

# THE UNSPOKEN CONFLICT IN WESTERN SAHARA

*Western Sahara has been the most populous and largest non-self-governing territory since 1963. Conflict in the area remains one of the oldest unresolved ones in the world. The conflict mainly involves the Kingdom of Morocco and the Polisario Front, which later formed the Sahrawi Arab Democratic Republic. These two disputants were in armed conflict between 1975 and 1991 when a ceasefire was signed. However, since then no viable peace process has been established in Western Sahara. This paper analyses the claims of the Sahrawi including their demand for self-determination, incorporating the different roles of players at regional and international levels. It also reflects on efforts made by the United Nations to contain the conflict. Lastly, the paper offers possible formulae to end the conflict keeping in mind the best interests of all disputants.*

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## INTRODUCTION

For Africa, the twentieth century was a period of decolonisation from countries like France, Portugal, Spain and the United Kingdom. The last region to be decolonised was Western Sahara in 1976 when Spain left as per the terms of the Madrid Accords signed on 14 November 1975 between Spain, Morocco and Mauritania. The treaty ended Spanish presence in erstwhile Spanish Sahara and Morocco and Mauritania annexed territories wherein they controlled most of the northern and southern portions respectively. As per the agreement, only administrative control was to be given to the two nations

and not sovereignty. Both parties were successful in annexing parts of Western Sahara even though they were resisted by the Polisario Front backed by Algeria. The front had started as an insurgency group in 1971 against Spanish forces in Spanish Sahara. A group of students at the University of Morocco organised the Embryonic Movement of the Liberation of Saguia el-Hamra and Rio de Oro. Spain had divided these two territories as per the geography of the region. The group consists largely of the Sahrawi people—nomadic Berbers who inhabit southern Morocco, Algeria, Western Sahara and Mauritania and speak the Arabic dialect of Hassaniya. The Polisario Front was recognised by Libya and Mauritania in 1975, after it received the backing of the Tropas Nómadas (nomadic troops), composed of Sahrawi tribesman equipped with small arms and weapons.

In 1975, to aid the decolonisation process of Spanish Sahara, the United Nations (UN) dispatched a mission to the area and surrounding countries. The mission concluded that the Sahrawi support for independence was stronger than other options such as Spanish rule or integration with neighbours. The mission added that the Polisario Front was the most powerful force in the country, which later became a political organisation and ultimately the Sahrawi Arab Democratic Republic (SADR) on 27 December 1976 a day after Spain retreated from Spanish Sahara. In 1984, SADR became a member of the Organisation of African Union (OAU), the predecessor of the African Union. However, due to its admission, Morocco withdrew from the organisation. Even though the government is in exile, forty United Nations member-states maintain diplomatic relations with the SADR.

Western Sahara has been the most populous and largest non-self-governing territory since 1963. In 1965, the United Nations General Assembly (UNGA) adopted a resolution, asking Spain to decolonise the territory and in 1966, passed a new resolution for a referendum to be held by Spain on the self-determination of the Sahrawi people. This was the first time that the concept of self-determination was linked to the Sahrawi. The anti-Spanish agitation in Spanish Sahara however had not demanded independence but rather union with Morocco. The International Court of Justice (ICJ) in 1975 issued a non-

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binding opinion on Western Sahara, which resulted in a UN mission touring the region. It concluded that the Sahrawi people favoured independence from Spain and Morocco and based on this claim it was decided that the territory was not *terra nullius*. The ICJ acknowledged that Western Sahara had historical links with Mauritania and Morocco but there was not enough evidence to prove the sovereignty of either state over the territory.

The conflict between the Polisario Front and Morocco reached its peak during the Western Sahara War 1975–91. This armed conflict started when Morocco invaded Western Sahara with the Green March, a mass demonstration organised by King Hassan II, whereby more than 350,000 Moroccan civilians escorted by 20,000 troops entered Western Sahara to establish a presence in the region. The Polisario met this intrusion, but could not contain the influx. The guerrilla warfare that followed was known as the Western Sahara War, which lasted for sixteen years. The main objective of the Polisario Front was to establish an independent state for the Sahrawi. Although initially they fought both Mauritania and Morocco, in 1979 Mauritania signed a peace agreement with the Polisario and withdrew from the conflict. Throughout the 1980s, the two remaining parties continued a low-intensity conflict even though Morocco had greater military strength aided by France, Israel and the United States of America (US). The Polisario devised a new strategy of building desert sand walls lined with millions of land mines. These were later termed the Moroccan Western Sahara Wall, which stretches for approximately 2,700 kilometres.

In 1991, a ceasefire agreement was reached between the Polisario Front and Morocco. Since then, the nature of the conflict has shifted from military hostilities to civilian resistance. By the end of the armed conflict, Morocco had captured over 80 per cent of the total land including the coastline. The SADR controls the remaining 20 per cent and operates from Tindouf in Algeria where over 125,000 Sahrawi refugees live. Since the cessation of war, several attempts have been made to formulate a peace process to resolve the conflict, but no permanent solution has been produced. In 1991, the United Nations Mission for Referendum in Western Sahara (MINURSO) was deployed to resolve the issues of Western Sahara—the last remaining colony whose status had not been legitimised. The mission's main mandate was to constitute an exercise for Sahrawi self-determination but the plan never met its goal, as there was conflict over voter eligibility. Since then several peace processes such as the Houston Agreement, Baker Plans I and II have all failed and as of 2019, there were no

plans for holding a referendum.

