

**The Resource Curse and Democratic Development:**  
**Understanding the Role of the Petro-Economy in Shaping Democracy**

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April 23, 2014

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## **Chapter 1**

### *Introduction*

The resource curse is not a novel theory within the academic community. Academics and policymakers alike have utilized this theory in an attempt to describe the paradoxical relationship between economic underdevelopment and natural resource wealth. However, the relationship between resource wealth and the development of democracy is a more recent area of investigation. Just as theorists have shown that natural resource wealth can actually lead to stunted economic growth and greater political conflict within many countries, they have also begun to illustrate that high levels of natural resources can actually have detrimental effects on the development of democracy within resource-rich nations. No natural resource illustrates this phenomenon better than oil.

Oil is the world's largest industry (Ross 2012, 3). In 2009, oil and gas made up 14.2 percent of the world's commodity trade, while \$2.3 trillion of oil and gas was pumped from the ground for global trade and consumption (Ross 2012, 3). Petroleum is a driving force in the global economy. Booming economic powers rely on its steady flow in order to fuel increasingly complex markets and industries, and the states that harvest this resource utilize it as a key component to their overall economic growth strategies. Nevertheless, many scholars have demonstrated that oil-producing states are frequently undemocratic. Even as the regimes of the world become increasingly more democratic, the same cannot be said about oil-rich nations (Ross 2012, 72). For example, in 1980 oil-producing states made up just over 25 percent of the world's autocracies (Ross 2012, 76). By 2008, oil producers

constituted over 40 percent of the world's autocracies, indicating that petroleum-rich states have made up a growing fraction of the remaining authoritarian regimes in the world (Ross 2012, 76).

Nigeria and Venezuela, however, have appeared to escape certain elements of this disturbing trend. Nigeria and Venezuela are far from ideal democracies. They are each labeled as “partly free” by [freedomhouse.org](http://freedomhouse.org) which measures the ability of individuals in countries across the globe to vote in legitimate elections, participate freely in the political process, have representatives that are accountable to them, exercise freedoms of expression and belief, be able to freely assemble and associate, have access to an equitable system and rule of law, and enjoy economic freedoms (Freedom House, 2013). Nigeria has been plagued with controversial presidential elections rampant with corruption, vote rigging, and voter intimidation (Freedom House, 2013). Venezuela has also been plagued by corruption, the tightening of restrictions on non-governmental organizations, and high levels of government intervention in the economy via nationalization programs and price controls (Freedom House, 2013).

Nevertheless, Nigeria and Venezuela have made significant strides in comparison to many of their oil-producing counterparts. Ross (2012, 63) observes that Nigeria and Venezuela have been relatively successful at creating democratic political systems despite their oil-wealth. Nigeria experienced a democratic victory in the eyes of many in the international community following its 2011 presidential elections (The Economist, 2011). The election process was far from perfect; however, it was the first time that significant measures were taken to prevent voter

fraud and increase the accountability of vote counters (The Economist, 2011). The government spent \$580 million on new technology to modernize the election and voting process (The Economist, 2011). Venezuela has also experienced significant strides. Venezuela has the lowest levels of economic inequality of any Latin American country, and poverty levels have been cut in half since 2004 (Moncada 2013, 1). In the presidential elections in October of 2012, 81 percent of the population participated (Moncada 2013, 1; Freedom House, 2013). While far from ideal democracies, Nigeria and Venezuela have experienced important democratic developments that make them particularly intriguing case studies.

This inquiry will investigate the role that oil has played in shaping the politics and the pursuit of democracy in Nigeria and Venezuela. Moreover, I will test the experiences of these two countries against the main theories regarding the effects that natural resource wealth, particularly petroleum wealth, has on the development of democracy. Additionally, this investigation will demonstrate the extent that the oil economies of these two countries have had on preventing even further democratic development. I will investigate the role of oil in these two countries within similar time frames, examining Nigeria's oil economy since 1960 and Venezuela's oil economy since 1961. This time frame is important for Nigeria as it gained independence from Great Britain in 1960 (Freedom House, 2013). Similarly, Venezuela instituted a democratic constitution in 1961 after long periods of military dictatorships (Freedom House, 2013). These two cases should shed insight into the role that oil has played in molding the current state of Nigerian and

Venezuelan politics, particularly illustrating the role that oil has played in preventing greater democratic development in these two nations.

*Contributing Theories to the Development of Democracy*

Many definitions exist for democracy; however, many of them share key characteristics. Philippe Schmitter and Terry Karl define democracy in their famous essay *What Democracy Is...and Is Not* (Schmitter and Karl 1991). They write, “Modern political democracy is a system of governance in which rulers are held accountable for their actions in the public realm by citizens, acting indirectly through the competition and cooperation of their elected representatives” (Schmitter and Karl 1991). This system hinges on a few key factors including the right to vote amongst all adults, the right to run for office amongst practically all adults, the right to express views openly and without punishment by the citizenry, the right to form independent organizations and associations amongst the populace, and the frequent election of political officials in which they are chosen fairly and without coercion (Schmitter and Karl 1991). This description of a modern democracy should serve as a compass as we move further in my analysis.

Scholars have continuously debated the factors that contribute to the development of democracy. The world hit a critical moment in 1989 when the number of democracies exceeded the number of autocracies in the world for the first time in history (Haerpfer, Bernhagen, Inglehart, and Welzel 2009, 1). Scholars and policymakers alike were overjoyed. Democracies have been far better at protecting and respecting the human rights of their citizens, are far less likely to experience civil wars, are far more likely to resolve disputes in the international

community peacefully, and tend to be economically more advanced than non-democracies (Haerpfer et al. 2009, 1). Moreover, scholars have attempted to explain this significant development for democracy worldwide and decipher why certain countries develop democracies while so many others seem to fail. The following section will illustrate five prominent theories regarding democratization including the Capitalism Theory, The Economic Inequality Theory, the Colonial Legacy Theory, the Ethnic Heterogeneity Theory, and the International Influence Theory.

### *The Capitalism Theory*

Subscribers to the Capitalism Theory argue that the influence of capitalist economies and industrialization are key catalysts for democratization. Haerpfer et al. (2009, 77) argue that agrarian surpluses in the late Middle Ages played a significant role in the growing urban populations of European cities and the gradual development of capitalist and commercialized economies within these regions. The growing economic power of the middle class during this time gave it more leverage and negotiating power against the ruling elite (Tilly 1997). This political climate and pre-industrialized capitalism combined to create a form of democracy Haerpfer et al. (2009, 77) define as nascent democracy. Nascent democracy is a democracy where universal suffrage is not recognized, but various democratic characteristics do exist (Haerpfer et al. 2009, 77). The presence or history of nascent democracy within a state, however, gives that state a significant advantage at creating mature democracies in post-industrialized periods (Haerpfer et al. 2009, 77). Nevertheless, this development was not possible unless the middle class made up a large majority of the general population (Moore 1966). Unfortunately, the Capitalism Theory,

although extremely valuable at explaining the development of democracy on the European continent, fails to fully suffice in explaining the development of democracy outside of this region and many of its colonial offshoots.

### *The Economic Inequality Theory*

The Economic Inequality Theory aims to investigate the effects that social class struggles and wealth distributions have on the development of democracy. R.B. Collier (1999) argues that industrialization can polarize social classes and threaten the ruling elite. As the lower and middle classes gain more economic power due to industrialization, they are far more likely to call for greater political power as well (Collier 1999). In order to prevent political reforms, the ruling elite frequently resorts to state repression, and the result of this conflict can be periods of civil wars and a lack of democratization (Collier 1999). Nevertheless, Haerpfer et al. (2009, 79) argue that when resources are more equally distributed amongst social classes within an industrialized economy, the threat of hostility amongst social classes subsides. The equal distribution of wealth allows for a more inclusive political system and limits the threat of losing power amongst various political groups (Haerpfer et al. 2009, 79).

Frederick Solt (2008, 48) reinforces The Economic Inequality Theory. He argues that greater economic inequality lessens the political activism within a nation and can hinder the ability of states to execute democratic transitions. With a strengthened elite, economically unequal countries struggle to generate political participation and therefore suffer sluggish political reforms and democratic development (Solt 2008, 48). Solt writes, "...economic inequality powerfully



depresses political interest, discussion of politics, and participation in elections among all but the most affluent and that this negative effect increases with declining relative income..." (Solt 2008, 48). Solt and The Economic Inequality Theory as whole, however, fail to investigate the root cause of that economic inequality. Although economic inequality is an important factor in understanding the ability of countries to develop democracy and how their political structures are shaped, one must not forget to consider the causes of that inequality in properly diagnosing the true cause of a country's political outlook. This criticism presents an opportunity for resource curse explanations.

#### *The Colonial Legacy Theory*

The Capitalism Theory and The Economic Inequality Theory, however, have little to say on the impact of colonialism on democratization. The Colonial Legacy Theory attempts to explain the effects that colonialism has on the development of democracy in states with a history of colonial occupation. Ola Olsson (2009, 534) argues that the duration and period of colonization of certain countries affects their ability to develop democracies. Olsson (2009, 534) argues that the question of how long a country has been under colonial rule and which countries were the colonial power plays a significant role in whether or not the country is able to develop a democracy. Olsson (2009, 545) concludes that there is a positive relationship between colonial duration and current levels of democracy. Additionally, countries that were colonized after 1850 actually had an even easier transition towards democracy (Olsson 2009, 545). Olsson (2009, 545) argues that this is the result of

an enlightened era in which there was greater openness to Western ideals that further expedited modernization and democratic development in colonized regions.

Bernhard, Reenock, and Nordstrom (2004, 225) further substantiate Olsson's findings. Bernhard et al. (2004, 225) argue that there is a positive relationship between colonial duration and current democratic development and survival. They find that the longer a country was under colonial rule, the more likely it was to achieve a successful democratic transition (Bernhard et al. 245). Additionally, Bernhard et al. (2004, 245) find that former Spanish colonies actually have maintained democracies for longer in comparison to former British, German, and French colonies. However, neither Olsson nor Bernhard et al. consider more present factors that influence democratic development. Although the historical paths countries have taken are important factors in shaping their current political structure and their ability to develop democracy, current issues also play an incredibly important role.

#### *The Ethnic Heterogeneity Theory*

The Ethnic Heterogeneity Theory considers the ethnic composition of states as a crucial component to democratization. This theory argues that higher levels of ethnic heterogeneity create conflict, which serves as a hindrance to the successful development of democracy. Adrian Karatnycky (2002, 107) argues that countries with significant ethnic diversity will struggle to make democratic transitions. In the eyes of Karatnycky (2002, 107), ethnic diversity limits free speech, public discourse, and the development of representative political institutions. Utilizing data from [freedomhouse.org](http://freedomhouse.org), Karatnycky (2002, 110) finds that of the 86 "free" countries in

2001, 64 are monoethnic. Among the 57 “partly free” countries, 23 are monoethnic; and among the 49 “not free” states, 27 are monoethnic (Karatnycky 2002, 110). Of 121 electoral democracies, 79 have a dominant ethnic group (Karatnycky 2002, 110). Karatnycky (2002, 110) concludes that monoethnic nations have a far easier time developing democracies because political parties frequently form around ethnic allegiances. In monoethnic nations where there are very few ethnic divisions, political parties will instead recruit members based on economic and class-based interests (Karatnycky 2002, 110).

Donald Horowitz (1993, 18) echoes the arguments of Karatnycky. He writes, “In many countries of Africa, Asia, Eastern Europe, and the former Soviet Union, a major reason for the failure of democratization is ethnic conflict” (Horowitz 1993, 18). Horowitz (1993, 18) defines democracy as a system that relies on mass inclusion in the political system. In countries that are severely divided by ethnic lines, however, it becomes far easier to exclude various groups from political participation (Horowitz 1993, 18). Therefore, societies in which clear ethnic divisions exist face a far greater challenge in actually developing democratic systems than in countries where ethnic homogeneity is more prevalent. Karatnycky and Horowitz, however, must expand their lens when examining the factors that affect democratic development. While ethnic homogeneity may be an important component to the puzzle, neither of these authors considered the economic factors that contribute to democratic failures. Ethnic diversity is simply one piece of the puzzle, and various countries with extremely homogenous populations but very

little levels of democracy also exist. Expanding their scope into the economic influences on democratic transitions would greatly benefit their investigations.

### *The International Influence Theory*

Scholars have also demonstrated that international factors such as global conflicts and alliances play a critical role in the development of democracy within states (Haerpfer et al. 2009, 81). Democratization can frequently be the result of external factors especially the results of international confrontations and the survival of alliances amongst Western democracies (Haerpfer et al. 2009, 81). Haerpfer et al. (2009, 82) point towards three specific waves of international democratization to substantiate their argument. The conclusions of World War I and World War II and the collapse of the Soviet Union were moments in which the international community played a significant role in promoting the spread of democracy worldwide (Haerpfer et al. 2009, 82). Western powers have also contributed heavily in strengthening and maintaining democracies during periods of conflict. During the Cold War, for example, the United States attempted to maintain democracies worldwide in order to deter the influence of the Soviet Union (Haerpfer et al. 2009, 82). The International Influence Theory, however, does not fully explain the development of democracy within countries that have experienced little interference from the international community. Additionally, it fails to fully consider important cultural, economic, and societal factors in its analysis.

### *Petroleum Wealth and its Effects on Democracy: Three Views*

While the previous theories regarding democratization will be important to consider and acknowledge in the explanation for the current state of democracy

within Nigeria and Venezuela, they will not be sufficient without incorporating resource curse perspectives. Oil has played a significant role in the economic and political landscape of both of these countries. Disregarding its important influence would be a flaw in analyzing the development of democracy within Nigeria and Venezuela.

Following the end of World War Two, predominantly western scholars and policymakers believed that harnessing the benefits of natural resources would be a critical component to the economic growth and pursuit of democracy within developing nations (Rosser 2006, 7). Geographer Norton Ginsburg stated, “The possession of a sizable and diversified natural resource endowment is a major advantage to any country embarking upon a period of rapid economic growth” (Rosser 2006, 7). Scholars viewed natural resource abundance as the key factor that would stimulate growth and bring about the democratization of the developing world, and development initiatives by global institutions like the World Bank and the International Monetary Fund were focused on encouraging the resource economies of developing nations (Rosser 2006, 7).

Since the 1980s, however, scholars investigating the stunted economic growth and sluggish political development of emerging nations have challenged this view. Countries with tremendous access to natural resources continuously appeared to be plagued with civil wars, a lack of democracy, economic inequality, and stunted economic development. This observation amongst many scholars has led to the growing belief that access to abundant natural resources can be a problematic curse rather than a blessing (Ross 1999, 297). With 75 percent of the world’s nations still

relying on commodity exports by 1999 for more than half of their export income, this issue is still incredibly pertinent for states across the globe (Ross 1999, 298). Petroleum is no exception to this observation. Moreover, abundant access to oil can have severely limiting effects on the development of democracy amongst resource rich nations.

#### *Criticisms of the Resource Curse Perspective*

Nevertheless, criticisms of resource curse explanations do exist. Many scholars are hesitant to fully embrace the theory that resource wealth leaves a country destined for autocracy, economic underdevelopment, and political conflict. Ross states, "Geology is not destiny. Some oil producers have escaped each of these ailments" (2012, 4). Primarily, scholars are wary of making broad conclusions regarding the fates of resource rich nations when it comes to their ability to develop economically and gain democracy. Haber and Menaldo (2011, 1) argue that far too many external variables affect a country's ability to develop democracy and deducing that a country's autocratic regime is the result of resource wealth is far reaching. Haber and Menaldo (2011, 2) also argue that there is frequently a correlation between autocracies and resource wealth, but they hesitate to state that it is a causal relationship. Haber and Menaldo (2011, 25) conclude that over the long run oil and mineral wealth does not promote autocratic regimes.

