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WHAT HAPPENED TO VENEZUELA?

by

Harris Jones

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford
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Approved by

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Abstract

By studying academic research, I investigate the root causes of the crisis in Venezuela today. The research studied lays out the historical factors that have contributed to the crisis. Venezuelan politics and global politics play a role in the crisis in addition to economic factors. The situation in Venezuela has been developing for years but has gained more attention recently as the economic crisis has caused a humanitarian and political crisis as well. I chose this topic because I am interested in how colossal crises occur and I am interested in Spanish speaking countries because it is my minor. Specifically, I want to determine whether this crisis is mainly due to poor policy decisions, a drop in the price of oil, or a combination of the two. In an attempt to value Petróleos de Venezuela (PDVSA), the state-owned oil enterprise, I learned that a comparable analysis is not necessarily appropriate to value the company but I do gain insight into the inability of both PDVSA and the Venezuelan government to obtain debt. Because the crisis is ongoing and developments continue almost daily, the final part of this paper lays out the possibilities for the future of Venezuela. The sources used for analyzing the future of Venezuela are credible news agencies. The basic conclusion of my analysis is that the policies and practices of the Venezuelan government left its economy vulnerable to a decline in the price of oil and the decline in oil prices harmed the Venezuelan economy substantially, showing that it is a combination of policy and oil prices that contributed to the crisis in Venezuela today.

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Introduction

The nation of Venezuela serves as an example to the world of the problems caused by over-dependence on a single product. Venezuela's prized export is crude oil, one of the world's most valuable resources. Other oil rich nations such as Saudi Arabia, Russia, and Canada have enjoyed the profits and stability provided when oil is exported from their borders, but Venezuela finds itself near the brink of a civil war. For a country that possesses the largest oil reserves in the world, this is especially puzzling, and many ask why a nation with such a valuable resource finds itself in such dire circumstances. While Venezuela has the largest oil reserves in the world, it suffers from an economic and humanitarian crisis today. In order to better understand what caused Venezuela's current crisis, it is essential to ask questions such as what role does oil play in Venezuela's economy? How has domestic policy historically affected the Venezuelan economy? How much of the current crisis is a result of falling oil prices and how much of this crisis is a result of policy decisions?

The purpose of this paper is to investigate the causes of the crisis in Venezuela. To achieve that purpose, this paper looks at the correlation between oil prices and the economic conditions of the country and policies in Venezuela. Specifically, it measures economic conditions by looking at inflation, gross domestic product, and quality of life for its citizens. These criteria for measuring economic health and prosperity are then compared to oil prices to determine the extent of the correlation between oil prices and the economic health of Venezuela. This thesis also examines policies of its state-run oil company, *Petróleos de Venezuela (PDVSA)*. Specifically, it examines practices and behaviors of the government toward PDVSA in times of economic prosperity. PDVSA

plays a crucial role in the Venezuelan economy, so its profitability during the crisis is included in this analysis to show that the decline in the price of oil had a major impact on the government's ability to extract profits from its oil reserves. After the analysis of the correlation between economic policies, oil prices, and economic prosperity, this paper outlines some of the key problems facing Venezuela today other than economic issues and the response from leaders across the world.

In order to analyze this topic, thorough secondary research is used to answer the questions of correlation between economic policies, oil prices, and economic prosperity. Academic research is the most commonly used source throughout this paper. Because events in Venezuela are changing rapidly, there is little academic research available after 2017. When academic literature is scarce, this paper uses reputable news outlets as sources.

Understanding the crisis requires a fundamental understanding of Venezuela's history and the role that oil has played in it. The first section of this thesis outlines the history of Venezuelan policy surrounding oil. The second and third parts of this thesis study the policies of the Venezuelan government leading up to the decline in the price of oil and its policies through the decline in the price of oil as well as the influence of foreign actors. The final part of this thesis describes the situation in Venezuela today and focuses on political crisis, laying out its current conflict and possibilities for the future of Venezuela.

Chapter 1: The Role of Oil in Venezuela's History

Venezuelan entrepreneurs recognized that Venezuelan oil resources possessed great potential when oil was first discovered off the coast of Venezuela near the middle of the twentieth century. Businessmen and politicians alike saw incredible economic opportunity for the South American country (Gallegos, 2016). Interestingly, Venezuelan citizens preferred government control of the oil industry. They recognized the potential wealth that oil could produce, but they felt that private control of the resources would enrich few while the average Venezuelan labored intensively for years in order to find economic security (Gallegos). They felt that the government could take the profits produced from oil and invest directly into the country's infrastructure and agriculture. Venezuelan intellectuals and politicians warned of economic catastrophe if the government did not control oil.

Until 1943, private oil businesses still operated with little government intervention, other than political rhetoric from those that wanted the government to control more of the oil industry. In 1943, the Venezuelan government passed a law that stated that Venezuela would earn the same amount of money as the oil companies' net profits through royalties in addition to imposing taxes on oil production and income. Oil companies incorporated in the United States agreed to the deal. Because the United States and other allied nations relied on Venezuelan oil during World War II, bureaucrats and statesmen in Washington, D.C. told American oil executives that they would get no help from their own government if they chose to oppose Venezuelan officials (Gallegos, 2016). Executives saw Venezuela as too important to abandon, and firms from the United States could deduct taxes paid in Venezuela from those they owed to the United

States government. The law's nickname is "the fifty-fifty deal." The deal was a historic win for those in favor of heavy government intervention in the oil industry and a precedent setting moment for the expectations of Venezuelan citizens (Gallegos). Venezuelan citizens and politicians understood that they could negotiate with oil companies to extract more wealth and impose higher taxes if necessary. The President of Venezuela at the time of this law's enactment was Isaías Medina. World War II had disrupted Venezuela's imports, so this deal was especially important. It gave Venezuelans the ability to continue importing because they had enough money to absorb price shocks even when so many foreign trade relationships were uncertain. Unfortunately for Medina, his term as Venezuelan President ended in 1945 when the military ousted him (Gallegos).

The new government appointed Pablo Pérez Alfonzo as the new development minister, and he wielded exceptional power within the new government. Alfonzo virulently opposed the fifty-fifty deal. Initially, his opposition might appear to be an opportunity for oil companies to retain more of their profits, but he opposed the law because he felt oil companies were still retaining too many profits. He favored increasing taxes on oil companies to fix what he saw as an injustice (Gallegos, 2016). Alfonzo also recognized that there was a new threat to Venezuelan oil, the Middle East. Oil companies could produce their product at a lower cost in the Middle East because there were far fewer restrictions than in Venezuela. To give Venezuela a chance to compete against Middle Eastern economies, Venezuelan officials travelled to the Middle East and distributed copies of the fifty-fifty deal translated into Arabic, encouraging adoption of

similar policies. Eventually, similar policies became an expected cost of business for oil companies (Gallegos).

Oil profits poured into Venezuela during this time period (Gallegos, 2016). Venezuelan citizens began demanding that more of the oil money in the government's hands should be spent on social programs, and the government obliged. The increase in oil profits became yet another important precedent setting event. Venezuela recognized its position in the world, and its leaders learned that they could influence other oil producing nations. Through this influence, Venezuelan officials could make sure that Venezuela remained an attractive place for oil companies to do business. Venezuelan leaders also learned that the oil business could produce lucrative profits and the citizens could be kept happy with increases in spending on social programs. One thing that Venezuelan leaders did not learn is that they would need to save some of the oil revenues instead of immediately spending all on these social programs. The failure to grasp this concept would prove to be costly to future generations of Venezuelans. Unfortunately for Pablo Pérez Alfonzo, he, too, was ousted by a military coup, and General Marcos Pérez Jiménez emerged as Venezuela's leader, but Alfonzo's story does not end with his exile (Gallegos).

Under Pérez Jiménez's regime, Venezuela saw historic economic prosperity. The post-World War II economic boom being felt all over the world increased demand for oil, and Venezuela became a key supplier. Venezuela gained most of its profits from foreign consumption of Venezuelan oil. Instability across the Middle East spooked European and North American oil companies, and Venezuela saw foreign investment triple from 1950-1957 (Gallegos, 2016). Dictator Pérez Jiménez adopted a laissez-faire economic

policy in which he allowed companies to flourish free of regulatory hassles. Unlike leaders before him, Pérez Jiménez did not attack oil companies; in fact, he reduced regulation on them. Venezuela had more money than it knew how to spend. Pérez Jiménez had grand visions for Venezuela. He invested heavily in a public works program that would improve infrastructure, low-income housing, schools, and hospitals. All of this was meant to impress foreign investors and change perceptions of Venezuela. For Pérez Jiménez, increased spending on public works would reflect well on him too and could secure his power for years to come (Gallegos). Eventually, his government's spending caught up to him. The spending became very inefficient due to corruption within his own administration. To fix the problem of corruption within his administration, Pérez Jiménez chose to ignore the corruption and cut business subsidies and social spending instead. The end of some business subsidies angered the entrepreneurial class, and the cuts in social spending angered low and middle-income Venezuelans. Eventually, he too was ousted by the military in 1958 (Gallegos).

