

Living with Hugo

The impact of modern imperialism and economic nationalism on the bilateral relations between the US and Venezuela under Hugo Chávez, 1999-2013.



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1. Introduction

“*Salvemos la raza humana, acabemos con el imperio.*”¹ These words were spoken by Venezuelan president Hugo Chávez in 2006 when he was awarded a medal in Teheran, Iran. The medal was a way of saying ‘thank you’ for Chavez’ support to Iran in its nuclear standoff with the US. With *el imperio* he referred directly to the United States, the state he continuously criticized in all his public appearances, both before and during his presidency. He publicly denounced *El Coloso del Norte*, the Giant of the North, for its attitude towards and its activities in the Latin American region.

Relations between the US and Venezuela had not always been this hostile. During the twentieth century, relations were quite good. The mutually beneficial bilateral trade in oil and shared interests of eradicating the region of communism brought the two states close together. Over time, however, the relationship changed and went from bad to worse. Hugo Chávez won the Venezuelan presidential elections of 1998 on a strong anti-US, anti-imperialist and anti-capitalist platform. From the moment he took office, relations with its northern neighbor deteriorated quickly; both political and economic cooperation was harmed. Chávez especially clashed with US president George W. Bush (2001-2009), who took a hard stance against Chávez’ leadership from the moment of his inauguration in 2001. In these years, Chávez made some bold statements in the media and during summits of different international organization. He called Bush the Devil, a donkey and an assassin. His hatred towards the US did not stop after Bush was succeeded by president Barack Obama (2008-2016), however. When Chávez was diagnosed with cancer in 2011, he publicly insinuated that the US had developed technology to induce cancer without anybody knowing about it.

The problems that arose during this time are still highly relevant today. The Venezuelan economy started to decline under Chávez and completely collapsed under his successor, Nicolás Maduro (2013-present). The once so prosperous country is now home to great economic hardship. Inflation reached the outrageous peak of 65 thousand percent in 2018 (International Monetary Fund, 2020) and over five million Venezuelans have found refuge outside the country’s borders.

¹ To save the human race, we have to end the Empire.

Many scholars have written about the deterioration of this bilateral relationship, since it was an important factor in relations between the US and Latin America and within the Latin American itself. Most of these works, however, tend to focus only on specific aspects that played a part in the bilateral relations – especially on the oil trade. Oil is absolutely crucial in any research conducted about Venezuela and it will therefore be incorporated into this thesis as well, but it is not the only factor that played a relevant role. In this thesis, I will therefore attempt to find a combination of factors that together paint a more complete picture of what caused the great amount of animosity between the two states. The question I aim to answer is as follows:

What determined the high level of animosity in the bilateral relationship between the US and Venezuela under Hugo Chávez' presidency (1999-2013)?

To find the relevant factors, I will look into the theories of modern imperialism and economic nationalism. From these theories I will derive four indicators: (1) economic and (2) political interference by the US in Venezuela (modern imperialism) and (3) regional integration and (4) nationalization in the most important economic sector – oil – in Venezuela (economic nationalism). My hypothesis states that the combination of these four indicators provide an answer to the question posed above. I expect to find that all of these indicators have increased during the Chávez era, which lasted from 1999 to 2013. The four sub-hypotheses – one for each of the four indicators – will be tested through process tracing within a single case study design.

This thesis will be set up as follows. The next section will provide an overview of the history of relations between the US and Venezuela since the 1960s in order to provide indicators that show when relations were either good, neutral or bad. Then, I will discuss existing literature on both modern imperialism and economic nationalism in order to formulate my hypothesis. After explaining the methodology, I will move on to the empirical analysis which will consist of a timeline with relevant events for each of the indicators identified in the analytical framework. These four sections will focus on economic and political interference in Venezuela by the US and a push towards regional integration and economic nationalization by Venezuela. Based on the analysis I will argue that US interference, both economically and politically, was mostly present before the Chávez' presidency. Rather than an increase in the presence of the US as a result of the worsened relations, it actually seems to be the cause

Chávez' popularity and thereby, the reason he managed to become president. During Chávez' presidency itself, US interference even decreased. On the Venezuelan side, I do find support for my hypothesis. Chávez initiated the foundation of multiple regional organizations that excluded the US. Simultaneously, the Chávez government took far reaching legislative steps to take almost complete government control over the oil sector. I will conclude by discussing some of the shortcomings of my research, providing insights on the current post-Chávez situation in Venezuela and by making some recommendations for the future.

2. Background: US – Venezuela relations since the 1960s

Before turning towards the theories that will help me answer the research question posed before, I will provide an overview of the historical relations between the US and Venezuela. Table 1 contains a short overview of several time periods since the 1960s, characterized by the status of the bilateral relations between the US and Venezuela. The rest of this chapter will delve into the different periods more in depth. For each period, a series of indicators will be provided that show the status of the bilateral relations.

Table 1: US-Venezuela relations since the 1970s

Period	Status of relations	Key events
1959-1979	Good	<ul style="list-style-type: none"> - 1959: Cuban revolution - 1960s: Cooperation between US and Venezuela to prevent communism in the region - 1974-1979: Pérez' first presidency; economic prosperity - 1975-1976: <i>Petróleos de Venezuela</i> (PdVSA) created, oil industry nationalized - Late 1970s: oil revenues started to slip
1979-1998	Neutral	<ul style="list-style-type: none"> - 1980s: global oil crisis, oil revenues in Venezuela at an all-time low - 1989: Pérez elected as president for a second term; government implemented economic measures put forward by the World Bank and the IMF; oil sector was partially privatized; US supported Venezuela and the austerity measures - 1992: two coup attempts, one led by Chávez, US publicly supported Pérez regime and denounced the attempted coups - 1993: Venezuelan banking system collapsed; Pérez impeached - 1995: start of 'oil opening policy'; a new oil production expansion plan to attract foreign investment and technology was approved - 1998: Chávez ran for president, his platform consisted of a strong anti-US, anti-imperialist rhetoric - 1998: Chávez was elected president of Venezuela
1998 – 2001	Bad	<ul style="list-style-type: none"> - 1999: committee founded to rewrite the constitution meant to substantiate Chávez' 'Bolivarian Dream' to unite Latin American countries to counter US hegemony; oil sector heavily nationalized

2001 – 2013	Awful	<ul style="list-style-type: none"> - 2001: Bush took office as US president and took a hard stance against Venezuela - 2002: support for Chávez went down, a large oil strike in the PdVSA and an attempted coup took place (Chávez was removed from office for 3 days) in Venezuela, allegedly with support of the US - 2004: ALBA-TCP (Bolivarian Alliance for the People of Our America – People’s Trade Treaty) was founded by Chávez - 2005: Chávez initiated PetroCaribe - 2008: UNASUR (Union of South American Nations) was founded by Venezuela in order to counter US hegemony - 2011: CELAC (Community of Latin American and Caribbean States) was initiated by Chávez as an alternative to the OAS (Organization of American States); US was excluded - 2013: Chávez passed away and was succeeded by Maduro
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1959 - 1979

During the Cold War, the US, as one of the world’s two leading powers, was fighting a global battle against communism. After the Cuban revolution in 1959, Cuba’s new president Fidel Castro became one of the US’ biggest enemy. The revolution inspired leftist movements in several Latin American countries – Venezuela included – and Venezuelan president Rómulo Betancourt (1945-1948 and 1959-1964) strongly opposed of them. After John F. Kennedy was elected president of the US in 1961, Betancourt immediately sent him a letter expressing his hopes of working closely together. Kennedy responded accordingly and consolidated the good bilateral relationship between the two countries (Miller, 2016, p. 72-73). In that same year, Castro hosted a meeting for countries that chose not to side with the US in the Cold War in Havana, “the center of resistance to US imperialism” (Miller, 2016, p. 76). Betancourt refused to attend, again showing his support to the US. Another indicator showing the good relationship between the two states can be found during the Cuban missile crisis in 1962. When the Soviet Union placed its missiles on Cuban soil, Caracas openly supported the US and pledged “full diplomatic and military support in preventing communist aggression in the hemisphere” (Ibid., p. 93).

During this period, many US companies were involved in the Venezuelan oil sector. In 1976, the Venezuelan oil industry was nationalized by president Carlos Andrés Pérez (1974-1979 and 1989-1993). That same year, he founded de *Petróleos de Venezuela* (PdVSA) which

would, from that moment on, have all the exploitative rights for Venezuelan oil (Carioso, 2018, p. 253). Foreign oil companies that were in business with the PdVSA did maintain a high amount of autonomy, as will be explained later on, so economic relations with the US remained intact. The oil boom of the 1970s made it a time period of great economic prosperity and Pérez' presidency was known for its "easy money and material abundance" (Philip, 1999, p. 364).

