

# **Is Venezuela Entering into a New stage of Market Liberalization?**

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## **Liberalization as a Sign of Change in Today's Venezuela**

One of the big questions about Venezuela today is whether the economy of the country is indeed improving. The truth is that since the end of 2020, Nicolás Maduro has been implementing a series of economic reforms that have favoured the liberalisation of the Venezuelan economy. These measures are condensed in the Constitutional Anti-Blockade Law for National Development and the Guarantee of Human Rights, better known as the *Anti-Blockade Law* unanimously approved in October 2020 by the National Assembly and which was presented by the National Executive as an instrument that makes available to the Public Power, legal tools to mitigate the effects of sanctions against Venezuela issued by another State, group of States or foreign public or private entities.

As stated in the Official Gazette of the Bolivarian Republic of Venezuela the purpose of this law is to establish a special and temporary regulatory framework that provides the Venezuelan Public Power with legal tools to counteract, mitigate and reduce, in an effective, urgent, and necessary manner, the harmful effects generated by the imposition, against the Bolivarian Republic of Venezuela and its population, of unilateral coercive measures and other restrictive or punitive measures, issued or dictated by another State or group of States, or by acts or omissions derived there from, by international organizations or other foreign public or private entities, that affect the human rights of the Venezuelan people, imply attacks against International Law and, as a whole, constitute crimes against humanity and the affectation of the right to free and sovereign development of the Venezuelan people enshrined in the Constitution of the Bolivarian Republic of Venezuela.

The Law has attracted the attention of analysts who, on the one hand, look askance at the implementation of such an instrument, but on the other hand, consider that these measures are giving a respite to the economy of a country that has been suffering the onslaught of clientelist policies, corruption, exchange controls and nationalization of its productive engine. At this point, it is interesting to ask to what extent these reforms may respond to the need to circumvent the effects of the sanctions imposed by the United States and its Western allies on the local economy.

Before attempting to answer such a question, it is important to point out that according to a report by the BBC, the Law seems to override legal avenues granting Maduro legal leeway and little accountability. Said report quotes that Article 19 of the text will allow the Executive to waive, in specific cases, the legal or sub-legal rank norms; wherein such

application would imply the impossibility or be counter-productive at overcoming any obstacles or in compensating the damages of the sanctions. In a similar manner, the *Anti-Blockade Law* grants the character of reserved, confidential, or limited disclosure of any file, document, information, fact, or circumstance that the Venezuelan president would consider pertinent; this will prohibit access to any documentation qualified as confidential or reserved.

As De la Cruz and Correa (2022) point out, this instrument serves as a legal basis to further concentrate economic decision-making power in the executive and eliminate several key constitutional controls. The authors further exemplify that although Article 150 of the Venezuelan Constitution grants the National Assembly the authority to review and authorize contracts related to the national interest, the new *Anti-Blockade Law* authorizes the Maduro regime to unilaterally take any legal measure or conduct any business necessary to protect the country's assets. According to the authors' analysis, the Law allows these matters to be carried out in secret and without public bidding, giving Maduro the power to selectively privatise state-owned companies while eliminating safeguards that would prevent corruption and clientelism. The Law also shields the executive from public scrutiny and subverts Venezuela's democratic order (De la Cruz and Correa, 2022).

The above is undoubtedly worrisome since this scenario is complex for it is consolidated within the framework of a political regime that has been tinged by the discretionality of its actions and its lack of transparency. In a certain way, it seems that the Anti-Blockade Law, besides being an instrument with economic objectives, could also mean a new way of exercising political control over State assets.

### **Zooming in on the Announced Measures**

The participation of private companies in state-owned enterprises and the lifting of price controls on certain products do stand out. This indicates the Venezuelan president's recognition of the need to obtain capital to revive the economy of the almost totally bankrupt country. Nicolás Maduro announced the sale of between 5% and 10% of several loss-making public Internet and Telephony sector companies to private investors. These had been previously nationalized by Hugo Chávez in 2007 (Munita, 2022). Likewise, according to Munita, the President announced that in relation to the mixed oil, gas, and basic companies of the Guayana geographical area, he would introduce a law to promote foreign investment. The government's change of policies and rhetoric have prompted some companies, such as rum distiller Ron Santa Teresa RST.CR, to offer shares in local currency in the hope of stimulating an economic liberalization process similar to that of China and the Soviet Union in the 1980s. Businessmen have told Reuters that they plan to lobby the government to allow the issuance of hard currency shares.