#### THE SAHRAWI AND SELF-DETERMINATION

The right to self-determination is the right of people to determine their own destiny based on the principles of equal rights and equality of opportunity, the right to choose freely their sovereignty and political legitimacy without any external interference. The right allows people to choose their own political status and determine their own form of cultural, economic and social development. The principle is *jus cogens* and is embodied in Article I of the UN Charter. While the concept may be traced back to the 1860s, American President Woodrow Wilson and Soviet leader Vladimir I Lenin embraced the principle during and after the First World War. According to Wilson, self-determination is the belief that all people have the right to choose and select their form of government and sovereignty. People should be dominated and governed only through their consent and any use of force be considered an oppressive act.

The idea of self-determination as a universal guiding principle continues to be imprecise with conflicting definitions. It does not state how decisions are to be taken, what the outcome of self-determination is to be—**independence, protection, a federation, an autonomous region or full assimilation—nor does it define delimitations between people.** The larger disagreement is often on who precisely is the “self”.

government—independence, free association with an independent state or assimilation into an independent state. The definition of realisation of self-determination was established in the Declaration of Friendly Relations in 1970. A specially created UN Special Committee was to play an advisory role in the final stages of self-determination. In the process, the UN was to supervise a self-determination referendum on the request of the colonial power to ensure orderly transition from colonisation to decolonisation.

The etymology of Sahrawi is “inhabitant of the desert”. The Sahrawi are originally nomadic Berbers who settled in Algeria, Mauritania, Morocco and Western Sahara in the eighth century. After the arrival of Islam in Africa, they became a composite tribe of mixed heritage by combining Arab, Berber and other Sahel clans. Cultural and political differences between pre-colonial and colonial eras are apparent. After the Berlin Conference of 1884, most of the tribal groups fell under French or Spanish rule. France ruled over North and West Africa whereas Western Sahara and parts of Morocco were controlled by Spain. Colonisation introduced Christianity in the region, which created lasting cultural and political divides within the population and disrupted traditional practices. The lifestyle of the nomadic Sahrawi and loyalty to their territory proved troublesome for the colonisers. The French and Spanish administrations soon imposed their own systems of governance and education over the occupied territories. Colonisation radically changed things in the region from educational systems and power structures to the creation of a legacy of arbitrary borders drawn on paper with little relation to ethnic and tribal realities—laying a map for chaos and destruction.

As stated earlier an ICJ ruling of 1975 stated that although there had been ties between the Moroccan Sultan and the tribes of Spanish Sahara, they were not adequate to abrogate Western Sahara’s right to self-determination. Hence, the court advised the UN to pursue self-determination for the Sahrawi, allowing them to choose between forming an independent state or annexation by Morocco or Mauritania. As stated previously, in 1973 the Sahrawi students at the University of Morocco started resisting Spanish rule and formed the Polisario Front. Their goal was to gain independence from the colonisers, but their pursuit was halted when Morocco and Mauritania took over Spanish Sahara after Spain’s departure in 1976. The next day, the Polisario Front proclaimed itself the Sahara Arab Democratic Republic with the support of Algeria and thus began the sixteen-year war with Morocco and three-year war with Mauritania. Armed conflict ended

in 1991 with a ceasefire signed between Morocco and the Polisario. To oversee the ceasefire the UN established the MINURSO to prepare for a referendum on self-determination based on the census of 1974 held by Spain. This proposal was rejected by Morocco, which infiltrated Western Sahara with its own citizens and demanded a new census. Later in 1997, former US Secretary of State James Baker was appointed as the UN Secretary General's personal envoy to Western Sahara. Baker established new terms for a census based on demographic surveys from both sides. However, despite the completion of the census, the Polisario Front rejected the proposal (Baker Plan I) as it did not guarantee independence as an option but instead offered Western Sahara autonomy within the Kingdom of Morocco. The UN Security Council demanded the plan be redrafted, as it was inconsistent with the principles of the MINURSO. Hence, a new plan (Baker Plan II) was presented in 2003. This plan proposed a referendum for integration or continued autonomy or independence after a period of four to five years under Moroccan administration. Despite meeting all the requirements, the plan was scrapped as Morocco rejected the referendum, which offered independence as an option. Ultimately, the plan was abandoned and since 2005, there have been no plans for a referendum in Western Sahara.

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#### REGIONAL RIVALRY: MOROCCO VERSUS ALGERIA

Morocco and Algeria are two key players in the Western Sahara conflict. Both countries came under French rule—Algeria as a regency in 1837 and Morocco as a protectorate in 1912. France and other European powers created borders that disrupted regional tribal practices. In 1938, France drew borders that brought the Draa Valley, including the Tindouf region inhabited by the Sahrawi into Algerian territory. Rabat has always claimed that the Draa Valley

was under Moroccan rule before the Berlin Conference. Throughout the 1960s, both countries were involved in skirmishes, which eventually led to the Sand War in 1963. This heightened tensions between the two for several decades even though Morocco failed to conquer the lands it sought. The two countries have had longstanding hostile relations, which led to Algeria supporting the Polisario Front against Moroccan troops. Algeria has been home to the Polisario Front ever since its exile and the Tindouf region is now home to over 100,000 Sahrawi refugees. Algeria supports the right to self-determination of the Sahrawi due to the sanctity of post-colonial boundaries and commitment to the principle of self-determination. Even during the Western Sahara conflict, the Polisario Front was backed by Algeria, which in turn received arms and ammunition from the Soviet Union whereas Morocco relied heavily on France and the US for military support. The alignment of Algeria against Morocco is also due to self-interest over three main resources namely, phosphate reserves around the Bou Craa, fishing grounds off the Saharan coast and access to a port on the Atlantic for export of hydrocarbons and iron ore.