Despite these surprising findings, the data utilized by Haber and Menaldo is problematic. While it is important to consider external factors beyond natural resource wealth in explaining the regime types of nations, Haber and Menaldo (2011, 25) utilize both rich and poor nations in their analysis. Variables like stages

of economic development and regime history must be controlled for when comparing countries. Comparing nations like Norway with Kazakhstan, for example, is extremely problematic. Additionally, their dataset covers data ranging from 1800 until 2006, a broad time period in which hundreds of other factors have contributed to the development of various types of regimes across the globe (Haber and Menaldo 2011, 2).

Frederick Van Der Ploeg (2011, 406) argues that the resource curse is a conditional theory that relies on many external factors and not resource wealth alone. Van Der Ploeg (2011, 406-407) illustrates that countries with high levels of economic inequality, political corruption, and access to natural resources are more likely to succumb to low levels of economic growth and democratic development. Additionally, Van Der Ploeg (2011, 408) demonstrates that comparing across countries can be very problematic, and that analysis at a country by country level will be far more revealing. Van Der Ploeg's analysis is useful; however, his conclusions are somewhat self-apparent. Problems will always arise when comparing the ability of various resource rich countries to attain democracy. What is important for scholars, however, is acknowledging the importance of external factors but not completely disregarding the influence of resource wealth because of alternative explanations.

Luong and Weinthal (2010, 326) argue that oil rarely has an impact on the development of democracy. They argue that oil producing countries that have already experienced periods of democratization before they started producing oil are far more likely to democratize than those that do not (Luong and Weinthal 2010,

326). They write, “The best predictor of a country’s democracy score from 1989-2005—whether oil-rich or oil-poor—is its democracy score from 1979-1988” (Luong and Weinthal 2010, 326). This argument, however, is flawed. Political institutions and the political environment of a country are constantly evolving and influenced by many factors. A country may not have a history of democratic experiences before discovering its oil wealth but that does not discount the possibility that oil could further impede democratization within the country.

While criticisms of resource curse explanations for the development of democracy must be considered in my case study analysis, they are insufficient in discounting the influence and importance of resource curse perspectives in explaining the experiences of Nigeria and Venezuela. Oil has been a massive force both economically and politically in both of these countries, and its spillover effects have definitely played a role in shaping their modern political climate. There are three main explanations regarding the impediments that petroleum economies pose for countries in the process of developing democracies: The Rentier State Theory, The Subsidization Theory, and The Corruption Theory. The following subsections will investigate the claims of these proposed explanations for why petroleum-producing countries struggle to attain democratic governments.

#### *The Rentier State Theory*

Hossein Mahdavy (1970, 428) argues that a Rentier State is a country that consistently receives substantial amounts of external rent. Mahdavy (1970, 428) defines external rents as fees paid by foreign individuals, corporations, or foreign governments to individuals, corporations or governments within a given country.



Examples of this type of transaction include the taxation of ships passing through a canal or the state allowance of oil drilling by multinational corporations (Mahdavy 1970, 429). The result of an economic system that heavily relies on external rents is a government with the ability to institute massive public expenditure programs without having to rely on taxation of the general public for state funds (Mahdavy 1970, 432). These massive expenditure programs present the appearance of economic development and political prosperity (Mahdavy 1970, 437). This inaccurate representation of the current political and economic status of the country can cause a lack of urgency within the nation to press for political reforms or a change to the status quo. Moreover, governments that rely on external rents for a large portion of their revenues will not be as mindful to the demands of their populaces because they do not rely on them to pay taxes for state revenues (Mahdavy 1970, 466). States that rely on their citizenry for large portions of their tax revenue are far more likely to be conscious of public opinion and demands, hence making them more willing to institute reforms and have the general population play a larger role in the political community. Petroleum-rich states, however, do not have to appease their citizenry in order to maintain public order since a large portion of their revenues are coming from foreign actors (Mahdavy 1970, 466-467).

Hootan Shambayati (1994, 309) also argues that government expenditures are the main link between the actual rents that are accumulated by the government and the domestic economy. Due to this limited access to the actual flow of capital within their economies, entrepreneurs and domestic business owners are

frequently faced with no other option but to participate in the current economic and political system (Shambayati 1994, 309). Entrepreneurs and domestic business owners see any challenges to the status quo as a challenge to their position in the domestic economy and the redistribution of incoming rents. Therefore, they lack an incentive to initiate political turmoil or challenge the autonomy of the state (Shambayati 1994, 309). This type of economic and political environment actually strengthens the business-state relationship. Mahdavy writes “Consequently, businessmen often use their ties with members of the state class to influence or prevent implementation of policies” (Shambayati 1994, 309). The strengthened state-business relationship only serves to further hinder political reforms and the development of democracy within rentier states.

Michael Ross (2012, 312) also agrees with the Rentier State Theory. Ross argues that petroleum wealth makes states far less accountable to their citizenry because of the decreased necessity to levy taxes on their populaces for state revenues. Therefore, governments of petroleum-rich states have little incentive to heed the demands of their populations as these officials do not need to rely on an appeased population for state revenues (Ross 2012, 312). Additionally, populaces can become increasingly disinclined to mobilize and place pressure on their governments to institute reforms as these states continue to show a lack of willingness to change the status quo. Ross writes, “...rentier states face little social pressure to improve their economic policies, since their low taxes and generous welfare programs discourage opposition groups from mobilizing around economic issues” (Ross 2012, 312). The combination of a lack of incentive to heed to the

demands of their populations and an increasingly discouraged populace serve as major threats to democracy within rentier states.

### *The Subsidization Theory*

As mentioned previously, oil wealth also provides governments with ample revenues to provide massive subsidy programs to their populations. These programs can serve to drastically limit the pressure that the citizenry applies to regimes for political reform. Ross (2012, 78) addresses this issue as he attempts to investigate why so many oil-producing nations have failed to experience democratic transitions. Ross (2012, 77) highlights that countries with larger per capita oil wealth are increasingly more likely to provide huge government subsidy programs for their citizens. Ross (2012, 77) demonstrates that countries that have never experienced democratic transitions have spending-to-revenues ratios that are nearly twice as high as oil-producing states that have experienced periods of democracy.

Ross (2012, 78) argues that public spending is a calculated decision on behalf of autocratic, petroleum rich states to buy public support. Ironically, public subsidies are higher in many authoritarian regimes than democratic ones (Ross 2012, 79). Despite its potentially ruinous effects on the domestic economy, oil-producing autocrats have shown little hesitation to shower their populations with public spending programs. Saudi Arabia, for example, provides many of its citizens free education through college, free health care, and subsidized food and housing programs (Ross 2012, 78). During the Arab Spring in 2011, governments across the Middle East offered new and improved subsidy programs to their populaces in a

clear attempt to pacify politically disgruntled populations (Ross 2012, 78). The international community viewed Iran's 2009 presidential election as exceptionally corrupt as Mahmoud Ahmadinejad won another term in office. Ahmadinejad notoriously showered high-ranking military officials with benefits from oil revenues in order to quell any potential unrest (Ross 2012, 89). Former Venezuelan President Hugo Chavez took advantage of rising oil prices over the course of a decade to fund many public work projects targeted at his main support groups: low-income families and the military. Utilizing this support, he then removed disloyal Supreme Court judges and increased restrictions on the media (Ross 2012, 90).

Autocratic, oil-producing states spend heavily on their own populaces in order to suppress political opposition and further maintain the status quo. Large oil-revenues make such subsidy programs possible, and their removal can trigger widespread political dissent. In September of 2007, widespread protests in Burma began with demonstrations against the reduction of various fuel subsidies (Ross 2012, 80). After a short period of time, however, the focus of these demonstrations quickly turned towards opposition at the military junta (Ross 2012, 80). Due to their critical importance in maintaining order, authoritarian regimes place a large emphasis on sustaining these programs, and they serve as an important component to the lack of democratic development in many oil-producing states.

Mahdavy (1970, 437) also argues that large spending programs can have a detrimental effect on a country's pursuit towards democracy and political reform because it can provide the appearance of economic progress and prosperity. The impression of prosperity and growth along with a population that is receiving

popular subsidies can create a political environment in which there is not a desire for further political change (Mahdavy 1970, 437). Mahdavy (1970, 437-438) continues to argue that petroleum rich governments frequently struggle to allocate public spending programs properly. This misallocation of state funds can cause certain sectors to prosper while others struggle to even modestly grow. Over time, this unequal economic growth becomes a major grievance amongst the general population, which can lead to unruly activism and even violent uprisings (Mahdavy, 437-438). Mahdavy (1970, 440) points to Iran as a key example that highlights the ability of massive subsidy programs to quell political opposition but also eventually backfire. From 1930 until 1964, public expenditure increased from 353 million Rials in 1930 to 74 billion Rials in 1964 (Mahdavy 1970, 440). By the mid 1970s, the Iranian state did not appear to be on the verge of a political uprising or suffering from many social tensions (Shambayati 1994, 304). The revolution occurred less than a decade later; however, Shambayati (1994, 305) argues that this uprising was the result of cultural factors and that the shah's subsidy programs prevented it from happening much earlier.

Petroleum-producing states have a significant advantage in preventing political change. The large revenues accumulated by these states from oil production allow them to create massive subsidy programs. These programs have two main effects. First, government officials can appease populations with generous economic benefits. Second, these subsidy programs provide the appearance of economic growth and modernizations. The combination of these effects can lead to political apathy and a lack of reform.

### *The Repression Theory*

The Repression Theory argues that a combination of corruption and repressive policies financed by petroleum wealth allows states to further impede democratic reforms and political activism. Oil-producing states, despite their easy access to a seemingly powerful economic growth tool, are frequently riddled with political problems. Nicholas Shaxson (2007, 1126) argues that corruption is a key factor in explaining the political stagnation of oil-producing states. Shaxson (2007, 1126) demonstrates that the large waves of oil revenues that states receive due to their oil production are frequently too much for a government to properly allocate and manage. The opportunity to divert revenues towards corrupt usages is simply too easy. Shaxson (2007, 1126) relates it to a group of people trying to shove their way into a narrow doorway; what incentive do people have to form an orderly queue if no one is going to trust that it will be respected? This type of environment simply perpetuates corruption.

Terry Karl (2008, 6) also argues that oil revenues provide an ideal opportunity for political officials to bribe other political officers, policymakers, religious organizations, clans, tribes, and various interest groups. The result of this bribery is the empowerment of corrupt government officials (Karl 2008, 6). As influential groups benefit from undocumented and corrupt payouts, autocratic regimes can essentially buy political support. In countries such as Iraq, Iran, and Venezuela, citizens will actually receive a financial benefit from joining political parties that are in power (Karl 2008, 6).

Ross (2012, 80) strengthens Karl's (2008) argument by highlighting the secrecy that surrounds the direct usage of oil revenues within a petroleum-producing state. Ross (2012, 81) argues that the greater oil wealth within a country, the more secretive that country's budget is. This trend is especially noticeable in Africa (Ross 2012, 81). Four of the continent's five most secretive governments according to the Open Budget Index—Angola, Chad, Nigeria, and Cameroon—are large oil producers (Ross 2012, 81). The five most transparent governments—South Africa, Botswana, Zambia, Uganda, and Namibia—have negligible levels of oil (Ross 2012, 81). This observation draws a connection to the Subsidization Theory: as populaces have little to no access to the spending ratios of their governments, how are they able to decipher whether or not they are receiving a respectable amount of benefits from their nation's oil wealth? Ross writes, "Most of the oil world is hidden from public view...This secrecy helps autocrats stay in power, impedes the resolution of oil-based civil wars, and makes it harder to stop corruption" (Ross 2012, 245). With little to no information to rely on, populaces may struggle to further understand the depths of corruption within their nation, therefore limiting the motivation for political activism.

Military spending is also closely linked with oil revenues (Karl 2008, 7). The expansion of repressive government agencies protects the ruling class and greatly increases the government's ability to repress political opposition. From 1984 to 1994, developing countries on average spent 12.5 percent of their budgets on the military (Karl 2008, 7). In the same decade, OPEC members' share of annual military expenditures as a percentage of total government expenditures was three times as

much as the average of developing countries (Karl 2008, 7). Karl (2008, 7) concludes that oil wealth actually contributes to regime durability due to its ability to finance such repressive policies.

Ross (2001) further strengthens Karl's (2008) argument. Ross (2001, 335) argues that governments with tremendous resource wealth, particularly oil wealth, may have a significant ability to spend more on internal security efforts in order to block the politicization of the population. Ross (2001, 335) points to countless examples of where spending on internal security forces by resource rich nations was directly motivated by a desire to prevent political unrest and opposition. In pre-1979 Iran, the Shah spent a substantial amount of Iran's oil wealth on the military (Ross 2001, 335). In the 1990s oil boom in the Republic of the Congo, a surge in revenues allowed the government to spend more money on training a special presidential security force to strike down political unrest (Ross 2001, 335). During the presidency of Iranian President Mahmoud Ahmadinejad, he gave billions of dollars in contracts to businesses associated with the Revolutionary Guard (Ross 2011, 3). During the Arab Spring, countries that had more oil-wealth were far more effective at suppressing protests than those without (Ross 2011, 1). Algeria, for example, spent \$141 per capita on its military and had far fewer protests in comparison to a country like oil-poor Tunisia, which spent only \$53 per capita on its military (Ross 2011, 3). Nations with access to oil wealth have a tremendous opportunity to take corrupt advantage of the revenues brought in from petroleum production. These revenues can hinder democratic progress and stifle political opposition through bribery, secrecy, and militarization.



### *Methodology and Conclusion*

To assess the extent to which resource curse theories can be applied to Nigeria and Venezuela, I will conduct an intensive investigation into the role that the Nigerian and Venezuelan oil economies have played in the political systems of these countries. Additionally, alternative explanations for democratic development will be applied to the cases of Nigeria and Venezuela. Complementing both resource curse theories and alternative explanations for democratic development will lead to a fuller understanding of their political development and current political state.

The relationship between oil and economic development has been examined extensively within the academic community. The relationship between petroleum wealth and democracy, however, has many unanswered questions. An investigation into Nigeria and Venezuela will shed new light into this recent area of scholarship. Despite some progress, Nigeria and Venezuela are two countries in particular that have experienced a tumultuous relationship with democracy. Why have these two oil-rich nations struggled so much to develop democracies and to what extent has oil played a role? Research into these two cases may lead to further insights in the relationship between natural resources and politics as a whole.

Oil is a critical component to the economic and political landscape of both Nigeria and Venezuela. One cannot disregard its influence in shaping the current environment in both of these countries. While alternative theories can attempt to tackle why politics and democracy have developed the way they have in these two countries, disregarding petroleum and its effects would be a critical mistake.

Examining the extent to which resource curse theories can explain the paths that

Nigeria and Venezuela have taken will demonstrate the applicability of this theory in predicting the fate of newly resource dependent nations.

## **Chapter 2: Understanding Nigeria's Political Development**

### *Introduction*

Nigeria has taken a bumpy road towards its current political state. Its past is riddled with periods of colonialism, civil war, military rule, and periods of minimal political transparency. It is a complicated history, one that involves many influential figures, groups, and institutions. A comprehensive review of Nigeria's political development would be futile for an investigation of this scope; nevertheless, it is important to provide a brief review of Nigeria's political history in order to base my analysis. Following this review, I will incorporate Nigeria's petroleum industry into Nigeria's political narrative in order to illustrate its effects on the political development of the nation.

