

# TED ANTALYA MODEL UNITED NATIONS 2019



**Forum:** ECOSOC

**Issue:** The issue of Venezuelan Economy

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**Position:** Co-Chair

## INTRODUCTION

Venezuela, as a country located in South America has an ongoing economic crisis in the nation by having the world's highest inflation rate. Venezuela's economic problems have been the cause of political and civil unrest which resulted in riots and protests in the country after the death of the previous president Hugo Chavez and the election of the current president, Nicolas Maduro. As a result of the economic crisis, Venezuelans are currently starving whereas 9 out of 10 people can't afford their daily food, has lack of medical resources and due to all of that they have poor living conditions.

More than 3 million people which is about 10% of its population, have fled from Venezuela due to the political instability, hunger, inflation, poverty and soaring crime rates. Also, considering Venezuela's GDP (Gross Domestic Product) being 482.20 billion US dollars and inflation rate being 1087.5% (CPI), it is suitable to state that the crisis is becoming worse every single day. In the light of this information, the issue of Venezuelan economy must be addressed in order to restore peace and prosperity in the nation.

## DEFINITION OF KEY TERMS

**Inflation:** is a situation of a sustained increase in the general price level in an economy. Increase in the cost of living as the price of goods and services rise. It is basically *rise in prices*.

Inflation means that your money won't buy as much today as you could yesterday.

**Inflation rate:** is the annual percentage change in the price level and can be measured by CPI and RPI.

**CPI:** can also be referred as the Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

In this agenda item, the main focus is on the inflation rate in CPI since the consumers, Venezuelans are mostly affected by this inflation.

**RPI:** can also be referred as the Retail Price Index is another measure which includes a number of items that are excluded in CPI and mostly used in governmental purposes such as figuring the amounts payable on index-linked securities.

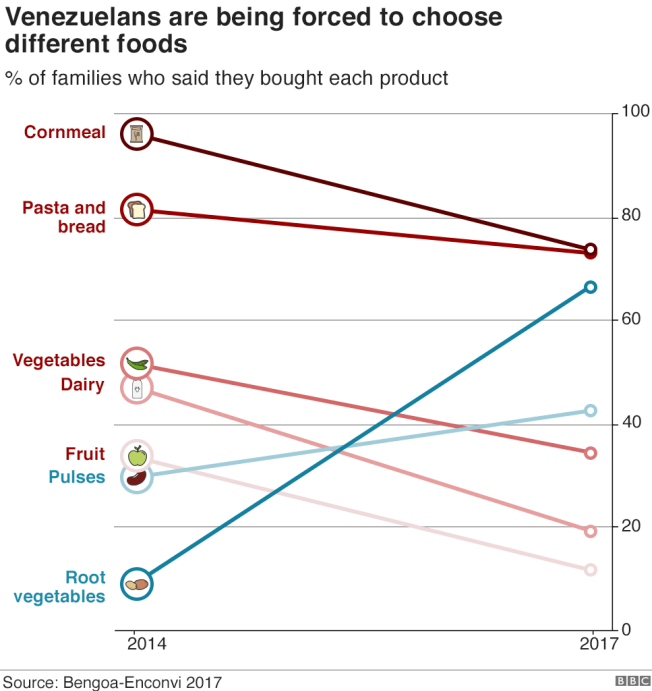
Due to the reason that the agenda item also revolves around the economic crisis' effects on the civilians, Venezuelans, in this case the *consumers*, CPI is the most suitable measure rather than RPI. Although, it will be beneficial to know both of the measures to grasp to term of inflation.

**GDP:** can also be referred as the Gross Domestic Product is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period, often referred to as the size of the economy.

**GENERAL OVERVIEW**

Venezuela is the highest inflation rated country in the world with 1087.5% (CPI) inflation rate. This high percentage of inflation causes economic crisis in the country which is what this issue is mainly about. This economic crisis has affected the welfare of the country and the health, prosperity and safety of its citizens. Since high inflation cause increased prices of consumer goods and services such as: medical care, food and many more, many citizens are not able to afford those necessities to maintain their living.

