The ground is shrinking beneath the feet of Venezuela’s president, Nicolás Maduro. Low oil prices have hastened an economic crisis in Venezuela, a country that was already on the brink of financial and political turmoil for more than a year. Not only have low oil prices precipitated a massive credit crunch within the country. They also put Petrocaribe, one of former President Hugo Chávez’s most prized international alliances, at risk.

Crumbling domestic conditions are prompting Maduro to arrest dissidents and prove his party’s authority. Notwithstanding the show of force, Venezuela’s closest neighbors already feel the foreshocks of the impending fiscal earthquake. The late Hugo Chávez had many international pursuits – from Alba to Telesur. But none was as precious as Petrocaribe – a Central American/Caribbean coalition with Venezuela at the helm. Now, given Venezuela’s ongoing credit crisis, Petrocaribe’s attractive oil financing is proving unsustainable. Indeed, Petrocaribe’s uncertain future might have been the single most important factor in convincing Cuban President Raul Castro to agree to his country’s new détente with the United States. It is very clear that Havana did not consult its closest ally in the hemisphere prior to its rapprochement with Washington.

The pressure on Caracas is enormous. Venezuela has the world’s largest reserves of petroleum. Yet, both rich and poor are forced spend days searching for scarce items to feed and clothe their families. Venezuelans move to one supermarket to buy diapers, to another to buy milk, and a third to buy meat. The lines are endless. The shortages are immense. Inflation is out of control. Money is leaving Venezuela at alarming rates. Inflation is over 70% and crime is rampant. Caracas has the highest murder rate in the world. It is not surprise that a recent poll shows Maduro with less than 20% popular support.

To silence domestic dissent, Maduro is using well-worn tactics that have proven successful in the past. When the ruling United Socialist Party of Venezuela (PSUV) has found itself under stress, its modus operandi has been to attack notable opponents. The PSUV knows that it must radicalize to keep its base support intact. The recent arrest of Caracas Mayor Antonio Ledezma and the removal of congressional immunity of opposition leader Julio Borge are proof that the PSUV worries about its deteriorating reputation.

Maduro faces a weak and disjointed opposition, but he has nothing near the deep pockets that his party enjoyed.
under Hugo Chavez’ governments. Venezuela has no more money to spend inside the country on large housing programs or vast expansions in medical coverage for the poor. Nor does it have the money to finance influence-enhancing schemes in the rest of the continent. Today, Venezuela’s reputation is shrinking along with its economy. Leaders – even those leaders of leftist, anti-American governments – are looking at what is happening in Venezuela and few want to emulate Nicolás Maduro’s legacy of economic catastrophe, political repression and failed promises.

Indeed, inside Venezuela, falling oil prices are now causing people to question the opportunity cost of lending to its neighbors for uncertain political benefit. For years, the Petrocaribe program provided credit subsidies to more than a dozen member countries to purchase Venezuelan crude oil and petroleum products on preferential financing terms. But Venezuela relies on oil for 95% of its export revenues and increasingly needs to derive oil money at market rates for its economy to stay afloat. Venezuela’s proposed sale of the Dominican Republic’s Petrocaribe debt to Goldman Sachs for a loss of $2.25 billion, and its negotiations to do the same with Jamaica’s debt, are demonstrative of the desperate steps the country may be willing to take to alleviate its severe liquidity issues.

The result is a Caribbean basin deeply concerned about its dependency on Venezuelan oil. Designed to win the loyalty of Central American and Caribbean states, Petrocaribe was successful in binding member countries to Venezuela’s international agenda and securing supportive votes in international organizations. But Caribbean basin countries now saddled with Venezuelan credit obligations are running out of options. As Central American and Caribbean economies slow further in 2015, the double hit of losing credit for petroleum purchases and debt service obligations being sold to third parties could damage public finances across the region and create instabilities in a number of countries.

The picture of Venezuela’s fast shrinking economy and reputation is a dangerous, slow moving car wreck. It is clear to all – especially to Petrocaribe’s Caribbean and Central American client states – that Venezuela will be unable to sustain its present course. Yet, if Venezuela proves unable to put its house in order, there is no guarantee that what comes will be better than what we have today. Should that happen, Venezuela’s implosion will have effects that reach far beyond its borders.