Global Economic Policy Lab

Scenario Analysis Based on the Regime Change of Venezuela

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Introduction:
Regime Change as an Endgame

Each week it seems as if Venezuela's long-simmering crisis is ready to come to a head. As economic conditions deteriorate, the Maduro regime faces a less and less friendly environment for interactions with the opposition.

For Maduro to remain in power, he and his clique must believe that holding power is preferable to not holding power. While axiomatic, that it should be true is not obvious: not only must they believe that holding power and privilege is better now, they must believe that there is a better chance that they will maintain this indefinitely than that they will meet their bloody end at the hands of violent transition. There are shades of grey: a transition which somehow maintains their privilege; one that reduces them in stature but does not threaten their person, but the core remains. They must believe that their current position is better than alternatives.

What happens when some of Maduro's supporting elites believe this is no longer true is the key to understanding how the Venezuelan tragedy's final act will likely unfold.

Part One:
Current Situation Analysis: How Did Venezuela Get Here?

1.1 From Oil Production and Price Decline to Hyperinflation

Venezuela has the world's largest proven oil reserves. Given their substantial reserves, oil production has come to dominate their economy, representing 96% of Venezuela's total exports. More than 60% of the government revenues rely exclusively in the oil industry. This means that there is a critical relationship between the performance of the Venezuelan economy and the price of oil, a volatile commodity.

Venezuela's oil production peaked in 1997 due to a combination of government mismanagement, the politically-motivated firing of many oil staff and rampant corruption. Oil prices have plummeted since 2012, shrinking the regime's almost exclusive source of revenue, and one of the few sources of foreign-currency generating activity in the country, which is used to both import basic consumer goods and also to service external debt.

1.2 From Hyperinflation to a Debt Crisis and Scarcity of Goods

At the beginning of the 21st century, Venezuelans enjoyed a period of sustained economic growth, powered largely by borrowing and the revenues of the country's nationalized oil producer and refiner. Today, those gains have been largely wiped away as millions flee the country and inflation decimates the incomes of those who remain.

The pace of hyperinflation makes it difficult to precisely measure the level of inflation being experienced in Venezuela. The central bank no longer releases data on the subject. The opposition-controlled legislature released an official 46,305% annual price inflation figure in 2017, while the IMF projected that the annual inflation rate broke 1,370,000% at the end of 2018 – a dramatic increase over the previous estimate of 13,000% made in July of that year.

As the Venezuelan government no longer releases key economic indicators, precise understanding of the crisis and the level of currency depreciation are difficult to properly assess, but one sign is the gap between Venezuela's official and unofficial exchange rate. Venezuela has long managed a complex foreign exchange regime, with different rates for different import purposes as well as differing levels of loyalty to the regime. According to Reuters, in September dollars traded at a 50% premium on the black market, where they are more readily available, than on the restricted official exchange.

Such runaway in key indicators like inflation and exchange rates, coupled with economic depression is clearly unsustainable. The concern remains how the Venezuelan government intends to bring its currency and inflation back under control. In mid-January of this year, the regime announced that it would triple the country's minimum wage while dramatically increasing oil production. With oil prices relatively low, this is not a guaranteed strategy to accumulate sufficient foreign reserves to tame inflation with hard currency.

1.3 The Debt Crisis

The ratio of Venezuela's general government gross debt as a % of GDP is currently the 4th highest in the world according to the IMF at an estimated 162.4%. This is a dramatic increase relative to 2016, when its ratio was only 31.3%. Additionally, the country holds both the largest debt to export ratio and the largest interest burden in the world. Since November 2017, the government has been in selective default on its debts, and currently owes an estimated $8B in unpaid interest and principal of their fixed income securities obligations. In January of this year, a group of five investment funds began legal proceedings against the government for a $1.5B government bond that is in default, increasing the risk of other investors calling the $60B in outstanding Venezuelan government and PDVSA bonds, and risking an Argentina-style creditor dispute.

