Venezuela under Hugo Chávez and Beyond

On March 5, 2013, Hugo Chávez, the president of Venezuela, died after losing a battle against cancer. Chávez had been president of Venezuela since 1999. A former military officer who was once jailed for engineering a failed coup attempt, Chávez was a self-styled democratic socialist who won the presidential election by campaigning against corruption, economic mismanagement, and the "harsh realities" of global capitalism. When he took office in February 1999, Chávez claimed he had inherited the worst economic situation in the country's recent history. He wasn't far off the mark. A collapse in the price of oil, which accounted for 70 percent of the country's exports, left Venezuela with a large budget deficit and forced the economy into a deep recession.

Soon after taking office, Chávez worked to consolidate his hold over the apparatus of government. By 2012, Freedom House, which annually assesses political and civil liberties worldwide, concluded Venezuela was only "partly free" and that freedoms were being progressively curtailed. In 2006, for example, Parliament, which was dominated by his supporters, gave him the power to legislate by decree for 18 months. In late 2010, Chávez yet again persuaded the National Assembly to grant him the power to rule by decree for another 18 months.

On the economic front, the economy shrank in the early 2000s, while unemployment remained persistently high (at 15 to 17 percent) and the poverty rate rose to more than 50 percent of the population. A 2003 study by the World Bank concluded Venezuela was one of the most regulated economies in the world and that state controls over business activities gave public officials ample opportunities to enrich themselves by demanding bribes in return for permission to expand operations or enter new lines of business. Despite Chávez's anticorruption rhetoric, Transparency International, which ranks the world's nations according to the extent of public corruption, noted that corruption increased under Chávez. In 2012, Transparency International ranked Venezuela 165th out of 174 nations in terms of level of corruption.

Consistent with his socialist rhetoric, Chávez progressively took various enterprises into state ownership and required that other enterprises be restructured as "workers' cooperatives" in return for government loans. In addition, the government took over large rural farms and ranches that Chávez claimed were not sufficiently productive and turned them into state-owned cooperatives.

In mid-2000, the world oil market bailed Chávez out of mounting economic difficulties. Oil prices started to surge from the low $20s in 2003, reaching $150 a barrel by mid-2008. Venezuela, the world's fifth-largest producer, reaped a bonanza. On the back of surging oil exports, the economy grew at a robust rate. Chávez used the oil revenues to boost government spending on social programs, many of them modeled after programs in Cuba. These included ultra-cheap gasoline and free housing for the poor.

In 2006, he announced plans to reduce the stakes held by foreign companies in oil projects in the Orinoco regions, to increase the royalties they had to pay to the Venezuelan government, and to give the state-run oil company a majority position. Simultaneously, he replaced professional managers at the state-owned oil company with his supporters, many of whom knew little about the oil business. They extracted profits to support Chávez's social programs but at the cost of low investments in the oil company, and over time its output started to fall.

Notwithstanding his ability to consolidate political power, on the economic front, Venezuela's performance under Chávez was mixed. His main achievements were to reduce poverty, which fell from 50 percent to 28 percent by 2012, and to bring down unemployment from 14.5 percent at the start of his rule to 7.6 percent in February 2013. Profits from oil helped Chávez achieve both these goals. However, despite strong global demand and massive reserves, oil production in Venezuela fell by a third between 2000 and 2012 as foreign oil companies exited the country and the state-run oil company failed to make up the difference. Inflation surged and was running at around 28 percent per annum between 2008 and 2012, one of the highest rates in the world. To compound matters, the budget deficit expanded to 17 percent of GDP in 2012 as the government spent heavily to support its social programs and various subsidies.

Following Chávez's death, his handpicked successor, Nicolas Maduro, took over the presidency. Maduro continued the policies introduced by Chávez. Things did not go well. By 2014, the country was in a recession. The economy contracted by 4 percent that year, while inflation surged to around 65 percent. The situation continued to deteriorate in 2015 and 2016. Exacerbated by a sharp fall in oil prices and hence government revenues, the economy was forecasted by the IMF to be 23 percent smaller in 2017 than it was in 2013, the worst decline in the world. By 2015, widespread shortages of basic goods had emerged. In 2016, an estimated 75 percent of Venezuelans lost weight, averaging 8.7 kg per person, because of a scarcity of food. Unemployment was rising. Inflation increased to 741 percent by the end of 2016 (the highest in the world). The poverty rate was back up over 30 percent. To cap this litany of disaster, the value of the Venezuelan currency, the bolivar, fell from 64 per U.S. dollar in 2014 to 960 per dollar by 2016.

Parliamentary elections held in December 2015 resulted in large losses for the ruling United Socialist Party. For the first time since 1999, the opposition gained a majority of seats in Parliament. Maduro's response was to have the supreme court, which was populated with Chavez appointees, exercise "parliamentary power" while declaring the legislature to be in contempt of the court. In effect, Venezuela has become a full-fledged dictatorship.