The rule of Pérez Jiménez provided new precedents for Venezuela. The country was able to realize its potential as an oil producer in the global marketplace, and Venezuelan citizens enjoyed the prosperity that came as a result of more foreign demand for its oil (Gallegos, 2016). His rule also set the expectations of citizens when it came to social programs. Unfortunately, future leaders did not learn from the lessons of Pérez Jiménez's dictatorship.

Venezuelans elected Rómulo Betancourt to be president and he called on a former Venezuelan leader to help shape oil policy, Pablo Pérez Alfonzo. While living in exile during Pérez Jiménez's rule, Alfonzo studied the oil industry thoroughly so that he could

help Venezuela manage its oil riches should he ever be called upon again. He again created an alliance with Middle Eastern oil producing countries, and they formed the world's first cartel of oil producing nations, the Organization of the Petroleum Exporting Countries, or OPEC (Gallegos, 2016). Together, OPEC could control foreign companies extracting oil in their countries more closely and OPEC members changed the fifty-fifty agreement to a sixty-forty agreement in favor of the oil producing nations, not the oil corporations. For Venezuela, manufacturing was growing annually at seven percent, and accounted for nearly a quarter of all jobs. Oil and manufacturing provided the most jobs in Venezuela and agriculture offered little. Even with a growing retail job market, more than half of Venezuela's population was unemployed (Gallegos). The Venezuelan government provided social spending and subsidized services to provide for its unemployed citizens. Government spending on social programs rose to 31.4 percent of all government spending by the early 1970's (Gallegos). Clearly, Venezuelan leaders did not learn from the lessons of the Pérez Jiménez dictatorship. Increased regulation and oversight sent signals to foreign oil corporations that they would not necessarily be able to rely on Venezuela as a nation that would continue loose oversight of the oil industry as long as the country saw economic prosperity. This time period also signaled to the world that Venezuela possessed strong diplomatic negotiating skills that would allow it to dictate the terms and conditions under which foreign oil companies were able to operate in the Middle East as well as Venezuela.

The Yom Kippur War could have been one of the greatest things to happen for the Venezuelan economy, but it became a nightmare within a decade. In 1973, Arab oil producers announced an embargo on crude oil shipped to Western nations because of

Western nations' support for Israel in the conflict (Gallegos, 2016). As a result, the price of Venezuelan oil rose 260 percent, and the amount of money the country earned from oil tripled. The president at the time, Carlos Andrés Pérez, asked congress for special powers to better distribute the large influx of cash. For the first time in Venezuela's history, inflation became a major concern. Leaders and economists alike feared that the sudden inundation of cash would be too much for the economy to handle and that prices would spike as a result. This enormous spike in cash due to the conflict between Arab and Western nations should have been viewed as a fortuitous event by Venezuelan leaders. Such a perspective might have pushed them to save some of the money as a result, but leaders failed to categorize it as a one-time event. They treated it as a new expectation of profits that should flow into Venezuela from oil.

President Pérez created unnecessary government jobs and increased spending on social services. Despite his efforts, inflation rose quickly to 11.6 percent between 1974 and 1975. His solution to stop the rapid inflation was to implement price controls and dictate an increase in wages and salaries. He also prohibited companies who felt squeezed economically by the wage increases from laying off workers (Gallegos, 2016). Unsurprisingly, his solutions did not work. While inflation was a problem for Venezuelans, they learned a valuable lesson in economics. When inflation rises rapidly, money loses its purchasing power. Venezuelans figured out that their money sitting in bank accounts were actually losing purchasing power as the interest paid on deposits fell far below the rate of inflation. This created an incentive for borrowing and spending heavily. Venezuela showed a seemingly infinite consumption capacity and foreign

imports poured into the country as citizens could now afford what were once viewed as luxury items out of their price range such as Cadillacs and flights to Paris.

In what should have been a sound economic decision, President Pérez created the Venezuelan Investment Fund (Gallegos, 2016). The purpose of this fund was to save half of the country's oil revenue to prevent too much money from entering the economy and to save money in the event that oil profits dropped. In practice, the fund never received half of the country's oil revenue, and Pérez treated the fund as a bank from which he could draw to lend to other nations and increase the government payroll (Gallegos). Pérez was popular with the Venezuelan people, and he saw an opportunity to increase his popularity by putting more money in the government's pockets by going after the oil industry more aggressively.

Early in his administration, Pérez enacted a series of laws that controlled how oil was priced, and he also charged foreign companies for unpaid taxes. Most importantly, he set an end date of 1983 for most concessions made to foreign oil companies. Foreign companies discontinued investment in Venezuelan production because they feared they would soon lose their businesses anyway. In 1976, Venezuela seized the assets of foreign oil corporations, giving the Venezuelan government full control of its most valuable asset (Gallegos, 2016). The state-run oil corporation was called *Petróleos de Venezuela* (PDVSA), and at the time it was still insulated from politics (Gallegos). The 1970's gave Venezuelans a taste of the riches that can come from being a massive exporter of oil. As a result of high oil revenues and a strong currency, Venezuela's economy was able to produce little, aside from oil, relative to what it imported. Because Venezuelan officials and citizens were enjoying a period of rapid growth and economic prosperity, few

thought of the consequences that negative market movements could have on the economy. The people of Venezuela had become accustomed to a life of consumption and the politicians of Venezuela had become accustomed to a life of popularity.

Venezuela found itself woefully unprepared for the 1980s. The global price of oil dropped by more than fifty percent, but Venezuelans continued to consume. Because the Venezuelan President at the time, Luis Herrera Campins, wanted to remain popular, he continued government spending on social programs. The decline in the price of oil did not deter him. Instead, he quadrupled the country's debts with foreign and local banks and took money from the PDVSA that had previously been set aside for future investment (Gallegos, 2016).

The amount of foreign currency coming into Venezuela dropped dramatically. In an attempt to manage foreign exchange between the Venezuelan Bolivar and the U.S. dollar, Campins unilaterally ordered the devaluation of the bolivar against the U.S. dollar in 1983. He created Recadi to facilitate the exchange of bolivars and dollars and set two exchange rates. One exchange rate at 4.3 bolivars per dollar and the other at 6 bolivars per dollar (Gallegos, 2016). This created a massive problem for Venezuelans.

Throughout the 1980s, the country had come to rely on imports. It became harder for Venezuelans to afford imported foods, and Venezuela did not have the necessary domestic agricultural infrastructure to respond to such a crisis. Hoping to control runaway price increases for basic necessities, Campins instituted price controls on some foods (Gallegos). The price controls hurt manufacturers as the increase in the cost of doing business exceeded the revenues that could come from selling price-controlled goods. Some Venezuelans recognized an arbitrage opportunity as a result of price

controls. They could buy these goods at the controlled price and resell the goods on the black market for a profit. Suddenly, a black market full of price-controlled goods appeared (Gallegos). The details of this economic crisis resemble the current economic crisis quite closely. When Venezuelans had the opportunity to change their leader at the ballot box, they did so. Venezuelans elected Carlos Andrés Pérez again to run the country, hoping that he could return them to the prosperous times of the 1970s (Gallegos).

Once in office, Pérez had to take tough economic measures that contradicted what he had promised on the campaign trail. In an effort to find cash, Venezuela reached out to the International Monetary Fund, and Venezuela renegotiated its debt with the United States. Pérez freed the exchange rate of the bolivar and the U.S. dollar, and the value of the bolivar went down 61 percent. He also lifted price controls and the price of basic gasoline went up by 100 percent. For the first time, a Venezuelan leader had touched the price of gasoline, seen by many as almost an entitlement (Gallegos, 2016). The combination of a devalued currency and an increase in gas prices was too much to bear for some. There were riots in the streets of Venezuela that left hundreds of Venezuelans dead (Gallegos). In 1989, poverty levels in Venezuela reached ten times their levels in 1981. Most Venezuelans did not understand that the crisis they were enduring was a result of mismanaged oil funds and overspending by the government. Instead, they blamed corruption by government officials and importers. While corruption certainly played a role, the mismanagement of oil riches contributed to the crisis far more than the corruption.

During the last half of twentieth century, Venezuela's economy saw drastic change. In about fifty years, the country recognized the potential wealth that oil could bring to its people, figured out ways to control more of the global oil market, and suffered from a severe economic crisis as a result of mismanaged wealth. Each passing decade gave Venezuela's government more and more control over the economy, especially the oil sector. Politicians promised to share oil riches with the people in hopes of maintaining popularity, and in many cases, they implemented policies that gave the Venezuelan government more control over the oil sector and the economy as a whole. Global increases in demand for oil in the 1970s brought Venezuela to new heights, but they failed to save profits for days of less demand. As politicians focused on oil, many other sectors of the Venezuelan economy, such as agriculture and manufacturing, contributed less and less to the country's gross domestic product (Gallegos). Venezuelans relied on foreign imports to make up for what its own economy could not produce. When currency exchange restrictions and price controls were lifted near the end of the 1980s, Venezuelan citizens were so dissatisfied with what they saw that they rioted in the streets and demanded action.

