

**Does the Resource Curse Inhibit States from
Democratization?**

A Case Study of Venezuela in Contrast to Botswana

Ryan Jacobs
Senior Seminar
PLS 401, Dr. Masters
University of North Carolina at Wilmington

Does the Resource Curse Inhibit States from Democratization?

A Case Study of Venezuela in Contrast to Botswana

It is striking to visualize a state blessed with a plentiful abundance of a natural resource, cursed by the very same resource that, in many cases creates economic growth and democratic development. The causation of the curse varies throughout states, but what is outstanding about the natural resource curse is how it negatively impacts their ability to further democratize. In *The Guide on Resource Revenue Transparency*, it states, " much of resource revenue management hinges on the relationships between the government, national resource companies (NRCs), and international companies. These relationships must be clearly defined for all stages of resource development. Extractive industries can affect the economy or environment at any stage from exploration through to abandonment. Exploration is usually the highest-risk element of any extractive industry project, though there is a difference in this respect between mining and petroleum(11)." The roles and responsibilities of these two key players is pivotal. As states are dependent on their ability to organize soundly, natural resources lay in the balance. Although the resource curse exists in states with varying natural resources, the reasoning behind the states' failure to flourish democratically is to due to problematic governance.

Literature Review

In order to determine the degree to which the resource curse can negatively impact states ability to democratize, it is imperative to comprehend the resource curse itself. It is also significant to address states that have created democracy which are not hindered by their predominant resource.

The following will address these issues, as well as briefly expand upon two particular states and the resource curse's affect upon their individual ability to become stable democracies. In the case study, Venezuela and Sierra Botswana will be examined in such manner to more proficiently document the resource curse itself.

Resource Curse

As George Soros defines in *Escaping the Resource Curse*, "'Resource curse' is the term used to describe the failure of resource-rich countries to benefit from their natural wealth(XI)." One of the prevailing resources that has caused an negative impact economically, is petroleum. Another chief resource that has caused this curse in countries is minerals, such as diamonds. These mineral resources are the causation of internal conflict, corruption, issues concerning human rights, civil wars and other situations that create an unstable government.

Furthermore, the political, economic and administrative factors constrain cursed states from flourishing. As Soros continues, "Perversely, many countries rich in natural resources are poorer and more miserable than countries less well endowed(Soros, XI)." As Soros illustrates, These states with an over abundance of a particular resource, often have more problems economically than other states that have less natural resources. As Noam Chomsky explains in *Hopes and Prospects*:

- The state sector is central to innovation and development not only in national laboratories and universities, but also in many other ways: subsidy to corporations, procurement, guaranteeing monopoly pricing rights in the "free trade agreements," and other devices. The failure of the economics profession to attend to these factors is sometimes startling(86).

The economic sector of every state in the world is the core of their power. Essentially, the natural resources that states are graced with, become the epicenter of their political power and international relations. The resource curse describes states that are problematic economically and how it jeopardizes their progress. The following will describe how the resource curse creates instability within states and the manner by which states fall further down the spiral, inhibiting their state from democratization.

Consolidation Of Democracy

Since the 1970's, democracy has been an ambition of a majority of the states in the world. In order to become more democratic, it is necessary for the government of states to stabilize their political, economic and administrative counterparts. As mentioned above, consequently the resource curse negatively impacts states from furthering their ability to become democratic. Hence the economy plays a sound role in the capability of the political and administrative aspects of the state.

The correlation amongst these three factors reveals the need for compatibility, and is essential to the foundation of a democracy. As Carsten Q. Schneider and Phillippe C. Schmitter define it, the consolidation of democracy is a:

- Regime consolidation (that) consists in transforming the accidental arrangements, prudential norms and contingent solutions that have emerged during the uncertain struggles of the transition into institutions, that is, into relationships that are reliably known, regularly practiced and normatively accepted by those persons or collectivities defined as the participants/citizens/subjects of such institutions; and in such a way that the ensuring channels of access, patterns of inclusion, resources for action, and norms about decision making conform to one overriding standard: that of citizenship(62).

In other words, these states have a need to stabilize their economy in order to grow, democratically. Although states congener to Venezuela have the aspiration to form a democracy under a collective set of law and rights, creating a constitution that follows suit, their individual resource has thwarted their efforts.

Additionally, considering other aspects of the consolidation of democracy, as Erik C. Nisbet states, "If we take into account these different considerations-enhancing citizen knowledge and participation, socialization into democratic norms and values, maintaining political stability through the democratic consolidation process, and the role of the mass media-employing the concept of political communication gaps may be useful framework for conceptualizing, measuring, and evaluating the role of the mass media in a developing country(459)." The concept of democracy develops slowly within the borders of a state that has been accustomed to other forms of government. That being said, citizens need to know the level of participation that they are allowed within a democratized state. Although the resource curse creates instability in states that are not fully developed democratically, the citizenry's ignorance of democracy itself can create an crux on the progression towards democratization.

Venezuela

The purpose of the case studies is to compare and contrast two states that have a resource curse which consist of varying resources and consequences. Venezuela has a presidential constitutional republic, and the problems that have arisen due to the curse vary in the aftermath in comparison to Botswana.

