
| 8.04 Ease of access to loans .....               | 2.5              | 92   | 4.1.....14          | 3.1.....52    |
| 8.05 Venture capital availability .....          | 2.2              | 109  | 3.7.....18          | 3.0.....41    |
| 8.06 Soundness of banks .....                    | 4.6              | 96   | 6.1.....16          | 5.4.....55    |
| 8.07 Regulation of securities exchanges .....    | 4.2              | 62   | 5.4.....19          | 3.8.....96    |
| 8.08 Legal rights index, 0–10 (best)* .....      | 1                | 140  | ...5.....89         | ...4.....99   |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

A solid financial market allows for proper allocation of resources that enter an economy.

Without an efficient financial market, it is difficult to obtain and invest funds in projects with the best rates of return. Vital to a good financial market are affordable and easily obtainable financial services that aren't strongly protected by political influences. For private investment, it is paramount that loans are easily accessible. These loans are of course tied to the success of banks, making a sound banking system a complete necessity. Equally important are legal rights that keep investors and their investments safe from foul play. When all of these factors are achieved, a country can foster a healthy financial market that promotes investments and thus, promotes growth and competitiveness (WEF, 2013).

With a GCR rank of 133, Venezuela's financial market is regarded as one of the worst in the world. There are a handful of reasons for this poor ranking. Firstly, financial services in Venezuela are hard to come by and expensive when compared with the rest of the world. Furthermore, in the *soundness of banks* category, Venezuela ranks 96<sup>th</sup>. When there are unsound banks, there are usually issues with obtaining loans. This is certainly the case with Venezuela. The country ranks 92<sup>nd</sup> in *ease of access to loans*. Those who are able to obtain loans aren't protected under the legal system. Venezuela's *legal rights* are ranked in the top 5 worst in the world.

At number 76 in the world, Kuwait shares some of the same problems as Venezuela regarding financial markets. Saudi Arabia's financial market, on the other hand, is considered the 22<sup>nd</sup> best in the GCR. A comparison between the three countries shows that Saudi Arabia has found success in the categories that Venezuela and Kuwait struggle in. Most notably, Saudi Arabia ranks in the top 15 for *affordable financial services* and *access to loans*. Also, Saudi Arabia has the 16<sup>th</sup> most *sound banks* in the world. For the most part, Saudi Arabia has a good financial market that allows investment funds to be easily obtained and efficiently allocated.

There is a dark spot for the country though. Like Venezuela and Kuwait, Saudi Arabia ranks very poorly in *legal rights*. To truly promote entrepreneurship and investment, all three countries must improve their legal rights. A country with strong legal right is far more attractive to investors than a country where investors have little to no legal protection at all. Aside from this however, Saudi Arabia has positioned its financial market well, and is a good example for Venezuela and Kuwait to follow.

## X. Ninth Pillar: Technological Readiness

| Table 3-9                           |                                                  | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |
|-------------------------------------|--------------------------------------------------|------------------|------|---------------------|---------------|
| 9th pillar: Technological readiness |                                                  | Value            | Rank |                     |               |
| 9.01                                | Availability of latest technologies .....        | 4.5              | 103  | ..5.9.....34        | ..5.0.....66  |
| 9.02                                | Firm-level technology absorption.....            | 4.1              | 117  | ..5.8.....20        | ..5.2.....41  |
| 9.03                                | FDI and technology transfer .....                | 3.7              | 129  | ..5.5.....8         | ..3.3.....142 |
| 9.04                                | Individuals using Internet, %* .....             | 40.2             | 71   | 47.5.....61         | 74.2.....27   |
| 9.05                                | Broadband Internet subscriptions/100 pop.* ..... | 0.9              | 103  | ..5.7.....71        | ..1.7.....98  |
| 9.06                                | Int'l Internet bandwidth, kb/s per user* .....   | 8.1              | 92   | 33.0.....42         | ..6.0.....100 |
| 9.07                                | Mobile broadband subscriptions/100 pop.* .....   | 4.2              | 85   | 40.4.....26         | ..5.9.....79  |

**Source:** World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

Technological readiness is the ninth pillar and is instrumental to any country that wants to be competitive. This pillar looks to measure the availability of technology in a country as well as the manner in which a country adapts to the new technology. The GCR also puts a large emphasis on information and communication technologies (ICT). ICT is a term that applies to technology like the internet. The availability of ICT and technology in general, allows for a country to stay up to date on the ever changing world of information and business (WEF, 2013).