Morocco's aim has been control of Western Sahara, which it claims as its rightful territory as part of Greater Morocco. Over the years, the international community has preferred to stay silent on the issue. The US, an ally of Morocco, has iterated that allowing a vote on Sahrawi independence could potentially destabilise the Moroccan monarchy and throw the Maghreb region into turmoil. Morocco has been reluctant to grant independence to Western Sahara and views autonomy as an ideal solution for both parties. France and the US have supported the autonomy plan and Morocco has been slowly gaining international clout to weaken Algeria internationally. The UN too considers autonomy as the most viable option rather than full independence.

Algeria for its part has also been vocal on international and multilateral stages in support of the Sahrawi and helped them enter the OAU in 1984, which led to Morocco's withdrawal. A common factor between Morocco and Algeria is France. Algeria's argument has been that even France, an ally of Morocco, does not recognise its claims on Western Sahara. Algerian tactics have been shrewd in terms of portraying Morocco as the aggressor in the region but it has ensured that the matter does not go beyond the Sahrawi cause. Algeria has also been successful in preventing the marginalisation of the Polisario Front by strictly refusing to participate in negotiations. Thus, in the whole conflict scenario between Morocco and Western Sahara, Algeria has been a shadow fighter—it has



pressed its own views without being directly involved in negotiations. A major reason for the survival of the Polisario Front has been Algeria's unconditional support. It has played by UN rules, undermined Morocco's objectives and kept the Polisario Front as a threat and deterrent to the integration of Western Sahara with Morocco.

The détente of the 1970s between the Soviet Union and the US had a positive impact on the Maghreb as Moscow maintained its neutrality and Washington chose to side with Morocco by providing military and technical support. The US felt that Algeria was no longer a radical and revolutionary state and was convinced that it would not back the toppling of King Hassan. Moreover, the Polisario was not a Marxist–Leninist movement and neither the Soviet Union nor any European country recognised the SADR. The US believes that if the Western Sahara conflict continues, tensions in the area would increase and could change the balance of power in the Maghreb region. Algeria's refusal to participate in any peace talks with Rabat has frustrated the Moroccan government. Algiers maintains that its aim is independence for the Sahrawi people and has pushed this agenda at international fora, weakening Morocco's stance. Algeria and South Africa have brought up the issue of the Sahrawi at the United Nations Security Council to build a case against Morocco. However, Rabat has been selling resources such as phosphates and sardines from Western Sahara to its European allies. Until the Western Sahara conflict is resolved, Morocco will continue to view Algeria as an obstacle to the peace process, whereas Algeria views itself as a defender of the right of self-determination for the Sahrawi.

Morocco and Algeria have been counterbalancing each other and have stalled economic and political cooperation and integration in the region. Both countries aim to be the regional hegemon but their ambitions are a threat to regional stability. The Maghreb region, consisting of Algeria, Libya, Mauritania,

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Morocco, Tunisia and Western Sahara, is a volatile area, exposed to regional instability, growing crossborder security threats and the rise of active non-state actors. Although calls for regional cooperation have grown in recent times, Morocco and Algeria—the two biggest economies of the region—have jeopardised regional harmony over opposing allegiances to Western Sahara and unresolved border disputes. An economic grouping known as the Arab Maghreb Union came into being in 1988, which aimed at economic and political unity. It however remains dormant—the union has made no progress due to intense political disagreements between Morocco and Algeria, especially on the issue of Western Sahara.

#### THE ROLE OF INTERNATIONAL ORGANISATIONS IN THE WESTERN SAHARA CONFLICT

Since the military intervention in Western Sahara, Morocco has been isolated on the issue. As noted earlier, in the 1960s, the principle of self-determination was formulated and the UN asked Spain to conduct a referendum in Spanish Sahara. Morocco however had requested the case be heard at the ICJ. The 1975 ruling recognised the right to self-determination of the people of Western Sahara. This was the first time an international body had intervened in the case. However, after the war between the Polisario Front and Morocco began, no multilateral institution played a role. The SADR was granted membership of the OAU in 1984 but the organisation itself remained dormant until it was re-established as the African Union in 2001. Morocco only joined the latter in 2017. At the 1976 and 1977 meetings of the OAU, the Moroccan government did dissuade the UNGA and Nonaligned Movement members from taking positions on Western Sahara.

In 1985–86, Morocco participated in indirect negotiations under the aegis of the UN secretary general and the chairman of the OAU. This was mainly due to growing diplomatic and international pressure. The MINURSO was commissioned to oversee the ceasefire between Morocco and the Polisario Front. Since then UN peacekeeping forces have been in Western Sahara—one of the longest peacekeeping missions in the world. The forces were deployed almost three decades ago to oversee the ceasefire and conduct a referendum in Western Sahara. However all efforts have failed to date. This is often seen as a conspicuous

failure of the UN, primarily due to the reluctance of Security Council members, mainly France and the US, both strong allies of Morocco.

