

Venezuela's Collapsed Economy and the Resulting Effect on International Business
with the United States

Sarah Caldwell

A Senior Thesis submitted in partial fulfillment
of the requirements for graduation
in the Honors Program
Liberty University
Spring 2019

Acceptance of Senior Honors Thesis

This Senior Honors Thesis is accepted in partial fulfillment of the requirements for graduation from the Honors Program of Liberty University.

David Duby, Ph.D.
Thesis Chair

John A. Frichtel, M.B.A.
Committee Member

James H. Nutter, D.A.
Committee Member

Emily C. Knowles, D.B.A.
Assistant Honors Director

Date

Abstract

This thesis explores the current economic and political state of Venezuela, as well as the factors that contributed to the nation's present challenges. By evaluating current information regarding international relations and international business affiliations, this study investigates and summarizes how Venezuela's current instability has affected the country's trade relations with the United States. The research found in this thesis demonstrates that the actions of Venezuela's government have severely injured international business relations with multi-national firms operating out of the United States.

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When examined from an outsider perspective, the country of Venezuela should be thriving as a result of the massive oil reserves available. However, mismanagement of these reserves and a decline in global oil pricing have hurt the country more than benefit it. What can be considered to be one of the world's worst economies is a result of unethical government practices, a reckless approach to the oil industry, and a socialist society that was unprepared to handle these issues. Additionally, this economic collapse has resulted in the government taking unethical actions in their international business relations, which then results in a loss of confidence with multi-national corporations. The factors which led to the economic collapse and the government's approach to handling these situations is now negatively affecting international business relations and plunging the country of Venezuela deeper into economic despair.

The Current State of Venezuela

In the 20th century, Venezuela was a thriving socialist state; however, the country now faces an economic crisis and incredibly poor living conditions for resident citizens. This once wealthy South American nation now faces severe inflation, wide spread starvation, and dramatic violence that now has citizens pouring out of the country searching for more viable living circumstances (John, 2018).

Inflation

One of the largest contributors to the poor state of Venezuela has to do with incredibly high levels of inflation as a result of poor economic management. Between 2012 and 2016, the bolivar, the national currency of Venezuela, has fallen 99.1% against

the U.S. dollar due to high levels of inflation (O'Brien, 2016). Furthermore, in 2016 the International Monetary Fund stated that the country's economy would decline by 8% and have a drastic 720% rate of inflation over the course of just one year (O'Brien, 2016). Two years later, in August of 2018, the International Monetary Fund warned that inflation could hit one million percent and as a result the government issued a new currency in the hopes that it would improve the economy (Sterling, 2018). This new currency, called the 'Bolivar Soberano,' is intended to eventually replace the old 'Bolivar Fuerte' and is equivalent to 100,000 of the old Bolivares (Sterling, 2018). While this change now results in a visual change of currency, there is no legitimate weight to this change and the Bolivar Soberano will have no significant impact on the levels of inflation in Venezuela.

Starvation

Not only has the country been greatly affected by the decline of its economy, this decline now causes citizens to go without basic necessities; while Venezuela was the fourth richest country on the planet (when comparing per capita income) in the 1950s, the population now faces starvation (Lowry, 2017). A university survey published in February of 2018 found that 90% of Venezuelans are living in poverty and 60% of citizens do not have enough money to buy food (Sequera, 2018). This lack of finances results in starvation of citizens, drastic weight loss, and subsequent medical conditions that cannot be adequately treated. Huntoon (2017) found that in the summer of 2017 approximately 29 children were dying every day from diseases related to malnutrition. Government price controls have been a key contributor to these drastic food shortages, and conditions worsen each day as the situation in Venezuela fails to see any

improvement (Huntoon, 2017). These high levels of malnutrition and starvation help to perpetuate poor living conditions and outbursts of violence in the name of survival.

Violence

Additionally, drastic declines in the national quality of life have resulted in some Venezuelans turning to violence out of desperation. Venezuela now has the world's second highest murder rate, as well as a threat of violence from the government to those who oppose the ongoing corruption (O'Brien, 2016). Violence coming from the Venezuelan government is typically in an attempt to shut down protesters. Activists throughout the nation have staged peaceful protests which are met with "the brutal and violent response of the National Guard" as well as abuse and "torture against dissidents" (Oletta, Orihuela, Pulido, & Walter, 2014, p. 1976). Those individuals who are victims of violence then face aid from a healthcare system that is inadequately prepared as a result of the government refusing to honor debt to pharmaceutical and medical manufacturers as well as poor medical training due to a lack of funding (Oletta, Orihuela, Pulido, & Walter, 2014). In the face of trials such as these, many citizens have turned to evacuating their homes.