In 1992, a Venezuelan paratrooper led a coup attempt against the government. The coup failed, but the people cheered him anyway. In 1998, Venezuelans elected him as their president. That paratrooper was Hugo Chávez. Venezuelans believed political corruption was the biggest thing holding back their country, and Chávez had the strength to stand up to the political class in the minds of many Venezuelans. At the time of Chávez's election, PDVSA had largely been insulated from the political turmoil that had plagued Venezuela. Production was at near an all-time high and foreign oil companies

had returned to Venezuela. Chávez's supporters, known as the Chavistas, saw the high oil output as a problem because it threatened to undermine OPEC and kept oil prices low. PDVSA management believed that capturing a larger share of the oil market in the United States was more important than trying to keep oil prices high.

For Chavistas, PDVSA operated far too independently and PDVSA officers and employees felt that it was being held back by politicians in Venezuela. PDVSA kept the amount that it paid to its owner, the government, low by investing heavily in expansion (Gallegos, 2016). Chavistas viewed PDVSA's reinvestments as a trick to keep money out of the Venezuelan government's hands and as another example of the company functioning too independently. In 2002, Chávez made his move to take control of the company. He appointed loyal allies, some with no business experience, to the company's board (Gallegos). Employees protested this action in the streets and demanded that Chávez allow PDVSA to operate independently, and opposition leaders led a coup that briefly unseated him. With the military still on his side, Chávez was reinstated as leader (Gallegos).

Opposition inside PDVSA was so powerful that workers declared a two-month strike, knowing that it would cause economic stress. Unsurprisingly, the country lost billions in oil revenues, and gas stations inside Venezuela ran out of gas to sell. Instead of realizing that PDVSA could bring in more revenue, thus giving his regime more money to finance its socialist projects, Chávez saw the strikes as the perfect time to seize control of the company. Chávez fired over nineteen thousand employees in addition to PDVSA executives (Gallegos, 2016).

During the strike, Chávez fixed the bolivar's exchange rate with the dollar in an attempt to keep Venezuela's currency strong, and he tried to control inflation by instituting price controls. Chávez's actions demonstrate that he either did not know or did not care that leaders before him had done the exact same things and suffered dire consequences as a result. Luckily for Chávez, global demand for oil was increasing. Over the next decade, Venezuela enjoyed a boom in oil prices that brought in considerably high revenues. Chavez used these profits to finance his agenda. He called it "Twenty-First-Century Socialism." He believed that socialism could work in Venezuela if the government took control of the country's most important industries. Chávez then began seizing influential companies in the agricultural and manufacturing industries. Realizing that foreign oil companies played such an important role in Venezuela, Chávez did not nationalize them immediately. Doing so could upset leaders in the home countries of those companies and Chávez did not want to hurt Venezuela's chances of capitalizing on high oil prices globally. Instead, he gave them the option of accepting minority stakes to avoid nationalization.

Even though Venezuela was experiencing an increase in revenues coming into the country, it was still not enough to completely finance Chávez's agenda. He borrowed from foreign governments and spent the savings of PDVSA. In an attempt to gain support with Venezuelans who earned less income, he passed a law forbidding lay-offs and doubled the number of government employees. Venezuelan agriculture still could not supply the country's demand and imports rose during Chávez's time as leader. Chávez had made Venezuela more dependent on oil than at any other time in its history.

When Chávez died in 2013, his popularity levels were high. Many supported his social programs, which had been largely successful, albeit very costly. Economically, he had inadvertently created a booming black market for currency, price-controlled commodities, and even oil with price controls and currency exchange controls. Arbitragers realized that they could buy commodities or dollars at the controlled price and sell it on the black market for a very high profit. Gas arbitragers smuggled their goods into other countries to avoid having to sell at the government's low price. For Chávez, the risks posed to Venezuela's economy did not matter. He was popular, which was the most important thing.

Overdependence on high oil prices left the Venezuelan economy vulnerable to low global prices and high volatility. Increased imports left Venezuela's currency vulnerable to increased import prices. Venezuela's economic model was very simple. It sold large amounts of oil to foreign countries, produced very little else, and imported whatever else it needed (Arias, Madrid, and Barrios, 2018). Fortunately for Chávez, he did not live to see the consequences of overdependence on oil. As with other leaders before him, Chávez worried about one thing and one thing only, his popularity among the Venezuelan people.

As a result of Chávez's policies, Venezuela would have little money to spend on its expensive social programs if oil revenues were to decline due to decreased demand or decreased prices. An increase in import prices posed a threat to Venezuela's currency and large numbers of Venezuelans depended on imported food. Most importantly, Chávez and his administration did not put aside money in case of adverse events.

Savings would have somewhat lowered the risks posed to Venezuela's economy by lower oil prices, but there simply were none.

At the time of his death in 2013, Venezuela's GDP was \$371 billion (Statista, 2019). The price of a barrel of crude oil was \$105.87, and Venezuela produced 2.68 million barrels that year (Trading Economics, 2017). PDVSA paid nearly ninety percent of its revenues to the Venezuelan government, but it was still far below the amount that the government spent (Gallegos, 2016). Spending in 2013 represented more than a fifty percent increase from the previous year. That same year, government debt levels were at more than seventy two percent of GDP. A significant drop in the price of oil produced by OPEC countries would mean that debt levels would have to spike in order to maintain Venezuela's desired level of government spending, assuming leaders wanted to keep spending levels constant and assuming that import prices do not rise. It is unrealistic to assume that prices of goods purchased by the government would not increase due to inflation. When the price of crude oil produced by OPEC countries finally fell, Venezuela was not prepared for what would happen next.

Chapter 2: Live by the Three, Die by the Three

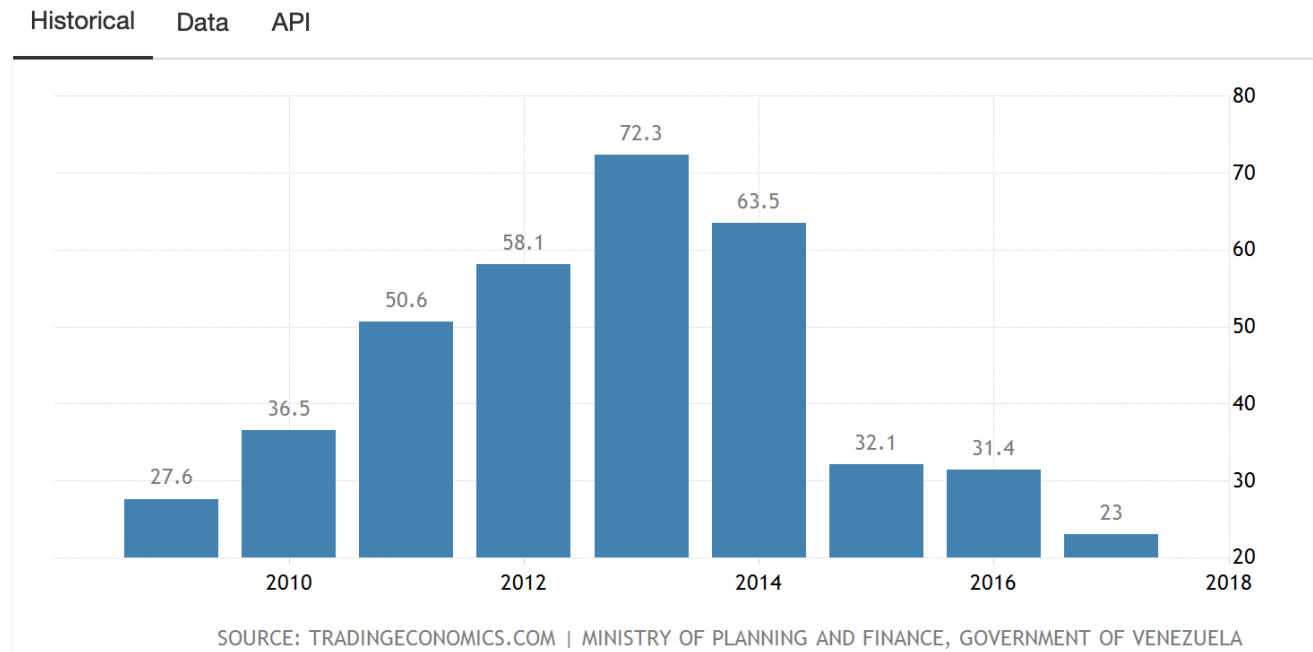
In basketball, a team that can consistently make three-point baskets is usually in a great position to win many games, as long as the team can also score in other ways. When they cannot, they will almost certainly lose if they are not able to hit three-point baskets in any given game. Basketball players, like the global economy, can be very unpredictable. A team could make every single three-point attempt in one game and that same team could miss every single one the next game. As any coach, player, or fan will say, this strategy is not reliable game to game because any unplanned adverse event can threaten the team's ability to hit three-point shots. For example, if the best player suffers an injury that prevents him or her from playing, the team will not be able to perform at the same level.

The same applies to the global economy. An economy could grow by ten percent one year but shrink by ten percent the very next year. The Venezuelan economy was in a similar situation. With the price of OPEC oil high, the Venezuelan government could spend large amounts of money. There was not a plan if prices dropped. Nevertheless, crude oil prices dropped dramatically over the next few years with dire consequences for Venezuela's economy. Oil revenues alone were not enough to finance the entire spending of the Venezuelan government and debt levels were already very high. Any shrinkage in the amount of oil money coming in would mean that debt levels would have to rise if the government wanted to maintain spending levels.