Morocco's relations with the European Union (EU) are revealing. In 2015, the Court of Justice of the EU suspended an agricultural trade agreement between the EU and Morocco as the latter had included Western Sahara within its territorial scope. The case also involved European states fishing in the territorial waters of Western Sahara, which by itself was a breach of international law. The Saharan coastline is rich in fish and European states have been accused of supporting Moroccan claims on Western Sahara in their own interests.

*(MEPs seek European Courts Opinion on EU–Morocco Fisheries Agreement's Compatibility with International Law, Human Rights Watch, 11 February 2019, online at <https://www.hrw.org>)*

The EU's recognition of products from Morocco gives effect to *jus cogens* violations. The EU implicitly recognised Morocco's control over the territory as lawful in its internal law that breached its obligations under Draft Articles on the Responsibility of International Organisations and its member-state obligations under Articles on the Responsibility of States for Internationally Wrongful Acts. The EU has never taken a coherent position on the legality of Western Sahara and

equivocated on the position of Morocco controlling the territory. The EU has neither supported the Polisario Front/SADR nor explicitly supported Morocco's claims. This ambiguity prevails due to the need to maintain cooperation with Morocco, a stable ally of the EU and a staunchly conservative power. However, EU members have varied views on the Western Sahara conflict. France is Morocco's second-largest arms supplier and biggest supporter in the EU. In the past, Paris has threatened to use its veto power if the UN favours a solution that undermines Morocco's position at the negotiating table. Spain suffers from collective guilt for its failure to contain the conflict. In 1975, instead of conducting a referendum, Spain had handed over Spanish Sahara to Mauritania and Morocco as per

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the Madrid Accords. Since decolonisation, Spain has improved relations with Algeria and supported the idea of conducting a referendum for the Sahrawi. Other EU members such as Germany, Netherland and Sweden have called for an immediate referendum.

It is vital for the EU to be lucid on over the issue. It should take steps to identify its legal stance on the conflict and negotiations with Morocco could help resolve the problem. The EU should clarify that a delayed referendum could lead to regional instability and that trade agreements with Morocco should exclude products from Western Sahara as otherwise it would be a violation of international law. The Moroccan position is stronger in comparison to Algeria. It is one of the few North African countries to invest in counterterrorism and acted as the EU's gatekeeper in managing the refugee crisis of 2014. Morocco understands the risk of losing out on trade agreements with the EU especially as it has been included in the European Neighbourhood Policy. Morocco worked hard to achieve its advanced status in 2008, which opened doors to high levels of political cooperation. Morocco has benefited the most from the EU's financial support as a part of neighbourhood assistance. It has also become a regional specialist in artificial intelligence and has often hosted summits that have helped it grow in the field of science and technology. Morocco aims to be the Silicon Valley of North Africa. As of 2019, artificial intelligence has been used predominantly in the agricultural sector offering over 200,000 new jobs. (Anna Schaeffer, "Artificial Intelligence in Morocco: Not just for Silicon Valley", *Morocco World News*, 24 July 2018, online at <https://www.moroccoworldnews.com>) Morocco has also received vast funding from France, Israel and the US in its development efforts for social stability.

Trade, security and migration are at the heart of EU–Morocco relations. The fisheries agreement between the two is one such example. By the pact, European vessels are allowed fish in Moroccan waters, including in the territorial waters of Western Sahara, in exchange for monetary benefits. Morocco has also helped Belgian and French authorities with cooperation and intelligence sharing after terror attacks in the two countries. The EU believes in the rule of law and respect for human rights. Hence, its relationship with Morocco must balance its desire for trade with the need to maintain the credibility of its human rights record. Today, the EU could play a major role in shaping the destiny of 100,000 Sahrawi living as vulnerable refugees. The EU as a strong regional bloc could influence Morocco's decision to conduct a referendum in Western Sahara.

## POSSIBLE SOLUTIONS AND FUTURE DEVELOPMENT

The Western Sahara conflict is one of the oldest unresolved ongoing conflicts in the world today. Several international observers have criticised the Polisario Front for its recruitment of child soldiers, administration of camps and unlawful detention of Moroccan prisoners of war. A concrete solution is necessary to address all the issues of this four-decade long conflict. The solution will have to ensure the self-determination of the Sahrawi, who have never had a formal opportunity to discuss, debate and vote on their status since the Madrid Accords.

Finding an optimal solution will be difficult. The solution most discussed has been the autonomy plan proposed by Morocco in 2006 by which the Sahrawi would control their own cultural, economic, justice and social policies through domestic representative bodies but Morocco would control the trifecta of sovereignty, defence and foreign affairs. This is the optimal option, as it avoids the zero-sum game or winner takes all characteristic of integration or independence. The Polisario Front and Algeria have rejected the proposal, arguing that independence is their only goal. However, the independence of Western Sahara as an alternative to autonomy seems unlikely. The Polisario Front has always functioned as an armed group without proper administrative control in an area larger than the United Kingdom. Independence and granting full control to the Polisario would be catastrophic, as a civil war may ensue and the SADR could become a failed state threatening the stability of the region. The SADR would not be able to defend its territorial boundaries and given its porous borders, terrorist groups and smugglers could take shelter in the newly independent state. Neighbouring countries Algeria, Mali and Mauritania already face internal security problems due to the rise of terrorism in the Maghreb and Sahel regions.

