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Informe Especial

Impact and real nature of economic sanctions imposed on Venezuela
(Executive Summary)

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On 1998, Chavismo emerges as a political alternative based on a nationalist discourse that goes back to the imaginary of "Greater Venezuela". With a popular and patriotic rhetoric, the Bolivarian project sold itself as a hope of returning to the years of splendor of the economy.

The golden period of the government was between 2004 and 2008. The first purely economic crisis (the crisis of 2002-2003 was completely political) took place between 2009 and 2010, motivated by the drop in oil prices due to the effects of the global crisis of 2008. In the years of 2014 and 2015 the prices of oil begin to fall. Although triple and in a few months increase five times the prices that were in 2001-2002, the increased pace of government spending and the hypertrophy in imports make that oil prices, 5 or 6 times higher than those observed at the beginning of the 2000s (BCV, Central Bank of Venezuela, 2016) , now look like "small". The contraction of imports began in recent years, the fall in the supply of goods and services, and the results of a deindustrialization process began to be reflected in favor of an importing fervor that came to bring: liquid milk, cement, gasoline, plastic and workers (Chinese) to build housing.

The voracious fall in production and productivity made more evident the shortage of goods, which exacerbated the increase in their price. The huge printing of inorganic money, a useful component for the expansion of spending and the coverage of fiscal deficits, was reflected in an increase in the monetary base by more than 125,000 % (from January 1999 to January 2017) (Sutherland, 2017) . All this increased inflation rates (2015) to almost double the highest inflation in the country's history (1996. Just befalls a decline in revenue,seems to inhibit agricultural and industrial production and dilutes the salary (Mommer B. 2003).

For the fifth consecutive year the country will exhibit the highest inflation in the world estimated by the National Assembly (AN) at 1,698,488.2% by 2018 (El Universal, 2019). According to the Finance Commission of the AN, the economy contracted by an impressive 50.61% in the short period from 2013 to 2018, an economic destruction never before seen in America (El Nacional, 2018). The value of the parallel dollar (which serves to fix almost all the prices of the economy) increased by more than 88,000% in 2018, which has completely disintegrated the purchasing power. The real salary for the period 2013-2018 fell by 95%.

The heart of the crisis is the dizzying export of oil revenues entered into the country. This was done through an import hypertrophy and a vigorous capital flight. Imports between 2003 and 2012 multiplied by 4.5 times and the capital flight is estimated at around 600 billion dollars if we estimate the fraudulent imports as capital flight. If we go to the terms of exchanges applied to our non-oil exports, we can see that the price paid for each kilogram exported of merchandise, has risen by only 11% (for the period 1998-2014), which does not justify such a strong increase in the prices of imports (National Institute of Statistics (INE), 2014) .

The deep economic collapse in which the country is plunged has nothing to do with sanctions. As already explained, the crisis erupts in 2014 several years before the first important economic sanctions, which will soon be discovered here. Since 2004 policies that have been carried out,have facilitated and encouragedthe export of oil revenue, specifically: the overvaluation of the currency, the state and private import expansion, the flight of capital through financial elements and the triad: external indebtedness, import overbilling and overpricing in the import. All this led to the destruction of both the industrial and agricultural production apparatus, since the artificially cheap import made it impossible for national production to be profitable. In this way, production and productivity plummeted as early as 2009. Another oil boom allowed the rent squandering of capital to be stretched, because the price of oil rose to levels never before seen. But already in 2013 the crisis that was brewing was very large and the external debt was very severe and expensive. The fall in the price of oil and the decrease in the pace of its extraction (due to the lack of investment in the industrial maintenance of the activity) showed that the model was unsustainable. In 2014 there was still time to stop this avalanche, but nothing was done, and in the absence of oil revenues to maintain the hypertrophied expenditure, excessive inorganic money was used to try to give the impression that the state could spend more even when society produced less. With these exploits came hyperinflation and production intensified its fall. Again, all this happened outside the first sanctions of some importance, August 2017.

By May 2019 sanctions have reached their highest point after a significant accumulation of them in various sectors, from the arms to the oil field, through finance and the economy. The real effect of economic sanctions is barely manifesting itself, since the financial sanctions of August 2017 came to legally endorse certain impossibility: nobody wants to acquire bonds from Venezuela and PDVSA and the current holders refuse to negotiate a restructuring. The economic sanctions start at the end of 2018 and the oil sanctions (without doubt the strong and destructive of all) have only started in January 2019, in addition to having "General Licenses" issued by the DTE, which offer certain exceptions until end of April or mid-July 2019. Therefore, the real effect of the vigorous sanctions is barely showing its face, with considerable effects, but far from being the reason of the catastrophic economic crisis, whose causes were explained in the first part in some detail.

The well-known economists Weisbrot& Sachs (2019) argue that thanks to the sanctions Venezuela has lost the international credit, necessary for its development. The issue is that the seriousness of the economic problems has moved away the international lenders that since 2016 have seen it impossible for Venezuela to cancel its debt commitments. So things, for about 4 years the Chinese Development Bank has not lent more to Venezuela, nor the giant Bank of Asia either.