Venezuela claims the fate of the resource curse that casts a long shadow on the ground. Venezuela states that it is a presidential constitutional republic, but its rich supply of oil hinders their ability to progress. Political corruption, drug trafficking and other factors have held Venezuela from excelling politically and economically. Today, Venezuela has one of the highest homicide rates in the world (murders per 100,000 people:49). Venezuela has also been ranked one of the most corrupt countries on the *Corruption Perceptions Index* since the survey started in 1995. Approximately half of the population of Venezuela lives in poverty, although among all Latin American countries, they obtain the most natural resources.

As Chomsky describes, "capital flight abroad by wealthy Venezuelans equaled one-fifth of Venezuelan's GDP, Santiso reports, adding that after the U.S.-backed military coup in 2002 "the response of the markets approached euphoria" and the Caracas Exchange registered huge gains, collapsing when the elected government was restored by popular protests. In general, with capital flow liberalized, governments face a "dual constituency": voters and the virtual Senate. Even in rich countries, the private constituency tends to prevail(98)." Noam Chomsky's description of the inconsistency, yet attraction to democratization provides the need to inquire how to resolve their individual resource curse(s).

Venezuela and Botswana will be compared in order to better understand what creates the stagnation of the state, as the various negative factors are researched. The instability of Venezuela will be examined in order to provide explanations and possibly offer ways in which

they might achieve a stable democracy. By examining the role of the state, how resource rich states can reduce poverty and inequality (in general), and how to handle the macroeconomics of natural resource wealth; the question of how Venezuela can escape the resource curse will be addressed.

Botswana

It is necessary to compare a state that has had the capability of constructing an institution that has good governance, addressing their ability to be economically sound. The following also will include a comparative analysis amongst the case studies and that of Botswana's economic growth.

Botswana is an unitary parliamentary republic, as opposed to a presidential constitutional republic. Its ability to manage resources with a stable government may provide information, and reveal theories that can assist in dealing with Venezuela's curse. As Atsushi Iimi explains in *Did Botswana Escape from the Resource Curse*, "As to how Botswana has been successful in developing a solid institutional structure, see Acemoglu, Johnson, and Robinson (2002). They point out that Botswana's good institutions, particularly in the private property area, have stemmed from its pre-colonial political institutions, limited British colonialism, strong political leadership since independence, and the elite's motivation to reinforce institutions(9)." Iimi's literature expresses how a consistent governance; marked by accountability, political process, civil liberties and rights, can protect the citizens from political motives regarding resource extraction.

Summary

In short, the purpose of this article is to address the resource curse, the consolidation of democracy and to compare the politics of Venezuela to that of Botswana. By doing so, the content will address to what degree the resource curse negatively affects Venezuela from democratization.

Data & Methods

"It is essential that policy instruments be developed that would firmly establish democratization on the basis of social consensus and enable transformation on stable grounds."

- Recep Tayyip Erdogan

Case Studies

By examining the resource curse, Botswana and Venezuela's predominant resources, diamonds and petroleum will be the dependent variables. These natural resources are the consequent for the failure of these states to democratize. The resource curse is the antecedent, therefore it will be the independent variable. There will also be an examination of other negative political and economic situations that have been causes of the resource curse. They are: long-term trends in world commodity prices, volatility, crowding out of manufacturing, civil war, poor institutions, and the Dutch Disease. These issues will serve as mediating and/or moderator variables. They will illustrate the relation of the other variables. Although most of the data will be qualitative, using statistics and information as research is conducted; locating quantitative data as a result of the research is desirable.

Democracy Statistics

The core concept in this study is democracy, or democratic transition. Data on this variable comes from the Freedom House database on Civil and Political Freedoms, which define a “free” society as:

- the opportunity to act spontaneously in a variety of fields outside the control of the government and other centers of potential domination—according to two broad categories: political rights and civil liberties. Political rights enable people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state(1).

It is also prudent that democracy is defined. The term "democracy" is ambiguous, both by political theorists and the various governmental structures throughout the world. According to liberal thinkers such as John Locke, Thomas Jefferson and John Stuart Mill on a basic level, the term "democracy" regards particular freedoms, equality and protections. These concepts are dependent on the construction of the government. It is often regarded that these three principles are established by the people, or their representatives.

Also, the process by which the government conducts itself, regarding its single purpose of bringing beneficial results. Put simply, a government "of, by and for" the people. It is imperative that the government is in the hands of the citizenry of the state itself. Meaning, the government works for the people that put it in place, and they have the ability to alter, dissolve or establish various parts of the government if the majority sees fit.

Additionally, another aspect deemed necessary for a democracy is a free market, within the borders of the state and internationally. The economical principles illustrated in Adam Smith's *The Wealth of Nations* is the core of a democracies free trade market.

It is important that citizen's awareness of their rights and how they choose to exercise their individual rights must be ruled out as democracy is defined. The significance lays upon whether the government provides the rights and allows the citizens to exercise their rights. One example of how democracies may differ in ways that are not controlled by the government, but a lack of response by the citizens of the state, can be seen in the United States today. Although all citizens have the right to vote at age eighteen, there has been a decline in the notion of a duty, as a citizen of the United States. The purpose of this statement is to rule out any argument that may be rhetoric in nature.