The first section of this chapter will provide a brief overview of Nigeria's political history, starting with its colonization by Great Britain in the late 19<sup>th</sup> century. It will trace the path Nigeria has taken towards independence, followed by a deeper review of Nigeria's postcolonial political history. After reviewing the multiple transfers of power between the military and the civilian governments within Nigeria following its independence in 1960, this chapter will attempt to understand Nigeria's political development and struggles with democracy. By applying theories regarding the effects of colonialism, ethnic heterogeneity, and economic inequality on Nigeria's political history, a greater understanding of Nigeria will be attained. The third section of this chapter provides an overview of Nigeria's petroleum industry followed by an analysis of its role in shaping Nigeria's political development.

### *Nigeria's Political Development: A History*

Nigeria was not fully colonized by Great Britain until 1885. While Great Britain viewed Nigeria as a single colony, internally the colony was subdivided into Eastern, Western, and Northern regions (Fidelis, Samuel 2011). The subdivision illustrated the complexity of the ethnic makeup of the country, as the Hausa and Fulani dominated the northern region, the west by the Yoruba, and the east by the Ibo ethnic group (Fidelis, Samuel 2011). Nigerian nationalism began to grow in the years between World War I and World War II (Metz, 1991). Initially, the emergence of Nigerian nationalism was not intended to lead to a fully autonomous state but rather greater Nigerian political participation in the political process at the regional level (Metz, 1991). There were two driving factors behind the emergence of nationalism within Nigeria. In the Muslim dominated north, Islamic legitimacy upheld the rule of the emirs and nationalist sentiments amongst the population were fueled by anti-western ideology (Metz, 2011). Nationalism in the south, however, was strongly influenced by European ideas (Metz, 2011). W.E.B. Dubois and Marcus Garvey served as prominent sources of theoretical inspiration for the emergence of Nigerian nationalism, and students returning from abroad brought with them a new consciousness surrounding the colonial legacy of Nigeria (Metz, 2011).

By 1946, a new constitution was approved by the British Parliament and promulgated in Nigeria (Metz, 2011). This constitution provided far greater legal autonomy for the Legislative Council within Nigeria, a political body that was allowed to debate matters that affected Nigeria as a whole (Metz, 2011). This body

served to be particularly influential as it politically unified the three subdivided regions within Nigeria (North, East, and West) for the first time. Nevertheless, political conflict began to develop along ethnic lines, particularly between the Northern and Southern regions. The Muslim dominated north was strongly opposed to any challenge of the authority of the emirs; while the southern regions were increasingly concerned with finding ways to further develop the economic and social development of the southern region (Metz, 2011). This conflict between the northern and southern regions is a dynamic that continues to influence Nigeria today.

By the late 1950s, the receding British influence on the region was becoming increasingly noticeable. Conferences were held in London in 1957 and 1958 and representatives from various regions throughout Nigeria attended in order to represent the interests of their constituents (Metz, 2011). Elections were also held for the growing House of Representatives in 1959 (Metz, 2011). The Northern region received more than half of the seats in the House due to its larger population, further strengthening its political influence in Nigeria. Independence was finally attained on October 1, 1960.<sup>1</sup>

Like many of its African neighbors, it did not take long after independence for Nigeria to begin experiencing significant political struggles and conflict. The country appeared to be doomed from the onset of its independence as the country's borders were arbitrarily defined by British forces and their imperial rivals. Additionally,

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<sup>1</sup> Nigeria officially discovered oil in 1956. Shell-BP discovered the oil at Oloibiri in the Niger Delta. Wishing to utilize this newfound oil opportunity, the first oil field began production in 1958.

Nigeria was composed of semi-autonomous Muslim states in the north and predominantly Christian regions in the south (Philips, 2000). Military officers led a military coup on January 15, 1966 in which Prime Minister Abubakar Tafawa Balewa, Finance Minister Festus Okotie-Eboh, and nine army officers from the Ibo ethnic group were killed (Nafziger, 1972). On January 17, the government was firmly in control under the leadership of Major-General J.T. Aguiyi-Ironsi and the Federal Military Government (Nafziger, 1972). The regime of General Aguiyi-Ironsi was short lived. In an attempt to secure power, he outlawed political parties and attempted to create a unified state without ethnic allegiances (Nafziger, 1972). A counter-coup was launched in July of 1966 and was responsible for the death of General Aguiyi-Ironsi and many of his men (Nafziger, 1972).

This period of political turmoil led to the unilateral declaration of independence of the Eastern Region under Colonel Emeka (Philips, 2000). This new region claimed to be the independent Republic of Biafra sparking a devastating Civil War (Philips, 2000). After initial success, the Ibo-dominated Republic of Biafra struggled to remain autonomous. By 1970, over one million civilians had died from fighting and famine, and Nigeria reabsorbed Biafra (Philips, 2000). By 1975, the Nigerian military looked to relinquish power by 1979 through free elections. By 1979, five political parties competed for power in the upcoming elections (Awopeju, 2011). The elections were a dramatic failure. Over 48 million Nigerians participated in the elections, and the electoral infrastructure within the country could not accommodate that level of volume (Awopeju, 2011). Additionally, vote rigging and voter intimidation were widespread, and the election was riddled with controversy.

Nevertheless, after many weeks of deliberation within the Nigerian Supreme Court, Shehu Shagari was declared President of Nigeria in 1979 (Othman, 1984).

Shehu Shagari's presidency was short lived and riddled with controversy and accusations of corruption. The fall of oil prices in the late 1970s and the early 1980s drastically affected Nigeria's financial and economic stability (Othman, 1984). Accusations of rampant corruption further weakened Shagari's grip on power, and sporadic political violence throughout Nigeria quickly began to expose the lack of control Shagari had over the state. Othman writes, "The government had been turned into a racket; it had become a colossus of corruption. Instead of being a democracy, the government had...become a 'Contractocracy'—a government of contractors, for contractors, and by contractors" (Othman 1984). On December 31, 1983, a military coup by General Muhammadu Buhari ousted Shagari and the military once again regained power with the promise of an eventual restoration of democracy (Othman 1984).

This second stage of military rule in Nigeria would last from 1983 until 1999. This period witnessed multiple transitions of power, highlighted by the seizing of power by General Ibrahim Babangida in 1985. Promising a return to democracy, Babangida ironically cracked down on protests by oil workers and political activists (Rupert 1998). By the time Babangida had attained power, the international boom in oil prices had declined significantly in commodities markets. By 1980, Nigeria was producing two million barrels of oil a day, and it earned \$26 billion in oil revenues (Noble, 1989). Nevertheless, a steep decline in petroleum prices worldwide shattered Nigeria economically. Economic turmoil quickly turned into

political unrest, as thousands of protestors took to the street in Lagos during the week of June 4, 1989, accusing Babangida and his administration of rampant corruption (Noble, 1989).

Realizing his feeble control over the country, Babangida attempted to strengthen his grip over Nigerian politics. After sponsoring elections in 1993, Babangida annulled the results and imprisoned the supposed winner Moshood Abiola (Rupert, 1998). Following the jailing of Abiola in 1994, Sani Abacha gained power (Rupert, 1998). Abacha's death in 1998 served as an opportunistic window for democracy in Nigeria, as both the military was looking to relinquish power and the general populace was pushing for greater political responsibility. General Abdulsalami Abubakar sponsored democratic election in 1999, leading to the election of Olusegun Obasanjo once again (Onishi, 1999). While both Nigeria and the international community rejoiced in its return to a democratically elected system of government, several northern states within Nigeria objected to the election of Obasanjo and invoked Sharia law within their regions (Human Rights Watch, 2002). Officials from the European Union considered the 2007 elections as some of the worst in the world (The Economist, 2007). The election involved many allegations of vote rigging, voter intimidation, theft of ballot boxes, and political violence (The Economist, 2007).

Despite its troubled past, democracy in Nigeria may have experienced a bright spot in the presidential elections in May of 2010. Following the death of Umaru Yar'Adua in 2010, Goodluck Jonathan was elected in a presidential race in what many consider a dramatic success in comparison to the elections of 2007. The



international community praised Nigeria's parliamentary elections in April of 2011 and the eventual reelection of Goodluck Jonathan as a major step forward in the country's quest for a legitimate democratic system (Economist, 2011). The election process was far from perfect; however, it was the first time that significant measures were taken to prevent voter fraud and increase the accountability of vote counters (The Economist, 2011). The government spent \$580 million on new technology to modernize the election and voting process (The Economist, 2011). While it remains to be seen what direction Nigeria and its developing democracy will go in the future, this major milestone has many throughout the international community feeling at the very least optimistic.

#### *Key Themes in the Democratic Development of Nigeria*

Many factors have contributed to the development of the political system now present in Nigeria; nevertheless, the following section will attempt to synthesize some key factors that have influenced the political course Nigeria has taken. While Nigeria's reliance on oil and its political ramifications will be a key focus later in this analysis, it is first important to establish other contributing factors towards Nigeria's struggle with democracy. The following subsections will discuss the ethnic makeup of Nigeria, the colonial legacy of the country, and its levels of economic inequality.

#### *Ethnic Heterogeneity in Nigeria*

Nigeria is Africa's most heavily populated country with an estimated population of nearly 175 million (CIA World Factbook). It is composed of nearly 250 different ethnic groups. The Hausa and Fulani ethnic group make up 29 percent of

the country, Yoruba 21 percent, Ibo 18 percent, Ijaw 10 percent, and Kanuri four percent (CIA World Factbook). The country is also divided by religion.

Approximately 50 percent of the country is Muslim, 40 percent is Christian, and 10 percent worship indigenous beliefs (CIA World Factbook). Additionally, over 500 languages are actively spoken within Nigeria including English, Hausa, Yoruba, Igbo, and Fulani (CIA World Factbook).

Ethnic conflict and division became increasingly evident from the genesis of Nigeria's colonization and eventual independence. Under colonial rule, Nigeria was subdivided into three regions that were frequently dominated by particular dialects and ethnic groups. In the north, the Hausa and Fulani ethnic group is predominantly Muslim and frequently a region that is at odds with the Yoruba and Ibo regions to the south. Beshiru Salawu and A.O. Hassan (2011, 30) argue that the dominance of ethnic nationalism has plagued Nigerian politics since its colonial days. Salawu and Hassan define ethnic nationalism as, "By definition, this means a tendency to see one's self, first and foremost as a member of an ethnic group rather than as a member of a nation. This tendency has been shown in some ways and particularly in the allegiance people pay to their ethnic group" (Salawu and Hassan 2011, 31). Since its independence, Nigeria has struggled to eliminate ethnic politics from the political discourse of the country. Following its independence in 1960, the three distinct regions (North, West, East) of Nigeria soon were affiliated with tribally and ethnically sustained political parties (Salawu and Hassan 2011, 32). This political environment played a significant role in the political instability and conflict witnessed by Nigeria throughout the 1960s and 70s.

While the periods of military rule suppressed democratic progress, civil liberties, and frequently led to economic distress within Nigeria, military rule was able to at least quell the growth of ethnic nationalism. Moses Metumara (2010, 92) argues that ethnic nationalism and its ability to generate both political and ethnic conflict has been most prevalent during periods of democratization within Nigeria.

He writes:

However, the intervention of the military in the political affairs of the country and their long duration in governance, succeeded in abating the full manifestation of ethno-nationalism. But the return of the country to democracy in 1999 has enabled the suppressed ethno-national grievances to explode, throwing up issues beyond the capacities of democratic institutions. (Metumara 2010, 92)

Metumara (2010, 101) points to frequent eruptions of intense violence and dissent throughout Nigeria following the 1999 elections and transition towards democracy as key examples of ethnic tensions impeding the development of a stable Nigerian democracy. Unable to manage the instability throughout the country, government forces have resorted to violent suppression techniques in order to maintain societal order (Metumara 2010, 101). This has led to the deployment of troops in the regions of Odi, Zakibiam, Odioma, and Gbaramutu (Metumara 2010, 101). In a time when the military had the initial goal of demilitarizing, the growth of ethnic nationalism brought on by a democratic transition within Nigeria has actually created a suppressive political environment and a questionable future for Nigeria's democracy.

### *Colonial Legacy and Economic Inequality in Nigeria and Their Effects*

British colonialism in Nigeria had both economic and social impacts on the country and has continued to influence the country's quest for democracy into the 21<sup>st</sup> century. The industrial revolution and the growth of corporations in the 19<sup>th</sup> century led to mercantilist economic systems within Europe (Fidelis and Samuel 2011, 2). Desperate for access to cheap natural resources in order to satisfy growing markets within Europe, Britain, France, Italy, Germany, and others found territories across the globe as sufficient suppliers of natural resources. Nigeria and its rich natural resources served as a significant area of interest for Great Britain (Fidelis and Samuel 2011, 2). Britain arbitrarily established the political boundaries of Nigeria with little regard for the ethnic differences amongst the inhabitants of the region they were unifying under one political entity: Colonial Nigeria (Fidelis and Samuel 2011, 4). Fidelis and Samuel write, "The division also brought to the fore the fact that Nigeria stands on an ethnic tripod with the north dominated by the Hausa/Fulani, the west by the Yoruba, and the east by the Ibo, and entrenched the phenomenon of ethnicity in the body politics of the country" (Fidelis and Samuel 2011, 4). With little regard for ethnic, social, and cultural divisions, British colonialism created the entity of Nigeria despite the substantial differences of the inhabitants within the territory.

Nevertheless, British colonialism also led to substantial economic inequalities that continue to burden Nigeria. During the colonial period of the early 20<sup>th</sup> century, colonial development became increasingly urban centric (Fidelis and Samuel 2011, 5). However, only select urban areas received these development

benefits such as pipe-borne water, roads, hospitals, schools, and communication facilities (Fidelis and Samuel 2011, 5). As cities in the western region steadily developed and economically benefitted from colonial rule, cities in the Niger Delta such as Benin, Calabar, and Asaba lagged substantially behind (Fidelis and Samuel 2011, 5). Even today, the rural areas of the Niger Delta have struggled with access to basic amenities, illiteracy, famine, insecurity, poverty, and HIV/AIDS (Fidelis and Samuel 2011, 5). It should come as no surprise that rural areas within the Niger Delta have since become some of the most violent and rebellious regions within Nigeria (Fidelis and Samuel 2011, 5).

Olusegun Adeyeri and Kehinde Adejuwon (2012, 1) argue the British colonial rule in Nigeria severely limited the country's ability to develop the long-term infrastructure needed to succeed after independence. By discouraging domestic industrialization, the British essentially created an agrarian society incapable of sustaining itself post colonization (Adeyeri and Adejuwon 2012, 1). Collier (1999) argues that industrialization can frequently lead to greater political reform within countries as the middle classes gain more economic and therefore political power within the political arena. Nevertheless, Nigeria never had the opportunity to experience this phenomenon. The lack of industrial development within Nigeria during the early 20<sup>th</sup> century concentrated power within a few economic elites. Examining the experience of Nigeria through the lens of Collier, the lack of a powerful middle class has limited Nigeria's ability to develop a functioning democracy. Britain's reliance on Nigeria for agricultural goods in order to fuel its

industrial economy severely limited the industrialization of Nigeria and further destabilized it as it gained independence in 1960.