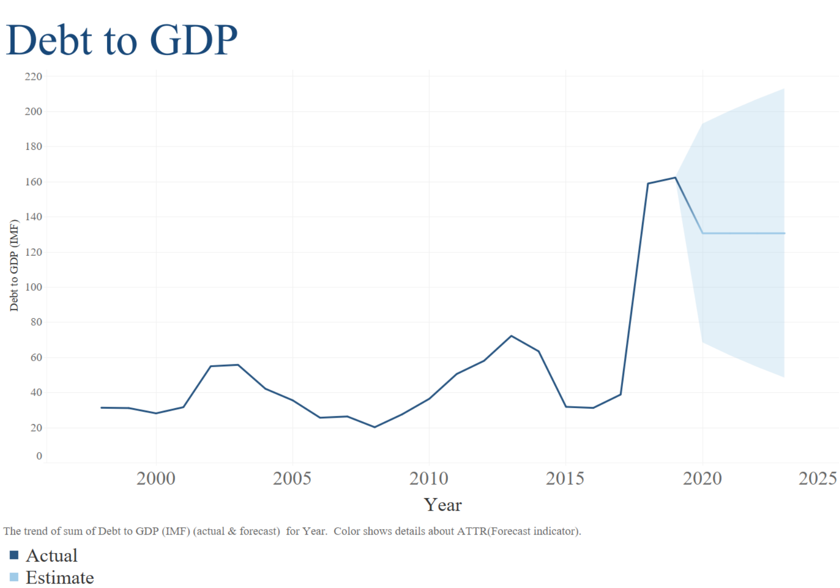


Figure 1 – Venezuela Debt to GDP Ratio
Source: The IMF, Authors

China has played a critical role in providing financial support to the Venezuelan government. Since November 2007, the China Development Bank and the China Export-Import Bank have cumulatively loaned $62.2B to Venezuela to support their oil sector development, representing over 40% of the banks' Latin American loan portfolios. This source of credit peaked in 2010 with $21.4B in loans to jointly fund a long-term energy facility and a trade facility. Since then, China's financial support has rapidly declined, averaging $5.2B/year in new loans between 2011 and 2016, with no new loans since then. Many of these loans require repayment in oil in lieu of cash, and these debt repayments currently represent almost 25% of Venezuelan oil production. Since 2016, when new financing has come from China, it has been in the form of asset sales, such as the September 2018 sale of a 9.9% stake of the Sinovensa project by the Venezuelan government to the Chinese government, leading to a combined 49.9% stake in the project with the China National Petroleum Corporation.

Russia has also played a key role in providing financing to the Venezuelan government, with over $17B in loans since 2006 and over $6B outstanding. A significant proportion of those outstanding loans as well as additional financing was conducted through the Russian state-owned oil company Rosneft. The firm has loaned the PDVSA $6.5B – with $3.1B outstanding – and has purchased stakes in many of the country's energy assets, including ownership of two of its offshore gas-fields and claims on 30 years of their future output, and a 49.9% collateral stake in Citgo, the PDVSA's US subsidiary. When Maduro has faced strong opposition, he has turned to Russia for financial support, such as in November 2017, when Russia agreed to restructure $3.5B in outstanding loans, and in December 2018, when Maduro touted $6B in new Russian investments in the Venezuelan oil and mining sectors.

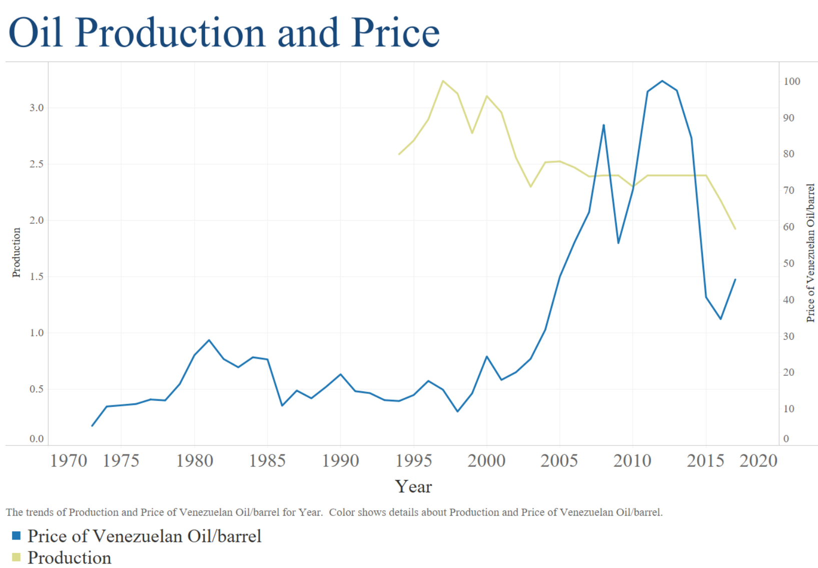


Figure 2 – Venezuela Annual Oil Production and Price per Barrel
Source: US Energy Information Administration, Authors

Since oil, the main source of revenue has faltered, the Venezuelan government has found itself becoming increasingly beholden to its primary sovereign lenders: China and Russia. While Venezuela pursued close ties with both as part of its anti-American foreign policy under Chavez, Russia and China have found themselves both with more power over the Maduro regime and more of a stake in the continuity of his government.

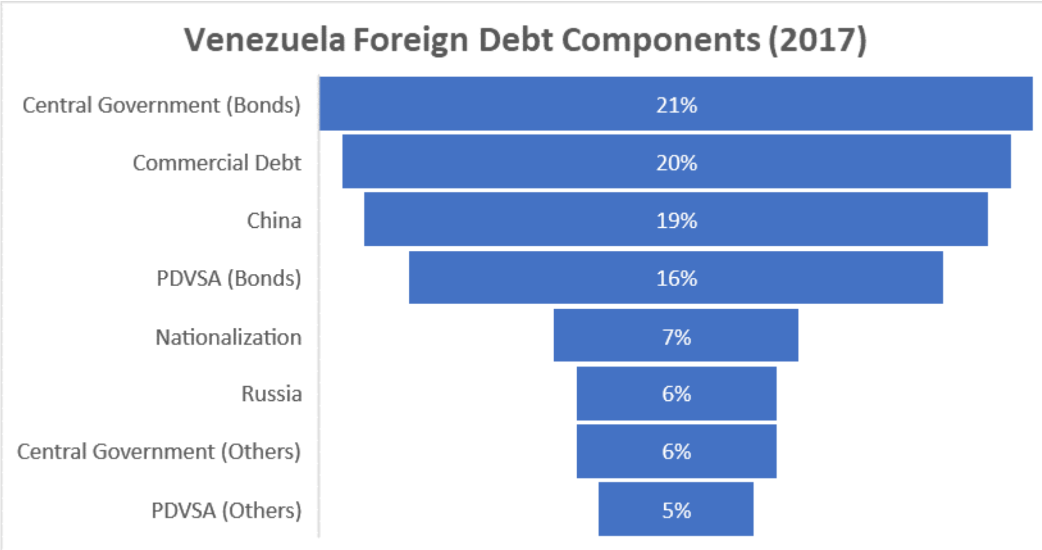


Figure 3 – Venezuela Foreign Debt Components (2017)
Source: The Wilson Center, Authors