The "embargo" of CITGO is very serious, but it is not the cause of the fall in oil production, as in a very non-formal way, the famous ones (Weisbrot& Sachs, 2019) asserted. Although CITGO commercialized up to 580 thousand barrels per day with PDVSA, in relatively recent times, the amounts that PDVSA could no longer send to CITGO can be placed in other markets, and the diluents and light oil, can also be purchased in other markets, although at a much higher price, which reduces the benefit. This situation does not justify the fall of around 70% (2008-2019) in oil production. This fall can be seen as a slide that starts as early as 2009 (Hausmann&Muci, 2019) almost 9 years before the oil sanctions. In fact, already in 2016 and according to Economic Atlas, the export of crude oil had already fallen by an impressive 68%. The fall in oil production has multiple factors completely unrelated to the recent measures against PDVSA. Among them the scarce effective investment, the shortage of qualified work force – due to the very low salaries-, the enormous corruption in the management of the company, the scarce internal revenue when giving away the gasoline, expropriations and problems with transnational contractors and the exaggerated indebtedness to capture foreign currencies that were later given away in the domestic market at a ridiculous price.

At this point the first thing would be to remember that the first financial sanctions start in August 2017 and the first directly economic sanctions begin in November 2018. That said, and remembering the previously written, the sanctions are imposed (2017) when the Venezuelan economy it crossed the lowest point of its history. From 2013 to 2016 the economy had already fallen by almost 25% (Salas, 2017), and for the first time in its history recorded a sustained decline of 12 quarters. Financial sanctions break out in August 2017. In the first 2 quarters of that year the economy had decreased by around 8%, therefore, the economy had already fallen by at least 30%, one of the worst falls in GDP in the American history. Therefore, when sanctions entered the financialsector, the economy was already in a very serious path of accumulated destruction (Sutherland, 2018).

As the economist Alexander Main says: sanctions increase the suffering of the Venezuelan people (Main, 2018). These sanctions make expensive and difficult the importation of food and raw materials. Worse yet, they preclude processes for state or private companies to generate foreign currencies with which they can buy medicines and food. This results in deepening the hardships of the population.

According to Dylan O'Driscoll's extensive research, studies show that sanctions do not achieve the desired result in most cases, and when combined with the human suffering they represent, they can often becomparable to armed interventions, but without the same success rate in regime change (O'Driscoll, 2017). In another study of great depth, it has been proven that in 67 countries sanctioned between 1976 and 2012, sanctions have had a very severe impact on economic growth (Neuenkirch&Neumeier, 2015). The serious impact observed is around a strong 2% drop in GDP per capita year-on-year.

As explained in the study of (Oechslin, 2014) which studies countries sanctioned between 1914 and 2000, only in 21% of them, sanctions were part of the success in a transition. In 65% of the cases, the sanctions were abandoned without achieving their objectives. Even 14% of those nations still had sanctions on their backs in the year 2000, without producing any political change.

Sanctions are –ideologically speaking- extremely useful to the governments that suffer it. These, being in effect, policies that seek to destroy the economy of the country that suffers it, that is, achieve economic suffocation, serve as great excuses to blame the "external enemy" of local mistakes (O'Driscoll, 2017). This allows to moralize its bases of followers and to victimize the governments that suffer them and they begin to spend enormous resources in cheap, exaggerated and fallacious propaganda to have the sanctions removed.

Sanctions significantly increase the limitations to import and obtain food; that has already been said, the fact is that in many cases the moral and material effectiveness of social assistance programs of a populist and clientele nature is enhanced. That is to say, in situations of greater misery, the assistance plans even become much higher than the salaries, since these descend very seriously. The food box (CLAP) that the government distributes through Chavista supply committees and which is mostly distributed with political criteria, becomes much more important than the salary, even up to 8 times more than the same. This enhances the clientele effectiveness of a gift that in extreme poverty is practically the only sustenance.

Various estimates affirm that the economy could decrease in 2019 by an impressive 25%. This would cause the economy to recede by a bloody 63%, for a period as short as that covering the years 2013-2019. This monstrous result will undoubtedly be negatively influenced by the sanctions, although they are not the cause of such a fall for the reasons explained at length in part I of this paper. Additionally, no country sanctioned that is not in a toxic civil war has such catastrophic results. The issue is that the sanctions only worsen a dramatic economic picture, do not represent part of the solution, but deepen the problems already previously explained.

A real and interesting aid, in order to lessen the voracity of the crisis and push the government to a negotiating table where it allows democratic plurality and establish institutions where power is distributed among various political factors, would be the restructuring of debt external: sovereign bonds and PDVSA bonds.

The investment policies in the Cuban tourist sector greatly helped to make the situation on the island more flexible, granting greater economic freedoms to its citizens, improving the situation of their families and opening the way for more democratic changes. A policy that raises sanctions and tries to stimulate joint investments in various areas, which come with a significant economic opening, could be a very useful tool in an eventual negotiation that presses for a political change.

Carrying out solidarity and international cooperation programs that serve as positive incentives that can be exchanged for measures of political and economic openness on the part of the Bolivarian government, would offer interesting plausible solutions to the regime and negotiation opportunities where the total or partial transfer of political power , does not represent such a high cost for the political class. The United States and the EU should support negotiations to form ar institutions that make possible the peaceful coexistence of conflicting political factions in the country, instead of driving r the full replacement of one by another.

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