Nigeria continues to be plagued by economic inequality well into the 21<sup>st</sup> century. In February of 2012, the National Bureau of Statistics in Nigeria found that 60.9 percent of Nigerians were living in “absolute poverty,” an increase from 54.7 percent in 2004 (BBC 2012). The National Bureau of Statistics defines absolute poverty as, “people who can afford only the bare essentials of shelter, food, and clothing” (BBC 2012). The north of Nigeria suffers the most from absolute poverty, with the state of Sokoto having the worst poverty rate of 86.4 percent (BBC 2012). Nevertheless, Nigeria’s GDP grew by 6.6 percent in 2012 (World Bank 2014). This GDP growth, however, continues to be strongly dominated by the oil industry. In 2012, oil accounted for over 80 percent of Nigeria’s state revenues (BBC 2012). While oil has proved to be a strong economic growth tool within Nigeria, the country lacks the technological infrastructure to refine crude oil, erasing Nigeria’s ability to benefit from the most profitable process of petroleum markets (BBC 2012). Additionally, the distribution of control and benefits from Nigeria’s oil industry carries with it significant political ramifications that will be further investigated later in the chapter.

### *Petroleum and Nigeria’s Political Development*

There are many available explanations for Nigeria’s current political environment. The previous section highlighted the complexity of Nigeria’s political history and the many contributing factors to its political turmoil and struggles with developing democracy. Nevertheless, investigating Nigeria’s current political state

without considering the effects of its petroleum industry would be a critical mistake because it has shaped the country economically, politically, and socially. The following sections will first provide an overview of Nigeria's petroleum industry followed by an analysis of its effect on Nigeria's political development.

### *Origins and History of the Nigerian Petroleum Industry*

Nigeria has always been blessed with tremendous natural resources. Its access to tin, iron, ore, limestone, niobium, lead, zinc, gold, cotton, and arable land was a motivating factor in Great Britain's decision to colonize the country in the late 19<sup>th</sup> century. Nevertheless, petroleum, a resource that was not discovered until the middle of the 20<sup>th</sup> century, has arguably played the largest role in shaping Nigeria economically and politically. Search for oil began in 1908 when a German company, Nigerian Bitumen Corporation, drilled 14 wells in what is now Lagos State (Pearson 1970). Upon the outbreak of World War I, the corporation suspended their exploration efforts, further prolonging the inevitable discovery of petroleum under the soil of Nigeria (Pearson 1970).

Scott Pearson (1970) outlines four avenues in which developing countries can harvest their petroleum resources. First, the state can invite foreign corporations and conglomerates to form local subsidiaries that supply the capital, technology, and management within the domestic petroleum industry. Second, the states can undertake joint ventures in which foreign investors supply large portions of technology, access to markets, and management but only a portion of the capital required to drill for oil. The remaining capital must be provided by the host state. Third, the state could institute management contracts that require foreign firms to

supply management and technology while the host country must supply the capital and create its own markets. Fourth, the state could press ahead in its oil exploration without foreign intervention. Unfortunately, Nigeria was still under British control when petroleum exploration commenced. This gave Nigeria very little agency in the economic structure of its early petroleum industry.

Still under the colonial control of Great Britain, British owned corporations and conglomerates had the easiest access to drilling exploration efforts within Nigeria. Royal Dutch Shell and British Petroleum seized these benefits in the late 1930s (Pearson 1970). Forming a conglomerate in 1938 called the Shell-BP Petroleum Development Company of Nigeria, it received an oil exploration license from the British government that essentially gave exploration authority to the conglomerate over all of Nigeria (Pearson 1970).

In 1956, after a hiatus due to the outbreak of World War II, the Shell-BP Petroleum Development Company of Nigeria made its first discovery of oil in the now Rivers State of Nigeria (Pearson 1970). After this discovery, many other multinational oil corporations began to look to Nigeria as a source of untapped petroleum resources. Mobil, for example, began exploration in the late 1950s, eventually drilling four dry wells (Pearson 1970). By 1969, there were over nine active petroleum corporations drilling in Nigeria (Pearson 1970). Nigeria was a particularly attractive region for petroleum exploration due to rising instability in the Middle East. Western powers became increasingly aware that countries like Nigeria that were removed from the politics of the Middle East could be more reliant petroleum exporters.



After the independence of Nigeria, very little changed initially within the Nigerian petroleum industry. Without the proper infrastructure, technology, or skilled labor to take a majority stake within the domestic industry, foreign corporations maintained their strong presence within the country (Pearson 1970). Additionally, Nigerian government officials had very little knowledge on how to best export and navigate international petroleum markets as foreigners made up most of the management within the Nigerian oil industry (Pearson 1970). Nevertheless, in the mid 1960s the Federal Prime Minister Abubakar Tafawa Balewa argued to both the Chamber of Commerce and the Federal Minister of Finance that oil production could have a drastically positive impact on Nigeria's economy (Pearson, 1970). This realization and shift in policy served as a catalyst for a call amongst the general public and governmental officials for greater domestic control over Nigeria's petroleum industry.

In a shift to gain greater control over the petroleum industry, the then military government issued a decree in 1967 that initiated Nigeria's membership into the Organization of Petroleum Exporting Countries (OPEC) (Pearson 1970). This policy shift had great ramifications on the petroleum industry within Nigeria as well as internationally. The shift towards an OPEC dominated petroleum policy involved three central changes to the landscape of the Nigerian oil industry. First, foreign companies drilling for oil within Nigeria now had to agree to an artificial price determined by the member states of OPEC (Pearson 1970). Second, OPEC countries receive additional profits accounting to 50 percent of the value of royalties of multinational petroleum corporations operating within OPEC countries (Pearson

1970). Thirdly, OPEC required member states to gain a majority stake in their domestic industries (Khan 1994). The military dominated government therefore constructed the Nigerian National Oil Corporation (NNOC) in 1971 in order to gain a 51 percent stake in the Nigerian petroleum industry (Khan 1994).<sup>2</sup> This national corporation, now called the Nigerian National Petroleum Corporation (NNPC), managed the joint ventures between the Nigerian federal government and the various multinational corporations operating within Nigeria (Khan 1994).

The oil boom of the 1970s was a particularly dynamic time economically and politically within Nigeria. The boom in oil prices throughout the globe brought in tremendous amounts of revenue for the Nigerian government. By 1979, the NNPC controlled over 60 percent of the Nigerian oil market (Khan 1994). Despite this growth in the petroleum sector, this time is remembered as a time in which corruption was rampant. For example, the oil producing states within Niger Delta accounted for over 82 percent of oil revenue within Nigeria during the 1970s (Khan, 1994). Nevertheless, very little compensation and reimbursement was filtered back into these regions, a controversial topic still relevant in Nigeria today (Khan, 1994). By 1975, the federal government in Nigeria arbitrarily issued a law stating that only 20 percent of oil revenues would go to the states that actually contain petroleum reserves while the remaining 80 percent would finance the federal government (Khan, 1994).

Nigeria witnessed near economic disaster during the 1980s. As demand for Nigerian oil skyrocketed during the 1970s, Nigeria began to rely on it far too much

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<sup>2</sup> The NNOC eventually merged with Federal Ministry of Mines and Steel in 1977 to form the Nigerian National Petroleum Corporation

as an economic tool (Otaha 2012). This reliance on oil depleted the efficiency and productivity of other sectors within Nigeria's economy, a phenomenon called "Dutch Disease" (Otaha 2012). Nigeria's currency was artificially inflated due to the increasing demand for Nigerian oil. As productivity declined in other sectors within the Nigerian economy, these sectors failed to compete on international markets as the artificially inflated Nigerian currency made their products more expensive relative to others (Otaha 2012).

In August of 2012, President Goodluck Jonathan announced that Nigeria had successfully reached an important economic milestone—Nigeria now produced 2.7 million barrels of oil a day (The Economist 2012). Policymakers, international corporations, and international NGOs were skeptical of this figure, as corruption, inefficiency, and opaqueness have been central themes of the Nigerian oil industry in the 21<sup>st</sup> century. Ngozi Okonjo-Iweala, the finance minister of Nigeria, estimated that in April of 2012, 400,000 barrels of oil were stolen each day (The Economist 2012). The World Bank recently estimated that over \$400 billion of Nigeria's oil revenue has been stolen or misspent since 1960 (The Economist 2012). Nigeria has failed to improve its industry in over a decade, and a recent effort to increase investment in the petroleum industry to bring it up to international standards never gained traction in the parliament (The Economist 2012).

Despite its many shortcomings, Nigeria is still a critical player in the global petroleum market. It is the seventh largest oil exporter in the world, and it is Africa's largest exporter of oil by a significant margin (the next closest African country is Angola at 13<sup>th</sup>) (The Economist 2012). Nevertheless, the NNPC continues to play a

central and dominating role in the domestic industry. The NNPC is viewed by many in both Nigeria and the international community as a corrupt government entity that has played a direct role in stunting the growth of Nigeria's oil industry. A recent report by Transparency International, a German anti-corruption organization, judged the NNPC to have the worst record of 44 national and foreign companies it examined (The Economist 2012). The industry has also been plagued by pipeline sabotages, attacks by rebel groups, and a lack of oversight.

It is clear that the petroleum industry has played a pivotal role in the economic and political history of Nigeria. The following sections will assess the extent oil has shaped the politics of Nigeria, and what role it has played in preventing the development of a functioning democracy. It will investigate the effects the oil industry in Nigeria has had on repression and corruption in Nigeria, on subsidies, and the development of a rentier state. Following this analysis, a greater understanding of the Nigerian petroleum industry and its place in the narrative of Nigerian political development will be attained.

#### *The Petroleum Industry, Repression and Corruption and their Political Effects*

The Repression Theory argues that a combination of corruption and repressive policies financed by petroleum wealth allows states to further impede democratic reforms and political activism. The large waves of oil revenues that states receive can frequently pose a serious problem to oil producing states, as the flow of funds can be far too vast for government officials to properly allocation, manage, and account for. Nigeria has not been spared from many of the observations of the Repression Theory, and the oil industry has played a role in

preventing the development of a functional and transparent democracy within the country. The massive flows of oil revenues have been easily susceptible to corruption and misallocation amongst government officials. This is most clearly illustrated by the lack of economic development witnessed within the country over the past 60 years. Between 1975 and 2004, it is estimated that Nigeria made a \$300 billion profit on its oil industry (Karl 2004). In that same timeframe, the percentage of households in Nigeria living below the United Nation's absolute poverty line of \$1 a day has grown from 27 percent to 66 percent (Karl 2004).

The absolute poverty that many Nigerians live in is further compounded by the presence of the NNPC within the Nigerian petroleum industry. Serving as a centralized and authoritarian institution within the petroleum market, its discretionary authority over the flow of funds has limited the economic empowerment of many regions within Nigeria that actually have access to oil. A perfect example of this is the Niger Delta Region. The Niger Delta Region is responsible for producing over 2 million barrels of oil per day for Nigeria; nevertheless, it is one of the poorest regions in all of Africa (Karl 2004). Petroleum revenues have been funneled away from this region for years, and the price of this blatant injustice is the absolute poverty that many within the Niger Delta are faced with daily.

There have been many recorded instances of revenue corruption by Nigerian government officials throughout history. During the Babangida administration between 1985 and 1993, over \$12.3 billion of oil revenue simply disappeared (Idemudia 2012). Nigeria's budgetary control problems have become a topic of

interest on the international stage. Nigeria currently ranks 143 out of 182 countries on Transparency International's Corruption Perception Index (Idemudia 2012). Due to the lack of transparency within the oil industry as a whole, the general public within Nigeria does not have a compass with which to hold their government officials accountable. Without an insight into the misallocation of petroleum revenues, it has been extremely difficult for the general public to hold elected officials accountable for various economic and political injustices.

The Niger Delta region also provides a tremendous illustration of the ability of the oil industry to contribute to the repression of Nigeria's general population, further hindering the development of democracy and political advancement. In July and August of 2002, a peaceful wave of protests by women from the Niger Delta Region broke out in opposition to oil companies operating within the Niger Delta (Amnesty International 2003). On August 8<sup>th</sup>, 2002, over 3,000 women protested at the gates of both the Shell Petroleum Development Company and the Chevron Nigeria Ltd (Amnesty International 2003). The women were unarmed, and were protesting peacefully (Amnesty International, 2003). Around 6 pm, without warning, Nigerian security forces (primarily police and general infantrymen from the national army) launched tear gas and fired their weapons into the air in an attempt to disperse the crowd (Amnesty International 2003). Without provocation, the security forces turned more violent, viciously beating up women who refused to leave the gates of these corporations and attacking women who chose to sit on the ground in an attempt to protest (Amnesty International 2003). Both the Federal

Government within Nigeria and the oil corporations attempted to deny this occurrence (Amnesty International 2003).

Through the lens of the Repression Theory, the oil industry within Nigeria has had multiple impacts on the political development of the country. First, it has fostered corruption within Nigeria, further stunting the economic and political empowerment of Nigeria's general population. It has compounded the already troubling economic inequality facing Nigeria. Continuous corruption at every level of the Nigerian government and its petroleum industry has prevented an effective distribution of petroleum revenues within the country. This unfortunate reality has economically repressed various regions and ethnic groups throughout the country, further hindering broader economic and political empowerment amongst many ethnic and social groups. Secondly, the lack of transparency surrounding the flow of oil revenues has prevented the political accountability of the Nigerian government and fueled a political environment that is rampant with corruption. Thirdly, the oil industry and its broad sphere of influence has fostered a repressive political atmosphere that viciously attacks calls for change, justice, and reform. The experience of the Niger Delta Region vividly illustrates this reality.

*The Nigerian Petroleum Industry, The Rentier State, and Its Political Effects*

The Rentier State Theory, pioneered by Hossein Mahdavy (1970, 428) argues that a rentier state is a country that consistently receives substantial amounts of external rent such as fees paid by foreign individuals, corporations, or foreign governments to individuals, corporations or governments within a given country. The result of an economic system that heavily relies on external rents is a

government that will not be as mindful to the demands of their populaces because they do not rely on them to pay taxes for state revenues (Mahdavy 1970, 466).

Nigeria's economy is extremely reliant on oil revenues. In 2011, 32.9 percent of Nigeria's gross domestic product was made up of oil rents (World Bank 2014). In comparison, 0.9 percent of the GDP of the United States came from oil, 15.4 percent in Russia, and 55.5 percent in Saudi Arabia (World Bank 2014). This increased focus and reliance on the oil-producing sectors on behalf of the Nigerian government has led to the absolute disregard of the wants, desires, and necessities of many of its people. The Niger Delta region provides a key illustration of this dynamic within Nigeria. The Niger Delta region is one of the poorest and most violent regions in the African continent. Despite it being one of the most potently abundant crude oil sources within Nigeria, very little of this wealth is returned to the region despite the continuous calls for greater oil revenue distribution. Between 1999 and 2011, the percentage of oil revenue allocation to the oil producing states within the Niger Delta region stood at 13 percent (Bagaji, Achegbulu, Maji, and Yakubu 2011). While one of the main causes of political unrest and violent uprisings in the Niger Delta is a lack of access to jobs and educational programs, the Nigerian government has done little to provide alternatives to the capital-intensive petroleum industry in the Niger Delta region. A report by Amnesty International in 2005 found that the oil industry in Nigeria only directly employed 35,000 people, despite being responsible for 37.6 percent of the gross domestic product and 98 percent of the nation's total exports (Bagaji et al. 2011).



The oil industry and Nigeria's economic reliance on petroleum has also destroyed the productivity of other sectors within the Nigerian economy and availability of jobs within those sectors. Annegret Mahler writes, "In the Niger Delta the oil industry has destroyed jobs in the agricultural sector, and there have been no countermeasures from the government. As a result, unemployment—particularly youth unemployment—is extremely high in the Niger Delta" (Mahler 2010). A survey in 2007 of the main armed militia groups operating in the Niger Delta region found that 50 percent of the members of these armed groups were previously unemployed or worked in unpaid jobs before joining their respective militias (Mahler 2010). The lack of attention paid to the Niger Delta region by the Nigerian government has fueled the region's instability and gradual decline despite its critical importance to the Nigerian petroleum industry.

