



ZiMUN 2019
Committee Name
Research Report

Forum: Economic and Social council (ECOSOC)

Issue: Addressing the hyperinflation in Venezuela

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Position: Chair

Overview of the Issue

Venezuela's economy used to be one of the bests in South America. They had one of the largest oil reserves in the world, the country had plenty of foreign currency especially the USD revenue and immense per-capita wealth. Then Hugo Chavez came into power in 1998. The near decade-long rise in oil prices that followed improved government finances and allowed the socialist regime to increase both spending and borrowing. Their agenda was interrupted by a 2003 labor strike at PDVSA, the state-owned oil company. The strike severely impacted oil production and crippled the economy, with GDP falling 27% during the first four months of 2003. After the strike, Chavez instituted a series of measures to stop the slide in the Bolivar, the Venezuelan currency, and seek revenge on those responsible. The introduction of a currency peg, installation of import controls, the nationalisation of other industries, and the establishment of subsidies for food and consumer goods all followed the strike. These actions sowed the seeds for the future inflation crisis.

Oil accounts for 96% of Venezuela's exports, so when the price of crude collapsed in 2014, the economy took another major hit. According to the IMF, the Venezuelan economy shrank by 30% from 2013 through 2017, and the IMF is forecasting a fall in real GDP of 18 percent in 2018 alone. Government revenues have plummeted along with oil prices, and with fewer US dollars to spend on imports, there is a scarcity of many products. But compared to 2003, the impact is more profound. Reliance on food and consumer goods imports increased during the oil price boom. Domestic production decreased after years of added regulations and inefficient operations of nationalised businesses. In addition, there is a greater reliance today on the government for the distribution of goods and services. Store shelves are bare and the black market prices for many basic items have soared.

A shrinking economy is causing large fiscal deficits, which the World Bank estimates to be greater than 20 percent as of 2015. The situation has gotten materially worse since then. Having run down its foreign reserves from \$30 billion in 2013 to less than \$10 billion today, and with foreign direct investment from the US steadily declining



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from \$600 billion per year in 2011 to below zero today, the only option for the government to raise money is to issue local currency debt. Sanctions announced in May from the Trump administration compounded the difficulty in accessing foreign currency by restricting Venezuela from selling debt in the US. The more money it prints to fund imports, the more the currency depreciates.

Key Terms

- 1. Petrostate-** is an informal term used to describe a country with several interrelated attributes:
More on:
 - 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.
- 2. MERCOSUR (Common Market of the South)**
Customs union founded in 1991 originally composed of Argentina, Brazil, Uruguay and Paraguay, allowing duty-free trade between the member countries and establishing a common external tariff on other nations. Venezuela joined in 2012, but was suspended four years later.
- 3. Economic sanctions**
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.
- 4. Bolivarian Diaspora**
Migratory movement in the Americas stemming from the voluntary emigration of millions of Venezuelans from their country during the governments of Hugo Chavez and Nicolás Maduro. It is the largest recorded refugee crisis in the Americas. Around 2 million people have left the country since the massive emigration began.
- 5. Hyperinflation**
Hyperinflation is a rapid and often uncontrollable currency devaluation causing the prices of goods and services to skyrocket in a short period of time. Although there is no precise threshold for hyper-inflation, normally it describes an inflation rate that exceeds 50 percent.
- 6. Chavismo**
Political ideology established by Hugo Chavez that includes socialist ideas, left-wing populism, Bolivarian elements, patriotism and Latin American integration as its main components. Chavez implemented a “Bolivarian revolution” in Venezuela



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following the guidelines of this ideology.

7. Freedom of Expression

Over the last decade, the Venezuelan government has abused of its power to control the media. It has taken many measures to reduce the diffusion of accurate data and statistics about the country, and even has promoted false data that claims that the country is in better conditions than it is to manipulate the citizens. The Government has been legally granted the power to suspend or revoke licenses to private media that opposes the government or portrays government officials in a negative way. While some newspapers, websites and radio stations sometimes criticize the government, many have ceased to do this for fear of being shut down. Moreover, people are not granted the freedom to protest or to express their true opinions, since the government can arbitrarily detain opposition members. The workers that oppose the President may even lose their jobs because of their political opinion.

Countries and Organisations Involved

- **Colombia** is sheltering 1 million Venezuelans. About 3,000 more arrive each day, and the Bogotá government says 4 million could be living there by 2021, costing it nearly \$9bn. About 300 refugees, who arrived with nothing beyond what they could carry, have made camp outside the bus terminal in Bogotá, Colombia's capital.
- **Peru** alone has received some 700,000 Venezuelan refugees and migrants to date
- Ms. RODRÍGUEZ (**Cuba**) said she categorically rejects the lies uttered by Mr. Pompeo today, also recalling that it was the United States, not Cuba, that lay behind the coup d'état in Venezuela in 2005. She urged the delegate of the United States to clarify whether or not his Government is attempting to destabilize and incite tensions in Venezuela. It is the people of Venezuela who pay the highest price for such tactics. Cuba does not favour certain countries. It offers the same solidarity to all countries of Latin America and the Caribbean. Even the United Nations recognises Cuba's exceptional record in providing health care and other assistance to developing countries worldwide.