To conclude the definition, a summary will provide the basic components of a democracy. A democracy, in the following analysis will be identified by a state wherein the government is formed by the people, the power of the government lies within the people (or their representatives), a formal constitutional that grants civil rights and equality to the citizens of the state and the economy runs on a free trading market system. There are many cases of states trapped in a resource curse, Saudi Arabia, Russia, Azerbaijan to name a few. These two cases have been selected in order to provide answers to how Venezuela may escape the resource curse, analyze Botswana's ability to stabilize its political economy and understand how democracy plays a role in the creation of a plentiful economy. Comparing and contrasting these issues amongst the states that will be addressed, these stats will provide the evidence necessary to show the levels of instability in Venezuela in comparison to that of Botswana.

Analysis

The resource curse is a paradox of what would typically be perceived as a benefit for a state. Possessing an abundance of a natural resource such as oil or diamonds is seemingly an opportunity for the state to flourish economically. This is not the case with many developing states throughout the world. Developing states that possess these resources are entrenched with questionable policies and adverse political outcomes that bring negative consequences to the society of the state and the international community.

In addition, natural resources do not need to be produced. They simply need to be extracted. One of the biggest problems for developing states is their inexperience. Developing countries tend to be flawed by their lack of knowledge regarding the price of their natural resources, and the way they conduct business at home and with other states. As Macartan Humphreys suggests, "Governments face considerable challenges in their dealings with international corporations, which have great interest and expertise in the sector and extraordinary resources on which to draw. Since oil and gas exploration is both capital and (increasingly) technologically intensive, extracting oil and gas typically requires cooperation between country governments and experienced international private sector actors (4)." The problem arises when the buyer is more knowledgeable about the value of the natural resource than the state that it is buying it from, and the government of the state that is selling the resource loses out.

Consequently, governments of the state that own the resource do not create contracts with corporations that give a fair agreement between the two. It is imperative that developing states establish an appealing resource rent. The resource rent, or difference between the price of selling the natural resource, production, extraction costs, and the return; becomes they key element in

equitable dealings with investors. As the *Guide on Resource Revenue Transparency* describes, "Ideally, a government will wish to establish a regime that both is attractive to potential investors and gains a fair share of resource rent. The fiscal regime should be clearly and comprehensively set out in government policy statements and incorporated in the resource and tax laws (14, 15)." The developing state should be apt to look for guidance from states that have been successful in their dealings with selling natural resources (such as the United States and Canada). In doing so, they might be more inclined to pursue optimal contracts, obtain beneficial results, and regulate the selling of their natural resource in such a way that their state's government can provide stability for their citizenship.

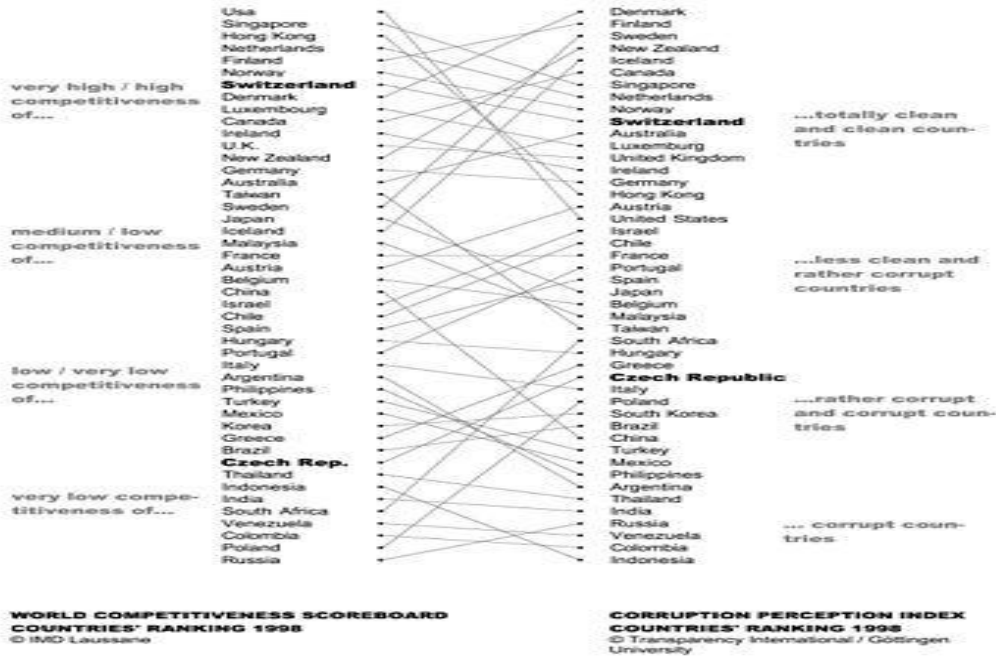
Similarly, developing states also have the potential to increase extraction of their natural resources, and decrease manufacturing in other sectors that help sustain their economy. This is known as the "Dutch Disease". Humphreys explains, "All in all, extraction of natural resources sets in motion a dynamic that gives primacy in two sectors - the natural resource sector and the nontradable sector, such as the construction industry - at the expense of more traditional export sectors (Escaping The Resource Curse, 5)." The developing state's lack of manufacturing customary exports results in inequality, as demands for the natural resource decline, and recovering from this "disease" becomes problematic.

