

Foreign Policy of the Andean Rentier State:  
Two-level Games and Nationalist Policies

Mack Kolarich  
Carleton College  
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How do commodity booms and busts impact the timing of Latin American nationalist foreign policy actions? Expanding upon the literature of Latin American nationalism and foreign policy, I examine how different resource windfalls and levels of political autonomy create variance in the nationalist foreign policy behavior of states. I adapt Robert Putnam's two-level game analytical model to the Andean rentier states of Venezuela, Bolivia, and Ecuador to explain this variance. I find that nationalist behavior in these states is in fact predictable – that windfall gains and political autonomy shape the psychological decision matrix executives use to evaluate risks and incentives when implementing foreign policies.

In November of 2007, Venezuelan President Hugo Chávez finally pushed another world leader too far. After years of ever-increasing confrontational remarks, Chávez crossed a boundary this time, calling former Spanish Prime Minister Jose Maria Aznar a ‘fascist.’ Chávez was told to ‘shut up’ by the King of Spain.<sup>1</sup> Afterwards, policymakers around the globe lamented, once again, that Chávez was ‘unpredictable.’ Not only could they not predict when he would say something outlandish, they could not predict when he would nationalize private industry or engage in any other form of autonomous foreign policy behavior. This unpredictability gives Hugo Chávez a perpetual edge in foreign policy: the element of surprise.

Chávez’s outlandishness and nationalist swagger are a result of resource windfalls that give him autonomy from domestic and foreign pressures. With the recent boom and bust in energy commodities, the rentier states of Latin America have gained notoriety for their ‘unpredictable’ nationalist foreign policy strategies. Classical rentier theory argues that states govern differently when they receive substantial rent windfalls from natural endowments. For this paper, the term ‘rentier state’ applies to states that rely on rents for a significant portion of exports and operating budgets.<sup>2</sup> In Latin America, this term applies to Venezuela, Bolivia, and Ecuador, where oil and natural gas form 75, 52, and 64 percent of exports, respectively.<sup>3</sup>

Contrary to popular thought, foreign policy variation in the Andean rentier state is neither epiphenomenal nor due to distributional politics. Rather, the nationalist behavior of these states is systematically predictable. In this paper, I argue that Hugo Chávez, Evo Morales, and Rafael Correa – leaders of Latin America’s rentier states – implement hypernationalist foreign policies in accordance with domestic and international win-sets. These win-sets represent acceptable policy outcomes in a political arena and are determined by political autonomy, resource prices, and *relative* windfall gains.

The prevailing concepts of nationalism in Latin America are woefully inadequate for understanding the Andean rentier state. Scholars argue that populism and resources predict the emergence of hypernationalism. But this is too simplistic, as extant literature fails to explain *variation* in aggressiveness and timing of hypernationalist foreign policy. This paper fills this gap by offering a novel, complex interpretation of hypernationalist behavior that predicts variation and removes the element of surprise.

In examining Venezuela, Bolivia, and Ecuador, I adapt Robert Putnam's two-level game analytical model to explain differences in foreign policy *timing* and *severity*. I find that differences in political autonomy and *relative* windfall gains explain differences in foreign policy implementation. For example, Ecuador's relatively restrained nationalist behavior is a direct result of its low relative windfalls. I also conclude that, as the prices of energy commodities rise (boom periods), leaders such as Chávez are more likely to engage in nationalist and combative foreign policy behavior. High market prices enable these leaders to fulfill their nationalist campaign promises. This is because boom periods change the international win-set, enhancing populist leaders' abilities to satisfy pre-existing domestic demand for nationalist policies.

### **The Evolution of Nationalism in Latin America**

Modern day nationalism has many dimensions. In Latin America, it is most commonly a reaction to the United States and/or regional neighbors.<sup>4</sup> But the aggressiveness of Latin American nationalism varies widely. States like Brazil and Argentina engage in light to moderate nationalist rhetoric while states like Venezuela and Bolivia enact hypernationalist policies and platforms. Each state's manifestation of nationalism varies due to unique domestic political components including populism, electoral pandering, macroeconomic constraints, and resources.

To an extent, populism drives nationalist behavior. Populism, which varies in intensity across the region, generally seeks to advance the well being of the ordinary citizen, often through nationalist and redistributive policies (Weyland, 2003). It can take on multiple tenors, such as in Brazil where “Lula’s government has followed a leftist agenda to deal with social problems” and has channeled moderate populist movements and soft nationalist policies (Tussie and Heidrich, 2008). Social democrats and left-leaning Latin American leaders often employ at least some levels of populist rhetoric to stay in power (Panizza and Miorelli, 2009).

Yet more intense strains of populism exist as well, inspiring more aggressive nationalist policies. Bolivia and Ecuador, in particular, experience this aggression through *ethnopolitism*. Due to low levels of ethnic polarization and vague ethnic boundaries, ethnic politicians in this mountain region are able to campaign with inclusive platforms of intense nationalism and comprehensive redistribution to garner support beyond their own ethnic groups (Madrid, 2008).

Alternatively, some scholars argue that nationalism is often a tool used to balance internal politics. The reality of Latin American nationalism is that, while typically associated with the left, it actually crosses ideologies. In fact, “be they democratic or authoritarian, political leaders often use nationalism as a rallying cry to shore up support for their domestic agendas” and establish common ground with oppositional voters (Castañada, Morales, and Navia, 2008). Of similar importance, a majority of Latin Americans have positive feelings towards the United States (Morales, 2008).

This combination necessitates moderation of nationalism in many Latin American nations. Leaders like Lula De Silva and Nestor Kirchner do, at times, engage in nationalist behavior to pander to citizens and perform at the polls. But other times necessitate practicality; for example, the Latin American region is generally highly-dependent on the U.S. and other world powers for

trade. Resultant macroeconomic constraints and the domestic politics of trade groups require reciprocity (Tussie et al, 2008). States, therefore, moderate nationalist behavior to maintain favorable nation status. To this extent, states may also use nationalism as a bargaining tool in the international arena. Nationalist sentiments can act as domestic constraints, tying negotiators' hands with a limited win-set of acceptable negotiation outcomes. Failure to meet these win-sets may result in punishment at the polls (Putnam, 1993; Weiss, 2008).

Nationalist foreign policy can also be driven by resource windfalls. Resource rents combine with populist movements to drive the *hypernationalist* behavior we see in Venezuela, Bolivia, and Ecuador. High levels of windfalls divorce the rentier state from the international climate, allowing rentier leaders to engage in overly autonomous and clownish behavior. In windfall gains scenarios, the national government is not "compelled to work inside the confines of the new market economy" (Weyland, 2009). Instead, it harnesses resource nationalism to drive political goals, geo-political leveraging, and development trajectories (Bremmer and Jonston, 2009; Domjan and Stone, 2009).

Despite the wealth of extant literature on the causes and types of Latin American nationalism, there is a distinct gap in understanding the *hypernationalism* of the Andean rentier state. In Venezuela, Ecuador, and Bolivia, populism and resource wealth combine to aggrandize nationalist sentiments and inspire aggressive foreign policies. Nevertheless, scholars have largely failed to explain variance in the aggressive behavior of these rentier states. They are unable to calculate the *timing* and *severity* of nationalist actions. While many attribute policy differences to the unpredictability of charismatic leaders like Hugo Chávez, Evo Morales, and Rafael Correa, the reality is much more complex and much more predictable. Each state exhibits

a unique level of hypernationalism determined by the fluctuation of resource prices, relative windfall gains, and domestic political autonomy.