Related UN resolutions and Previous Approaches to Solving the Issue

1.) SC/13680

26 JANUARY 2019

• **SECURITY COUNCIL**

8452ND MEETING (AM)

With Venezuela Buckling under Severe Shortages, Security Council Emergency Session Calls for Political Solution to End Crisis, as Divisions Emerge over Path Forward
Foreign Minister Rejects Pressure by Self-Proclaimed President, Decries United States Attempts to Meddle in Domestic Affairs

2.) Venezuelan officials thought they had a solution: They changed the colour of the bank notes and increased their denomination. Then they said they would lop off three zero's. And when that didn't seem enough, they announced they would cut off two more.

3.) MA ZHAOXU (China) called on all parties to stay rational and keep calm while bearing in mind the fundamental interests of Venezuela's people. He expressed support for the Government's efforts to uphold national sovereignty. All countries should abide by the principles of the Charter of the United Nations, such as non-interference in each other's affairs and refraining from the use of force. The situation in Venezuela does not constitute a threat to international peace and security. China is against adding the situation in Venezuela to the affairs of the Security Council. He called on all relevant parties to respect the choice of Venezuela's people. Just now, the United States delegate made accusations against the position of China, he said, expressing strong opposition to such accusations. China does not interfere in other countries' affairs.

Timeline of important events/Documents

1821: Venezuela gains independence from Spain, as part of a broader "Gran Columbia" led by Simon Bolivar.



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1830: Venezuela separates from Gran Colombia, becoming an independent state. Rest of 19th century: The country sways between military dictatorships and civil wars.

1908-1935: Dictator Juan Vicente Gomez exploits the recently discovered oil reserves in the country to turn Venezuela into a main oil exporter at a global scale.

1958: Romulo Betancourt, a leftist candidate, is elected president after dictator Jimenez is forced to step down.

1964: First democratic transfer of power from one civilian to another takes place.

1973: Oil prices skyrocket as a consequence of armed conflict in the Middle East; Venezuela benefits from the high prices, which contribute to economic growth and stability. This situation allows the government to nationalise oil and steel industries.

1983: Oil prices drop, forcing the government to cut welfare spending.

1989: President Carlos A. Perez is elected; Venezuela seeks IMF loans and launches austerity programs to end economic depression. This leads to a general strike and riots that leave hundreds dead.

1992: Colonel Hugo Chavez attempts to reach power through two coup attempts, which eventually fail. Chavez is jailed for 2 years.

1998: Hugo Chavez is elected president. His party runs on a leftist platform that promises to end corruption and poverty and opposes US foreign policy.

2002: The armed forces attempt a coup after conflicts in the State owned oil company PDVSA arise. The coup fails.

2004: Chavez wins referendum to finish the remaining 2 years of his term as president.

2005: Chavez passes laws that aim at distributing land and limiting the ability of the press to criticise public figures.

2006: Chavez wins a third presidential term with 63% of the votes.

2007: Chavez nationalises key energy and telecommunications companies, which causes protests in favour and against the move.



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2007: Chavez loses referendum to increase government power to control the economy and expropriate property.

2008: Venezuela strengthens relations with China and Russia through different military and economic deals.

2010: The opposition gains strength after parliamentary elections, but Chavez's party retains a majority.

2011: Government extends price controls on basic goods to try to control inflation.

2012: Venezuela becomes full member of the Mercosur regional trading block. Chavez wins fourth term in office against opposition leader E. Capriles, in a close election.

2013: April: Chavez dies of cancer. Nicolás Maduro, his chosen successor, is narrowly elected president.

November: National Assembly gives Maduro emergency powers to try to tackle the rampant inflation of more than 50% a year.

December: Ruling Socialist Party wins local elections in spite of economic crisis.

2014: February - March: Opposition protests are violently broken up by the government, which accuses them of trying to launch a coup. Opposition leader Leopoldo López is jailed.

November: as oil prices keep falling and the economic crisis worsens, the government announces cuts in public spending.

2015: An opposition coalition named "Democratic Unity Roundtable" wins two-thirds majority after parliamentary elections. This ends years of Chavist control of the National Assembly.

2016: January: Under pressure, three deputies from the opposition coalition resign from National Assembly, depriving the coalition of the two-thirds majority that would have enabled it to block Maduro's legislation.

February: Maduro announces devaluation and petrol price rise to fight economic crisis.

September: Hundreds of thousands of protesters take to the streets in Caracas calling for Maduro's removal.

December: Venezuela is suspended from Mercosur by its other members.

2017: March: Pro-Maduro Supreme Tribunal of Justice dissolves the National Assembly. Protests begin.



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April-June: Maduro announces that a Constitutional Assembly will be formed to replace the opposition-controlled National Assembly. This, coupled with the arrest of opposition leaders, increases the magnitude of the protests against Maduro asking for early presidential elections. More than 100 people die and thousands are arrested as the protests are violently confronted by the government.