Furthermore, the desire for developing state's governments to shift their attention to the extraction of their natural resource, without the knowledge and experience to conduct profitable results, jeopardizes important facets of their development. For example, the focus on providing proper education tends to decline. This lack of education inhibits the ability for their state to consist of professional, knowledgeable workers. Although the state may have an abundance of a resource, internally the lack of a competent workforce can bring production to a halt.

A developing state that depends on a natural resource in order to create revenue has the potential to centralize its authority. The government of the state, in several cases, becomes more of an autocracy, or authoritarian regime. Although they may have a constitution that speculates a democratic form of governance, with the heavy reliance on the natural resource, governments in developing states tend to discount the economy within the state's borders, and the impact on society. As Humphrey's illustrates, "The structures that result are often not resilient and indeed, the capacity of repression can be turned against the incumbent. Even if such a strategy is successful at protecting leaders, it will not necessarily produce the capacity needed to engage productively with the national economy(12)." Political corruption may occur, as it has in the past. Typically, these states spend much more money than democratic states, even in times that they are not engaged in an international war, or civil war. Civil War can further disrupt developing states from managing their natural resources. There are plenty of negative consequences that result from the mismanagement of natural resources. Privatization of the natural resources by the government makes it entirely too easy for the government to not disclose benefits to the citizenship of their state. Corporations have an incentive to limit transparency, and limit government regulations regarding environmental problems that arise from the extraction process. More importantly, the resource curse is a paradox as illustrated above, that seizes developing states from democratization.

COMPETITIVENESS AND CORRUPTION

© V.J. ROTT Zurich



Transparency International Report of Competitiveness and Corruption

(fig.1)

As illustrated above, Venezuela ranks third most corrupted state, and as the fourth to lack competitiveness. The political corruption leads to developing state's having powerful governments that typically have no desire to democratize their state. If there is any sort of liberalization, or move towards democracy at all, it is usually to fit their best interests at the time. As Deepak Lal H. Myint explains in *The Political Economy of Poverty, Equity, and Growth*:

- The more usual response is to regain a degree of fiscal control through some liberalization of control on the economy. Typically, however, these liberalization attempts are half-hearted and include some tax reform, monetary contraction, and some measure of export promotion. Their aim is to raise the economy's growth rate as well as the yield from whatever taxes are still being paid, and to improve the debt-service ratio, in the hope that this will lead to a resumption of voluntary foreign lending. But unless the underlying fiscal problem (which is largely that of unsustainable public expenditure commitments) has been tackled, liberalization attempts have usually been aborted(293).

The corruption of political leaders causes problems for the political system itself. When the leaders of nondemocratic states have access to the natural resource, they can use it to their advantage to oppress the citizens and fend off other states. Leaders will often falsify votes, and make decisions or even laws to keep themselves (or at least the political party) in office.

Utilizing this power through the control of a natural resource, political players sustain from cooperating outside their boundaries. Although this may benefit elites for some time, the ability to stabilize a developing state's government with a high degree of corruption is near impossible.

Simply looking through history on an international scale, political leaders who have governed with an iron fist, have fallen much harsher than their liberal, and democratic neighbors. Also, the citizens within the developing non-democratic state are less likely to go through the

industrialization process that is necessary for democratization to be established. Lastly, as the

Guide On Resource Revenue Transparency suggests:

- Clear rules and principles should guide whatever subnational revenue-sharing arrangement is chosen. Moreover, tax powers, revenue-sharing arrangements, and

expenditure responsibilities should be based on stable principles and agreed formulas that should be developed and exercised in an open and consistent manner. These principles should include not only understandings between the various levels of government on the original arrangement, but also rules and procedures for modifying it. Regarding the latter, Brosio (2003) has suggested the sound rule that as long as renegotiations of the subnational revenue-sharing system take place, the original system continues to be in place and no party holding a stake should have a veto power to stop the existing system from functioning(28).

As the following addresses policies that are implemented in the two states and how they are carried out, the concept above will serve as a guideline which is necessary for the states to manage their natural resource.

Comparative Politics: Venezuela & Botswana

Venezuela will be compared and contrasted to Botswana. This will accommodate the requisite for further analyzing the various aspects of the states. By comparing Botswana to Venezuela, a better comprehension of what role different actors within their political economy play. Drawing on the various mechanisms of the two states political economies, such as the type of resource, trade agreements, privatization, tourism, and various policies; as well as the other results mentioned above (in the "Case Studies" portion), it should benefit the analysis by honing in on the precise factors that affect Venezuela from becoming more democratic, and Botswana's ability to recover.

Venezuela

"I am convinced that the path to a new, better and possible world is not capitalism, the path is socialism."

~ Hugo Chavez

Venezuela's Constitution describes its government as a democratic and social state of law and justice. It places high emphasis on human rights, freedom and liberty. In 1999, Hugo Chavez was elected to office as a member of the PSUV (United Socialist Party of Venezuela). Although Venezuela's Constitution maintains a predominant democratic ideology, it is obvious that the Socialist party lead by Hugo Chavez has quickly stymied Venenzeulas ability to progress. According to the Economist "Since Mr Chavez became president in 1999 almost 400 companies have been nationalised, the vast majority in the past two years(Economist, 1)." The Venezuelan people have continued to be let down by Chavez's decisions to nationalize companies and in turn, making the poor, that much poorer. Thad Dunning expresses, "although the Venezuelan polity remained deeply polarized with respect to approval of Hugo Chavez, and even as the discourse of the government remained quite redistributive, many elites appeared to reconcile themselves to aspects of Chavismo even as the base of the Chavez movement appeared to reject moving further along the path toward what the government has called the "socialism of the twenty-first century(193)."