The Niger Delta region has also been ravaged environmentally from over 50 years of oil harvesting and production. Bagaji et al. write "The Niger Delta people blame the mess on the environment on the carelessness of the oil producing companies and the attitude of the Nigerian government towards environmental protection" (Bagaji et al. 2011). Over the past 50 years, the Nigerian government has continuously failed to promptly and sufficiently address oil spills and the environmental toll that the petroleum industry has taken on the Niger Delta region (Keating 2012). A recent estimate by a United Nations report found that it will take up to 30 years to reverse the damage of various oil disasters and spills that have occurred in the Niger Region (Keating 2012). In December of 2011, close to two million barrels of oil spilled into the ocean off the coast of Nigeria, devastating the

coastal environment and endangering the thousands of people who utilize those shores to fish and earn a living (Keating 2012). Despite this disaster, the Nigerian government has done little to address it.

It is clear that the substantial amount of revenues that come from the Nigerian oil industry has left the Nigerian government relatively ambivalent to the desires and needs of the Nigerian people. The Niger Delta region clearly illustrates this, and the political instability of that region has played a key role in the stunted democratic development of Nigeria as a whole. Nigeria's ability to rely on oil revenues for its main source of government income rather than tax revenues from the general population has further exacerbated many of the economic and ethnic problems facing the nation today. It is clear that the Rentier State perspective is applicable within the case of Nigeria, and the lack of political accountability to the Nigerian people has played a key role in shaping the political landscape of Nigeria today.

#### *The Nigerian Petroleum Industry, State Subsidies, and Their Political Effects*

The Subsidization Theory argues that public spending financed by petroleum revenues is a calculated decision on behalf of autocratic regimes to buy public support and limit political opposition. Nigeria, amongst many other oil-producing nations, has not hesitated in providing its population with drastic subsidies and public spending programs. Nevertheless, the Subsidization Theory argues that these programs can serve to limit the pressure that the citizenry applies to regimes for political reform.

Nigeria, although a semi-democratic regime today, has experienced a substantial amount of time under autocratic regimes since its independence. The military has ruled the country for 28 of its 54 years since independence. The military regimes were renowned for their corrupt and ravenous public spending programs, many of which continue to play a substantial role today (Sandbakken 2006). Nigeria has extremely low levels of taxation, and whatever revenue it does gain from taxes is almost completely linked to the petroleum industry (Sandbakken 2006). This has had a significant political effect within Nigeria. Sandbakken writes, "These low levels of taxation weakened political participation, discouraged a concern with policy issues, and tended to undermine financial responsibility at all levels" (Sandbakken 2006). It is clear that these low levels of taxation, made possible by the petroleum industry, had significant political effects within Nigeria.

Nigeria also funds a massive fuel subsidization program. Surprisingly, despite its tremendous oil wealth, Nigeria imports nearly all of its refined petroleum and gasoline (Nossiter 2012). With only four operating oil refineries in the country, the country lacks sufficient infrastructure to refine and distribute the oil that is actually extracted from Nigerian wells (Nossiter 2012). In order to keep the price of its imported oil down for the general population, the Nigerian government heavily subsidizes oil imports. In January of 2012, however, the Nigerian government abruptly ended the subsidy program (Nossiter 2012). The result was a doubling in gas prices from \$1.70 a gallon to \$3.50 a gallon in a single week (Nossiter 2012). Tens of thousands of protesters took to the streets in cities across the country, as police and military personnel struggled to maintain order (Nossiter 2012).

This harsh reaction illustrates a key argument of the Subsidization Theory. Large subsidy programs financed by the oil industry can frequently limit political activism amongst the general population. Nevertheless, as the fuel subsidy removal demonstrates, the removal of these programs can spark moments of political unrest and challenges to the status quo. In order to quell the most recent demonstrations in 2012, President Goodluck Jonathan actually reinstated the fuel subsidies that had been suspended (Hinshaw 2012). In some cases, the Nigerian government has been contracting militias formerly intent on attacking oil pipelines to actually serve as security forces around state oil facilities (Hinshaw 2012). The government is essentially buying a ceasefire. Petroleum has clearly offered the Nigerian government a critical tool in supporting a subsidized state aimed at limiting political activism.

### *Conclusion*

The political environment within Nigeria is extremely complicated. It has struggled with the ramifications of its colonial occupation by Great Britain. It has continued to be plagued by the complex ethnic make up of the various regions within the country and drastic economic inequality. Nevertheless, Nigeria's access to oil has further exasperated many of these issues, making the transition to and development of a sound democracy a very difficult challenge for the people of Nigeria. Oil could be and should a tremendous resource for Nigeria. Unfortunately, the distribution of the economic benefits of this resource has been unequal and corrupt, driving the wedge between ethnic groups and economic classes within the country even deeper. Nigeria's experience clearly illustrates that it is not sufficient

to attribute Nigeria's struggles with democracy solely to its access to oil; however, it has further complicated many of the challenges facing the country.

## **Chapter 3: Understanding Venezuela's Political Development**

### *Introduction*

Venezuela has a rich history and continues to play an active role within the international community. It has taken an extremely complex political course, one that involves many influential figures, groups, and institutions. Currently, it frequently receives media attention for its willingness to oppose American foreign policy and its occasionally violent internal political conflicts. A comprehensive review of Venezuela's political history and development would be futile for an investigation of this scope; nevertheless, it is important to provide a brief review of Venezuela's political history in order to base my analysis. Following this review, I will incorporate Venezuela's petroleum industry into its political narrative in order to illustrate its effects on the political development of the nation and its struggles with democracy.

The first section of this chapter will provide a brief overview of Venezuela's political history, starting with its independence from Spanish rule in 1811. It will analyze the path that Venezuela has taken since its independence, outlining key actors and moments of political conflict and development. After reviewing its political history, this chapter will attempt to understand Venezuela's current political environment and its struggle to develop a functioning democracy. By applying theories regarding the effects of colonialism, the ethnic makeup of the country, and economic inequality to Venezuela's political history, a greater understanding of Venezuela will be attained. This will allow us to further understand to what extent petroleum has shaped the political development of

Venezuela. The third section of this chapter will provide an overview of Venezuela's petroleum industry, highlighting key actors, institutions, and defining moments. An analysis of its role in shaping Venezuelan politics and influencing the country's attempt to create a functioning democracy will follow this overview.

### *Venezuela's Political Development: A History*

Spanish colonization officially began on the northeast coast of what is now modern Venezuela in 1521 (BBC 2012). During the 16<sup>th</sup>, 17<sup>th</sup>, and 18<sup>th</sup> centuries, Venezuela became an important agricultural colony for the Spanish empire. Spain utilized the region for the mining of gold and cocoa, coffee, and tobacco plantations (BBC 2012). In 1728, the Spanish crown granted exclusive trading rights to the Basque-run Caracas Company, which centralized most economic activity out of the city of Caracas (Library of Congress 2005). By the 1830s, Venezuela was the world's third largest coffee exporter (Library of Congress 2005). Following the invasion of mainland Spain by Napoleon Bonaparte, Venezuelan nationalists seized the diverted attention of the Spanish military to formally declare independence from colonial rule in 1811 (BBC 2012). Additionally, Venezuela was inextricably linked to the calls for independence sweeping across Latin America. Led by Francisco de Miranda, the first rebellion within Venezuela failed miserably, as the rebellion lacked sufficient resources to support a conflict against the Spanish military and a devastating earthquake in 1812 killed thousands throughout Venezuela (Library of Congress 2005). Under the leadership of Simon Bolivar Palacios, Venezuela, along with what is now Colombia, Panama, and Ecuador gained independence from Spain in 1821 and established Gran Colombia (Lynch 2006).

Unfortunately, Simon Bolivar's vision for a unified Gran Colombia was short lived. Following various trade disputes and internal political conflict, Venezuela officially seceded from Gran Colombia and became an independent republic in 1830 (BBC 2012). Nevertheless, Simon Bolivar's legacy on the nation was extremely influential. The 1800s is considered the century of the caudillo (Library of Congress 2005). Chasteen defines a caudillo as, "...a caudillo was a man with a personal following largely independent of any institutional leadership role. The great majority were military men" (Chasteen 2009). The result of this legacy was Venezuela's experience with a wave of strong yet dictatorial political leaders following Simon Bolivar's death in December of 1830 (Chasteen 2009). After the death of Bolivar, the country experienced many years of civil war as opposing factions within the Venezuelan political and military elite fought for power. Additionally, the decline of coffee prices in the 1840s led to economic and political havoc within Venezuela; however, president Antonio Guzman Blanco restored central government authority when he assumed power in 1870 (BBC 2005). Blanco ruled for 18 years, and he is remembered as a president who was able to restore economic stability to Venezuela by attracting foreign investment and further developing agricultural and educational infrastructure within the country (Nava 1965).

For most of the first half of the 20<sup>th</sup> century, power within Venezuela changed hands multiple times amongst a few military dictators. Under Juan Vincente Gomez, Venezuela discovered the first significant oil wells within the country in 1908 (BBC 2005). By 1935, Venezuela was the world's largest exporter of oil and the third



largest producer (Boue 1993). Between 1920 and 1935, oil exports from Venezuela increased from 1.9 percent to 91.2 percent (Boue 1993). The discovery of oil drastically changed the economic landscape of the country as it entered into a dramatically tumultuous political period. In February of 1948, following a coup to purge the previous military regime controlling the nation, Romulo Gallegos won the first democratic presidential election within Venezuela (BBC 2012). His time in office was extremely short lived, as he was overthrown by a military coup led by Marcos Perez Jimenez in November of the same year (BBC 2012). Nevertheless, this moment indicated the first significant potential shift towards democracy within Venezuela's short history.

Marcos Perez Jimenez, however, would be the last military dictator of Venezuela (Rohter 2001). He ruled Venezuela with an iron fist from 1952 until 1958, and he paraded himself across the international community as a fervent anti-communist (Rohter 2001). His tolerant attitude towards foreign oil companies and his strong opposition to the Soviet Union's sphere of influence within Latin America garnered him support from the United States (Rohter 2001). Jimenez attacked any political opposition challenging his rule. He forced many of his political opponents into exile, and he was directly responsible for ordering the murder, torture, and incarceration of hundreds of others (Rohter 2001). He ordered the closing of the national university, abolished independent labor unions, and intimidated the press (Rohter 2001). By January of 1958, large portions of the Venezuelan military and other political groups had had enough, and Jimenez was forced into exile in the United States by February (Library of Congress 2005).

Venezuela's first taste of a lasting democracy followed the exile of Jimenez. A wave of democratically elected presidents had varying success at restoring political stability and economic growth to Venezuela. The country, like many other petroleum producing nations across the globe, suffered tremendously during the dramatic decline in oil prices in the 1980s. The economic and resulting political instability of the 1980s, brought upon predominantly by Venezuela's reliance on its petroleum industry, is directly responsible for the rise of Hugo Chavez to power (Alvarez 2011). In 1989, Carlos Andres Perez was elected president (Alvarez 2011). By 1989, however, Venezuela was on the verge of an economic depression. Following the election of Perez, riots became so destructive and frequent that Perez had to enact martial law (Alvarez 2011). In 1992, Hugo Chavez, then a controversial but fiery colonel in the Venezuelan military, organized and led the first of two coup attempts (BBC 2005). After the failure of both coups, Chavez was imprisoned for two years before being pardoned by President Rafael Caldera in 1994 (BBC 2005).

In 1998, Hugo Chavez was elected president after running on a platform pledging constitutional reform and drastic economic improvement programs (Alvarez 2011). Chavez's first years in office were not secure. He was almost deposed in 2002 by an attempted coup by disloyal military officers and wealthy business leaders fearing Chavez's socialist rhetoric and anti-capitalist ideologies (Alvarez 2011). After the failure of the coup, Chavez purged the military of many of its top leaders (Alvarez 2011). Chavez's rule was dominated by a policy of decreasing the influence of the United States within Latin America, and Chavez prided himself on restoring strong senses of Venezuelan nationalism (Romero

2013). Chavez bridged diplomatic ties between Venezuela and many of its Latin American neighbors, including Cuba, Ecuador, Bolivia, and Peru by providing these countries with favorable oil prices and strengthening military relations (Romero 2013).

Chavez also sought to further exercise control over the Venezuelan economy. In 2006, he nationalized dozens of foreign owned assets, including multiple projects within the petroleum industry sponsored or directly controlled by large American and European companies like Exxon Mobil and British Petroleum (Romero 2013). In 2008, Chavez nationalized one of the country's largest banks, Spanish owned Bank of Venezuela (BBC 2012). Hugo Chavez pioneered himself as a leader of Venezuela's lower economic classes, frequently visiting slums throughout the country and sponsoring large social welfare programs aimed at garnering and maintaining support from Venezuela's poorest populations (Romero 2013). Chavez also sought to reform Venezuela's land laws (BBC 2012). This was a political decision designed to gain support from Venezuela's poorest populations. Chavez sought to break up Venezuela's largest estates and further distribute and equalize land distribution amongst the country's rural poor (BBC 2012).

Chavez's rule has not been without substantial opposition and instability. Chavez's 21<sup>st</sup> century socialism, although politically popular, has proved to be extremely debilitating from an economic perspective. The national debt increased from \$28 billion in his first year of the presidency to about \$90 billion today, largely the result of his public spending programs (Roth 2013). Government spending has also led to rampant inflation, which has devastated industries within Venezuela. The

Venezuelan currency appreciated by 22 percent during Chavez's time in power (Roth 2013). His time in power also witnessed many periods of political unrest throughout the country, as citizens protested a struggling economy, accusations of corruption, and crime rates that appeared to spiral out of control (Alvarez 2011).

Chavez's death on March 5, 2013 was met with hesitation throughout the international community. Many were concerned over Venezuela's ability to handle a transition to the leadership of Nicolas Maduro (Tillman 2014). Maduro was a strong supporter of Hugo Chavez, and he has attempted to exert the same control over the country as his predecessor. Nevertheless, his regime has been confronted with months of violent and unruly protests (Tillman 2014). His crackdown has been ruthless, and the international community has been extremely critical of the current political environment within the country. Just recently, the main leader of Maduro's opposition Leopoldo Lopez was thrown in jail on charges of conspiracy (Tillman 2014). Opposition leaders are attempting to push Maduro out of office; however, his reaction to the political unrest clearly illustrates he has no plans to go out easily. It is estimated that well over 50 people have died in the government's response to street protests since February of this year (BBC 2014).

#### *Key Themes in the Political Development of Venezuela*

Many factors have contributed to the development of the political system now present in Venezuela; nevertheless, the following section will attempt to synthesize some key factors that have influenced the political course Venezuela has taken. While Venezuela's reliance on oil and its political ramifications will be a key focus later in this analysis, it is first important to establish other contributing factors

towards Venezuela's struggle with democracy. The following subsections will discuss the ethnic makeup of Venezuela, the colonial legacy of the country, and its levels of economic inequality.

### *Ethnic Heterogeneity in Venezuela*

Venezuela is South America's fifth most populated country with a population of nearly 29 million people (CIA World Factbook). Ethnic divides within Venezuela are less pronounced in the country in comparison to many other countries that may have very defined ethnic groups. The majority of the present population is mixed race, as almost 70 percent of the nation can be classified under this category (CIA World Factbook). These are predominantly people who have descended from European colonists from Italy, Spain, Portugal, and Germany and indigenous Indian groups. Europeans still account for close to 20 percent of the population (CIA World Factbook). Blacks account for eight to ten percent of the population, and Amerindians account for between one and two percent of the overall populace (CIA World Factbook). The country is close to 70 percent Roman Catholic and 29 percent Protestant (CIA World Factbook). The remaining one percent is a combination of Muslims, Jews, and atheists (CIA World Factbook).