Even as the price of oil began to reach its peak, the Venezuelan government's debt levels actually increased, as illustrated by Figure 1 and Figure 2. Figure 1 lists the

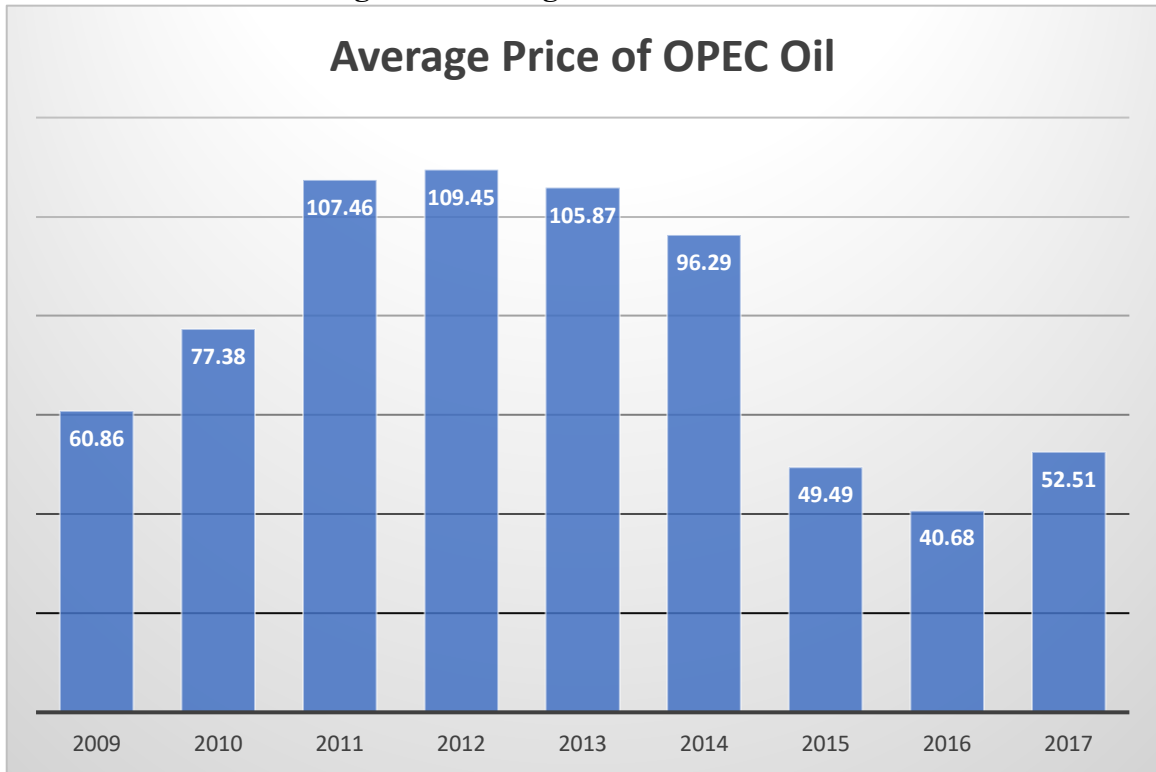
global price of oil, and Figure 2 shows the levels of government debt to gross domestic product for Venezuela.

Figure 1: Venezuelan Sovereign Debt Levels



Source: tradingeconomics.com, Ministry of Planning and Finance, Government of Venezuela, 2019

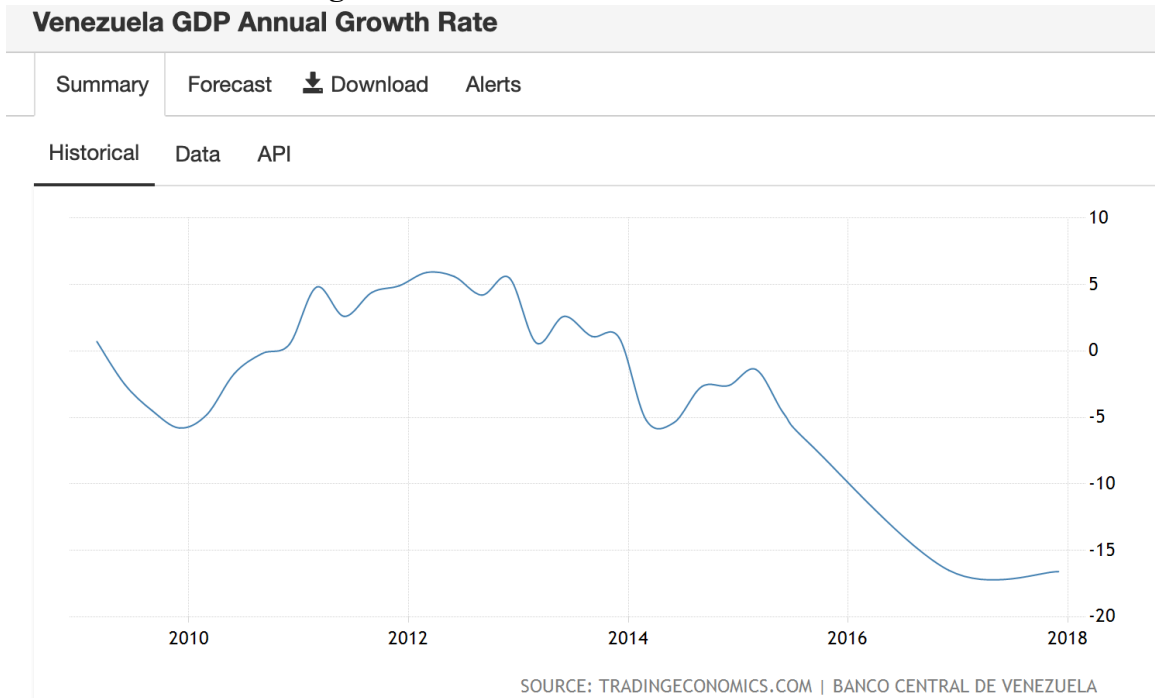
Figure 2: Average Price of OPEC Oil



Source: Statista.com, 2018

Beginning in 2013, the average annual price for crude oil from OPEC countries began to fall. From 2014-2015, the price fell by more than forty-eight percent from \$96.29 per barrel to just \$49.49 per barrel of crude oil (Statista, 2018). Not surprisingly, the GDP of Venezuela shrank over that same period (Trading Economics, 2017), as did the level of government spending financed by debt as shown by Figure 1. The GDP of Venezuela is shown in Figure 3.

Figure 3: Venezuela's GDP Growth Rate



Source: Tradingeconomics.com, Banco Central de Venezuela, 2017

Imports, as a percentage of the GDP, also rose during this time, according to the World Bank, shown in Figure 4.

Figure 4: Imports as a Percentage of GDP



Source: World Bank, data.worldbank.org, 2019

Around the time that oil prices began to drop, sanctions against Iranian oil producers were lifted. Venezuela had another country with which it had to compete, putting downward pressure on oil prices (Gallegos, 2016).

Venezuela's economic strategy of using oil profits to satisfy demand through imports of remaining goods collapsed on itself as the oil profits continued to shrink (Arias, Madrid, and Barrios, 2018). In 2014, imports represented more than thirty-one percent of Venezuela's Gross Domestic Product, according to Figure 1. In order to continue importing at high levels, Venezuela would need to acquire foreign currency. The increased demand for dollars in Venezuela caused a massive decline in the value of the bolivar (Arias, Madrid, and Barrios). President Maduro attempted to control the rapid

inflation by implementing a fixed exchange rate of bolivars and dollars determined by the Venezuelan government (Gallegos, 2016). Implementation of the policy has been complicated by corruption and the fact that more than one official exchange rate existed, creating an immediate arbitrage opportunity for black market entrepreneurs (Gallegos).

Under the system, the National Center of External Commerce, or Centro Nacional de Comercio Exterior (CENOCEX), allocates foreign currency to companies or organizations that demand it, and the official exchange rate depends on the imported good or goods (Arias, Madrid, and Barrios, 2018). Before 2014, the government modified the exchange rates as necessary to cover the demand (Arias, Madrid, and Barrios). When the price of oil began declining in 2014, the National Center of External Commerce did not have sufficient cash flow to satisfy demand for imports. The National Center of External Commerce settled eighty four percent fewer transactions from 2014 to 2016 (Arias, Madrid, and Barrios). Delays in processing requests began to mount, and Venezuelan companies lost credit lines with international suppliers (Arias, Madrid, and Barrios). The decrease in settling of imports by the National Center of External Commerce was the result of inefficiencies at the agency, not decreasing demand for imports in Venezuela (Arias, Madrid, and Barrios). The unforeseen lack of oil profits created a fiscal deficit for the Venezuelan government. In an attempt to decrease that deficit, Venezuela created more money which caused high levels of inflation illustrated by Figure 5 (Cerra, 2017). The graph shows the levels of inflation in Venezuela before the decrease in global oil prices and the levels of inflation in Venezuela after the decrease in global oil prices.

