

# Advisory Panel on the Question of the Venezuela Crisis (APQVC)

The economic crisis





<b>Forum</b>	Advisory Panel on the Question of the Venezuela Crisis
<b>Issue:</b>	The economic crisis
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## Introduction

The Venezuelan economy used to be the best in Latin America. Venezuela's economy heavily relies on the exportation of oil, which is why drastic changes in its economy were heavily due to changes in the oil industry. Until President Chávez, the previous president of Venezuela, rose to power in 1999, Venezuela's dependency on oil didn't create economic problems. However, with Chávez, the foundations for the crisis were built. He made irresponsible spending decisions. For example, with the social programs called "Bolivarian missions," he aimed to assist the citizens' lives economically. These programs were seen to be helping the crisis; however, not really beneficial for the long term (Kiger). While doing these spendings, Chávez didn't make enough investments for the oil production industry. Additionally, he had exported the oils to other countries with low prices. His economic plan set the basis for the upcoming economic crisis. At the beginning of his rise to power, the problem was not visible yet. What Chávez did was to further increase the dependency on oil exports and the government debt, without any improvements in the production of oil. In the 2000s, his economic strategies were having positive effects on the citizens' lives. In 2014, however, the oil prices fell significantly and due to the conditions created by Chávez, the economic collapse began.

The current president Maduro pursued what Chávez did in his administration. He didn't focus on the working class like Chávez did, but his lack of investment and ignorance on tackling the crisis also escalated the problem. His politically criticized actions such as manipulating the election results led some countries to be against the Maduro government. The USA's sanctions which were in the form of freezing Venezuelan government assets in the USA and in the country is perhaps the best example of this, which further damaged the economy as the USA was one of the most important importers of oil from Venezuela. People's protests against the government also continued to increase, heating the crisis even more (Vox).



## Definition of Key Terms

### Hyperinflation

“[A] term to describe rapid, excessive, and out-of-control general price increases in an economy. While inflation is a measure of the pace of rising prices for goods and services, hyperinflation is rapidly rising inflation, typically measuring more than 50% per month” (Kenton). For Venezuela’s case, the highest rate of inflation was up to 350000 percent in 2019 (“Venezuela Inflation Rate”).

### Petrostate

“[A] small oil-rich country in which institutions are weak and wealth and power are concentrated in the hands of a few” (“Petrostate”). Venezuela’s high dependency on oil exportation makes it an example of a petrostate.

### Per-capita

For each person. “If you express an amount per capita, you mean that amount for each person” (“Per capita”). For example, in the 1970s, Venezuela had the greatest GDP per-capita in Latin America, which in this case indicates that an average Venezuelan person was richer than an average person in another Latin America country.

### Embargo

“[A] trade restriction, typically adopted by a government, a group of countries or an international organization as an economic sanction” (Liberto). Due to Maduro’s actions aiming to stay in power, the US put an embargo on the government, furthering the economic crisis.

## General Overview

### Venezuela Before Crisis

Venezuela’s economic situation wasn’t always as bad as today’s. Before the crisis, Venezuela was once the richest country in Latin America. Venezuela is a petrostate, having the largest oil reserves in the world. In 1922, oil reserves were discovered in the Maracaibo basin and just in six



years Venezuela became the second-largest oil importer of the World. Due to the key role oil played in Venezuelan economy, change in oil prices had major impacts on Venezuela. In the 1930s, however, foreign companies such as “Royal Dutch Shell, Gulf, and Standard Oil controlled 98 percent of the Venezuelan oil market”(Cheatham). The Hydrocarbons Law of 1943 made these foreign companies give fifty percent of their profits to the state, which was an important step for the nationalization of the oil industry. In 1958, with the election of Rómulo Betancourt, the Punto Fijo pact was signed between three major parties (Acción Democrática (AD), COPEI (Social Christian Party), and Unión Republicana Democrática (URD)) of Venezuela, giving oil rents to the parties according to the voting results.

Venezuela became one of the founding members of the Organization of the Petroleum Exporting Countries (OPEC) in 1960. This organization helped oil producers to coordinate oil prices and made states gain more control over the national industries. Also in 1960, the tax of fifty percent for the foreign companies increased to sixty-five percent. These factors all benefited the Venezuelan economy however it wasn't until the 1970s that the country had the highest GDP per-capita in Latin America. OPEC's five month embargo on Israel-supporter countries such as the US quadrupled the oil prices. This action brought billions to Venezuela's treasury. Just two years later, when the President Carlos Andrés Pérez signed a law that established the state-owned company Petroleos de Venezuela, S.A. (PDVSA), the oil industry was nationalized.