**Compromise is the need of the hour, as its refusal could lead to further casualties. Without a compromise, the Polisario Front will deliver neither peace nor prosperity to the Sahrawi. Meanwhile, Morocco will continue to be regarded as an aggressor by the international community. The Western Sahara peace process whether through autonomy, independence or integration must deliver a solution that brings justice to all.**

An alternative resolution could be through compromise—functional or territorial. Territorial partition was tried in 1974 after the Madrid Accords, when Spanish Sahara was divided between Mauritania and Morocco but no land was given to the Polisario Front. However, by 1979 the Polisario had defeated Mauritania and claimed its land. In 2001, Algeria proposed a division of territory with the southern part controlled by the Polisario and the northern part by Morocco, however eventually both parties rejected the proposal. Functional divisions are incorporated in the autonomy proposal. Through these, the region would have its own government via the principle of self-determination but under Rabat. That is under Moroccan sovereignty the Polisario would have internal control through domestic elections and would administer its territory. Through functional divisions, both parties get what they want but only if they mutually compromise. While this alternative has its merits, it also has its disadvantages. Making Western Sahara an autonomous region of the Kingdom of Morocco has its risks. As seen in the case of Eritrea, autonomy could lead to secession and independence. The status of autonomy could be sought by other Moroccan regions especially those that lie beyond the Atlas Mountains. The Moroccan government has clearly stated that the proposed Western Sahara autonomy would be unique in stature and would not be replicated elsewhere in the country. Along with domestic concerns about secession, there is also a fear in the international community of setting a dangerous precedent for other neighbouring countries such as Algeria, Mali and Niger with diverse ethnic populations.

Morocco and the Polisario Front have rarely negotiated with each other and no positive outcome has ever emerged. A viable peace process is needed to end the conflict. The matter might not be of intrinsic interest to world leaders, but it is important because of the issues involved. The coastline of the Mediterranean is a strategic gateway and the Maghreb provides a bridge to the unstable area in the east. Morocco and Algeria have competing ties with the US as both cooperate with Washington in efforts to control terrorism. The two countries are also regional “great powers” with transitioning economies. Morocco is a modernising monarchy that has made significant strides in democratisation and economic liberalisation under King Mohammed VI. Algeria under the military junta and now under contested civilian rule has made slow progress on performance but due to its size and oil and gas reserves is regarded as a leader in Arab rejectionist politics. While, some scholars have criticised and deemed UN action in Western Sahara a failure, others have praised its efforts in containing the conflict. As international bodies

sometimes lack knowledge and local experience compared to regional bodies, the African Union (AU) has the potential to play the role of a mediator between the SADR and Morocco since it officially recognises both entities. However, the AU's capability to act on the conflictual issue is debatable. The AU could be more useful and effective alongside the MINURSO. The complexity of the conflict makes it difficult for any institution to address the challenges on its own. In 2017, the UN and AU signed a Joint Framework for Enhanced Partnership in Peace and Security. Compromise is the need of the hour, as its refusal could lead to further casualties. Without a compromise, the Polisario Front will deliver neither peace nor prosperity to the Sahrawi. Meanwhile, Morocco will continue to be regarded as an aggressor by the international community. The Western Sahara peace process whether through autonomy, independence or integration must deliver a solution that brings justice to all.

## CONCLUSION

The Western Sahara conflict is among the oldest in the world. Over 100,000 Sahrawi are living as vulnerable refugees in Algeria. The people fighting for their land evoke cultural aspirations, expectations and fears, yet they have been staying on foreign land for over two decades. Ever since the ceasefire in 1991, both Morocco and the Polisario Front have never been on the same page. For nearly three decades, for one reason or another, both sides have rejected the plan for a referendum, which eventually led to dissatisfaction and suspension of negotiations. Finding a solution for this conflict is a mammoth task. The Moroccan stance is clear—autonomy or nothing. Functional autonomy has worked positively in other cases and may resolve this conflict as well. Functional and regional autonomy is the closest the SADR will get to achieving independence. For the Polisario Front and the Sahrawi, time is a luxury that they cannot afford. For the 100,000 Sahrawi in exile, every new day in a foreign land with depleting aid reduces their hope to return home. Without compromise on the part of the Polisario Front, there will be no change in the lives of the Sahrawi. A realistic and pragmatic approach is needed to resolve the conflict of Western Sahara. The Polisario Front has fought for nearly half a century, but has refused to surrender. Morocco's violations of international law and failure to recognise Sahrawi rights to self-determination have also prolonged the conflict. ❧

# TACKLING VENEZUELA'S HYPERINFLATION

*This article highlights some of the major factors accounting for Venezuela's economic crisis and hyperinflation, rooted in the almost exclusive dependency of the country on oil exports as well as profligate and corrupt public policies. Having been the wealthiest nation in Latin America, Venezuela has now become a case study in dysfunctional financial and monetary management with consequences aggravated by sanctions and other penalties inflicted by the US and its Western allies. This paper invokes the "natural resources trap" theory to explain Venezuela's disastrous situation and suggests various possible remedies. A reform of the monetary system would require a change of government and political ideology. It would also necessitate international assistance to bring back confidence in the national currency and economy.*

