



## Economic and Social Committee: Topic 2

# ADDRESSING THE SOCIO-ECONOMIC CRISIS IN VENEZUELA

### Background:

The economic and social crisis in Venezuela has been an ongoing issue for decades, and has stemmed from multiple inefficiencies that have grown into several severe cultural, societal, as well as political consequences that have disrupted people's daily lives at personal and collective levels.

The root of these crises can be derived partially from government inexperience. In order to understand the context behind how Venezuela arrived at its critical political moment that paved the way for the upcoming government, we should know that democracy started in Venezuela in 1958. This led to signing a Social Pact (i.e. 'El Pacto Social') by which they agreed to share power among themselves to terminate the military dictatorship during the time. Moreover, this declaration of democracy was embodied in a unique political system in the 1990s, a type of democracy which represented the interests of major political parties while addressing a small minority of the people. Nevertheless, Hugo Chávez, one of the people known to be responsible for the Venezuelan crisis, was elected as president in 1998, a time when more than half of the Venezuelan population was below the poverty line with an annual inflation exceeding 30 percent along with declining oil prices. With that, Chávez conducted a social welfare program consisting of multiple refinements to enhance standards of living and infrastructure within the country. He follows economic guidelines of the International Monetary Fund and continuously encourage foreign investment in Venezuela.

The crisis, or in other words, the *hyperinflation* initiating the crisis was a result of multiple factors rooting from the Bolivarian Missions or socialist approaches taken by Chávez. Due to his intention to redistribute wealth to the poor and reform the usage of lands, the government spending increased as a result of a drop in tax income which was now being used to subsidise the poor. Furthermore, he implemented several price control policies, capping the price of certain necessities and hence decreasing the producers' incentives for more production and resulting in shortages. This was tied with a loosening of foreign currency controls in 2003 which contradicted the initial plan as being able to sell the goods in dollars made the goods and services largely unaffordable to the poor.

It can't go unmentioned that a large portion of Venezuela's economy is completely reliant on its oil sector, thus there are two related causes that have resulted in the steep decline of Venezuela's oil production, despite the country's richness in reserves. First is the removal of expertise required to manage and develop the country's oil supplies, this took place due to the firing of PDVSA (Venezuelan state-owned oil and natural gas company) employees in 2003 and excluding international expertise in 2007. Secondly, Chávez policies failed to appreciate the level of capital expenditures in order to maintaining the development of the country's oil. This could be due to the inexperience caused by the inexperience of employees hired due to their political similarity to Chávez's (Chávez loyalists). Nonetheless, the oil prices hiked and the conduction of the new social programs consumed a large portion of the oil industry's income, and hence failed to reinvest in said industry adequately.<sup>1</sup>

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<sup>1</sup> "Charting The Decline Of Venezuela's Oil Industry - Forbes." 29 Jan. 2019, <https://www.forbes.com/sites/rpapier/2019/01/29/charting-the-decline-of-venezuelas-oil-industry/>.



### **Current Situation:**

Due to the events previously explained, Venezuela is currently experiencing a crisis due to the collapse in the economy and exponentially increasing hyperinflation. The uprising political opposition to Nicolás Maduro's presidency has put the country's leadership in question. One of the reasons for this can be due to the socialist nature of Venezuelan politics, hence the increase in poverty, increasing unemployment are caused due to inexperience of of the government in distributing wealth earned from Venezuelan resources into social programs whilst maintaining the manufacturing sectors economically active with proper investing. The decrease in Venezuelan average income has also become a humanitarian issue leading the citizens to do crime and take drastic measures to support their families.<sup>2</sup> Moreover, about 5.4 million refugees, asylum seekers, and migrants from Venezuela have left the country to seek better living conditions. Nonetheless, the economic collapse in Venezuela has led to a significant decline in the quality of life, hence leading to growing social inequalities throughout the population. High inflation in Venezuela's own currency along with a growing black-market that is mainly reliant on inaccessible US Dollar, accompanied by the insecurity and the shortage of basic necessities has put the country in a challenging position where the population's daily life has grown to be exceptionally difficult.<sup>3</sup>

### **Important bloc positions:**

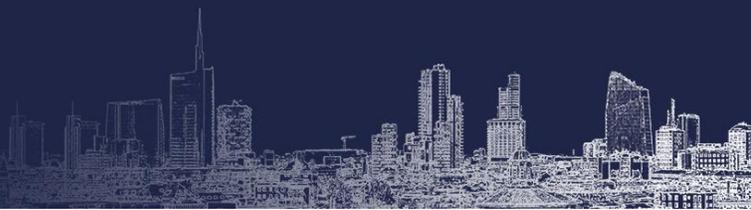
- Colombia: The crisis in Venezuela along with the excessive increase in Venezuelan migration to South American countries have disrupted Colombian socio-economic stability, with the impact on Colombia being disproportionately higher than other South American countries. Furthermore, Venezuelan migrants also tend to use Colombia as a way to transit to other neighbouring countries such as Ecuador, Peru, or Chile.
- Peru: Approximately 800 Venezuelans enter Peru daily according to figures from the National Migration Superintendence.<sup>4</sup> Furthermore, increasing migrations have led to increasing illegal activities in the country, affecting the economy and government expenditure. On the other hand, according to Miguel Jaramillo, a researcher at the Development Analysis Group indicates that the migratory flow of Venezuelans to Peru has had a positive impact on the economy since they can provide a low cost labour alternative.
- Brazil: The overwhelming population of Venezuelans invading coastal areas of Brazil has created many challenges, such as replacing the local Brazilians due to their lower wages, hence increasing unemployment of the local population in the area. Due to this and many other factors, some states attempted to limit on the number of Venezuelan immigrants entering Brazil, however the solution was not passed as it would violate the international commitments to defend human rights.
- USA: The United States has taken several measures as a response to this crisis, including imposing different types of sanctions on the country. Furthermore, the US is providing assistance and helping to coordinate the regional response to the Venezuelan migration crisis by providing \$1.4 billion of humanitarian aid to Venezuela and countries sheltering Venezuelans. With that said, some members have expressed concerns about the humanitarian impact of broad U.S. sanctions.