Although Venezuela appears to be governed by a socialist, repressive regime, economically it flourishes with an abundance of natural resources. Given its location, population and vast economic resources, it is certain that Venezuela can turn around. At this point, it is difficult to say exactly where Venezuela is heading, but with the power dynamics and organizational changes that are currently underway, Venezuela has the possibility to

successfully rise, amongst ally and foe, as a economic powerhouse. Venezuela's economy is its dominant source of political power. Arch Puddington, a writer for Freedom House explains:

- For some time, Latin America was identified as one of the success stories from the wave of democratic development that accompanied the waning years of the Cold War. Over the span of a relatively few years, a region notable for violent insurgencies, military juntas, oligarchies, and *caudillo* rule underwent a historic transformation that left practically every country with a freely elected government and a civic environment in which an array of liberties were respected. After the democratic upsurge, the lone holdout was Cuba, with its inflexible and increasingly anachronistic Communist dictatorship. Over the past decade, however, the commitment of governments in the region to democratic standards has wavered, in some cases considerably(1).

On the chart below(fig.3) by Transparency International, a non-governmental organization that monitors and publicizes corporate and political corruption in international development, Venezuela is ranked extremely low due to the high amount of corruption and lack of competition. Noam Chomsky argues that, "Few doctrines of reigning Western orthodoxy are upheld with more fervor than the principle that Hugo Chavez is(was) a tyrant dedicated to the destruction of democracy(100)."

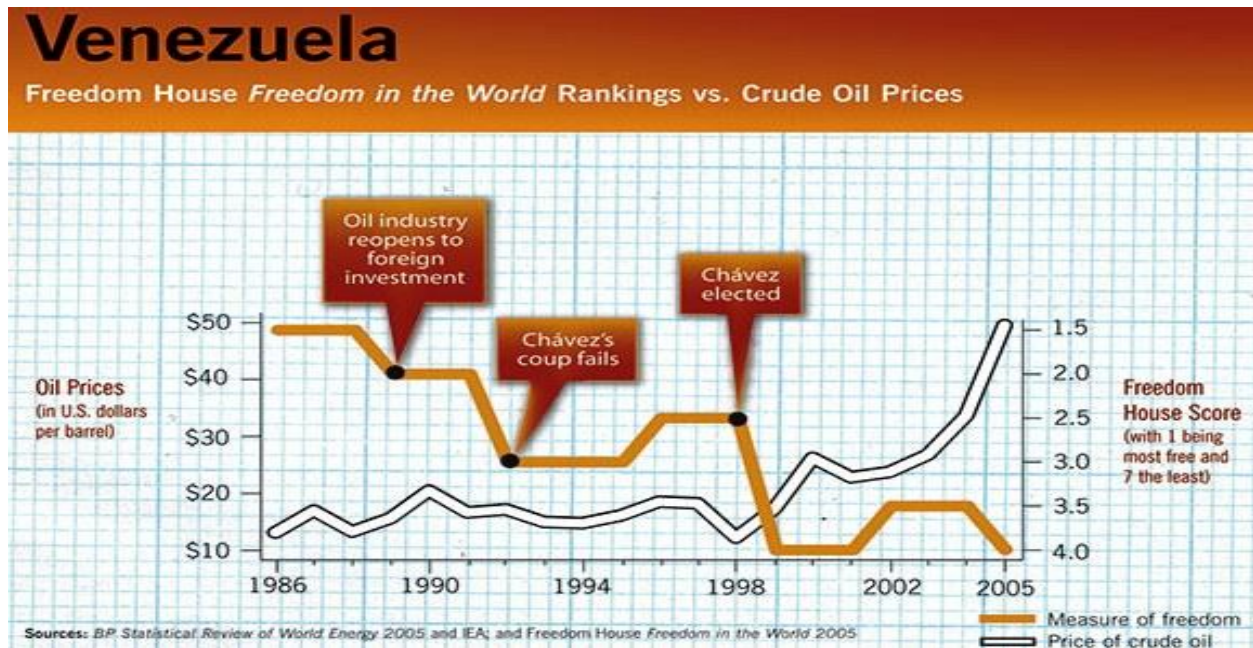
Economically, the petroleum industry is Venezuela's strength. It accounts for more than three quarters of Venezuela's total export revenue, about half of the government revenues, and one third of GDP. PDVSA (Petróleos de Venezuela) is the Venezuelan state owned petroleum company. PDVSA plays a major role in Venezuela's economy. Through the usage of Palmaven and CVP, PDVSA manages and strongly supports social programs such as education, healthcare, job creation and subsidized food distribution. There has been much controversy over PDVSA's role in Venezuela political realm. Freedom House released

information regarding the price of crude oil in comparison to the level of freedom in Venezuela(fig.2). There is a distinct decrease in freedom, as the price of crude oil rises.

