

Committee: Economic and Social Council (ECOSOC)

Issue: Venezuela's crisis and its impact on the American Continent

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## INTRODUCTION

Venezuela is a country situated in the South American continent. Despite its economic and social prosperity a decade ago, the situation of the country has significantly changed in recent years. Political instability, as well as a deep economic crisis, have led to this result. Many have even been describing the situation in Venezuela as a humanitarian crisis. This is due in part to the increasing amount of violence and criminality on the streets, which does not only come from civilians, but also from the authorities in many cases. The protests against the presidency of Nicolas Maduro that take place in many places around the country usually end up in violent conflicts between civilians and the police, with many getting injured or even killed. Moreover, Venezuelans suffer from food and medicine shortages, as well as extremely high inflation on basic goods.



Figure 1: Violent conflict between Venezuelans and the authorities, during protests in Caracas.

In 2016, when the deep economic crisis started, the economy's growth fell by 18.6 percent. Queues started to be formed outside shops and markets by people that wanted to purchase milk, butter or other basic products. Due to shortages in medicines, leading to a bad national health system, there has been an increase of 30 percent on

infant mortality and 65 percent on maternity mortality. Since 2016, about 2.5 million

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Venezuelans have left the country, searching for an asylum in other regions of the American continent, such as the United States.

Whilst Venezuela ought to be characterized by a democratic political system, some raise concerns about the democratic nature of certain government actions. The military has become increasingly influential to the government, with many military members being assigned to government positions. The president decided to postpone the recall for a referendum concerning elections in October 2016 and has not been open to any discussions or negotiations about further elections, despite the requests of the civilians. At least 50 people have died while protesting against him and many have been imprisoned. Recently, Maduro has expressed his intention to write a new constitution under a handpicked, constituent assembly, which would be composed of 540 members that support the government.

The political situation in Venezuela has led to many South American countries turning against Maduro and his government and being unsupportive of his decisions. 17 countries, including Brazil, Mexico, Argentina and Colombia have condemned his authoritarian decisions that go against democracy. Venezuela has also been suspended from MERCOSUR, a trade bloc between Latin American countries. On the other hand, countries such as Cuba, Bolivia and Ecuador have announced their support towards Maduro. In general, South America has been divided in two: those supporting the Venezuelan government and those accusing it of human rights' violations. However, Latin American nations seem to all agree on the fact that the issue of Venezuela is a regional and not an international issue, criticizing the actions of foreign leaders, such as President Trump's threat of military action .

## **DEFINITION OF KEY TERMS**

### **Hyperinflation**

Inflation is a general sustained increase on average prices of an economy. Hyperinflation exists when the rate of increase of average prices is very high. In Venezuela, inflation in 2018 has reached 27,364%, which means that prices increased a lot throughout the year. Hyperinflation is a result of large money supply

in the economy, which does not come from an increase in GDP. President Maduro has been printing large amounts of money, which have increased money supply and led to hyperinflation.

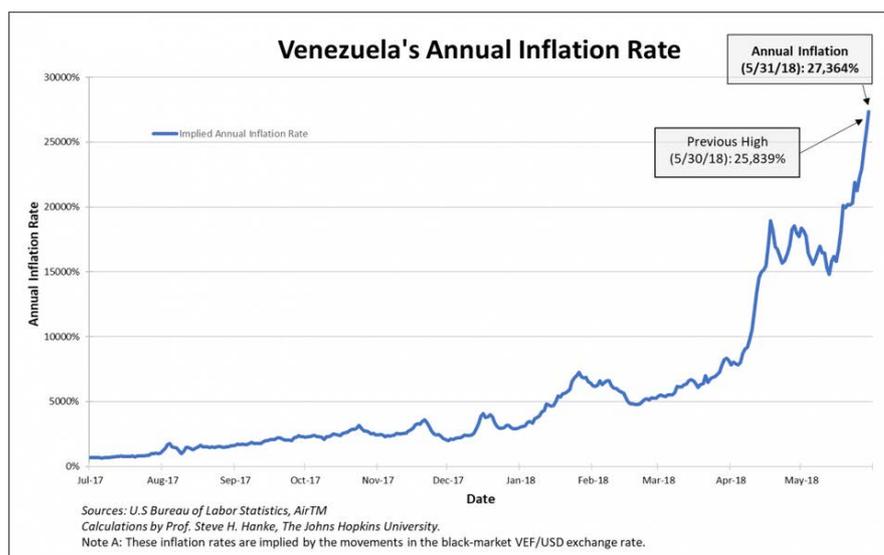


Figure 1: Venezuela's Inflation Rate (July 2017-May 2018)

## Bolivarianism

Bolivarianism is a movement that follows the ideas of Simón Bolívar, who liberated Colombia, Venezuela, Panama, and Ecuador from Spanish Imperialism.

