Dear Delegates:

My name is Jorge Perez and I'm looking forward to chairing the UNECLAC committee this year! I'm from Puerto Rico and I'm currently a freshman here at MIT. While I'm currently undecided as to what I want to study, I am in between biomedical engineering and mechanical engineering. I've been doing Model UN ever since my freshman year of high school and decided that I wanted to continue it in college. I was a chair twice back in Puerto Rico during my MUN career so I'm excited to get to have this experience again.

I chose to be a chair for the UNECLAC committee mainly because of my Hispanic origins. I've lived in Puerto Rico for all of my life and after being recently hit by Hurricane Maria, I realized how certain sections of the Latin American economy are in dire need of assistance. Therefore, we chose two topics for committee that are both currently relevant and are in need of being solved in an efficient manner. I hope this background guide properly helps you in fostering an interest for the topic and starting your research on the topics.

My name is Amelia Seabold, and I am a freshman at MIT from Long Island, New York. I hope to major in biology with a double minor in international development and public policy. I am particularly interested in humanitarian crises in underdeveloped nations and access to proper medical/health care.

I am extremely excited to be chairing UNECLAC this year. I was a four year delegate at NHSMUN in high school and Secretary General of our club. I love being in and chairing smaller committees because it allows for people to be much more involved and form strong relationships, so I am looking forward to seeing that in UNECLAC. The topic of Venezuela’s economic crisis is not extremely new, but it is still very prevalent and continuing to develop. This crisis affects many countries in Central/South America, as well as others around the world.
Please let us know if you have any questions or concerns. We look forward to hearing your solutions and inputs for the imminent issues we will be discussing!

Please send your position paper (one page per topic) to mitmunc-uneclac@mit.edu.

Sincerely,

Jorge Perez and Amelia Sebold
**Topic A: The Economic Crisis in Puerto Rico after Hurricane Maria**

**Puerto Rico’s Economic History**

After winning the Spanish-American war in 1898, the United States took Puerto Rico from Spanish control and began a process of transculturation for the island. As a result, Puerto Rico became an unincorporated territory of the United States. The transformation of the island was mainly focused on the industrialization of the island’s agriculturally dependent economy. In the year 1976, the federal government implemented a tax break where major American corporations would barely pay taxes if they had their operations based on the island. Consequently, numerous large corporations moved to Puerto Rico, which lead to a large boom in the island’s economy. Nonetheless, this tax break was repealed in 1996. For this reason, by the year 2006, the large corporations had almost all left Puerto Rico, devastating the island’s economy. By the year 2017, Puerto Rican debt reached $70 billion dollars to the federal government and around $40 billion dollars in pension payments to its citizens. Due to this economic crisis, people are migrating to the United States in search of better opportunities. This migration movement is mostly focused on the youth of the island, leaving Puerto Rico with a largely aging population. As a result, healthcare is a major factor contributing to the island’s debt because the federal government does not fund a sufficient portion.

Due to Puerto Rico’s strictly increasing and concerning debt, the United States assigned a federal oversight board to restructure the island’s finances and fix the massive debt issue. This act, called PROMESA, did not incite positive reactions amongst Puerto Rican civilians because they felt the oversight board had too much power. The board members were elected by the United States federal government and they had the power to veto financial plans, decide what plans get public funding, and allocate the island’s budget to what they deemed necessary. As a result, Puerto Ricans felt this board was a violation of their democratic rights since board members decided the island’s economic future without needing to consult Puerto Rican officials and citizens. As a result, the year
Hurricane Maria hit Puerto Rico, the island’s economy was crumbling and the United States government’s strategy for reparation was greatly upsetting its citizens.

**Hurricane Maria Overview and Background**

Before talking about Hurricane Maria, it is important to understand the impact that Hurricane Irma had on Puerto Rico. On September 6th, 2017, a category five hurricane was forecast to hit and devastate Puerto Rico. In preparation for the hurricane, supermarkets were emptied out, water and ice became scarce, and gas was extremely sought. People knew a category five hurricane should not be taken lightly, so they were extremely cautious with preparations. Thankfully, the hurricane’s trajectory deviated and didn’t pass directly through Puerto Rico. Nonetheless, the hurricane still resulted in thousands of citizens losing power for a prolonged period of time and three fatalities. Worst of all, Hurricane Irma gave false confidence to most civilians in regards to their ability to handle a category five hurricane.

