INDUSTRIALIZATION AND DEVELOPMENT IN VENEZUELA

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EL DESAFIO INDUSTRIAL DE VENEZUELA. By SERGIO BITAR and EDUARDO TRONCOSO. (Buenos Aires: Editorial Pomaire, 1983. Pp. 285.)

VENEZUELAN INDUSTRIALIZATION: DEPENDENT OR AUTONOMOUS? By FRED JONGKIND. (Amsterdam: Center for Latin American Research and Documentation, 1981. Pp. 229.)

EVOLUCION Y LOCALIZACION DE LA INDUSTRIA MANUFACTURERA EN VENEZUELA Y AMERICA LATINA. By WEINE KARLSSON. (Stockholm: Institute of Latin American Studies, 1979. Pp. 26.)

The recession of the early eighties has forced Venezuela to devalue the *bolívar* by almost 200 percent. For the industrial sector, long shackled by overvaluation of the bolívar, this development may prove to be a blessing in disguise. For many years, the value of Venezuelan currency had been set according to the productivity of its oil industry. This method of calculation has created barriers for potential industrial exports from Venezuela, even vis-à-vis the Andean Common Market, let alone the developed world.

Obscured by oil's dominant role in the economy, other industries in Venezuela grew slowly until the mid-seventies. In terms of the overall development process in Venezuela, the expansion of the non-petroleum industries has been documented from 1936 to the mid-seventies.[1] Until that time, the petroleum sector provided the rest of the economy with sizable net benefits, thus bolstering the steady growth of Venezuelan industry.[2]

The oil boom of the mid-seventies and early eighties, however, began to undermine the orderly growth of industry in Venezuela. The sudden rise in oil prices, which originally seemed to create a rainbow of opportunities, was transformed somewhere along the way into conspicuous consumption, overextended financial capital, and overambitious infrastructure development. A cornucopia of industrial imports inundated the Venezuela markets, nearly drowning domestic production. The stormy period resulting from this misspent bonanza may yet provide a silver lining by showcasing Venezuelan capabilities in intermediate and heavy industries (due to the geographic concentration of the right combinations of rich resources), but only if the devaluation is used as a stimulus to industrial exports.

Until the 1940s, Venezuelan industry was dormant in all but the most naturally protected industries, such as beverages, foodstuffs, and textiles. Around that time, the policy of "sowing the oil" (*sembrando el petróleo*) began to be applied on a larger scale to help develop manufacturing. But the creation of an industrial structure proceeded slowly due to such factors as the Treaty of Reciprocity with the United States (signed in 1939), which stipulated low limits of tariff protection for Venezuelan industries competing with products imported from the United States in exchange for concessions favoring Venezuelan oil imported into the U.S. market. As late as 1960, Venezuela remained one of the least industrialized countries in Latin America for its population and resources. But the sixties and early seventies saw a substantial industrial upsurge in the nation. Actually, the beginning of this period coincided with a de facto devaluation of the bolívar, which became official in 1964.[3] From 1960 through the mid-seventies, the growth rate of the Venezuelan industrial sector surpassed nearly all other medium- or large-sized Latin American countries. Yet from that time on, importation of foreign industrial goods facilitated by the steep rise in oil prices led to a slackening pace in national industrial expansion.[4]

It must be remembered nevertheless that the financial resources provided by the oil bonanza and a rapidly enlarging foreign debt were not totally consumed. A good share was invested in constructing large-scale infrastructure projects and in expanding some of the most promising industrial areas throughout the country. Despite the indications that many of these investment projects were excessively capital-intensive and technologically sophisticated as well as conceptually misguided, this capital spurt will probably contribute to future increases in industrial production.

Industrial Development, Planning, and Policies

El desafío industrial de Venezuela by Sergio Bitar and Eduardo Troncoso constitutes a solid contribution to the literature on the Venezuelan industrial sector, a topic that has been rather short on quality works. This book provides the required background for examining alternative paths to future industrial growth in Venezuela. Despite having been somewhat superseded by important events like the 1983 devaluation, the book's review of the basic characteristics, historical performance, and future prospects of Venezuelan industry will withstand the test of time.[5]

Bitar and Troncoso examine the industrial process in Venezuela from many angles. They begin by taking a comparative historical look at Venezuelan industrialization from its early stages late in the nineteenth century up to the late 1970s. They compare this development with that occurring in other Latin American countries, then they analyze in depth the basic characteristics of various industrial sectors in the last three decades. The next section describes the impact of the oil boom on industry in Venezuela. Industry initially reacted slowly to enlarged export earnings and expanding national income, eventually making a feeble adjustment that generally led to a relative weakening of import substitution during this period.

The second part of *El desafío industrial* proposes an industrial strategy for Venezuela. It begins by reviewing conditions in the world economy with which the Venezuelan industrial effort will have to mesh if it is to succeed. Bitar and Troncoso next consider complementarity between the expansion of the petroleum sector and the proposed industrial diversification of Venezuela. They argue that the substantial profits generated by orderly exploitation of oil resources should be used to facilitate continued development of Venezuelan industries, which now produce a wide range of basic and intermediate products as well as some capital goods.

