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**Resolving the Economic Crisis
in Venezuela and Reducing the
Impact on its Citizens**

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Issue: Resolving the Economic Crisis in
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Introduction

The country of Venezuela is currently facing a human rights and humanitarian crisis. The Venezuelan people are suffering horribly as a result of the socialist mismanagement of their economy. The Supreme Court routinely fails to demonstrate independence; endorsing government abuses and stripping the National Assembly of its powers.

Severe shortages of medicine and food occur due to the economic crisis. The economy has large imbalances, which will have to be adjusted. The citizens are fleeing the country or are not getting enough medical care and food.

General Overview

This agenda item concerns the economic instability of Venezuela and the impact this crisis has on the citizens. The economy of Venezuela is collapsing since Nicolás Maduro's election as the president of Venezuela. There are food shortages and medicine shortages due to the country's poor economy. Venezuela recently announced that it would significantly raise fuel prices and devalue its currency as part of a series of measures in order to manage its failing economy. The best estimates and forecasts for the Venezuelan economy have come from the Bank of America Merrill Lynch (BOA). BOA estimates that Venezuela has a public sector financing gap. The state's local currency, the Bolívar, has lost all but 0.8% of its value against the dollar in the past five years.

Definition of Key Terms

Bank of America Merrill Lynch (BOA): The bank in the United States of America, which has invested the most in Venezuela.

United Socialist Party (PSUV): The socialist party of Venezuela.

'Maduro diet': The local phrase that describes people being forced to skip meals due to the economic crisis in Venezuela.

Inflation-depreciation: The decrease in the level of a currency in a floating exchange rate system due to market forces.

Public sector: The part of an economy that is controlled by the state.

Financing gap: The amount of money needed to fund the ongoing operations or future development of a business or project that is not currently provided by cash, equity or debt.

Inflation: The sustained increase in the general price level of goods and services in an economy over a period of time.

Major Parties Involved and Their Views

Venezuela: The country of Venezuela is currently split into Chavistas, the name given to the followers of the socialist policies of the late President Hugo Chavez, and those who want to see an end to the 18 years in power of his United Socialist Party (PSUV). During his 14-year presidency, Hugo Chávez systematically weakened all the main institutions in the country, stacking everything in the ruling party's favor, and ensuring that opposition-led change would be challenging or impossible.

After the socialist leader died in 2013, Nicolas Maduro, also of the PSUV, was elected president on a promise to continue Mr. Chavez's policies. Nicolás Maduro, the current president of Venezuela, is scrambling to cling to power as his country is battered by an unprecedented economic crisis. And in the process, he's becoming an autocrat.

USA: President Trump is considering imposing sanctions on Venezuela--up to and including an oil embargo. Venezuelan president, Maduro, denounced the sanctions as an attempt to topple his socialist government. Venezuela's Defense Minister, Vladimir Padrino López, immediately criticized Trump for his statement, calling it "an act of supreme extremism" and "an act of madness."

Bank of America Merrill Lynch (BOA): BOA is the highest investing bank to Venezuela's economy in America.

Colombia: The state of Colombia and the state of Venezuela are having difficulties due to the Venezuelan citizens crossing the border between the two countries for food, medicine, and higher living standards. The government of Colombia is not welcoming the Venezuelans, however, the locals are giving food in their local churches and medication is being distributed to Venezuelan people.

Timeline of Events

Date of Event	Description of Event
December 2010	Parliament grants President Chavez special powers to deal with devastating floods, prompting opposition fears of greater authoritarianism.
April 2012	Government extends price controls on more basic goods in the battle against inflation. President Chavez threatens to expropriate companies that do not comply with the price controls.
July 2012	Opposition TV channel Globovision pays a \$2.1m fine to avoid having its assets seized. The media regulator of the government imposed the fine in October over Globovision's coverage of a prison riot.
August 2012	After a six-year wait, Venezuela becomes a full member of

	regional trading bloc Mercosur, and is given four years to comply with the bloc's trading regulations.
October 2012	President Chavez wins a fourth term in office, with 54% of the vote on an official turnout of about 81%. Opposition leader Henrique Capriles concedes.

Evaluation of Previous Attempts to Resolve the Issue

Dialogue and Diplomacy: Chile and Colombia, both US allies, have urged dialogue, but even their mild remarks received an angry response.

Oil price controls: The root of Venezuela's distorted economy is its nearly 300 billion barrels of oil reserves, which are 18% of the world's total oil reserve. When oil prices are high, there's profligate government spending; when prices decrease significantly, so does the Venezuelan economy. "It's like a shopaholic," says Raúl Gallegos, author of the recent *Crude Nation: How Oil Riches Ruined Venezuela*. "You give them a credit card and they go crazy. At the end you have nothing."

Neighboring countries: Four Latin American nations have joined in an attempt to mediate Venezuela's political crisis in new talks. The Dominican Republic hosted high-level delegations from Venezuela's feuding and opposition for two days in the latest foreign-led effort to ease a standoff alarming the world. "We advanced definition of an agenda on Venezuela's big problems. A commission of friendly countries was agreed," the Dominican Republic stated, saying Mexico, Chile, Bolivia, Nicaragua would join the process.

Possible Solutions

Making living affordable: The economy has large imbalances that will have to be adjusted. Therefore, the first thing to ensure is that lower class working Venezuelans do not suffer from the adjustment. This means setting up a system to make sure that food, medicine, and other essentials are available at affordable prices. There are many governments that have already implemented such systems – including the U.S., where more than 45 million people receive food stamps.

Stabilizing the currency: Once this system is in place, the government can unify the exchange rate, which is the most damaging imbalance in the economy. It has been causing an inflation-depreciation spiral since the fall of 2012. The rising black market rate increases inflation, which then feeds back into the price of the black market dollar, in a continuing vicious circle. The fastest and best way to break this cycle is to allow the currency to float. It is hard to say where it would settle, but it would likely be somewhere between 150 and 200 Bolivares Fuertes to the U.S. Dollar — nowhere near the current black market rate. Although this devaluation would cause some inflation, in four out of the last five devaluations in Venezuela, the resulting increase in inflation disappeared within a year. Only the last devaluation, which took place in the middle of an inflation-depreciation spiral, contributed to a persistent increase in inflation. But unifying the exchange rate would break that spiral and put an end to the black market.

Eliminating dysfunctional price controls: Once these measures are taken, and consumers are protected from rising prices for essential goods, the government can begin to lift some of the dysfunctional price controls. A current announcement from the Venezuelan government about a gasoline price increase is a step in the right direction, but there are other price controls on food and household items that will need to be relaxed in order to eliminate shortages. This will save billions of dollars of foreign exchange lost to smuggling, although as noted above, consumers would have to be protected from price increases first.

Adjusting to lower international oil prices: Adjusting to lower oil prices over the intermediate and long run will mean diversifying the economy away from oil. In 2011, Venezuela imported about 24% of its food; the country could become nearly self-sufficient in food production and pursue other import-substitution and diversification strategies, which would become more feasible with a lower-valued currency. Diversification: Venezuela needs to diversify its economy and stop its excessive dependence on oil wealth. The oil sales are decreasing and some countries such as The United States are planning on putting embargos for the oil transportation.

Working with the international community: The current crisis is ravaging Venezuelans' quality of life, and it's affecting the needy above all. In order to leave this crisis behind and mitigate the suffering as much as possible, Venezuela must grapple with two possibilities that could allow us to get back on our feet and maintain the influx of imports while increasing our own production. These options are to ask the international community for help and to restructure our debts. These possibilities shouldn't be evaluated ideologically, but rather in terms of practical criteria to ease Venezuelans' plight.

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