How Sanctions Contributed to Venezuela's Economic Collapse

9-12 minutes ⋮ 1/13/2023

A demonstrator holds a sign with a message that reads in Spanish: "Trump unblock Venezuela" in Caracas, August 7, 2019. Source: AP.

During the past decade, Venezuela lived through the largest economic contraction documented in the history of the Western Hemisphere. The implosion took place at the same time as the U.S. government barred oil purchases, froze government bank accounts, prohibited the country from issuing new debt, and seized tankers bound for Venezuela. One would think it should be self-evident that any account of Venezuela's economic contraction would place economic sanctions in a central role.

However, sanctions play a surprisingly limited role in most mainstream accounts of the Venezuelan crisis. A recent Council on Foreign Relations background piece on Venezuela mentioned sanctions only in passing and instead attributed the country's economic collapse to "decades of poor governance" and the "perils of becoming a petrostate." Likewise, Assistant Secretary of State Brian Nichols deflected questions about the impact of Venezuela sanctions asserting that "the responsibility for the humanitarian situation in Venezuela falls squarely on the shoulders of the late Hugo Chávez and Nicolás Maduro."

Part of this is to be expected. When Secretary of State Madeleine Albright was pressed in the 1990s about the humanitarian effect of UN sanctions in Iraq, she responded by showing photos of palaces built by Saddam Hussein. When Florida Senator Marco Rubio was presented with arguments about the effects of the U.S. embargo on Cuba, he replied that the only blockade on Cuba was the one imposed by the Cuban regime. Sanctions are used in the midst of political conflicts, so it is normal that debates around their use get rapidly politicized. Many opponents of Maduro see sanctions as the only instrument through which they can pressure the regime and fear that discussions of their negative consequences play into Maduro's hands.

Yet if what we want is to understand how the international community can help Venezuelans, we also need to know the real effects of sanctions. Understanding how and when to use sanctions requires a balanced and objective debate about their impacts that is focused on the evidence and not clouded by political biases.

What the Data Say

For the past one hundred years, Venezuela's economy has been highly dependent on oil, which accounts for more than 90 percent of exports and more than half of fiscal revenue. When oil revenues rise— regardless of whether it happens as a result of increased production or prices—the economy expands. When they tank, so does GDP.

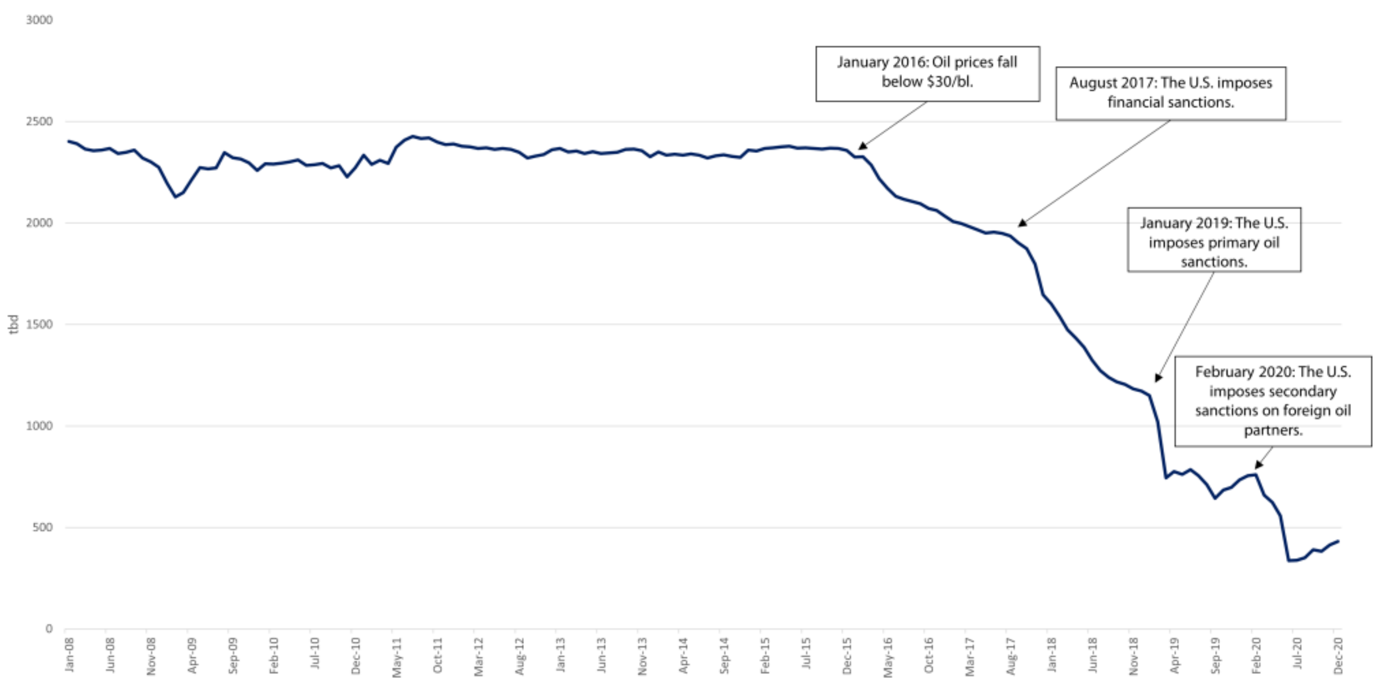
It is thus not surprising that Venezuela's economic collapse coincides almost perfectly with a massive decline in oil revenues. After rising for more than a decade, oil revenues fell by 93 percent between 2012 and 2020. During this same period, per capita income declined by 72 percent. The trigger of the contraction was that Venezuela was left without foreign currency to pay for the imports that fuel its economy. Similar import and growth collapses occurred in Iraq, Libya, Iran, and other oil exporters when they faced sanctions limiting their capacity to sell oil internationally.