1979 – 1999

During the 1980s, two important global occurrences affected the relationship between Venezuela and the US. First of all, the 1980s are known for the implementation of Structural Adjustment Policies (SAPs) by international institutions such as the World Bank and the IMF. The SAPs conditioned financial aid on domestic neoliberal reforms, and they were heavily used in the Latin American region. The US supported this push for neoliberalism and stood behind the Venezuelan government when these SAPs were implemented. Second, petroleum prices decreased globally and due to Venezuela's strong dependence on oil exports its domestic economy suffered a severe blow.

After the oil crash, the fiscal deficit exceeded 9% of GDP in 1988 (Myers, 2014, p. 213) and the percentage of people living in poverty increased from 26% in 1975 to 65% in 1995 (Carioso, 2018, p. 254). Faced with this dire economic situation, Venezuelans elected Carlos Andrés Pérez as their president in 1988. Due to the economic prosperity during his first presidential terms, the people believed him to be able to get Venezuela's economy back on track (Philip, 1999, p. 364).

This time around, however, Pérez could not use oil profits to boost the economy. Shortly after his inauguration in 1989 he announced several austerity measures and structural adjustment programs brought by the IMF. This caused riots in the country's capital (Carioso, 2018, p. 254-255). The US, however, as stated before, was a great supporter of these measures which included the partial privatization of the oil sector. The people remained unsatisfied, however, and three years later, in 1992, Venezuela faced a series of attempted coups, one of them led by military officer Hugo Chávez. The US condemned each of these attempts, stating that whilst they understood the country was going through difficult times, authoritarianism was not the answer (Avilés, 2005, p. 48). During the entire decade, many Latin American countries, Venezuela included, settled into democracy, took measures against economic

hardship and sought rapprochement to the United States (Corrales & Romero, 2014, p. 4). Because of this, relations between Venezuela and the US became stronger.

When Chávez was arrested in 1992 after leading the coup attempt, he told a Venezuelan media outlet that he would be heard from again. He stood by his word and ran for president in 1998. He told the people he aimed to achieve the dream of *Símon Bolívar*, one of the most important players in gaining Latin American independence in the 19th century. Bolívar longed for political-economic integration of South America with the goal of reducing US hegemony in the region (Manwarin, 2005). During his campaign, he applied for a US visa, which he was denied. The US supported the Venezuelan government and deemed Chávez undemocratic because of the attempted coup (Raby, 2011, p. 163). Within Venezuela, he was immensely popular and in 1998 Chávez was elected president with a decisive majority.

1999 – 2013

After Chávez' inauguration in 1999, he immediately started to rewrite the constitution. He included many things that supported his call for '21st century socialism' with the goal of ridding Venezuela of capitalist and neoliberal policies (Avilés, 2005, p. 163).

When Chávez took office, the US was still under the leadership of president Bill Clinton (1993-2001). Under the Clinton administration, relations between the US and Venezuela were distant but not terrible and public confrontations were kept to a minimum (Raby, 2011, p. 163). Relations took a turn for the worse after the inauguration of US president George W. Bush in 2001. From the start, the Bush administration took a hard stance against Venezuela, "criticizing its policies and positions, accusing it of destabilizing the region and increasing links to the drug trade" (Carioso, 2018, p. 257). The situations kept deteriorating with Chávez speaking out against Bush' war on terror after the 9/11 attacks (Williams, 2011, p. 273) and the US allegedly being involved in the coup attempt against Chávez in 2002 (Lapper, 2006, p. 8).

When speaking to the General Assembly of the United Nations of September 20, 2006, Venezuela's president Hugo Chávez opened with the words: "*Ayer vino el Diablo aquí, ayer estuvo el Diablo aquí.*"² After which he made a cross and continued his speech. The Devil he

² Translation: Yesterday, the Devil was here, yesterday the Devil came here.

referred to was US president Bush. In 2009, Chávez used the summit of the Americas to present US president Barack Obama (2009-2017) with the book 'The Open Veins of Latin America'. The picture of Chávez handing Obama this book that describes how the US exploited the Latin American region went viral and the book became a bestseller overnight. These are just two examples from a long list of public speeches, acts and provocations brought forward by the leaders of both the US and Venezuela while Chávez served as president.

All this shows that, during the Chávez era, which lasted from the moment Chávez was elected in 1998 until he died in office in 2013, bilateral relations between the US and Venezuela deteriorated quickly. Threats were made, sanctions were given, and diplomats were expelled. The US, for example, threatened Venezuela with sanctions and embargos and Venezuela threatened to stop supplying the US with oil (Corrales & Romero, 2013, p. 76). But their bark appeared to be more dangerous than their bite, since neither followed through and true escalation was avoided.

3. Analytical framework and methodology

In this thesis, I attempt to find what caused the high amount of animosity between Venezuela and the US during the presidency of Hugo Chávez. In order to answer this question, let us first look at some of the possible explanations for the deterioration of a relationship between two states. The first section of this chapter contains the analytical framework from which the hypothesis is formed. The first part of this section focuses on theories and concepts generated from a framework of modern imperialism within the globalized world. The second part will turn towards theories of economic nationalism in times of neoliberalism and global trade and the role of firms and state-owned enterprises in (bilateral) trade. To conclude this chapter, I will formulate my hypothesis and set out the method used in the empirical analysis.

3.1 Analytical framework

Modern imperialism

People seeking control over others may be as old as humankind itself. As soon as people started organizing themselves in communities, claiming land, controlling groups of people and expanding empires became a priority for many leaders. Several desired outcomes motivated this hunger for a bigger empire, such as gaining control over more natural resources which could then be exploited. The revenue could, in turn, be invested in order to create an even bigger empire. The expansion of empires was often conducted with the use of military force, but many non-violent strategies have been used to influence and control other states as well. For example, in 1823, US president James Monroe stated in the so called ‘Monroe Doctrine’ that European countries were to stay away from the western hemisphere. By issuing this statement, he put a claim on Central- and South American countries and indirectly banned them from dealing with Europe (Gilderhus, 2006, p. 5). In the years that followed, the US has meddled in potential trade deals between Europe and Central- and South American countries. When a British company wanted to enter into oil trade with Colombia, the US came between the two states, sabotaged the deal and made sure that its influence in Colombia remained intact (Bucheli, 2008, p. 530).

These types of non-violent imperialism still exist in the modern world. Many scholars have written about the very much contested concept ‘modern imperialism’. Many different theories and ideas exist that and it is hard to give one clear definition (Kettell & Sutton, 2013, p. 254). When assessing the literature on the subject, it seems that there are several periods in time in

which imperialism was deemed important. Each of the time periods comes with its own definitions. Since this thesis focuses on the end of the 20th and beginning of the 21st century, I will focus on the post-Cold War wave of imperialism research.

After the downfall of the Soviet Union (SU), the world changed. For a long time, the global order was characterized by two superpowers who were each other's complete opposites, taunting each other with arms races and both finding allies all across the globe. When this Cold War ended, the world was left with one superpower. The SU fell apart. The US came out victorious and took on the role as the leader of the free world. During these years, scholars found that the concept of imperialism began to regain the importance it once had. This time, however, imperialism was seen in the light of globalism, pointing towards the idea that states had been 'hollowed out' as a result of the ever-expanding global market (Kettell & Sutton, 2013, p. 245). Disagreement existed over whether imperialism is either primarily 'economic' or 'geopolitical' and whether the dominant force can be found in specific states or whether power lies in the global capitalist system itself (Ibid., p. 247).

Hardt and Negri argue that even the most powerful states have fallen victim to economic globalization because of the difficulties that come with the attempt to influence the process of international trade (Hardt & Negri, 2000, p. xi). They define a new form of global sovereignty they call 'Empire', which contrasts with the old ideas of imperialism in that it does not look at geographical territorial boundaries. Instead, "it is a decentered and deterritorializing apparatus of rule that progressively incorporates the entire global realm within its open expanding frontiers" (Ibid., 182). They argue that no country can be a true imperialist power in the way that we remember European empires from our history books. With this notion, they argue that many scholars overstate the imperial power of the US, since even a country with that much power succumbs to global market forces and is unable to gain and maintain the power that belongs to a true empire (Ibid.).

Many scholars agree with the idea that modern imperialism is not solely about physical territory. However, disagreement exists about the notion that states are now unable to act as empires because of the limited influence they can exert in the globalized world, as Hardt and Negri argued. Many definitions include the process of powerful states using the global system to take economic advantage of states which are vulnerable or less developed (Dumenil & Lévy, 2004, p. 660). This notion of the disbalance of power is key, since it makes powerful

states able to keep their position of power while states being exploited often have little to no options to get away from under this influence. Therefore, one important aspect of modern imperialism is found in the economic control that states (attempt to) have over other states.