For instance, when the inflation rate started to rise, just in 3 years, it can be observed that citizens' nutritional habits were forced to change.



Vegetables, fruits, dairy and bread are considered as luxuries since many people can not afford those basic nutritional properties. In the other hand, foods which are lack in iron, vitamins and other necessary nutrients that people must consume to maintain a healthy lifestyle, has become more common such as: root vegetables and pulses, since they are accessible and inexpensive. As a result of this unhealthy and not nutritious diet that 9 out of 10 people cannot afford and also only 8.2 million out of 31.98 million of population is able to have two meals a day or fewer, health conditions started to appear. 64.3% of the Venezuelan population stated that they had lost weight around 2017, according to the statistics that weight lost is approximately 11.4 kilos in average.

Not only, food prices increased due to inflation and poor economic conditions but medical care is currently not accessible enough. Venezuela has suffered a huge rise in the number of malaria cases in recent years comparing to the neighbouring countries in Latin America, where numbers are falling. Venezuela having been the first certified country which has eliminated the disease in 1961, now cases in at least 10 out of 24 states. In the next year, the

numbers of malaria cases are expected to increase 50% more. All being said, but how does Venezuela, as a country which have the world's largest oil reserves is currently in such bad conditions? Let's take a look at the rise and fall of Venezuela and how this economic crisis first started.

Firstly, before Venezuela was ruined both in political and economic ways, the country itself was considered as the home to the world's largest oil reserves. Actually, it is still the home to the world's largest oil reserves but considering the current situation, these reserves are the reason why that they rise and fall. If we look back to the history of the Venezuela between the years of early 1920s to late 1960s, those years were the best years of the Venezuela since oil was their number one priority in trading and by that the source of income. Let's take a look at the bright period of the Venezuelan Government and how it went downwards.

In the early 1920s, it started with the discovery of oil and by the time that it was 1930s the oil production has increased from one million barrels to 137 million barrels and there were huge profits that are earned by the oil reserves. Although, 98% of the Venezuelan oil markets were hold by three big foreign companies which partially prevented to increase the profit that is earned by the oil reserves but this situation has changed with the establishment of The Hydrocarbon Laws of 1943. That was the first step into making higher profits from their oil reserves and basically reclaiming oil rents. The Hydrocarbon Laws required foreign companies to give half of their oil profits to the state and within the span of five years, Venezuela's income had increased six fold.

After few more years, after a succession of military dictatorship, Venezuela elected its first stable democratic government and there were three major political parties in the country. Then, Punto Fijo pact emerged which guaranteed that state jobs but most importantly oil rents were parcelled out to these three parties in proportion to their voting results in order to ensure that oil profits would be concentrated in the state. In 1960s, Organization of Petroleum Exporting Countries (OPEC) was introduced with its founding members of Iran, Iraq, Kuwait and Saudi Arabia which coordinated the world's largest producers in the name of prices and give more control over their national industries. That same year, Venezuela's first state oil company was established and increased oil companies' income tax to 65 percent of the profits. The first state oil company contributed to Venezuela's economy and their profits even more.

In the 1973, OPEC 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 which is a great comparison to understand the economic situation of Venezuela in the early 1970s. After that, President Carlos Andres Perez nationalized oil industry by creating state owned "Petroleos de Venezuela, S. A. (PDVSA)" in order to oversee all exploring, producing, refining and exporting of oil. President Perez allowed PDVSA to partner with foreign oil companies as long as it held 60% equity in joint ventures and structured the company to run as a business with minimal government regulation. After that, things started to go downwards for the economy of Venezuela.