“At its core Bolivarianism is a mix of pan-American, socialist, and democratic ideals fixed against the injustices of imperialism, inequality, and corruption so common to the Latin nations.” <sup>1</sup>Hugo Chávez was a great supporter of the movement and he was the one who created the Revolutionary Bolivarian Movement-200, which had certain positive effects on the economy of Venezuela.

## Economic Boom

A boom (or peak) is a period in time when the economy is growing particularly fast. During that period, there is growth in GDP and a fall in unemployment. During the period from 1970 to 2018, Venezuela has experienced two “booms”, both due to increased oil prices. During those times, living standards increased, as well as GDP, unemployment fell and the economy was functioning above its productive potential.

## Coup d'état

<sup>1</sup> Source: <<https://bpr.berkeley.edu/2017/01/16/bolivarianism-a-fanfare-for-the-common-man/>>.

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The Encyclopedia Britannica defines a coup d'état as “the sudden, violent overthrow of an existing government by a small group”<sup>2</sup>. The main goal of a coup is control of the armed forces, the police, and other military elements. Venezuela has experienced a couple of coups, but most of them were unsuccessful.

## **Purchasing Power**

Purchasing power is “the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy.”<sup>3</sup> The higher the value of a currency, the bigger the purchasing power of the consumers who use that currency. With Venezuela’s currency value being low, Venezuelans cannot purchase a big amount of goods and services from abroad.

## **BACKGROUND INFORMATION**

### **Economy**

The economy of Venezuela has experienced a “boom and bust” cycle throughout the years, meaning that it went from its peak to a sudden downfall in a short period of time. A factor that contributed to this situation was the fact that Venezuela’s whole economy was based on oil exports. In the 1970s, with oil exports being extremely high, the country had the highest rate of growth and the lowest rate of inequality in the world and government spending increased at unprecedented levels. Venezuela was the richest country in Latin America. In 1973, the oil crisis and OPEC oil embargo enabled Venezuela to increase its oil exports even more. The newly elected president, Carlos Andrés Pérez, talked about his vision of Venezuela’s economy becoming developed in a short time period due to its oil reserves. His project, “La Gran Venezuela”, would fight poverty by controlling prices and increasing incomes. In 1976 he completed his plan by nationalizing Venezuela’s oil industry and creating Petroleos de Venezuela (PDVSA).

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<sup>2</sup> Source: <<https://www.britannica.com/topic/coup-detat>>.

<sup>3</sup> Source: <https://www.investopedia.com/terms/p/purchasingpower.asp#ixzz5POHzAdLz>

However, in the 1980s, world oil prices fell extremely low, leading to a loss in the value of Venezuelan exports and a current account deficit in the balance of trade of Venezuela. Consequently, national debts were created during that period due to the low value of exports in comparison to the value of imports. The size of the debts was also increased due to the fact that the oil industry had been nationalized, which increased the amount of government spending in the country. In 1983 the Venezuelan currency was devalued by the government in an attempt to increase revenues by making exports cheaper to foreigners. The depreciation of the currency led to a fall in the living standards of Venezuelans, as imports became more expensive for them and purchasing power fell by 75 percent.