Having control over another state is not always the end of the story, however. Scholars have argued that in the globalized market system, modern imperialism includes control over not just another state, but the system as a whole. This means that states use their power to set the playing field for their entire region or even the whole world. By managing this, a state can create a reality that is economically beneficial to itself, both in the present and in the future. To be able to achieve this type of control, states often tend to be actively present in international (economic) institutions, such as the World Bank, the IMF and the OECD. At the same time, powerful states try to submerge themselves into the internal economies of other states, for example by influencing certain sectors or industries through capital investments. If these investments become both high enough and structural, the receiving state might even become dependent enough to follow the policy of the imperialist state, simply because they cannot operate without the financial assistance anymore (Yeaple, 2003, p. 295).

Influencing other states is not only done through the economy, however. States have been known to find ways to meddle in the domestic politics and civil societies of others as well. This can be done through diplomacy and negotiations, which happen on a daily basis all over the world in both bilateral and multilateral settings. When this does not bring the desired effects, states can opt for more extreme measures. By, for example, funding the opposition or (rebel) groups within the society and providing them with (military) training, it is possible to exert influence on the entire social and political system of another state (Salehyan & Gleditsch, 2011, p. 712). The controlling state can use these actions to create an ally, build peace or security in a region or keep another state from becoming powerful enough to surpass them on the regional or global level.

The desire of remaining in a position of power is a strong motivator. Therefore, powerful states are quick to take action when they feel threatened by other (rising) states. A course of action that can be taken to weaken those states' position, is by fueling internal divisions (Ibid.). Even in Roman times, Julius Cesar was already using the idea of 'divide and conquer' to safeguard his position of power, since a divided society is much less likely to unite against its leader. At the same time, it is unlikely that a country that is that divided will pose a threat

to other states. It will not be easy to unite the people to take a stance against another state. At the same time, the government will have to focus their attention on its domestic issues and will therefore have less resources to focus on gaining international power (Ibid.). It is thus plausible that powerful states choose to try and influence domestic struggles within states they wish to control by, for example, providing financial assistance, training or even military equipment to certain groups.

Economic nationalism

In the era of globalization, economic nationalism is often seen as a threat to the merits of the global market. Politicians with nationalist policies or policy ideas are often perceived as ill-intentioned. It is widely believed that these politicians paint a negative picture of the international economy and that they, together with their misinformed followers, work against the global progress of economic and political liberalization (Helleiner & Pickel, 2018, p. 1). A group of scholars, however, has contested the oppositional nature of liberal globalization and economic nationalism. They argue, as opposed to the argument made before, that economic nationalism is not something that goes against economic liberalism. Instead, they see economic liberalism as a type of economic nationalism (Pickel, 2003, p. 106).

The most widely used definition of economic nationalism comes down to the idea that one puts the economic interests of their homeland before those of others (Clift & Woll, 2012, p. 308). From this starting point, scholars have gone in different directions to specify the meaning of this politically charged concept.

With the use of a discourse analysis of media articles, Pickel found that in most cases, economic nationalism was framed as harmful policymaking that went against the benefits that should be derived from economic liberalism (2003, p. 111). He placed his results in the context of existing literature and argues that his research shows that economic nationalism is purely used for the maximization of physical income. He argues, however, that it is impossible to assess economic nationalism in a strictly economic framework, since it responds to situations taking place in specific historical, political, cultural and social contexts (Ibid.). Globalization has caused supply chains to be spread out over several countries, sometimes even the entire world. Moreover, several types of international institutions and organizations have become involved in the global market. Therefore, states have found themselves losing control, at least to some extent, over their economies.

Due to the limited control that states now have, they have had to find different ways to shape their economic interventionism (Clift & Woll, 2012, p. 311). They tend to respond with policies that in one way or another help their domestic economy become more competitive in the global market. Several scholars, such as Pickel (2003), Clift and Woll (2012) and Pryke (2012), argue that economic liberalism is used by states to benefit their domestic economies, sometimes at the expense of others. Therefore, economic liberalism is seen by this group of scholars as a type of economic nationalism.

When states are promoting their own interests by implementing policies that fit into the economic nationalist framework, it tends to hurt other domestic economies. By, for example, implementing import tariffs, a country disadvantages other exporting states while benefiting its own industry. Therefore, in the international playing field, economic nationalism is often met with hostility. A clear example today can be found in the policies implemented by US president Donald Trump. Under the flag of ‘America First’, the Trump administration has imposed a number of measures to boost the American economy. The fact that their policies might harm other economies and that powerful players as China and the EU fight back is no deterrent.

Whilst it is often assumed that economic nationalism is purely meant to serve the domestic economy, other reasons for implementing such policies exist as well. According to Clift and Woll (2012), some states that implement economic nationalist policies are mainly out to “favor territorial insiders” while others are driven by the idea of “resisting outsiders”. It is therefore possible to use economic nationalism as a weapon on the regional or global level, simply to hurt others. No matter what the goal is, it can be difficult for states to reach it on their own. Therefore, states are sometimes inclined to form coalitions of multiple states. By joining forces, the states can form a stronger bloc with a better chance to succeed in reaching their goals. In that case, economic nationalist policies will not just benefit the domestic economy, but the economies of all states involved. The European Union serves as good example of this. Its member states might not be able to hold themselves up on the global level on their own, but together they have a fighting chance against powerful states such as Russia, China and the US.

Working together also means (usually) compromising and giving up some sovereignty. Theories of regionalism explain why states opt for regional integration, assuming that states will always desire to remain sovereign. One of the arguments given for the partial relinquishment of sovereignty is the belief, as explained above, that working together can “counter the power of another state or group of states within or outside the region” (Söderbaum, 2016, p. 37). This type of integration would fall into the latter category of nationalism set forward by Clift and Woll, namely the one in which states actively use (regional) policy to resist geographical outsiders. When combining these ideas, it becomes clear that it can be desirable or even necessary to join some type of regional partnership. This way, states increase their chances of successfully using economic nationalist policies to counter the power of other states.

The idea that states enter into international trade for the benefit of their own economy follows logically from the idea that economic liberalism is a type of economic nationalism. Self-interest is named by the most abstract theories such as realism and liberalism as the reason for states to join the world economy and global trade. By increasing production within the national borders and then exporting materials and goods, economies flourish. Protectionist policies are, as argued above, sometimes used in the search for economic prosperity.

However, economic maximization is not the only driving factor behind choices made in international trade. Economic nationalism is also used to harm outsiders. Though it is not easy to single states out by imposing discriminatory economic measures, government influence over firms can make trade become intertwined with political relations (Davis, Fuchs & Johnson, 2014, p. 2). Davis et al. argue in their research into state-owned-enterprises (SOEs) in China and India that “where governments maintain control over trade flows, trade continues to follow the flag” (Ibid., p. 39). Therefore, a state’s trade policy and its use of economic nationalism, including the involvement firms or SOEs, can possibly have a significant effect on the bilateral political relations with others.

Within the field of international relations, a large body of research exists on the interaction between politics and economics. One important theory argues that ‘trade brings peace’. When two states are mutually dependent on their bilateral trade, it seems less likely that they will enter into conflict since “sales people are usually reluctant to fight their customers” (World Trade Organization, 2003).

Keshk, Pollins and Reuveny looked into the interaction between trade and armed conflict in order to assess the idea that trade brings peace. What they found is that while conflict reduces trade, trade does not reduce conflict (Keshk, Pollins & Reuveny, 2004, p. 1171). They agree that their research is not enough to completely denounce the theory, but they urge others to research the theory further. A focus on different aspects of the concept 'economic interdependence' and different types of conflict are needed (Ibid., p. 1176). The authors were criticized, however, on the fact that they did not include factors such as the states' sizes and the physical distance between them, which are relevant factors in both trade and conflict. By including this, Hegre, Oneal and Russett (2010) attempt to show the strength of the liberal peace thesis. Their results point out that as soon as a gravity model is included, outcomes shift, and trade does seem to decrease the chance of armed conflict (Hegre, Oneal & Russett, 2010, p. 771).

These studies, however, have one caveat: no distinction is made between private firms and state-owned enterprises. Research by, amongst others, Davis et al. shows that this factor might be very important. Whether firms are private or public greatly affects the ways in which a national government can intervene in the internal affairs. This means that states can use SOEs to carry out their political wishes to some extent. At the same time, a national government has different interests when it comes to public firms (Davis, Fuchs & Johnson, 2014). Because of the interventionist possibilities that come with SOEs, it may be logical that states that wish to further their own economic interests opt for more nationalization, especially within industries that make up a large part of their international trade.