### **Main Argument**

To explain variance in how and when these Andean rentier states decide to act, we employ a two-level game analysis to reveal how multiple moving parts interact and ‘negotiate’ foreign policy. In Venezuela, Bolivia, and Ecuador, expanding and contracting “win-sets” (acceptable terms of negotiation) determine the timing and severity of nationalist policies. In these states, the international (Level I) win-set is dependent on resource windfalls. During resource booms, the Level I win-set expands, allowing more severe nationalist policies (See figure 1). The domestic (Level II) win-set is dependent on political autonomy. Political autonomy affects the make-up of the Level II win-set in that, as political autonomy increases, the executive exerts more influence on foreign policy and is able to pursue more options, thereby ‘expanding’ the win-set.

Accordingly, in his groundbreaking work on two-level game analysis, Robert Putnam argues that the politics of foreign policy are determined not just at the international level – where other states and organizations negotiate – but also at the domestic level where political parties, social classes, interest groups, and legislators influence the domestic demands upon a country’s foreign policy (See figure 2). These domestic demands influence the state’s win-set when entering the international bargaining arena (Putnam, 1993).

In this paper, however, the ‘bargaining arena’ occurs where the international win-set *overlaps* the domestic win-set. This is where nationalist foreign policy is ‘negotiated.’ The negotiator is the executive, who must balance the demands of his domestic constituents, his own beliefs, and other internal variables. Therefore, the executive ‘represents’ the domestic win-set

and negotiates with the international win-set. These negotiations occur within the executive administration, behind closed doors, and weigh domestic and international demands and constraints on *when* to act and *how much*.

*Level I: International Win-Set – Resource Booms and Busts*

Assuming national ownership of resources, the size of resource windfalls are determined by two factors: 1) The size of reserves and output capacity and 2) The market price for the resource. Reserves and output have little variation and are unique to each country. As discussed later, these unique variables determine a state's relative resource windfall position. The market price of a resource, however, can fluctuate tremendously, playing a significant role in determining the Level I win-set. During resource booms, market prices of natural resources exhibit long-term growth, which insulates decision-makers' mind-sets from other factors. The presence of ever-increasing windfall gains, experienced during boom periods, will increase the size of the Level I win-set, as these seemingly limitless rents stimulate a propensity towards risk-taking (Weyland, 2009). Autonomous behavior, in turn, will carry fewer costs in periods of high rent. In Figure 1 we see how the larger win-set (Level I: Boom) results in greater overlap between Levels.<sup>5</sup>

These overlaps are the areas of 'negotiation' – where the number and timing of 'agreements' are decided. Hence, resource boom periods enable Chávez, Morales, and Correa to engage in more nationalist behavior. Resource busts will accordingly restrict the win-set of Level I and the room for 'negotiation.' Thus, should market prices crash, these leaders will have a smaller acceptable window in which to enact nationalist policies.

*Level I: International Win-Set - International and Regional Actors*

While market prices affect the size of the win-set, relative windfalls affect the influence of international and regional actors within the win-set. These actors include multi-national corporations (MNCs), states, and organizations. And because foreign policy is a multi-iteration game, states must consider international actors when implementing, or ‘negotiating,’ a foreign policy. Autonomous behavior, or defection from the norm, could result in negative consequences in future iterations.

However, for each country’s Level I win-set, the *relative* size of resource windfalls (determined by resource reserves and output) affects the importance of international actors. States with smaller resource windfalls are more careful with international (especially regional) relations; states with larger resource windfalls have ‘louder’ foreign policies. This relationship between the importance of regional powers in Level I and relative windfalls is inverse and relatively elastic (Figure 3). The relationship between the importance of *international* powers in Level I and resource windfalls is inverse but relatively *inelastic*, with the entire trend line falling below the regional line. This is because international powers are categorically less influential than regional powers in the Andean rentier states’ win-sets. It is easier to demonize a distant giant than to alienate a sizable neighbor. Moreover, since nationalism is a response to imperialism, Latin American foreign policy would not be nationalist if it negotiated with the imperial United States or exploitative Exxon Mobiles. Of course, these relationships are not necessarily linear and are portrayed as such only for simplicity. For example, the curve could be exponential; extremely low relative windfalls might correspond with extremely high levels (non-linear) of actor influence. Resource extraction is also not a wholly-domestic process. States depend on foreign corporations and governments for refining and reinvestment/field

development. The nature of these products leads to some level of international dependency, which can also shape actor influence. However, these variables are secondary to the relative windfalls argument.

Considering this logic of relative gains, a country with high resource windfalls (Venezuela) can afford to behave more nationalist, more belligerent, and more autonomous because high rents act as political insulation. The opportunity cost of spurning potential allies (like the United States or Brazil) is relatively low when a country is self-sufficient. Venezuela is not worried about receiving favorable trade agreements or development aid because high rents from natural resources sustain the economy. Thus, MNCs and other states play a minor role in its Level I win-set.

However, Bolivia and Ecuador receive smaller resource windfalls than Venezuela. Consequently, they are more affected by regional and international powers. Bolivia, with moderate relative windfalls, can afford to alienate others but must temper its behavior. Evo Morales felt confident in nationalizing Brazilian-owned gas fields in 2006, but Bolivia's relative windfalls are not large enough to inspire Morales to spearhead regional unification projects like Venezuela. Ecuador, with low relative windfalls, can anger the U.S. but must generally shy away from antagonizing the Latin American region. For example, Rafael Correa carefully mitigates Venezuelan advances. Cold relations could annoy Chávez and result in economic or security repercussions in the future. However, overly-warm relations could alienate other regional powers like Brazil and Argentina. Thus, due to lower resource windfalls Ecuador sees a higher opportunity cost to autonomous behavior within Latin America.

*Level II: Domestic Determinants*

Finally, the determinants of a *nationalist* foreign policy reside in the domestic win-set, as nationalism is an inward-oriented policy. For this study, the core determinants of the domestic win-set are constituents, the opposition party, and leader personality. While there may be other influencing factors, they are secondary and will be ignored for purposes of simplicity.

Constituents and executive personality are the two most important domestic influences. Since a leader is already in power, the best way to stay in power is to please his voters. Since Chávez, Morales, and Correa were all elected by populist voters on a nationalist platform, they should thus implement nationalist strategies to please their voters and be reelected. These voters expect their demands to be met sooner rather than later, putting pressure on the executive to do so in a timely fashion. Yet at the same time, these leaders must balance the demands of their constituents with their own personal beliefs and agendas. A leader does not necessarily agree with his supporters, and voters do not necessarily possess perfect information nor understand the complexities of their demands.

Political autonomy (primarily achieved through strong electoral mandates and increases in executive power) determines the balance of influence within this win-set (Figures 4 and 5). According to Putnam, “the greater the autonomy of central decision-makers from their Level II constituents, the larger their win-set” (Putnam, 1993). And in this study, larger win-sets affect both the type and timing of policies. Through political autonomy, leaders can exploit the electoral disconnect and emphasize a personal agenda. As a leader expands his executive powers through referendums he becomes less accountable to voters. He can selectively defect from his party’s nationalist win-set and advance alternative policies. This does not mean high-autonomy leaders like Chávez can ignore their party... simply that they can meet fewer of their demands. Alternatively, a leader can take longer to implement his party’s policies, waiting for opportune

moments based on the international win-set. Thus, political autonomy impacts both the *type* of policy (nationalist, rapprochement, etc) and the *timing* of policy implementation (immediate, gradual, delayed, etc).