1.4 Scarcity of Goods

Over the past two decades, the Chavez and Maduro regimes have steadily increased their interventionist policies through the implementation of multiple fixed exchange rates and price controls, the nationalization of key industries, the expropriation of foreign direct investments, and the use of politicized discriminatory legalism and regulation. These policies have provided ample opportunities for the steady creep of crony capitalism, economic mismanagement, and corruption into the Venezuelan economy, leading Transparency International to rank Venezuela as the 168th out of 180 countries in terms of perceptions of corruption in 2018.

As a result, the national production of most goods in the country has plummeted, and most goods from raw materials to food, medicine, and technology need to be imported from abroad. Given the rapid hyperinflation facing Venezuela, this has meant that they have limited purchasing power to purchase and import any of these goods, leading to significant challenges for most Venezuelans' daily lives. A cross-national survey concluded that as a result of food shortages, over 80% of the Venezuelan population was food insecure, with 64% of Venezuelans losing 11 kilograms in weight over the course of 2017 as a result. Vaccinations and medications have also proven difficult to acquire. A 2018 report by the WHO found that 87% of people living with HIV cannot access anti-retroviral treatments, and measles and diphtheria outbreaks have skyrocketed where no cases were previously reported between 2008 and 2015.

Overall, the situation has become dire for many Venezuelans. With little hope for a rapid reversal of fortunes, much of the population has begun to emigrate in the hopes of a better life abroad.

1.5 The Migration Crisis

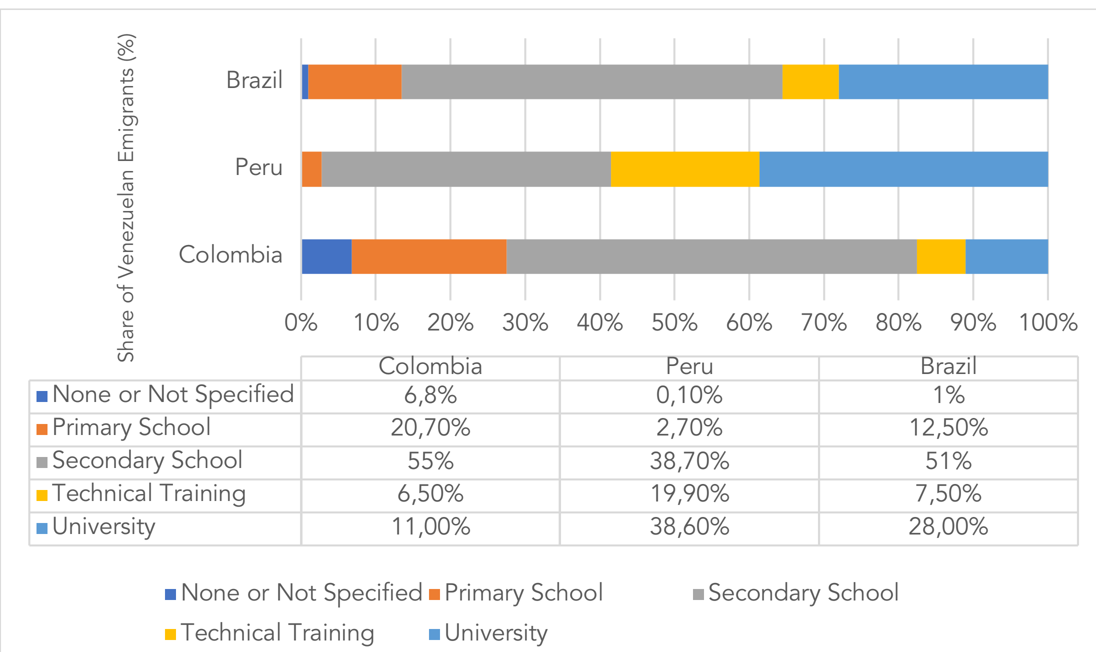
Venezuela is currently in the midst of migration crisis with millions of people fleeing the country as a result of the scarcity of goods, hyperinflation, economic stagnation, and political instability described above. It is important to contextualize this wave of emigration in the context of Venezuela's recent migration history so that its scale can be understood.

There have been three distinct waves of mass emigration from Venezuela over the past two decades. The first began following the failed coup against former President Hugo Chavez in 2002 and subsequent crackdown on the opposition. The second followed the wave of expropriations and nationalizations of various firms and industries by the Chavez regime in 2007. These two waves of emigration were similar in that the bulk of the emigrants tended to be from the middle and upper classes of the country and have high levels of educational attainment and valued professional experience.

This third wave of mass emigration, which began in 2014 following the rise of hyperinflation and has since escalated, is different. This wave is far larger, and far broader. Venezuelans across the country and across education and income levels are now fleeing. There is a tendency in this wave for the emigrants to be younger and include whole families that either emigrate simultaneously or piecemeal with the men leaving first to set down roots before bringing the rest of their families.

