

Oil, Gold, and Self Determination: Three Faces of the Venezuelan Crisis

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Introduction

Venezuela is going through the throes of a political and an economic crisis at the same time. The economy has been in a downward spiral since 2014. Years of sanctions against Venezuela have finally taken a toll on the economy. Hyperinflation combined with a sharp decrease in income levels has brought the country to its knees and led to a lot of suffering for many of its people. In the process, millions of Venezuelans have emigrated to neighbouring countries while those who stay must fight food and medicine shortages. On the top of that, Venezuela is facing a crisis of political legitimacy. On 23 January, President Trump announced that the US government formally recognised Venezuela's opposition leader Juan Guaido as its acting president until 'credible' presidential elections can be held. Others, including Canada, most of Latin American and European countries have followed suit. The Venezuelan army and other major institutions are still backing elected president Nicolas Maduro. However, the situation remains highly volatile.

There is plenty to blame Maduro for in terms of the economic suffering in the country. However, foreign intervention and utter disrespect for a country's right to self-determination cannot be justified by dubious political and economic decisions of the government. American sanctions

are intentionally precipitating the economic and humanitarian crisis to put further pressure on the government, which the US takes as a threat to American interests in the region. Furthermore, international community has shown one of the worst examples of how the rules of the global order and principles of international institutions can easily be bent in the service of rich and powerful countries.

In this paper, I first explain the causes of Venezuelan economic crisis. The country's current economic situation is largely due to what economists call 'resource curse' or 'Dutch disease'. When so called 'petro-state' economies cannot successfully manage their fiscal stance, rich oil resources, which appear as a blessing at times oil prices are high, turn into a trap when oil prices go down and lay the ground for financial crisis. Venezuela is not alien to such situation. However, the recent crisis in Venezuela has also had important geopolitical implications. Accordingly, I discuss how country's right to self-determination is being ignored and disrespected by the US and its allies. Lastly, I discuss the ongoing diplomatic scandal over country's gold reserves and how basic rules of international order are being violated for the sake of winning leverage in Venezuela. In this respect, there is a lesson for all developing countries in what is happening in Venezuela.

1. Oil: “The Devil’s Excrement”

Venezuela has the largest proven oil reserve in the world. This is typically seen as a source of wealth and blessing for a country like Venezuela. Through the export revenues it creates, oil can help a country overcome capital and foreign exchange constraints, and create a “push” to increase growth (Sachs and Warner, 1999). Not everyone agrees though: “Twenty years from now, you will see, oil will bring us ruin,” predicted former Venezuelan Oil Minister and OPEC co-founder Juan Pablo Perez Alfonzo. He is also known for naming oil “devil’s excrement” (Useem, 2003). Most economists agree with Alfonzo and they too call it a ‘curse’ rather than a blessing. However, when Alfonzo had his prophetic moment in the 70s, oil was bringing Venezuela unprecedented wealth. Many believed at the time that oil could take Venezuela right to ‘first world’ status. History has proven Alfonzo right.

The ‘resource curse’, also dubbed as ‘Dutch disease’ after the infamous case of Netherlands which discovered natural gas in the North Sea in 1970s, is a well-known phenomenon in the literature and refers to resource abundant countries’ vulnerability to economic fluctuations, (Sachs & Warner, 1995; 1997). The logic of it is quite simple. When market conditions are favourable and oil prices are high, oil rich countries attract an influx of foreign currency. In turn, easy access to dollar makes it cheaper to import and less profitable to invest in domestic industrial capacity. In the process, countries become dependent on imported goods. Furthermore, acquired wealth through oil makes it easy to acquire more debt. Then, such countries do not only use what they gain from oil today but also what they expect to earn in the future. However, an uninterrupted flow of income, which goes on forever is a false expectation.