## **Methodology**

By applying this two-level game analysis, this paper establishes a model of predictability for hypernationalist behavior in the Andean rentier state. Across the cases of Bolivia (Evo Morales), Ecuador (Rafael Correa), and Venezuela (Hugo Chávez), I analyze how each state's unique variables impact the level of nationalism exhibited in its foreign policy.<sup>6</sup>

As an independent variable in the Level II win-set, I use levels of political autonomy. Election mandates and referenda expand (and contract) the influence of personality in this arena. As an independent variable in the Level I win-set, I use international commodity price data on oil and natural gas from 1999 to 2009 to ascertain variance in win-set size. Resource boom and bust periods expand and contract the Level I win-set, respectively, thus affecting the size of the foreign policy bargaining arena. Price data, obtained via the International Monetary Fund (IMF), is organized by month. In Figures 6 and 7, we see raw and detrended price data identifying boom and bust periods. The 2004-2008 boom, 2008/2009 bust and subsequent recovery are the most important periods for this study (For further discussion of data, see Appendix A). Finally, *relative* windfall gains of each country add another dimension to the Level I win-set and account for additional foreign policy variation. As previously discussed, relative gains help determine the overall severity of foreign policy behavior towards regional and international players.

The independent variables are then compared to the dependent variable – foreign policy. To determine the level of foreign policy action, I employ dates and types of foreign policy behavior. I analyze cases based off literature on nationalist foreign policies, using trade and

other international agreements (building extrahemispheric relationships), attempts at regional integration (the Bolivarian movement), various public speeches and rhetoric, and instances of private industry nationalization as indicators of foreign policy (Johnson, 2007).<sup>7</sup>

## **Venezuela**

Venezuela is a relatively simple two-level game analysis. Hugo Chávez controls foreign policy and the implementation of this policy is highly dependent on resource booms and the Level I win-set. High relative windfalls insulate Venezuela from regional and international powers. Venezuela meets existing scholarly predictions on nationalist aggression only because Venezuela's win-sets create the correct environment.

Since his 1998 election, Hugo Chávez has enjoyed high levels of political autonomy. He has categorically centralized government and increased executive power through referendums and substantial electoral results. This, coupled with unorganized political opposition, means Chávez can afford to ignore his party's agenda in favor of his own (McCoy, 2009).

Consequently, the Level II win-set is dominated by Chávez's personality. Chávez employs 'social power diplomacy' – pro-poor distributionist discourse coupled with generous handouts abroad – in order to counterbalance U.S. soft policy (Corrales, Forthcoming). Thus, in negotiating foreign policy, the bargaining arena is determined by Level I factors and Hugo Chávez. And given Venezuela's tremendous resource endowments compared to Latin America and most of the world, the Level I win-set is overwhelmingly determined by market prices. These resource booms and busts influence the timing and severity of Chávez's foreign policy.

A core component of a nationalist foreign policy strategy is the nationalization of foreign industry. The nationalization of outside companies is a direct slap in the face to capitalism, foreign governments, and 'exploitative' multinational corporations. Venezuela's most important

nationalization events under Chávez occurred in 2005 and 2007, when Chávez nationalized the oil industry. In 2005, emboldened by the recovery from the oil bust in 2003, Chávez forcibly transformed Venezuela's older fields into joint-ventures, removing foreign firms from majority stakeholder positions. Similarly, on February 27, 2007, Hugo Chávez announced the nationalization of oil projects in the highly-lucrative Orinoco Belt, forcing foreign firms into minority positions (Johnson, 2007). This followed the all-time oil high in July 2006 (\$72.51/barrel), with a large Level I win-set offering tremendous overlap with Chávez's Level II agenda.

With the continued boom in oil markets and ever-expanding international win-set, Chávez adopted a stronger nationalist foreign policy strategy and nationalized more industries. During the spring and summer of 2008, enabled by a massive Level I win-set and record energy prices, Chávez nationalized several foreign-owned cement and steel industries to feed his infrastructure goals (Reuters, 2008). On August 1, 2008, he announced plans to nationalize Venezuela's third largest bank due to its interference with his foreign and domestic strategies (Forbes, 2008). Oil, well above \$100/barrel, meant the Level I win-set was remarkably resource-oriented. High relative windfalls and record prices kept international actors irrelevant, allowing for nationalist behavior.

However, in the subsequent market crash, the Level I win-set contracted severely. With a small bargaining window (minimal overlap between win-sets), the rate of nationalization slowed substantially. The end of February 2009 saw Chávez order only the nationalization of the rice industry due to unaffordable food prices and the fact that the poor were clamoring for assistance (CNN, 2009). But this seems more of a necessary action to maintain domestic political autonomy by keeping the poor satisfied, rather than a reaction to outside actors. Nonetheless,

Chávez's rate of nationalization slowed as the win-set collapsed. Chávez was unsure of future windfall profits, and thus could not afford to further alienate potential sources of funding.

Perhaps most importantly, in early 2009, "buffeted by falling oil prices, [Chávez was] quietly courting Western oil companies once again" (New York Times, 2009).

With respect to public speeches and outbursts, Hugo Chávez once again follows the price of oil and the model of relative resource windfalls. When oil prices go up, Chávez's mouth opens wide. And with very large relative windfalls, Chávez is not afraid to speak. Thus, on December 17<sup>th</sup>, 2000, Hugo Chávez appeared at the annual OPEC summit in the National Pantheon. Following Simon Bolivar's vision of a united Latin America, Chávez declared his desire to found a 'PetroAmerica' – an OPEC alternative for the American nations, united through energy. The timing of this statement is important, because as Chávez notes himself, at OPEC summits, "one almost never speaks" (Harnecker, Chávez, and Boudin, 2005; Wilpert, 2003). Yet he chose to advance this idea anyway. Oil had hit its highest price in the last decade that November, averaging \$33.33/barrel. This price was 50 percent higher than a year ago (100 percent higher in a year and a half). Rather than make such a rare, bold comment at the 1999 Summit, Chávez chose to wait. He spoke in 2000, when win-set overlap created a larger bargaining arena for such statements.<sup>8</sup>

Such statements became common as the price of oil rose. The year 2007 was a high point for Chávez's autonomous foreign policy posturing because of oil's tremendous price gains and a resulting massive overlap between the domestic and international win-sets. It was the central year for the oil boom. Correspondingly, Chávez made sure to voice his foreign policy beliefs whenever possible. Throughout 2007, he argued for the Dutch Antilles freedom from colonialism and for an expanded nautical jurisdiction of Venezuela (putting it in greater control

of oil deposits). This also was the year of Chávez's outlandish comments towards the King of Spain and his papal-oriented demands for apologies for past injustices (Associated Content, 2007; BBC, 2007). Never before had he made so many controversial comments. Never before had Chávez enjoyed such a large Level I win-set insulated from international powers. Most importantly, Chávez did not need to pander to his constituents for reelection. He began a new six-year term in January 2007 with a strong mandate of 63 percent of the vote. High political autonomy assured continued personal influence in the domestic win-set.

Regionally, Venezuela's large windfall gains – relative to other rentier states – allowed it to advance Latin American unification proposals and shape regional interactions. These proposals included ALBA, PetroCaribe, and Banco del Sur – all of which were implemented during periods of oil growth. While Hugo Chávez ran for election in 1998 on a number of these integration concepts, he did not begin implementation until six years later, once the price of oil had risen 400 percent and exited the 2003 price slump. This was when the Level I win-set allowed massive implementation of such policies, and relative gains bolstered his confidence to pursue a role as regional superpower.

The first of these organizations, ALBA (the Bolivarian Alliance for the Americas), is an association striving towards regional economic integration and was founded by Hugo Chávez on December 14, 2004, following a 65 percent gain in oil price after the 2003 energy market slump. ALBA encompasses Chávez's Bolivarian ideas, yet rather than advance the program upon election in 1999, he waited to 'negotiate' with a large Level I win-set (Gott, 2005).