3.2 Hypothesis, observable implications, and data

The hypothesis formulated based on the discussed theories is that the animosity between the US and Venezuela under the presidency of Hugo Chávez (1999-2013) was caused by combination of the factors mentioned above: US modern imperialist tendencies and Venezuela's economic nationalism. If my hypothesis is accepted (true), the US would have shown a stronger tendency to exert both political and economic control over Venezuela when the relationship was deteriorating.

In particular, the US would attempt to (1) show stronger economic interference to control

Venezuela's oil industry, by far the most profitable and important part of Venezuelan economy. The US would also (2) try to exert more political influence on the government's opposition and attempt to intervene in Venezuela's civil society to stir social unrest.

Simultaneously, from the nationalism framework, I expect to find that (3) Venezuela has attempted to reach powerful regionalization in order to counter US hegemony more intensely when the relationship with the US is hostile. And, (4) Venezuela would likely seek stronger government control over its most important industry, oil, during the deteriorating relations period in order to counter US interference.

These four sub-hypotheses will be tested with the use of a single-case study. The case will consist of the bilateral relations between the US and Venezuela before and during the Chávez' presidency (1999-2013). By assessing a combination of secondary literature and (economic) data, a timeline will be created for each of the four indicators to show how each of them changed after Chávez started his presidency in 1999. This form of process tracing will provide the opportunity to determine whether a causal connection exists between the variables. The benefit of using a single-case study here is that it accommodates an investigation into the proposed causal paths and therefore makes it possible to set out and explain the mechanism in which the variables work together (Toshkov, 2016, p. 291).

Several types of observable implications (the indicators) will be incorporated in the timelines. First of all, US interference in the Venezuelan oil sector can be observed by investments, stakes in Venezuelan companies and the nature of cooperation between American and Venezuelan companies in the oil sector. Political interference can be observed by support to the political opposition or other (social) groups on the ground. On the Venezuelan side, I expect to find an increasing amount of regional cooperation during the Chávez era. This can be both formal informal, which can be observed through existing or newly founded institutions or by forming bonds and alliances with other states in the region. At the same time, I expect to see the Chávez government taking clear legislative steps to increase its own control and decrease outside (foreign) control over its oil sector.

4. Empirical analysis

4.1 US economic interference in key industries

Oil is without a doubt the most important commodity in the Venezuelan economy. As argued in the analytical framework, it seems reasonable to expect that a country that wishes to control another would try and submerge itself in the latter's key economic sector. This section will therefore set out a timeline showing US activities in the Venezuelan oil sector. Starting in 1913, the year in which Venezuelan oil was first exploited by foreign enterprises, the events show a growing influence of the US. This took a turn, however, under the presidency of Hugo Chávez, but never completely ceased due to the interdependence that exists between the two states.

Before 1919, businessmen and diplomats from the United States were not very interested in Venezuela since the agrarian country did not seem to have much economic potential (Rabe, 1982, p. vii). Even though the country had quite some oil reserves, local companies were not able to exploit the resources in favor of their nation. Venezuelan president Juan Vicente Gómez (1908-1913, 1922-1929 and 1931-1935) was the first in his position to make it his goal to make money from oil and he started to attract foreign enterprises to enter into the oil sector. In 1913, Royal Dutch Shell entered the Venezuelan resource market, and this radically changed the country's economic outlook (Ibid., p. 15).

After World War I the US started to crowd out foreign oil companies and the economic ties between Venezuela and the US started to become stronger (Carioso, 2018, p. 247). Production and export increased dramatically and in the 1920s, Venezuela became the main oil supplier to the US (Ibid., 249). At the same time, US investments in Venezuela rose from \$75 million to \$161 million between 1924 and 1929 (Brown, 1985, p. 380). Relations remained good and intensified when the US entered World War II in 1941. Due to its increased military activity, the US needed to secure its oil sources (Carioso, 2018, p. 250). Another factor that benefited the oil trade was found in the geographical proximity of the two states. It only took five days to ship the oil from Venezuela to the US, while the journey from the Middle East took over a month (Bonfili, 2010, p. 673).

After World War II, the world changed. The US worked on consolidating its hegemonic position in the new global order. By pushing a globalist and free trade agenda, the country

aimed at creating a capitalist world. They believed that this would advance their own interest as a world power (Petras & Veltmeyer, 2015, p. 81).

Central and South America have always been areas of interest to the US. As early as 1823, US president James Monroe (1817-1825) put a claim on the region in the so-called 'Monroe Doctrine'. He warned European countries to stay away from the Western Hemisphere, providing the region with protection they did not ask for but that did limit their opportunities (Gilderhus, 2006, p. 5). An early example of the US control on the region is found in the way the US involved itself in Panama's battle for independence from Colombia in 1903. By assisting Panama, the US managed to get the Panama Canal built. The new trade route the canal provided greatly benefited the US economy and it remained their 'property' and thereby under their control for almost a century (Ropp, 2014, p. 437). In Chile, socialist president Salvador Allende committed suicide during a military coup in 1973 and was succeeded by dictator Augusto Pinochet who implemented an agenda of neoliberal policy and free trade. Years later, investigation showed US involvement in the coup, showing the US would do go to great lengths to rid the region of socialist ideas (Petras & Veltmeyer, 2015, p. 90).

With the emergence of the Bretton Woods system after World War II, the US found a new way to influence on the domestic economies of others. Under the leadership of Margaret Thatcher in the United Kingdom (1979-1990) and Ronald Reagan in the US (1981-1989), the global economy opened up and markets all over the world were liberalized. Under the frame 'There Is No Alternative', institutions as the World Bank, IMF and GATT (predecessor of the WTO) promoted free trade. When states knocked on their door for financial assistance the door opened only for those willing to structurally adjust their system, which always came down to the adoption of neoliberal policies. These Structural Adjustment Programs (SAPs) have often been referred to as 'imperialism as aid'. States had to give up part of their sovereignty and let others take some control over their domestic policies in order to receive the help they so desperately needed (Petras & Veltmeyer, 2015, p. 86). Since these funds were more often than not crucial for a country not to go completely bankrupt, denying the conditions and saying not was not an option.

In Latin America this influence was heavily felt during the 1980s and 1990s. Venezuela did not escape the neoliberal agenda and, after global oil prices went down in the 1980s, was forced to accept the SAPs that went with the financial aid that was needed to save the

economy (Lander, 1996, p. 52). President Pérez (1974-1979 and 1989-1993) implemented these austerity measures right at the start of his second term as president in 1989. These measures included the partial liberalization of the Venezuelan oil sector, which had been nationalized in the previous decade.

The US openly supported these austerity measures implemented by Pérez. At the same time, the measures were met with great resistance in Venezuela itself. In the capital, riots began which lasted for nine days. The so-called *caracazo* led to hundreds of casualties and left over 2,000 people injured (Carioso, 2018, p. 254-255). The neoliberal measures remained in place during the 1990s, even when Pérez was impeached and succeeded by president Rafael Caldera (1969-1974 and 1994-1999) in 1994. A year after Caldera took office, the Venezuelan banking system collapsed, and Venezuela was again in need of financial aid. This time, they were assisted by the WTO which, subjected to a disproportionate amount of US power, pushed for free trade. Venezuela was obliged to deregulate and privatize the oil industry even further (Kozloff, 2006, p. 57). This was reversed after Chávez came to power in 1999. Within the first year of his presidency, he again nationalized the oil industry.

Throughout all these shifts between privatization and nationalization, the bilateral trade in oil remained of great importance to both states. Especially in times of military conflict, the US demand was big and oil trade was crucial. Venezuela remained its number one partner in this industry and Washington declared on more than one occasion that they viewed Caracas as its most reliable supplier when it came to oil (Bonfili, 2010).

One of the reasons that the US remained such an important trading partner to Venezuela was the fact that it was able to deal with Venezuela's crude oil. Without going into too much chemical details, Venezuela's crude oil is what chemists call 'sour', making it complex and expensive to refine. Therefore, not every refinery is able to handle the substance, making it unattractive to some potential trading partners (Ibid., p. 673). CITGO, a US-based energy company founded in 1910, perfected technologies needed to refine Venezuelan oil and therefore became a crucial partner. In 1986, 50% of CITGO was acquired by the PDVSA. Only four years later, the rest was taken over as well, putting CITGO completely in Venezuelan hands (Otazo, 2012, p. 1989). The CITGO refineries, however, all remained on

US soil. The influence of CITGO remained important and by 2011, the company held more than 30% of the PDVAs total refining capacity (Corrales & Romero, 2013, p. 69).

CITGO was one of the factors that created a situation of mutual dependency between the two states. On the one hand, the complex techniques needed to refine its oil made it difficult for Venezuela to find other trading partners. On the other hand, powerful companies in the US depended on the import of Venezuelan oil and the oil lobby in the US was strong (Corrales & Romero, 2013, p. 77). Over time, however, dependency shifted, and Venezuela became more dependent on the bilateral oil trade than the US. Several factors played a part in this shift. First of all, domestic mismanagement within the oil sector in Venezuela created operational problems. At the same time, discovery of new oil fields in the US led to a decrease in the amount of oil that was imported from Venezuela (Ibid., 66).