Sources

D. Luhnow and P. Millard, "Chávez Plans to Take More Control of Oil away from Foreign Firms," *The Wall Street Journal*, April 24, 2006, p. A1; R. Gallego, "Chávez's Agenda Takes Shape," *The Wall Street Journal*, December 27, 2005, p. A12; "The Sickly Stench of Corruption: Venezuela," *The Economist*, April 1, 2006, p. 50; "Chávez Squeezes the Oil Firms," *The Economist*, November 12, 2005, p. 61; "Glimpsing the Bottom of the Barrel: Venezuela," *The Economist*, February 3, 2007, p. 51; "The Wind Goes Out of the Revolution—Defeat for Hugo Chávez," *The Economist*, December 8, 2007, pp. 30–32; "Oil Leak," *The Economist*, February 26, 2011, p. 43; "Medieval Policies," *The Economist*, August 8, 2011, p. 38; "Now for the Reckoning," *The Economist*, May 5, 2013; "Heading for a Crash," *The Economist*, January 23, 2016; Matt O'Brian, "Venezuela Is on the Brink of Complete Economic Collapse," *The Washington Post*, January 29, 2016; "How Chavez and Maduro Have Impoverished Venezuela," *The Economist*, April 6, 2017.

Case Discussion Questions

1. Under Chávez's leadership, what kind of economic system was put in place in Venezuela? How would you characterize the political system?
2. How do you think that Chávez's unilateral changes to contracts with foreign oil companies will affect future investment by foreigners in Venezuela?
3. How will the high level of public corruption in Venezuela affect future growth rates?
4. During the latter part of Chávez's rule, Venezuela benefited from high oil prices. Since 2014, however, oil prices have fallen substantially. What has the affect of this has been on government finances and the Venezuelan economy?
5. During the Chávez years, many foreign multinationals exited Venezuela or reduced their exposure there. What do you think the impact of this has been on Venezuela? What needs to be done to reverse the trend?
6. By 2016, Venezuela's economy appeared to be on the brink of total collapse. What do you think needs to be done to reverse this?

Political and Economic Reform in Myanmar

For decades, the Southeast Asian nation of Myanmar (formerly known as Burma) was an international pariah. Ruled by a brutal military dictatorship since the 1960s, political dissent was not tolerated, the press was tightly controlled, and opposition parties were shut down. Much economic activity was placed in the hands of the state—which effectively meant the hands of the military elite, who siphoned off economic profits for their own benefit. Corruption was rampant. In the 1990s, America and the European Union imposed sweeping economic sanctions on the country to punish the military junta for stealing elections and jailing opponents. The de facto leader of the country's democratic opposition movement, Nobel Peace Prize–winner Aung San Suu Kyi, was repeatedly placed under house arrest from 1989 through 2010.

None of this was good for the country's economy. Despite having a wealth of natural resources—including timber, minerals, oil, and gas—the economy stagnated while its Southeast Asian neighbors flourished. By 2012, Myanmar's GDP per capita was $1,400. In neighboring Thailand, it was $10,000 per capita. The economy was still largely rural, with 70 percent of the country's nearly 60 million people involved in agriculture. This compares with 8.6 percent in Thailand. Few people own cars or cell phones, and there are no major road or rail links between Myanmar and its neighbors—China, India, and Thailand.

In 2010, the military again won elections that were clearly rigged. Almost no one expected any changes, but the new president, Thein Sein, was to defy expectations. The government released hundreds of political prisoners, removed restrictions on the press, freed Aung San Suu Kyi, and allowed opposition parties to contest seats in a series of by-elections. When Aung San Suu Kyi won a by-election, thrashing her military-backed opponent, they let her take the seat, raising hopes that Myanmar was at last joining the modern world. In response, both America and the European Union began to lift their sanctions.

Thein Sein also started to initiate much-needed economic reforms. Even before the 2010 elections, the military had begun to quietly privatize state-owned enterprises, although many were placed in the hands of cronies of the regime. In 2012, Thein Sein stated that the government would continue to reduce its role in a wide range of sectors, including energy, forestry, health care, finance, and telecommunications. Land reforms are also under way. The government also abandoned the official fixed exchange rate for the Myanmar currency, the kyat, replacing it with a managed float. From 2001 to 2012, the official exchange rate for the kyat varied between 5.75 and 6.70 per U.S. dollar, while the black-market rate was between 750 and 1,335 per U.S. dollar. The official fixed exchange rate had effectively priced Myanmar's exports out of the world market, although it did benefit the military elite who were able to exchange their worthless kyat for valuable U.S. dollars on very favorable terms. Implemented in April 2012, the managed float valued the kyat