Similarly, PetroCaribe and Telesur (Venezuelan-based counterweights to foreign oil and television industries) were enacted in the summer of 2005, as oil prices continued to rise. Banco del Sur, in turn, is a Latin American counterweight to the IMF and World Bank. Initial

discussion of the bank occurred during Hugo Chávez's 1998 election campaign. But the concept was forgotten until 2006, after energy prices had experienced several years of reliable and substantial growth. Enjoying substantial windfall profits and previous success in regional agreements, Chávez began to push for Banco del Sur (McElhinny, 2007). It took eight years and a commodity boom to persuade Chávez to alienate proponents of neoliberal economic reforms by establishing his own IMF. Across all cases, Hugo Chávez, an ardent proponent of regional integration, needed an oil boom and tremendous relative windfalls to find his Bolivarian courage.

Finally, bilateral trade agreements are also influenced by the Level I win-set. According to literature on nationalism, extrahemispheric relationships – including trade agreements – are an important strategy in opposing U.S. influence. An analysis of the timing of Venezuelan agreements suggests that oil prices do influence this aspect of foreign policy. As oil prices go up and the Level I win-set expands, Hugo Chávez is more likely to sign bilateral trade agreements and counteract U.S. influence in the region. High relative resource windfalls embolden him to behave like a regional power.

For example, in February 2007, Chávez signed a trade agreement with the mayor of London, bypassing Tony Blair and snubbing the United States and British national government. This agreement, for which negotiations began following the July 2006 price peak of 72.51, traded Venezuelan petroleum (for London's poor neighborhoods) in exchange for assistance in waste management (BBC, 2007). Chávez was using high oil prices to ink trade deals that expanded his influence beyond Latin America, adding greater legitimacy to his administration and annoying the United States. Windfall profits impacted other bilateral trade agreements as well. Throughout 2007 and 2008, Chávez signed a variety of deals with Vietnam, China, and Iran with the purpose of counter-balancing the United States (ANTARA News, 2009; Reuters,

2008; AFP, 2008). Yet following the global market crash and the contraction of the Level I win-set, agreements came to a standstill until September 2009 – well into market recovery and a re-expanded win-set, when Chávez finalized a \$16B energy joint venture with China (BBC, 2009).

Thus, while Venezuela's foreign policies are largely dependent on Hugo Chávez (rather than his domestic constituents), the ability to implement these policies is dependent on the Level I win-set and windfall profits. High relative windfalls instill confidence to tackle regional powers. Boom periods allow substantial overlap between win-sets and create a large bargaining arena. Within this arena, policies are implemented and timed with the price of oil. "Chávez's ability to pursue oil diplomacy slips with each drop in the price of petroleum" and contractions of the Level I win-set (Conger, 2009).

### **Bolivia**

The case of Bolivia is more complex. Given Morales' populist support base and Chávez-esque nationalist rhetoric, we would expect to see similar levels of hypernationalism. But unlike Venezuela, Bolivia does not have 'tremendous' resource endowments. Its moderate relative windfalls temper its foreign policy aggression and help account for differences in hypernationalist behavior. And while Bolivia reacts to resource booms and busts like Venezuela, its political autonomy differs and fluctuates, introducing greater deviation from scholarly expectations.

While still highly dependent on resource windfalls, variance in the Level II win-set has impacted Bolivian foreign policy. In 2006, on the backs of *cocaleros*, indigenous groups and *mestizo* middle/working class voters, Evo Morales was elected to the Bolivian presidency with 53.7 percent of the vote and only modest executive powers. During this initial period, political autonomy was low and the Level II win-set was constituent-oriented. Morales faced a strong

opposition from the white capitalist bourgeoisie and the right-wing autonomous movement of the eastern lowland departments, making him highly beholden to his constituents (Webber, 2008). Elected on a platform of nationalism, he had little choice but to quickly act on his campaign promises (Zissis, 2006). Within the first few months of his presidency, Evo Morales satiated initial domestic demands by nationalizing Bolivia's natural gas fields and industry. Inconveniently, natural gas, the primary export of Bolivia, had recently experienced significant volatility and a substantial drop in price (-47 percent in 7 months), with a corresponding contraction of the Level I win-set. Under such a scenario, nationalist actions are harder to implement in full conscience.

Yet unlike Chávez in Venezuela, Morales' low political autonomy meant he had little choice. He had to implement policies according to his domestic win-set or risk severe repercussions in an upcoming constitutional referendum. Moreover, perhaps Morales ignored this short-term bust because the natural gas market is much more volatile than oil (Figure 6). Thus, price fluctuations of 25 percent month on month are not necessarily alarming.<sup>9</sup> Additionally, oil and natural gas tend to rise and fall approximately together, as they are reflective of overall economic demand and, in a number of ways, substitutable. Given this, Morales could look at the oil market to see if prices were falling there as well. And in fact, they were not. Oil had risen a significant 11.59 percent during the month of April, and was up almost 25 percent since December. Morales may have assumed that this long-term boom in natural gas would continue, that the recent drop was only normal variation and that the Level I win-set would continue to expand. Accordingly, the overlap between levels meant Morales enjoyed a large bargaining arena where he could 'negotiate' and implement nationalist policies.

Conveniently, as the resource boom accelerated, the Level I win-set allowed significant ‘overlap’ for policy negotiations. Strong windfall profits diminished the role of international actors and the win-set became predominantly resource-oriented, enabling extensive autonomous behavior. Regionally, moderate relative windfalls kept Bolivia from assuming a superpower role in Latin America. Bolivia’s income was large enough to safely nationalize the Brazilian and Argentine gas industries in 2006, but not large enough to advance its own competitor to ALBA or UNASUR. Moderate relative windfalls precluded it from the extreme hypernationalism predicted by the extant literature.

Internationally, Evo Morales was able to engage and demonize western powers, albeit to a lesser extent than Chávez. In the initial years of his presidency – a period of resource booms and expanding Level I win-sets – Morales challenged the United States on coca policies – ejecting officials and rejecting ‘imperial’ aid. This occurred despite the *cocaleros* decreasing importance in the MAS party; Morales’ pro-coca rhetoric had toned down since 2002, but it surged with the resource boom (Webber, 2008).

And similar to Chávez in Venezuela, Evo Morales also engaged in vocal posturing. For example, in September 2007, Morales appeared on ‘The Daily Show with Jon Stewart’ to argue for his foreign policy strategies and against U.S. imperialism. In October, Morales toured the U.S. giving speeches on de-colonizing Bolivia and advancing his own policy issues. In all these appearances, he used his rising notoriety and energy-infused confidence to attack U.S. foreign policy (New York Times, 2007). Finally, on April 28, 2008, as oil and natural gas prices marched upwards, Evo Morales boldly proposed his ‘Ten Commandments to Save the Planet’ at the United Nations (which included the eradication of the capitalist model) (Reuters, 2008). This marked a pinnacle in public posturing. Yet throughout this period, Morales assumed more muted

tones and messages than Chávez because Bolivia's *relative* windfalls were only moderate. Evo Morales felt strong...but not invincible.

In mid 2008, during the height of the resource boom, the Level II win-set shifted. By diversifying his support base, incorporating new interest groups, and enacting patronage projects, Morales won the recall referendum with 67.4 percent of the vote, expanding his executive powers. With multiple groups to please and overwhelming support, he had increased his political autonomy. Executive personality now held much more influence in the Level II win-set. This offered Morales room to defect from domestic demand for nationalist policies.

