

## **Venezuela's economic pipeline: a crude awakening**

To understand the position the Venezuelan economy is in today, historical and political context is needed of the oil-infused country and how it has evolved. The national oil firm cannot go unnamed when describing Venezuela's past: Petróleos de Venezuela SA (PdVSA) has had a pivotal role in dictating the economic triumphs, as well as laying the foundations for Venezuela's economic lows (or rather, laying a lack of foundation to insulate the economy from the oil price dips).

Venezuela possesses the world's largest crude oil reserves, and this is reflective in their economy. This began when these reserves were initially discovered in 1922, and Venezuela swiftly became the second largest exporter of petroleum in the world, pumping out approximately 100,000 barrels of oil daily and Venezuela became a hub for more than 100 foreign firms looking to benefit off its rich resources. However, as production boomed from annual figures of 1 million barrels to 137 million during the 1920s, this success had little effect on the deliverance of a socioeconomic safety net, or even the prospect of a sound fiscal stimulus given the poor infrastructure and underproductive agricultural sector at this time. This was no surprise given the imbalance in the Venezuelan oil sector; just 3 foreign firms accounted for 98% of the Venezuelan oil market by the 1930s, limiting domestic revenues and sectoral imbalance started to cough up the symptoms of Dutch Disease as oil exports began to account for 90% of total exports in 1935 as the bolivar climbed in value. When steps were taken to largely translate oil revenues into government revenues, this initially was for the benefit of the militaristic ruling regime at the time; the Hydrocarbons Act of 1943 required 50% of foreign firms' profits be turned over to the government, increasing government revenues six-fold. Other significant developments including joining OPEC meant Venezuela enjoyed the 1970s oil price boom, becoming the richest country in Latin America in GDP per capita.

However, it wasn't until the oil industry was nationalised forming PdVSA, that an effective channel was created for the deliverance of social and economic welfare programmes to benefit Venezuelans. The 1980s and 90s saw a shift in attitudes towards internationalisation, the expansion of PdVSA's operations overseas buying into foreign plants such as Veba Oel and Citgo, as well as an expansion in PdVSA's powers as it grew in corporate strength, as well as political influence to shape public policy, an unpopular development. Following political discontent, popularist Hugo Chávez was elected with promises of political and economic reform, largely targeting PdVSA. The Bolivares Misiones he delivered arguably had many short-term benefits; his anti-poverty programme involved road-building, house construction, mass vaccination and education, reducing poverty by 20% and improving literacy rates nationally.

However, he created lasting challenges through his interference with PdVSA, an institution he had long criticised; political tension between the free-marketeer preferring company and the interventionist state amongst a series of 49 laws passing, nationwide strikes and protests culminated in 18,000 PdVSA employees and managers being fired, constituting for almost half of its workforce. The company was brought under state control, with losses from the strike constituting \$40 million daily losses as production had plummeted from its 3.2 million daily barrels to 400,000. Furthermore, he failed to sufficiently reinvest oil revenues that existed during the price surges, limiting the long-term capabilities of domestic oil production. The capital- intensive nature of the production process meant it could not sustain its long-term efficiency without the adequate reinvestment into its required capital.

Restructuring the company and removing the majority of its technically specialised staff meant PdVSA would never recover its production, a harrowing reality for a country so dependent on oil revenues. The country faced its worst recession ever seen following this, effectively reversing any benefits the Bolivares Misiones had provided.

However, the positives these social programmes delivered to the Venezuelan impoverished populace is only one side of the coin. This overreliance on oil revenues to fund social and political agendas is exactly what makes Venezuela so vulnerable to changes in this cash flow. This is a vulnerability that can and has been manipulated by external powers, a method unbeknownst to the US, notorious for delivering economic sanctions to countries whose political regimes they take issue with. Cuba, Iran and Yemen fit this category and their populations have all suffered at the hands of trade limitations. The series of economic sanctions bestowed upon the Maduro administration in 2015 continuing up until this March 2025, prove that that Venezuelan populace is no stranger to this suffering either; often essential food and medicine is unable to reach the shelves of Venezuelan stores due to these trade limitations which largely prevent the funding, borrowing and investing activities of the Venezuelan government and PdVSA with respect to the US.

Trump's first administration delivered a series of economic blows to Venezuela in the form of economic sanctions in 2019, accusing PDVSA of having "long been a vehicle for corruption". Amongst this, after the Biden administration delivered Chevron a permit for further oil extraction in Venezuela, the second Trump Administration has ordered this license be

revoked, so far ignoring requests from Chevron's CEO to extend this license by at least 60 days to allow operations to wind down, who has rightly warned of other powers such as

China and Russia advancing further into Venezuelan economic territory considering the US's retreat leaving a new gap to be filled. The revoked license will ban the payment of any taxes or royalties to the Venezuelan Government, nor any sort of transactions or dividends to PdVSA and generally involves a removal of all Chevron activities taking place on Venezuelan soil, ameliorating the already exorbitant levels of inflation.

Trump's immigration policies will also have an impact on the future of Venezuela; after using the 1798 Alien Enemies Act to justify getting "bad people out of the country", the Trump administration deported hundreds of immigrants, including over 238 Venezuelan alleged members of Venezuelan gang Tren de Aragua, where they have been sent to El Salvador and Honduras, despite court rulings against it. If this continues, this will likely only further contribute to growing social unrest in Venezuela following the widely labelled fraudulent re-election of Nicolas Maduro, Chávez' appointed successor amongst long-lasting concerns over Venezuela's economy, inherited from Chávez' presidency, which saw government debt more than double, hundreds of independent businesses and foreign assets nationalised, press limited, and essentially laid the foundations for Maduro's never ending dictatorial rule.

This does not leave Venezuela in an optimistic wake, however one can only hope that slow and steady progress can be made by economic reform, restructuring and diversification, to address the long-standing obstacle to stable growth that sectoral imbalance and Dutch Disease poses to Venezuela. However, this is unlikely to occur unless accompanied by sufficient political reform and a new widely accepted administration which is capable of removing the number of trade sanctions that Venezuela faces from its nearest economic superpower. Conversely, there is a possibility that other superpowers might instead fill this void that the US has left in the Venezuelan economy, and whether Venezuela might be able to forge ahead in light of this, regardless of the US's continued sanctions, given that the existence of these are not a new development. This is highly possible, given Venezuela and Russia's historical and recent close relationship and sparks wonders as to whether some sort of aid might be given to Venezuela for it to proceed on its path to economic restructuring and recovery.