Table 1: Countries with the Largest Proven Oil Reserves - 2017

Rank	Country	Reserves (million-barrels)
1	Venezuela	300,878
2	Saudi Arabia	266,455
3	Canada	169,709
4	Iran	158,400
5	Iraq	142,503
6	Kuwait	101,500
7	United Arab Emirates	97,800
8	Russia	80,000
9	Libya	48,363
10	United States	39,230

Source: U.S. EIA

When oil prices fall abruptly, as they always do, it becomes very difficult to maintain balance of payments due to lowering export revenues and high import costs. Reserves eventually dry up and having failed to invest in local industry, country becomes unable to continue importing necessary consumption items. Consequently, inflation soars and essential food items and medicine gradually become unaffordable. Meanwhile, debt repayments denominated in foreign currency become impossible because of the contraction in the oil revenues. In order to raise dollars needed for debt payment, the government depresses the value of the local currency, driving up inflation even further. Overall, an unhealthy dependence on the imported goods paid by export revenues of natural resources leaves countries highly vulnerable to unpredictable swings in global energy prices and capital flight.

This is a familiar story for Venezuela. For over a century, oil has been at the centre of Venezuelan economy. The country has extracted huge amounts of cash income from its rich oil reserves, however, this has come with a lot volatility in economic growth and living standards. In the 1960s, following a drop in oil prices, Venezuela was already accumulating debt in order to maintain the lavish spending habit of 1950s’ dictatorship (Velasco, 2016). When oil prices skyrocketed in 1973,

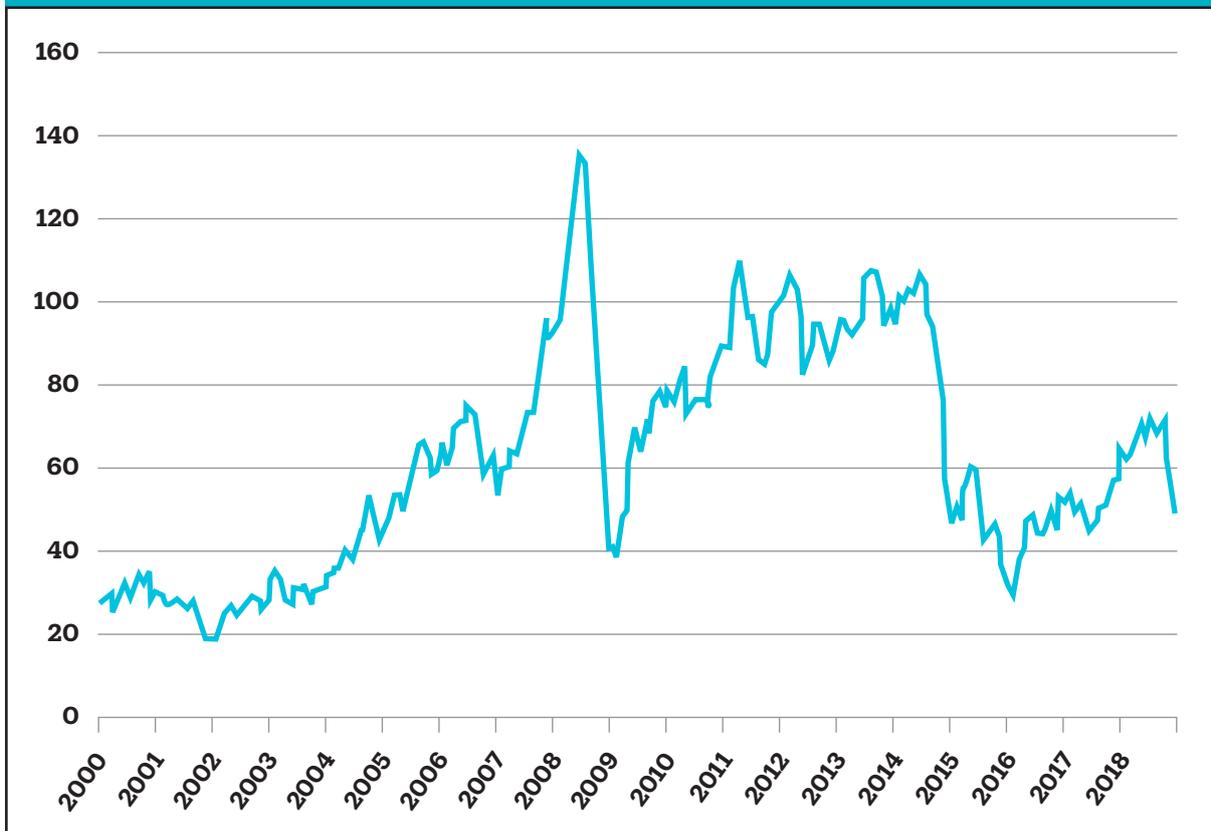
it created a massive influx of funds into oil-exporting countries including Venezuela. In this environment of high global liquidity, Latin American countries, most notably Brazil, Argentina, and Mexico did not hesitate to borrow huge amounts on near-zero real interest rates on short-term loans (FDIC, 1997).

