

The Resource Curse and Ways to Solve it (Using the Example of Venezuela)

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Abstract: This article examines the impact of excessive dependence of the national economy on oil exports, using Venezuela as an example, which has the world's largest proven oil reserves. The study explores the issue of the "resource curse" and its consequences, such as economic decline, high unemployment, corruption, and social instability. As an alternative, the successful experience of Norway is presented, where the use of a stabilization fund effectively manages oil revenues, contributing to sustainable economic development and overcoming the "paradox of plenty."

Key words: Resource curse, paradox of abundance, stabilization fund, economic diversification, Venezuela, Norway.



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Introduction

Natural resource wealth has long been considered a potential advantage for developing economies. However, the so-called "resource curse" — also known as the "paradox of abundance" — reveals that countries rich in natural resources often face lower economic growth, higher levels of corruption, and weaker institutions compared to their resource-poor counterparts. This paradox can be explained by a combination of poor governance, volatile commodity markets, and the tendency of resource revenues to displace other productive sectors of the economy.

Venezuela presents a dramatic example of the resource curse in action. Despite possessing 303.2 billion barrels of proven oil reserves, equivalent to 17.5% of global reserves, the country has experienced decades of economic mismanagement, declining GDP, and hyperinflation. Oil revenues historically constituted up to 90% of Venezuela's exports, creating an unsustainable reliance on a single commodity. Over the past two decades, oil production has declined by more than 70%, further exacerbating economic instability.

The introduction of this study sets the stage for analyzing Venezuela's overreliance on oil and the institutional weaknesses that intensified the country's crisis. Furthermore, it identifies Norway as a case where the resource curse was actively avoided through the creation of a sovereign wealth

fund and adherence to strict fiscal rules. The goal of this research is to explore both cases and derive practical recommendations for countries struggling with resource dependency.

Materials and Methods

This study applies a **comparative analytical approach** to examine how two resource-rich countries — Venezuela and Norway — diverged in their economic development due to differences in governance, fiscal policy, and institutional frameworks. The research is grounded in:

- **Quantitative data analysis:** examining indicators such as oil production volumes, GDP growth rates, export dependency ratios, corruption indices, and sovereign fund balances.
- **Policy document analysis:** reviewing official publications and legislation related to oil revenue management in both countries.
- **Case-based comparison:** contrasting Venezuela's centralized, consumption-driven use of oil revenues with Norway's savings-oriented and investment-based approach.

Data were collected from international sources such as the *Statistical Review of World Energy (2024)*, *TAdviser*, *Transparency International*, and various macroeconomic databases. Visual elements, such as GDP and production trend charts and tables of sovereign wealth fund rankings, were also used to support the findings.

Results

Venezuela has vast resources of oil and gas, iron ore, bauxite and other minerals. The oil production and refining industries occupy a major role in the country's national economy. As of 2023, Venezuela's proven oil reserves were about 303.2 billion barrels, equivalent to 17.5% of the world's oil reserves [3]. Over the past 23 years, the country's oil production has declined by 73%, which has significantly contributed to the fall in gross domestic product (GDP). Almost 90% of Venezuela's export revenues were generated by oil revenues, which indicates the extreme dependence of the economy on this sector.

It is worth noting that the marginal GDP growth in 2023 due to the 10.65% increase in oil production could not compensate for the overall economic downturn. Oil export revenues have not been effectively channeled to other sectors of the economy, such as agriculture and manufacturing. The lack of economic diversification and poor resource management has led to a worsening of the crisis, reflected in rising unemployment, corruption (corruption index is 14) and social instability.