Colombia		Peru		Brazil	
Population	**1100000**	**Population**	**506000**	**Population**	**96000**
Age	*Share (%)*	**Age**	*Share (%)*	**Age**	*Share (%)*
Children / Adolescents	26.8	**18-24**	27.3	**15-24**	22
Adults	70.6	**25-29**	25.8	**25-49**	71
		30-34	17.8		
		35-39	12.3		
		40-59	15.8		
60+	2.6	**60+**	1.0	**50+**	7

Figure 4 – Age Distribution of Venezuelan Migrants by Representative Country (2018/2019)
Source: Migration Policy Institute, Authors



	Colombia	Peru	Brazil
None or Not Specified	6,8%	0,10%	1%
Primary School	20,70%	2,70%	12,50%
Secondary School	55%	38,70%	51%
Technical Training	6,50%	19,90%	7,50%
University	11,00%	38,60%	28,00%

Figure 5 – Education Level of Venezuelan Migrants by Representative Country (2018/2019)
Source: Migration Policy Institute, Authors

3.4 million Venezuelan migrants and refugees that have fled the country in recent years according to the latest data as of February 2019 from the UNHCR. 2.7 millions are now hosted in other Latin American and Caribbean countries, and of those, only 1.3 million have been granted residence permits or other regular status. The top six destination countries for these migrants and refugees are:

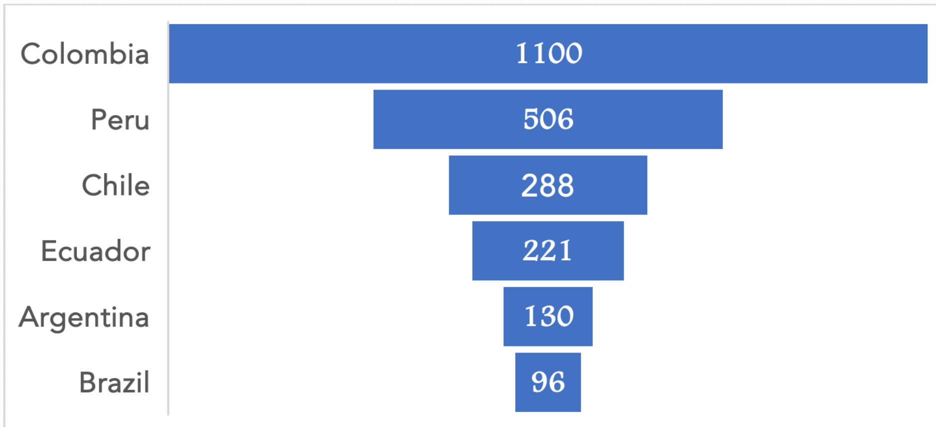


Figure 6 – Top Six Destination Countries for Venezuelan Exodus (2019), Unit: Thousands, Population
Source: Human Right Watch, UNHCR, Authors

It is estimated that by the end of 2019, this mass exodus will reach 5.3 million people, representing 16.6% of its estimated 2017 population according to the World Bank. There is little indication that this outflow will decline in the coming years unless the situation in Venezuela improves.

Part Two:
Regime Change as a Variable for Consideration

We believe that it is possible that a change in regime in the Venezuelan government would have a significant impact on the factors described above: Venezuelan oil production, debt, hyperinflation, access to goods and migration. The Venezuelan government, as an actor, plays a key role in the trajectory of all these factors through its monetary and fiscal policies and relations with external players, such as the governments of the United States, China, Russia, etc.; international financial markets; and other international actors. The Maduro regime has recently faced increasing instability as a result of the situation above, and it is unclear whether or not and in what capacity it will continue to operate in the future. It is currently supported by the bulk of the Venezuelan military establishment and faces opposition from a coalition of opposition political parties who control the country's National Assembly. Given that the fate of the Venezuelan government plays such a key role in determining the outcomes for these factors, an understanding of if and how regime change could occur, and forecasts for different regime change scenarios could be valuable.

2.1 Regime Change Theory

Political scientists have spilled countless gallons of ink discussing the factors that lead to regime change. The answer can be misconstrued as 'all of them', but the general consensus is that there is a non-deterministic, complex relationship among factors that is in some respects unique to each individual case.

There are two major schools of thought: those who think that the causes of regime change after a crisis are due to structural forces, and those who believe that it comes about as a result of conscious strategic choices. For structuralists, the real players are institutions and socioeconomic systems which shape the response of classes and interest groups during a crisis. For the strategists, individuals and small groups with concentrated power bargain in order to transition towards new political settlements.

Structuralists point to the ongoing crisis of hyperinflation and economic collapse as harbingers of if not inevitable regime change, then critical pressure against the regime. Not only that, the regime has continued to mobilize the urban working class and the military, classic structural forces. Nonetheless, it is easy to see the regime and the National Assembly engaged in a game of implicit bargaining, reaching out to international sponsors and each making claims on institutional legitimacy. While structural factors are clearly at play, it is equally clear that leadership and their strategic choices will make a critical difference.