In the 1990s, Hugo Chávez, who took over after the elections in 1998 and created the Revolutionary Bolivarian Movement-200, managed to bring the economy back on its feet and increase economic growth. Later on, world oil prices increased from \$10 a barrel in 1999 to \$140 in 2008. With a high government budget, Chávez decided to concentrate government spending on education, health care and social services. From 1999 to 2011, during the oil boom, standards of living increased for Venezuelans. Unemployment fell by 14.5 percent to 7.6 percent, while GDP per capita increased from \$4,105 in 1999 to \$10,810 in 2011. Even though the economy seems to be functioning excellently, that was not quite the case. Chávez did not concentrate on investing abroad to ensure long-term revenues for the country when oil prices would fall again and instead focused on, forcing currency exchange controls and establishing price controls on basic goods. He also went on to nationalize about 1,147 private companies, that belonged to sectors such as oil, tourism, heavy industry, power and telecommunications. Thus, the economy turned from a free market one towards almost a central one, where the government is in charge of the allocation of almost all goods and services in the market. This resulted in inefficient production from the public sector and loss of investors from abroad. Moreover, the currency controls that were imposed made imports of raw materials almost impossible for many large private companies and so many of them have left the country.

From 2013 until now, Maduro has continued to follow the economic

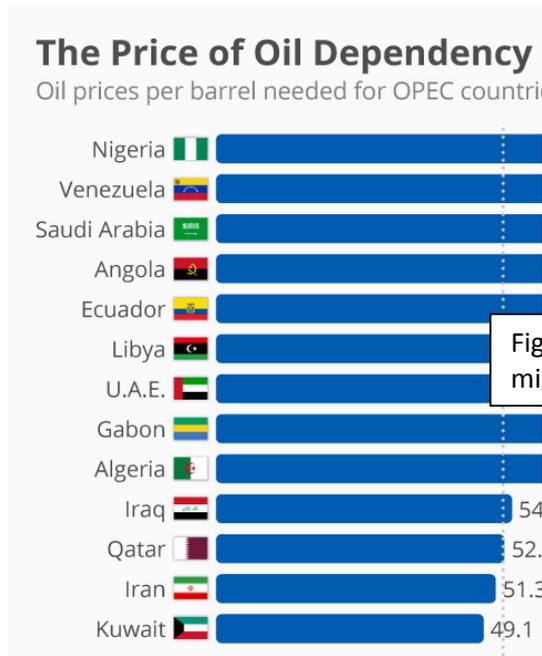


Figure 3: The graph presents the price that oil has to reach for Venezuela to repay its debt.

strategy of Chávez by continuing the currency controls and by printing more and more money, which has caused the hyperinflation that Venezuela is facing today. Oil prices and production in the country are low, while the government debt has reached \$10 bn. The bad economic situation has not only affected Venezuela, but the region around it as well, with many Venezuelans migrating to other Latin American countries or the United States. Many of those countries are struggling economically with providing an asylum for Venezuelans.

## Politics

In the 1970s Venezuela was one of three countries in Latin America that had a democratic regime. However, some social classes felt underrepresented in political

## Venezuelan migration

Thousands of Venezuelans are fleeing their country every day, causing surges of more than 1,000 percent in some places compared with 2015.

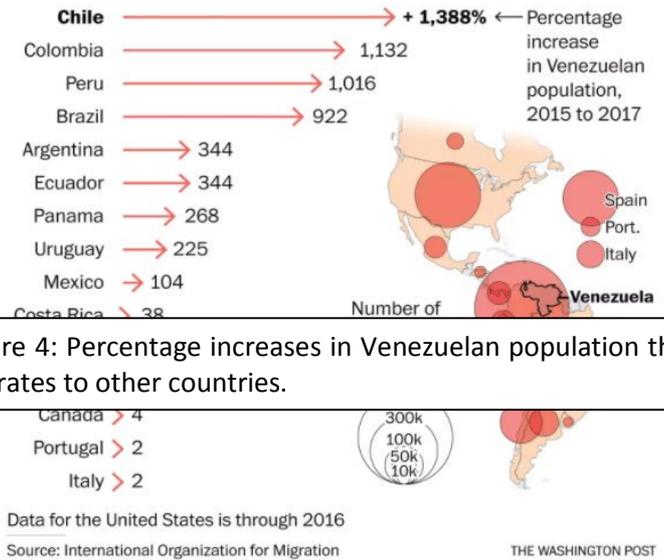


Figure 4: Percentage increases in Venezuelan population that migrates to other countries.

discussions. President Carlos Andrés Pérez tried to fix the situation and take civilians on his side through a packet of economic reforms. However, the working class was burdened financially and on 27 February 1989, many protested against him in a violent conflict that left hundreds of Venezuelans dead. In 1992, the populist Hugo Chávez, who was the leader of the Revolutionary Bolivarian 200 Movement (MBR-200), attempted his first coup d'état in February and his second in November. Despite the fact that both coups were unsuccessful, they marked the end of the democracy that existed in the period 1970-1990.

