

Haileybury MUN

Research report



General Assembly 2

The question of the Venezuelan Economy

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Definitions of Key Terms:

Hyperinflation

Inflation is a sustained increase in the general price level in an economy, or an increase in the cost of living as the price of goods and services rise. Hyperinflation refers to that same phenomena accelerating at a very high rate. It quickly erodes the real value of the local currency, as the prices of all goods increase. This causes people to minimize their holdings in that currency as they usually switch to more stable foreign currencies.

Petrostate

Petrostate is an informal term used to describe a country with several interrelated attributes:

- government income is deeply reliant on the export of oil and natural gas,
- economic and political power are highly concentrated in an elite minority, and
- political institutions are weak and unaccountable, and corruption is widespread.

Economic sanctions

Economic sanctions are the withdrawal of customary trade and financial relations with a specific country, often to force a certain political, economic or social change on the recipient.

Introduction

Politics and economics are the two interlinked bases of society. In 2014, global prices of oil dropped and the Venezuelan economy went into a freefall. To better understand how and why this happened, we must first take a look at the history of politics in Venezuela.

In 1922, oil was discovered in Venezuela under the rule of the dictator General Juan Vicente Gomez, and within years, the annual production boomed from 1 million to 137 million barrels of oil, placing Venezuela second to the United States in oil production. In 1934, by the time Gomez had died in 1935, oil production accounted for 90% of exports, shoving aside all other economic sectors. By the end of the 1930's the Venezuelan government's income increased by almost sixfold.

In 1958, Venezuela elected its first stable democratic government. Later on in 1973, a five-month OPEC (Organization of the Petroleum Exporting Countries) embargo on countries backing Israel in the Yom Kippur War quadrupled oil prices and made Venezuela the country with the highest per-capita income in Latin America. In 1976, amid the oil boom, President Carlos Andres Perez nationalized the oil industry, creating state-owned Petroleos de Venezuela, S.A. (PDVSA) This established Venezuela's great dependency and reliance on oil as the reason for economic prosperity.

In 1998 Hugo Chavez, a charismatic socialist leader, was elected as president of Venezuela on a promise to use the wealth to fix income inequality in the nation by giving to the poor, who felt neglected in the country's classist society oil brought to the country. During his reign, President Hugo Chavez ended term limits, effectively took control of the Supreme Court, began to strictly regulate the media and closed independent outlets, and nationalized hundreds of private businesses and foreign-owned assets, such as oil projects run by ExxonMobil and ConocoPhillips.

The key moment in his presidency came in 2004 when oil prices surged. Venezuela's petroleum-dependent economy started ballooning and Chavez went on to spend billions from the profits on social-welfare programs for the poor. He subsidized food, improved the educational system, built an enviable healthcare system and reduced poverty by more than half. These programs certainly helped the poor, but they served a purpose for Chavez as well. In order to be re-elected, he needed to keep millions of poor Venezuelans happy, so he hijacked the economy to do just that. He didn't scale back Venezuela's dependence on oil and his unrestrained spending led to a growing deficit. That would mean that all the programs he built would be impossible to sustain if oil prices dropped, and that's exactly what happened in 2013 when his handpicked successor Nicolas Maduro took power in a fraudulent election.

As oil prices fell in 2014, so did revenues, yet the government failed to scale back because its irresponsible spending on social programs and employment was propping up the entire economy. The government's huge borrowing, partly a legacy of the years when oil prices were far higher, has helped push the crisis to a cliff, which forced Maduro to print money to cover a large budget deficit. This drove down the price of the Venezuelan Bolivar, and set the country down the road to hyperinflation.

In 2015, the people took to the streets and the election ballots to express their dissatisfaction, resulting in the main opposition party against Maduro to win the national assembly by two thirds majority. This put Maduro's rule at risk, which prompted him to remove several Supreme Court justices and pack the courts with judges loyal to him. In March 2016, the court ruled to strip the opposition-led National Assembly of its powers, a move that sparked massive protests across the country. The ruling was reversed a few days later, but the damage was done. Protests continued to grow and have left about 100 dead and thousands injured.

Like Chavez, Maduro has also rigged the economy to keep himself in power, but this time it's not benefitting the poor. He's exploited a complex currency system, put in place by Chavez. Maduro's set the official exchange rate at 10 bolivars per US dollar. But only his friends and allies have access to this rate. In reality, the Venezuelan currency has become basically worthless. Most Venezuelans get their dollars on the black market, where the rate is about 12,000 Bolivar per dollar. The military, which got complete control of the food supply from Maduro in 2016, is reportedly profiting off of this currency crisis. They import food at Maduro's special currency rate and sell it on the black market for a massive profit. So military generals and political allies, crisis has offered a lucrative opportunity which has helped Maduro stay in power.