The nature of the crisis shapes the kind of transition that can occur. Most notably, crises do not symmetrically enable transitions from democracy to autocracy and vice versa. Economic crises, especially hyperinflation, are much more likely to lead a democracy slide towards authoritarianism than the other way around. Mark Gasiorowski of Louisiana State University argues that this is because the public is more likely to trust a firm hand at the tiller, and authoritarians have more tools than democrats when it comes to economic stabilization. Whether or not this would hold in Venezuela, where the hyperinflation was caused by those autocrats paying inadequate attention to the tiller, is unclear.

2.2 Regime Change in the Venezuelan Context

In Venezuela, there are two main groups of elites who are bargaining for power: the Maduro regime and the National Assembly under Guaido. Each of these are accountable to their own constituencies: the transitional government known as the National Assembly represents a diverse anti-regime coalition holding just shy of 2/3rds of the seats therein. They are accountable to their voters. The Maduro regime, meanwhile, is accountable to the elites within the United Socialist Party's formal and informal structure. While it also nominally controls the military, the armed forces have become the critical member of their coalition – raising the question of who is in control. While the military had been sidelined when Venezuela first transitioned to democracy, Chavez made it a core part of his power base, and today key parts of Venezuela's apparatus of power – like the state oil company and ministry in charge of food distribution – are run by generals.

2.3 Models of Action

Analyzing Venezuelan regime transition could be accomplished using two models: the Stag Hunt and the Tipping Point. In the story of the stag hunt, hunters can cooperate and catch a stag, or they can catch a hare on their own. Two hunters each making their decision without knowledge of the other's choice face the prospect of getting nothing if their partner goes rabbit-hunting. The Tipping Point model described by Thomas Schelling describes how changes in a group's composition can create a cascade of change.

Democrats face a stag hunt: opposition to an authoritarian regime requires cooperation. A lone individual who sticks their head out of the trenches catches their opponent's attention. At this point, the democrats seem to have succeeded insofar as they've captured a vital institution despite their internal divisions. Their task is to maintain unity and its concomitant legitimacy.

The Maduro regime's best chance at breaking this unity is the 'salami slicing' strategy: making successive, small marginal gains that add up to something formidable. In the National Assembly's diverse coalition, there are legislators who have various opinions on the regime. Some are existentially opposed to the United Socialist Party's continued role, while others disagree on practice rather than principle. The rest are somewhere in-between. Legislators have protection so long as they're working together: if their majority disappears, their legitimacy does as well. To some extent, a legislator's comfort in opposing the government rests in the courage numbers. If the regime succeeds at swaying marginal legislators, that power is diminished. As marginal legislators leave the coalition (supposing that the regime could convince them), the confidence of other legislators declines, and they might become more open to the regime's overtures themselves.

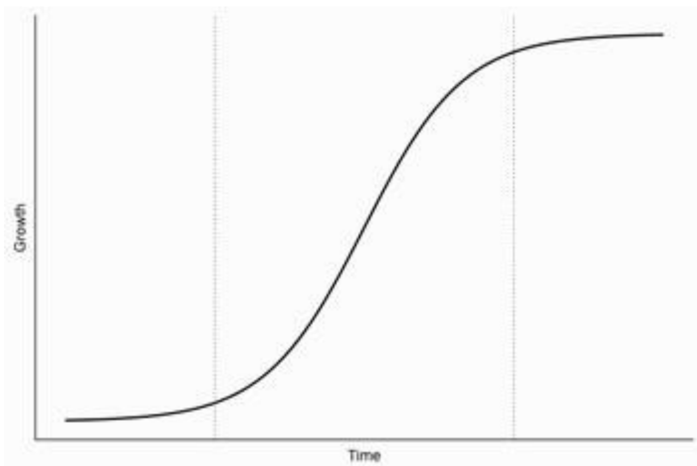


Figure 7 – General S Curve
Source: RBC Wealth Management

Schelling describes this process as usually following an S-curve, where change first happens slowly before reaching some critical mass that prompts a sea-change in support before slowly reaching the finish line. Depending on the convictions of individual legislators and their ability to resist the changing environment, this could present a strategy for the regime.

Unfortunately for said regime, this process also applies to them (and probably more severely). Their coalition rests on the cooperation of different groups extracting privilege from the state, and if a significant group were to defect it would alter each other group's calculation about the long-term viability of their choice. If, for example, the army decided to abandon the regime, many others would follow because they would then see the regime's position as untenable. The same process could happen within a part of the coalition, like the army.

Maduro's clique also plays a stag hunt: they are currently all hunting the stag, but as parts of the coalition begin to distrust each other, the chances of defection increase.

Part Three:
Regime Change Scenario Analysis

3.1 Description of Regime Change Scenarios

Scenario A: Maduro Regime Remains in Power and Political Crisis Dissipates

There is a possibility that the Maduro regime avoids replacement. For this to happen, two alternatives could occur. First, which is likely, is that the opposition coalition could break, either through the aforementioned 'salami slicing' method, or through another method which dramatically breaks the bonds of trust amongst the National Assembly's members, leading them to search for their own hares rather than hunt the stag. This could come in the form of significant and serious corruption allegations, or irrefutable proof of a foreign power pulling the strings. The Maduro regime has alleged both of these things, but without credibility. Second, the Maduro regime could successfully make the opposition coalition irrelevant through jailing of opposition and/or the closing of the National Assembly. This is far less likely given the perceived legitimacy of the National Assembly and democracy as an institution by the people of Venezuela.