Despite the fact that Venezuela's oil industry has continuously fluctuated throughout the past few decades, PDVSA has retained a stronghold upon the country's most abundant and essential resource. Thus, PDVSA is no longer only funding its own small budget social reforms, but the entire populist movement. There has been much debate on the many complications due to scope of PDVSA, and the response of Hugo Chavez. In 2004 and 2005, Chavez declared that he wanted to sell the foreign refineries because it was "bad business".

As these problems arise, we can see that oil is about much more than just prices. It is a fundamental part of economic power and can create stratification amongst nation states. Venezuela is important to world energy markets because it holds proven oil reserves of about 78 billion barrels, excluding billions of barrels of extra-heavy oil and bitumen. Venezuela consistently ranks as one of the top suppliers of U.S. oil imports and is among the top ten crude oil producers in the world. On the other hand, oil and urban pollution causes deforestation, soil degradation, and has become a threat to the rainforest ecosystem (due to irresponsible mining operations). Venezuela is well known for its chief exports (petroleum and natural gas), but is also rich in iron ore, gold, bauxite, hydropower, diamonds and other important minerals. Still, the government has a hold on most businesses and is continually taking over still existing, independently owned companies. They are not buying them out, but in most cases they are seizing the businesses. The government explains that this is to discourage monopolies when in fact, they are creating their own monopoly themselves.

Freedom House World Rankings : Measure of Freedom Vs. Crude Oil Prices (fig.2)



According to the Economist "the government also now controls a quarter of the banking system. Hugo Chavez had stated that any bank which declined to “co-operate with national development” by assigning credit according to government priorities would also be taken over. Nowadays officials openly state that their aim is to implant a socialist economy(Economist, 1)." In order for Venezuela to prosper, it is apparent that the people need a change in direction before the country crumbles. It is still quite early, but it will be interesting to see the direction Nicolas Maduro goes in, although he consistently indicates his devotion to Chavez.

There is also a strong bond in the bilateral relations of Russia and Venezuela. Primarily for trading and militaristic purposes. Russia's military includes Ground Forces, Navy, Air Forces, Airborne Troops, Strategic Rocket Troops, and Space Troops which rank at the top in comparison to other European military strength and size. It is estimated that Russia has between 735 and 1,365 metric tons of weapons grade-equivalent highly enriched uranium (HEU) and

between 106 and 156 tons of military-use plutonium. As the world's largest country, a permanent member of the United Nations Security Council, regional power in Europe and Asia and the principal successor state of the Soviet Union, the Russian Federation wields enormous international clout and consequently hosts a large diplomatic community in its capital city of Moscow. Russian prime minister, Vladimir Putin has maintained a close commercial relationship with the economic powerhouse of South America, Venezuela. The late president of Venezuela, Hugo Chavez was a frequent visitor and close ally of Putin. The rise to power of both leaders, at the beginning of the century was accompanied by steady commodity price increases. Chavez and Putin benefited from the increased profit produced, as the gross domestic product of both countries is closely tied to the energy market, and especially to oil. Russia is ranked number six in oil production, and Venezuela is number eleven. PDVSA (Petroleos de Venezuela, S.A.), Venezuela's state-owned petroleum company, oversees the exploration, production, refinement, and export of oil as well as the exploration and production of natural gas. PDVSA is ranked as the world's third largest oil company. Venezuela has an estimated 78 billion barrels of proven conventional crude oil reserves and additional estimated 235 billion barrels of unconventional extra-heavy crude oil in the Orinoco Belt region located southeast of Caracas (capital of Venezuela). Although PDVSA has not filed financial statements with the U.S. Securities and Exchange Commission since 2004 because of increased tensions between the two countries, oil production is estimated at 3.3 million barrels a day. Chavez has purchased over four billion dollars of military equipment since 2005. In 2008, the leaders of both countries signed an action plan (46 potential cooperation agreements) on various subjects, including hydrocarbons, armament sales, agriculture, telecommunications, transportation, culture and atomic energy. The first Latin American country to sign an atomic

energy agreement with Russia, Venezuela's late president, Hugo Chavez revealed that Russian nuclear technicians were at work in Venezuela. Venezuela remains one of Russia's most important trading and military allies in South America. For the United States to maintain its dominance it must maintain a strong national will, a large and technological superior army and further the spread of free market philosophy. Due to the lack of global governance, Russia and Venezuela are forced to focus on their own needs. Venezuela and Russia push to expand their power, but they will become marginalized by other states. As autocracy regimes with a centralized government, they will both eventually run into a serious of problems as they continue to anger necessary friends, and oppress their own people.