Fleeing Citizens

As a result of poor and declining conditions for those that live in Venezuela during this crisis, citizens are fleeing the nation in a mass exodus. An estimate released by the United Nations High Commissioner for Refugees has found that the number of people who have fled Venezuela since 2015 has reached a staggering 3 million citizens (Taylor, 2018). These 3 million citizens flee into neighboring nations like Colombia, Brazil, and Guyana with little to no money in the hopes that there will be safety as well as

jobs so that they can provide for their families. This massive number is “comparable to some of the world’s most severe refugee crises in recent years” such as the 2.6 million who fled Afghanistan and the 2.4 million displaced from South Sudan in the wake of wars (Taylor, 2018, para. 3). The current economic state of Venezuela – which has resulted in the hardships that are forcing these citizens to be displaced from their homes – has many causes, among which are government corruption.

A Corrupt Government

One of the primary reasons that Venezuela has faced such large economic problems is because of unethical officials in positions of power. Corruption is quite frequently considered to be one of the most threatening issues to international business today, and corruption in Venezuelan government officials is the root of many of Venezuela’s problems. Although Venezuela has historically had socialist leaders in office, Hugo Chavez’s rise to power in 1999 resulted in many changes towards a more radical approach to governing. Chavez’s approach to a 21st-century version of socialism worked to remove forms of democracy in the government and create “conditions for the unbridled dissemination of state corruption” (Maya, 2018, p. 67). Since Chavez has passed away, his changes remain and continue to be enforced by his former Vice President, friend, and successor, Nicolas Maduro.

Hugo Chavez

For nearly fifteen years, the socialist leader Hugo Chavez was president of Venezuela. Following Hugo Chavez’s election into the presidential office in 1999, he began to make significant changes to the structure of politics and business in Venezuela (Grier & Maynard, 2016). During his early years as president, Chavez re-wrote the

Venezuelan constitution to allow easier censorship of the press and removed term limits, re-structured the Supreme Court, and was considered a hero because of the fall of poverty in Venezuela (Grier & Maynard, 2016). Many of the changes which were made greatly benefited Chavez, but the thriving state of Venezuela's economy overshadow his selfish actions. Additionally, the high profit from oil exports as a result of a booming oil industry indicates that the fall of poverty initially credited to Chavez's leadership may have been due to globally high oil prices (Grier & Maynard, 2016). In hindsight, Chavez cannot be credited for improvements to the standard of living but happened to be in office during an economically successful period of time in the petrol industry.

In addition to rewriting the constitution and restructuring the government, Chavez also worked to take control of various areas that could be threatening to him. In order to do this, he replaced government officials – judges, election officials, prosecutors, etc. – with those who openly supported him (Martin, 2017). This action worked to ensure that Chavez would be above the law and effectively removed any kind of checks and balances that were in place. Furthermore, Chavez consistently spent much more money than the Venezuelan government had to offer (Gillespie, 2016b). While this is undoubtedly an unhealthy way to manage money, the primary issue with this is that Chavez spent money the oil industry made but did not invest back into the industry to help make improvements or preserve its fruitful state (O'Brien, 2016). These unhealthy spending habits helped sink the country into a deficit and contributed to the decline of the Venezuelan economy.

Chavez and his supporters effectively weakened the democracy of Venezuela and once his poor economic practices resulted in a recession, the government did not have the

means to properly respond to these problems. Although Chavez died of cancer in 2013, his successor and close friend, Nicolas Maduro, continues to carry out Chavez's political policies (Lowry, 2017). Chavez's corrupt ideology, policies, and governing style that live on through Maduro – referred to as “Chavismo” – are “reminiscent of his friend, Cuba's Fidel Castro” (Lynch, 2010, p. 90). This parallel between Chavez and Castro should be a clear indicator of the fact that Chavez was a corrupt man who ruled with corrupt governing styles. Chavez's contributions to Venezuela have hurt the country, and those who continue to carry out his plans ensure that Venezuela cannot heal.