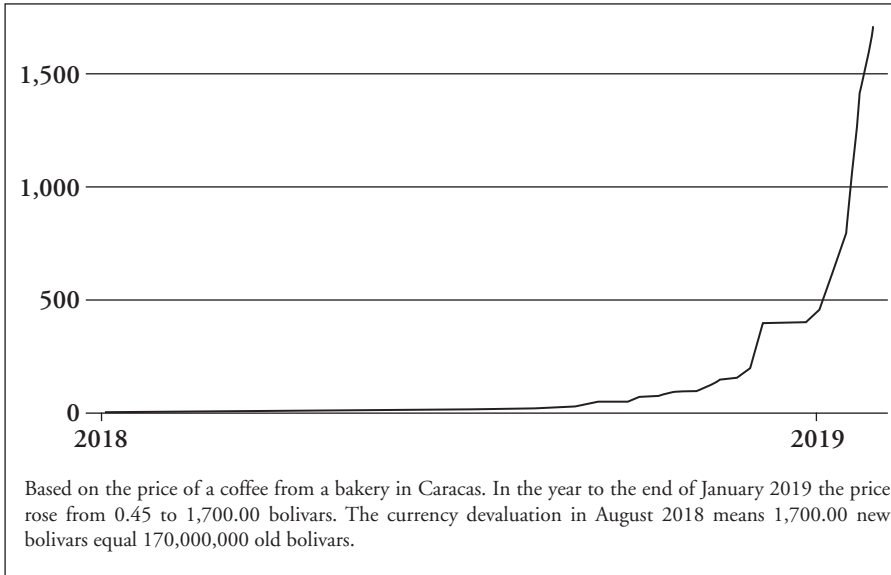
SUYASH CHANDAK

For a while now, Venezuelan inflation has been at astronomical levels. As Caracas refuses to publish official statistics, Graph 1 indicates skyrocketing prices represented by the increase in the cost of a cup of coffee since 2018. ("Venezuela Café Con Leche Index", *Bloomberg*, online at <https://www.bloomberg.com>) Anecdotal stories such as people using Bolivar notes to make hand-woven bags, rather than purchasing the raw materials generally used, illustrate the heightened state of the crisis. (Adriana Diaz, "Venezuelan Boy makes Purse out of Money", *CBS News*, 8 May 2019, <https://www.cbsnews.com>) A massive recession and an unbearable standard of living have accompanied this crisis with gross domestic product having almost halved over the last 4 years and the average Venezuelan having lost 19 pounds of weight due to food shortages. (*Gross Domestic Product: Venezuela*, World Economics, 2018, online at <http://www>.



worldeconomics.com)

**Graph 1: The Rising Price of a Cup of Coffee in Bolivars**



Source: Bloomberg, *ibid*

Before delving into how to tackle Venezuela's hyperinflation, it is imperative to examine its cause as well as its appalling impact. The story begins in the 1970s, when Venezuela was considered the richest country in Latin America and had the largest oil reserves in the world. The situation improved further when Hugo Chávez became president in 1998, as global oil prices surged to over \$100 a barrel causing Venezuelan wealth to rise. (Garth Friesen, "The Path to Hyperinflation: What Happened to Venezuela", *Forbes*, 7 August 2018, online at <https://www.forbes.com>) With a strong financial backing, the government invested export earnings in combatting inequality and poverty in the economy, leading to significant improvements as tracked by the child mortality rate, poverty rate and the like. However, from health initiatives like the Mission Barrio Adentro (Mission into the Neighborhood) to literacy programmes like Mission Robinson, the government's spending obligations became too high and somewhat unsustainable. (Steve Ellner and Miguel Tinker Salas, *Venezuela: Hugo Chávez and the Decline of an "Exceptional Democracy"*, Latin American Perspectives in the Classroom, Lanham: Rowman and Littlefield, 2007)

When oil prices plummeted in 2014, the demand for the Venezuelan Bolivar

crashed. The lower currency value increased the real cost of imports and sent the economy into a crisis. Unfortunately, President Nicolás Maduro’s solution, to the despair of most economists, was to print money profusely. (Diego Restuccia, “The Monetary and Fiscal History of Venezuela: 1960–2016”, *SSRN Electronic Journal*, 2018, online at <https://papers.ssrn.com>) While printing money to fund government spending worked for a short-term shock, the further fall of oil prices drove international investors away and exacerbated the issue. The government triggered a vicious cycle—as prices skyrocketed, it printed more money to finance spending—starting one of the worst episodes of hyperinflation in history. (Jose Luis Saboin, “Seigniorage, (Hyper)Inflation and Money Demand in Venezuela in the Twenty-First: A First Estimation Attempt”, *SSRN Electronic Journal*, 2018, online at <https://papers.ssrn.com>)

The quantity theory of money and government budget constraint explain the effects of this form of government spending on inflation. The government budget constraint shows the three avenues of funding at the government’s disposal, (William J Frazer, “The Government Budget Constraint”, *Public Finance Quarterly*, vol6, no3, 1978, pp381–7) out of which the government printed more money, raising seigniorage by increasing the money stock in the Venezuelan economy.