Botswana

“Botswana is prepared to play a leadership role in sustainable development in Africa. The pressure on the world’s natural resources is immense and not sustainable without change and we are committed to developing the country sustainably, not with the short-term approach that leaves nothing for the future. We will not let this happen here.” - Ian Seretse Khama

Since independence in 1966, Botswana has managed to stabilize a democratic state with a rich abundance of diamonds. The BDP (Bechuanaland Democratic Party) emerged and led Botswana to independence with Seretse Khama as the first president of Botswana. Although Botswana is in a region filled with racial and ethnic tensions, corruption, and civil wars, Sereste Khama upheld liberal democracy and non-racialism. As Atsushi Limi states:

- The reason Botswana has nevertheless achieved marked growth to date seems to be that it has sound institutions and good governance. As to how Botswana has been successful in developing a solid institutional structure, see Acemoglu, Johnson, and Robinson (2002). They point out that Botswana’s good institutions, particularly in the private property area,

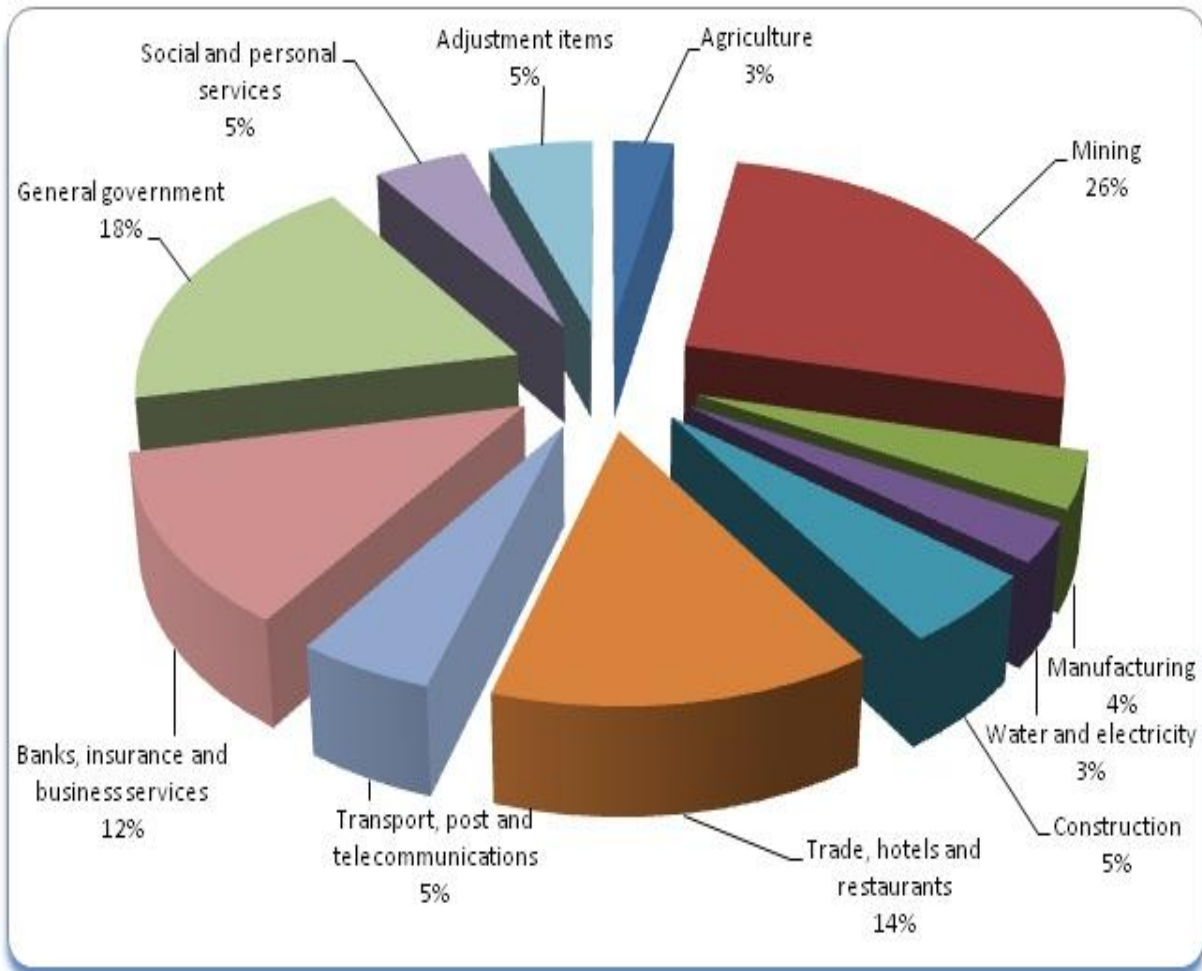
have stemmed from its precolonial political institutions, limited British colonialism, strong political leadership since independence, and the elite's motivation to reinforce institutions(9).

The people of Botswana wanted to adopt the Westminster model and traditional leadership. They were also against the socialist principles of Bechuanaland Peoples Party. They preferred a democracy similar to the British system of democracy. The government has used their natural resource to benefit the people of Botswana, as their path to democracy has been relatively peaceful. Between the years 1966 and 1980, Botswana had the fastest growing economy in the world. The government consistently maintains budget surplus and has an extensive foreign exchange reserves. Botswana is rated as the least corrupt country in Africa by Transparency International. One of the state's reasoning for a stable economy is avoiding the Dutch Disease by focusing on other sectors. They have kept an importance on manufacturing, and although they have a great amount of minerals, Botswana has actually declined their extraction of minerals in order to ensure their economy continues to grow. Botswana also welcomes foreign investments and management. Policies to enhance competition, export development strategies and privatization plans have been considered to increase competitiveness. Botswana also does business with the United States, and has direct investments from major United States corporations. The state has also joined the World Trade Organization. Due to their rapidly growing financial sector, Botswana's stock exchanges are the best performing in all of Southern Africa. They do not have exchange controls, an exceptionally performing stock market and a stable currency, which has attracted global investors who seek better returns. Botswana also established a Non-Bank Financial Institutions Regulatory Authority(NBFIRA), which is responsible for the oversight of all non-banking financial service organizations in Botswana.