Figure 5: Price of Oil Before and During Economic Collapse

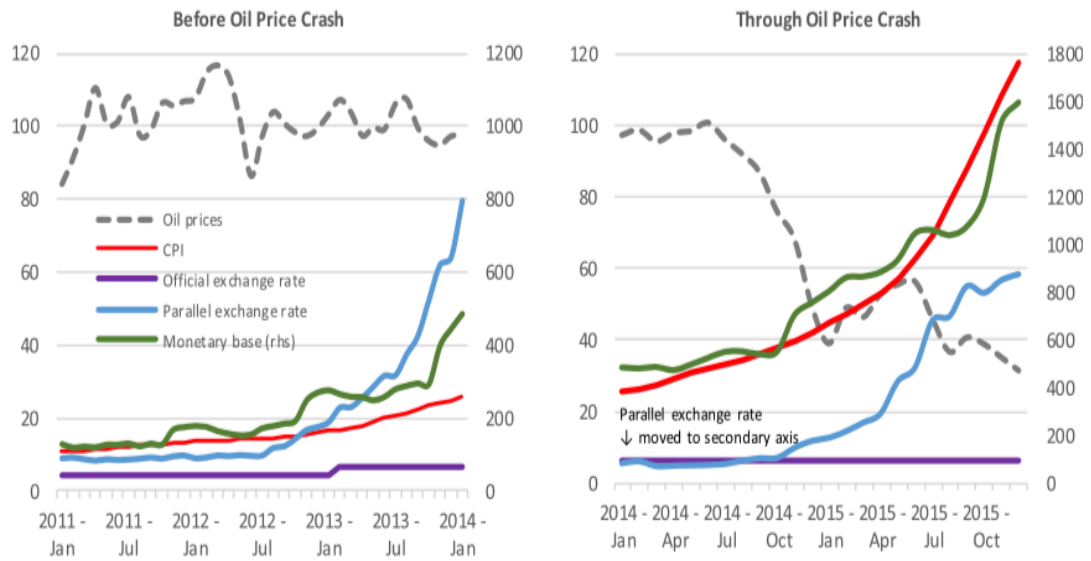


Fig. 1. Venezuela economic developments. Source: Central Bank of Venezuela; dolartoday.com; author's calculations.

Source: Bank of Venezuela; dolartoday.com; Cerra, 2017

Not surprisingly, the decline in the price of oil caused a serious decline in the profitability of the state-run oil company, *Petróleos de Venezuela*. Because the government relied so heavily on PDVSA to finance its operations, the decline in revenues meant substantially less revenue for the government as well. Domestic importers faced other problems in addition to the loss of credit. Prices of imported goods and raw materials were on the rise, but the goods that they produced had to be sold at a price determined by the government. Importing became a losing business because black market salesmen could easily buy whatever goods they wanted to at the government-controlled prices and then resell it on the black market at prices closer to real values (Gallegos, 2016). The producers had to operate at a loss if the cost of imported materials exceeded the profits from the sale of price-controlled goods which made their situation even more bleak (Gallegos).

Inflation in Venezuela reached the highest levels in the world (Arias, Madrid, and Barrios, 2018). The International Monetary Fund predicted that the Venezuelan economy would contract by eighteen percent in 2018, and the official Gross Domestic Product for 2018 is not yet known (Arias, Madrid, and Barrios). In total, the Venezuelan economy has contracted by thirty-five percent from 2014-2017 (Arias, Madrid, and Barrios).

With inflation levels high, workers in Venezuela suffered. Working conditions in Venezuela deteriorated rapidly as a result of rising inflation. The minimum wage was woefully inadequate to support an individual earning it even though the government has raised the minimum wage fifteen times. In order to keep pace with inflation, a Venezuelan worker would have to earn ninety-eight minimum wage salaries to afford a basic family food basket, the primary indicator of inflation in Venezuela (Arias, Madrid, and Barrios, 2018). Some domestic manufacturers reported that they were operating at less than half of their capacity and the price of production had increased more than seven hundred percent because of the increased prices of imports needed to manufacture their goods (Arias, Madrid, and Barrios). Other businesses have been forced to shut down because they simply do not have the raw materials required from import markets to produce their products (Arias, Madrid, and Barrios). Multinational companies with a presence in Venezuela were forced to shut down or discontinue operations in Venezuela due to the poor macroeconomic conditions or the company was nationalized by the Venezuelan regime (Arias, Madrid, and Barrios). The precise number of jobs affected by the shutdown of multinational companies is not yet known, but it is estimated that more than fifty thousand direct jobs have been lost as a result and more than two hundred thousand indirect jobs have been lost (Arias, Madrid, and Barrios).

Venezuelan citizens left the country in hopes of finding better economic conditions. Neighboring countries such as Columbia, Peru, and Ecuador declared states of emergency to deal with the increase in economic refugees from Venezuela (Arias, Madrid, and Barrios, 2018). Many countries in the region have also criticized President Maduro for his actions during the crisis and have called for his resignation (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Migrants list hyperinflation and “virtually inexistent wages” among the reasons for fleeing Venezuela (Arias, Madrid, and Barrios). Food and medicines had to be rationed, and each citizen had a specific day of the week on which he or she could purchase these goods. Once a person had made his or her purchase for the week, stores could not sell to him or her again until the next week (Arias, Madrid, and Barrios). In Venezuela, services such as water, gas, electricity, and telecommunications are provided by the government. Access to these services is a common indicator of poverty, but access is not determined by individuals’ or companies’ abilities to pay for them. Instead, an appropriate way to measure access to these services is by the supply of the services themselves (Arias, Madrid, and Barrios). Venezuelans suffer from long periods of time without water, gas, and electricity, indicating large levels of poverty. The rationed amounts of both food and medicine were often not enough, and Venezuelans were forced to turn to the black market to stay alive in some cases (Gallegos, 2016). Statistics concerning poverty illustrate the dire situation of Venezuela. Almost ninety percent of the population lives in poverty and more than sixty percent lives in extreme poverty (Arias, Madrid, and Barrios).

Without profits from crude oil revenues pouring into Venezuela, the government had to look to external debt markets for financing. The two most willing lenders were China and Russia (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2017). China became the main lender for Venezuela, and it continued to lend until recently when real concerns about default began to rise. China and Russia saw an opportunity to effectively take economic control of a nation with vast amounts of oil. The fact that Venezuela is in the Western Hemisphere and is a trading partner of the United States was a bonus on top of controlling even larger amounts of oil reserves.

Venezuela continued borrowing but did little to actually improve the economy and the probability that it would be able to repay its debtors. It managed to renegotiate portions of its outstanding debt, but Venezuelan credit suffered as a result (Gallegos, 2016). When the credit rating of Venezuela's government fell, it became even harder for the regime to obtain financing for the large subsidies it gave out (Reinhart and Santos, 2016).

Venezuela had made an economy where oil revenues financed the rest of the country. Venezuelan leaders did not think to prepare for lower crude oil prices globally, despite the warnings of some. Without oil revenues at their all-time highs, Venezuela became the basketball team that relied on the three, but it could not make it because its best player was out with an injury.

Chapter 3: Venezuela's Response and the Role of Foreign

Influence

Under Venezuela's currency exchange system, Venezuelan citizens and firms do not purchase foreign currency on the open market. Instead, the central bank rations dollars to demanding individuals and firms based on the amount of export revenues of PDVSA (Cerra, 2017). As the price of oil dropped, so did the revenues of PDVSA and the amount of foreign currency deposits at the central bank. The decrease in export revenues corresponds to a decrease in currency available for allocation from the central bank (Cerra). Without foreign currency reserves at the central bank from PDVSA revenues, the Maduro regime looked to other nations for direct financing. China, Russia, Cuba, and Iran emerged as the most willing countries to finance the Venezuelan government (The Venezuela Crisis: The Influence of State and Criminal Actors, 2017).

Foreign lenders became very worried about Venezuela's increased spending while oil prices continued to decline. In 2015, Venezuela's oil revenues were barely high enough to cover its debt payments. Between 2016 and 2017, the Venezuelan government began to fall behind on its payments to China, who had become a key financing partner for the Maduro regime (The Venezuela Crisis: The Influence of State and Criminal Actors, 2017). President Maduro flew to China in order to renegotiate the country's debt in an attempt to save Venezuela from bankruptcy in the short-term and possibly secure more financing for the future (Gallegos, 2016). Venezuelan leaders, including President Maduro, recognized that it would need to find a source of income other than oil exports. China, Russia, Iran, and Cuba have all shown willingness to support President Maduro in

various capacities (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors).

China's influence in Venezuela begins in 2014, just as the Maduro regime began looking for alternative options to finance its operations (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2017). PDVSA moved its current accounts from Banco Espirito Santo, a Portuguese bank, to a Chinese Bank, CITIC (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). The Chinese government supplied the Venezuelan government with lines of credit that other governments refused to offer. In fact, lending to Venezuela accounted for forty-four percent of total lending by Chinese banks in the region as of 2017 (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Many have estimated that the Chinese government has extended over sixty billion dollars to the Venezuelan government since 2005, and they have an agreement under which Venezuela repays the Chinese with shipments of Venezuelan oil (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). As multinational companies began to withdraw from Venezuela, Chinese firms began filling the void (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). China's primary interest in Venezuela is economic. While there are still other interests that China could advance in Venezuela, China's primary interest remains economic (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors).