Nicolas Maduro

When his health was steadily declining towards the end of his life, Chavez took the opportunity to select his choice for successor before his death. Nicolas Maduro, a member of the Venezuelan Socialist Party along with Chavez, was “the longest-serving minister of foreign relations under Chavez” and previously served as Chavez's Vice President (Romero & Mijares, 2016, p. 166). Keeping with the legal policy of Venezuela, Maduro automatically became president with temporary power following Chavez's death in 2013 (Shoichet & Ford, 2013). When elections were held 30 days later, Maduro was able to run as the candidate for the Socialist Party and win – by 1.8% – with help from loyalists that Chavez had placed in positions of power (Shoichet, 2013). While there has been criticism stating that Maduro does not hold the same level of enthusiasm for office that Chavez did, there are also much more serious issues at stake.

Since the oil market faced a price collapse in June of 2014, the government leadership has been unable to combat this issue and as a result the Venezuelan oil market has failed (Romero & Mijares, 2016, p. 166). Maduro also stated that he plans to continue

to run for president despite “a worsening economic crisis, rampant crime and poverty, international sanctions and the exodus of millions of Venezuelans seeking a better life abroad” (Semple, 2018, para. 2). After five years in office, Maduro ran in the 2018 election for Venezuelan president and there is outcry following his subsequent win and re-election into office.

While Maduro ran against two other candidates, he won by nearly three times as many votes as the next runner up. Despite a nationwide boycott on voting in this election because voters “repudiated the candidacies of both Mr. Maduro and the two opposition candidates,” election officials have reported that Maduro secured 5.8 million votes while the next runner up sat at 1.8 million votes (Neuman & Casey, 2018, para. 4). Despite his reelection, many are claiming that the election was “heavily rigged” and has been condemned by nations like the United States (Neuman & Casey, 2018, para. 2). In order to ensure his reelection in spite of his negative public image, Maduro and his officials took measures that many countries claim are unfair and unethical. The Venezuelan government banned the largest opposing political parties from running, arrested opposing party leaders, moved the election up seven months in order to prevent opposing party preparation, and removed election securities that prevent repeat voters (Neuman & Casey, 2018). Because of the securities that Chavez put in place while he was president, Maduro has a large amount of control in the government and there is no doubt that he has the ability to ensure his seat in the office. Unfortunately for the citizens of Venezuela, Maduro’s actions in his past six years in office continue Chavez’s visions and ultimately have worked to further the national crisis.

Issues in the Oil Industry

The primary source of revenue in Venezuela has consistently been the oil industry. The country of Venezuela received massive profits from their oil reserves, and redistributed wealth to the population under Chavez's leadership (O'Brien, 2016). This approach to socialism is how citizens within the country sustained themselves, before issues arose with this economic strategy. Unfortunately, during his later time as president, Hugo Chavez greatly impacted this industry's ability to function. In addition to the unethical replacement of government officials, Chavez took citizens who were qualified to work in industries such as oil and replaced them with those who were loyal to him (O'Brien, 2016).

The problem with this strategy is that this resulted in an inefficiency in the oil industry due to a lack of knowledge/understanding of the trade. Venezuela's oil industry fell by nearly 25% between 1999 and 2013, which are the years that Chavez was in office (O'Brien, 2016). This drastic decrease in production was then combined with the world's dropping oil prices in the 2000s and there were drastic consequences (O'Brien, 2016). Before these events, the oil industry accounted for nearly all of Venezuela's national profit; as Romero and Mijares write, "[the] Venezuelan foreign policy has been characterized by a growing dependency on oil market cycles" (2016, p. 165). When this one industry that the nation depended on crumbled, the national economy collapsed and many other industries then followed in suit. The collapse of this industry, among other examples, is one testament to the failure of socialism in Venezuela.

A Socialist Structure

Socialism is a form of government that typically causes many Western nations to feel uneasy, but there was a new found confidence in socialism when Venezuela was able to thrive. Initially, there was widespread belief that Venezuela had finally found a way to execute socialism in a successful way. While socialism has been present in Venezuela for many years, Hugo Chavez effectively worked to instate a form of radical socialism. This more radical approach appealed to the masses and was widely accepted because of the benefits it seemed to offer citizens.