Furthermore, specific detail can illustrate Botswana's ability to avoid the resource curse. Creating a stable democratic political system, Botswana has developed strong, coherent economic policies throughout a long period of time. As mentioned by the Guide to Resource Revenue Transparency, "Botswana has achieved strong real GDP growth over a prolonged period of time (on average, almost 9 percent since the 1970s), reaching a per capita income of \$3,500 in 2000. Inflation has generally been low, and large fiscal and current account surpluses have been recorded in many years. Foreign exchange reserves have been rising to more than \$5 billion and, despite some decline in recent years, still amount to about two years of imports, while external debt is below 10 percent of GDP(32)." In comparison to Venezuela's reliance on their natural resource, Botswana has concentrated around only 26% of its production on mineral mining(as illustrated on fig.3 below). Tourism, social and personal services, general government, wildlife and manufacturing are the chief sectors of their economic development more recently.

Botswana GDP by Economic Activity (2009)

(fig.3)



Findings

Comparing the history of these two states that had an abundant amount of a natural resource, but drastically differed in their development, leads to an important conclusion. It appears that the chief reason behind the aberration of Venezuela, in contrast to Botswana is the influence of partnering states, and experience before the case. Venezuela has relied on Cuba and Russia for economic development, and political advice. These socialistic states have exposed Venezuela to an ideology through containment, and dissolving ties with democratic states.

Given both Russia and Cuba's past, Venezuela's reliance on oil as a means to suppress its people and separate itself from liberal thought. Although the government operates in order to bring about social benefits, this reliance on one natural resource has hindered their ability to provide the necessary policies regarding revenue, and has adopted similar political beliefs of their socialist minded partners. These political beliefs benefit the elite and stagnate the development of the state itself. Venezuela's government lacks the experience and assistance that is necessary to democratize. For Venezuela to escape the curse, the government would need to follow its constitutional law, develop sound fiscal policies, and place a greater emphasis on manufacturing goods and services on an international level. Although it is never certain that Botswana will be able to remain successful, by analyzing the information above, the government is persistent in its desire to continue creating a strong democratic state. The reasoning for their creation of a democratic nation state (as they could of fallen into the same situation as Venezuela) is their experience, and what they witnessed around Africa. As states that surrounded Africa were colonies of Great Britain, Botswana saw the negative consequences. They were highly determined to avoid the same mistakes that their neighbors endure to this day. Botswana placed a great emphasis on the concepts of the Westminster Model. According, the National Assembly of Botswana models the British system of governance. They looked for guidance from knowledgeable sources, and created a stable economic system which was not entirely based on their mineral supply. Conclusively, These states went in different directions because of their location, time in history during independence and influence and experiences.

Work Cited

Chomsky, Noam. *Hopes and Prospects*. Chicago: Haymarket Books, 2010. Print.

Dunning, Thad. *Crude Democracy*. New York: Cambridge University Press, 2008. 149-289. Print.

Humphreys, Macarten, George Soros, Jeffrey Sachs, and Joseph Stiglitz. *Escaping the Resource Curse*. New York: Columbia University Press, 2007. XI-389. Print.

Kramer, David. "Methodology." *Freedom House*. N.p.. Web. 8 Dec 2013.
<<http://www.freedomhouse.org/report/freedom-world-2012/methodology>>.

Limi, Atsushi. "Did Botswana Escape the Resource Curse?." *International Monetary Fund (IMF)*. 6.138 (2006): 1-31. Web. 8 Dec. 2013.

Myint, Deepak. *The Political Economy of Poverty, Equity, and Growth*. New York: Clarendon Press, 1996. 293. Print.

Nisbet, Erik. "Media, Use, Democratic Citizenship, And Communication Gaps in a Developing Democracy." *International Journal of Public Opinion Research*. 20.4 (2008): 454-481. Web. 9 Dec. 2013.

Puddington, Arch. "Freedom House." . N.p., 6 9 2012. Web. 8 Dec 2013.

Schmitter, Phillippe, and Carsten Schneider. "Liberalization, transition and consolidation: measuring the components of democratization." *Democratization*. 11.5 (2004): 62. Web. 9 Dec. 2013.

"Towards states socialism." *Economist*. (2010): 1. Print.
<<http://www.economist.com/node/17527250>>.

United States of America. Fiscal Affairs Department. *Guide on Resource Revenue Transparency*. Washington, D.C: International Monetary Fund, 2007. Print.

"Venezuela Country Analysis Brief." (2004): 17. Web. 1 Nov 2010.
<<http://sks.sirs.com.ezproxy.cfcc.edu/cgi-bin/hst-article-display?id=SNC0780-0-7253&artno=0000187891&type=ART&shfilter=U&key=venezuela%20country%20analysis%20brief&title=Venezuela%20Country%20Analysis%20Brief&res=Y&ren=Y&gov=Y&lnk=Y&ic=N>>.