As the crisis in Venezuela deepens, it is likely that China will be less willing to accept larger levels of risk with respect to Venezuela (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2017). While China is less likely to

assume more risk, it is likely comfortable with the current level of investment it has made in Venezuela. In 2017, Venezuelan government owed approximately fifteen billion dollars to China, but the Chinese investment corporation's loan portfolio stood at nine hundred billion dollars (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Relatively speaking, the Chinese were willing to accept the loss of fifteen billion dollars in a nine hundred billion loan portfolio. Chinese officials have also engaged in informal talks with opposition party leaders seeking guarantees that any future government would continue honoring the obligations owed to China (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors).

While the China possesses the largest foreign financial influence in Venezuela, the role of Russia is significant. Since 2008, Rosneft, a Russian state-owned company, has provided an estimated seventeen billion dollars of financing for the Venezuelan oil sector (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). In 2016, Rosneft loaned PDVSA one and a half billion dollars in exchange for forty-nine percent ownership in CITGO, a PDVSA subsidiary (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Officials in the United States opposed the deal, citing national security concerns and the deal was the subject of a review by the Committee on Foreign Investment in the United States (CFIUS) (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). The United States Treasury pledged to review the deal, but it has not been blocked by United States officials (Wald, 2019). The United States issued sanctions on Venezuelan oil, limiting Venezuela's access to export markets that remained crucial to the Venezuelan government's ability to finance itself (The Venezuela Crisis: The Malicious Influence of

State and Criminal Actors). China and Russia both exploited the opportunity to provide more financing to the Venezuelan regime in an attempt to expand their financial influence over Venezuela and their political influence in the region (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors).

Cuba also played a role in supporting the Venezuelan regime. Instead of financing the regime directly, the Cuban government sent political and military advisors to Venezuela to help Hugo Chávez solidify his control over the Venezuelan government which allows President Maduro to retain control currently (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2017). While Cuban support may not be direct in terms of financing, it has played a crucial role in allowing President Maduro to retain power and influencing his decision making throughout the crisis (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Cuba has not shown that willingness to support the Venezuelan regime if it is not paid. In 2012, trade between Venezuela and China stood at around seven and a half billion dollars, and there were over forty thousand Cuban operatives in Venezuela (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). Trade between the two countries dropped to just over two billion dollars in 2017 and the number of Cuban personnel in the country decreased (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors). While Cuba is less likely to support the Venezuelan regime if it cannot be paid, its influence during the Chávez years as well as the time since President Maduro has been in power have been substantial in allowing the regime to retain power. The Maduro regime has also relied on financing from illegal narcotic activities as well, though to a lesser

extent than it has relied on financing from foreign governments (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors).

Nicolás Maduro's attention turned to the political crisis that came as a result of the economic crisis. Instead of implementing policies that would have helped Venezuelans, Maduro focused on improving his popularity. He hoped that improved popularity would improve his chances of remaining in power (The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2017). He began appearing on national television to give individual citizens whatever they requested, whether it was a home, a car, or a scholarship (Gallegos, 2016). While it may have helped a few individuals, the macro-economy continued to suffer. The televised gifts helped increase Maduro's popularity. The Venezuelan government began massive public projects to build housing just before an election (Gallegos). It was an obvious attempt to gain more votes and it worked. For Chávez and Maduro, winning elections became more important than implementing long-term policies to fix the economy.

As the Venezuelan government turned its attention to politically popular spending, the government's ability to provide basic services for its people began to crumble. Even though Venezuela has the twelfth largest renewable water resource in the world, cities in Venezuela suffer water shortages because the reservoirs cannot keep up with demand. The reservoirs that supply water to Caracas, Venezuela's capital city, are outdated (Gallegos, 2016). Even though the Venezuelan government has begun improving the outdated reservoirs, lack of funding for the project has caused a delay of over a decade for completion (Gallegos). Venezuelans also have to endure blackouts where they do not have access to electricity (BBC). The Venezuelan energy sector

suffers from the same problem as its water supply. Venezuela nationalized power companies in 2007, but not enough money has been invested in new power generation capacity (Gallegos). Even though the nation still has vast oil reserves, most of the electricity in Venezuela is generated in hydropower plants (Gallegos). Droughts have made the energy problem in Venezuela even worse (Werrell and Femia, 2019). While the Venezuelan government seemed to struggle finding profits from PDVSA and foreign currency to allocate for importing goods and providing basic services to its citizens, spending on the Venezuelan military has grown during this period (The Venezuela Crisis: The Influence of State and Criminal Actors).

In addition to direct financing, Russia and China have helped the Maduro regime retain power by arming its military (The Venezuela Crisis: The Influence of State and Criminal Actors, 2017). Like Venezuelan leaders before him, President Maduro has been able to remain in power largely because he continues to control the military. Venezuela's government purchased over two and a half billion dollars of military equipment from China on credit in 2017 (The Venezuela Crisis: The Influence of State and Criminal Actors). In the same year, Russia provided over eleven billion dollars of military equipment to Maduro's regime (The Venezuela Crisis: The Influence of State and Criminal Actors). For years, leaders of Western European Nations as well as leaders of the United States have condemned the Maduro regime and issued sanctions on top Venezuelan officials in attempts to limit financing for the Maduro regime (The Venezuela Crisis: The Influence of State and Criminal Actors). Even though sanctions have made it harder for the Maduro government to obtain financing, China and Russia still provide sufficient military and financial support to keep President Maduro in power.

Due to strict international sanctions, the Venezuelan people would not benefit from an increase in global oil prices because many nations are restricted from buying Venezuelan oil (Parraga, 2019). With access to markets in the United States severely restricted, Venezuela has increased its exports to Asian countries, specifically China (Parraga).

Chapter 4: Comparing Petr6leos de Venezuela to Other Oil Companies

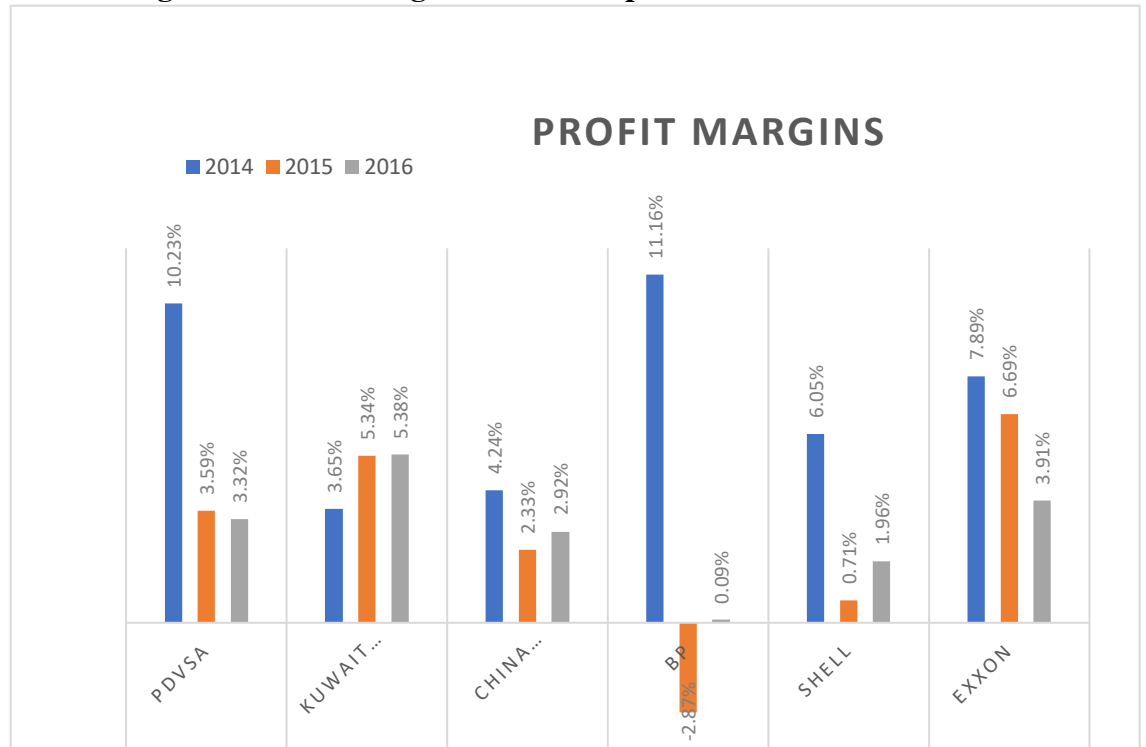
Studying Petr6leos de Venezuela and comparing it to similar oil companies shows that overdependence on PDVSA profits contributed to the current crisis. Declining oil prices caused revenues for PDVSA to decrease significantly and caused a significant increase in the risk of default for both PDVSA and the Venezuelan government. The decline in the price of oil mirrors a decline in the profits of PDVSA from 2014-2016 (PDVSA Annual Report, 2016). The state-run oil company of Kuwait, Kuwait Petroleum Corporation, also saw a dramatic decline in revenues (Kuwait Petroleum Corporation Annual Report, 2016). Since both Venezuela and Kuwait are members of OPEC, the state-owned oil companies of each country appear to be appropriate for comparison. From 2014-2016, PDVSA's average profit margin was nearly six percent (PDVSA Annual Report), and Kuwait Petroleum Corporation's was closer to five percent. From 2014-2016, PDVSA's enterprise value decreased by more than thirty-two percent while Kuwait Petroleum Corporation's enterprise value actually increased by more than twenty-five percent over the same period. The enterprise value is defined as the company's shareholders' equity plus the company's debt plus the minority interest plus the preferred stock minus excess cash and cash equivalents. This allows an observer to determine the value of the firm before any obligations to creditors. This discrepancy between profit margin growth and enterprise value growth seems perplexing at first since both companies had to respond to the same decline in the global price of oil.