$$\text{Government Funds} = \text{Tax Revenue} + \Delta(\text{Borrowing}) + \Delta(\text{Money Stock})$$

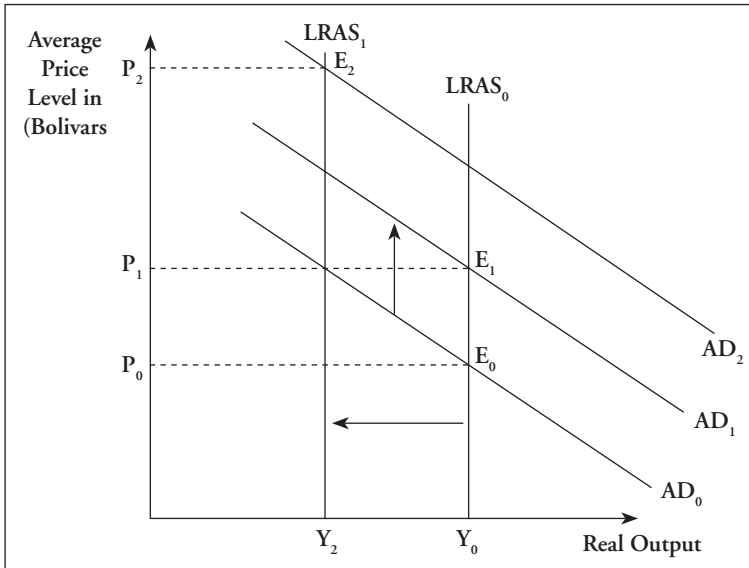
The change in money stock then influenced inflation through the quantity theory of money. (Yi Wen, “The Quantity Theory of Money”, *Economic Synopses*, no25, 2006, online at <https://files.stlouisfed.org>)

$$\text{Price Level} = \frac{(\text{Money Supply}) \times (\text{Velocity of Money})}{\text{Real GDP}}$$

Using growth rate formulae, this may be written as:

$$\begin{aligned} \text{Inflation rate} &= \text{Growth rate in Money supply} + \text{Growth rate in velocity} \\ &\quad - \text{Growth rate in real GDP} \end{aligned}$$

This evidences how an increase in the growth rate of money supply in Venezuela led to a one- for-one increase in the inflation rate.

**Diagram 1: Inflation Fuelled by Excess Monetary Growth**

Source: Jocelyn Blink and Ian Dorton, *Economics: IB Diploma Programme Course Companion*, Oxford: Oxford University Press, 2012

The effects of that period on inflation and real output may be illustrated through a LRAS–AD (long run average supply–aggregate demand) diagram. Milton Friedman’s famous saying, “Inflation is always and everywhere a monetary phenomenon”, fits well here. (*Wincott Memorial Lecture: The Counterrevolution in Monetary Theory*, Institute of Economic Affairs, London, 1970) The increase in money supply to fund government spending feeds into the aggregate demand equation. (Blink and Dorton, *ibid*)

$AD = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$

This causes AD to shift rightward (or upward) significantly from  $AD_0 \rightarrow AD_1$  since at the same price level a larger real output is produced. This leads the economy from point  $E_0 \rightarrow E_1$ . However, the high inflation leads to a number of costs that the Venezuelan economy needs to bear. These include shoe leather costs, menu costs, wealth redistribution from creditors to debtors if loans are in nominal terms, erosion of purchasing power as well as widespread uncertainty. (Robert E Lucas, “Inflation and Welfare”, *Econometrica*, vol68, no2, 2000, pp247–74) The higher the inflation, the stronger the effect, which over some periods shifted the long

run average supply (LRAS) curve leftward as these costs increased, investment in capital, research and development and education decreased and the size of the labour force shrank drastically due to significant emigration. Even though investment and consumption in AD decrease, government spending and exports, due to a weaker Venezuelan Bolivar, grow strongly, causing the AD to shift further upwards from  $AD_1 \rightarrow AD_2$ . This combined effect of leftward LRAS ( $LRAS_0 \rightarrow LRAS_1$  and further on) and upward AD shifts create a spiral, leading Venezuela towards the top left corner of the graph causing simultaneous hyperinflation and massive drops in real gross domestic product over time—the economic state it has been in for the past few years.

Hyperinflation has caused abject poverty and disastrous economic conditions across Venezuela, accentuating the importance of solving this problem at the earliest. To find a solution, it is important to consider first the root cause of the hyperinflation. Economic mismanagement and corruption under the Maduro regime has been a central cause. Maduro's victory in the boycotted election of 2018 is also a red flag, (William Neuman and Nicholas Casey, "Venezuela Election Won by Maduro amid Widespread Disillusionment", *The New York Times*, 20 May 2018, online at <https://www.nytimes.com>) as is the rise of military officials who support Maduro and enjoy the wealth of Venezuela. Chávez's "natural successor", Maduro especially enjoys the support of many impoverished regions that had benefitted from Chávez's investment in education and healthcare when oil prices were booming in the 2000s. However, any solution would require a new leader and ruling party, possibly Juan Guaido, one of the leaders of the opposition who has been since largely discredited, to be elected through fair and credible elections. Simply trying to eliminate the problem without looking at the initial cause would be like trying to trap rats in a house, without plugging the cavities through which they come in.