Venezuela has certainly struggled with its share of racism and ethnic conflict throughout its political history. Slavery was officially outlawed in Venezuela in 1854; nevertheless, nearly four centuries of a booming slave trade engrained vicious racism and discrimination within Venezuelan society (Salas 2007). In its final stages as a colony, in 1795 government officials in Venezuela enacted a decree that allowed for people of mixed race to buy the classification of "purely white" (Salas 2007).

Even though the effects of years of slavery and abuse of indigenous populations drastically influenced Venezuelan society well into the 20<sup>th</sup> century, the country also experienced a movement that attempted to embrace and unite its mixed race majority in order to create a homogenous society (Salas 2007). Salas writes, “With the aim of consolidating the processes of nation building, Latin American elites tried to forge a national mestizo identity that excluded Indian and Afro-Venezuelan ethnicity” (Salas 2007). While this movement did abandon the smaller minority populations of Afro-Venezuelans and the indigenous populations, it served as a key nation-building component to Venezuela’s overall political development. Instead of identifying the mixed race population within Venezuela as a collection of divided ethnic groups, this movement within the country sought to further unite the mixed race population as one homogenous population that made up the majority of the Venezuela’s social fabric.

The education system within the country played a key role in achieving this difficult task. Salas writes:

Political and social integrations did not seem to be enough; total cultural integration would be necessary. To achieve this objective, a homogenous culture had to be created by means of the educational system that would be capable of erasing heterogeneity and thus of appealing to a single national tradition elevated over any foreign or universal one. (Salas 2007)

By creating a national identity that embraced the mixed race background of the majority of the population, Venezuela along with many other Latin American countries created ethnic homogeneity in an environment that otherwise could be viewed as extremely heterogeneous. A key movement was known as indigenismo, adopted by many government officials to further educate the mixed race population

throughout the country by teaching them Spanish in order to educate them and absorb them into broader Venezuelan society (Madrid 2012).

Nevertheless, despite this seemingly effective attempt to unify the mixed race population within Venezuela, Afro-Venezuelans and the indigenous population have been continuously ostracized and discriminated against within Venezuelan society. Indigenous people have continuously experienced their lands being taken away from them and infringed upon by an increasingly hostile ranching population supported by the national government (The Economist 2009). Hugo Chavez had championed himself as a leader that was respectful of the indigenous populations; however, most of the legislation he passed in support of these populations were either not implemented or failed to live up to their expectations (The Economist 2009). It is clear that indigenous populations struggle to receive the same equal rights and economic benefits granted to the broader Venezuelan population.

#### *Colonial Legacy in Venezuela and its Effects*

The colonial legacy of Venezuela has played a significant role in shaping the country's political development over the past 200 years. This is particularly evident in the long stream of dictatorial and authoritarian leaders throughout the course of Venezuela's political development. From 1830 until 1959, Venezuela was under dictatorial rule. Venezuela's post-colonial legacy was extremely influential in shaping not only Venezuela's but also much of Latin America's concept of how a strong political system was structured. The 1800s has frequently been referred to as the century of the caudillos (Library of Congress 2005). The caudillo is a political concept of a strong leader that ruled with an iron fist and constructed a persona as a

national hero (Chasteen 2009). Simon Bolivar, frequently viewed as the founder of modern Venezuela and the savior of Latin America from colonial influence, is perhaps the most influential caudillo within Venezuela and Latin America's political history.

The influence of the caudillo is very clear in the broader political history of Venezuela. Venezuela did not experience democratic elections until 1959. Its past has been riddled with many military dictators that ruled the country corruptly and authoritatively. The primary tool of authority for these leaders was the army (Haggerty 1990). These leaders utilized the army to eliminate political foes, maintain their strong hold on power, and suppress calls for reform and change (Haggerty 1990). The influence of the caudillo legacy has even carried over into the 21<sup>st</sup> century, as Hugo Chavez and his 21<sup>st</sup> century socialist agenda attempted to appeal to the caudillo legacy of Venezuela's political history. On the surface, Chavez attempted to portray that he was actually preserving Venezuelan democracy and further distributing rights and benefits to the country's poorest classes (The Economist 2013). Nevertheless, behind the scenes his leadership style mimicked that of a true caudillo. He concentrated power into his own hands, he bullied opponents, he pushed the middle class to emigrate from the country, and he heralded himself as the new leader of a "Bolivarian Revolution" against the United States (The Economist 2013).

The post-colonial legacy of the caudillo leader has been extremely influential on Venezuela. Despite its ability to gain independence from its colonial rulers in the early 19<sup>th</sup> century, Venezuela did not experience its first taste of democracy until the



1950s. Venezuela, like many of its fellow neighbors in Latin America, experienced a long and troubled past with authoritarian leaders. Nevertheless, this is not necessarily very surprising. It is clear that Simon Bolivar and his legacy has left a lasting effect on the political system of Venezuela. The Venezuelan political system viewed an effective political system as one that was controlled by a strong and authoritarian leader. This same legacy has continued to play a role today, as modern leaders like Hugo Chavez have attempted to group themselves with this legacy in order to further their political power and public appeal. Unfortunately, this has had devastating effects on Venezuelan democracy, as the country has struggled to experience long and substantial periods of democratic rule.

#### *Economic Inequality in Venezuela and its Effects*

Venezuela current economic situation is dire. According to the World Bank, 25.4 percent of the country lives below the poverty line (World Bank 2014). It is estimated that over 285,000 rural households live in conditions of extreme poverty (World Bank 2014). Recent protests have led to the deaths of nearly 30 people as unemployment and inflation cripple the Venezuelan economy and threaten the balance of political power (Sanati 2014). Nevertheless, Venezuela's economy has not always been in a state of disarray. Following the long period of military dictatorships following Venezuela's independence, many of which were marred with corruption and mismanagement of public funds, the country actually experienced a period of high transparency in state finances and steady economic growth (Coronel 2008). From 1960 until the middle of the 1970s, the country benefited immensely from soaring oil prices throughout the world (Coronel 2008). The country also

witnessed a mass movement towards urbanization from the 1940s well through the 1960s as the country's standards of living increased dramatically (Leon 2006).

The boom in the oil sector during the 1960s and the early 1970s played a tremendous role in further increasing the quality of life for Venezuelan citizens. The national government experienced a dramatic influx of funds, as the national revenue tripled from 1973 to 1974 (Leon 2006). The government also began utilizing these new streams of revenue to spend lavishly on public expenditure programs (McCaughan 2005). Nevertheless, this economic growth was unsustainable, as the collapse in oil prices in the early 1980s crippled the country economically and politically. The economy contracted significantly, as the number of people living in poverty grew from 36 percent in 1984 to 66 percent in 1995 (McCaughan 2005). By the 1990s, the country was crippled with declining economic growth and rapidly increasing levels of inflation, drastically reducing the economic outlook for the country as it reached the 21<sup>st</sup> century (Weisbrot, Ray, and Sandoval, 2009). By 1995, 54.7 percent of the country's households were living in poverty (Weisbrot et. al, 2009). Even though the current poverty level has dropped significantly to 25.4 percent, this current figure is still extremely high nonetheless (World Bank 2014).

Hugo Chavez took office campaigning on the promise of improving the economic health of the nation. To some extent, Chavez had returned on this promise to the Venezuelan people. The economy grew by 47.4 percent from 1999 to 2009 (Weisbrot et. al, 2009). Nevertheless, the current economic situation in the country indicates that many of Chavez's reforms have failed to leave a lasting impact on the overall health of the nation. The country's struggling currency has led to a near

economic collapse, and its government-controlled currency is nearly useless on international markets (Sanati 2014). While the official exchange rate is 6.3 bolivars to the dollar, the black market rate is more likely in the range of 80 to 90 bolivars to the dollar (Sanati 2014). Hugo Chavez instituted multiple public expenditure programs to keep the prices of imports artificially low as a strategy of appeasing the lower classes, yet his attacks on private industry within the country has led to a substantial middle and upper-middle class emigration from the country (Sanati 2014). This exodus of the middle class has further widened the inequality gap within Venezuela, despite the trends towards improving living standards within the country for the poorest of the poor. It has also destroyed industry, private investment, and innovation within the country. Venezuela is almost entirely reliant on imports for anything from food to heavy machinery

While Venezuela has experienced periods of economic growth, a deeper look into its current economic situation highlights some important explanations for its struggles with democracy. Venezuela's economic track record has been inconsistent, marred with periods of drastic economic growth followed by years of decline. This inconsistency has led to an unstable central government and financial system and widening levels of poverty within the country. Hugo Chavez, perhaps the most notable leader of Venezuela since independence, campaigned as a leader that represented the interests of Venezuela's poorest classes. Since taking office, it is difficult to call his presidency an archetype for democracy given his disdain for capitalist economic systems and the destruction of his political opponents.

Additionally, Chavez's policies attacking private industry and the middle to upper

classes of the nation have widened the inequality gap within the country. It has also eliminated a potentially powerful political and economic class of people from Venezuelan society, as many within the middle and upper classes have left the country since Chavez gained the presidency. This has proved to destabilize the political situation within the country yet also further strengthen the grip on power Chavez did have. Currently, the political situation looks bleak. Protests have overtaken the country, and Nicholas Maduro's response has been violent and ruthless. It does not appear to be a promising time for democracy in Venezuela.

### *Petroleum and Venezuela's Political Development*

There are many available explanations for Venezuela's current political environment. The previous section highlighted the complexity of Venezuela's political history and the many contributing factors to its political turmoil and struggles with developing democracy. Nevertheless, investigating Venezuela's current political state without considering the effects of its petroleum industry would be a critical mistake. The following sections will first provide an overview of Venezuela's petroleum industry followed by an analysis of its effect on Venezuela's political development.

### *Origins and History of the Venezuelan Petroleum Industry*

Oil has played an incredibly important role in both the economic and political arena in Venezuela, particularly in the last 100 years. In an attempt to best synthesize the changing and developing nature of this highly influential commodity, I will divide the development of the petroleum industry within Venezuela into five distinct stages. The first stage is the pre-production stage, which essentially

encompasses everything before 1912. The second stage is the birth of the petro-state from 1912 through 1943 (Wilpert 2003). The third stage is from 1943 through 1973, which experienced a dramatic increase in the strength of the industry and its role in augmenting Venezuela's economic standing (Wilpert 2003). The fourth stage is from 1973 through 1998, a period when the oil industry was nationalized and the global economy experienced extreme volatility in petroleum markets (Wilpert 2003). The fifth and final stage is from 1999 through today, a period that experienced dramatic change as Hugo Chavez took power in December of 1998 (Wilpert 2003). These five stages will guide our journey through the structure and history of the petroleum industry in Venezuela.

### *Stage I*

The indigenous inhabitants of Venezuela knew about the existence of petroleum long before it became apparent to the Spanish colonists (Boue 1993). It did not play nearly as large a role in the economies of the 16<sup>th</sup> and 17<sup>th</sup> centuries; nevertheless, it was viewed at first as a potential medicinal remedy for various illnesses. There are records of the Spanish royal family requesting barrels of Venezuelan crude shipped back to the European continent to cure ailments such as gout and arthritis (Boue 1993). The first significant instance of commercial exploitation of Venezuelan petroleum occurred in 1875 as a company called the *Compania Petrolia del Tachira* began to harvest oil seepages on the *Alquitrana* plantation (Boue 1993). By most standards, the company was extremely primitive (it produced only about 50 barrels a day), and most of the oil they produced was utilized for kerosene (Boue 1993).

## *Stage II*

Ironically, the international attention to Venezuela for its oil reserves was the result of political conflict in another Latin American country. In the late 1800s and early 1900s, Mexico was the world's second largest oil exporter (Krauze 2013). Nevertheless, the country's decade long civil war starting in 1910 pushed international oil companies away from Mexican oil fields and towards alternative sources like Venezuela (Boue 1993). By 1912, Royal Dutch Shell and Rockefeller's Standard Oil became the major producers of oil within Venezuela (Wilpert 2003). By 1929, Venezuela was producing 137 million barrels of crude oil a day, making it the second largest oil producer in the world at that time, second only to the United States (Tugwell 1975). The Gomez dictatorship played a major role in making Venezuela appear attractive to foreign corporations. The most notable concession was the promise of state funded security around oil fields and refineries within Venezuela as well as the frequent use of the national army to quell oil labor strikes and protests (Tugwell 1975).

The country experienced a temporary reduction in growth from 1931 through 1934 as the global economy struggled through the Great Depression (Boue 1993). During this time, 40 percent of Venezuela's oil workers lost their jobs (Tugwell 1975). Government petroleum income by 1932 had dropped to \$57 million from its 1929 high of \$83 million. It slowly began to regain traction in the years leading up to World War Two, yet the conflict in Europe and the Pacific drastically limited the availability of tanker ships to transport Venezuelan petroleum to markets in the United States and elsewhere (Boue 1993). By 1942, Venezuela had

returned to its production levels of 1931, and the future of this industry lay in the balance of the outcome of World War Two and the global demand of the world's superpowers. The second stage in this narrative clearly outlines the susceptibility of the Venezuelan oil industry to the global economic and political climate, a theme that will continue to come up throughout this analysis.

### *Stage III*

The third stage in the development of the Venezuelan petroleum industry is a period in which the state further strengthened the country's reliance on oil for economic growth. In 1943, in an attempt to gain greater control over the flow of revenues from the international oil trade, the Venezuelan Congress passed the Hydrocarbons Act (Wilpert 2003). The Hydrocarbons Act essentially led to a broad new wave of taxes on foreign oil companies within Venezuela, and despite many objections from foreign corporations, the law was successfully passed and Venezuela began to reap the benefits almost immediately (Tugwell 1975). By the early 1950s, however, the oversupply of oil on international markets and increased competition from Middle Eastern countries drove the price of petroleum down (Wilpert 2003). This decline in the price of oil served as a major motivation for the formation of OPEC.

Just as we saw in the case of Nigeria, Venezuela also experienced a dramatic development within its oil industry with the creation of the Organization of Petroleum Exporting Countries (OPEC) in 1960 (Wilpert 2003). Venezuela was one of the founding members of OPEC, along with Saudi Arabia, Iran, Iraq, and Kuwait (Boue 1993). By the end of the year in 1960, Venezuela's newly formed Corporacion

Venezolana del Petroleo (CVP) began its first operations as a government controlled petroleum corporation (Tugwell 1975). The establishment of the CVP implied to foreign corporations that a new competitor could crowd them out of the Venezuelan market over time, and the creation of OPEC signaled that a new chapter had commenced politically and economically both within Venezuela but also internationally.

#### *Stage IV*

The Middle East oil embargo of 1973 initiated a stage of economic growth unseen in Venezuela ever before. As world oil prices skyrocketed, Venezuelan government revenues quadrupled from 1972 to 1974 (Wilpert 2003). Carlos Andres Perez, president of the country at the time, promised the nation that this economic growth would turn Venezuela into a modern and developed country within a decade (Wilpert 2003). His plan was to create the “Gran Venezuela” and fight poverty. Unfortunately, the flood of new revenues led to drastic fiscal irresponsibility. Perez attempted to finance massive public development projects, many of which were riddled with corruption, mismanagement, and a lack of effective oversight (Kozloff 2006). He narrowly escaped prosecution on corruption charges after his presidency ended in 1979 (Kozloff 2006). The economic boom was short lived in Venezuela. By the late 1970s, the country was already struggling from chronic inflation and increasing indebtedness to foreign nations (Kozloff 2006).

