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## Recuperación Economic Recovery and Redemocratization: The Order of the Factors Does Change the Outcome

The extraction of Nicolás Maduro by United States special forces in the early hours of last January 3 closed a political cycle that, for more than two decades, dragged Venezuela and its inhabitants into a deep degradation of their social fabric, institutions, and economy. This event has injected a necessary –and welcome– breath of optimism about our future: for the first time in many years, Venezuelans have allowed ourselves to envision the future with renewed hope. As a kind of daily anecdote, friends and acquaintances, both inside and outside the country, increasingly speak –for now in tones of pure longing– of new opportunities, projects, and investments.

However, it may be appropriate, for the purposes of these lines, to begin with the conclusion: the departure of the autocrat does not, by any means, automatically place us on the tracks of a road toward sustainable reconstruction. We face the risk of believing that the newly revealed –perhaps forced?– openness from authoritarian authorities, including some clear steps toward the liberalization of certain economic areas, will be sufficient to initiate a vigorous process of national reconstruction.

That historical confusion may become the starting point for new frustrations. Venezuela is not ready for premature celebrations or reassuring narratives; we must begin by recognizing that reversing the effects of twenty-seven years of deliberate institutional demolition, sustained concentration of power, total elimination of democratic representation, and the massive replacement of rules with discretionary decision-making will demand far more than kind gestures and superficial measures. The historical evidence of transitions is clear on this matter.

From the perspective of what we know about economic development, the central debate for Venezuela at this moment is not whether the measures being taken and the policies being implemented are “correct” in the pure sense of the term. The dilemma lies in the fact that even economic measures that may be considered beneficial will not produce the desired effects if, around them, there are no social consensuses that ensure their future stability. Economic agents will always react cautiously to measures taken arbitrarily by those in power, especially when that power does not incorporate any popular mandate or the majority sentiment of the population. I repeat: even when these measures largely coincide with what is “reasonable,” the absence of majority popular endorsement will always function as a deterrent.

It is urgent to convey the idea that, for Venezuela to begin the arduous and long path toward national rehabilitation, what matters is not only what policies are implemented, but also who implements them. The fact is that, while decisions made by the authorities do not incorporate representative elements, the impact of reforms will remain limited by uncertainty and the risk of policy reversal. The inability to demonstrate that actions respond to a popular mandate will, in any case, condition the response of those on the other side of any negotiation table or investment decision.

Let us frame the discussion in terms of concrete policies: it is obvious that the country must, among other urgent areas, stabilize its economy, open its oil sector, attract foreign direct investment, and renegotiate its debt. These reform areas are part of the basic diagnoses many of us have made, and they are beyond dispute. But the decisive question is who decides, with what legitimacy, under what rules, and whom they represent. It is necessary to repeat again and again that, in our specific context, who makes the decision matters as much as the decision itself. In all the policy areas mentioned, it will be very difficult to overcome the inhibiting effects caused by questions regarding the legitimacy and representativeness of the authorities acting on behalf of the executive, legislative, and judicial institutions involved.

The discussion about the democratic legitimacy of institutions is not a conceptual luxury or a purely moral debate; rather, it has concrete effects on the type of outcomes we can expect. Contrary to those who believe that the problem of democracy can be postponed indefinitely or addressed only after economic recovery, to the extent that the credibility and legitimacy of policymakers play a role in resolving all the serious problems affecting the Venezuelan economy, to that same extent the problem of redemocratization becomes a matter of pragmatic realism and *realpolitik*. There is no vigorous and sustained economic recovery without democratization. Full stop.

During the last quarter century, Chavismo systematically dismantled the mechanisms that allow society to process its conflicts, establish its priorities, and formulate organized responses to the challenges of its own development—in other words, Chavismo pulverized the public policy-making process. At this moment, there is no institutional intermediary capable of deciding on which issues society is willing to accept short-term costs and sustain long-term agreements. This is where the

sustained process of eliminating checks and balances, emptying elections of substantive content, subordinating the judiciary, and turning the state into an uncontrolled political resource becomes a binding constraint on development.

The removal of Nicolás Maduro left behind a network of institutional control governed by discretion, arbitrariness, opacity, and fear. For this reason, there are more than enough grounds to argue that the proposed sequence of stabilization –recovery– democratization is not in the correct order. To assume that it is possible to rebuild the economy without rebuilding the political system is a foundational error that will generate further frustrations. Venezuela aspires to more than fragile stabilization; it needs basic consensuses that can guide public action over the coming decades. This is not simply about isolated measures, nor even about a government program –it is about a new social contract that establishes parameters without which any policy or reform initiative will be considered reversible or contested.

In this sense, the restoration of Venezuelans’ rights must be at the center of any economic rehabilitation program. Restoring civil, political, and economic rights is a necessary condition for economic agents to form reasonable medium- and long-term expectations. Above all, the country’s ability to attract and accumulate capital –domestic or foreign– depends critically on the credibility of the institutional framework, including public powers, regulatory agencies, and the rest of the professionalized public administration.

### **The Mirage of Massive Investment**

A first area where the argument in favor of democratization as a vehicle and guarantee of stability appears, particularly regarding perceptions of property rights, is the oil sector. After

Maduro's departure, the idea has strongly reemerged that only a few changes to the legal framework are enough to unleash the sector's full hydrocarbon potential, that oil investment will arrive in massive volumes, and that, through a spillover effect, the path toward national rehabilitation will begin.

