



Venezuela Crisis :

Battle between Nicolás Maduro and Juan Guaidó

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Long Term Economic Crisis

Fertile ground for economic crisis : long term unhealthy economic system

1. Lack of diversification



The export earning of petroleum accounted for 96 percent of the whole export earning of the country



Petroleum industry is a crucial part of Venezuela's economy

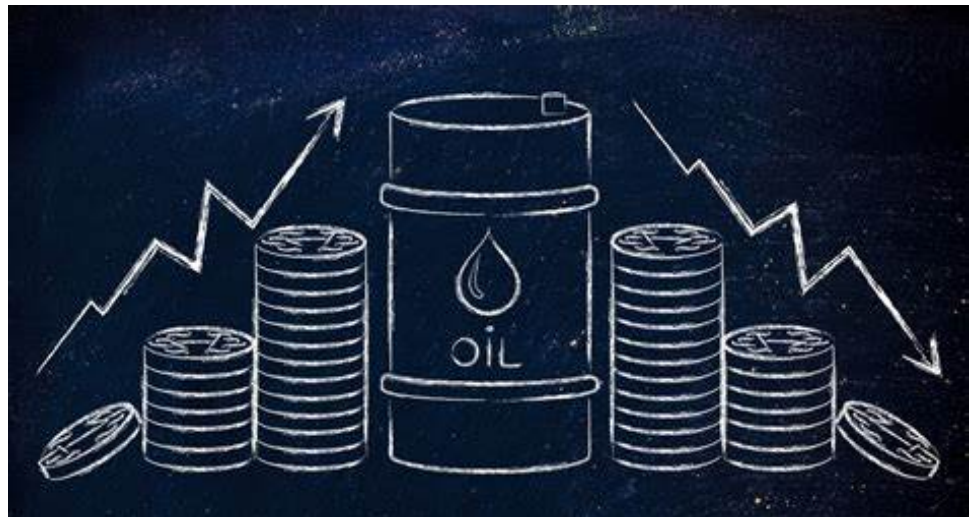
Petroleum industry has been a crucial part of Venezuela's economy for a long time, contributing a considerable part in every economic indicators of the country. In 2016, the economic output of petroleum industry accounted for about 50 percent of Venezuela's GDP. The export earning of petroleum accounted for 96 percent of the whole export earning of the country. And more than 50 percent of Venezuela's fiscal revenue were formed by petroleum industry.

Such kind of economic structure is called single product economy, which is define as a one-sided economic structure in which some developing countries mainly rely on the production and export of several or even one kind of mineral raw materials or agricultural products to maintain the national economy. While single product economy can contribute in short term to the economic prosperity of a country, in long term it will unavoidably make the country's economy fragile when facing international economic changes and relying on import in their weak aspects.



Cocoa industry plays a major role in Ghana's economy

Ghana is a country that has a single product economic structure with cocoa industry playing a major role in Ghana's economy. But with factors such as international market prices of cocoa fluctuate widely, making Ghana's economy very unstable. Ghana's economy may experience a temporary boom when the cocoa harvest is good or the price of cocoa on the international market rises, but when the cocoa harvest fails or the price of cocoa on the international market falls, Ghana's economy may fall into a trough or even into a crisis.