In the late 1980s, due to an excess of oil, oil prices went down. This caused 33 billion dollars of foreign debt for Pérez's government. As a result of this, Venezuela accepted an International Money Fund (IMF) bailout. This led to increases in the prices of consumer goods. This caused great discontent in Venezuela and led to its civilians protesting in the street. Hugo Chávez attempted yet failed a coup on the Venezuelan government under Carlos Andrés Pérez's administration in 1992. He was nevertheless elected president in 1999.

### Hugo Chávez

It can be said that the beginning of Venezuela's economic crisis directly correlates with Chávez coming to power. He launched the Bolivarian Revolution, which was a movement against capitalism in the country. With Bolivarian missions, he aimed to use the wealth gained from exporting oils to fund social programs which were meant to decrease poverty. This was done in order to gain popularity from the working class. . Statistically, he was successful as he managed to cut down poverty rates by twenty percent. However, in the long-term he was not successful in boosting the



Venezuelan economy. He didn't take any significant actions towards improving the infrastructure of the oil industry in the country. This, along with the fact that Chávez fired thousands of experienced PDVSA workers, were some of the reasons which led to Venezuela's economic crisis. With Chávez, the dependency on oil increased. Petrocaribe, an alliance including South American countries such as Cuba, allowed for Venezuela to export oil with prices lower than actual market values. Since Chávez didn't invest in oil facilities, the production also became a problem, causing the government debt to double. However, at this time oil prices remained high which meant that Venezuela's dependency on oil didn't have a major impact on the economy yet. Instead, the unsustainable nature of Chávez's strategies created a setup for the Venezuelan economy's collapse in the near future.

The private sector of the economy was also weakened with Chávez. He started nationalizing most of the state assets such as oil, telecommunications, and electricity ("From riches to rags"). He bought the Banco de Venezuela from Spain as well as all cement companies. These attempts of nationalization harmed the private business in the country. However, he also didn't focus on production. Rather, Venezuela started importing most of the goods such as medicines or clothes. This economic model was an unsuccessful attempt of having state control. This model increased spendings and didn't improve production, which ultimately led to the economic crisis the country still faces today.

### Nicolás Maduro

Maduro's economic policies were very much in line with Chávez's. The Venezuelan economy took a huge hit in 2014 following a major decrease in oil prices. Some of the actions Maduro took for strengthening his political power had economic results. For instance, he attempted to have military officials and political figures on his side by establishing a currency rate of 10:1 for the Venezuelan bolivar and the US dollar. This rate was the official currency rate; however, Venezuelan citizens were not able to benefit from it. In August 2017, this rate was up to 12,000:1 for the citizens and now is approximately 500,000:1 in the black market (Klapper). Other than the change in the currency rate, Maduro's manipulation in the election process also damaged the economy. The data published by the government indicated that more people attended the election than the actual. With this manipulation, he was able to remain in power, but this resulted in the citizens' and other countries' such as the USA's distrust. The USA placed an embargo on the Venezuela as a response. Being an economy highly dependent on imports, the Venezuelan economy lost an important source of income.



## Major Parties Involved

### Venezuela

The Maduro administration mostly denies the crisis and hardly any action is given. A new system for the currency was brought by Maduro; however, it did nothing other than benefit him and his allies whilst creating difficult living conditions for many Venezuelan citizens. The government blames the US sanctions rather than taking result-focused actions to tackle the crisis. Due to the ignoring policies of the government as well as the situation the country finds itself in, it is improbable that this crisis will be solved in the near future without any assistance from other political actors.

### The United States of America

The United States is the most prevalent foreign nation which expresses its opposition towards the Maduro administration. The US applied embargos on the Venezuelan government as an act of sanctioning Maduro's arguable actions of protecting his position. As an economically important country for Venezuela, the US imposing an embargo on Venezuela became one of the significant factors that damaged the economy of Venezuela. The USA is the representative of the approximately sixty countries who recognize interim leader Gaudio over Maduro.

### The Organization of the Petroleum Exporting Countries (OPEC)

OPEC was founded by Venezuela, the Islamic Republic of Iran, Iraq, Kuwait, and Saudi Arabia. The aim behind this organization was to have greater control over the oil industry and also to influence the oil prices around the world. This organization also utilized the power of putting oil embargos in countries. Since they possessed the ultimate power in the oil industry, these embargos had important effects such as in the USA's case, quadrupling the oil prices.