In 2006, the US Department of Energy argued that disrupting the Venezuelan oil sector would not harm the US that much, though not everybody agreed with this assessment (Ibid., p. 75). Venezuela attempted to find other trading partners for their oil but failed. They attempted to sell their oil to China, but China had access to oil with a better quality around the corner in the Middle East. Aside from that, China was not eager to risk angering the US by disrupting the economic relations between the US and Venezuela. This shows that the hold the US had on the Venezuelan oil sector was still strong, not just in the bilateral relationship, but also on a global level. This is illustrated by the fact that Chávez issued multiple threats against the US – such as blowing up the oil fields so the US could not access it anymore – but never followed through on them, since losing the US as a trading partner was too big a risk.

His anti-US rhetoric did remain strong and Chávez' threats never fully went away. Even though the mutual dependence had grown asymmetric, the US still benefited greatly from the bilateral oil trade. Bush realized that his stance against Venezuela had to change to diminish the risks of actual conflict that would harm bilateral trade. Also, destabilizing Venezuela would probably have caused disruptions in global oil prices due to the workings of OPEC. So even if losing Venezuela as a reliable oil trading partner would not cause that much trouble, the chain reaction that would be set in motion would in the end still harm the US (Corrales & Romero, 2013, p. 65).

Therefore, in 2006, the US started with what Corrales and Romero named the “talk softly, sanction softly” policy (Corrales & Romero, 2013). The first sign of their holding back was seen in the fact they did not respond to Chávez’ “the devil was here” speech at the UNGA summit described in the background section (Da Costa, 2019, p. 10). The US argued that in order to prevent Venezuela from acting on their threats, they had to hold back and leave them be to some extent (Ibid., p. 93). It appeared to the US administration that it would be better for everyone involved if they did not act too harshly against Venezuela and to maintain some amount of peace. This was also illustrated by the fact that the US never did not follow through on threats it made, including trade embargos and economic sanctions.

Though the imperialist tendencies of the US have definitely played a part in the bilateral relations between the US and Venezuela, it seems that there was no increase during the Chávez presidency. It actually seems to be the opposite of that. US imperialist tendencies were one of the reasons for Chávez to stand up against the US and gain enough support to be elected president. He managed to diminish the power of the US in his country, causing the US to take a step back from their imperialist tendencies (Bonfili, 2010, p. 675).

4.2 US political interference

When trying to exert influence within another country with the goal of weakening its government, it can be helpful to support that government’s opposition. By providing funds or (military) training, the opposition has a better chance against the government, and they might be more likely to be on your side when you are the one that put them in their position of power. Therefore, this section will look at extent to which the US embedded itself in Venezuelan politics throughout the twentieth century and during the Chávez era. Although interference at the government level decreased during the latter period, the US has always kept itself involved in Venezuela’s domestic issues to some extent.

A long list of examples throughout the twentieth century shows the way the US involved itself in other states’ domestic affairs. In Latin America, many regimes have been toppled with direct or indirect US support. One example briefly mentioned before was the US involvement in Panama’s battle for independence from Colombia. In the beginning of the twentieth century, the Panama Canal was being created. A perfect trading route for the US, since it meant that in order to reach the western side of the continent, it would not have to go

all the way around it. When in 1903 the Panamanians fought for independence from Colombia, the US supported them by, amongst other things, sending Navy ships that kept Colombia from regaining its territory. This was done in exchange for US influence over the Panama Canal zone, influence that was not wavered until almost a century later (Maurer & Yu, 2008, p. 711).

In the 1950s the US tried to build democracy in Venezuela. After leading a coup in 1948, Carlos Delgado Chalbaud, then Minister of Defense, became the leader of a military *junta*. He was assassinated two years later, leaving the country in the hands of civilian president Germán Suárez Flamerich (Rabe, 1982, p. 118). Behind the scenes, it was actually Chalbaud's Minister of Defense, Marcos Pérez Jiménez, who stood by his side during the 1948 coup, who pulled the strings. In 1952, dubious elections were held. The *junta* implemented very restrictive laws for these elections, meaning that the government decided who was allowed to campaign. Nobody was surprised when Jiménez won and took office (Ibid.). During the years that Venezuela was governed by a military *junta*, the US tried on multiple occasions to restore freedom and democracy. The US ambassador, for example, repeatedly called upon the Venezuelan leaders to free their political prisoners. Mid-1950s, however, the US concluded that their efforts to build democracy had failed (Ibid., p. 119). The country did not return to democracy until Betancourt was re-elected in 1958.

Impressed and inspired by the Cuban revolution of 1959, multiple leftist groups started to emerge throughout Latin America, Venezuela included (Miller, 2016, p. 69). Venezuelan president Rómulo Betancourt (1945-1948 and 1958-1964) spoke out against the movement. Simultaneously, the US was fighting communism all over the globe. When John F. Kennedy became president of the US in 1961, Betancourt immediately made it known that he had admiration for the new American leader and expressed his desire for close cooperation (Ibid., 72). This was the beginning of a strong relationship between Washington and Caracas, focused on the eradication of communist threats in the region. Throughout his presidency, Betancourt's foreign policy was characterized by attempts to obtain Washington's support and he did so successfully (Carioso, 2018, p. 253). During this time, the US prioritized the creation of counterinsurgency in Venezuela and the CIA became a valuable partner to the Betancourt government (Miller, 2016, p. 91).

Relations remained stable after the succession of Betancourt and the murder of Kennedy. In the 1970s and 1980s, Venezuela was globally recognized as an exceptionally stable democracy, something that was not found anywhere else in the developing world (Coppedge, 2002, p. 9). Until Chávez was elected at the end of 1998, Venezuela held a special place in US foreign policy. Venezuela had earned this position due to “the economic weight of oil and the stability of the system.” (Carioso, 2018, p. 254). Also, relations between political and business elites from both countries remained friendly and cultural and economic dependence made Venezuela a reliable and strategic oil supplier (ibid.).

In 1989, Carlos Andrés Pérez was chosen as the Venezuelan president for the second time. The US openly spoke out in favor of the Pérez government and its policies on multiple occasions. First of all, when Pérez implemented austerity measures after economic decline as result of the global oil crisis. But even more so after Pérez suffered through two attempted coups in 1992. The US, who wanted to build democracy throughout the entire globe, was very clear in its condemnation of the attempts. When Chávez, who led one of the coups as a military officer, applied for a US visa in 1998 as a presidential candidate, he was refused. The US ambassador stated: “I don’t know anyone in Venezuela who thinks that Chávez is a democrat” (Raby, 2011, p. 163). When Chávez got elected and did visit the US as president, he was greeted by a distant US president, Bill Clinton (1993-2001), who took a cool stance towards the Venezuela president (Ibid.).

Cool turned to hostile after the US presidency was taken over by George W. Bush in 2001. Bush immediately took a hard stance against Venezuela, accusing the Chávez government of causing instability in the region, facilitating illegal drug trade and he openly condemned Chávez’ policies surrounding oil (Carioso, 2018, p. 257). After the attacks on 9/11, Bush called upon the world to support him and his war on terror. He announced that “you’re either with us or against us.” In one of his most clear public provocations, Chávez spoke out against the idea of fighting terror with more terror and thereby positioned himself against the US (Williams, 2011, p. 273). Much tension was created and both leaders had no kind words for the other. Meanwhile, the US was providing the opposition with military support. When Chávez was briefly overthrown in the beginning of 2002, the US recognized temporary president Pedro Carmona Estanga (Carioso, 2018, p. 258). Though Washington’s own research showed no involvement in the coup, Chávez was convinced that the US had played its part in temporarily ousting him (Ibid.).

The relationship reached a low point in 2002. At the end of the year, Chávez was faced with the largest national strike of his presidency. The strike was initiated by the opposition and caused workers from all kinds of sectors, from oil workers to teachers and from members of the press to businessmen, to lay down their work. The strike led to enormous economic losses and was aimed at removing the president from power (Rentner, 2004, p. 353). During this time, the opposition was still heavily supported by the US government and Chávez started to openly use the term “imperialism” when referring to his northern neighbors (Carioso, 2018, p. 259).

A year later, the US Albert Einstein Institution – a nonprofit organization for the study of nonviolent action in conflict – touched ground Venezuela. A few high-ranking members visited Venezuela with the purpose of helping the opposition formulate “a strategy based on soft-stroke techniques to “restore democracy” in Venezuela” (Carioso, p. 260). At the same time, the US used its Carter Center, run by former US president Jimmy Carter, to form a resolution amongst the opposition in order to fight the crisis Venezuela was facing (Gill, 2019).