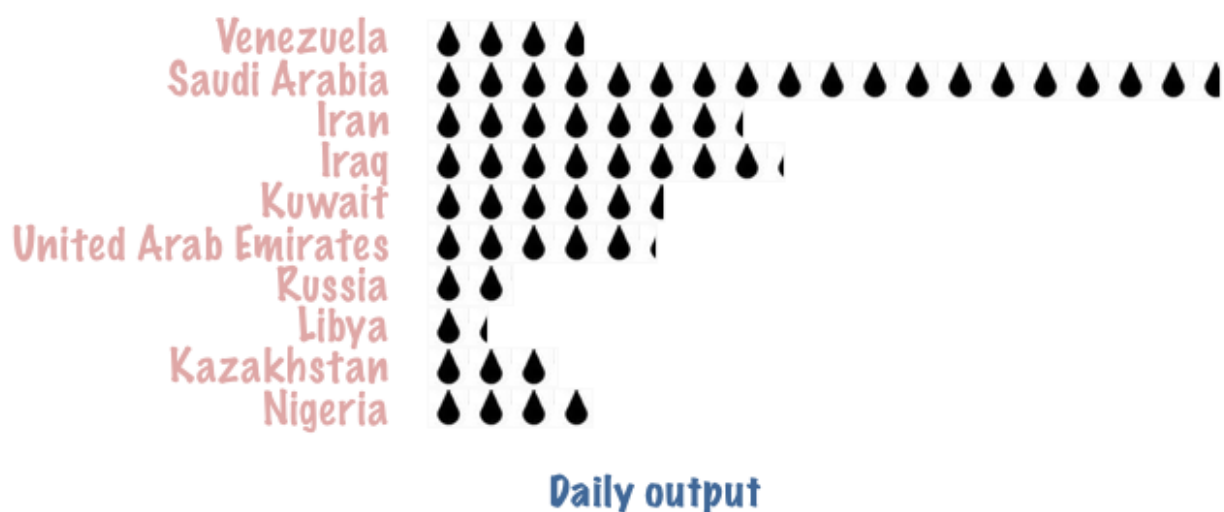
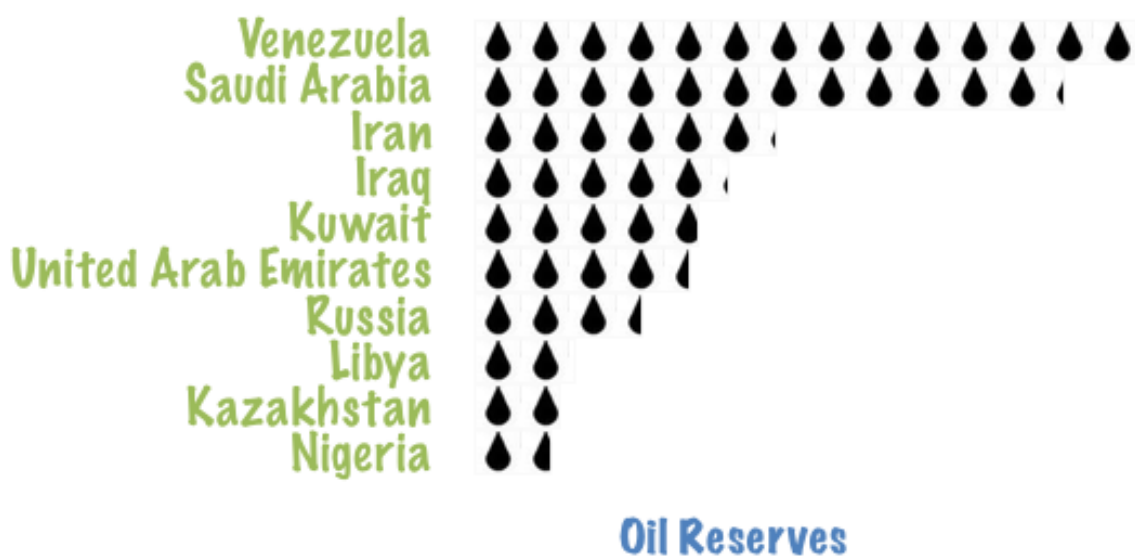


The similar problems also exists in Venezuela's economy. High level of dependence makes the economy very vulnerable, and any turbulence in the oil industry will affect the economic situation of the whole country. In such a condition, it was not surprising that the Venezuela had to face a severe economic crisis when the price of oil fell sharply in 2014.

2. Inside the petroleum industry: poor investment climate and rigorous international competition.

The petroleum industry that Venezuela had been proud of was not perfect or strong enough to support its country.

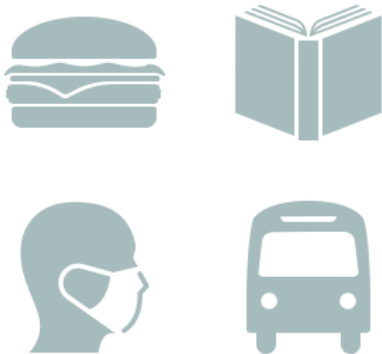
Since Chavez took office, he has gradually nationalized the petroleum industry. As a result, such harsh conditions on foreign investment make foreign oil companies less willing to invest in Venezuela, resulting in insufficient investment in the oil sector.





While Venezuela has the largest oil reserves in the world, most of the proven reserves are heavy crude in the Orinoco belt. The financial and environmental costs of developing heavy crude oil are far higher than for other types of oil. As figures above showed, the daily oil output of Venezuela is less than one fourth of Saudi Arabia's, while the winning cost of it is more than twice of Saudi Arabia's. As global oil production stabilizes and the world shifts to unconventional sources of oil, the profit in oil industry left for Venezuela will unavoidably reduce.