Exactly two weeks after Hurricane Irma came Hurricane Maria. Maria was a category five hurricane that, much like Irma, had a projected path through Puerto Rico. Nonetheless, unlike with Irma, the vast majority of Puerto Ricans did not take sufficient precautions and preparations since they hoped the hurricane would not hit the island. Unfortunately, on September 20, 2017, it did. With winds of 155mph, Maria brought destruction to Puerto Rico in a way the island had not experienced in decades. Currently, the number of fatalities is nearing 3,000 people. Not only did Maria cause an extremely large number of civilian casualties, it resulted in the lack of power, food, and natural resources within the island. Shortly after the storm ended, the entire island found itself without power. Furthermore, environmental debris covered streets and neighborhoods, leaving civilians without access to roads for transportation. Since the island was in a state of chaos, the government implemented an island wide curfew, which stated that no one could be out on the streets between
6pm and 6am. Therefore, citizens were left without access to food, water, and electricity, which prompted the government to intervene to improve on the island’s situation.

**Economic Situation After the Hurricane**

After the passing of Hurricane Maria, Puerto Rico found itself in economic ruins due to lack of movement in its industrial sector mainly caused by the lack of power in the island. During the aftermath of the hurricane, thousands of citizens migrated to the continental United States, which hurt the island’s job markets and decreased the amount of taxpayers in the region. One of the main conflicts that resulted from Puerto Rico’s economic crisis was the question of who should be granted the power of dealing with the financial aspect of the crisis. While the federal government wanted the fiscal board to take control of the issue, both the Puerto Rican government and citizens argued that this was a violation of their democratic rights since they had no say in anything the board would do. Unemployment also became a real issue after the hurricane since many corporations were forced to shut down. While the unemployment rates of the island were already relatively high due to major American corporations leaving, they reached a new peak shortly after the hurricane. Currently, these unemployment issues continue to affect citizens and their ability to sustain themselves.

**International Involvement**

As of now, Puerto Rico has received a lot of help from non-profit organizations such as the Red Cross. Corporations and NGOs both began relief efforts for the island, which greatly aided citizens in having access to essential resources and commodities, such as food. Furthermore, the United States provided Puerto Rico with around 16 billion dollars for disaster relief. Out of those 16 billion dollars, 2 billion was allocated for the restructuring and fixing of the island’s electric grid, 4.8 billion went towards the island’s Medicaid program, and 9 billion dollars went towards the
restructuring of housing and urban infrastructure. However, Puerto Rico needed an estimated 90 billion dollars to begin rebuilding its economy and society. Therefore, the amount of money given by the United States federal government, while appreciated, felt underwhelming for the citizens and government of Puerto Rico. For this reason, the United States has been criticized for its lack of action and aid directed towards the island, especially seeing as it is one of their unincorporated territories. As a result, the governor of Puerto Rico, Ricardo Rosello, is working to ensure more funding from the United States and more agency to shape their own economy.

**Focus of the Topic**

This topic will be focused on the Puerto Rican economy. Specifically, it will go over important concepts within the scope of the economic sector. For example, delegates are expected to have knowledge on the debt crisis of the island and should be prepared to propose solutions for the issue throughout the span of committee. Furthermore, delegates are expected to discuss and find ways to increase the international aid Puerto Rico receives. Within the context of international involvement, delegates must discuss the powers that should be given to the fiscal board imposed on the island by the United States. Finally, delegates should come up with ways to improve the living conditions of Puerto Ricans, as well as preventative measures if another natural disaster were to occur.

**Guiding Questions**

1) What does your country believe should be done to decrease the amount of people migrating out of Puerto Rico due to bad economic conditions?

2) How should the Puerto Rican government structure its federal funds so that they are used in an efficient manner?

3) How does your country believe Puerto Rico can solve the impending debt crisis it is facing?
4) How could Puerto Rico gain more funds to deal with hurricane recovery and improve its debt issue?

5) What economic and structural changes should Puerto Rico undergo to prevent another Hurricane from further negatively impacting the island?

6) How much power should the fiscal board be given in relation to Puerto Rico’s economic matters?

7) How does your country believe Puerto Rico could gain access to the international credit markets in a way that benefits its economy?

