

Original Research Article

Venezuela Hyperinflation Causes and Solutions

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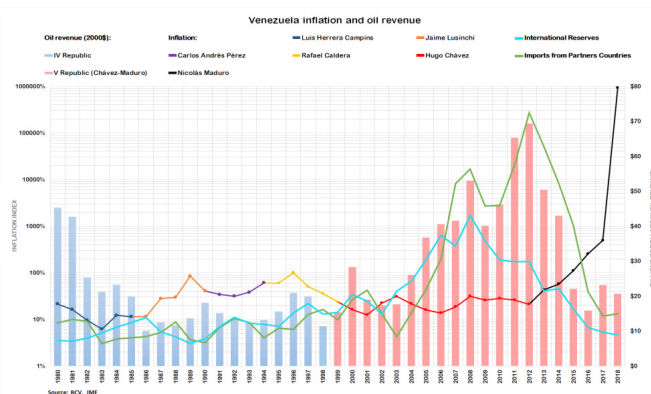
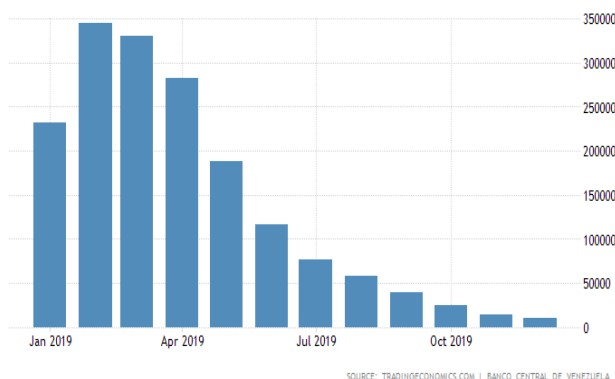
Abstract: Venezuela, a Latin America country, has faced severe economic crisis since 2015. Among various problems, hyperinflation, a rapid excessive and out-of-control price increases, is the most highlighted one. Analysis from diplomacy, economy, social system, policy and development strategy shows detailed problem of Venezuela. It comes out clear that some current policy and strategy of Venezuela is inappropriate and should be adjusted. Solutions from both domestic side and international aspect can drag Venezuela out of hyperinflation. Several important methods are about welfare system, unemployment, resources potential, and international cooperation. There can be risks because the current situation of Venezuela is terrible. But risks followed by chances. With certain mitigations, risks can be transformed in to opportunities. Though hyperinflation and economic crisis are hard to solve, exploiting traditional resource and exploring potential industries can relieve part of these problems.

Keywords: Venezuela; Inflation

1. Introduction

The Bolivarian Republic of Venezuela is located in the north of South America, next to Colombia, and the Brazilian plateau in the south. The north of Venezuela is the Caribbean area, which is known for its journey, and it is also called “Little Venice”.

Venezuela’s oil reserves account for about 4% of the world’s proven total, up to 297 billion barrels, and Venezuela also has a lot of natural gas, reaching 3.6 trillion cubic meters. By comparison, the total natural gas reserves of the three gas fields in mainland China are only 12,000 One hundred million cubic meters. Thus, the oil reserves of Venezuela are large.



In addition, Venezuela is also very rich in mineral resources, with iron ore reserves alone reaching 14.6 billion tons, which are also high-quality good ore. What’s more, gold reserves are also ranked 12th in the world.

Venezuela, a country far away from Latin America on the other side of the ocean are facing challenges. With the economic chaos and the conflicts of the two presidents, the life quality of citizens of Venezuela is gradually decreasing.

As the 2020s begins, the diversification and globalization is increasingly important. People can no longer ignore this “world hell”. It is time to solve the hyperinflation and related problem of Venezuela.

2. Result and discussion

The internal and external problems of Venezuela are divided into deep part and superficial part. To save the country from the root causes, people should explain the effects of each industry in depth. It is not appropriate to make drastic reforms and increase social unrest under the situation. Instead, Venezuela should consider the solution from different part.

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3. Summary of Solutions

- a. Ban the ridiculous currency system and develop a currency system
- b. Encourage domestic trade to boost productivity and increase domestic demand instead of centralizing power in state-owned enterprises.
- c. Increase efforts on maintaining public order and establish government authority.
- d. Cancel the price controls and too much social welfare.
- e. Encourage free markets.
- f. Develop potential profitable industries

3.1 Domestic

- (1) Adjust the high welfare system and reduce unemployment rate

The current welfare policy of Venezuela can no longer be implemented due to the shortage of resources and increasing fiscal deficit. Another outcome of high welfare system is the laziness of labors, which lowers the total output and GDP of Venezuela. Therefore, instead of simply giving subsidy and resources, Venezuela should provide more job opportunities for citizens, especially those between 18-year-old and 60-year-old.