Even so, on September 10, 2008, he expelled the U.S. ambassador for 'cavorting with the opposition.' Morales had no one in particular to please, but he still had the pleasure of high oil and natural gas prices. The Level I win-set was massive and Western powers were unimportant. He declared that Bolivia did not need U.S. trade agreements and that it need not fear a U.S. embargo. There was no reason to curtail nationalistic behavior. Moreover, extrahemispheric relationships with anti-Western powers were still an option. On August 30, 2008, during the peak of the natural gas boom, Morales established formal diplomatic relations with Libya. Two days later, Morales made a state visit to Iran, helping cement a relationship with a U.S. enemy (Reuters, 2008).

But this new era of high political autonomy saw a shift in the Level I win-set as well, with the advent of the global recession. A crash in resource prices in Fall 2008 reoriented the win-set towards greater emphasis on international and Western actors. Morales was no longer insulated by massive windfall profits and was forced to consider external entities when advancing foreign policies. Lower relative gains necessitated even greater moderation than in Venezuela.

Therefore, when the global economy worsened in late 2008, Morales decided to defect from his domestic constituents, ignore the literature on ethnopopulist nationalism, and send a delegation to Washington to lobby for Bolivia's sustained participation in APTDEA (a narcotics-eradication program that rewards cooperating countries with low tariff rates) (Associated Press, 2008). And in November, as the economy plunged even more, Morales defected again to offer the United States rapprochement, declaring that a positive relationship would likely be established with President elect Barack Obama (Reuters, 2009). Relationships with Iran and Libya were curtailed to encourage favorable treatment from the U.S. With a collapsing Level I win-set and newfound political autonomy expanding the Level II win-set, Evo Morales successfully defected from the nationalist agenda and hypernationalist expectations to approach foreign actors like the U.S. Interestingly, with the recovery of the market and subsequent expansion of the Level I win-set in late 2009, Bolivia has rediscovered a semblance of its old self. In November, 2009, collaboration with Iran resumed (AFP, 2009). With an expanding Level I win-set, Bolivia (and Venezuela) are once again willing to tighten the screws on the United States.

### **Ecuador**

In Ecuador, extant theories on nationalism would predict similar patterns of behavior to Venezuela and especially Bolivia. Rafael Correa, like Evo Morales, represents an ethnopopulist movement demanding overt nationalist behavior (Madrid, 2008). Moreover, both leaders are freshly elected Presidents needing to centralize power to drive home such bold nationalist visions. Thus, we should expect very similar patterns between Bolivia and Ecuador. But reality differs from scholarly expectations, which fail to account for variation among hypernationalist states. Unlike Venezuela and Bolivia, Ecuador's nationalist behavior is markedly more reserved. This

deviation from the mean is largely due to low relative windfalls profits that limit the severity of its nationalist foreign policies.

In 2006, Rafael Correa was elected with 56.67 percent of the vote and took office with moderate political autonomy. Public support was strong, but the Ecuadorian constitution limited some presidential powers. Nevertheless, low relative windfall gains curtailed Ecuador's nationalist policies. Considering the nationalization of private industry, Rafael Correa's behavior was and is much more controlled than Morales' or Chávez's. In May 2006, the previous government nationalized the fields and facilities of U.S.-based Occidental Petroleum Corp due to a 'breach of contract (New York Times, 2006). Notably, Correa did not reinstate Occidental ownership upon election, despite ongoing international arbitration. Since then, Correa has largely used the *threat* of nationalization in foreign policy situations, rather than action. Low relative resource windfalls have forced Ecuador to temper its nationalism, keeping it from fulfilling nationalist literature's prophecies.

The impacts of Ecuador's low relative windfalls are also apparent in Correa's regional relations. Throughout his presidency, he has managed to keep Chávez and ALBA at arm's length, despite domestic demand for Venezuela's populist proposals. In fact, "the personal character that Correa imposes on his country's foreign policy has meant that Ecuadorian diplomacy has been shifting: at times closer to joining Hugo Chávez's Bolivarian project and at times closer to the more moderate positions taken by Lula da Silva. For now, Correa has not made a final decision in this regard, especially considering the many failed promises from Venezuela" (Malamud et al, 2009).<sup>10</sup> Such behavior also demonstrates a clear give and take between rational balancing of powers and satisfying ethnopopulist constituents.

In terms of non-regional actors, Ecuador behaves more autonomously, but not to the extent of Venezuela and Bolivia. In late 2007, Ecuador rejoined OPEC after leaving in 1992. Rising oil prices and the power of an oil cartel made this relationship seem attractive. In a similar direction, in April 2007, when the Level I win-set was expanding, Correa expelled the World Bank's country manager assigned to Ecuador, citing discontent over Washington Consensus loans (AFP, 2007). Oil prices were on the rise, and the large bargaining arena let Correa stir the pot. Moreover, during this same boom period, Correa repeatedly alienated the United States on military matters and public speeches regarding developing a new version of the OAS – sans United States.

Following the 2008 bust, windfall profits shriveled and financing Ecuadorian expenditures became a challenge. For a country with even smaller relative windfall profits<sup>11</sup>, the level I win-set changed – foreign governments became even more important. As a result, Correa began to reach out to international actors such as Iran and Russia for assistance. The small dog realized he was more of a puppy. Reaching out to the U.S. and IMF was not an option because these relationships had soured from excessive nationalist behavior during the resource boom. Ecuador had asked for too much when bargaining foreign policy behavior; it had little to offer to bring these Western powers back to the bargaining table.<sup>12</sup> Thus, “in the context of global economic crisis, these [past] positions may aggravate [Ecuador's] economic situation by shutting off international credit and reducing the flow of investment. For this reason, Correa has sought out Iran and Russia as anti-imperialist allies and new economic partners” (Malamud et al, 2009). In November 2008, Ecuador forged military, technology, and energy ties with India after having previously reversed revenue sharing agreements with other countries. In December, officials met with Iran to forge stronger South-South co-operation agreements. The year 2009 saw stronger

military and development ties with Russia, as well as additional agreements with Venezuela (Reuters, 2008-2009).

## **Conclusion**

Considering the last decade, the hypernationalism of Venezuela, Bolivia, and Ecuador is, contrary to popular thought, predictable. While literature on nationalism in Latin America fails to detect and explain variance among hypernationalist states, this paper's two-level game model successfully explains policy variation and rectifies the literary gap. Resource prices, relative windfall gains, and domestic political autonomy alter states' domestic and international win-sets, resulting in unique timing and aggressiveness of nationalist foreign policies.

In this analysis, the domestic, or Level II win-set, is shaped through electoral mandates and executive powers; high levels of autonomy allow leaders (like Chávez) high amounts of control of the domestic win-set. The international, or Level I win-set, is dominated by windfall gains and market prices. The Level I win-set exerts a tremendous amount of control on the bargaining arena – where the two levels overlap. This bargaining arena is where the *timing* and *severity* of foreign policy is determined. Through this arena, the nationalist behavior of the Andean rentier state is determined by (relative) resource windfalls and political autonomy (executive personality).