3. High social spending and long time financial deficit



Social Welfare

The Chávez government pursued a series of Bolivarian Missions aimed at providing public services (such as food, healthcare, and education) to improve economic, cultural, and social conditions, attempting to fix the problem of economic inequality and social programs.

Since 2009, with crude oil prices rising dividends support, Venezuela vigorously carried out a series of welfare social policy, including providing cheap gasoline for the nation, providing lower-middle-class people with free medical care, education, low-cost housing, affordable food, transforming infrastructure, basically eliminating illiteracy, greatly improving the living conditions of the poor.



Venezuelans enjoy the cheapest petrol on earth

Venezuelans enjoy the cheapest petrol on earth. Barclays Bank previously reported that the retail price of gasoline in Venezuela is just \$0.05 per gallon. There was a time in Venezuela a liter of water costs ten times as much as a liter of petrol. Barclays Bank estimates that this social welfare cost the government nearly \$27 billion in foreign sales, equivalent to about 90% of the public sector deficit.



Caracas. The Capital Of
Venezuela

In 2012, Venezuela's social and public expenditure accounted for 21.2% of GDP. The fiscal revenue was almost all used for social and public expenditure, which was much higher than some developed countries, such as Chile(10%). Social security, which accounts for 9.5% of GDP, outstrips the OECD average by 1.6 percentage points and far surpasses Chile's by 3.2%. Social healthcare spending as a share of GDP reached 4.5%, close to the OECD average.

The world bank has said that social welfare programs in Venezuela have reduced the proportion of people living in poverty from about 50 percent in 1998 to 30 percent in 2012. However, Venezuela's series of high social welfare spending are incompatible with the financial resources of the Venezuelan government, which brings huge burden to the fiscal balance of the country. Because of high social spending, Venezuela's budget has been essentially in deficit since the 1990s, even as oil prices soared.



Nicolás Maduro continued the social welfare policy of Hugo Chávez during his tenure. When the crisis came, instead of cutting social spending, the president decided to print more money to maintain the social welfare, which caused severe inflation in the country and made the crisis even worse.

How was such a poor system come into being?

1. why other industries especially food industry failed to develop?

Chronic corruption

Corruption condition can be reflected in the evolution of Transparency International's Corruption Perceptions Index in Venezuela. Since 1995 Venezuela has consistently ranked in the top 10% of the world's most corrupt countries.

Chavez's plan for economic development included a grand project to develop an economic complex centered on sugar mills. Venezuela's sugar dependence was exactly what Chavez was trying to solve in the "food dependence" problem. Within the community of it, other industries were also expected be developed. Agricultural products would be diversified, 15,000 jobs would be created, various non-oil industries would be developed, and food would no longer be imported. However, not long after the project started, serious corruption cases occurred, and more than a dozen officials were prosecuted, which seriously hurt the development of the project.

Politics trumps economics

According to YinYiwen, a former consultants of the World Bank, the emphasis of Chavez's system on politics over economics resulted in most of the failure of Venezuela's company.

There were many cooperative enterprises registered in Venezuela, but 60% of them were not operating at all. Even



Chronic corruption



Politics trumps economics

most of the cooperative enterprises that have been operating are not doing well.

One of the reasons was that the government and Chavez's party did not spend much energy to promote the needed experiences. Those who wanted to set up cooperative enterprises also did not spend much energy to learn. "Most of their energy was spent on political activities such as election campaigns", said YinYiwen in her article.

In the tenure of Chavez, political parties could be seen campaigning and making speeches across Venezuela's cities and countryside, but rarely doing specific work to promote economic development. In fact, many members of these parties also organized cooperative enterprises, but in the "politics trumps economics" social climate, They chose to devote more into political activities.

2. Is social welfare a must?

Venezuela's wealth gap is huge, with 70% of the population living in poverty and oil revenues going to a few people. In such circumstances, social welfare itself is not wrong, but the government should control the spending on this according to every year's economic situation. When the deficits appear, reducing the welfare expenditure suitably and vigorously developing the production and the economy is the suitable policy. At no time can a country continue to overdraw future income, especially in Venezuela, a country with a single economic structure and unstable economic situation.