Venezuela followed suit and embarked on a pattern of increased government spending based on both oil revenues and substantial debts denominated in US dollars, trusting that heightened oil revenues will eventually allow them to pay off the debt. However, when oil prices dropped in the global market in 1980s, the Venezuelan economy collapsed, which initiated two decades of continuous rising inequality, political turmoil, and social unrest. In 1989, President Carlos Andres Perez launched a fiscal austerity package as part of a financial bailout by the International Monetary Fund. The measures provoked deadly riots. This process also brought Hugo Chavez to the

political arena, a former military officer who rose to national fame after his failed coup attempt in 1992, for which he served two years in prison (Sullivan, 2013).

Hugo Chávez's election in 1998 was also the beginning of another boom and bust cycle for Venezuelan economy. Chávez owes his popularity among poor Venezuelans to what he called "socialism of the 21st century". He used the revenue created during the oil boom in the 2000s for massive social spending programs, which elevated large segment of Venezuelan society from poverty, improved literacy and increased access to health care. Chávez also empowered the poor by involving them in community councils and workers cooperatives, which enabled them to take a fairer share from country's rich resources (Sullivan, 2015). Chávez is still revered as a prophet-like figure among his followers, 'chavistas', who are also still strongly embedded in the Venezuelan army.

Table 2: Crude Oil Prices - Dollar per Barrel



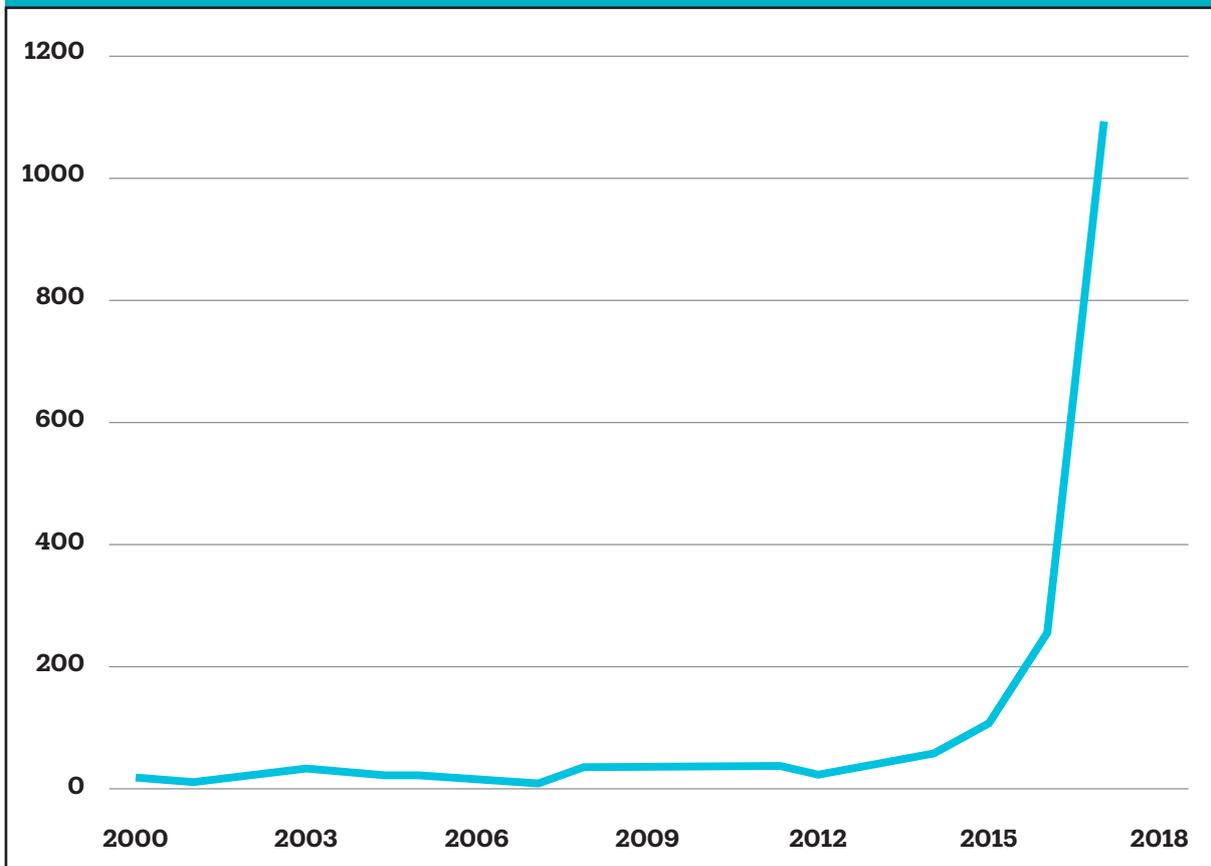
Source: U.S. EIA