Between 2012 and 2016, most of the decline in oil revenues was caused by falling oil prices. The price of a basket of Venezuelan oil peaked at USD $103 in 2012, and then plummeted to $36 by 2016. Up until that moment, Venezuela's recession looked like several of its other prior historical crises, driven by a decline in its foreign currency earnings caused by changes in world oil market conditions. Obviously, Hugo Chávez and Nicolás Maduro bear a great deal of responsibility for this recession, as their overspending and mismanagement left the country unprepared to deal with the negative terms of trade shock.

However, the story from 2017 on, is different. During the following two years, oil prices rose. Normally, those years should have seen economic recovery as the country had access to increased oil revenues. In fact, when the recovery in oil markets began, many analysts projected positive growth for Venezuela. That growth did not materialize because oil production declined—a decline that evidence shows sanctions played an important role in.

It is instructive to look at the data more closely. While some may tell you that the decline of the Venezuelan oil industry began long before sanctions, the data tells a different story. Venezuela's oil output was stable in the 2008-15 period. It then declined moderately in 2016, when oil prices collapsed. Many other oil exporters saw similar declines at the time. Yet when oil prices began recovering in 2017, output stabilized in other oil producers—but not in Venezuela. That was the year that the first sanctions hit.

Venezuela's Oil Production, 2008-2020



Source: OPEC.

There are three clear inflection points in the oil production series: when the United States first imposed financial sanctions, when it imposed oil sanctions, when it placed sanctions on foreign partners that helped sell Venezuelan oil. All of them are associated with strong declines in Venezuelan oil production. Patterns such as this, where separate instances of policy interventions are associated with clear observable effects, are quite rare in time-series data. When they occur, they are the statistical equivalent of a smoking gun.

There are other ways to analyze Venezuela's oil production data that also show that sanctions had significant negative effects on the Venezuelan oil industry. In a paper published last year in the *Latin American Economic Review* on joint oil ventures in the Orinoco Basin, I found that it was the firms that had access to international financing prior to sanctions that suffered the most. This confirms that cutting the oil industry off from international finance hurt its capacity and helped drive the contraction in oil production.

An argument often repeated by those who discount the effect of sanctions is that Venezuela's crisis preceded the imposition of sanctions. They argue that if the economy was in recession well before 2017, surely the sanctions cannot be the cause of the crisis. Logically, this is a very sloppy argument. It starts from the premise that an economic crisis has just one cause, so since the crisis began before sanctions, they cannot be the cause. However, social and economic phenomena have many causes. There is no reason why sanctions, mismanagement, corruption, and declining oil prices cannot all have contributed to the crisis. What the evidence tells us is that Venezuela's economic collapse is really the combination of two crises—prior to 2016, it was driven by falling oil prices, but after 2017, sanctions impeded the economy from recovering by reaping the benefits of higher oil prices.

Beyond sanctions

Sanctions were only one of the measures deployed by the United States as part of its strategy to oust Maduro. Another key action was the decision to recognize the interim government led by Juan Guaidó and transfer to it control over Venezuela's offshore assets. Doing so blocked Venezuela from accessing its U.S. refineries, obtaining financing from multilateral organizations, or even using most of its international reserves.

These measures had significant effects that go well beyond their impact on the Venezuelan government. For instance, Venezuela saw a 65 percent decline in the number of correspondent banks that were willing to process international transactions and a 99 percent decline in the value of those transactions between 2011 and 2019. This meant that Venezuela's private sector was less able to engage in international trade or payments. Despite claims that they targeted the Maduro regime, the sanctions had indiscriminate effects on the country.

The End of a Strategy

On December 30, Venezuela's National Assembly decided to put an end to Guaidó's interim presidency. The decision marks the final chapter of a strategy that sought to generate political change in Venezuela by relying on the support of the international community.

Its failure is unsurprising. The U.S. went into Venezuela with the same *hubris* with which it typically enters other foreign policy minefields. Despite overwhelming evidence that electoral boycotts do little more than hand off power to authoritarian regimes, it encouraged the Venezuelan opposition to sit out elections. Predictably, opposition politicians became more adept at lobbying Washington than in doing the hard work of mobilizing voters to oppose Maduro. Multiple corruption scandals also fed into a growing disenchantment with the opposition.

Much like the rest of the region, Venezuela is incredibly polarized. The pursuit of maximum-pressure sanctions strategies deepened this polarization, convincing many Venezuelans that the U.S.-backed opposition was just as insensitive as Maduro to the plight of ordinary people. By refusing to engage with moderate centrist forces and throwing their support behind hardliners more interested in wresting power from Maduro than addressing Venezuela's humanitarian crisis, the United States helped convince many Venezuelans that a change in government would not bring true democracy.

A new strategy is sorely needed if we want to help Venezuelans' fight for democracy and human rights. This strategy should prioritize domestic mobilization, building of strong alliances with civil society, and confronting Maduro at the ballot box. The approach should be genuinely homegrown and reflect the true plurality of Venezuelan voices that oppose Maduro. Damaging the Venezuelan economy should not be part of it.

***Francisco Rodríguez** is the Rice Family Professor of International and Public Affairs, Josef Korbel School of International Studies, University of Denver.*