In 2008, another spat occurred. Bolivia’s socialist president Evo Morales, one of Chávez’ closest allies, accused the US of being involved in an attempted coup against him and his government. As a response, both Morales and Chávez expelled their US ambassadors and the US returned the favor (Carioso, 2018, p. 263). The same thing happened two years later, after the US accused Venezuela of having links with the illegal Colombian drug trade and FARC (Ibid.).

Although the US has always been known for its tendency to involve itself in the domestic affairs of other states, it took special interest in Chávez’ and his attempt to spread socialism throughout the Latin American region. While the US dialed back on the economic side, involvement within the political system did increase to some extent. In every step of Chávez’ presidency, the US was present, from the moment he first applied for a visa as a presidential candidate in 1998 until US president Obama announced that “a new stage [was] opening for Venezuela” after Chávez died in office in 2013.

4.3 Venezuelan push for regional integration

In order to counter a superpower, countries sometimes opt to increase their power by forming alliances, both formally and informally. An example that is often found is regional integration. By forming a block, you give yourself (and your neighbors) more relevance on the world stage. Regionalization has always taken place in the Latin American region, starting as early as when independence from the Spaniards and Portuguese was first accomplished. But there has definitely been a spike since the start of the twenty-first century. This section shows the different initiatives related to regional integration that have been taken, starting with the foundation of the Pan-American Union in 1910 and tracing regionalization all through the twentieth and early twenty-first century.

After US independence in 1776, Latin American countries started to yearn for freedom from the Spaniards and Portuguese rule as well. The call for independence got stronger and in 1804, Haiti was the first country in the region to achieve it. By 1824, under the leadership of several *libertadores*, the Spaniards and Portuguese had lost control over all Latin American countries (De la Pedraja, 2011, p. 62). Of one the most crucial and well-remembered *libertadores* was Simón Bolívar, who led the battle for independence in Colombia, Venezuela, Bolivia and Ecuador. Bolívar spoke the words “*en la unidad de nuestras naciones descansa el glorioso futuro de nuestros pueblos,*” which translates to the idea that a united Latin America would lead to a glorious future (Collier, 1983).

These words were a big inspiration to Chávez and when he ran for president in 1998, he often referred to Bolívar’s dream of a united South America. In the first year of his presidency, Chávez had the constitution amended and renamed the country *República Bolivariana de Venezuela* in honor of Simón Bolívar. He attempted to carry out Bolívar’s ideal of joining forces and forming a powerful bloc with more relevance and power on the world stage and thereby securing the glorious future Bolívar dreamed off (McCarthy-Jones, 2014, p. 47).

The pre-Chávez era was known by a policy of open regionalism. This has been defined as “economic agreements as intermediate steps in the process of integration into the world economy” (Creamer, 2002, p. 101). This type of integration in the Latin American region started as early as 1910 with the foundation of the Pan-American Union, the forerunner of the Organization of American States (OAS) which is now the oldest still functioning regional organization in the world (Söderbaum, 2016, p. 19). Through economic integration with the

US, the region slowly started to enter into the global economy. Over the course of the twentieth century, several regional organizations were founded, amongst them were the *Asociación Latinoamericana de Libre Comercio* (ALALC; Latin American Free Trade Association) and the *Mercado Común Centroamericano* (MCCA; Central American Common Market) which were both founded in the 1960s (Chodor & McCarthy Jones, 2013, p. 213). The power the US had within the OAS, however, gave it the opportunity to set the agenda not only for OAS policies, but also for the entire Latin American region. This meant that even policies within the ALALC and the MCCA were characterized by ideas that originated in the US, especially when the power of the US grew after the Cold War (Ibid.).

During his presidential campaign, Chávez had already started to argue that regional, political integration was needed to shape a solid bloc against the US (Ibid., p. 216). He did not receive much support for the joining of political forces at first, though economic integration remained important. In 2003, Brazilian president Itamar Franco proposed the founding of the *Área de Libre Comercio de América del Sur* (ALCAS; South American Free Trade Agreement) as a regional response to the almost similarly named North American Free Agreement (NAFTA), which consists of Canada, the US and Mexico (Briceno-Ruiz & Ribeiro Hoffmann, 2015, p. 54). A year later, Chávez made a new attempt and created the *Comunidad Sudamericana de Naciones* (CSN; Community of South American Nations). Against Chávez' wishes, the focus of CSN was still highly economic. But Chávez was not known for giving up easy and in 2008, the CSN was renamed the *Unión de Naciones Suramericanas* (UNASUR; Union of South American Nations).

In 2004, the same year that CSN was founded, Chávez also stood at the cradle of the *Alianza Bolivariana para los Pueblos de Nuestra América - Tratado de Comercio de los Pueblos* (ALBA-TCP; Bolivarian Alliance for the People of Our America – People's Trade Treaty). In cooperation with Cuba's Fidel Castro, the intergovernmental organization was founded to deepen social, political and economic integration of Latin American and Caribbean countries. Cuba was one of Venezuela's biggest allies throughout the Chávez era. He and Castro found each other in their socialist ideas and worked together closely. Chávez used oil to form ties with other nations and in the case of Cuba, he traded oil for medical personnel, which Venezuela desperately needed (Westhoff et al., 2010). Oil was used to reel in other allies as well. Countries such as Bolivia and Ecuador were provided with cheap oil and condition-free aid – paid by oil revenues – which they would never get from the US. This way, Chávez made

sure to keep his neighbors on his side (Corrales & Romero, 2016, p. 216). He formalized this by founding PetroCaribe with thirteen other Caribbean countries in 2005. Chávez vowed to provide the other member states with oil for low prices and friendly conditions (Cerderlöf & Kingsburry, 2019, p. 124). With these alliances formed with the use of oil provision, Chávez managed to spread his socialist ideas throughout the region. This process became known as the Pink Tide and was conceived as a great threat by the US.

In 2011, the *Comunidad de Estados Latinoamericanos y Caribeños* (CELAC; Community of Latin American and Caribbean States) was founded as an alternative to OAS. The most important difference: CELAS excluded the US from joining as a member. At the first summit, Chávez clearly stated what CELAC's goal was to rise up against US hegemony. By citing the Monroe Doctrine during the founding summit of CELAC, he showed that the US had always interfered in the region and that CELAC should replace the OAS. At the same summit, Nicaraguan president Daniel Ortega stated that CELAC would be “the death sentence for the Monroe Doctrine” (Kennedy & Beaton, 2016, p. 53).

All these organizations had one very important aspect in common: the US was not invited to join. Chávez had initiated all these forms of cooperation with the clear goal of keeping the US out and decreasing the US' ability to set the agenda in the region. Countries that were close to the US, such as Colombia and Mexico, suffered from Chávez' interference as well, since the ties they had increased the US' influence (Corrales & Romero, 2016, p. 215). Colombia has alleged many times, for example, that under Chávez' presidency, insurgents belonging to both FARC and the ELN – Colombian *guerilla* groups tied to international narco-criminality – had been given refuge in Venezuela (Raby, 2011, p. 166).

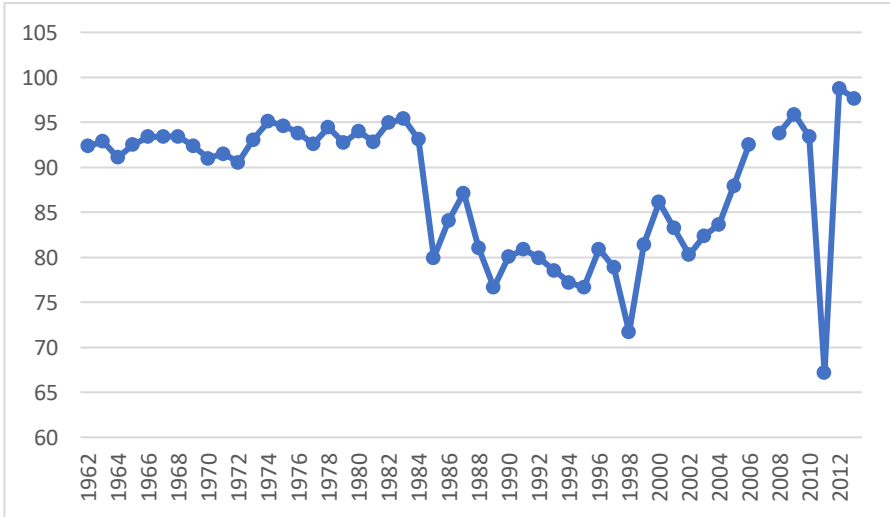
Regional integration has always played a part in the Latin American. There was a clear shift, however, from the open regionalism in the pre-Chávez era and the strengthening of regional economic and political integration under Chávez' presidency. Chávez made it very clear that one of his reasons for wanting unity was the desire to gain enough power and support to be able to stand up to the US. He publicly spoke about the pain of the Monroe Doctrine and the imperialist tendencies of the US and the wish to take ‘the empire’ down.

