

The road to ruin

Derek Sambrook surveys the wreckage of Venezuela's ruinous economic policies, and struggles to see cause for optimism



Venezuelan exiles in Barcelona, Spain protest against Venezuelan government oppression

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I had written in my March 2003 Latin Letter that trying to predict where events in Venezuela might lead was akin to establishing with certainty the course of a hurricane; nothing has changed since then.

This month is the start of yet another hurricane season, but for Venezuela's besieged citizens the storm through which they are living has raged for far longer and increased in strength as the country's infrastructure disintegrates.

The sky began to darken 18 years ago when the late Hugo Chávez became president of the country. One of his first steps was to rewrite the constitution and replace it with one that would last for "centuries". It might not make it, because his hapless successor, Nicolás Maduro, now wants a new one but this time it would circumvent political parties and popular elections.



Derek Sambrook is Managing Director of Trust Services S.A., Panama

THE SKELETON IN SOUTH AMERICA'S CUPBOARD

As regular readers of my column will know, I have always felt that, for want of a better description, the Bolivarian Republic of Venezuela has been the skeleton in South America's cupboard and one that keeps on rattling. Constantly, we see in Caracas tear gas-filled streets and in one video the President is seen in the foreground dancing. The citizens have enough to cry about without any help from tear gas.

Food imports have dropped by 70% since 2014 and there are long queues, not just for food but other basic consumer goods as well. Some hospitals are struggling to have a supply of basic medicines and there are pregnant mothers crossing the border to give birth.

President Trump's focus may have been on illegal Mexicans entering

America, but now there are also large numbers of Venezuelans seeking sanctuary in his country; they are not chasing the American Dream but fleeing from the Venezuelan nightmare. Figures recently revealed that Venezuela has become the main source of asylum applications in America, representing nearly 25% of the total applications.

In 2016 Venezuelans were the largest source of first-time asylum claims in Spain. Applications hit a record in January and the figure exceeded the all-time high from Syria during the middle of Europe's refugee invasion.

The number of Venezuelans, often the wealthy, moving to Spain is on the increase and although in 2013 the total was around 4,700, in the first three months of this year alone the figure exceeded 6,500. Venezuelans are also seeking refuge in the

region, with neighbouring Brazil and Colombia experiencing an influx.

In nearby Panama the economy is very healthy and when you add to that its political stability, is it any wonder that the country has become a magnet for well-heeled Venezuelans in particular? So much so that one up-market suburb of Panama's capital has been referred to as "Little Venezuela".

HOPE EXTINGUISHED

In my talk last year at the University of Oxford (where *Offshore Investment's* annual symposium is held), I had mentioned that with the demise of Hugo Chávez a ray of light had shone momentarily such that Venezuela might emerge from the political pit which it had fallen into, but that events since his death had only made that pit deeper. Nero may have fiddled while Rome burned, but President Maduro dances while the electorate is spurned.

The Venezuelan economy is in dire straits with inflation possibly reaching over 700%, according to IMF estimates (but read on). This in a country which not only has the world's largest energy reserves but in 1980 had the highest GDP per capita in Latin America; now the economy is smaller than those of Chile, Colombia and Peru.

Venezuela's oil exports, which account for some 90% of its total exports in value terms, have collapsed; even accounting for the drop in oil prices, production itself (in volume terms) has almost halted.

Government statistics in Argentina in the days of Cristina Fernández de Kichner were notoriously unreliable, but in Venezuelan they are not even available after access to national account data was suspended in 2015. The IMF can only rely on partial information and the last time the agency had any real interaction with Venezuela's authorities was in 2004.

CIVIL UNREST

You can hide the statistics, but not the reality in the streets. The unrest has resulted in more than 40 deaths so far.

For now the army, the police and national guard have backed the government, but their families are also growing hungry as food supplies break down. Paid thugs (*colectivos*) and mercenary assassins are in league with the authorities to quell the unrest – although that support could evaporate if the military reaches the limits of its crowd control because of the mass protests.

Even in traditional chavista neighbourhoods, the bedrock of the government supporters, there is growing discontent. And how long can President Maduro afford to buy the military's support as before?

In order to fund bond repayments Venezuela has dug deep into its foreign reserves. Before Mr. Maduro was elected in 2013 the reserves stood at US\$30bn, but now they are believed to have dropped to around US\$10bn. Chaotic governance and low oil prices could see an unprecedented economic meltdown. China has loaned the country US\$60bn but has no intention of extending any more credit.

Mismanagement aside, the finance commission of the opposition-controlled National Assembly (if President Maduro gets his way the proposed new constitution would substitute it for a "popular assembly") has estimated that 18 years of 'chavismo' has seen more than US\$425bn of public money either stolen or wasted – the equivalent, approximately, of 77 Panama Canal expansion projects.

If this cycle of protests peters out (as others in the past have) then it will buy the government time and could then lead to a military-backed outright dictatorship. But rifles can only deliver bullets, not the fundamental structural reforms that are needed, including price control removal, exchange rate fusion and, critically, a stable investment climate.

The World Bank's recent report is not for the faint-hearted. It summarises a catalogue of calamities thus: "Price controls, limitations on access

to foreign currency and the collapse of the private sector in the provision of basic goods, have cumulatively led to one of the world's highest inflation rates".

Economists, as we know, hypothesise, often based on different premises, and although the IMF puts inflation above 700%, estimates from some economists range from 350% to 2,200%. It reminds me of the two economists walking along when they notice two women yelling across the street at each other from their apartment windows. They will never come to an agreement, states the first economist. His colleague asks why and is told that because, of course, they are arguing from different premises.

BOLIVAR BETRAYED

Regardless of the differing conclusions reached by economists, they all agree that Venezuelans are seeing the value of their money, and the ability to purchase goods and services, shrinking alarmingly.

Not surprisingly, economists' growth estimates for 2017 also vary: from an expansion of 1.1% to an IMF-predicted contraction of over 7% (which would mean that the economy will have shrunk by some 30 per cent since 2013). When looked at in this light, Brazil's economic woes – as opposed to its political ones – are not in the same league.

This fracas in Caracas is far removed from Simón Bolívar's clear vision of his country's future.

Bolívar, called the Liberator in South America after his heroic stand against the Spanish crown, fought hard for a free Venezuela; now others are doing the same.

President Maduro is asserting that "From 2017 onwards we will have to talk about the new era. We are building the new economy with a solid base in the countryside".

It is not in the countryside, however, where the solid base for change is to be found. Banal political rhetoric such as this – not to mention his catalogue of insanities to date – has crippled Venezuela. It desperately needs – with apologies to Tom Wolfe – a bonfire of the insanities. ■

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