Approximately 10 years later, global oil prices plummeted in the 1980s and Venezuela's economy contracted and inflation soared and at the same time, it accrued massive foreign debt by purchasing foreign refineries. The reason why the difference in global oil prices affected Venezuela's economy is the country's dependency on oil. Since the only source of income that they earn from is oil, even slight changes in this industry make a huge difference in the

Venezuelan economy and inflation rate. So, the main problem comes from the dependency on the oil which literally destroys Venezuela's economy considering its current situation. After a certain amount of time, Perez was re-elected and launched a fiscal austerity package as part of a financial bailout by the International Monetary Fund (IMF). Those measures provoked deadly riots and after that Venezuela's Chavez Era has begun.



Venezuela's Chavez Era was the period of time whereas the country was in better conditions comparing to the current situation (current situation will be addressed in the further points of this report). Hugo Chavez was the president who was loved by millions and really tried to get the country in liveable conditions. After Perez's implementations and the reaction from the public being extremely negative, Venezuela's harmonious, functional, democratic state was shattered. Hugo Chavez began to attract new recruits to his clandestine Bolivarian Revolutionary Movement-200. To be frank, Bolivarian Revolutionary Movement-200 was the political and social movement to gain enough electoral support to get Chavez elected. This movement and Hugo Chavez's other implementations to be in charge overthrown Perez and few year later Chavez becomes the President of Venezuela. Hugo Chavez promises to increase the living conditions by decreasing inflation and such.

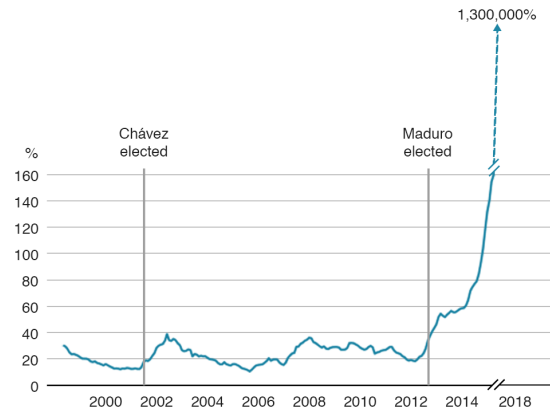
The year after Hugo Chavez's election, he launches a new plan called Plan Bolivar 200 and expands his presidential duties. Plan Bolivar was aimed to send the message that the military was not a force of popular repression but rather a force for development and security. In the early 2000s, there were not any changes in the rate of inflation and oil prices were still going up so the civilians started to oppose Chavez with PDVSA and PDVSA attempt to force Chavez out of the office. Due to these conflicts, in 2002, Venezuela keeps exporting its usual 2.8 million barrels of oil per day, which causes a significant decline in GDP and Venezuelan economy started to get worse. Output resumes at some 2.3 million barrels per day. Chavez launches series of health care systems and "revolutionary" Bolivarian Missions to get public's praises back but it fails and referendum is called upon about Chavez's presidency although that fails as well.

Later on, Chavez causes tension with United States and cooperates with new allies such as Russian Federation and People's Republic of China. These tensions will be further explained in the headlines of "Major Parties Involved" and "Timeline of the Events".

The economy's situation was really bad and inflation was already high when Chavez was in charge but after his death in 2013, things started to get even worse with the election of new president: Nicolas Maduro. In my opinion, Nicolas Maduro is the worst thing that ever happened to Venezuela. After Maduro's presidency the GDP drop is so great that it is even greater than the great depression of US and inflation rate increased so much due to Maduro's false policies to strengthen the economy and trades in oil reserves.