In Venezuela, the extent and severity of Hugo Chávez's nationalism is overwhelmingly dependent on the insulation of market prices. High relative windfall gains place Venezuela in a regional leadership position and allow Chávez to mount the bully-pulpit to rail against Western powers, thereby meeting literary expectations on aggression of resource-populist nationalism. In Bolivia, while literature would expect nationalist behavior on par with Venezuela, this is not the case. Moderate relative windfalls allow the nationalization of industry and some autonomous

behavior, but discourage excessive nationalist rhetoric (a la Chávez). While Bolivia is still hypernationalist, it does not meet the Venezuelan benchmark. Moreover, varying levels of political autonomy account for other variance in nationalist policies; recent gains in autonomy have allowed defection from domestic demands following the 2008 Level I win-set contraction (resource bust). Finally, nationalism in Ecuador is the least nationalist of all three cases, contrary to theoretical predictions. Despite a strong ethnopopulist movement, nationalist electoral rhetoric and a freshly elected charismatic leader, low relative resource windfalls means international and regional actors maintain greater influence in the Level I win-set (compared to Venezuela and Bolivia). This creates a fear of retaliation and a necessity for moderation when enacting nationalist policies. Additionally, Correa's moderate to high levels of political autonomy cause greater deviation from the hypernationalist norm, allowing Correa to inject a level of rationality into Ecuador's foreign policy and at times defect from the overt nationalist policies demanded by his constituents.

Given this new model and understanding of hypernationalism in Latin America, foreign policymakers can now better predict Andean rentier behavior and accordingly adjust their political strategies. The element of surprise is not what it once was; Chávez, Morales, and Correa are in fact predictable, and this understanding of their rationality can help policymakers around the world. Future research should look to add a quantitative component to the model to achieve more exact findings on foreign policy timing and severity with respect to the win-sets. Research may also consider incorporating political psychology and leadership trait analysis into the Level II win-set, in order to elucidate the impact of executive personality.

## Appendix A: Crude Oil and Natural Gas Data

The independent variables, monthly price data on crude oil and natural gas between 1999 and 2009, are obtained via the IMF. Crude oil is measured as an international average of prices of U.K. Brent, Dubai, and West Texas Intermediate oil. Natural gas is measured using the U.S. domestic price, which acts as a close proxy for unobtainable data regarding the Bolivian/Latin American natural gas market. Note that Venezuela and Ecuador's primary export is crude oil, while Bolivia exports natural gas. Visual materials relating to the independent variable are located in Appendix B.

An initial examination of raw data shows that natural gas prices are significantly more volatile than crude oil (Figure 6). However, both commodities experience a clear upwards trend over the time frame, until the global market crash in late 2008. Data is coded by month starting in 1999, and thus appears as an ordinal number in the graphs. Numbers 48-60 correspond with the year 2003, 96-108 correspond with 2007, etc.

Examination of detrended data highlights areas within the commodity cycle (Figure 7). Using the natural log of crude oil and natural gas prices, we can remove excess volatility to determine booms and busts – or periods of expanding and contracting Level I win-sets. Both oil and natural gas prices rise and fall on approximately the same time frame, demonstrating that both energy commodities are linked in price performance. From this variation, we determine several interesting periods of price and win-set movement: The 2000/2001 short-term boom followed by the 2001/2002 bust; the 2003 price slump (more clearly visible in Figure 6); the long-term 2004-2008 boom period; and the final 2008/2009 bust. Finally, there is a suggestion of price recovery in the final months of 2009.