- (2) Simplify the administration

Stable of Social and politics is the foundation of economy development. Currently, Venezuela is facing severe corruption and one of the causes is redundant staff. Thus, it is urgent to vigorously crackdown on corruption to improve the efficiency of government agencies.

- (3) Cancel the price limit policy

With national area of 916,400 square kilometers and only 31.11 million population, Venezuela has large space for agriculture. However, the government's price limit has caused less farmers to grow grains because of small or even no profits. Meanwhile, Venezuela is facing food shortage. Thus, the relevant policies should be cancelled immediately to increase productivity.

3.2 International

- (1) Relieve the relationship with US

As one of the strongest countries in the world, US imports a lot of resources such as oil from OPEC countries including Venezuela. Strained relationship with US for Venezuela will only bring about sanctions and other disadvantages. So, relieving the relationship with US is one of the crucial factors for the further development of Venezuela.

- (2) Actively cooperate with and learn from other countries

Because of economic crisis and economic blockade, Venezuela is unable to print currency. And as the mix using of old currency, new currency and "petroleum coin" has made the hyperinflation and social order extremely bad, Venezuela should resume a stable currency system. As the ally, Russia is what Venezuela can ask for help. Venezuela can resume the domestic currency system by using the Russian banknote printing factory. Meanwhile, as the infrastructure in Venezuela has lots of problems, Venezuela can try to cooperate with China by providing its oil resources, and learn the experience of infrastructural development.

- (3) Develop tourism industry

Venezuela is known for its Miss World and the sports industry, natural landscapes, and unique colonial history of South America. Venezuela is also considered as a country with extremely high biodiversity. Habitats of animals range from the Andes in the west to the Amazon Basin in the south, through the vast plains and central Caribbean coast and the Orinoco Delta in the east. Therefore, Venezuela can reshape tourism Intellectual Property by the integration of culture and natural landscapes.

- (4) Explore the potential of port

Venezuela's coastline is 1,700 miles long. As a country dominated by energy exports, the rise and fall of ports is a core element Venezuela's economy. The opening cooperation with China Construction can be said to be the best solution for Venezuela. As early as 2011, China Port signed a new container terminal project (EPC) with the Venezuelan Port Company. In the context of the open battles behind the oil war and the meltdown of global stock markets, Venezuela can no longer rely entirely on oil, use port locations, maximize transportation convenience, and it is urgent to extract other energy sources.

- (5) Build special economic zones

Near the Port of Daraguaila is the largest airport in Venezuela and it is also one of the important ports for visiting foreign guests. A special economic zone can be established in this area. Measures such as tax reduction can be taken to promote the development of the region.

- (6) Balance the development of heavy industry and light industry

Balanced development of heavy industry and light industry is very critical. Venezuela should not rely too much on import and export, since the benefits brought by own development are much higher than the export of raw materials.

4. Risks and mitigations

4.1 Reduction of social welfare leading to chaos

One risk is the dissatisfaction of citizens when the social welfare is reduced. They probably will organize demonstration to express their dissatisfaction. Nevertheless, there are mitigations. By posting job opportunities with attractive wage on street, on TV programs and on social medias, citizens might contact certain companies, such as port construction project. Citizens know the fact that getting a job with certain amount of wage is more likely to bring them out of poverty than pure demonstration. Thus, Venezuelan still can maintain life quality without or with less social welfare.

4.2 Low attractiveness to tourists

For Venezuela, a Latin America country, tourism industry development faces a situation of homogeneity. Venezuela is known for Miss World. From 1952, Venezuelan has won six times in Miss World pageant, which is a very impressive number. It is wise to use the fame of Miss World to attract tourists and introduce more special culture to earn reputation.

Therefore, to develop tourism industry, there are two things Venezuela should do. First, Venezuela need to create by-products of Miss World, including the experience of food recipe, exercise plan, make-up, AI interactions, etc. Second, Venezuela have to prepare basic facilities and services, such as holiday hotels, tour guides, restaurants and shops selling specialties, which enhance the whole experience of tourists. These facilities and services also create job opportunities, so that citizens are likely to follow the trend.

5. Conclusion

Hyperinflation problem of Venezuela is not an individual issue. It relates to various aspects including social, economy, politics and international relationship. To solve the problem, Venezuela should consider different aspects and make a clear order of every step. Resuming the domestic social order and seeking for international development chance are two main issue.

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