### Venezuela's inflation spiked after Maduro's election

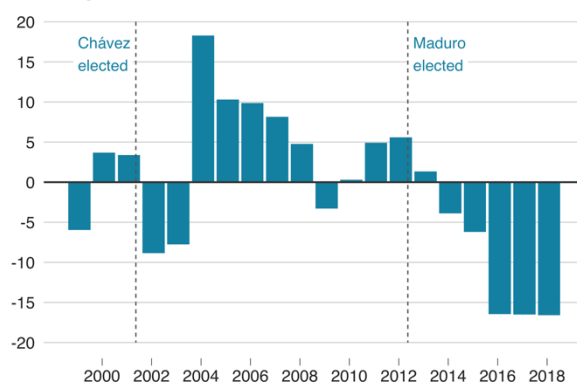
Estimate for 2018 is off the scale



Source: Bloomberg/Reuters estimate for 2018

### Venezuela's economy collapsed under Maduro

% GDP growth

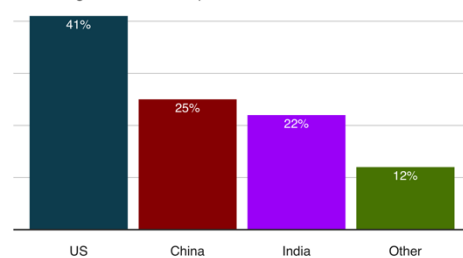


Source: Banco Central de Venezuela

Given charts are the inflation rates and GDP growths after the time Chavez's election and Maduro's election. This is a great comparison which shows that Maduro's failure of preserving stable economy, although Venezuela is really far from this possibility. In my opinion, during his presidency Maduro should have strengthened Venezuela's relations with United States and fixing Chavez's faults since US is Venezuela's primary country to trade with. Today, in 2019, there is political inconvenience since another candidate, Juan Guadio, considers himself as the president of Venezuela, but I would like to refrain from detailing this political corruption in order to cover this issue around economic crisis rather than political issues.

### Who buys Venezuela's oil?

Percentage of crude oil exports



Source: EIA, 2017

All in all, if the last five years of the Venezuelan Economy is considered it is suitable to state that the situation is becoming worse, GDP is decreasing and inflation rate is increasing, citizens are living in dreadful conditions and solutions to strengthen Venezuelan economy must be tackled and researched by considering past failures.

## MAJOR PARTIES INVOLVED

### United States of America

The relations between Venezuela and United States have traditionally been close, characterized by important trades and investments; tension between the countries has increased since the election of President Hugo Chavez in Venezuela. Any intervention that has been made by US is sensitive in Venezuela because Washington has a history of both covert and open intervention across Latin America. Nicolas Maduro, is currently following a huge anti-US sentiment by following Chavez's steps and that is just making everything worse

since oil prices are going up, inflation is increasing and such. Maduro is constantly blaming the USA for constantly sabotaging its economy and destabilizing the government.

“Venezuela, rather than trying to distract from its own failings by making up false accusations against diplomats from the United States, the government ought to focus on addressing the legitimate grievances of the Venezuelan people,” Obama said, answering the accusations of Maduro's government blaming the crisis on the US and rightwing business owners of cutting production to sabotage the economy.

### **Russian Federation**

In July 2006, President Chavez signs a 3 billion dollars worth arms deal with Russian Federation, including an agreement to buy fighter jets, helicopters away from United States arm supplies. Venezuela and Russia sign an oil and gas cooperation accord, as well. They are basically collaborating against United States of America.

### **People's Republic of China**

In October 2008, first Venezuelan telecommunications satellite launched from China. Beijing has also sent unofficial envoys to hold talks with Venezuela's opposition, in the hope that if President Nicolas Maduro falls his successors will honour Chinese debts. One aim of the talks was to “maintain a relationship probably at a post-Maduro era. “We are willing to work...with Venezuela to carry out more pragmatic cooperation across the board including financial cooperation based on equality and mutual benefit,” foreign ministry spokesman Lu Kang said.

### **The Countries of Latin America**

The countries of Latin America have created strong ties, especially in trading and other types of political collaboration. So, naturally, the Maduro government has regional allies that have protected it from external pressure. Recently the Secretary General of the Organization of American States, Luis Almagro, told the Guardian that Argentina had been working behind the scenes to obstruct an OAS assembly to discuss the economic crisis and human rights crises in Caracas. Venezuela's other neighbours have been accused of standing on the sidelines – for either economic or ideological reasons – while the country slides into chaos.