These benefits, which required massive overspending on welfare programs, meant that citizens would be provided for through the appealing idea of shared wealth (Gillespie, 2017a). Under Chavez, Venezuela made a large profit by tapping into the available oil supply and redistributing this wealth to all citizens (whether they were workers in the oil industry or not) (Gillespie, 2017a). Once this redistribution of wealth was instated, the necessity for citizens to work shrank and many jobs were no longer available because of lack of job demand. However, when issues like drops in global oil pricing and the instatement of unqualified oil plant workers hurt the oil business in Venezuela, there was a steep drop in national profit (O'Brien, 2016). Those individuals who had grown to depend on the government for support were left in poverty; this stemmed from an almost entirely sole dependence on the success of the oil industry. Without a diversified form of revenue, the decline of the oil industry was a critical blow to the economy.

As a result of lack of diversification, there was no real economy instated in Venezuela apart from the profit made through oil, and as a result there was no real job

market available. Because of this, there are now few opportunities for citizens to work.

This inability to make a living locally is a primary reason that many Venezuelans are now leaving the country. In addition to the struggle that the citizens of Venezuela now face, the country's relations with countries like the United States are suffering.

International Relations Between Venezuela and the United States

In the wake of all that has occurred in Venezuela, there has been a significant impact on the nation's international relations with the rest of the world. Not surprisingly, the majority of the world has responded negatively to the corruption and struggles that Venezuela now face. International business relations heavily influences the formation of international relations policies, and the suffering international business in Venezuela is heavily impacting the country's international relations (Shengelia, 2013). This worldwide disapproval has resulted in strained international relations between Venezuela and nearly every other country the nation interacts with, including that of the United States of America.

Political Differences

One major strain between the United States and Venezuela has to do with political differences. More specifically, the ways that the most recent presidents, Hugo Chavez and now Nicholas Maduro, govern the nation strongly differs from the political and ethical views held by the democratic United States. The United States Bureau of Western Hemisphere Affairs acknowledges that these Venezuelan presidents have "defined themselves in part through their opposition to the United States, regularly criticizing the U.S. government, its policies, and its relations with Latin America" (U.S. Department of

State, 2018, para. 2). Tensions between the two nations are heightened as a result of these vocalized differences, and this criticism is not where the differences end.

In addition to opposition from the Venezuelan leaders aimed towards America, American leaders opposed President Maduro and his leadership practices. Maduro's policies and practices are "characterized by authoritarianism, intolerance for dissent, and irresponsible state intervention in the economy" (U.S. Department of State, 2018, para. 2). These practices, and the choices that Maduro has made in office to carry out his objectives, show socialist views that are in strong opposition the United States form of government that is a democratic capitalistic society. Additionally, Maduro's practice of silencing and suppressing the voices and views of those who are in opposition to him go against bold, American principles like equality and freedom of speech. While these strains between nations have been present for an extended period of history, Maduro's recent actions surrounding his reelection have caused the United States to take more immediate actions in order to intervene in Venezuelan affairs and offer aid to citizens.

Recent Actions Taken by the United States

As a result of the reelection of Maduro in January of 2019, tensions between the United States and Venezuela have heightened. The United States, which voiced condemnation against the election for being unfair and anti-democratic before it happened, has threatened to increase their level of already strict sanctions on Venezuela (Neuman & Casey, 2018). In order to place pressure on the Venezuelan government and help to take power away from Nicolas Maduro, the United States government has targeted Venezuela's primary export of crude oil with stricter sanctions.

Sanctions on Petróleos de Venezuela, S.A. Beginning in February of 2019, the United States began imposing sanctions on the state owned oil company, Petróleos de Venezuela, S.A. (PDVSA). By enforcing this penalty for the unlawful and unethical behavior of the government, the United States intends to strip the government officials of the power they have. As a result of these sanctions, there are reports that “[o]il storage is filling up in the country” and the government officials “[struggle] to line up buyers for the crude shipments that make up [the] government’s only real source of income” (Vyas & Olson, 2019, para. 2). Without the regular business from the United States, the Venezuelan government will be pressed to find buyers who will purchase the large amount of oil that the U.S. previously bought daily.