With a ranking of 103, Venezuela is most definitely not technologically ready. The biggest problem hindering Venezuela's technological readiness is the sheer lack of available technology. The country ranks 103<sup>rd</sup> in *availability of latest technologies*. The lack of new technology probably has much to do with Venezuela's ranking of 117<sup>th</sup> for *firm level technology absorption*. It is nearly impossible to adapt to technology if there is none available. Venezuela also has an issue with the availability of ICT. Only .9 people out of 100 have internet

subscriptions in the country. Only 40.2% of the population is using the internet which points to an issue with internet availability throughout the country.

Technological readiness in Kuwait is ranked at 74<sup>th</sup>, only 29 spots above Venezuela. One bright note for Kuwait is that 74.2% of the population is using the internet even if only 1.7 people per 100 have their own subscriptions. Saudi Arabia is much more technologically ready with a rank of 35<sup>th</sup> in the world. Saudi Arabia undoubtedly has some work to do with only 47.5% of the population using the internet. Still, the country is doing a much better at making technology available to their people. Saudi Arabia is 8<sup>th</sup> in the world in *FDI and technology transfer*. This means that foreign direct investment brings a large amount of technology into Saudi Arabia. Another good sign is that Saudi Arabia's ability to adapt to new technology is 20<sup>th</sup> in the world. By bringing in new technologies and adapting to them quickly, Saudi Arabia has made itself much more technologically ready than both Venezuela and Kuwait.

## XI. Tenth Pillar: Market Size

Table 3-10

| Table 3-10               |                                         | <u>Venezuela</u> |      | <u>Saudi Arabia</u> | <u>Kuwait</u> |     |    |
|--------------------------|-----------------------------------------|------------------|------|---------------------|---------------|-----|----|
| 10th pillar: Market size |                                         | Value            | Rank |                     |               |     |    |
| 10.01                    | Domestic market size index, 1–7 (best)* | 4.4              | 37   | 4.5                 | 28            | 3.1 | 82 |
| 10.02                    | Foreign market size index, 1–7 (best)*  | 4.9              | 44   | 5.8                 | 18            | 4.4 | 66 |

Source: World Economic Forum. (2013). *Global competitiveness report 2012-2013*. Geneva, Switzerland: Schwab

The tenth and last pillar we will be looking at is market size. Market size is important for two particular reasons. Firstly, a larger market size allows a country to benefit from economies of scale. The second reason is the strong relationship between open trade and growth. Countries with an openness to trade give themselves a greater chance to grow. The GCR determines market size using only two inputs: *domestic market size*, and *foreign market size*. While a large domestic market is a blessing, it is not a necessity. In some ways, a large foreign market can make up for having a smaller domestic market. This system gives countries with a wide variety of economies a chance at competitiveness (WEF, 2013).

Of all of the pillars of the GCR, Venezuela's best performance comes in the market size pillar. A ranking of 41<sup>st</sup> in the world may not be stellar, but it is much higher than all of Venezuela's other rankings. This ranking is a result of a balance between Venezuela's foreign and domestic markets. Venezuela's *foreign market size* is ranked 44<sup>th</sup> and its *domestic market size* is ranked 37<sup>th</sup>. The vast amount of oil reserves mentioned in previous chapters has much to do with these rankings as foreign market size is based upon exports and domestic market size is based upon GDP and imports. The real question is in how Venezuela's market size compares to similar countries.

Looking at Kuwait, we can see that its markets fail to reach the size of Venezuela's. Overall, Kuwait's market size is 61<sup>st</sup>. This is unsurprising considering how heavily reliant Kuwait is on oil and that Kuwait doesn't have nearly as much of it compared to Venezuela. Saudi Arabia's market size ranks 24<sup>th</sup> in the world with *domestic market size* at 28<sup>th</sup> and *foreign market size* at 18<sup>th</sup>. This seems to suggest that Saudi Arabia is using its oil wealth more efficiently than Venezuela. The difference may be that over the last few years, Saudi Arabia has been making attempts to diversify its economy away from oil. Industries like natural gas, power generation, and financial services are becoming focal points in Saudi Arabia in order to distance itself from oil dependence (Murphy, 2010). Venezuela, on the other hand, did not make a concentrated effort at diversifying away from oil under the economic policies of Hugo Chávez. Due to this, Venezuela hasn't been able to grow its markets to the size of Saudi Arabia's.