Sources


**Topic B: Results of Hyperinflation in Venezuela**

**Economic History of Oil in Venezuela**

Venezuela has huge oil reserves and was extremely rich in the 1960s. As oil prices grew, so did its riches, and the country neglected to diversify its economy because it was making so much money alone from exporting oil. Venezuela is also part of OPEC, as the only non-Middle Eastern member. Venezuela’s oil industry became nationalized with the creation of Petroleos de Venezuela (PDVSA). As time progressed, however, “the combination of plummeting oil revenues and years of government mismanagement has virtually killed off the country’s economy, sparking a humanitarian crisis that threatens to engulf the region.”¹ Because oil prices were so high for so long, Venezuela never had to export any other goods, relying solely on the income from oil. Throughout the 1980s, oil prices began to drop, which started hitting Venezuela’s economy. Since then, oil prices continued to decrease until Chavez stepped in to increase regulation in OPEC. This sparked controversy between Chavez and PDVSA, because the PDVSA did not want to abide by quotas for oil production.² When oil prices dropped suddenly in 2014, Venezuela spun into economic crisis. It was unable to import as many goods as before because it had less money, and so businesses raised prices, causing inflation. This turned into hyperinflation as the Venezuelian government chose to continue to print more money, causing it to lose value very quickly.³

**Key Terms**

*Hyperinflation*

---

² https://venezuelanalysis.com/analysis/74
Hyperinflation is when the price of goods or services are rising at a rate greater than 50% per month. Venezuela’s economy relied heavily on oil exports, as 96% of all exports are of oil, and it imports most other basic goods, including food. Oil prices dropped dramatically, causing the government’s revenue to decrease quickly. Chaos quickly ensued because many citizens relied on the government for food and other needs, but the government was no longer able to provide these goods, lacking funds. The value of bolivars has decreased so monumentally that “prices have been doubling every 26 days on average.” Maduro has chosen to continually print more money, devaluing it even further.

Key Issues

Humanitarian Crisis

Although President Maduro refuses to acknowledge the disaster occurring in his country, there is currently a large humanitarian crisis. Lack of food and electricity are at the top of the list of issues. People do not have enough food to eat for a number of reasons. First, since the oil industry had been so wildly successful for so long, Venezuela did not diversify its economy nor focus on cultivating its land, meaning that food production in Venezuela was extremely low, relying on imports. Now that Venezuela has much less money than it did, it is struggling to pay to import enough food for its citizens. This has caused mass starvation and malnutrition. The functioning of hospitals has also been greatly impeded by the dwindling economy in Venezuela. It has been very difficult for people to find adequate medicine for their ailments, prompting many to leave the country. Machines in hospitals have also had problems because of the lack of power and electricity.


Many life-saving and life-support machines rely on electricity, which has become a scarcity in Venezuela. This too, has pushed people to leave in search of better medical care.

**Migration**

According to the United Nations International Organization for Migration, more than 1.6 million Venezuelans have left the country since 2015, with an estimated 2.3 million total living outside of Venezuela. This has greatly been straining regional resources, particularly Colombia, who has been receiving most of the Venezuelan migrants. Colombia has also been a popular choice for women and families, especially those who are pregnant, to go to because of its healthcare. The medicine and care in Venezuela is greatly lacking, so Colombia has been a favorable choice. Others have chosen to walk south to countries such as Ecuador to escape the situation in Venezuela, but the journey is arduous and has proven to be deadly.\(^6\)

**Inflation**

Venezuela is currently experiencing hyperinflation, meaning that prices are rising by more than 50% each month. Multiple sources predict that the inflation rate in Venezuela will hit 1 million

---


percent by the end of 2018. This is a problem because prices are too high for people to buy anything. This is one of the biggest problems in Venezuela, causing many of the other issues.

![Venezuela's Annual Inflation Rate](image)

**Major Parties Involved**

*Nicolas Maduro*

Nicolas Maduro was Hugo Chavez’s Vice President, and chosen to succeed him after Chavez’s death. Maduro believed in the same ideology and political systems as Chavez. He has worked in the Venezuelan government since before 2000. Some of his goals during this time included breaking ties with the United States and becoming more a part of the regional bloc around Venezuela. His run for presidency was shaky and he won with a very slim margin over his opponent, which lead many protests to erupt after he was sworn in. During this time, the price of oil dropped