Another state-owned oil company, China National Petroleum Corporation, averaged slightly more than three percent over the same three-year period. Interestingly,

China Petroleum Corporation's enterprise value also increased from 2014 to 2016 but PDVSA still decreased in enterprise value, posing the same perplexing issue seen when comparing Kuwait Petroleum Corporation and PDVSA.

Publicly traded companies British Petroleum, Royal Dutch Shell, and ExxonMobil saw their profit margins vary widely from 2014-2016, as shown in Figure Six but their profit margins seem to follow a pattern with the decrease in the price of oil. Since all three companies are publicly traded companies, they are not necessarily the most appropriate selections for comparable analysis but it is interesting to note that all three actually increase in enterprise value over the same three year timeframe. BP, Shell, and ExxonMobil represent publicly traded companies whose constraints are obviously much different from those of state-owned enterprises but they still show that the enterprise value of oil companies other than PDVSA increased while PDVSA's enterprise value decreased from 2014-2016.

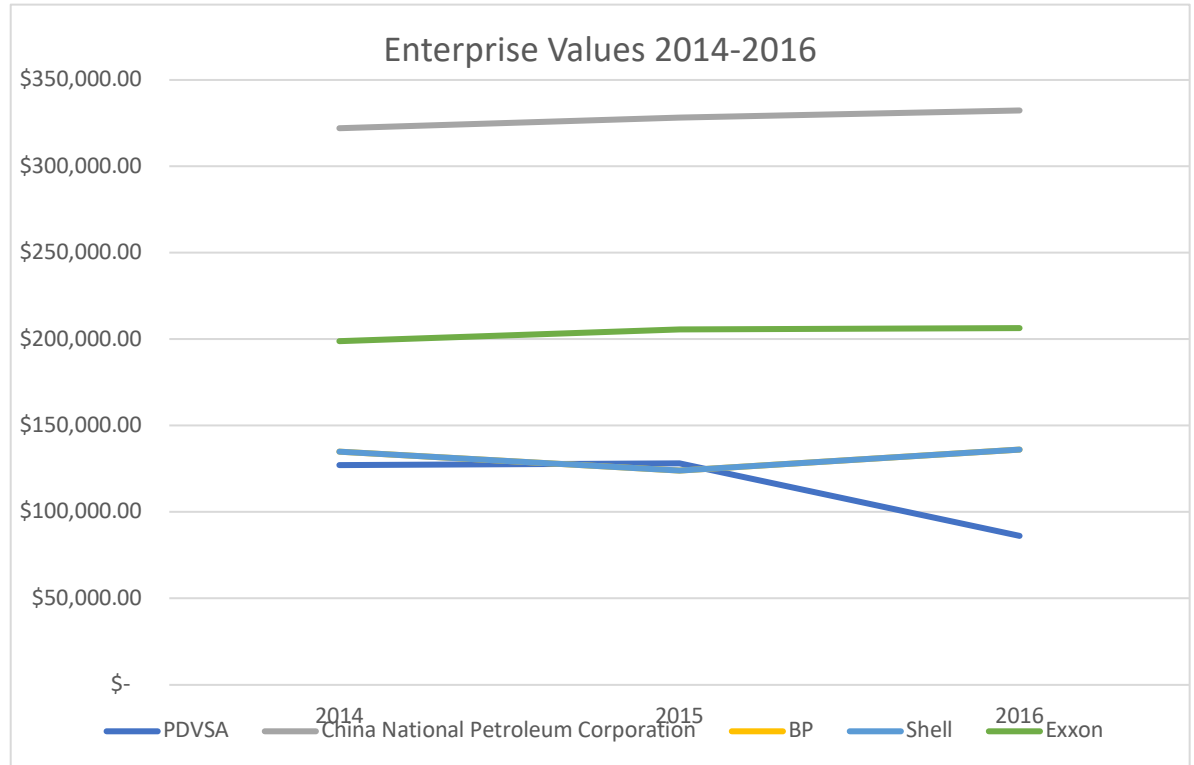
Figure 6: Profit Margins of Oil Companies From 2014-2016



Source: Petróleos de Venezuela, Kuwait Petroleum Corporation, China National Petroleum Corporation, British Petroleum, Royal Dutch Shell, ExxonMobil

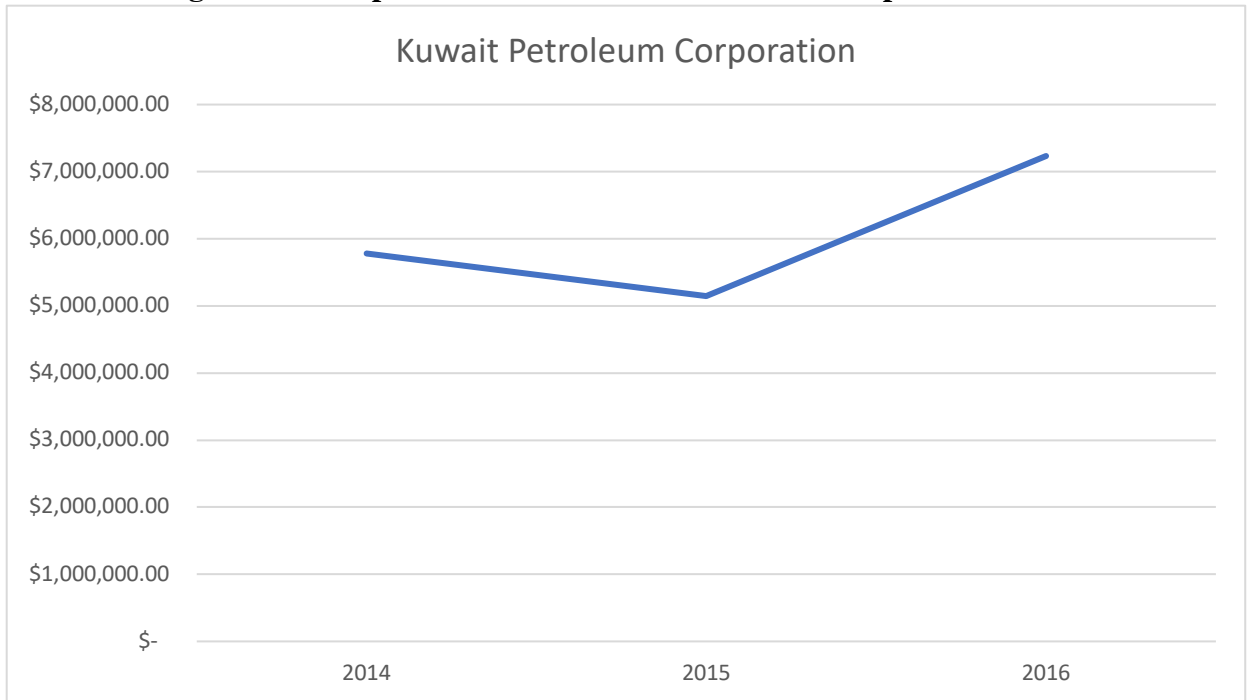
The profit margin of PDVSA fell dramatically over the three-year period and so did most oil companies' profit margins. Profit margins and revenues might lead one to believe that there is a comparable company for PDVSA in order to value it, but the companies listed above actually grew in enterprise value while PDVSA declined dramatically from 2015 to 2016, as illustrated in Figure Seven through Figure Twelve. This indicates that PDVSA is actually not comparable to these firms.

Figure 7: Enterprise Values from 2014-2016 PDVSA, CNPC, BP, Shell, Exxon



Source: PDVSA Annual Report (2014-2016), CNPC Annual Report (2014-2016), BP Annual Report (2014-2016), Royall Dutch Shell Annual Report (2014-2016), ExxonMobil Annual Report (2014-2016).

Figure 8: Enterprise Value of Kuwait Petroleum Corporation



Source: Kuwait Petroleum Corporation Annual Report (2014-2016).

The inputs for the formula come from publicly available financial statements of all of the firms analyzed. The increase in the enterprise values of all of the firms except PDVSA comes mainly from the ability of the firms to obtain debt financing. As the crisis in Venezuela began to unravel, investors became less willing to provide PDVSA with debt financing (Mitchell, 2015). Without access to debt markets, PDVSA did not have the capital to continue operating at such high levels and contribute to the Maduro regime.