Scenario B: Venezuelan Military Dictatorship Supported by National Assembly

Perhaps the most likely scenario, the ongoing economic crisis removes the regime's ability to sustain its constituents. Without faith in the competence of Maduro's clique to govern effectively, the Venezuelan military leverages its control over vital national infrastructure – including the country's sole source of hard currency – and elevates one of their own (likely on an "interim" basis). The military makes an arrangement with the National Assembly to share their legitimacy, and those two parties bargain for a broader constitutional settlement. This would not be without precedent: inflationary crises often result in military dictatorship because of the perceived need for a strong institutional foundation. While some members of the National Assembly would resist a military takeover, the 'salami slice' strategy is likely more effective for a military promising compromise than it would be for the regime, resulting in a more readily-obtainable critical mass.

However, it is important to note the historical background of military coups in Venezuela. Particularly, there has been a long-standing trend towards respect for electoral institutions and norms in Venezuela and the broader Latin American region. Latin America went through a surge of democratization between 1978 and 1992, during which sustained democratic regimes went from the exception – with only Colombian, Costa Rican, and Venezuelan democracies – to the norm – with only Cuban and Haitian dictatorships.

It could be possible that the military takes control using the same levers of power without working to gain the legitimacy of a partnership with the National Assembly, but this is unlikely again given the perceived legitimacy of the National Assembly and democracy as an institution by the people of Venezuela.

Scenario C: Civil War

The most extreme scenario in terms of devastating consequences would a Venezuelan civil war. If neither side is unable to attract constituents of the other, conflict might become one side's only resource. This could happen if conflict within the armed forces fractured its unity, leading one side to take up the cause of the National Assembly. Conflict is only likely if Maduro or the National Assembly (or both) misread their position in the balance of power. Many analysts believe that most of the military elites still support Maduro, which gives his regime a dominant power position. If the military were to defect en masse to support the National Assembly, the balance of power would flip.

If the armed forces were unable to resolve internal conflict, however, the sides could face an ambiguous balance of power where one side's misinformation could spell civil war. While both parties would likely work to avoid this, structural forces could lead to conflict regardless. It is difficult to gauge the likelihood of this scenario given the opacity of the internal power dynamics.

Scenario D: Liberalization leading to Control by Opposition
The least likely scenario features the opposition being ceded control of the state apparatus in some kind of amnesty or power-sharing arrangement. This solution is implicit in the bargaining framework of transition but is fraught with complications. The most compelling evidence against this resolution is its continued failure to appear. The Maduro regime would have to figure out how to give the National Assembly what it considers its legitimate powers while not alienating or endangering its coalition. The problem with this is that Maduro's coalition is held together through the abuse of state privileges, which would be either forfeit or at risk in the event of a transition to the opposition (which has its own policy goals and coalition members).

3.2 Forecasted Scenario Outcomes

We believe that the scenarios described above cover a range of relevant possibilities in terms of the state of the Venezuelan government going forward over the next five years given the increases in global crude oil prices predicted by industry experts through the medium-term and over the longer supercycle and the slow-burning rate of the crisis in Venezuela to date.

See **Figure 8** for a summary chart of different forecasted scenario outcomes outlined from 3.2.1 to 3.2.5.

3.2.1 Oil Production

Region Remains: Under the continued status quo of rule by the Maduro regime, we predict Venezuelan oil production to continue its decline over the next five years given the continued pattern of mismanagement and corruption, and the emigration of skilled workers from the country. It is possible that the Venezuelan government may look to recruit foreign workers to fill the gap, but given the political instability and rampant crime, this may prove difficult, even if oil prices rise. Oil production will continue to remain a key source of government revenue and hard currency through this period of decline.

Military Dictatorship: If the Venezuelan military is able to gain control of the government and gain the legitimate support of enough of the National Assembly, we predict that Venezuelan oil production will continue to decline over the short-term with a possibility of stabilization and slight increase within the next five years. This is because a Venezuelan military government could in that timeframe institute some policies such as currency reforms, crackdowns on (non-military) corruption, petty and organized crime, and attract foreign aid and economic support from China, Russia, and perhaps the United States, the European Union, and international organizations depending on their political leanings. The degree of peacefulness in the transition to military control would also play a role in the trajectory of the country's oil production. The more peaceful and quicker the transition, and the sooner it occurs, the faster we predict the country's oil production would stabilize and begin to increase.

Civil War: If Venezuela collapses into civil war, oil producing assets will become key focal points for political and economic control of the country. We predict that those parties that have control of the oil producing assets will try to increase production in order to fund their activities, while those who do not have control of the assets will attempt to both gain control of them, and limit their opposition's ability to derive revenue from them, for example by blockading shipments. We believe however, that there is a low likelihood of any party voluntarily crippling the capacity of these oil producing assets given that they are some of the few resources of value at play, and their legitimacy in any future ruling state will rest on their capacity to provide for the country through oil production.

Liberalization: Under the liberalization scenario, we predict that the outcome for Venezuelan oil production would likely be the same as under the military dictatorship scenario, with one notable difference: under the liberalization scenario, the process of stabilization and recovery in oil production would be slower. This is because the political divisions within the opposition coalition would come to the fore following the transition of power, slowing down the deliberative decision-making process and watering down reforms relative to those that could be implemented by a military regime with a relatively more consolidated power structure.