Since Venezuela is such an oil-rich country, a large majority of the crude oil received by the United States comes from Venezuela. Although the majority of U.S. crude oil imports come from Venezuela, these new sanctions “threatens the delivery of more than 500,000 barrels a day of Venezuelan oil to the U.S.” (Yang & Elliott, 2019, para. 3). These sanctions mean that the United States will be forced to find a different supply of crude oil in the meantime. While the hope with these legal steps is that the Venezuelan government will be impacted and forced to take actions to change the current state, there are short term consequences for United States citizens. One side effect of sanctioning one of the largest suppliers of crude oil is that gasoline prices in American may go up due to a temporary shortage of gasoline (Yang & Elliott, 2019). While this impact is hoped to be temporary, there is no guarantee of when the United States will drop these sanctions on the Venezuelan crude oil.

Negative implications of sanctions. In addition to the possible negative affects on the United States these sanctions could cause, there is risk that there will be little impact on the government. Although there is clear reason for the Venezuelan government to be concerned that the United States will no longer be in petroleum negotiations with them, there is also a chance that Venezuela will simply sell the oil that normally goes to the United States to other countries (Yang & Elliott, 2019). Oil is in high demand, and if there is not a unified world decision to attempt to punish the Venezuelan government for their actions then the impact of the U.S. sanctions could be stunted.

A strong risk in imposing these sanctions is the possibility of ineffectiveness in regard to these actions, but there is also concern for the citizens of Venezuela in these drastic measures. Although the United States intends to punish the Venezuelan government by imposing these sanctions, the possible hit to the national revenue could also affectively hurt the general population of Venezuela. Typically, sanctions instigate change because they “can influence the behavior of leaders by imposing economic hardship on the targeted public, who in turn will pressure their government to yield to the demands of the initiating states” (Allen, 2008, p. 916). However, in the case of Venezuela, there has generally been a disregard for public interests displayed by the government. While a large portion of citizens are already struggling to pay for a meal, another major hit to Venezuela’s primary source of revenue could heighten the struggles that these citizens already face and effectively punish the people of Venezuela.

The Impact on International Business

The majority of international business conducted in Venezuela is through multi-national corporations based in the United States operating within the country. One major

industry that has been affected by these events is the automotive industry, which previously had plants run by American companies such as General Motors. This industry has faced massive consequences as a result of the downturn, as well as the iconic fast food company McDonald's and airlines such as Delta Air Lines and American Airlines. These companies, which are now facing problems operating in Venezuela, are either pulling out of the country entirely or are confronted with drastic issues. These problems involving cross-border commerce will likely continue to injure the Venezuelan economy in ways that the country cannot afford.

General Motors Plant Seizure

One of the most highly televised news stories regarding business relations in Venezuela has to do with the American car company General Motors. In 2017, Venezuelan government officials seized the General Motors (GM) car production plant operating privately in the country (Petroff, 2017). Although the seizure of this plant was not the first time the government took control of an internationally operating plant, this action was a strong indicator that the country was becoming more desperate for financial improvements.

While other motor companies do have operations within Venezuela, General Motors had one of the largest and longest ongoing operations in the country. General Motors Venezolana was established in 1948 and has over seventy dealerships in Venezuela (Petroff, 2017). Additionally, General Motors supplied valuable jobs to Venezuelan citizens. Prior to the seizure of the plant, General Motors formally employed nearly 3,000 citizens of the country (Petroff, 2017). This dramatic seizure set GM back by \$100-million and caused the company to seek out legal action against this "illegal

judicial seizure of its assets” (Krauss, Casey, & Vlastic, 2017, para. 3). As a result of these unethical actions taken by the government, GM officially suspended all operations in Venezuela. However, the company clearly stated that they have hopes to continue operation at some point in the future if justice is served (Krauss, Casey, & Vlastic, 2017, para. 3). Although GM intends to do business with Venezuela in the future, there clearly must be significant changes made to the country’s structure and business practices before the company is willing to do so.

Oil Drilling

Although Venezuela remains an oil-rich nation, competition in the petrol industry and issues with drilling company business relations have heavily impacted the amount of revenue coming from this venture. Because the majority of Venezuela’s revenue comes from this one industry, there could be significant fallouts as a result of petrol companies pulling operations out of the country. As political and economic issues rise, the difficulties with operations do as well, and this mounting pressure has serious influence over the decisions these companies make.