After his failed coups, Chávez became a well-known figure in the political scene. He was the populist “outsider” that people turned to after being dissatisfied with the previous leaders. He promised justice and economic prosperity by following the values of Bolivarianism. In 1998, he won the elections for the first time and became the president of Venezuela. He filled the courts and the army with his supporters and gave the military great power and political rights, thereby changing the political system from a democratic one to a hybrid one, which combined democracy military authoritarianism. Hugo Chávez won the elections again in 2000, 2006, and 2012. He ruled until his death in 2013, when he was succeeded by Nicolás Maduro.

Under the Maduro regime, the military has even more influence on the government than before. Many of his trusted military officials have even taken government positions. Maduro, with the help of the military forces, has taken

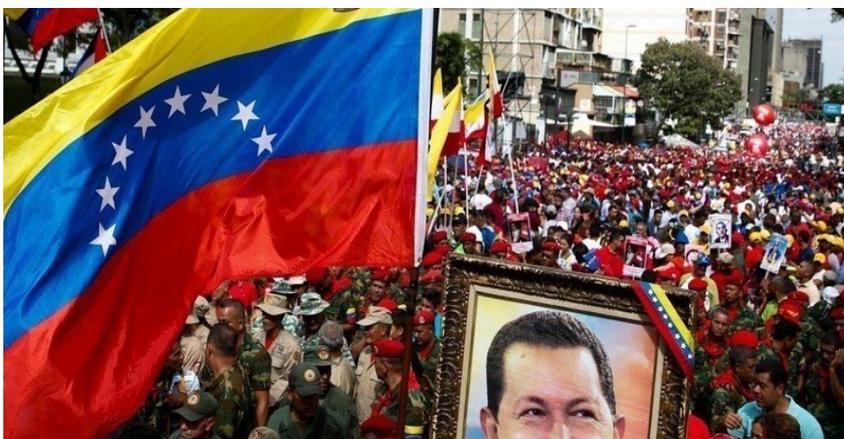


Figure 5: Venezuelan supporters of Hugo Chavez mourning his death on the streets.

initiative to postpone presidential elections and suspend the presidential election referendum that Venezuelans organized in

October. Civilians have shown their disagreement with his decisions by organizing daily protests against him. The protests usually end in violent conflicts, where the human rights of the civilians are violated by the authorities.

The political situation in Venezuela is difficult. Foreign countries, especially those in Latin and North America have expressed their concerns for the situation. Even though most of those countries have not directly stated whether they agree or not with Maduro's political actions, the issue seems to be dividing their governments. Political parties of those countries have started to take position upon the issue and engage in discussions and disputes concerning the relation they believe their country should have with Venezuela. The United States of America has expressed its concern about whether human rights are completely respected or not in Venezuela, following the armed conflicts between the authorities and Venezuelan civilians. Furthermore, it has threatened the Venezuelan president that there will be severe consequences if he does not stop those armed conflicts that harm many Venezuelans on a daily basis. The Latin American community, however, believes that it is better if no other countries are involved in the regional issue.

## **MAJOR COUNTRIES AND ORGANISATIONS INVOLVED**

### **Common Market of the South (MERCOSUR)**

MERCOSUR is a trade bloc between South American countries. It was founded in 1991 by Brazil, Argentina, Uruguay and Paraguay. All South American countries are linked to MERCOSUR, as Member States or Associate Members. MERCOSUR is the fifth largest economy in the world, with a GDP of \$3.32 trillion. The bloc is a customs union with common market features and has as a goal the elimination of obstacles to the circulation of factors of production, as well as the adoption of a common tariff policy regarding third countries, through a Common External Tariff (CET). Venezuela has recently been suspended from MERCOSUR, "because it has been violating the bloc's democratic principles"<sup>4</sup>. That is a hard hit for the Venezuelan economy, as

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<sup>4</sup> Source: <<http://www.itamaraty.gov.br/en/politica-externa/integracao-regional/6347-mercosur-en>>.

trade of goods, services and currency between Venezuela and the MERCOSUR members will no longer be free of tariffs.