The solution most likely to succeed is a dollarization of the economy. The term does not necessarily mean that the economy should adopt the American dollar as its official currency but rather that it should drop the Bolivar and adopt a strong international currency to bring inflation under control. This has proven to be a good solution in the past for some of the biggest episodes of hyperinflation, such as Ecuador in 2001 and Zimbabwe in 2008. (Pablo Uchoa, "How do you Solve Catastrophic Hyperinflation", *BBC News*, 22 September 2018, online at <https://www.bbc.com>) Venezuela would lose control over its monetary policy, which in fact could be a

blessing in disguise, since neither the government nor the central bank would be able to manipulate the economy through the monetary policy. The American dollar is a strong currency with the monetary policy outlook for the United States of America looking positive with rate cuts having brought interest yield to near zero. However, getting a new government into power will not be easy and thus considerations with respect to the expected time it would take will be important for which currency to adopt given the current global crisis and the explosion in US debt.

Venezuela could look at strong economies across the world and pick one at a similar point in its business cycle so that the expansionary monetary policy of that country could help Venezuela lift itself out of its deep economic recession.

In case Caracas prefers to maintain control of its economy and currency, it could adopt a new currency like Greece in 1944, Hungary in 1946 and Yugoslavia in 1994. (Uchoa, *ibid*) This move lets the government start afresh and set expectations on currency value backed by real assets and world currency reserves. However, alongside government policy, an important factor of inflation is the economy's expectations and thus, if agents are not able to understand the effects of governmental actions, they may set high expectations and prices, keeping inflation at a high level. Since the public's trust in the Venezuelan


government has considerably weakened, this may have a significant effect. Thus, it may be preferable to set up a currency system, which bars the government from influencing monetary policy or the printing of new money. Two options along this line include the dollarization of the economy and setting up a currency board. A currency board may be more complicated and likely to fail if certain conditions like a ban on discretionary monetary policy are not met as seen in Argentina's 1991 bid to stop hyperinflation. (Steve Hanke, "How to Stop Venezuela's

**Hyperinflation has caused abject poverty and disastrous economic conditions across Venezuela, accentuating the importance of solving this problem at the earliest. The solution most likely to succeed is a dollarization of the economy. The term does not necessarily mean that the economy should adopt the American dollar as its official currency but rather that it should drop the Bolivar and adopt a strong international currency to bring inflation under control.**

Fatal Inflation”, *Forbes*, 2017, online at <https://www.forbes.com>) However politically unpalatable, dollarization may be the simpler, low-risk option to solve Venezuela’s currency maelstrom.

Alongside changes in its currency, Caracas would need to focus on two other priorities—ensuring the provision of essentials like food and medicine in the short term as the economy recovers and facilitating long-term growth. Without access to sufficient funds, foreign support and investment is imperative. In 2007, when the Venezuelan economy was soaring, Chávez had paid off the country’s debts to international lenders and severed ties with the International Monetary Fund (IMF) and World Bank. Despite this, as per an interview last year, former IMF, Managing Director Christine Lagarde had said that the IMF through sizable financing from the international community, would be willing to assist Venezuela if the country’s leaders asked for support. (Valentina Sanchez, “Venezuela Hyperinflation Hits 10 Million per cent: ‘Shock Therapy’ may be only Chance to Undo the Economic Damage”, *CNBC* 5 August 2019, online at <https://www.cnbc.com>) The American government has also said that it would invest and offer credit to Venezuela if the regime changed to a “democratic” one friendly to the United States of America under Juan Guaido. The option of major international support and investment, which Venezuela has in fact pushed against in the past, could help develop infrastructure and set it on a path to relive some of its past glory as a South American powerhouse. Bolivia in 1985 and Chile in the 1970s received large loans from international institutions, (Sanchez, *ibid*) which played a crucial role in their economic recovery and strengthens the case for rebuilding Venezuela this way. Investment in long term growth through supply side policies would shift the LRAS in Diagram 1 back to the right and possibly even past the original LRAS<sub>0</sub> to a lower average price level and a higher real output.

If Venezuela were able to tackle its hyperinflation and move onto a path for a better economic future, it would be paramount to learn from past mistakes and maintain financial discipline going forward. Economic irresponsibility caused the hyperinflation in the first place and ensuring that money is not printed endlessly like before would be vital. Chile ensured this after its 1970s hyperinflation and ever since has been one of the strongest South American economies despite its current social unrest, which challenges the “economic miracle” engineered by Augusto Pinochet’s dictatorship. Zimbabwe conversely

hit 176 per cent monthly inflation just years after “resolving” its massive 2008 hyperinflation. (Rene Vollgraaff, “Zimbabwe Edges Closer to Hyperinflation”, *Bloomberg*, 15 November 2019, online at <https://www.bloomberg.com>) A new responsible, corruption-free government, along with the solved currency crisis, would help strengthen institutions ranging from financial institutions for fair lending to uncorrupt tax collection systems to just legal systems. As the natural resource trap explains, resources like oil act as intensifiers, making poor countries poorer and rich countries richer and thus reforms have a multiplier effect on the economy. In essence, combating Venezuelan hyperinflation begins with Venezuelans realising the benefits of a new system, pushing for it and then the new regime solving the currency conundrum and generating long-term investment through the channels explained above. 

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