Unfortunately, this was not the end of Venezuelan people's hardship. Chávez has a controversial legacy in that regard. He took several steps, which steadily declined country's oil production from its peak point in early 2000s. His decision to fire thousands of experienced workers of PDVSA (state-owned Petroleos de Venezuela, which oversee all producing and exporting of oil) for taking part in an industry strike deprived the country of important technical capability to refine oil. During Chávez's presidency, oil production sharply decreased and government debt doubled (Monaldi, 2015). When oil prices started to plummet in 2014, so did the gains of the boom years. However, Chavez did not live to see the burst years of oil fluctuation.

Maduro came to power in 2013 following Chávez's death. Shortly after, falling from around \$100 per

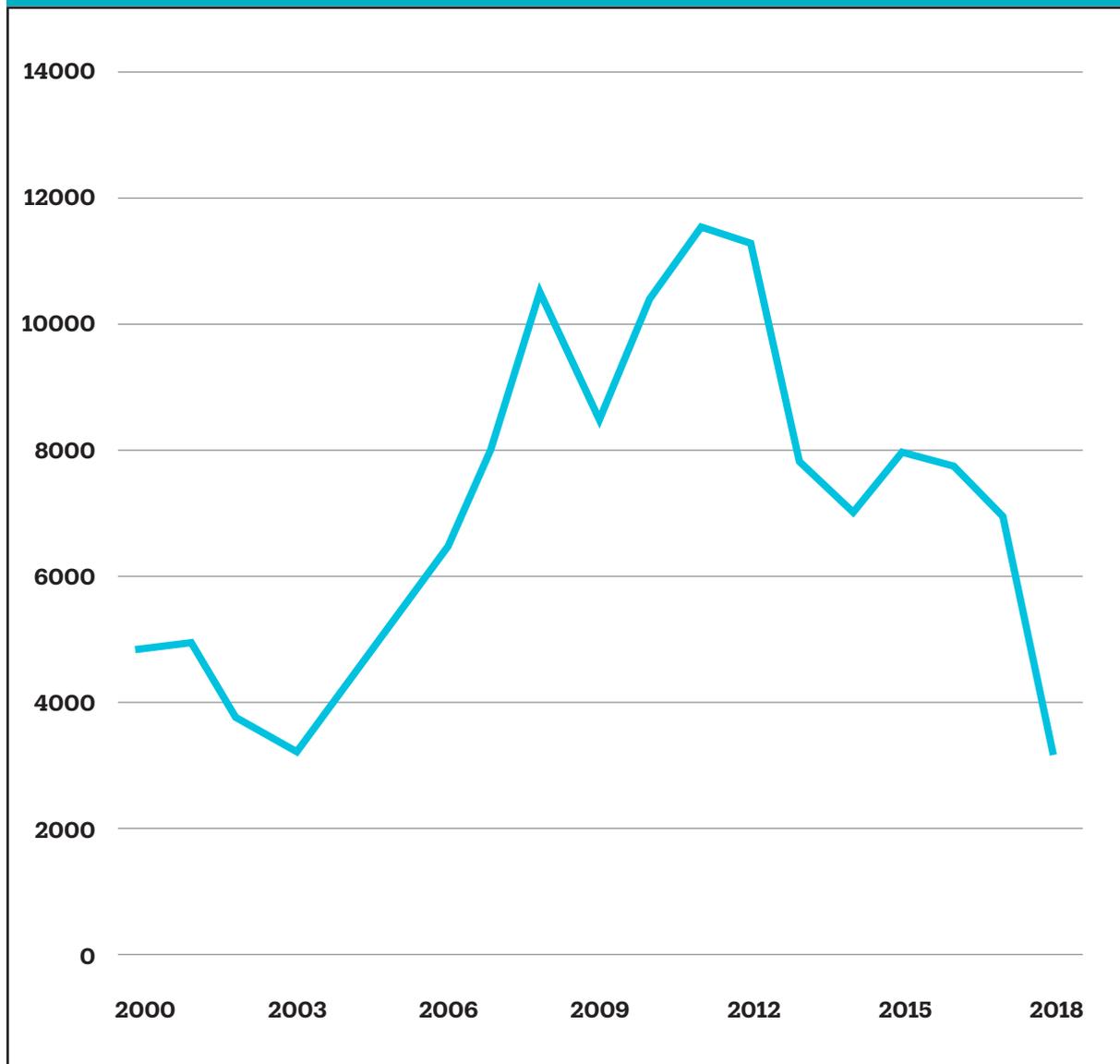
barrel in 2014 to a low of under \$40 per barrel in early 2016, the drop in oil prices sucked Venezuela into an economic and political spiral, from which the country still struggles to recover. Already dwindled oil production decreased even further, the value of the currency dropped, and under Maduro, dependence on imports meant unprecedented levels of inflation and shortages of all sorts that hurt many Venezuelans. Maduro failed to realize substantial structural reforms to ease the fiscal burden of public spending scheme adopted during the Chavez era. Neither did he realize the necessary measures to increase the oil production capacity to maintain social spending (Ponceleon, 2019). Therefore, even though Maduro cannot be blamed for country's long dependence on oil revenues and structural weakness, his ineffective handling of the crisis deserves to be criticized.

