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Venezuela in Transition

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Abstract: It was the 1970s, and Venezuela was awash in oil money. A lavish metro system was being built in Caracas, Skyscrapers were rising across the country as foreign companies took part in the growth. Venezuela was a poor country until the discovery of oil in 1922.

The government nationalized foreign-owned assets and began a sparring match with the United States, only to run out of cash when oil prices crashed. Millions fled as the country buckled under American sanctions. Venezuela's economy collapsed. It no longer manufactured many of the most basic items, and it could not afford to import them from abroad. Years of price controls meant it was difficult to earn profits since the prices rarely covered costs.

Persistent inflation, growing fiscal deficits, and shortages of foreign currency continued. The government required all requests for foreign currency to go through a government agency with exchange at the official rate. The country devalued its currency by 32% on February 13, 2013, to address persistent inflation. The official exchange rate for its currency, the Bolívar, moved from 4.3 per dollar to 6.3 dollar.

The U.S invasion on January 3, 2026, captured President Maduro and transferred him to the U.S. to stand trial. The U.S. invaded without a specific plan for the next steps. Despite the stated formation of a transition government and U.S. oil companies were expected to revive the oil industry, it appeared any transition in the economic, legal, and political systems were not immediately forthcoming.

Keywords: *Authoritarian, Devaluation, Inflation, Naturalization, Sanctions, Transition.*

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Introduction

It was the 1970s, and Venezuela was awash in oil money. A lavish metro system was being dug out of the soil in Caracas, Skyscrapers were rising in the capital and other cities as foreign companies sought take part in the bonanza (Casey 2026).

The country went from democracy to dictatorship within the last twenty-six years. The government nationalized foreign-owned assets and began a dangerous sparring match with the United States (U.S.), only to run out of cash when oil prices crashed. The economy collapsed amid hyperinflations. Millions fled on foot and the entire country buckled under American sanctions (Casey 2026).

Venezuela was a poor country until the discovery of oil in 1922 It became a highly visible democracy by 1960. However, declines in oil prices destabilized the country (Casey 2026).

Hugo Chávez ran for president on a populist platform in 1998, capitalizing on the anger of many Venezuelans that their government had spent decades ignoring their concerns. Chávez began an ambitious series of social programs aimed at improving the lives of the poor, underwritten by a spike in oil prices that reached record highs of $150 in 2008 (Casey 2026).

Results

The petroleum industry led to decades of ties between Venezuela and the U.S. But Chávez began to ally with Cuba. Chávez also said American companies were to blame for exploiting the country's natural resources. In 2007, he expropriated billions of dollars of assets belonging to Exxon Mobil and ConocoPhillips after the companies refused to accept reduced stakes in ventures they once controlled (Casey 2026).

In December 2005, President Chávez accelerated his socialist agenda as he nationalized companies into cooperatives that were jointly run by the state and workers (Gallegos 2005).

In April 2006, shortly after President Chavez implemented his socialist agenda, he nationalized the country's oil industry. He raised taxes and royalties on foreign oil company operations. He favored greater state control of the economy and majority control by forcing private companies to accept a minority stake. Royalties increased from 1% to 30%, and tax was raised to 50% from 34%, to ensure that the state would receive a minimum 82.5% of profits (Luhnow and Millard. 2006)

Chávez died of an illness in 2013, leaving Maduro as his successor. The next year, the price of oil began to suffer catastrophic declines, going from over $100 a barrel in 2014, to around $30 a barrel by 2016. Venezuela's economy collapsed. It no longer manufactured many of the most basic items, and it could not afford to import them from abroad. Years of price controls meant it was more expensive to produce many items than to sell them. Toilet paper disappeared from shelves (Casey 2026).

Maduro inherited a presidency with expanded powers during the oil boom. He quickly became unpopular because he lacked resources with which to govern. In 2017, he superseded the opposition-controlled congress with a group of loyalists charged with rewriting the constitution. He violently cracked down on protesters and jailed political opponents (Casey 2026).

In 2024, after banning his opponent María Corina Machado from running against him, he declared himself winner of an election that outside observers insisted he lost. The government was hanging on by a thread (Casey 2026).

Persistent inflation, a growing fiscal deficit, and shortages of foreign currency continued to plague Venezuela. The government required all demands for foreign currency to pay for imports be passed through a government agency with exchange at the official rate.

The country devalued its currency by 32% on February 13, 2013**,** to address persistent inflation and other issues. The official exchange rate for its currency, the Bolívar, moved from 4.3 per dollar to 6.3 per dollar (Minaya and Vyas 2013).

Colgate-Palmolive with roughly 5% of its sales in Venezuela, suffered a one-off $120 million post-tax loss. Since 2009, foreign firms have faced restrictions on repatriating dividends. The restrictions left almost $13 billion in dividends in the country. The problem of repatriating dividends was further aggravated when dividends were recognized at the new exchange rate. The dollar value of those dividends declined by $4.1 billion to $8.9 billion (Jopson, Mander and Johnson 2013).