4.4 Venezuela’s nationalization of key industries

In order to keep the influence of foreign enterprises in important economic sectors to a minimum, it can be helpful to have some amount of government control within the sector. By nationalizing the domestic companies that are active within the sector, the government is able to have near complete control over everything that happens. By controlling everything that goes on within these State-Owned Enterprises (SOEs), the government has the opportunity to navigate economic activities to follows its political ideals. Since the discovery of oil, the Venezuelan government has struggled with the right governance in its most important sector. The first step towards nationalization was taken in the 1970s and since then, control over the key enterprises changed hands more than once. Over the last two decades, government has taken almost complete control over the sector with the goal of protecting it from outside forces while maintaining the benefits needed for social domestic policies.

It is impossible to write about Venezuela’s political and economic relations without talking about its key industry: oil. In the beginning of the twentieth century, oil was discovered in the region of *Lago de Maracaibo* and oil production started in 1913. By 1925, oil became the country’s most important industry (Myers, 2014, p. 210). Production and export grew, as is shown in figure 1 (World Bank, n.d., a), between the 1960s and mid-1980s. Oil accounted for approximately 92-94 percent of total exports. There was some decline in exports starting after the global oil crisis of the 1980s, but it remained high and started increasing again in the mid-1990s (Auty, 2005, p. 42). Being a part of the founding group of OPEC-states, Venezuela gained relevance on the global level due to its large oil reserves.

Figure 1: Fuel exports (% of merchandise exports)



For every government, the question of dealing with oil was crucial. Choices had to be made about international trade, government control, oil workers and oil revenues.

The year of 1975 marks an important year for the Venezuelan oil industry. A disappointing fall in global oil prices occurred in the 1960s (Hellinger, 2000, p. 8). This led to a decrease in investments into the oil sector and oil output even started to decline in 1970, as can be seen in figure 1. The cause of this, Venezuelan officials argued, was that up until that point, the sector was characterized by rent-seeking policies with little strategy for the long term (Philip, 1999, p. 365).

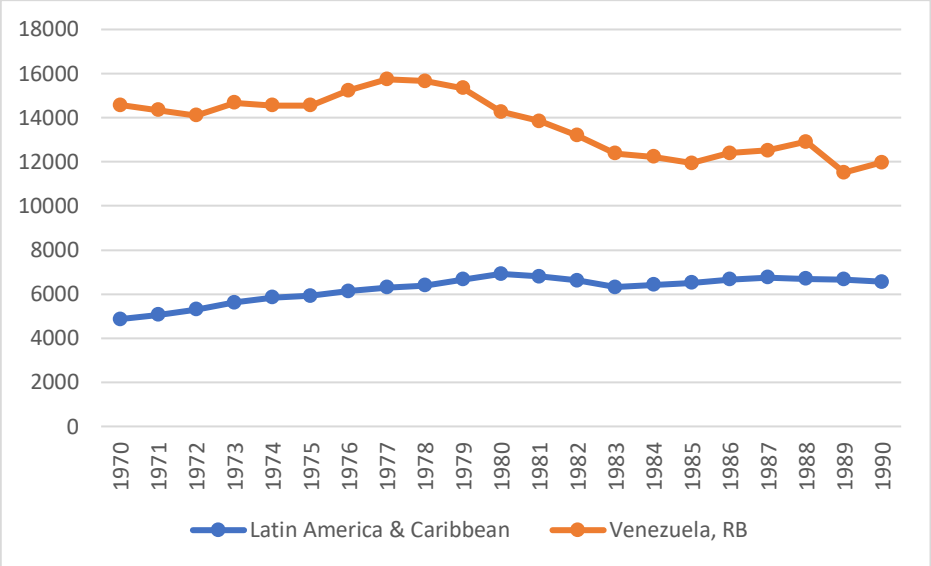
During this time, governmental control was increased slowly, but in 1975, the entire sector was nationalized with the *Ley Orgánica que Reserva al Estado la Industria y el Comercio de los Hidrocarburos* (LOREICH; Organic Law Reserving to the State the Industry and Trade of Hydrocarbons) that founded SOE *Petroleos de Venezuela Sociedad Anónima* (PdVSA; Petroleum of Venezuela, S.A.) in 1976.

An investment program launched by the PdVSA had the goal of reversing decay of the old oil fields and stimulating innovation than would benefit the oil sector – and thereby the Venezuelan economy – in the long run (Mommer, 1998, p. 22). However, there were many concerns on the internal organization and efficiency of the PdVSA. Managers of several foreign companies associated with the oil sector clearly expressed that they would discontinue their work if their operations were not guaranteed a certain amount of autonomy (Philip, 1999, p. 366).

The government was all too aware of the importance of both the efficiency of the oil sector and the presence of these oil companies. Oil rents were, after all, still crucial for the state's economy. Therefore, it also feared for too much political involvement and therefore, the PdVSA was given a large amount of independence (Ibid.). Moreover, Article 5 was added to LOREICH which stated that the PdVSA was free “to associate with foreign oil companies” (Baena, 1997, p. 15). This meant that, although the oil sector was officially nationalized, the government still did not have complete control and outside forces, such as the US-based oil companies and, by extension, the US government, still had the opportunity to influence the Venezuelan oil sector.

In the years that followed, the PdVSA was practically run as a private company, meaning that the government was not involved in internal decision-making. The PdVSA worked on creating profit, paid taxes over those profits and the government spent those taxes based on political choices (Philip, 1999, p. 366). This scheme worked out well since oil profits were so high that the government was able to finance many social programs throughout the country. During this time, Venezuela was one of the most prosperous states of the region, as is shown by figure 2, which plots GDP per capita in Venezuela against the average GDP per capita of the entire Latin American and Caribbean region (World Bank, n.d., b). The tides were turned, however, when the oil sector collapsed after a long period of decreasing global oil prices in the 1980s.

Figure 2: GDP per capita (constant 2010 US\$)



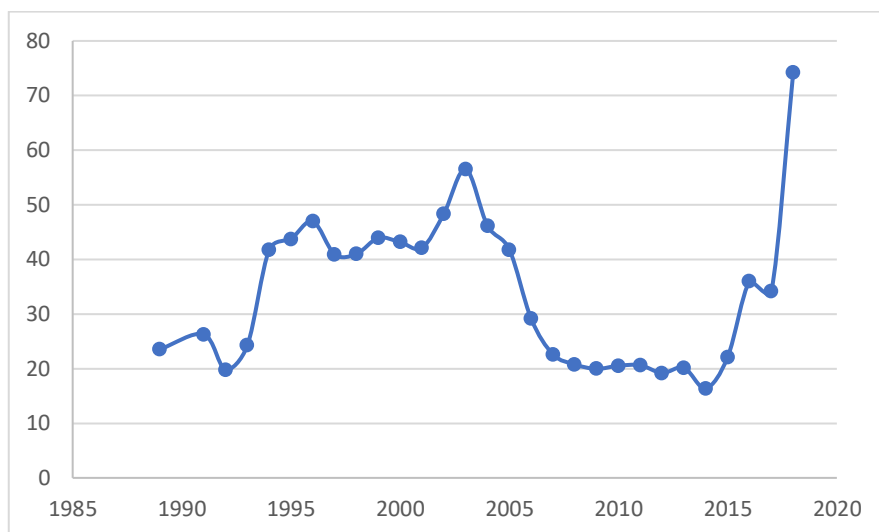
The collapse of the global oil sector also meant the collapse of the oil-dependent Venezuelan economy. The taxes earned through the production and trade of oil went down drastically, causing poverty to rise and forcing the government to cease funding for many of its welfare policies (Rentner, 2004, p. 356).

Deteriorating living standards across the once so wealthy country led to social unrest. As explained before, president Pérez was chosen to clean up the economic mess. In 1989, the year Pérez was inaugurated for his second term as president, government officials started to develop a policy that became known as the *Política Petrolera de Apertura*: The Oil Opening

Policy (Mommer, 1998, p. 1). Abandoning the monopoly that the PdVSA had had since 1976, the sector was opened up to foreign investors in 1994. Many large players such as ExxonMobil and Shell took advantage of the policy and entered the Venezuelan oil sector, causing production to boom again (Monaldi, 2014, p. 3). But, while profits started to rise again, the US also started to regain more influence within the sector and therefore, US influence in the region increased as well.