## **Conclusion**

After analyzing ten of the GCR's twelve pillars, it is clear that Venezuela's economy is significantly less competitive than Saudi Arabia and Kuwait. In fact, Venezuela ranks behind Saudi Arabia in all ten of the pillars that were examined. Furthermore, Kuwait ranks ahead of

Venezuela in all of the pillars except for market size. The advantage held by Saudi Arabia and Kuwait becomes even more apparent with a look at the overall rankings for each country. Venezuela's overall ranking comes in at 126<sup>th</sup> place, only 18 spots away from last place. Meanwhile, Saudi Arabia and Kuwait are leagues ahead with overall ranks of 18<sup>th</sup> and 37<sup>th</sup> respectively. The numbers make the story very clear; Venezuela's economy is dramatically underperforming. Ultimately, it is only fair to put the blame for these poor performances on the late Hugo Chávez and his stubborn dedication to oil dependence and economically inefficient social program. Saudi Arabia and Kuwait are very similar oil based economies, yet they are thriving while Venezuela is struggling mightily. Rather than investing Venezuela's immense oil wealth into growing the economy, Chávez invested in social programs that only offered temporary solutions to long term problems. These kind of economic policies amount to putting a Band-Aid on a broken leg. While there is no one exact answer for fixing Venezuela's economy, though there are plenty of places to start. From crumbling infrastructure to inefficient labor markets, the inadequacies of the Venezuelan economy are abundant. Although things look bleak, all is not lost for Venezuela. With a close examination of the successes of Saudi Arabia and Kuwait, Venezuela can begin the long road to economic competitiveness.

## **Conclusion**

The death of Hugo Chávez has left Venezuela in a state of uncertainty. The socialist policies of Chávez have been the driving force behind Venezuela's economic woes for nearly 14 years. The result of April 14<sup>th</sup>'s presidential election will largely be the deciding factor in whether Venezuela continues its oil dependency or whether the country escapes the resource curse and becomes competitive with countries like Saudi Arabia and Kuwait.

The current standing president is former vice president Nicolás Maduro. Chávez handpicked Maduro to be his successor and thus, many believe that he will continue the socialist policies followed by Chávez. Maduro's actions give credence to this belief. Like Chávez, Maduro has strong bonds with Cuba, Syria, and Iran. Maduro also shares the general disdain for the United States and president Obama that was held by Chávez. There are questions of whether Maduro can rally Venezuela's poor masses in the same way as Chávez, but the truth is that he may not have to. With emotions at an all-time high after Chávez's passing and oil wealth to fund his campaign, Maduro will likely have much support on April 14<sup>th</sup> (Wilson & Gupta, 2013). Should Maduro win, Venezuela will almost certainly continue to be an economy heavily dependent on oil.

Campaigning against Maduro will be Henrique Capriles. In the presidential election of October 2012, Capriles gave Chávez a run for his money, earning 44% of the vote. No other candidate had ever come that close to defeating Chávez. Capriles' platform couldn't be more different from Maduro's Chávez style policies. While Maduro looks to continue Chávez's social policies, Capriles looks to implement progressive economic policies. Capriles has openly stated that he plans to implement an economic and political model similar to Brazil's "modern left" model (Cawthorne & Parraga, 2013). Though not a large oil producer, Brazil is a great country to

emulate considering that Brazil has emerged as the strongest economy in South America. Through diversification and openness to the world economy, Brazil has built itself into an emerging economic powerhouse over the past 10 years, even overtaking the United Kingdom in terms of GDP (“Brazil”, 2013). A victory for Capriles could mean an economic renaissance for Venezuela and a departure from the socialism that has been crippling the economy for years.

As it stands, however, Maduro is the clear favorite to become president. Though Capriles may be offering a better future for Venezuela, it is likely that the Venezuelan people will vote for the past, meaning more Chávez-esque socialism under Maduro. Though the outcome is currently unknown, one thing is for sure; Venezuela’s next president will always have to deal with the constant presence of Hugo Chávez. Fair or unfair, Chávez will be a measuring stick for Venezuelan presidents for years to come. Any new social reforms will be compared to Chávez’s Bolivarian Missions. Any new economic policies will be compared to Chávez’s oil dependent economy. Any successes or failures of the new president will be compared to the successes or failures of Chávez. Ultimately, while Venezuela’s next president may shift the economic direction of the country in one way or another, it is unlikely that either candidate will ever reach the unique level of political and economic power held by Hugo Chávez during his 14 year presidency.

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