According to Berg (2022), measures announced by Maduro and contained in the *Anti-Blockade Law* are marked by the imperative to attract foreign investment and ensure

efficiency gains through the private sector. He also states that all of the above is configured within a framework of not ceding state control over large parts of the economy that could endanger the political monopoly of the Chavismo. The reforms have implied changes in policy in three main areas: dollarization, minimal short-term inflation control, and selective privatization, where previously there had been expropriation. The adoption of foreign currencies, specifically the US dollar, has cushioned the impact of hyperinflation in Venezuela, at least for those who have access to dollars. This dollarization has been accompanied by a partial lifting of price controls and import tariffs. Other measures highlighted by the cited author have to do with measures that try to control hyperinflation and that to some extent have brought good results. Specifically, Maduro announced the elimination of six zeros from the currency as well as the implementation, managed by the Venezuelan Central Bank, of a digital Bolívar. These measures seem to be yielding some short-term successes such as minimum of price stability and the deceleration of inflation to its lowest point in almost a decade in March 2022, (Berg, 2022).

### **Why Talk about an Economic Turnaround?**

In spite of the revolutionary process that the country has undergone during the last 23 years, the development model in Venezuela has not shown signs of change during the last century. As Toro Hardy (2009) states, the development model that has been implemented in Venezuela since the beginning of the 20th century is known as *Rent Capitalism*, which is a model based on the distribution of the income produced by the exploitation of natural resources. During the decades of Chavista governments, the Venezuelan productive matrix has been mono-productive, extractive, and clientelistic. In other words, the economic development model in Venezuela has changed little or nothing at all. In lieu of the afore mentioned why talk about an economic turnaround at the present time.

During the mandate of Hugo Chávez the establishment of the so called Socialism of the XXI Century meant the implementation of a policy of nationalization that has reconfigured the Venezuelan economy. The indicators that support this idea are linked to the enactment of almost fifty laws. Two of the most important are the Law of Lands and Agrarian Development and the Law of Hydrocarbons, which allow, on the one hand, the absolute control of the State over the lands and on the other hand, establish the majority participation of the State in the oil-producing companies.

According to a Special Report (2016), published by the Observatory of Property Rights, during the period of Nicolás Maduro the proportion of interventions to private property has been considerably lower, compared to those that occurred during the 13 years of Hugo Chávez's government. However, there has been an environment of threats to companies, industries, and farms due to the implementation of confiscations as a sanctioning mechanism. This has led to a permanent threat to private property in Venezuela within the framework of the so-called economic war against Venezuela. This framework is condensed in the Organic Law of Fair Prices 2014 and its subsequent reform and in the

Decree of Economic Emergency of 2016. At this point, Venezuela is drawn into what has been called a *Patrimonial State*, which has entailed a high institutional cost and the inhibition of economic agents.

Under this framework, Maduro partially breaks with Hugo Chávez' model and seeks support for state enterprises through the deployment of private capital (Berg, 2022). As already mentioned, in today's Venezuela private companies have displaced the State as the dominant force in critical parts of the economy (Berg, 2022). 90% percent of all imports of raw materials and food were handled by private companies during 2020 which means an increase of 65% compared to 2019. Selective privatization has also allowed the regime to reduce its provision of public goods and services, reducing its budget deficit according to official figures (Berg, 2022). Both the dollarization and liberalization processes that are being actually carried out in Venezuela represent a paradox for a president who has been the heir of the Chavista's revolution. A revolution identified as a banner of the struggle and implementation of a patrimonial State and, furthermore: as a symbol of the Socialism of the XXI Century. For this reason, we speak of a turn in Venezuela's economic model.

### **Conclusion: the Mistrust of Liberalization**

There is no doubt that the liberalization of an economy that has been stagnant during the last two years would be an important bet to overcome the economic and humanitarian crisis that has expelled some 5.6 million people from the country as indicated in the World Migration Report (2022). This would seem to contradict the foundations of the Bolivarian revolution. However, the President himself points out that there is no contradiction between dollarization and revolution but that there is complementarity (Singer, 2021).

The truth is that this liberalization represents an opportunity for Maduro to circumvent the effects of the sanctions imposed by the United States and its Western allies. It also implies the political strengthening of an authoritarian regime. As Luis Salamanca pointed out everything seems to indicate that his privatization measures would be aimed at giving fresh air to the economy, demonstrating that the country can function and even grow away from authoritarianism. Salamanca pointed out that Maduro does not need to improve his popular image since *he does not depend on electoral competitiveness*. Everything indicates that this liberalization strengthens Nicolás Maduro's political play in Venezuela.

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