Despite the violence and public outcry, Maduro held a vote in July 2017 to elect a new governing body, the National Constituent Assembly, which would have the power to rewrite Venezuela's constitution and replace the National Assembly, leaving virtually no opposition to Maduro's rule. With Maduro's recent vote, Venezuelans didn't have a say in whether the assembly should exist, they only had the option to elect its members. Many Venezuelans saw this as a power grab, which sparked a national outcry calling to boycott the vote. People took to the streets and protested. Despite there not being a large turnout for the vote, Maduro held the vote anyway, and won by majority. Since then, public dissatisfaction has only grown. People have been living in a state close to that of a war torn country.

In February 2018, Venezuela launched its own cryptocurrency in hopes of evading sanctions placed by the US and in hopes of reducing the state of hyperinflation Venezuela is suffering from. The petro is supposedly backed by Venezuela's huge oil reserves, even though there is no guarantee that oil will ever be brought to the surface. The government says it received \$5bn in offers during a presale and initial coin offering of the petro but has yet to explain where the money is, and there is no secondary market for the currency.

Nicolas Maduro was re-elected to a second term in early elections in May 2018, but then he announced he would serve out his remaining first term and only then be sworn in for a second term on 10 January. The National Assembly argues that because the election was not fair, Mr Maduro is a "usurper" and the presidency is vacant.

Maduro turned to strengthening a politically motivated subsidized food distribution system called Local Committees for Supply and Production, or CLAP in Spanish. The food aid provided through CLAP is a desperate and strategic response to rampant food scarcity and poverty in Venezuela. The regime has been unable to control inflation, which has destroyed Venezuela's economy. Thus, many poor Venezuelans are now dependent on CLAP deliveries to put food on the table. These deliveries, which are almost entirely made up of imported goods, typically consist of the most basic food items-mainly flour, rice, oil, and sugar. Nearly half of the population said that CLAP has become an "essential" part of their diet. Yet, this statistic hides troubling trends when categorized by political party. While 83 percent pro-Maduro voters say that CLAP is

their main source of food, only 14 percent of independents say the same. Accordingly, while 73 percent of pro-Maduro voters have access to three meals a day, only 54 percent of independents can say the same.

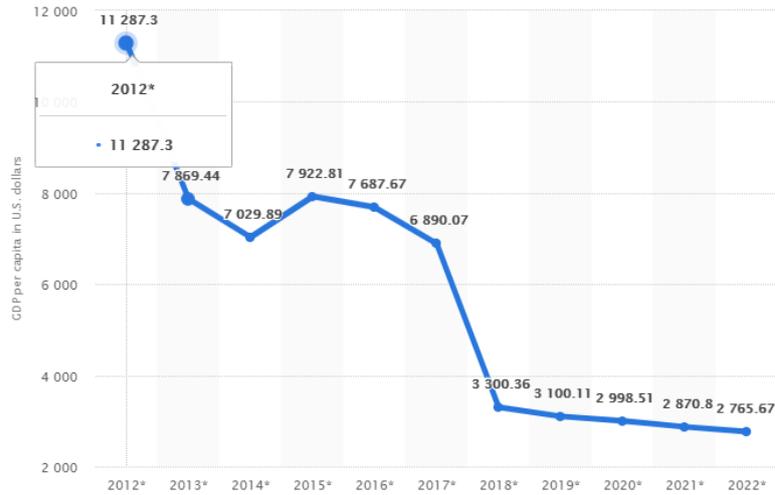
Racing to keep up with hyper-inflation which the International Monetary Fund (IMF) forecasts will hit 1,000,000 percent this year, the Venezuelan government said it will knock five zeros off its currency, the Bolivar in August 2018. Mr Maduro said the new "sovereign Bolivar" would be tied to the petro. Experts have told the Financial Times that although the banknotes will be more practical for the people, it will in no way solve the problem of hyperinflation.

On January 23rd 2019, opposition leader Juan Guaidó declared himself interim president of the country, raising the risk of disruption to Venezuela's oil output. Guaidó urged the people of Venezuela to stay in the streets and protest until they are liberated from the tyranny of Maduro's rule. In response, authorities under the command of Nicolás Maduro have sent military and police officials onto the streets to apply their policy of repression according to amnesty international. The U.S. Trump administration promptly recognized Guaidó as Venezuela's leader and on January 28th 2019 unveiled sanctions on state-owned oil firm Petr6leos de Venezuela SA via a statement from The White House. Following this, Nicolas Maduro retaliated by declaring cutting all diplomatic ties with the United States, and he granted the U.S diplomats present in the U.S embassy 72 hours to leave Venezuelan territory. However, Maduro abandoned that demand on the premise that he "believes in dialogue to protect Venezuela's relations with the U.S". Amidst this political turmoil, leader of the opposition Juan Guaid6 has requested that Donald Trump support the opposition with arms to fight against the Maduro regime and has seen no response in return.

Key Statistics:

Fuelled by the ongoing political crisis, the economic situation in Venezuela is dire.