Venezuela's estimated 2.3 million barrels of average daily oil output allocated 330,000 barrels per day to China to pay loans that exceeded $42 billion. Another 260,000 barrels per day were shipped to Cuba and at cut-rate prices, while 760,000 barrels per day were refined to meet local demand in the country for fuel sold at a deep discount that cost the government $12 billion. The country's dollar shortage was due to accelerating capital flight as people and businesses withdrew funds to invest abroad and sold dollars on the black (Mogollon and Kraul 2014)**.**

Venezuela selectively defaulted on its obligations as it failed to pay European airlines, American oil service companies, and Colombian food exporters, among others, as it struggled with fast-depleting currency reserves (Turner, Forero and Lyons 2014).

Shortages spread to basic goods and led to rationing. Despite stringent price controls, inflation continued to rise. Importers were denied the dollars to pay foreign suppliers even for the most essential goods (Schipani 2014).

Venezuela nationalized more than, 1400 companies. Very few of these were reopened which added to unemployment and negatively impacted the economy (Kurmanaev 2017).

As oil production dropped 29% in 2017, the economy fell into a tailspin. Much of this was attributed to incompetent management and under development in PDVSA. This was significant since declining sales deprived the country of desperately needed dollars to make critical purchases in international markets of oil equipment, food, and pharmaceutical supplies. U.S. sanctions discouraged investors, Overdue bills by PDVSA, red tape. and high taxes were a contributing factor (Kurmanaev and Vyas 2018).

Venezuela was home to the world's largest oil reserves. China was its biggest customer for years, with Russia as a crucial oil partner. Now, Venezuela's upstream became an asset for development by American oil. Venezuela holds over 300bn barrels of proven oil reserves, even more than Saudi Arabia. It was once a crucial supplier to US (Smyth and McCormick 2026).

Widespread corruption, American sanctions, and mismanagement sent production sharply lower in recent decades, to less than a tenth of the U.S.'s own output. Foreign investors fled as Caracas sought more control of its economy. The revenues from a revived oil industry were expected support a new regime in Venezuela (Smyth and McCormick 2026).

Panama, El Salvador, and Ecuador used the U.S. dollar as their official currency. They all suffered from hyperinflation and switched to the dollar as their official currency to stabilize their economies. They possessed sufficient foreign currency reserves to purchase U.S. dollars and introduced them into the system. Some suggested that Venezuela switch to the dollar since its economy remained tied to oil priced in U.S dollars. Switching to the dollar was not possible for Venezuela since it lacked sufficient foreign currency reserves to purchase U.S. dollars (Otis, and Vyas 2018).

Within hours of the U.S invasion on January 3, 2026, to capture President Maduro and bring him to the U.S. to stand trial, it was announced that U.S, energy firms were returning to Venezuela take over energy operations. Aside from bringing Maduro to trial, the motive appeared to gain access to the country's oil and natural gas reserves rather than regime change. U.S. firms were expected to spend billions to restore the energy sector to create great wealth for Venezuela, the U.S. energy sector, and the U.S. as reimbursement for past damages (Smyth and McCormick.

Discussions

Many doubted that investors were prepared to rush to the country given decades of instability and the scale of the investment needed in Venezuela's unconventional heavy oil sector. Just to maintain production at current levels to 2040 was projected to require about $65bn and northward of $100bn to get Venezuelan production back to 2mn barrels per day (Smyth and McCormick 2026).

Many questioned why the U.S. invaded Venezuela without a specific plan for what came after they captured Maduro. Previously, the U.S. engaged in a costly 20-year nation-building experiment in Afghanistan that ended in failure. Other episodes of American intervention, such as the 1989 U.S. invasion of Panama, led to a quick transition to a democratic administration. A positive transition from the current situation was possible but highly unlikely without a more structured environment (Gramer and Forero 2026).

Conclusions

While Venezuela faced an uncertain future, it was expected to be better than most of the last twenty-seven years. The political environment transitioned from a democracy to a social democracy, to a pseudo democracy, and finally to an authoritarian state. At the same time the economy transitioned from a market economy to a mixed economy and to the current command economy. Likewise, the legal system transitioned from an environment with protection of property rights to one with little if any protection of property rights. Most countries over the last twenty-seven years have moved in the opposite direction in all three categories. The transition was remarkable in a relatively short time. While many held out hope for a more positive transition, that appeared in doubt.

Given what happened in Afghanistan and Iraq after they were invaded, by the U.S. the projected outcome was not promising. This was especially true since a plan was not in place for the next step beyond Maduro and the expected investments from U.S. energy companies. More uncertainty was created since considerable doubt was raised by many of the U.S. oil majors about returning to Venezuela without a stable political, economic, and legal environment along with incentives. None of those options appeared to be part of the conversation.

The future did not appear promising for the country, its citizens or the U.S. oil fitms who were expected to revive the oil industry. The socialist agenda and the rise of totalitarianism hollowed out the country. Its future rested with oil. No mention was made about the private sector and the agricultural sector or addressing rampant inflation and building foreign currency reserves as well as restoring political freedoms. All that happened was Maduro was removed without an economic, legal or political transition or even the possibility such a transition was forthcoming.

Many hoped they did not face a twenty-seven-year timeline to return to a democratic government with a market economy and legal protections.

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