3.2.2 Debt

Regime Remains: If the regime is to survive, the priorities would be to tame hyperinflation and bring the economy back into a functioning state, with the intention of increasing investor's confidence in the economy to attract new investments and the possibility of raising more capital to finance their operations. However, to do this, it will require hard currency to import from abroad what it cannot produce at home and begin restoring trust in domestic markets. The result of this outcome would likely generate increasing indebtedness of the country.

Military Dictatorship: This is the more likely scenario and, regarding the debt situation, it would likely require new sources of money for the new government after the regime change in order to finance the basic investments and activities that need to be carried out after years of corruption and mismanagement. The new administration would likely have new and cheaper sources of debt from the new allies that are currently against the regime, mainly the US and the EU. However, there is the risk that China and Russia of reacting to the threat of losing their investments, may encourage in more bellicose in their support for the regime. Russia is already taking extra precautions: it has assigned Russian-controlled bodyguards to Maduro to protect him from the opposition.

Civil War: This would be the more devastating scenario for the country and its economy, as it would be completely destroyed. This outcome could likely result in more debt on all sides and the country's ability to payback its obligations would be significantly reduced, resulting in a major barrier to get outside financing again or even access international financial markets.

Liberalization: Although this is the less likely scenario, it would represent the best outcome for the country's financial situation, despite having some challenges that need to be addressed. Firstly, liberalization would mean for the country that a new democratic government is formed, the current economic sanctions would be lifted and new opportunities to raise capital would open for the country. Secondly, a new government might cancel desperate deals made with the Russians and Chinese in return for cash on the basis that they were exploiting the country's natural wealth to prop up the Maduro regime. Guaido has promised to work with creditors to repay Venezuela's debts and secure vital access to credit, but whether regime deals with the Chinese and Russians will be included in remains unclear. He also faces the challenge of instituting new leadership at refiner Citgo, the state's most valuable asset outside of the country, before it defaults on bond payments and a controlling stake is handed to the country's creditors.

3.2.3 Hyperinflation

Regime Remains: If the Maduro regime remained unchanged, the hyperinflation in Venezuela would likely worsen indefinitely. Although Maduro tried to end the hyperinflation by pegging the bolivar to the state-issued oil-backed cryptocurrency and raising the minimum wage, Maduro's past initiatives never succeeded: he has never learned from his mistakes that stopping hyperinflation requires radical monetary reform, along with economic reforms at home to restore confidence. In this scenario, neither dollarization nor a currency board would be of interest to Maduro's socialist government. Therefore, the hyperinflation seems most likely to continue if Maduro remains in power.

Military: If a new administration was in power, it would be highly likely that Venezuela abandons the bolivar as the official currency and adopts the U.S. dollar – to stabilize the economy and eliminate the hyperinflation that is destroying Venezuelan economic activity. However, a potential dollarization would also face two significant barriers: 1) There would be political unwillingness to change to U.S. dollar, considering there have been around 20 years of political rhetoric positioning the U.S. to be leading an 'economic war' in Venezuela; and 2) Due to the mismanagement of Venezuela's economic resources over years, and the corruption, Venezuela's foreign reserves have dropped significantly. Therefore, the dollarization would require a certain level of currency reserves that might not be there by the time it is implemented.

Civil War: If a civil war took place in Venezuela, the warfare would be highly likely to exacerbate the extent of hyperinflation. Firstly, austerity measures would not really work at this stage due to the government's extensive spending on armaments. Secondly, a civil war would make it difficult for Venezuela to raise taxes or collect existing taxes. Therefore, the banking authorities in Venezuela would print money to pay for the government's efforts to survive, worsening the hyperinflation in the country.

Liberalization: If there was a peaceful resolution in Venezuela, there is a high chance that the new government would open to dollarization or implementing a currency board system to pursue an effective anti-inflationary policy. Similar to the military scenario, a dollarization would bring economic stability, lower the inflationary pressure and neutralize the effects of misguided monetary policies introduced by Maduro. A currency board system is an extreme form of a fixed exchange rate, in which decisions of the exchange rate and the money supply are taken away from the central bank. Under this system, domestic currency can be issued only to the extent that is fully backed by the central bank's or government's holdings of foreign assets.

3.2.4 The Scarcity of Goods

Regime Remains: With this scenario, the shortages of basic goods are likely to persist or even worsen, as the current regime is responsible for the policies and economic decisions that fuelled this problem. Economic policies such as price controls, unreasonable wage increases, massive dependence on oil revenues, and the decay on international trade are all symptoms that are likely to continue with the current regime, making it virtually impossible to generate a solution to the critical shortage issues faced by Venezuelans.

Military: This is the most likely scenario, and it is closely connected with the scarcity of basic goods such as medicine and food, as the ongoing and increasing demand for these products by the constituents might cause enough pressure to remove the regime. A new formed military government would likely have an immediate effect on the critical shortages of basic goods. Venezuelan regime has closed its land borders with Colombia, Brazil, and air and sea links with the neighbouring Dutch islands of Aruba, Bonaire, and Curacao, which significantly reduced its capacity to import goods that are not produced within the country. One of the first decisions of a newly formed military government is expected to be the opening of the border to trade and therefore, increase the availability of before-mentioned goods.