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

OPEC is an organization that aims at coordinating the petroleum policies of the countries who are its members. It helps stabilize oil markets, so that the supply of oil is efficient and the incomes of producers are steady and fair. Venezuela was one of OPEC's founding members back in 1960.

## **Human Rights Council**

The Human Rights Council is a United Nations organ that aims at protecting the human rights of the civilians involved in situations, such as the one in Venezuela and ensure that those rights are respected.

## **TIMELINE OF EVENTS**

<b>Date</b>	<b>Description of Event</b>
1908-1935	Venezuela becomes the world's biggest oil exporter.
1945	Democracy is established with a coup, after many years of military authoritarianism.
1973	Venezuela experiences an oil boom which gives its economy a boost. The oil industry is nationalized.
1983	Hugo Chavez establishes the leftist Revolutionary Bolivarian Movement-200, which has as goal a unified Latin America and criticizes the Venezuelan government. It also holds an anti-US view.
1989	Carlos Andres Perez is makes economic formations that lead to protests, with many being killed.
1992	Two coup attempts are made by Hugo Chavez and his group, who support Bolivarianism.

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<b>1998</b>	<b>Chavez is elected president and he brings the “Bolivarian Revolution”.</b>
<b>2001</b>	<b>President Chavez passes 49 laws that redistribute land and wealth, giving the state most of the political and economic power.</b>
<b>2005</b>	<b>Military members loyal to Chavez take government positions.</b>
<b>2007</b>	<b>Key energy and telecommunication private companies are nationalized.</b>
<b>2010 January</b>	<b>Chavez lowers the value of the Venezuelan bolivar to help the economy regain its strength.</b>
<b>2013 March</b>	<b>Hugo Chavez dies at age 58. He is succeeded by Nicolas Maduro.</b>
<b>2014 November</b>	<b>Cuts in government spending due to low oil prices.</b>
<b>2016 February</b>	<b>Maduro announces economic crisis and his plan to get out of it by reducing the value of the currency.</b>
<b>2016 September</b>	<b>Huge protest in Caracas, where people are demanding that Maduro leaves his presidential position.</b>
<b>2018 May</b>	<b>Nicolas Maduro wins again the presidential election. The results are contested by the opposition on grounds of being undemocratic.</b>

## **UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS**

The Human Rights Council has made some efforts to address the human rights' violations by the Venezuelan government. In 19 March 2018, it adopted a resolution that condemned economic sanctions imposed by countries such as the United States, Canada or countries that belong to the European Union. The document can be found here: <<http://undocs.org/A/HRC/37/L.34>>.

## **PREVIOUS ATTEMPTS TO SOLVE THE ISSUE**

There have been some attempts to help the situation in Venezuela, mostly by foreign countries. The United States have previously imposed economic sanctions on Venezuela, as well as an attempt to intervene in the country's political scene. In order to help not only Venezuela, but also the countries affected by its crisis, in the summer of 2018 the European Commission planned to give \$47 million to Venezuela. However, none of these efforts have had any effect, as president Maduro denies to accept any form of help from other countries and organisations.

## **POSSIBLE SOLUTIONS**

The situation in Venezuela can be examined in three aspects: the economic, the political and the social one. In order to combat the problem, we must pay attention to each one of the aspects separately.

### **Economical**

The economic aspect is probably the most difficult one to solve, because it is really complex. The Venezuelan economy has relied solely on oil exports as a source of revenues for many decades, which held it back from investing in other sectors. It is usually bad for an economy to rely entirely on one sector, especially when the product that this sector produces is a limited resource that could run out in some years. Therefore, investing on other industries, such as the heavy industry or tourism, would give the economy another source of revenue. However, given the big debt that the government has, the food and medicine shortages and the lack of security in the streets of the country, it is rather impossible that the state would spend on investment at the moment.

This is why private economic activity is needed. There must be incentives for foreign or domestic private businesses that had previously left the country to return, since they would help increase the flow of money in the economy by investing and reduce the level of unemployment by increasing the positions available in the labour market. An effective way to attract those businesses could be by reducing the controls on the Venezuelan currency and perhaps letting its value increase, so that imports would be more affordable for firms. Also, the government has to lower the amount of money printed in the country, so as to reduce the money supply and the

levels of inflation (that would also lead to currency appreciation). Lower levels of inflation would help Venezuelan exports become more price competitive. However, it would be difficult to have both affordable imports and price competitive exports at the same time. There must be a balance found between the level of appreciation of the currency and the level of average prices.