Table 3: Inflation



Source: IMF

Table 4: GDP per capita in Current US Dollars



Source: IMF

Obviously, not all resource rich countries have followed the same pattern. Countries such as Norway, Malaysia, and Australia have successfully managed their resource rich economies. They made the most of their resource abundance while still investing in their industrial and agricultural sectors in order to avoid being overly dependent on resource revenues. Moreover, it is important to stick to a solid fiscal plan in order to smooth public spending and consumption

over long periods in order to avoid fluctuation in boom and bust cycles of oil prices (Brahmbhatt, Canuto, & Vostroknutova, 2010). It is very clear that Venezuela lacks such prudent fiscal management. However, as it is discussed below, it cannot be blamed solely on the domestic dynamics either. The political dimension are also important - perhaps more so - concerning what is happening to the country today and its economic prospects in the near future.

2. Self-Determination: US Interventionism in Venezuela

The Venezuelan economy has deep structural problems and the resource curse paradigm provides a very compelling explanation for the ongoing process. The catastrophic economic crisis that Venezuela is going through is characteristic of resource rich countries without well-planned public finances. However, after the recent developments, the situation has taken a geopolitical turn and became a crisis of a political nature. One of the reasons why the current economic crisis is more severe than previous busts is that on top of decreasing oil prices and production capacity, the country faces ongoing American sanctions. The US has put more and more pressure on the Venezuelan economy in order to create further momentum for the removal of the Maduro government from power, which ultimately translates into more suffering for the Venezuelan people.

This is not the first time US has taken aim at an elected government in Venezuela. To those who follow Venezuelan politics closely, the current situation feels like a déjà vu of April 2002, when dissident military officers with the support of country's industrialists, who were concerned about Chavez's leftist agenda, ousted Chavez from power for less than 3 days. Pedro Carmona, a business leader, declared himself interim president. With US support and having gained control over the media, the putschists were confident that they had removed Chavez from power. However, within hours of the coup, thousands of Chavez supporters from poor neighbourhoods of Caracas took the streets to defend him. Chavez ultimately was restored to power and returned to the Presidential palace. The Bush administration was quick to acknowledge Carmona, so much so that many claimed at the time that it was US who 'gave the nod' to coup plotters (Borger & Bellos, 2002). Further confirming suspicions was a White House acknowledgement that in the weeks leading up to the coup, Bush administration officials met with Venezuelan opposition leaders including Pedro Carmona.