The truth is that all serious analyses indicate that recovering our oil sector will require tens, if not hundreds, of billions of dollars, with sustained investment flows over decades, in a global energy context that is, moreover, much more competitive and restrictive than in the past. In this context, it is virtually impossible for any major player in the oil market to commit its capital –at least in the amounts required– under a legal framework that is not endorsed by the country's majority representation. The “wait-and-see” effect is the dominant strategy for any investor who expects the legal framework could change for better or worse. In either case, the massive arrival of oil investments appears more like a wish than a certainty.

The same applies to other areas. For example, Venezuela will require massive amounts of domestic and foreign investment in the reconstruction of its public services –electricity, water, household gas, transportation, ports, airports, telecommunications, etc. Therefore, it must be understood that any program involving massive private sector participation in the provision of public goods and services –which is the case given the limited financial and managerial capacities of the Venezuelan state– faces exactly the same restrictions and constraints mentioned in the previous paragraph. Without certification of a popular mandate and with lingering doubts about the legitimacy of our institutional counterparts, it will be very difficult to mobilize capital in the required quantities.

## Who Signs the Debt Renegotiation?

In perspective, one can think that perhaps the most sensitive area to the effects of uncertainty and the lack of democratic legitimacy is international financial markets. Venezuela urgently needs to undertake a comprehensive process of renegotiating its external debt and other international liabilities which, according to conservative estimates, amount to more than 160 billion dollars. Any program for stabilizing the Venezuelan economy and rehabilitating its public finances necessarily depends on overcoming the country's financial default situation, which has weighed on the Republic since 2017. Simply put, without regaining access to international credit markets, it is impossible to design a credible fiscal and monetary strategy that restores macroeconomic stability to the country. Without macroeconomic stability, it is not possible to undertake a sustained process of economic growth and development.

It is here where it appears extremely unlikely that Venezuelan debt holders would be willing to negotiate with counterparties that, due to their accidental nature, cannot offer long-term commitments. Carrying out an effective debt renegotiation process will require two parties that mutually recognize each other and that come with a clear mandate from their constituents. On one side will be creditors organized into a syndicate, and on the other must be legitimate representatives of the Venezuelan state, invested with popular representation that reflects a long-term national commitment. Beyond repayment capacity, without democracy, any agreement with creditors will be perceived as provisional and vulnerable to future challenges, which will imply lower debt discounts, the exit of speculative creditors, higher risk premiums, shorter maturities, and, in general, harsher conditions for the country.

## **The Latent Potential of the Diaspora**

Finally, a special mention must be made of human capital. The Venezuelan diaspora is one of the greatest strategic assets available to the country's future recovery process. Venezuela counts millions of Venezuelans whose life experience is, in itself, an immense resource that will be crucial in national rehabilitation. Because of their demographic characteristics, their experiences, and their education, Venezuelan migrants today represent the country's largest stock of human capital –a stock that remains Venezuelan, yet resides abroad.

If the right conditions are in place, it is foreseeable that a fraction of the diaspora will return to the country, while another fraction will integrate into the economic dynamic from their new places of residence. Whether inside or outside Venezuela, many will undertake business initiatives, academic and/or cultural exchanges, family projects, and return for visits; all will contribute new knowledge, experiences, standards, and innovations that will be inserted into the country's renewed productive process. In any role, the diaspora as a whole will be the repository of immense productive energy that will be unleashed for reconstruction.

At this point, it is clear that the return process –whether physical or economic– of the diaspora requires concrete guarantees: personal security, civil liberties, political rights, and a real possibility of influencing the country's direction. Without progress in democratization, diaspora engagement will remain limited to remittance flows and little more, and the potential to become a long-term development vector will remain untapped and will gradually fade over time.

## Without Democracy There Is No Paradise

There is no such thing as reconstruction without citizenship. A scheme in which key decisions are taken by the remnants of the political, economic, and military elites that have governed the country for the past 27 years will, at best, produce mediocre economic results. Whether in the oil sector, in attracting private investment, in managing debt, or in engaging the diaspora –to name the areas discussed in this text– attempts at deep reform without democratic representation will always generate risks of intertemporal inconsistency, which economic agents will tend to penalize and discount negatively.

Beyond political convenience, democratic legitimacy functions as the social mechanism for signaling which set of priorities, decisions, and commitments we are willing to sustain as a society over time. The uber-pragmatism that many now defend, represented so well by the mantra “first recovery, then transition,” may result in fragile reforms, rent capture, and meager outcomes, fueling new frustrations and endangering the real possibility of a true democratic spring for our country. Examples of incomplete transitions that never achieved democratic consolidation abound in the former Soviet sphere. With the clear exception of Poland and a few others, the post-Soviet transition offers a clear lesson that economic liberalization decoupled from democratization risks consolidating new anti-democratic oligarchies and captured states.

Venezuela does not need a new pact among elites. The only certain path to long-term prosperity and economic development lies in opening real democratic channels, allowing the voice of the population to be expressed so that the structure of the state reflects a new social pact. Venezuela needs the consensus and aspirations of its people to be reflected in the leadership of the

nation. The order of factors does change the outcome; it is not economic improvement that will open the doors to democracy – it is precisely the opposite. Venezuela has no room left to repeat past mistakes. We have already waited too long.