July: Opposition holds unofficial referendum where seven million people reject Maduro's plans for the new constitutional assembly. Still, elections for the assembly take place. The opposition boycotts the elections, and Maduro supporters end up making up most of the assembly.

August: Chief prosecutor Luisa Ortega, who was investigating corruption charges and human rights violations, is forced into exile.

October: Maduro's party wins in 18 out of the 23 districts in regional elections against the opposition, strengthening its power. The elections are questioned by NGOs, the opposition and members of the international community after several irregularities are reported.

December: Municipal elections take place, and the Chavists emerge victorious. Many opposition parties decide to boycott the elections, and irregularities are again reported. Boycotting parties are banned by the government from the upcoming presidential elections. The opposition is now weaker and internally divided.

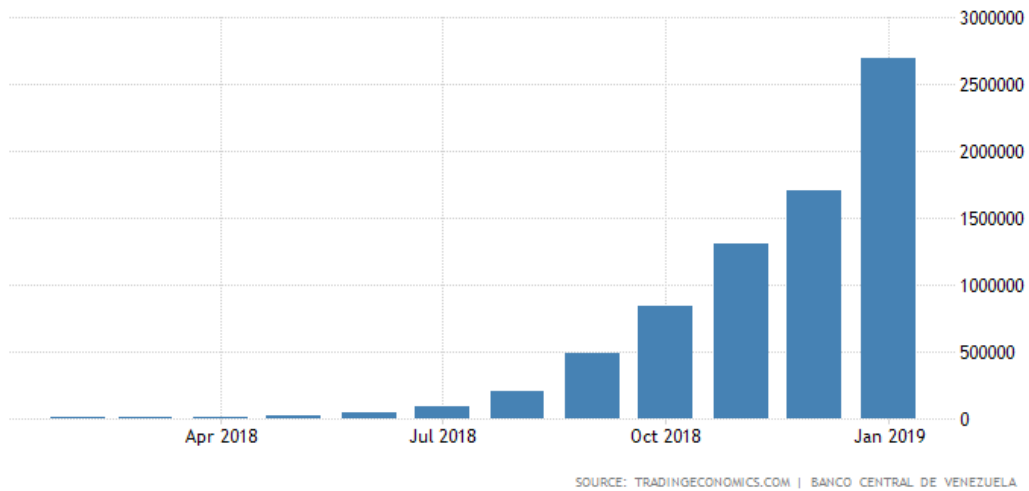
2018: In face of the internal division in the opposition, Maduro decides to hold the presidential elections in May, earlier than previously established. Claiming that there will be electoral irregularities, the opposition decides to boycott the elections and asks the international community not to recognise them.

Works Cited

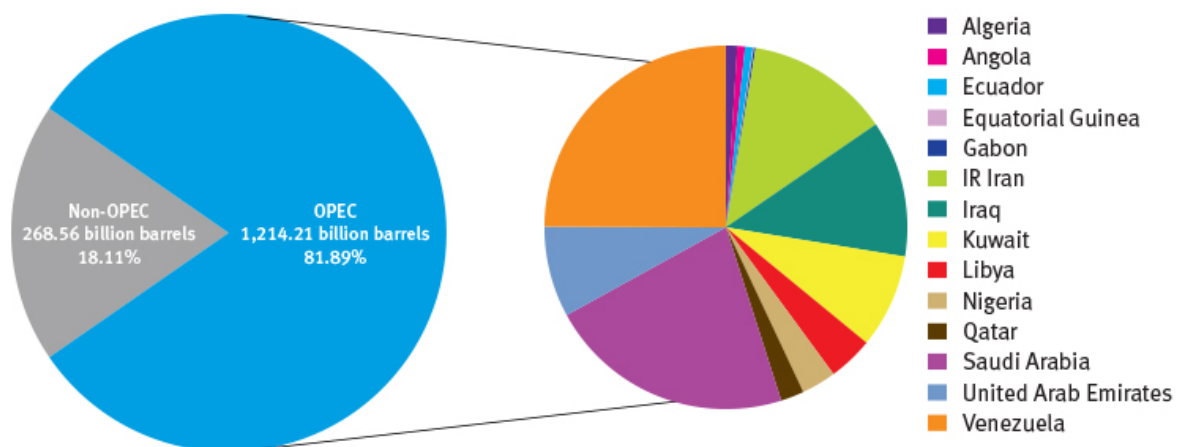
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OPEC share of world crude oil reserves, 2017



OPEC proven crude oil reserves , at end 2017 (billion barrels, OPEC share)

Venezuela	302,81	24,9%	Kuwait	101,50	8,4%	Qatar	25,24	2,1%	Gabon	2,00	0,2%
Saudi Arabia	266,26	21,9%	UAE	97,80	8,1%	Algeria	12,20	1,0%	Equat. Guinea	1,10	0,1%
IR Iran	155,60	12,8%	Libya	48,36	4,0%	Angola	8,38	0,7%			
Iraq	147,22	12,1%	Nigeria	37,45	3,1%	Ecuador	8,27	0,7%			

Source: OPEC Annual Statistical Bulletin 2018.