Nearly two decades later, Nicolas Maduro faces a similar situation. In fact, Maduro was already officially blacklisted by the US administration as a "dictator" in 2017 when sanctions were first imposed. In August

2017, Venezuela was banned from international capital markets in the same way Iran was sanctioned financially in November 2018. This accelerated the decline of country's oil industry as PDCSA started to face challenges in financial transactions and acquiring the necessary equipment for oil extraction. After swiftly recognizing Guaidó as the legitimate president of Venezuela, the Trump administration imposed new sanctions on the Venezuelan government, seized billions-worth of oil-related assets in the US, and even declared that a military intervention is 'not off the table'. Even if US does not directly take military action in Venezuela, it is not unlikely that it will devastate country's economy through a full-fledged ban on oil imports, particularly as US companies remain the biggest buyer of Venezuelan oil.

We are facing yet another example of US meddling and a violation of right to self-determination in a developing country, reminding many Latin Americans of a not so distant past. US governments have a long track record of overthrowing regimes in Latin America that are deemed unwanted for American interests, including Guatemala in 1954, Brazil in 1964, and Chile in 1973, Argentina in 1976, Grenada in 1983, Panama in 1989, etc. Not to mention American interventions/invasions in other parts of the world in the first two decades of 21st century, including Iraq, Afghanistan, and Libya.

There are a number of arguments that are raised to justify intervention in Venezuelan politics by the US. First is of course the economic situation. "The Venezuelan people have suffered enough" they say, to legitimize the removal of Maduro from power. The implicit assumption is that Maduro is the cause of all economic suffering in the country and his removal will put an end to it. The timing of events tells another story. The challenges to Maduro's government began long before the country fell into economic crisis. It was not until late 2014 that oil prices started to drop in global markets, however Guaidó's political party, Voluntad Popular, was already organizing mass protests across country going back to January 2014. At that time oil prices were at record highs and people were still enjoying high income levels in a stable economic environment (Ponceleon, 2019).

Others put forth the question of the constitutional legitimacy of Maduro as an elected leader as a justification for foreign intervention. According to the opposition, Maduro owes his seat to highly authoritarian measures including jailing his opponents, suppressing media, and rigging elections. Therefore, they say, removal of Maduro from power is not unconstitutional because the Maduro government itself is illegitimate in light of the constitution and the rule of law. Already in 2013, his presidential opponent Henrique Capriles was calling Maduro's election victory a fraud. This argument is indeed taken up by both US administration and American media as a further justification for toppling the Maduro government.

Analysts of the country, however, point out that despite his plummeting approval ratings, President Maduro still has considerable control and influence on the 'Chavismo' social movement, which counts millions of supporters, primarily from poor neighbourhoods (Ponceleon, 2019). Maduro's 6.2 million votes in 2018 election cannot be explained away with allegations of corruption and abuse of power. Furthermore, the opposition has not provided any substantial evidence to support election fraud allegations. Maduro's humiliating defeat in the 2015 legislative elections, which gave the opposition power in the National Assembly, casts doubt on the certainty of claims that Maduro has control over the electorate and that he illegally influences election results. We should also remember that waning support of the poor and working-class for Maduro does not necessarily mean acceptance of Guaido (Hanson & Gill, 2019). Furthermore, Maduro's alleged human rights violations do not cancel majority rule.

When one looks beyond the immediacy of the events, the underlying motivations for American intervention become clearer. The Trump administration does not even try to veil its thirst for country's oil reserves; "it will make a big difference to the United States economically if we could have American oil companies invest in and produce the oil capabilities in Venezuela," said Trump advisor John Bolton in a TV interview. Guaidó's envoy to US has already promised that foreign oil companies will have a greater share of Venezuela's oil. Currently, state-owned PDVSA has to have the controlling stake in any joint venture. "The majority of the oil production that we want to increase will be with the private sector," he said, and further promised that Guaidó will honour all the financial debts of the country (Telegraph, 5 February 2019).