**Appendix B**

Figure 1: Two-Level Negotiations

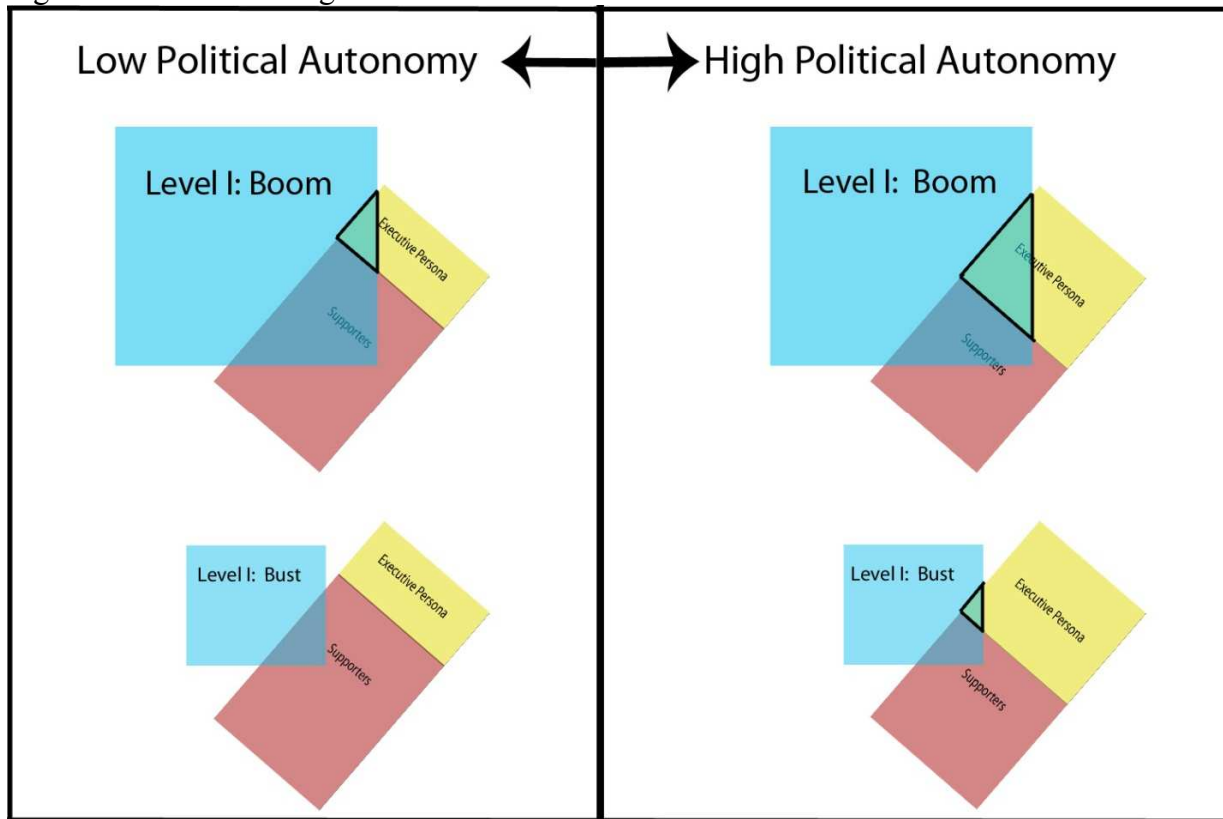


Figure 2: Robert Putnam's Two-Level Game Model

**Putnam's Two-Level Game Negotiations**

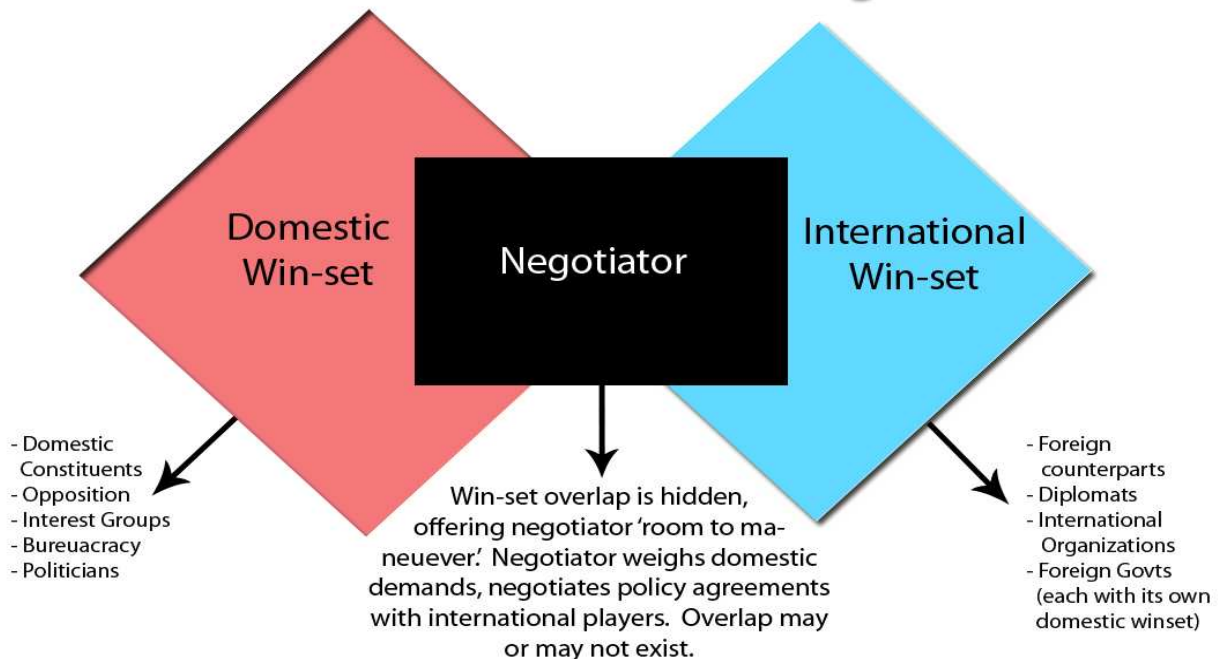
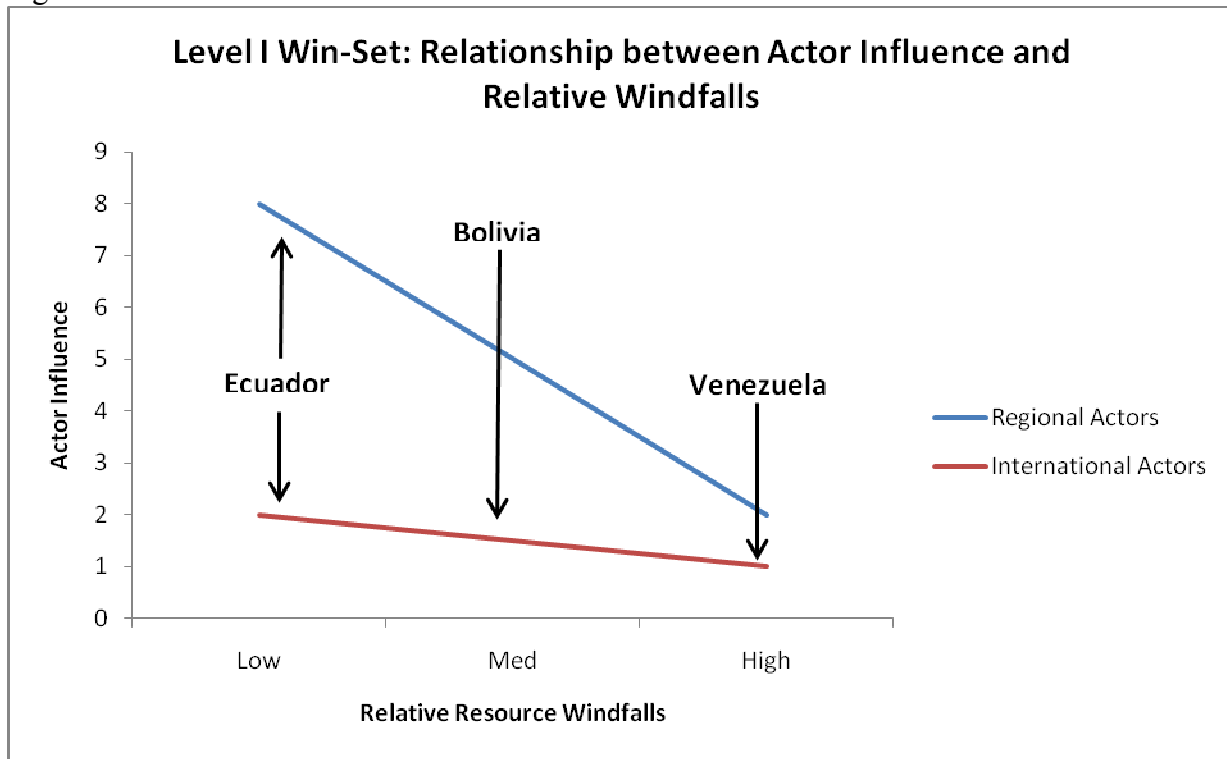


Figure 3: Level I Actor influence and Relative Resource Windfalls



Figures 4 and 5: Level II Political Autonomy Relationship

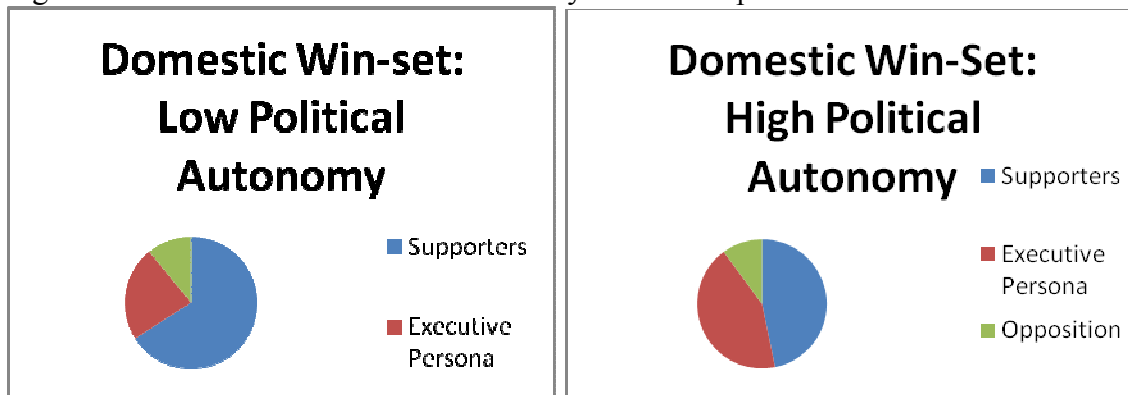


Figure 6:

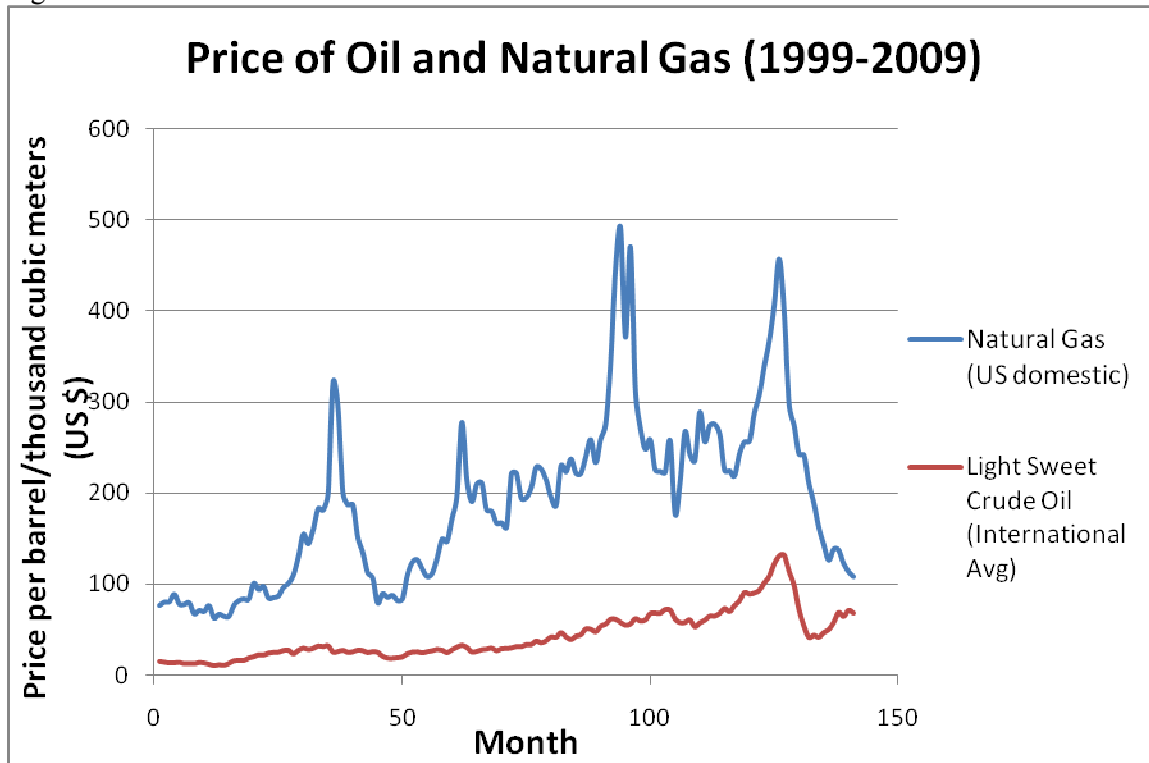
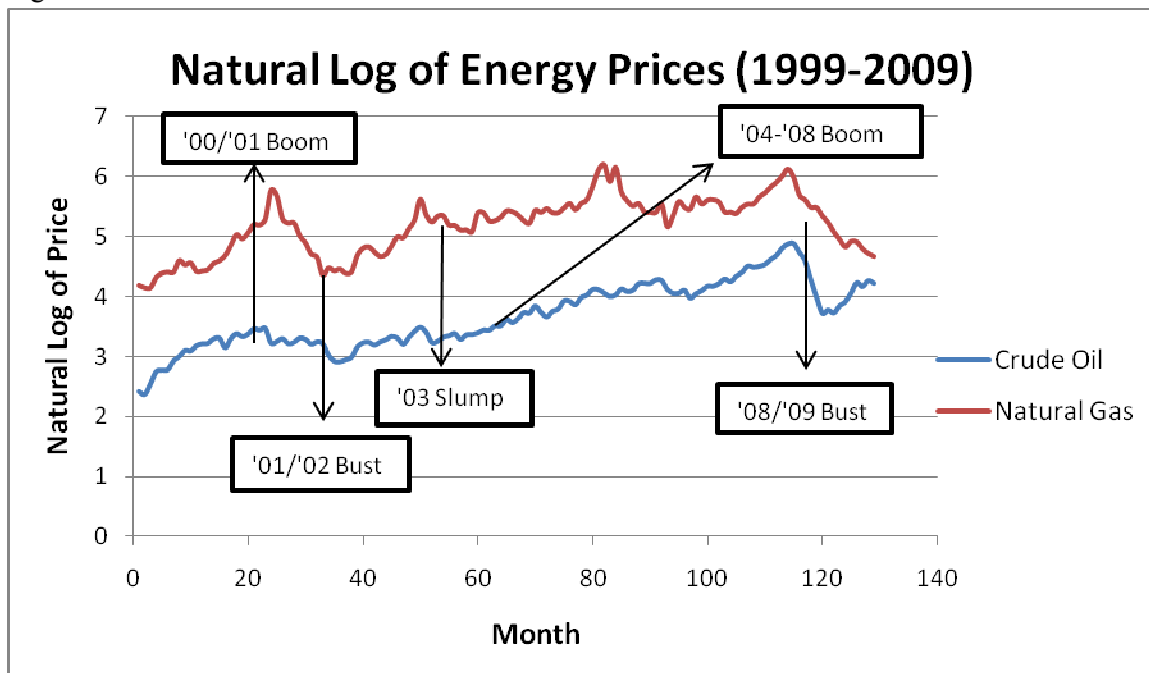


Figure 7:



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## Notes

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<sup>1</sup> This occurred at the November 2007 Ibero-American Summit in Santiago, Chile.

<sup>2</sup> This simple definition is in line with modern-day colloquial use. Use of the term does not imply that these states align with Middle-Eastern rentier thought, a concept first described by Hossein Mahdavy in the 1970s.

<sup>3</sup> While some may argue Chile should be classified as ‘rentier’ as well, I argue differently. First of all, Chile does not fit into the parameters of this study due to its more moderate instances of nationalism a la Brazil and Argentina. Secondly, resources make up less of the government’s operating expenditures and less of its exports than the other three cases. Chile has also institutionalized its windfall gains to cushion against market booms and busts, which means it cannot use windfall gains for distributionist or foreign policy strategies (which, consequently, may be why we do not see hypernationalism) (Karl, 1997).

<sup>4</sup> For this study, nationalist foreign policy behavior is not limited to U.S. foreign policy; it includes actions directed towards any and every state. However, we should note that many foreign policy actions in Latin America are conducted with the United States in mind and/or in reaction to U.S. power due to decades of imperialism and intervention in the region.

<sup>5</sup> Note the triangles in the figure highlighting varying executive influence in the overlap regions due to political autonomy.

<sup>6</sup> Note that these three states are quite similar, exhibiting strong populist parties with nationalist sentiments, a Latin American legacy, charismatic leaders, and dependence on resource windfalls. They vary on relative windfall size, type of windfall, and political autonomy. It is these differences that explain why each nation varies on foreign policy aggressiveness.

<sup>7</sup> As there is no existing database on foreign policy for these countries during this time period, data and examples are collected through exhaustive research of online and print resources, utilizing periodicals, news indexes, online databases, and secondary-source articles and publications.

<sup>8</sup> Interestingly, this was not the last significant appearance of Chávez at an OPEC summit. In November of 2007, following a 71 percent increase in oil prices since January 2007, Chávez spoke again, threatening the United States and the developed world with exponentially higher oil prices should the U.S. invade Iran (AFP, 2007). Chávez was pushing OPEC to counterbalance U.S. foreign policy behavior, riding high on the coattails of oil. This is a prime example of Chávez using an alternative major power – OPEC (a potential political superpower through economic might) – to counteract the United States.

<sup>9</sup> Please refer to Figure 6 for a better understanding of natural gas and oil volatility. Monthly price fluctuations are calculated using price data from the IMF.

<sup>10</sup> Though Correa does, to a minor extent, lean towards Chávez. This is demonstrated through petro-sharing/facility development agreements signed with Venezuela, declared support for Chavez’s Banco del Sur, the expulsion of Brazilian construction company Odebrecht in September 2008 and repetitive threats to nationalize PetroBras holdings in Ecuador (AFP, 2008). Nevertheless, support of Chávez is much less than we would expect, given current literature and interpretations. Variation among win-sets explains this.

<sup>11</sup> While Ecuador receives significant income from oil exports, this is in part offset because it must import refined oil and derivatives (EIA, 2009). This balance is upset when crude prices drop because more windfall profits are spent to offset the cost of imports.

<sup>12</sup> Note that Ecuador is traditionally captive of the United States. Unlike Bolivia, Ecuador is highly dependent on the U.S. for trade and favorable treatment; unlike Venezuela, Ecuador’s oil exports are largely irrelevant to the U.S. Thus, Ecuador has little leverage over the U.S. to bring it to the bargaining table.