### **PDVSA**

**Petróleos de Venezuela, S.A.** is the Venezuelan state owned oil and natural gas company. It has activities in exploration, production, refining and exporting oil as well as exploration and production of natural gas. Since its founding on 1 January 1976 with the nationalization of the Venezuelan oil industry, PDVSA has dominated the oil industry of Venezuela, the world's fifth largest oil exporter.

### **OPEC**

Organization of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in petroleum industry. Venezuela is the founding members of OPEC and due to having the world's biggest oil reserves; this

organisation is related to the Venezuela's economic situation since the dependency on oil is high in the country.

### TIMELINE OF EVENTS

1922-1929	Discovering oil reserves, oil production increased from one million to 137 million barrels.
1930	Reclaiming oil rents, 98% of the Venezuelan oil market was controlled by three foreign companies.
1943	The Hydrocarbons Law of 1943 was established, it required foreign companies to give half of their profits to the state. In 5 years, government's income had increased six fold.
1958	Venezuela elected its first stable democratic government and three major parties signed the <i>Punto Fijo pact</i> , which guaranteed that <b>oil rents would be parcelled out to three parties in proportion to voting results</b> . That ensured democratic stability and oil profits being concentrated in the state.
1960	Venezuela become the founding member of the Organization of the Petroleum Exporting Countries (OPEC).
1973	OPEC 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.
1976	President Carlos Andres Perez nationalized the oil industry, creating state-owned PDVSA to oversee exploring, producing, refining and exporting oil.
1980	Global oil prices plummeted and Venezuela's economy contracted and inflation soared.
1989	President Perez re-elected and launched a fiscal austerity package as part of a financial bailout by the International Monetary Fund (IMF), implements free market reforms, these measures provoked riots and protests.
1989	Hugo Chavez, begins to attract new recruits to his clandestine Bolivarian Revolutionary Movement-200.
1992	Hugo Chavez's Bolivarian Revolutionary Movement-200 attempts to overthrow President Perez.
1998	Hugo Chavez is elected as the president of Venezuela, promises to end corruption and vanquish poverty.
1999	Hugo Chavez launches Plan Bolivar 2000.
1999	Hugo Chavez expands his presidential duties and increase the presidential term as six years, it is approved by popular referendum, first time in the country.
2002	Venezuelans march in opposition of Chavez's appointment of political allies to top posts in state-owned oil company PDVSA, violence occurred, many people died.
2002	PDVSA goes on strike for two months in an attempt to force Chavez out of office. Chavez ends up firing the top management and eighteen thousand employees.



2002	Venezuela ceases exporting its usual 2.8 million barrels of oil per day, which causes a significant decline in GDP. Output resumes at some 2.3 million barrels per day.
2003	Chavez launches a series of wide-ranging social programs, Bolivarian Missions, to increase public support and healthcare. The health clinics were praised by WHO (World Health Organisation) and United Nations.
2004	Dissatisfaction grows within the country about Chavez's ruling of the country. Recall Referendum fails.
2005	Chavez ends thirty-five-year old military relationship between United States and Venezuela but roughly half of the oil exports continue to go to US. These tensions increased Venezuela's friendship with Cuba.
2005	Chavez strengthened its relations with Iran, Russia and China. He makes generous oil deals to provide oil to neighbours. He calls U.S. President George Bush the "devil" and hopes to win a temporary seat on the UNSC.
2009	Venezuela holds a referendum on several measures to abolish term limits for the president and several other official positions.
2010	Opposing party breaks Chavez's Majority in National Assembly.
2011-2012	Chavez struggles with cancer, vigorous opponents start to emerge: Henrique Radonski and Nicolas Maduro.
2013	Death of Hugo Chavez and Nicolas Maduro is elected as president of the Venezuelan Government.
2014	Annual inflation rate rises 63.4% the highest in the continent of America.
2015	Government devalues currency.
2017	Nicolas Madura calls for an election to write the constitution: National Constituent Assembly.
January 2019	Juan Guaido, leader of the opposition-controlled National Assembly declared himself interim president. US President Donald Trump recognised him as the country's leader.