Finally, it is usually dangerous for the economy to leave almost everything that the country produces to the public sector. The public sector cannot always be aware of the needs of the population and, due to lack of competition, the quality of the goods and services that the state provides is usually low. Privatizing partly or entirely some sectors or leaving the production of some goods to the free market would reduce that inefficiency, without taking control away from the state.

What countries of the American continent can do to ameliorate the Venezuelan economy is to reduce trade tariffs when trading with Venezuela and make trades easier. If Venezuela re-entered MERCOSUR, that could be possible. However, for its members to accept that, Venezuela needs to change its government's policies.

## **Political**

In order to avoid political instability not only in Venezuela but in the region in general, democracy must be established in the country. A good solution for that to happen would be the replacement of the current president, after organizing new elections, so that new elections take place. Of course, no one can ensure that new, democratic, elections will solve the political crisis and establish a good government, but at least it will be a step towards change, as many Venezuelans have been asking for elections to happen for the last couple of years. On the other hand, if the president does not leave his position, a helpful step towards a more stable government could be to minimize the involvement of the military in politics, as it would be better if government positions were given fairly to those who are elected by the public and not those who are loyal to the leader of the country.

Apart from that, political activists who happen to be prisoners under Maduro's governance can help maintain political stability if they regain their freedom and are given back their political rights. The involvement of the political opposition and

activists in politics of Venezuela could give balance to the decision-making between the government and the opposition, as that will allow all parties to be represented.

Governments from other countries of the region could also be involved in peaceful negotiations with the leaders of Venezuela, in order to help them restore peace and stability in the country, without intervening in any violent way.

## **Social**

First of all, significant changes need to be made in the security, authorities and criminal system of the country. The authorities should not be allowed to attack the protestors and instead they should respect their rights to go against the government when the government itself goes against their rights. In this case it might be necessary that a Non-Governmental Organization, like the Human Rights Watch, intervenes to protect the protestors, as well as the innocent civilians who accidentally get injured during the violent conflicts and are not protected by the authorities. Unfortunately, it is questionable how much power an NGO can have when it gets involved in an internal issue.

Something should also be done about the medicine and food shortages, as many Venezuelans have reportedly lost weight. The food and medicines that cannot be imported by civilians must be delivered to them. Local organizations, such as Cuatro por Venezuela and All for Venezuela, provide food and health services to the people in need. The question is, has their work truly been effective so far? Funding and donations are usually needed, in order for such organizations to make a change.

For those who decide to emigrate, from Venezuela to neighboring countries, it would be important to provide some sort of shelter. Latin American and North American countries need to be well-equipped, in terms of funds and infrastructure, to accept immigrants in their territories. The international community must cooperate in order to distribute immigrants according to each country's wealth and size, as well as ensure their protection and well-being during their stay at that country. Educational programs could also be useful to help Venezuelans living in other countries adjust to the new environment.

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### **Images and graphs:**

Figure 1: <<https://stluciatimes.com/2017/05/12/minister-urges-in-house-solutions-to-venezuela-situation/>>.

Figure 2: <<https://www.forbes.com/sites/stevehanke/2018/05/31/venezuelas-inflation-breaches-25000/#2b7211cc6d57>>.

Figure 4: <[https://www.washingtonpost.com/news/world/wp/2018/03/02/feature/i-cant-go-back-venezuelans-are-fleeing-their-crisis-torn-country-en-masse/?undefined=&utm\\_term=.88afe71006c9&wpisrc=nl\\_most&wpm=1...](https://www.washingtonpost.com/news/world/wp/2018/03/02/feature/i-cant-go-back-venezuelans-are-fleeing-their-crisis-torn-country-en-masse/?undefined=&utm_term=.88afe71006c9&wpisrc=nl_most&wpm=1...)>.

Figure 5: <<https://www.change.org/p/senator-bernie-sanders-demand-bernie-sanders-retract-his-defamatory-propaganda-about-hugo-chavez-rip>>.

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