The political climate within the country began to drastically change during the fourth stage of the nation’s petroleum industry. The citizenry was becoming increasingly upset at the involvement of foreign corporations in the Venezuelan



economy (Kozloff 2006). Venezuelan policymakers as well as the general population argued that foreign corporation tampered with international oil markets, led to corruption, and left Venezuela with the short end of the stick when it came to reaping the true benefits of petroleum production (Kozloff 2006). After all, just like Nigeria, foreign corporations provided most of the capital, technology, and managerial skills for Venezuela's petroleum industry, so an uneasy relationship between the state and these companies began to manifest itself as Venezuela experienced economic hardship in the 1980s (Kozloff 2006). Perez Alfonzo, the key Venezuelan diplomat responsible for the formation of OPEC was quoted as saying that foreign oil corporations treat the politicians of their host countries "like children" (Tugwell 1975).

In 1975, the whole oil industry within Venezuela was nationalized (Boue 1993). At the time, 29 foreign corporations were active in Venezuela (Boue 1993). CVP, although only responsible for less than four percent of the country's oil production, was employing 13 percent of the workforce in the industry (Boue 1993). In order to gain further control over the domestic market, the Venezuelan government established the Petroleos de Venezuela S.A. (PdVSA), the state's nationalized oil company (Boue 1993). All foreign companies that once did business in Venezuela were replaced with subsidiaries of the PdVSA (Wilpert 2003). While the PdVSA did and still does partner with many large foreign firms in joint venture projects and still exports crude oil to foreign firms for refining, 1975 signified a key seizure of power over the petroleum industry by the state.

The 1980s and 1990s were particularly difficult decades for the Venezuelan oil industry and the economy as a whole. A lack of consistency on behalf of OPEC member countries led to many of them not adhering to agreed upon production quotas, and oil prices continued to fall well into the late 1980s (Kozloff 2006). In 1989, the poverty rate leaped from 46 to 62 percent (Kozloff 2006). The PdVSA was under extreme scrutiny from the general public as it continued to devote an increasingly larger percentage of its revenues towards covering what it called its own “costs” while the Venezuelan government received less and less. By the time Hugo Chavez won the presidency in 1998, the PdVSA was keeping 64 percent of its income and was leaving only the remaining 36 percent for the government (Mommer 2001).

#### *Stave V*

President Chavez took office clearly recognizing the importance of Venezuela’s access to oil. He was quoted as saying before he gained the presidency that, “Oil is a geopolitical weapon, and these imbeciles who govern us don’t realize the power they have, as an oil-producing country” (Kozloff 2006). Hugo Chavez realized that in order for Venezuela to truly begin regaining the benefits of its oil production, he had to address the dysfunction still present in OPEC. Countries were failing to adhere to their agreed upon quotas, and the cartel had no strategy in place to counter the growing production of non-OPEC countries like Russia, Mexico, and to a certain extent the United States (Wilpert 2003). In January of 1999, the price of oil had reached \$8.57 per barrel (USEIA 2014). Chavez organized the second ever meeting of the OPEC heads of state in Caracas at the start of 2000 (Wilpert 2003). By

December of the same year, oil prices had begun to push close to \$30 a barrel for this first time since 1985 (USEIA 2014). He also placed a trusted friend in charge of the Ministry of Energy and Mines (MEM), which oversaw the PdVSA and Venezuela's oil policy. Ali Rodriguez, a calm and strategic man that countered Hugo Chavez's spontaneous and intense character, set forth a policy on solidifying OPEC relations.

The petroleum industry under Chavez also experienced significant reforms. He sought to solidify state ownership of the industry via literally writing in the 1999 Constitution that the state was solely responsible for the PdVSA (Wilbert 2003). Chavez abandoned all plans of his predecessor, Rafael Caldera, to privatize the PdVSA (Kozloff 2006). Chavez also enacted a series of substantial tax reforms. Originally, the state required a royalty payment of 16.6 percent for every barrel of oil produced by either the PdVSA or a foreign firm (Kozloff 2006). Chavez increased this tax to 30 percent on foreign or private corporations within Venezuela, and he later guaranteed the PdVSA at least a 51 percent share in all new oil exploration projects (Kozloff 2006).

Chavez appeared to initially experience tremendous success. In 2003, it was the fifth largest oil exporting country in the world. By March of 2005, Venezuela was sending 1.5 million barrels of oil a day to the United States (Kozloff 2006). OPEC leaders have credited him with solidifying relations and leading to an increase in international oil prices. Nevertheless, recent economic problems like a declining currency and rising levels of unemployment marred the end of Chavez's presidency and have plagued his predecessor Nicholas Maduro. The Venezuelan oil industry has since fallen behind the global competition, as Hugo Chavez made the critical mistake

of ignoring reinvestment and innovation in the country's petroleum infrastructure (The Economist 2014). This has been extremely detrimental for a nation that relies on oil for close to 95 percent of its export earnings (CIA World Factbook 2014). Other industries within the country are nearly non-existent, as years of reliance on the petroleum industry have drastically limited investment in other sectors (CIA World Factbook 2014). Additionally, Chavez's public expenditure programs and nationalization initiatives have led to rampant inflation and under production throughout the economy (CIA World Factbook 2014). Recent protests have signaled that Nicholas Maduro's grip on power may be in question.

It is clear that the petroleum industry has played a pivotal role in the economic and political history of Venezuela. The following sections will assess the extent oil has shaped the politics of Venezuela, and what role it has played in preventing the development of a functioning democracy. It will investigate the effects the oil industry in Venezuela has had on repression and corruption in Venezuela, on subsidies, and the development of a rentier state. Following this analysis, a greater understanding of the Venezuelan petroleum industry and its place in the narrative of Venezuelan political development will be attained.

#### *The Petroleum Industry, Repression and Corruption and their Political Effects*

Venezuela has not been spared from many of the observations of the Repression Theory, and the oil industry has played a key role in preventing the development of a functional and transparent democracy within the country. The country's periods of massive economic growth due to rises in global oil prices have led to a volatile flow of oil revenues that have been utilized to fund public

expenditure projects. Many of these projects are extremely corrupt, as illustrated by President Perez's disastrous public expenditure program that nearly landed him in jail. The connection between repression and the oil industry goes back even further to the days of the Gomez dictatorship in the 1930s, when he utilized the national army to forcibly suppress strikes and protests by oil workers in order to appease the concerns of foreign oil companies operating in Venezuela (Tugwell 1975). This policy prevented the improvement of living conditions, working conditions, bargaining authority, and broader political power for petroleum laborers during his regime (Tugwell 1975).

Currently, corruption both within and produced by the Venezuelan oil industry continues to be a central problem facing the country today. The country was ranked 162<sup>nd</sup> out of 180 countries on the 2009 Transparency International Index (Alvarez and Hanson 2009). The government has complete autonomous control over the oil industry, and it can be very difficult to trace the paths that petroleum dollars actually take within the Venezuelan political system. In 1997, the Caracas based nongovernmental organization Pro Calidad de Vida estimated that \$100 billion in oil revenues had been wasted, stolen, or used for bribery in the last 25 years (Coronel 2008). In 2008, the Vice President for Exploration and Production of the PdVSA admitted to providing a \$20,000,000 drilling contract to a company with only three employees and no drilling equipment (Coronel 2008). It is suspected that Hugo Chavez utilized the PdVSA in order to gain political support from key economic figures within Venezuela and buy off potential political opposition. In 2008, Venezuela was ranked 126 out of 130 nations in the Economic Freedom of the

World Index, above only the Republic of the Congo, Zimbabwe, and the Democratic Republic of the Congo (Coronel 2008).

The lack of transparency and incidents of blatant corruption within Venezuela are compounded by the declining economic situation facing many Venezuelans today. Currently, 31.6 percent of the population lives below the international poverty line (CIA World Factbook 2014). Nevertheless, the oil industry has actually played a substantial role in improving the quality of life within Venezuela. At one point in the 1970s, it appeared Venezuela was well on its way towards becoming a developed country. This prosperity was short lived, and by the time Hugo Chavez took office the poverty rate had reached an astronomically high 50 percent in 1999 (CIA World Fact Book). Hugo Chavez had actually utilized oil revenues quite efficiently at times to fund public works projects that have tackled growing income inequality and unemployment within the country. In the period from 2003 to 2011, the PdVSA has contributed close to \$80 billion towards various social programs aimed at improving healthcare and education (Rodriguez, Morales, and Monaldi 2012). Additionally, low gas prices subsidized by the oil industry have proven to be extremely beneficial for the country's poorest populations (Rodriguez, Morales, and Monaldi 2012).

Venezuela clearly has many problems with corruption within the oil industry and it has been utilized as a political and economic tool for many of the country's leaders. The lack of transparency about oil revenues have at times made it difficult for both the Venezuelan people and international observers to hold the Venezuelan government accountable; however, it is clear that some of these revenues have truly

been put to good use. It has served as a key political tool, as it has allowed leaders such as Hugo Chavez to use economic incentives to gain political power amongst his potential adversaries. It has also played a role in preventing calls for change or reform as illustrated by Gomez's dictatorial regime. Nevertheless, it would be unfair to say that corruption within the oil industry has totally hindered the development of democracy within Venezuela. There are clear examples of how it has led to broader economic equality, improved the education of the country, and improved living standards, all conditions that are actually more likely to contribute to democracy rather than impede it.

Despite these economic benefits, it is important not to overlook the politically repressive power of the oil industry within Venezuela. In 2007, PdVSA was responsible for half of the total government revenues and three quarters of Venezuela's export revenues (Romero 2007). This centralized economic authority is pivotal towards maintaining a firm grip on power. Considering the president of Venezuela has sole discretion over the appointments of the PdVSA, political loyalists frequently fill the positions of upper management. The total government control over half of the federal revenues in the country give it complete authority over how to spend these dollars and best allocate them to preserve the status quo. Many of Chavez's petroleum funded development initiatives operated off of the country's books; therefore, they were never subject to lawmakers' approval or audit checks (Gould 2007). Chavez could have utilized these funds for all sorts of political maneuvers and repressive strategies.

*The Venezuelan Petroleum Industry, The Rentier State, Subsidies and their Political Effects*

Venezuela is an ideal example of a rentier state. As clearly outlined in the sections above, Venezuela is extremely reliant on foreign rents for state revenues. In 2011, oil rents made up 30 percent of Venezuela's GDP (World Bank 2014). Countries that rely on external rents rather than a tax base frequently are less likely to be accountable to their populaces and efficient and fair in their distribution of state benefits (Rodriguez et al. 2012). Venezuela began the process of maximizing its return from oil revenues in the early 1940s. From 1942 until 2008, the state's share of net oil revenues has increased from 38.8 percent to 87.3 percent (Rodriguez et al. 2012). These oil revenues allow the Venezuelan government to essentially forgo taxing its citizens (Rodriguez et al. 2012). Nevertheless, the result is that the central government has discretion over the distribution and spending of these oil revenues, and the Venezuelan populace has little role in determining how and to what extent oil revenues are distributed for various economic and social policies (Rodriguez et al. 2012). Moreover, human rights groups and NGOs as well as oppositional political parties are not granted access to petroleum funded revenues that state sponsored organizations receive, hence making it nearly impossible for them to compete politically in a country where international donations are outlawed (Rodriguez et al. 2012). In 2010, Hugo Chavez enacted and the Venezuelan assembly passed a law forbidding foreign contributions to political parties and NGOs (Rodriguez et al. 2012). Many NGOs failed to survive as their main source of funding was essentially eliminated.



Despite this reluctance to tax the citizenry and a reliance on petroleum revenues to make up a substantial amount of state revenues, it does not appear that the government is totally unresponsive to the needs of the general population. Social spending increased massively under the Chavez regime, from 8.2 percent of GDP in 1998 to 13.6 percent in 2006 (Hammond 2011). This figure does not count the direct contributions to social spending by PdVSA. When combined with the contributions of PdVSA, total social spending was 20.9 percent of GDP in 2006 (Hammond 2011). The country has benefited tremendously from these oil-sponsored programs, as the country's poverty rate has fallen dramatically and school enrollment has increased since Chavez took office (Hammond 2011).

Nevertheless, the reliance on oil has destroyed other industries within Venezuela. This lack of economic growth in other sectors has led to the nationalization of various industries within the country and heightened levels of political unrest that have been met with a harsh and violent backlash by the federal government. Imports have flooded the country, the currency is spiraling out of control, and public debt has skyrocketed (Corrales 2013). Many members of Venezuela's middle and upper classes have fled the country as Chavez sought to further exercise control over the few private industries still operating within the country (Corrales 2013). The result of the declining economic situation has been an extremely tense political environment. People that are angry about the country's current economic situation have taken to the streets, and security forces have quickly targeted their efforts. Government sponsored militias have opened fire on peaceful protesters (BBC 2014). Hundreds have been detained, and the government

accuses the activists of being sponsored by the United States in an attempt to stage a coup (BBC 2014). Although some oil revenues have been utilized for beneficial social programs, it has also directly contributed to the political unrest we are witnessing today within the country and the harsh government crackdown on activists.

While it is clear that there have been some benefits from the oil industry within Venezuela, it has also directly contributed to the stunted democratic development of the country. Its reliance on oil has destroyed the production of other industries within the Venezuelan economy, further hurting an already weak private sector. With a struggling private sector economically, there is little it can do to oppose the status quo politically. Additionally, the reliance on oil exports have directly contributed to the current economic situation the country now faces. This has led to massive protests and political unrest, and many Venezuelans have witnessed their country take a step back from democracy in its attempt to quell the opposition. The massive public expenditure programs on Venezuela's poorest classes, although at times beneficial, have essentially served as a massive bribe as the government has gone about nationalizing private industries, consolidating political power, and eliminating opposition forces. The Venezuelan government, particularly in the last 15 years, has appeased a populace with spending programs only to witness this strategy backfire as the economy collapsed. With an economic crisis facing the country today, it is not surprising that political activism has regained traction.

## *Conclusion*

The political environment within Venezuela is extremely complicated, and it is now reaching a particularly dynamic moment in its own history. It has struggled with its own colonial and postcolonial legacy and economic inequality. Nevertheless, its reliance on oil as a tool for both economic and political power has further complicated its journey towards developing a functional democracy. Oil could be and at times has been a tremendous resource for the country. Unfortunately, it has all too often been used to concentrate the power of too few, appease the populace, and cripple the ability of opponents to the status quo both politically and economically. While it may not be fair to totally attribute Venezuela's struggles with democracy to oil, it has certainly played a pivotal role.

## **Chapter 4: A Comparison of Nigeria and Venezuela**

### *Introduction*

This chapter will return to the original question of this investigation: to what extent has oil played a role in shaping the current political environment of Nigeria and Venezuela? The previous two chapters have outlined the political development of both of these countries. They have also examined the role that petroleum has played in their journeys. The following chapter will seek to compare the experiences of Nigeria and Venezuela in order to gain a greater understanding into the role that oil plays in hindering the development of democracy. This chapter will illustrate that access to oil has further complicated the already existing issues of ethnic heterogeneity, economic inequality, and colonial legacies within Nigeria and Venezuela.

### *Nigeria and Venezuela: A Comparison*

Petroleum is clearly a pivotal component of both the Nigerian and Venezuelan economies. In 2012, oil rents made up 26.8 percent of Nigeria's GDP (World Bank 2014). In the same year, oil rents made up 26.7 percent of Venezuela's GDP (World Bank 2014). In Nigeria, petroleum exports made up over 97 percent of the country's total export earning in 2010 (World Bank 2014). In Venezuela, petroleum exports made up over 95 percent of the country's export earnings in 2010 (World Bank 2014). The extent of the reliance on oil by both of these countries as well as the similar timeframes they have taken in both their discovery of petroleum and their political development make them particularly intriguing case studies to compare.