### PREVIOUS ATTEMPTS TO RESOLVE THE ISSUE

The issue of Venezuelan Economy is an up-to date issue so currently there aren't any effective attempts to resolve the issue. Although, President Carlos Andres Perez implemented free-market reforms, the so-called Washington Consensus, is an attempt to solve Venezuela's economic crisis.

**Washington Consensus** being a set of economic policy recommendations for developing countries, and Latin America in particular, that became popular during the 1980s. The term Washington Consensus usually refers to the level of agreement between the IMF and World Bank on those policy recommendations.

This is a useful documentary which sums up the economic crisis in Venezuela:

<https://www.youtube.com/watch?v=S1gUR8wM5vA>

Also, I encourage the delegates to take a look at the bibliography section of this report in order to check out websites for further research.

## RELEVANT UN DOCUMENTS AND TREATIES

Since the issue of the Venezuelan Economy just started to raise attention in the public by its disastrous effects and such, currently there isn't any resolution or treaty in place about this crisis. Although, member states of the United Nations; General Assembly and UN Security Council have assembled several times to discuss about this agenda item and there are several press releases about them, that I would like to draw attention to.

Especially this article will help delegates grasp the Venezuelan Government's attitude on international help that can be provided by the develop countries and how these helps will increase the welfare of the nation: <https://news.un.org/en/story/2019/02/1033612>

*Speaking on behalf of the United States Government, Elliot Abrams, the U.S. Special Representative for Venezuela, called on the members of the Security Council to meet the growing needs of Venezuela and the region, to contribute to Venezuelan democracy and “pressure the illegitimate regime to peacefully step down.” He also questioned the value of dialogue with President Nicolás Maduro who, he said, would “rather block and burn donated medicine and bread than see it in the hands of Venezuelan children.”*

Also, the press release about the assembly of the UNSC on the crisis in Venezuela, I highly encourage the delegates to read especially the speeches of United States, Russian Federation, Venezuela and countries of Latin America since they are extremely related to the agenda item: <https://www.un.org/press/en/2019/sc13719.doc.htm>

*“... the war against Venezuela must stop, he said, referring to the economic blockade imposed by the United States. These sanctions undermine the economy and make it difficult for Venezuela to seek funds from international financial institutions. The measures cost Venezuela billions of dollars. The United States has not ruled out the use of force. That country must rule out war as an option...”*

## POSSIBLE SOLUTIONS

The issue mainly revolves around the high rated inflation due to the extreme dependency on the oil resources so delegates should consider how can this dependency on oil decrease to strengthen the country's economy. Possible energy resources that Venezuela can depend on should be considered and researched to achieve this decrease.

International community can cooperate with Venezuelan Government and offer aid to stabilize the situation in the nation and help Venezuelans to maintain their living in a more comfortable and healthy living conditions. Also, there must be measures which will ensure that poverty-stricken Venezuelans have access to basic goods and there are no shortages concerning consumer goods.

Moreover, diplomatic relations between neighbouring countries can be strengthened. For instance, considering Venezuela's relationship with Brazil and Colombia, they are used to be major trading partners but now that's not the current case. Delegates must research ways about how this tension can decrease and new diplomatic relations and partnerships can be formed which will benefit Venezuela's economy.

I suggest the delegates to read this article in order to come up with ideas to create diplomatic relations with other countries: <https://www.nbcnews.com/think/opinion/trump-can-t-solve-venezuela-s-crisis-alone-achieving-peace-ncna965676>

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