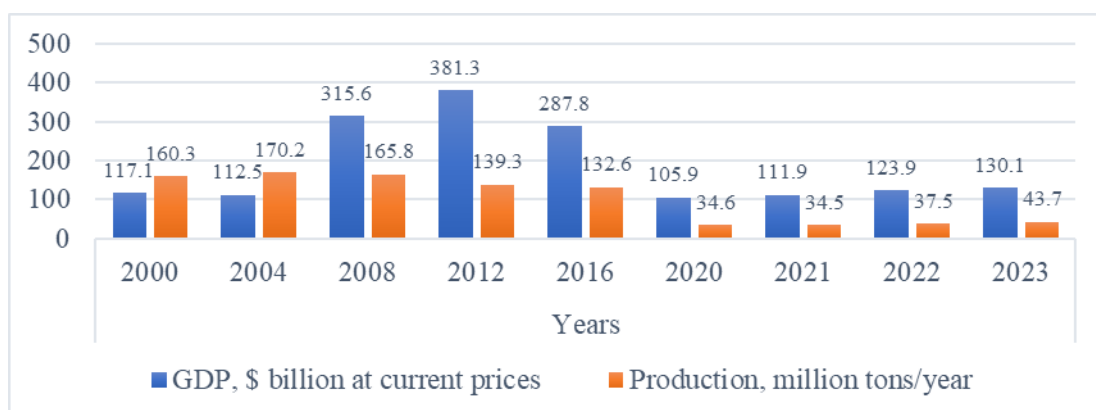


Figure 1. Dynamics of changes in GDP and oil production in Venezuela from 2000-2023 [1,2]

Analysis of foreign experience, especially that of Norway, demonstrates that the introduction of stabilization funds, such as the Norwegian State Pension Fund, and diversification of the economy

contribute to overcoming the "paradox of abundance". The main objective of the fund is to meet the growing budgetary needs of an aging population. The Norwegian authorities emphasize that core public expenditures should be covered by tax revenues, while oil revenues are seen as a reserve for emergencies. The Norwegian authorities emphasize that core public expenditures should be covered by tax revenues, while oil revenues are considered as a contingency reserve.

The Norwegian pension fund is funded by taxes from oil corporations, revenues from the sale of oil fields, and dividends from Statoil, which is majority owned by the government. Since about 90% of Norway's public expenditures are financed from tax revenues, a significant portion of oil revenues is allocated to the pension fund. This allows the fund to grow steadily in size, while no more than ten percent of its revenues can be used to cover public expenditures. As of 2023, the Norwegian Public Pension Fund has reached 1.375 billion US dollars, making it one of the largest sovereign funds in the world [4].

Table 1. The World's largest sovereign wealth funds (statistics of 2023) [4]

No	Name of fund	Total fund amount (billion \$)
1	Norway Government Pension Fund Global	1,375
2	China Investment Corporation	1,351
3	SAFE Investment Company	1,034
4	Abu Dhabi Investment Authority	993
5	Kuwait Investment Authority	801
6	GIC Private Limited	769
7	Public Investment Fund	700
8	Qatar Investment Authority	450

Made by author using data on [4]

Discussion. The contrast between Venezuela and Norway demonstrates that resource endowment alone does not guarantee development. What differentiates success from failure is the ability to implement transparent, rule-based, long-term economic planning. Venezuela relied heavily on oil rents to sustain government spending, ignoring the need to develop other sectors or build financial buffers. The absence of a stabilization mechanism, such as a sovereign wealth fund, left the economy vulnerable to oil price shocks.

By contrast, Norway institutionalized fiscal prudence through legal frameworks that separate oil income from day-to-day budgeting. The Norwegian model prevents overheating, supports intergenerational equity, and insulates public finances from commodity volatility. Furthermore, its strong democratic institutions ensure accountability and transparency in managing public wealth.

Conclusion. Thus, the analysis of the economy's dependence on the export of natural resources, both on the example of Venezuela and taking into account the successful experience of Norway, allows us to conclude the importance of diversifying the economic structure and effective resource management. Venezuela demonstrates the negative consequences of overdependence on a single source of income, leading to economic and social instability. At the same time, Norway illustrates how stabilization funds and rational use of oil revenues can contribute to sustainable economic development and overcoming the "resource curse". Based on this analysis, it is suggested that Venezuela create its own stabilization fund and diversify its economy to prevent the negative effects of dependence on oil revenues.

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