The international community remembers very well what happened in Iraq, which still suffers from the socio-economic consequences of the American invasion. Many also remember US media organizations' complicity in justifying the Iraqi war (Cherkaoui, 2019). Unfortunately, this dark episode of history repeats itself with very similar themes, including a rhetoric of "bringing democracy" to 'backward' nations, which supposedly justify intervention, from a moral standpoint and the promise of oil as a prize for spending American lives and taxpayers' money for yet another war. US actions towards Venezuela is just another uncalculated display of aggressiveness and disregard for another country's sovereignty, which could lead to military and political instability in the region for decades to come. We have seen similar scenarios in Afghanistan, Iraq, and Libya in the very-recent past, not to mention Latin America's own history of experiencing US interventions.

3. Is the Rules-Based International Order a Fantasy?

At a time when political tensions in Venezuela are reaching a boiling point, the international political system is failing to uphold the rules-based order when it is arguably needed the most. The reaction to the Venezuelan political crisis from most EU countries along with mostly newly elected right-wing governments of Latin America represented by Lima group, took the form of supporting US interventionism

in Venezuela rather than upholding a rules-based diplomatic order. Other global powers are also betting on a power transition in Venezuela that is deemed to better serve their interests in the region, despite risking political instability and maybe even military conflict. Naturally, what happens in Venezuela has implications for the future of the international order. .

A few days after Guaidó declared himself President and was recognized by the US, and other key EU states including France, Spain, Germany, and the UK gave the Maduro government eight days to call for fresh elections. As the Maduro government did not comply with the ultimatum, they announced their recognition of Guaidó as President. Interesting enough, the day following the ultimatum, French President Macron travelled to Egypt to pay an official visit to Egyptian President Abdel Fattah el-Sisi, who arguably has a significant democratic deficit and a high level of documented human-rights violations. The British, Spanish and German governments also provided full support and sell weapons to the Egyptian government led by Sisi. It is also worth remembering that Spanish government was one of few countries who supported the coup against Hugo Chávez in April 2002.

The UK's positioning in the Venezuelan dispute has a further strategic importance. Bank of England is home to a large proportion of Venezuela's gold reserves. Upon request of the UK government, the Bank of England abruptly blocked the Venezuelan government from withdrawing \$1.2 billion worth of gold. It is known that Venezuelan government was seeking to repatriate the gold reserves from the UK since last year, fearing it could be stymied by US sanctions. By refusing to hand over the gold which belongs to the Venezuelan Central Bank, the UK is causing a major blow to the country's finances and undermining its ability to import significant food items and medicine (Armas and Pons, 2019). It has also reported by the international media that the Bank of England could grant access to Venezuelan gold reserves to the self-proclaimed President Guaidó, who has already written to Theresa May asking for the funds to be sent to him.

Thus, with a single stroke of a pen, rich and powerful nations of the world deprived an elected leader of the power to control his country's resources and recognized a self-proclaimed politician, adorning him with the rights of a sovereign representative. This represents a message to all the other developing nations who store their own bullion in the Bank of England's coffers. The Bank of England has demonstrated its willingness to disregard its obligation to depositor countries in accordance with demands made from the UK government. This proves Chavez right, when he repatriated Venezuela's \$11 billion worth of gold bars from the Bank of England and other foreign

institutions in 2011. However, as Venezuela feel deeper into recession, country needed to raise cash to finance imports, hence why gold reserves were returned. Today, there is little Maduro can do to reverse this.

Needless to say, there are also countries who stood against foreign intervention in Venezuela. The government in Caracas has received support from Russia, South Africa, Turkey, China, and Iran, apart from a number of Central and Latin American countries including Bolivia, Cuba, Mexico, Nicaragua, and Uruguay. The Turkish Foreign Minister, Mevlut Cavusoglu, has accused Washington of violating Venezuela's sovereignty by meddling into its domestic politics. He also said that countries, which have recognised Guaido were fuelling chaos and punishing millions of Venezuelans. "There is a spark that can turn into a fire at any moment. In this case, they should have contributed to the solution of the problem through dialogue," Cavusoglu told reporters in Istanbul. Cavusoglu also said Turkey had tried to initiate talks last year between Washington and Caracas, adding that "today, none of the countries that have taken these steps against Venezuela has sought dialogue," (Reuters, 3 February 2019).