## Timeline of Key Events

Date	Description of event
1922	In western Venezuela, an oil basin was discovered in Maracaibo basin.
January 25 <sup>th</sup> , 1958	The Punto Fijo pact was signed between three major parties of Venezuela.
September, 1960	The Organization of the Petroleum Exporting Countries (OPEC) was established in Iraq.
October 1973	Arab oil embargo happened, in which OPEC applied embargo on countries such as the USA, Israel, the Netherlands
January 1 <sup>st</sup> , 1974	Petróleos de Venezuela, Société Anonyme (PDVSA) was founded.
February 2 <sup>nd</sup> , 1999	Hugo Chávez became the president of Venezuela.
2008	The USA sanctioned Venezuela for the first time in order to combat terrorism.
March 5 <sup>th</sup> , 2013	Nicolás Maduro became the president of Venezuela after Chávez's death.
January 23 <sup>rd</sup> , 2019	Juan Guaidó declared himself to be the acting president of Venezuela with the support of the National Assembly and more the sixty countries including the USA.

## Previous Attempts to solve the Issue

It can be said that the lack of efforts by the Venezuelan government to recover the economy is what led the crisis to grow. Hugo Chávez's Plan Bolivar which attempted to use oil as the main source of funding to fight the poverty in the country, was successful in the short term, however in the long-term proved to be another driving factor to the economic crisis.

Maduro launched a new currency system in order to fight the increasing inflation ("Venezuela introduces new"). With this new currency, he basically erased six zeros from the already existing bolivar. This obviously wasn't an actual response to the hyperinflation as it didn't really change the value of a bolivar. Rather, this made Venezuelan bolivar easier to use during trades in a mathematical sense.

In recent years, more efficient solution attempts can be seen. "Fixed income dollar-denominated bonds on the local market" was allowed due to a change in the state laws in 2020 (Financial Times). This meant that the assets could be valued by the US dollar, inviting foreign



investors to finance these assets. Venezuelans also now have a monthly limit of cheap gas they can buy to fill up their cars. After the limit of 120 litres, they happen to pay prices that are actually close to the market values. However these little reforms in the economy on their own are not enough to tackle one of the greatest economic crises of our generation.

## Possible Solutions

Perhaps the most important issue on Venezuelan economy is the lack of diversity. Especially after Chávez's policies, their economy became even more dependent on oil, causing the collapse of it when oil prices went down. This extreme dependency on oil exports should be decreased via diversification of the economy. This should be done by reforms in which investments would be found and areas such as tourism, agriculture, industry or any other area that suits the country would be getting the infrastructure they need to be a part of the country's economy over the short and the long term. While doing this, assistance from other countries or global organizations will be needed as the country itself doesn't have enough power to accomplish this.

Even though diversification is crucial, Venezuela can never give up on oil. Investments that were missing in the last decades should be addressed in the oil industry of Venezuela. Oil prices can be represented by cycles and after a point their prices will start to increase once again. It is not reliable for Venezuelan economy to wait until this time; however, necessary investments should still be made in order to prepare for a possible recovery of the economy. An international fund can be created for this purpose and plans of 5 years, 10 years, or more can be crafted for Venezuela to follow for the future.

One of the problems that should be addressed is the sanctions, mainly the one applied by the United States of America, on Venezuela. After many years, the first high-level meeting between the two parties' delegations was held in March 2022 ("Venezuela's Maduro says"). Having meetings in these situations is essential to tackle the crisis and continuation of them can lead to the easing of the sanctions imposed by the US. Joe Biden's administration has stated that the easing of these sanctions are in their plans if negotiations with the opposition were to be resumed (Cano).





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## Appendix or Appendices

- I. From riches to rags: Venezuela's economic crisis | The Big Picture

[https://www.youtube.com/watch?v=mL8d91vdR9g&ab\\_channel=AlJazeeraEnglish](https://www.youtube.com/watch?v=mL8d91vdR9g&ab_channel=AlJazeeraEnglish)

- II. The collapse of Venezuela, explained

[https://www.youtube.com/watch?v=S1gUR8wM5vA&ab\\_channel=Vox](https://www.youtube.com/watch?v=S1gUR8wM5vA&ab_channel=Vox)

- III. The Economic Failure of Venezuela

[https://www.youtube.com/watch?v=7\\_mThYXDr\\_s&ab\\_channel=EconomicsExplained](https://www.youtube.com/watch?v=7_mThYXDr_s&ab_channel=EconomicsExplained)