---

dramatically across the world, causing Venezuela to export much less and deeply hurting its economy. Also during this time, as the economy worsened, there were many attempts to remove Maduro from office for numerous reasons. As the country lacked enough food and electricity for people’s daily lives, Maduro refused to accept foreign aid or admit that Venezuela was in crisis.9

**US**

Throughout history, the United States has played a large role in the development of many South and Central American countries. After Maduro was elected for another presidential term in 2018, the Trump administration placed economic sanctions on Venezuela, stating that the US government and citizens could not buy Venezuelan government debt. There have also been discussions about more direct US intervention, but at this point, many do not believe that to be the best course of action.10

**Mercosur**

Mercosur is a South American bloc comprised of Paraguay, Argentina, Brazil, Uruguay, and Venezuela, tied together politically and economically. Venezuela was admitted to Mercosur in 2012, but in 2016 was suspended because it failed to comply with some of Mercosur’s policies in addition to its humanitarian violations. Brazil and Argentina, two other members of Mercosur, are also currently in economic turmoil, so the coalition as a whole has been struggling recently.11

**Colombia**

---

9 https://www.britannica.com/biography/Nicolas-Maduro
11 https://www.cfr.org/backgrounder/mercosur-south-americas-fractious-trade-bloc
Colombia has received the most refugees of any country from Venezuela, and it is putting enormous pressure on Colombia’s economy and stability. The condition for these refugees in Colombia, although better than the rampant crime and lack of basic necessities in Venezuela, is not prosperous. Colombia has been extremely open to these migrants, but, as the influx continues, the aid it can give will dwindle.

**Previous Attempts to Resolve the Issue**

*Minimum Wage*

President Nicolas Maduro has raised the minimum wages in Venezuela over twenty times since 2013 to help workers combat the exceedingly high inflation rates. A major problem with this, however, is that many businesses cannot afford to pay workers this much, resulting in multiple waves of job losses. In addition, many businesses have been forced to close because they simply are making no money and other business owners have been jailed for being unable to keep up with the wage hikes. While the minimum wage is in line with Maduro’s socialist beliefs, the results have been catastrophic and only worsened the economy. This move has not lowered inflation at all, it has only made the situation worse.

*Sovereign Bolivar*

In August, 2018, Maduro rebranded Venezuelan money to the Sovereign Bolivar. This was done by striking five zeros off of the old Bolivar and linking it to a government cryptocurrency backed by Venezuelan oil. While Maduro believed this would bring economic stability, it has yet to do so. There has been confusion about both currencies being circulated simultaneously. Leading up to this change, there was a large gap in between the official exchange rate from USD to bolivars and
the black market exchange rate, highlighting that bolivars were actually worth much less than the Venezuelan government was advertising.

Timeline

1976-Venezuela’s oil industry became nationalized with the creation of Petroleos de Venezuela (PDVSA).¹²

1989-Carlos Andres Perez of the Democratic Action Party is elected president during an economic depression.

1992-Hugo Chavez attempts two coups and becomes jailed for two years.

1998-Hugo Chavez is elected president and creates the Bolivarian Revolution, making a new constitution, eliminating the senate and revamping the socialist party.

2002-Attempt to remove Chavez from office because of fight with Venezuela’s oil monopoly.

2004-Chavez wins a referendum and gets to serve out the rest of his term.

2006-Chavez wins presidential vote for his third term.

2007-Venezuelan government does not allow a television channel that has been critical of Chavez to continue broadcasting in an attempt to stem public dissent.

2012-Price controls are created by government on basic goods to try to combat inflation.

2012-Venezuela becomes a full member of Mercosur, a regional trading bloc.

2012-Hugo Chavez wins a fourth term as president.

2013-Chavez dies and Nicolas Maduro becomes his predecessor.

2013-Maduro gains emergency powers for one year to deal with the economic crisis and an inflation rate of over 50%.

2015-Government devalues the bolivar by 69%.

¹² https://venezuelanalysis.com/analysis/74
2016-Currency continues to be devalued and protests erupt to remove Maduro from office.

2018-Maduro wins the presidential election.

2018-In an effort to stymie hyperinflation, Venezuela renames its currency the Sovereign Bolivar and gets rid of five zeros.\(^\text{13}\)

**Suggested Readings**

*Colombia/Venezuela*


*History*


*Oil*

https://venezuelanalysis.com/analysis/74

\(^{13}\) https://www.bbc.com/news/world-latin-america-19652436