Halliburton. Halliburton, an American-based oil drilling company, has been operating in Venezuela since 1940 and in 2018 finally decided to pull out of the country (Krauss, 2018). In the previous year, the company had written off \$647 million in losses within their operations in Venezuela; subsequently, in April of 2018, Halliburton announced that it would write “off its remaining investment of \$312 million in Venezuela, as oil production in the politically polarizing and virtually bankrupt country continues to plummet,” (as cited in Krauss). This write off is a devastating blow to a country that is already struggling to stay afloat.

Francisco J. Mondaldi, an expert in Venezuelan energy at Rice University, stated that “This is one step further into the collapse of the Venezuelan oil industry because it means oil service contractors, which are absolutely essential to operations, are slowly giving up on the country” (Krauss, 2018, para. 3). Since oil was, and continues to be, the primary source of income for Venezuela, the impact that the nation’s poor condition is having on this industry is severe and will likely contribute to the country’s declining state.

Chevron. Chevron, a United States based petroleum company, operates internationally in a number of countries throughout the world, so it comes as no surprise that this oil giant operates in the petroleum rich country of Venezuela. Presently, Chevron is the last major U.S. oil major in the country of Venezuela, but recently the company has been considering whether it would be wiser to cease Venezuelan operations all together (Vyas and Olson, 2018). While the exodus of this last major oil company could be a major blow to what finances the government does rely on, there are social and economic concerns if the company chooses to continue operations within the country.

If Chevron chooses to stay in Venezuela, they not only run the risk damaging their reputation by continuing operations with a corrupt government, but also the risk that what little profit they are still making in the country will disappear altogether. From 2015 to 2017, Chevron operated at a loss in Venezuela and was only able to make meager profits in 2018 as a result of increased global oil prices (Vyas and Olson, 2018). With no draw from major levels of profits, and the eyes of the world are on the actions of Chevron as a result of the digital information age, the company may be forced to step back from

their Venezuelan operations in spite of the fact that this will contribute to the already existing recession.

Citgo. Although Citgo is a company operating in the United States and marketed as an American company, this petroleum corporation is a product of parent company Petróleos de Venezuela, S.A. (PDVSA) – the state-owned petroleum company run by the Venezuelan government. In the wake of the rumored unfair reelection of Nicholas Maduro, the United States government has moved to impose stricter sanctions on Venezuela’s oil industry in an attempt to shift power away from Maduro (Nair, 2019). Unfortunately for Citgo, these stricter sanctions also impact business operations with the U.S. company because of the ties Citgo has to PDVSA. In the wake of “a looming governance crisis and competing creditor claims on its assets,” there are rumors of Citgo considering bankruptcy in order to protect the company’s operations (Nair, 2019, para. 2). Although the company denies these claims, the ongoing tension and rise of sanctions between the United States and Venezuela raises cause for concern. Since PDVSA is the parent company of Citgo, the Venezuelan government sees profit from the continued operations Citgo carries out within the United States. As a result, the company could be impacted by American efforts to strip Maduro of power in favor of a more democratic ruler.

Travel Industry

In addition to the seizure of the General Motors plant and oil companies, many other multi-national corporations operating in Venezuela are being impacted by the economic downturn. Unfortunately for Venezuela, the current state of the country has negatively affected the desire of consumers to travel to it and the willingness of travel

companies to send customers to the unstable nation. One such industry that has been affected by this negativity is the travel industry, specifically international airlines such as Delta Air Lines, United Airlines, and American Airlines.

Delta Air Lines. Any time there is economic and political unrest, those who wish to travel to that country faces significant dangers and challenges. One U.S. airline that originally offered flights to Venezuela, Delta Air Lines, has completely stopped offering flights to the country as a result of concern stemming from the nation's political and economic instability (Gillespie, 2017b). In September of 2017, when Delta halted the remaining weekly flights to Venezuela they offered their customers, the company cited "operational and security limitations" as their reason for halting flights to and from the country (Wise, 2017, para. 3). This halt of flights also impacts the tourism industry since potential visitors – who would contribute to the national income – are now unable to enter the country by means of air. Since 2017, Delta has not offered any flights in to the country and this airline is not the only one to make this decision.