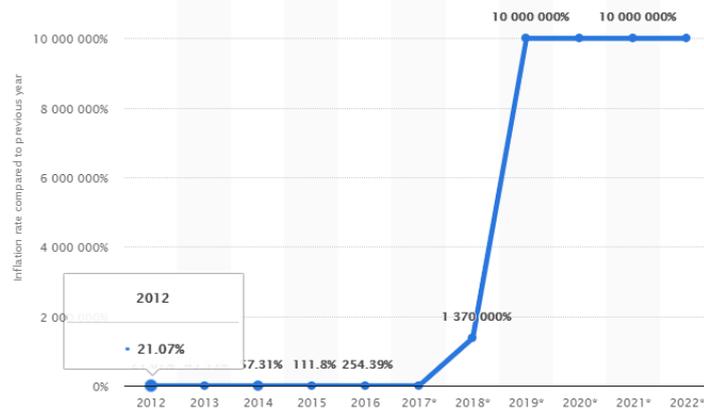
- 82% of households in Venezuela live in poverty line according to a study by three universities
- Hyperinflation has made medicines and food that was once subsidized, unaffordable for Venezuela's poor.
- Venezuela's inflation rate as of the 31st of January 2019 is 1698488 %
- The Venezuelan Violence Observatory estimated 28,479 "violent deaths" during 2016, a homicide rate of 91.8 per 100,000 residents.
- Food inflation is at 315% while core consumer prices inflation is at 594.3%
- The United Nations have offered humanitarian aid to Venezuela. But this has been turned down by Maduro, who claims to be afraid of the international community interfering in the country, despite the dire situation.
- The average Venezuelan has lost an average of 10.8 kg (24 lbs) of weight due to food shortages, or what some refer to as "The Maduro Diet"
- A crippled health system has led to the re-emergence of eliminated diseases such as diphtheria, tuberculosis, measles, and malaria
- Humanitarian organizations estimate that about 300,000 children are at risk of dying due to malnutrition
- There have been reports of Venezuelan's sneaking into zoos in search of food
- 3 million people have fled Venezuela since 2015 as reported by The Human Rights Council, all seeking refuge in neighbouring Latin American countries such as Colombia.
- Experts calculate that Venezuela's current financial crisis is more than 10x worse than the global economic crisis of 2008-2009
- The Venezuela Unemployment Rate is projected to trend around 44.00 percent in 2020, according to econometric models released by Trading Economics



Data visualized by + a b l e a u

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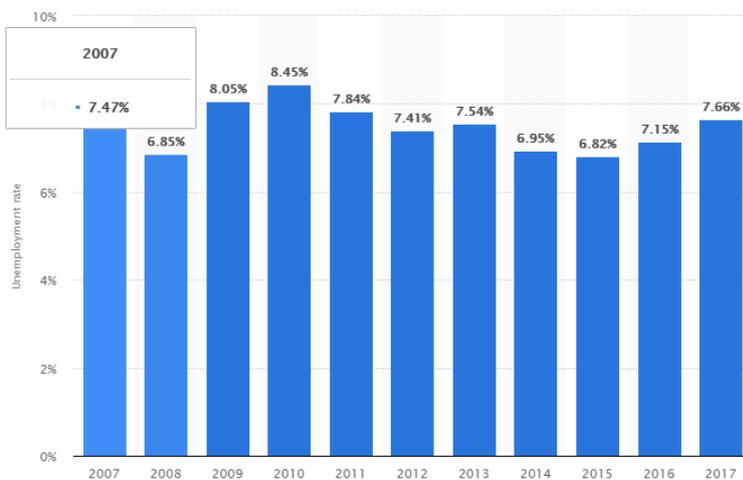
Figure 2 Venezuela: Gross domestic product (GDP) per capita in current prices from 2012 to 2022 (in U.S. dollars)



Data visualized by + a b l e a u

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Figure 1-Venezuela: Inflation rate from 2012 to 2022 (compared to the previous year)



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Figure 3 – Venezuela: Unemployment rate from 2007 to 2017

Possible solutions:

In order to address this issue, procedures must be implemented from all aspects-political, economic, and humanitarian.

- To tackle the political situation:
 - Venezuela must return to a full democracy that doesn't impose restrictions on the political rights of citizens. That can be done through imposing economic sanctions on the Maduro government as punishment for the violation of human rights and the breach of democracy, and force a change, keeping in mind that the sanctions should only harm the government and not the Venezuelan people. Countries imposing sanctions should demand the release of all political prisoners held captive, and all journalists arrested during the coverage of the protests.
 - The international community must support protests that demand internal change without resorting to the use of arms
 - The international community must find a way to transport humanitarian aid to the people who need it in light of the crisis.

- To tackle the Economic crisis of hyperinflation:
 - Venezuela should dollarize the economy
 - Venezuela should discard all the de-valued Bolivar and Sovereign Bolivar currency
 - Venezuela should allow aid to reach citizens in need
 - In the long run, should Venezuela recover, the government must develop other sectors of the economy and avoid being totally reliant on oil to remain economically stable.

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