It was reported by various media that Turkey was the destination for the rest of \$8 billion worth of Venezuelan gold. Fearing international sanction, Venezuela is known to have started to carry out its gold transactions through Turkey. The US is still trying to 'persuade' Turkey not to help the Maduro government to transport freshly mined Venezuelan gold. Most of this 'persuasion' takes the form of threats similar to the ones that are being used against Venezuela. A senior US official, for instance, said last week Washington was 'looking' at Turkey's commercial activities with Venezuela and would take action "if we assess a violation of our sanctions". US Senator Marco Rubio, a member of the Foreign Relations Committee, also warned the UAE and Turkey not be "accomplices" in the "outrageous crime" of shipping gold out of Venezuela (Lowen, 2019).

Turkey's firm stance with Venezuela should be understood within the context of Turkey's own recent political history. In 2016, Turkey withstood a military coup, while several Western countries remained silent. Turkey's strong reaction against the 2013 military coup in Egypt and coup plot against Qatar's ruler in 2017 also underscores Turkey's standing against foreign powers

trying to restrict the autonomy and independence of developing countries (Cafiero, 2019). Speaking recently, President Erdogan said, "they staged a coup against Mohammad Morsi in Egypt, we stood against that, we have never spoken to the putschists since then. Now they are staging another one in Venezuela. We stand against coups wherever they are across the world." Turkey has also taken a similar stance against US sanctions against Iran. "US sanctions on Iran are wrong. For us, they are steps aimed at unbalancing the world; we don't want to live in an imperialist world

The Bank of England's refusal to hand over Venezuela's gold is yet another scandal that has hurt the legitimacy of international governance structures. Arbitrary decisions made by countries that have international institutions and arrangements under

their control, such as international payment systems, gold transactions, or political sanctions, make these platforms of confrontation instead of cooperation. Examples of this include the US withdrawal from the 2015 Iran nuclear deal, the temporary US sanctions on the Turkish economy in 2018, and a number of other arguably irresponsible and inconsistent measure taken by global powers. European and Lima group governments -who recognize Guaidó as the new President of Venezuela and have been pressuring other governments to prevent the Madura government from doing business in oil, gold and other assets - not only aggravate Venezuela's political polarization but also harm the rule-based international order at a time in world history when the foundations of the system itself are being increasingly questioned.

Conclusion

To have a better appreciation of what is happening in Venezuela, one needs to look at different dimensions of the crisis. Venezuela is going through political turmoil, triggered by one of its worst economic crises in the country's history. The Government bears responsibility for country's ongoing economic catastrophe to some extent. Early strategic planning and measures could have avoided the deepening of the economic problems. However, Venezuela's economic issues go well beyond the current government and is due to structural problems that have been afflicting the Venezuelan economy for over a century. The Country's petro-state dynamics go beyond what the current government does or does not do.

As for the current political situation, whatever ones' opinion of the Venezuelan government led by Nicolas Maduro may be, it should be understood that foreign intervention in Venezuela continues a negative precedent set by previous coups, and ultimately undermines the international system that those opposing Maduro claim to be upholding.. The dubious political and economic policies of the Maduro government and even the allegations of corruption and power-hoarding cannot be suggested as legitimate reasons to disregard and

disrespect a country's sovereignty and its people's right to self-determination. Neither the US nor any other country should have the right to impose political change on developing countries. Rich and powerful country's interventionism in pursuit of political and economic gains cannot be disguised and legitimized by the mistakes of Maduro government.

The current economic crisis began as an episode of sharp business cycles characteristic of resource rich countries (constituted of hyperinflation following the fall in oil prices). The US has framed the current situation in a way that is designed to serve its foreign policy goals by compounding the humanitarian crisis through sanctions and threat of military action. The way the ongoing diplomatic crisis is being handled by the international community is also highly problematic. Instead of strongly condemning US interventionism in the region, a synchronization of efforts designed to further regime change in Venezuela is enabling the US to revive its interventionist history in Latin America. Moreover, the use and abuse of international norms and institutions in the service of this cause represents a clear loss for the legitimacy of the international order.

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