United Airlines. United Airlines, another American-based airline, has followed Delta's example and has also chosen to completely stop offering flights to Venezuela. In addition to the political unrest and concern for their customers' safety, United Airlines is one of many airlines that the Venezuelan government is deeply indebted to. United falls into the category of airlines that have chosen to leave the country as a result of disputes concerning billions of dollars the Venezuelan government owes them. Allegedly, "President Nicolas Maduro's administration has failed to reimburse companies in hard currency for ticket sales in local currency, as per strict currency controls in the socialist

nation” (Gupta, 2017, para. 2). Before this final decision was made, there were a variety of steps made by United in an attempt to ensure the security of employees.

Since there had been an increasing number of deaths related to unrest in the country, United added a one-hour stop in the Caribbean so that crew members would not have to spend the night in the country. With security concerns for passengers and crews, severe debt, and nearly empty flights, United ultimately decided the liabilities were too numerous and joined other airlines in making the decision to suspend all Venezuelan operations.

American Airlines. American Airlines has approached the situation with Venezuela differently from other U.S. airlines. Originally, American Airlines halted flights to Venezuela in 2014 for the same reason that United Airlines ultimately suspended flights – the government owed the airline massive amounts of money for flights to and from the country (Josephs, 2018). Although the large debt places the Venezuelan government in a difficult legal position and further hurts the trust that multinational corporations have in Venezuelan business ethics, American Airlines has recently altered their original decision to end flights to the country. Beginning in December 2018, American Airlines added flights three times a week from Miami, Florida, to the capital of Venezuela – Caracas (Josephs, 2018). This move contrasts severely with the actions taken by other American airlines.

One reason that American may have decided to take this action is because all other airlines running from the U.S. to Venezuela have halted operations. Because of this, if American were to begin operations (which the company has), that would mean that they hold a monopoly on US-based flights to the country. This change was made in the

midst of a push to increase operations in Latin America, since about 13% of the airline's operating revenue in 2017 came from this region (Josephs, 2018). Though there are potential benefits to having the sole flight route to Venezuela, the continued decline of the economy coupled with the rise of political unrest and violence raise concern surrounding American's decision to reinstate flights to the country.

Food Industry

In addition to the travel industry, the food industry in Venezuela has taken a drastic hit because of these events. The suffering state of the food industry not only affects those multinational corporations that are operating in the country, but also hurts citizens who are impacted by the lack of food available. Major corporations like PepsiCo, General Mills, and McDonald's are among those organizations impacted by the economic downturn and political unsteadiness.

Pepsi. One major American company facing substantial losses in Venezuela is PepsiCo, Inc. Despite continuing operations within the country and seeing a flow of revenue pour out of those operations, Pepsi is operating at a loss in the Venezuelan market. While Pepsi faced costs of \$1.4 billion in Venezuelan business operations in 2015, Pepsi only made \$326 million in sales in Venezuela that same year (Gillespie, 2015). This means that Pepsi only made back approximately 23% of their investments in the South American country in 2015, and since 2015 the economy has seen no improvements – only continual downturns (Gillespie, 2015). The company remains positive in spite of the massive losses, and intends to pursue future operations in the South American country in the hopes that circumstances improve. While Pepsi continues

to do business in Venezuela, the company's primary competitor, Coca-Cola, has also faced challenges operating within the country and must handle their situation differently.

Coca-Cola. Although Coca-Cola is one of the most well-known and widely operated company in the world, this company has seen the impact that food shortages are having on Venezuelan operations. As a result of the poor economic conditions, Venezuela's government can no longer afford to pay for primary imports, like raw sugar, milk, eggs and flour, in spite of the fact that government workers have only been working two days a week in order to save on power and funnel money instead into basic needs such as these (Gillespie, 2016a). Because Venezuela cannot afford to pay for raw sugar imports – which are then refined by sugar suppliers within the country and used to create products like Coca-Cola – the company was forced to cease production of Coke and other sugar-sweetened beverages (Gillespie, 2016a). While the company still has the ability to produce and distribute products that do not require the use of sugar, such as water, this significantly impacts the amount of revenue Coca-Cola sees from the Venezuelan market.