The enterprise value of every oil company studied increased while PDVSA contracted significantly over the same period. In order to perform an accurate valuation, financial statements for PDVSA would be ideal. Since no public information is available, a comparable analysis could be performed. This would be the best option because an observer could project future cash flows based on those of a comparable firm whose financial data would be comparable to PDVSA. An essential step for performing

a comparable analysis is selecting appropriately comparable firms. While state-owned enterprises seem appropriate for performing comparable analysis, the inability of PDVSA to obtain debt financing makes the comparison nearly impossible. A study of each of these companies' financial statements still provides interesting insight to compare them to PDVSA even though they were not useful for a comparable analysis to value it.

The significant decrease in enterprise value of PDVSA while all other firms actually increased in enterprise value over the same three-year time period indicates that PDVSA functioned abnormally. As PDVSA was unable to obtain debt financing, the Venezuelan government also was unable to obtain debt financing (Mitchell, 2015). Without sufficient profits from PDVSA, the Venezuelan government found itself facing the possibility of a default. Credit default swaps on Venezuelan sovereign debt increased by more than four thousand basis points in just one year (Mitchell). In order to avoid a default, the Venezuelan government had to either dramatically cut oil production and keep production costs low at PDVSA or dramatically cut imports in an attempt to shrink the imbalance between imports and exports (Mitchell).

Chapter 5: Recent Developments

Academic literature and research on Venezuela since 2017 are scarce, and reliable economic data is difficult to obtain because the Venezuelan government does not publish official statistics. Even though there is little academic literature, there are still many articles and news reports that give the public information about what is happening in Venezuela today. The economic crisis has grabbed the attention of leaders across the globe, and many have called for the end of President Maduro's rule (Chomsky, Carlsen, Grandin, Salas, Fernandes and Ellner, 2019). The economic crisis has caused a political crisis where two leaders simultaneously claim to be President of Venezuela and escalating tensions could lead to an outbreak of war. Some foreign leaders argue that President Maduro is an illegitimate ruler because he won a rigged election in 2018 (Hennigan, 2019). President Trump and administration officials have publicly supported Venezuelan opposition leader, Juan Guaidó, saying that he is the duly elected leader of Venezuela and should be recognized as President of Venezuela (Hennigan). President Maduro accused Guaidó of mounting a coup against him and blamed "US imperialists" for supporting him (BBC, 2019). Russian officials, who support President Maduro, expressed similar sentiments accusing Guaidó of an "illegal attempt to seize power" with the help of the United States and said that it leads to a "direct path to bloodshed" (BBC). Even though Juan Guaidó has declared himself president, he has no real governing

ability, and he is unable to gain the military support necessary to effectively oust President Maduro.

Russia and the United States have become the two most influential foreign powers politically. The United States has taken steps to limit financing available to the Venezuelan government by restricting purchase of Venezuelan oil and prohibiting the purchase of Venezuelan bonds or equity (Hennigan, 2019). Since the United States is the destination of forty-one percent of the oil exported from Venezuela, this will likely have a large impact on the Maduro government's already limited financing (Hennigan). The hope of United States officials and others who support the strategy of placing sanctions on Venezuela is that it will force an internal conflict within Venezuela that forces President Maduro out of office (Kelly, 2019). This strategy is criticized on the grounds that it causes more suffering for the Venezuelan people because it cuts off funding that the Venezuelan government needs to provide basic goods to its people like electricity, food, medicine, and water (Chomsky, Carlsen, Grandin, Salas, Fernandes and Ellner, 2019).

The debate in the international community is not whether or not there should be an international response but rather what the appropriate international response is. Maduro allies believe that regime change is unnecessary and that the government is capable of restoring Venezuela to economic prosperity without political change (Peel, 2019). Those who do not support regime change argue that the external pressure of sanctions is the reason that the Venezuelan government lacks the necessary funding to provide for its people (Chomsky, Carlsen, Grandin, Salas, Fernandes and Ellner, 2019). Those who support regime change argue that corruption has run so rampant in Maduro's

administration that he cannot be trusted to effectively return Venezuela to an economically prosperous country (Gladstone, 2019). Those who support opposition leader Juan Guaidó also allege that regime change is necessary because of rampant human rights violations by the Maduro government (State News Service, 2018). Those in favor of leadership change also insist that the sanctions in place are in response to human rights violations and not intended to further restrict the Venezuelan economy (States News Service, 2017). Although members of both schools of thought agree that military intervention is not yet required, leaders on both sides have shown willingness to engage in military conflict if it becomes necessary (BBC, 2019) (Hennigan, 2019).

United States officials fear that China and Russia will use the crisis in Venezuela to increase their presence in the region (Kelly, 2019). Rhetoric from Trump administration officials has become increasingly aggressive and they have not publicly denied the possibility of military intervention to unseat President Maduro (Kelly). In response, Russia has signaled that it would provide military support to Maduro if necessary (BBC, 2019). On March 23, 2019, Russian military planes landed near Caracas carrying troops and thirty-five tons of equipment (BBC). The Secretary of State for the United States, Mike Pompeo, called Russia's actions "unconstructive" (BBC).

In February 2019, the United States proposed a resolution to the Security Council at the United Nations calling for a credible presidential election (Gladstone, 2019). The resolution required nine votes to pass, but Russia was able to block the resolution (Gladstone). Russian leaders blame the United States for the situation in Venezuela and accused them of unwelcomed involvement which only further destabilized the situation (Peel, 2019). Russian diplomats submitted their own resolution calling for negotiation

between President Maduro and opposition leaders (Gladstone). The United States and other nations sent humanitarian aid to Venezuela through Columbia and Brazil, but it was blocked by the Venezuelan military and Maduro supporters (Gladstone). Foreign leaders recognize the importance of the Venezuelan military for President Maduro. Diplomats from the United States have encouraged defections from top military officials in Venezuela in an attempt to show President Maduro that his regime will crumble if he does not step aside (Morello, 2016).

In addition to the economic crisis, Venezuelans are also suffering from lack of medical attention (Magalhaes and Forero, 2019). President Maduro and his supporters deny that there is any such healthcare crisis and charge that it is a fabricated story used to justify intervention (Magalhaes and Forero). The government has not published health or mortality statistics regularly since 2015, but neighboring countries report higher rates of infectious disease from migrants fleeing Venezuela (Magalhaes and Forero).

As the situation in Venezuela worsens, many are fleeing to neighboring countries such as Brazil and Colombia (State News Service, 2017). Venezuelans who reach the borders of other countries seek protection as refugees while others seek medical care or temporary work (State News Service). The influx of refugees from Venezuela requiring medical attention has put pressure on the public health system in Brazil (State News Service). Human rights leaders have called on governments throughout the region and the world to prepare for mass migrations from Venezuela and have called for a uniform response that puts the health and safety of Venezuelan refugees first (State News Service, 2018). Many countries have adopted rules that would accommodate refugees, including Brazil, Colombia, Chile, and Peru but some fear that Venezuelan refugees bring disease

as a result of their crumbling healthcare system (Magalhaes and Forero, 2018).

International leaders have welcomed the idea of broad South American support for Venezuelan refugees.

While there has not been a resolution to the crisis in Venezuela, there will almost certainly continue to be conflict as international pressure from Russia and the United States escalates. The economic crisis has caused a crisis of succession in Venezuela as President Maduro denies claims that he is an illegitimate president and Juan Guaidó continues to gain international support. While foreign leaders continue to fight over Venezuela in pursuit of their own interests, the Venezuelan people continue to suffer from lack of food, water, medicine, and electricity until there is some resolution.

Conclusion

The crisis in Venezuela today is the result of poor policy decisions that did not prepare for a slowdown in the price of oil. Venezuela's policies throughout history surrounding oil set precedents that current leaders followed even though the policies did not lead to long term prosperity. When prices of oil were high, the government had the ability to allocate funds to importers who could provide the goods which the Venezuelan people needed. When the price of oil was at its peak, the government continued to borrow large amounts of debt to finance the parts of its operations that oil revenues could not. When oil prices dropped, the Venezuelan government was caught without a plan to continue providing for its people. President Maduro was forced to obtain financing from foreign countries, mainly China and Russia, and he clings to power today with financial and military support from these two. The United States is the most vocal adversary of President Maduro and most Western European countries have also supported Venezuelan opposition leader Juan Guaidó.

There is serious debate about the most effective international response to the Venezuelan crisis. One argument is that President Maduro has shown poor leadership and is only interested in maintaining power at the expense of the Venezuelan people and democracy. Supporters of this argument believe that economic sanctions against powerful Venezuelan officials will eventually force the Maduro regime to release its grip on power and give way to a leader chosen by the Venezuelan people. Others argue that harsh sanctions only further harm the Venezuelan people because sanctions cut off desperately needed funding to bring humanitarian aid and basic goods for the Venezuelan people.

As a result of this crisis, Venezuela finds itself in an uncertain state politically and economically. There is significant uncertainty about the bolivar's ability to recover and whether Venezuela's economic model of oil dependence can sustain itself any longer. Politically, there is debate about who is the true President of Venezuela and the country edges closer to war every day. The impact of future actions by foreign powers are still unknown and the topic of fierce debate globally. The only thing that seems certain about the economic, humanitarian, and political crises in Venezuela is that they will not be easily resolved.

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