Ethnic heterogeneity was one of the first factors this analysis discussed when considering alternative explanations for a country's ability or inability to develop democracy. The Ethnic Heterogeneity Theory argues that higher levels of ethnic heterogeneity can create conflict, which serve as a hindrance to the successful development of democracy. This theory has been applied to the political development narratives of both Nigeria and Venezuela in this investigation. It is clear that Nigeria is an ethnically heterogeneous nation. The country is composed of over 250 different ethnic groups (CIA World Factbook). It is also divided religiously and over 500 languages are spoken within the country (CIA World Factbook). This complexity has played a significant role in hindering Nigeria's democratic development, as the country has struggled to fairly represent the interests of the many ethnic groups within the country. Nigeria's access to oil has further complicated ethnic tensions, as various ethnic groups have struggled to reap the economic benefits of this resource. This has led to the creation of various militia groups that have further destabilized the country. Additionally, the government has ruthlessly attacked peaceful protests by various groups calling for greater reform and fairer distribution of oil revenues. While ethnic tensions would clearly exist within Nigeria with or without the presence of oil, the country's access to this resource further complicates already present ethnic conflicts.

Venezuela differs substantially from Nigeria from an ethnic lens. The country is diverse, however, not nearly to the same extent as Nigeria. The majority of the population (close to 70 percent) is classified as mixed race (CIA World Factbook 2014). While this is not a distinct ethnic group, Venezuelan society essentially views

mixed race population as a specific category within the social framework of the country. The majority of the population has European heritage, and 99 percent of the country is Christian (CIA World Factbook). While it is important not to discount the influence and struggles of indigenous groups and Afro-Venezuelans within Venezuela, the reality is they simply do not make up a very large portion of Venezuelan society (only one or two percent) (CIA World Factbook). It is clear that the Ethnic Heterogeneity Theory is not as relevant to the case of Venezuela as it is to Nigeria. One could make the argument that the country is relatively homogenous when compared to Nigeria, and therefore it does not play a very significant role in explaining the difficulties Venezuela has had with democracy over the course of its history. Unlike Nigeria, where struggles over the control of oil and its benefits are further exasperated by ethnic tensions, ethnicity simply does not play as significant of a role in the broader analysis of Venezuela's struggle with democracy.

Both Venezuela and Nigeria have struggled significantly with crippling economic inequality. The Economic Inequality Theory argues that economic inequality serves as a key impediment towards the formation of functioning democracies. Economic inequality can limit political activism and economic empowerment frequently serves as a key tool and precursor for political empowerment. Nigeria and Venezuela both share a similar narrative with regard to their levels of economic inequality and overall poverty. In Nigeria, over 46 percent of the country currently lives below the international poverty line (World Bank 2014). In 2012, 25.4 percent of Venezuela's population lived below the international poverty line (World Bank 2014). According to the Gini Coefficient, a statistical tool

utilized to measure the degree of income inequality within a country, found that Nigeria had a rating of 43.7 in 2003 and Venezuela had a rating of 39.0 in 2011 (CIA World Factbook). A rating of 100 implies perfect inequality while a rating of 0 represents perfect income equality. To provide a contextual comparison, Sweden, one of the most equal countries in the world from an income distribution perspective, had a rating of 23.0 in 2005 (CIA World Factbook). Nigeria and Venezuela both illustrate the negative side effects a precious commodity like oil can have on an already economically unequal society. In Nigeria, an economically disenfranchised lower class has struggled to gain the same political power in receiving the benefits of oil exploration. This lack of economic power has limited the ability of these lower classes to gain a meaningful place within the Nigerian political system. In Venezuela, oil revenues have been used to fund large public expenditure programs that have improved the livelihood of some, but have mostly served to appease a very large lower class and limit political opposition. This has led to a drastic reduction in the democratic freedoms and levels of political opposition within the country. For example, in 2006, Hugo Chavez won the presidential election by a whopping 26 percent (Watts 2012).

Both of these countries have squandered tremendous opportunities to utilize their oil wealth for not only economic improvement but also democratic advancement. While both have attempted to utilize large state sponsored public expenditure programs funded by petroleum revenues, they have either been rampant with corruption and mismanagement or have eventually led to more harm than good. In Nigeria, the allocation of petroleum revenues is extremely corrupt. It is

estimated that over \$400 billion in petroleum revenues have been lost, misallocated, or used for corrupt purposes by Nigerian government officials (The Economist 2014). Coronel (2008) argues that by 2006, Hugo Chavez's government had received close to \$200 billion in oil revenues; however, he simultaneously cut down on the transparency of these revenues. It has become increasingly difficult to decipher the true use and flow of petroleum revenues since Hugo Chavez's presidency. Additionally, years of reckless expenditure programs financed by the petroleum industry in Venezuela have brought the country to the brink of financial collapse, perhaps driving the wedge even deeper between the country's poorest classes and economic elite. If we are to adhere to our original definition of democracy as outlined by Schmitter and Karl (1991), government accountability for its actions is a central component to a true democracy. Both Nigeria and Venezuela have failed miserably in being accountable for their usage of oil revenues. Nigeria is renowned for the disappearance of funds over the past 30 years, and Venezuelan petroleum finances are so vague that it is impossible to tell exactly where the money is going.

The petroleum industry in both of these countries have provided these governments over the courses of their history the ability to fund public expenditure programs that appease the public economically in order to buy political support. Nigeria has utilized fuel subsidies to keep urban residents and business owners politically inactive. Each year Nigeria spends approximately \$8 billion a year on a massive public fuel subsidy program (Moyo 2012). In Venezuela, Hugo Chavez's fuel subsidy program continues to cost the country \$12 billion a year (Miroff 2014).



Additionally, Hugo Chavez enacted a series of public expenditure programs to serve the poor while simultaneously he eliminated private industry within the country, weakened his political rivals, and broadened state control over the oil industry as a whole. The expenditure programs act as key tools in limiting political opposition, and they have played a critical role in stunting the democratic progress of both Nigeria and Venezuela. Both countries have experienced periods of political unrest and activism when these programs were cut back, evidence that they are utilized as a key tool to quell opposition. Unfortunately for both of these countries, these programs have also done little to drastically improve the economic condition of these countries in the long run. Instead, they have served as tools to buy political support and maintain the status quo.

Both countries have been influenced by their colonial legacies as well, and the interplay between the colonial legacies of these countries with their petroleum industries leads us to an interesting comparison. Nigeria has clearly struggled from the ramifications of its colonial occupation. First and foremost, it is continuing to struggle as a state that was arbitrarily created by its colonial power. It has an extremely complicated ethnic environment within its borders, and the lack of domestic investment early on its colonial stages has left the country with few economic elites and lackluster infrastructure. This has left the country to essentially rely on its oil reserves for economic advancement, and this policy has led to even further negative economic consequences. Nigeria has frequently been utilized as the ideal example of the economic phenomenon “Dutch Disease.” Nigeria’s reliance on

oil over the course of its history and the lack of investment in other sectors has crippled the country economically.

Venezuela's colonial legacy plays a different role in its political narrative than Nigeria's; however, it is important nonetheless. The legacy of Simon Bolivar has played an influential role in the course that Venezuelan politics has taken. The concept of a strong willed, nearly dictatorial leader is one that held substantial significance within not only Venezuelan society and politics, but also Latin America's. Nevertheless, the concept of this type of leader has carried well over in the 20<sup>th</sup> and 21<sup>st</sup> centuries. Venezuela did not experience its first democratic elections until 1959. Its past leading up to this year had been riddled with a series of corrupt dictators that did little to advance the country politically. Hugo Chavez had tried to play on people's affinity for Simon Bolivar by presenting himself as a Bolivarian leader of the 21<sup>st</sup> century. Chavez was not shy about exercising his authority, as he further consolidated authoritative power within the Venezuelan government and he strengthened his own grip over the petroleum industry in the country. While the petroleum industry in Venezuela may not complicate the ramifications of the country's colonial legacy quite to the same extent as Nigeria, it is clear that the petroleum industry served as a key symbol of power for Hugo Chavez as he attempted to construct his own Bolivarian image. Thor Halvorsen writes after a series of national broadcasts of Chavez visiting the grave of Simon Bolivar, "The message of this macabre parody was unmistakable: Chavez is not a follower of Bolivar – Chavez is Bolivar, reincarnated. And anyone who opposes or criticizes him is a traitor not just to Chavez but to history" (Halvorsen 2010). The oil industry and

the increased government control over it under Hugo Chavez represents a critical way in which he attempted to consolidate political power. Oil was and continues to be the country's economic lifeline, and the government's control over this resource has limited the development of economic and political opponents within the country.

Both Nigeria and Venezuela serve as ideal examples of rentier states, and they both satisfy the Rentier State Explanation quite well. Both of these countries relied and continue to rely heavily on foreign rents for large portions of their state revenues. Nigeria has clearly failed to fully meet the demands and desires of its population. Its people continue to live in dire poverty, the distribution of oil benefits is extremely corrupt and lacks transparency, and the government is rarely held accountable for its management of the oil industry. Venezuela, while providing far more social expenditure programs than Nigeria in an attempt to improve the quality of life of its citizens, its rentier state economy has still created a government system that is riddled with corruption, lacks transparency, and is relatively ambivalent to the calls for reform and change from the general population. The violent crackdown on protests within Venezuela recently indicates that the government is unthreatened by the recent activism of the Venezuelan people.

#### *Is Oil the Answer to Nigeria and Venezuela's Democracy Problem?*

This analysis has indicated that there are many reasons why a country may or may not develop democracy. The cases of Venezuela and Nigeria are drastically different, yet they both indicate that their experiences have been further complicated by their access to oil. They have their differences. Nigeria is far more

ethnically diverse. Venezuela's colonial legacies play a completely different role than the colonial legacy in Nigeria. However, it is clear that oil has served to further hinder these countries' ability to develop democracy.

This leads me to my six main conclusions. First, petroleum has the ability to worsen ethnic tensions when ethnic tensions are already present. Nigeria clearly illustrates this. In the case of Venezuela, ethnic tensions were not as significant of an issue, and therefore ethnicity and its relationship with oil is not applicable.

Secondly, countries that are riddled with economic inequality are far more likely to suffer even further if they have access to oil. The experiences of Nigeria and Venezuela both substantiate this claim. Nigeria has witnessed a declining economic environment within the country despite its tremendous oil wealth. Venezuela has been plagued with volatile returns on its oil-wealth and attempts to capitalize on this resource has over time destroyed the productive capacity of other industries within the country and further cripple the country's economic environment.

Subscribers to The Economic Inequality Theory would argue that the result of this economic inequality is an even more difficult environment for democracy to prosper.

Thirdly, oil revenues provide an ample opportunity for governments to engage in corruption and repress democratic advancements within their country.

Nigeria has demonstrated a complete lack of accountability to its people with regard to its handling of its oil revenues, and most of the benefits of this resource have failed to ever reach those that actually need it. In Venezuela, corruption plays a significant role as well, and control over the oil industry is an incredibly powerful political weapon in buying support and quelling opponents. Fourthly, the colonial

legacies of countries do matter in explaining their paths towards democracy. With or without oil, Nigeria and Venezuela have important colonial legacies that continue to play significant political roles today. Fifthly, large state subsidy programs, although at times beneficial, are frequently utilized to limit political activism and buy political support. Nigeria and Venezuela both have rich histories of large state expenditure programs, and they both have had a role in limiting the development of democracy within their respective countries. Additionally, as the case of Venezuela illustrates, massive subsidy programs funded by the volatile petroleum industry can lead to financial disaster. Venezuela is clearly on the brink of severe economic turmoil. Economic turmoil can frequently lead to greater economic inequality, a key inhibitor to the development of functioning democracies. Finally, the rentier state phenomenon brings with it a host of political and economic problems. Both Nigeria and Venezuela beautifully illustrated this reality. Both of these countries have relied so heavily on oil revenues over the course of their political development that they do not need to rely at all on their own populaces for tax revenues. The result of this economic system is a political structure that is not concerned about being accountable to its citizenry. Additionally, relying solely on one economic strategy (rentier economics) can have drastically negative economic effects in the long run that can serve to further complicate existing problems within a country.

### *Conclusion*

The political journeys of Nigeria and Venezuela are extremely complicated and multiple explanations exist for their current economic and political environment. Nevertheless, this analysis has attempted to explain their courses

through the lens of resource curse theory. While it is important to acknowledge the many additional components that have contributed to the political environment we see in Nigeria and Venezuela today, it is also important not to discount the significance of petroleum in each of their narratives. Without considering the role oil has played in shaping the politics of each of these countries, we are left with an incomplete understanding of their evolution. However, attributing their struggles with democracy solely to their access to oil would also be a mistake. Rather, this analysis has attempted to illustrate that petroleum wealth has the ability to further complicate, destabilize, and ultimately impede democratic development when it is combined with some of the obstacles that are presently facing Nigeria and Venezuela.

## **Chapter 5: Conclusion and Policy Implications**

This analysis has clearly illustrated that petroleum based economies can have unique political effects on the development of democracies. Nigeria and Venezuela serve as key examples of this observation. This investigation has shown that while it would be unfair to fully attribute both Nigeria and Venezuela's spotty history with democracy to their access to oil, it would be equally irresponsible to not consider the political effects of their petro-economies. Both Nigeria and Venezuela have shown that oil has the ability to further complicate ethnic tensions, economic inequality, and colonial legacies. This complication occurs because petro-economies frequently lead to political systems that are not transparent, solely reliant on foreign rents, and extremely generous with public expenditure programs that limit political opposition.

What can the world learn from Nigeria and Venezuela? As new countries begin to play an increasingly larger role in the global oil industry, it is important for them to look at the cases of Nigeria and Venezuela if they hope to not endanger their prospects for democratic development. A recent report by Deloitte has found that Kenya, Mozambique, Tanzania, Uganda, and Ghana will become more significant oil producers in the coming decade (Deloitte 2013). If these countries are to not seriously jeopardize their status as democracies or their path towards democracy, they must understand the dangers that oil based economies can pose. In order to avoid these dangers, I recommend the following. First, the addition of petroleum production to a country's economic system must not replace general taxation for the generation of state revenues. Such a move could drastically limit the role the general

populace plays in the political sphere. Secondly, the oil industry must be extremely transparent and regulated, as a lack of transparency leads to corruption and a misallocation of revenues. Thirdly, while petroleum should be used to raise the economic standards of these countries, they must not be wasted on reckless public expenditure programs that are motivated by underlying political goals of quelling activism and opposition. Fourth, countries with deep ethnic divisions must understand that an unequal distribution of the benefits of petroleum production will inevitably lead to conflict. Fifth, oil production could pose a severe threat to existing economic inequality and further weaken the political power of the lowest economic classes. Finally, the colonial legacy of these countries must be considered when assessing the role that petroleum will play both politically and economically.

Nigeria and Venezuela have had difficult experiences with democracy. While they have made significant strides, they are also far from paragons of democracy. There are many factors that have contributed to their current political state; however, petroleum has played a significant role both independently and as a force that has complicated existing obstacles to democratic advancement. Without considering the role that oil has played in the political narrative of both Nigeria and Venezuela, we are left with an incomplete understanding of their current political environment.



## **Acknowledgements**

I would like to thank the Haverford Political Science Department for their help and guidance throughout my research. I would specifically like to thank my thesis advisor Professor Susanna Wing for her advice and constant guidance as I constructed my research question and worked through the many months required to develop an investigation of this depth. I would also like to thank my family for their support and encouragement as I maneuvered this challenging process throughout my senior year at Haverford College. Finally, I would like to thank my fellow advisees under Susanna Wing for their input and perspective throughout the year.

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