In addition to the inability to produce signature beverages, the company is offering employees “competitive severance packages until the sugar supply is normalized” again (Gillespie, 2016a, para. 7). Despite a lack of revenue from signature beverages and regular operations, the company continues to pay employees who are unable to work in the production stages and as a result loses more money in the exchange.

General Mills. General Mills, Inc., which produces products such as breakfast cereal, baking goods, and snacks, has seen adverse effects in their international operations as well. Originally this multinational corporation continued to sell their

products in the Venezuelan market, but the company was operating at a loss within the country (Gillespie, 2017b). However, in a press release in 2016, General Mills announced that the company had completed the sale of their operations in Venezuela to a private investor and as a result would no longer be operating within the country. In this press release, the President of General Mills Latin America stated that the company was hoping to “prioritize other growth opportunities within [their] Latin America portfolio” and cited “challenging external conditions” as the primary reason for exiting the Venezuelan market (General Mills, 2016, para. 3). These challenging external conditions that General Mills faced also impacted and continue to impact internationally operating restaurants such as McDonald’s.

McDonald’s. One food giant that operates in nearly every country in the world, McDonald’s is facing serious problems as a result of the downturn. All McDonald’s restaurants in the country are now owned and operated independently by a franchisee. Any profits from the now privately run Venezuelan McDonald’s are no longer counted towards the company’s bottom line, since the restaurants have been seized (Gillespie, 2017b). Furthermore, these now privately owned restaurants frequently face issues such as shortages of staple supplies and food products. When the McDonalds’ restaurants have shortages of items such as the signature French fries or middle hamburger buns, the restaurant must remove several items from the normal menu until the opportunity to acquire more arises (Gillespie, 2017b). Without staples to the McDonald’s menu, the restaurants suffer from even lower sales.

Additionally, the majority of citizens are not even able to afford to buy anything from this restaurant. In 2015, the cost of a large fry from McDonalds was 800 bolivars,

the equivalent of \$126, which is 9% of an individual's monthly income in Venezuela (Holodny, 2015). Since 2015, inflation has only drastically increased and the value of the bolivar has fallen (as previously mentioned), meaning that drastic prices like these continue to rise and food becomes less accessible. This host of companies in the food industry who choose to pull out or are facing serious problems show that the plunging economy leaves multinational corporations with little faith in improvements to Venezuela's business relations. Unfortunately for the citizens of the country, the actions that these companies take to save themselves will work to perpetuate a continued economic downturn for Venezuela.

While many industries are suffering in Venezuela, the food industry is possibly one of the most crucial and therefore most impactful. Residents of this country need sustenance to survive, and the lack thereof is contributing to the mass exodus of Venezuelan citizens. The corruption of the government has been impacting the automotive, oil, travel, and food industries, among others, and with no resolution in sight there is potential for this list to grow. While these government decisions may be beneficial to the officials in the short term picture, there are long term consequences that heavily impact the country as a whole.

Conclusion

Many factors contributed to the downfall of Venezuela's economic state, but there are three primary contributors to this tragedy. As a result of unethical political leadership, the mismanagement and price drops of the oil industry, and a national socialist government foundation, Venezuela is currently suffering one of the worst economic declines in history. The continuation of these issues furthers the deterioration of the

Venezuelan economy and quality of civilian life, while forcing citizens to flee the country en masse in search of jobs and better living conditions. There must be government reconstruction and a reevaluation of socialist national values before Venezuela can work towards recovery. Even then, it will be many years before the confidence that multinational corporations have in Venezuela can be restored.

The current economic and political state of Venezuela shows the negative fallout of corruption in leadership. As this situation continues to worsen, the implications for international business become more clear. When situations such as this arise, and governments step in to take control of internationally operating companies, there are severe long-term consequences. Although the government may benefit from a short term increase in wealth when events such as company seizures take place, the trust of multinational corporations is priceless. Without a mutual trust between these United States companies and the Venezuelan government, there is risk that a company will choose to remove itself from international operations and therefore mitigate potential risks that come with those operations. By hurting international relations with the United States and many companies from the United States, Venezuela has forfeited future opportunities to do business with these organizations. Venezuela has created an unsafe and unstable environment for international companies to operate in, and clearly demonstrates the value of understanding and maintaining positive international business relations.

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