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<sup>2</sup> Maria Arias, "La crisis afecta a los colombianos o es solo percepcion", Publimetro, 4 August 2017

<sup>3</sup> Patrick Duddy, "Political Crisis in Venezuela", (2015), 2

<sup>4</sup> Superintendencia Nacional de Migraciones Peru, <https://www.migraciones.gob.pe/index.php/gobierno-amplio-permiso-temporal-de-permanencia-para-ciudadanos-venezolanos/>



### **Possible solutions:**

- Several rounds of negotiations have taken place since 2014 but all were marred by mutual suspicion.
- The government has been relying on the help of Russia, China and others to resist the sanctions.
- The US has supported a wide range of life-saving humanitarian programs for Venezuelans, such as food assistance, emergency shelter, access to health, etc.
- During the presidential crisis and political oppositions between the Venezuelan governments, a coalition of Colombia, Brazil, USA and the Netherlands shipped essential goods as a response to shortages in the country.
- Some have suggested a military operations as the best mean of addressing the country's predicament. Though the United Nations is unlikely to back a multinational force for this mission, Russian troops are present in Venezuela, hence a military-led operation conducted by another country may contribute to the geopolitical tensions.
- The Plan Pais, aiming to "stabilize the economy, attend to the humanitarian emergency immediately, rescue public services and overcome poverty" focuses on helping the most vulnerable populations and incentivising foreign investment, specifically in the oil sector.
  - Challenges include the absence of basic law, order, and a stable political standpoint within the country
- The UN Charter provides a legal mechanism through which a post-Maduro government can request a security force to enforce order in Venezuela, ideally in support of an existing state security institution (e.g., the military).<sup>5</sup>

### **Further reading:**

- Venezuela's Guaidó reconstruction plan: <https://www.univision.com/univision-news/latin-america/venezuelas-guaido-to-announce-national-reconstruction-plan-for-the-day-after>
- Responding to the humanitarian situation in Venezuela (helpful background information): <https://www.odu.edu/content/dam/odu/offices/mun/docs/celac-venezuela.pdf>
- The Crisis in Venezuela and its effect on neighbouring countries: <https://www.cfc.forces.gc.ca/259/290/405/305/arbulu.pdf>
- The United Nations Response to the Influx of Venezuelan Migrants in Brazil: [https://bdm.unb.br/bitstream/10483/28728/1/2021\\_BrunoFerreiraLindenberg\\_tcc.pdf](https://bdm.unb.br/bitstream/10483/28728/1/2021_BrunoFerreiraLindenberg_tcc.pdf)
- The Collapse of Venezuela and its affect on the region: <http://www.servizisegreti.com/wp-content/uploads/2017/08/The-Collapse-of-Venezuela-and-Its-Impact-on-the-Region-R-Evan-Ellis.pdf>

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<sup>5</sup> "Stabilizing Venezuela: Scenarios and Options - Council on Foreign ...." 14 Jun. 2019, <https://www.cfr.org/report/stabilizing-venezuela>.



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3. Col, Lt, and Alexander Arbulú. *THE CRISIS in VENEZUELA: SOCIO-ECONOMIC EFFECT ON*.
4. Rapier, Robert. "Charting the Decline of Venezuela's Oil Industry." Forbes, [www.forbes.com/sites/rrapier/2019/01/29/charting-the-decline-of-venezuelas-oil-industry/?sh=2c0e2c584ecd](http://www.forbes.com/sites/rrapier/2019/01/29/charting-the-decline-of-venezuelas-oil-industry/?sh=2c0e2c584ecd).
5. Reid, Kathryn. "Venezuela Crisis: Facts, FAQs, and How to Help | World Vision." World Vision, 16 May 2019, [www.worldvision.org/disaster-relief-news-stories/venezuela-crisis-facts](http://www.worldvision.org/disaster-relief-news-stories/venezuela-crisis-facts).
6. "Venezuela: Political Crisis and U.S. Policy." 15 Sep. 2021, <https://sgp.fas.org/crs/row/IF10230.pdf>.
7. "Stabilizing Venezuela: Scenarios and Options - Council on Foreign ...." 14 Jun. 2019, <https://www.cfr.org/report/stabilizing-venezuela>.