Civil War: Given the country's already depleted supply of base for most basic goods and crippled purchasing power due to hyperinflation, the scenario of a civil war would only exacerbate the current state of affairs. Firstly, international trade, which is already significantly limited in the country, would further decrease, meaning that chronic shortage issues would get even worse. Additionally, the domestic production of the country would be critically affected in this scenario: considering that it has been substantially decreasing over the last years, it would only worsen the shortages of basic goods.

Liberalization: Despite the fact of being the less likely scenario, a new democratic government would undeniably mean solutions to the persistent shortage issues. By eliminating some of the misguided economic policies implemented during the Chavista administration, the economic activity in the country would slowly start to flourish. For example, by removing the tight price controls of basic goods that are currently in place, the new administration would make it profitable again for businesses to produce these items, more players would be joining the domestic production sphere and therefore increase the supply of essential goods. Additionally, a new administration would have lower barriers to engage in international trade, which would also considerably reduce the current and persistent shortages issues.

3.2.5 Migration

Regime Remains: Under the scenario where the Maduro regime remains in control, we predict that the wave of emigration will continue over the next five years. It is difficult to assess what proportion of this wave of emigration has already passed. Surveys indicate that there continues to be strong interest in emigration by segments of the population. However, the rate of emigration would depend on the rate of dissipation of the political conflict, and more importantly, on global oil prices. The faster the political crisis dissipates, and the faster global oil prices rebound, the sooner the Maduro regime can attempt to reign in its debt and hyperinflation and return the country to a state of economic and political normalcy that could entice Venezuelans to return. If oil prices increase, we believe that it is possible for the beginning of stabilization and a rebound in the Venezuelan population to occur towards the end of the next five years.

Military Dictatorship: Under the scenario of a military dictatorship, we predict that the stability provided by a strong military government would help to stem the flow of emigration from Venezuela. However, without fundamental reforms and a return to economic normalcy that could take significant time, a change in power to military rule would not provide enough incentive to change a significant proportion of the minds of those looking to emigrate. The key group that would be affected by the change would be those within the elite of the Maduro regime, who would likely emigrate to avoid the challenges they would face under a new regime. The speed and peacefulness of the transition to military rule would also play a role in the rate of change in emigration, with a faster, sooner, more peaceful regime change leading to a more immediate change in the rate of emigration.

Civil War: Under the civil war scenario, we predict that the Venezuelan migration crisis would spiral into a more rapid and disorganized flow. The intensity of the conflict and the degree of control by individual groups of key population centres would determine the rate of increase in emigration. However, in any scenario, the addition of the strains of civil war on the already unstable political, economic, and security situation in the country would precipitate a rapid flow to neighbouring countries of displaced populations and those leaving in fear of violence spreading to their communities.

Liberalization: Under the liberalization scenario, we predict that there would be similar outcomes to the military scenario, in terms of the stem of flow of emigration and the mini-wave of emigration of Maduro regime elites. However, we also predict that there would be a number of the former Venezuelan skilled workers and elites who would choose to return back to their home country, especially those who have not found satisfactory work in their places of refuge and new host countries. The rate of return of emigrants would increase as the new regime were to build an image of stability and reconstruction, and as word were to return to the emigrant communities of the stability by the returnees. We believe that this return would be less likely under the military dictatorship scenario given the democratic leanings of many Venezuelan people, particularly the political emigrants of the first two waves of emigration in the past decades.

	Oil Production	Debt	Hyperinflation	The Scarcity of Goods	Migration
Regime Remains	Continue to decline over the next five years	Bring the economy back into a functioning state, with the intention of increasing investors' confidence in the economy	Continue to worsen if Maduro remains in power	Shortages of basic goods are likely to persists or even worsen	The wave of emigration will continue over the next five years.
Military	Continue to decline over the short-term with a possibility of stabilization and slight increase within the next five years	Have new and cheaper sources of debt from the new allies that are currently against the regime, mainly the US and the EU	Abandon the bolivar as the official currency and adopt the U.S. dollar – to stabilize the economy and eliminate the hyperinflation	Open the border to trade and increase the availability of basic goods such as medicine and food	The stability provided by a strong military government would help to stem the flow of emigration from Venezuela.
Civil War	Those parties that have control of the oil producing assets will try to increase oil production to fund their activities	More debt on all sides and reduced ability to payback its obligations	The warfare would exacerbate the extent of hyperinflation.	International trade would further decrease, causing worsened chronic shortage issues; worsened shortages of basic goods	The Venezuelan migration crisis would spiral into a more rapid and disorganized flow.
Liberalization	Same as under the military dictatorship scenario, but the process of stabilization and recovery in oil production would be slower	The current economic sanctions would be lifted; new opportunities to raise capital would open for the country; cancel deals made with the Russians and Chinese in return for cash	Open to dollarization or implementing a currency board system to pursue an effective anti-inflationary policy	Eliminate misguided economic policies implemented during the Chavista administration; and lower barriers to engage in international trade, which would significantly reduce the current and persistent shortage issues	Similar outcomes as under the military scenario; an increased number of former Venezuelan skilled workers and elites who choose to return back to Venezuela

Figure 8 – Summary of Forecasted Scenario Outcomes
Source: Authors

Conclusion

Overall, it is clear that Venezuela faces a tough time ahead. The question of if and how the Venezuelan political regime changes will play an important role in the country's outlook over the next five years. Only time will tell what happens next.