While the sector was privatized, the top of the PdVSA and the Venezuelan government got more intertwined. It has been argued that the close cooperation between the two were a result of the Oil Opening Policy, since this policy caused production to grow, export to increase and therefore, PdVSA's income grew. How intertwined they were became clear by the fact that PdVSA executives were "frequently to be seen on television news programs defending government economic policies, even when there did not directly pertain to oil" (Philip, 1999, p. 371). Between 1994 and 1998, output grew from 175,000 barrels per day to 3.4 million barrels per day and with that, taxes rose again, benefiting the economy as a whole (Philip, 1999, p. 371-372). Many Venezuelans still living in poverty, however, did not manage to see the positive side of the changes in the oil sector. Especially since it went hand-in-hand with unpopular austerity measures. Figure 3 shows the increase in poverty that started in 1989 (Inter-American Development Bank, n.d.). The people felt as though the revenues were only used for the elite, while the average person did not benefit at all from the newfound economic prosperity. While discontent increased amongst the Venezuelan people, Chávez had started his presidential campaign, opposing both the Oil Opening and US involvement as a whole. This, together with his earlier coup attempt in 1992– when the government was heavily criticized – made him very popular amongst the Venezuelan people (Rentner, 2004, p. 358).

Figure 3: Poverty rate (% of population with income below \$5 a day)



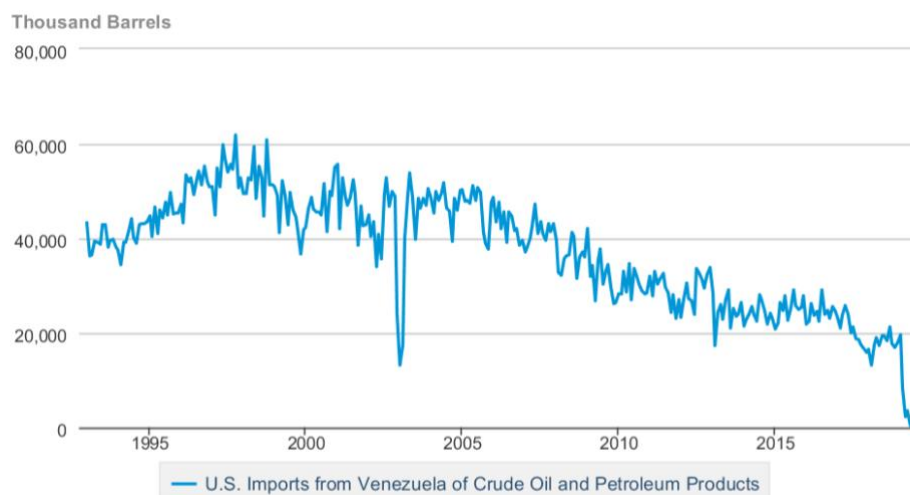
In his first year as president, Chávez appointed a group of people to rewrite the constitution with the goal of radically changing the country's political institutions. One of the main elements in the constitution and Chávez' platform as a whole was a more central role for the government in the economy and in economic distribution specifically (Levine, 2002, p. 266). The section of the constitution that arranges the government's role in the economy refers exclusively to the hydrocarbons sector, stating amongst other things that hydrocarbons are public property and that the hydrocarbons sector has to serve the public and is therefore reserved to the state (Venezuela Const. art. 12). This put all control over the sector back into the hands of the government. Private companies were still allowed to take part, but only within the context of government policies, meaning that outsiders could make less of an impact on the sector and thereby on the Venezuelan economy as a whole.

The constitution also contained an enabling law which would give Chávez the freedom to rule by decree in a number of sectors. One of the 49 laws he enacted unilaterally was the *Ley Orgánica de Hidrocarburos* (LOH; Hydrocarbons Law) which replaced the 1975 LOREICH (Fry & Ibrahim, 2013, p. 242).

Under this law, the state was required to maintain more than 50 percent participation in every new petroleum project. Also, the PdVSA had to be involved in every project with private investors through joint ventures and all joint ventures required the PdVSA to hold a majority stake (Rentner, 2004, p. 362). The Ministry of Energy and Oil was given full control in most

hydrocarbon-related issues and royalties due from operating companies were doubled to 30% (Fry & Ibrahim, 2013, p. 244). This surpassed the amount of royalties that were due in any of the other OPEC countries, none of their rates exceeded 20%. This effectively discouraged foreign investment. What also discouraged foreign involvement in the sector, as argued by the Venezuelan-American Chamber of Commerce, was the fact that the new LOH “provided no guarantee of property rights for private companies, nor any assurance of the fulfillment of contractual obligations in existing contracts” (Rentner, 2004, p. 363). The main goal of this, as was set out in the constitution, was the protection of oil revenues to make sure it could be redistributed amongst all Venezuelan people. At the same time, however, Chávez used these policies to harm an ‘outsider’: the US. By limiting the chances US oil companies had within the Venezuelan oil sector, he successfully used his domestic economy and SOEs to disadvantage another state.

Figure 4: US imports from Venezuela of crude oil and petroleum products (x thousand barrels)



However, as figure 4 (U.S. Energy Information Administration) shows, though oil exports to the US decreased to some extent, it never ceased. Oil was too important for the Venezuelan economy, accounting for more than 90% of its total exports (Sullivan, 2014, p. 47), to completely push out the US and its companies. Especially since 60% of their exports went to the US and the US-based CITGO was still so important for the refinement of crude Venezuelan oil (Williams, 2011, p. 275). Moreover, Chávez’ social programs were funded by the oil revenues. At the same time, the US still needed the oil import for its own industrial sector. What did change, however, was that, as opposed to the earlier nationalization of the oil sector, the government now had near complete control and the power of foreign private companies was limited. By creating a powerful SOE, Chávez managed to make trade follow

the flag: his political ideas against the US were shown through his economic stance towards the oil sector and bilateral oil trade.

5. Conclusion

This thesis aimed at answering the following question: *What determines the level of animosity in the bilateral relationship between the US and Venezuela under Hugo Chávez' presidency (1999-2013)?* An assessment of the existing literature led to four indicators that, when combined, might explain the problems that arose between the two states. Each of these indicators led to a sub-hypothesis. First of all, it was expected that during the Chávez era, (1) the US would show more economic interference and (2) political interference in Venezuela's domestic system. Simultaneously, Venezuela's (3) initiatives toward regional integration and (4) the nationalization of its key industries were argued to increase in this time period, aimed at diminishing US power in the region.

Although all indicators played an important role in the bilateral relations between the two countries, evidence was not found for all four sub-hypotheses. When it came to US imperialist tendencies, it appeared that this mostly occurred before the inauguration of Chávez as Venezuela's president. It can therefore be seen as a cause of the rise and success of Chávez and his anti-US platform, but no evidence was found for increasing imperialist tendencies during the Chávez era. On the contrary even, the US opted for a 'talk softly, sanction softly' policy in order to safeguard its own interests derived from the Venezuelan oil sector.

On the Venezuelan side it did become clear that both indicators, regional integration and nationalization of key industries, increased while Chávez was leading the country. A large amount of regional organization was founded on Chávez' initiative and the US was excluded from all of them. Many statements made by Chávez showed that an important goal of the foundation of these organizations was the ability to stand up against the US as a united regional front. Chávez also forced strong nationalization and government control onto the oil sector. Though this was not solely directed at the US, the fact that the US had such a strong influence on the Venezuelan oil sector combined with Chávez anti-US rhetoric does show a clear motive against the US.

Overall, it can be concluded that the hypothesis cannot be fully accepted. The hypothesis stated that all four indicators would increase during the Chávez era, but research showed that only those on the Venezuelan side showed an increase. It has, however, become clear that all of the four indicators played a part. The causality was reversed, however, in the case of the

indicators attributed to the US. This provides us with an interesting insight into the workings of bilateral relations and what can cause them to turn sour. At the same time, the lack of true escalation of the conflict shows the cruciality of the mutual economic advantages that are being derived from, in this case, bilateral oil trade.

That escalation, however, did occur eventually after Chávez passed away in office and Nicolás Maduro took office. As of today, Venezuela not only has terrible relations with the US, but with a large part of the world. Since Chávez' succession by Maduro, the economy has completely collapsed and Maduro is now widely referred to as a true dictator. The opposition was silenced by the government and many countries all over the world now recognize Juan Guaidó, opposition leader, as Venezuela's interim president. This falls outside the scope of this thesis, but it would be very useful to take the theories and indicators used here to look into the post-Chávez era as well. That way, it might be possible to figure out what the exact point of escalation was and where mutual economic benefits stop being enough to halt a downward spiral within bilateral relations.

Furthermore, this research is limited to some extent because it has only assessed a single case. While these indicators played an important part in the relations between the US and Venezuela, they might not be applicable in other bilateral relationships. Generalization was not the main goal of this thesis and therefore, external validity is limited. However, it could be interesting and useful to conduct further research into the workings of the identified indicators to determine whether there is a wider relevance within the study of bilateral relations.

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