The authors see the role of the state as central in implementing this industrial strategy. They point out that Venezuela has attained a satisfactory stock of physical capital but that its investment in human capital is still lagging and will demand the attention of government planners. Bitar and Troncoso also provide a word of warning regarding financial planning, noting that laxity in public and private budgets in the seventies and early eighties has endangered the country's balance of payments.

Although past expansion of the Venezuelan industrial sector was predicated upon import substitution, Bitar and Troncoso believe that the net benefits of this approach had mostly vanished by the end of the seventies. It is telling that even though industrial growth has averaged 8 percent per year since the early 1950s, it has barely dented export markets. The only avenue allowing a similar industrial growth pattern to continue for the rest of the century would involve gains in efficiency associated with competition in international markets. But the productivity increases that must precede such incursions would necessitate large investments in human capital as well as in research and development.[6]

Of all the industrial product lines that Venezuela could explore in expanding its exports, those based on its major natural resources appear to provide the most favorable opportunities. Venezuela's abundant oil, iron, bauxite, and hydroelectric resources have already occasioned the development of important petrochemical, steel, and aluminum industries. Furthermore, demand for capital goods generated by such basic manufacturing endeavors may provide key support for eventually developing certain machinery, equipment, and intermediate products geared toward those sectors. Thus for these products, the strength of the internal market can provide the basis for a strong import-substituting drive that could facilitate an eventual leap into external markets, perhaps beginning with those in the Caribbean.

The third section of *El desafío industrial de Venezuela* considers several industrial areas in which Venezuela may be able to develop a competitive export nucleus throughout the rest of the century. Starting with the capital goods sector, Bitar and Troncoso note that prior to the early eighties, Venezuela had barely tapped its potential in these areas, except in supplying goods to the construction sector.[7] But the Venezuelan automobile and consumer goods industries have developed strongly (although the former is largely an assembly industry). The authors offer four guidelines for selecting capital goods industries to be stimulated in the industrial planning process (which the Venezuelan government has conducted since the early sixties): first, promote capital goods requiring the simplest and most straightforward technologies; second, favor those products affording more moderate economies of scale; third, give preference to goods required as inputs in the expansion of the state-run heavy industry and for government infrastructure projects; and fourth, facilitate the development of products requiring the improvement of local engineering and labor skills.

Bitar and Troncoso seem to assume that the Venezuelan government will contribute directly to expanding certain capital goods industries. Yet one may question the extent to which the Venezuelan state is capable of providing financial and fiscal support as well as the proposed tariffs. Being familiar with governmental planning and intervention in Chile, the authors are perhaps optimistic in expecting the public sector in Venezuela to shoulder such responsibilities in Venezuela and in believing that planning can help achieve such goals.

Another questionable recommendation is that foreign investment and transnational enterprises should not be allowed to play a part in developing the capital goods industry in the country. Bitar and Troncoso define this effort as exclusively strengthening national entrepreneurship, whether private or public. Unfortunately, the important process of transferring technology from the advanced industrial countries is seldom undertaken without some involvement of foreign capital and organization.

Bitar and Troncoso seem confident of the potential of the capital goods industry in Venezuela, and they shun the advantages already being reaped in the industries that process basic raw materials. Yet the basic industries would appear to conform more to the principles of dynamic comparative advantage and to provide more immediate opportunities for expanding Venezuelan industrial exports. They also are more receptive to strong participation by state enterprises and the public sector in general, a feature the authors tend to favor.[8] Basic industries presenting good prospects are aluminum, petrochemicals, and steel, as well as products derived from these processes. Not far behind is the cement industry. The pulp and paper industry also displays distinct possibilities. These industries can be faulted because of their capital intensity and their susceptibility to government price controls, but they seem to provide more tangible opportunities than the capital goods industries while helping the latter to emerge.

Although these points are partially recognized by Bitar and Troncoso, they seem to cherish the goal of achieving quick industrial sophistication in Venezuela, and thus they give highest priority to developing the capital goods industry. It is evident to this writer that choices must be made, and it seems that Bitar and Troncoso do not fully recognize the limitations imposed by financial and other finite resources. Given a situation of scarcity, the fact that most of the basic industries are in the hands of the state is worrisome. In the opinion of this reviewer, private enterprises—preferably local ones—should have a larger role in the growth of this subsector in order to help develop entrepreneurship through healthy competition.

Bitar and Troncoso would like to see the consumer goods industry concentrate on satisfying the needs of the population at large rather than the desires of high-income families. This goal is a lofty one, but even Bitar and Troncoso must realize the complexities involved in trying to change marketing strategies and production techniques, not to mention tampering with the marketplace or radically tilting income distribution.

Although fundamentally oriented toward the internal market, the consumer goods industry has felt the pressure of competition from imports, particularly during the oil boom of the seventies and early eighties. As a result, despite the steep rise in Venezuelan national income, the consumer goods industry has suffered from a recent deindustrializing trend. This process resembles the deindustrialization process that other Latin American nations experienced after opening their economies during the seventies and then being jolted by the world recession and the financial shocks of the eighties. The Venezuelan consumer goods industry did not regress in absolute terms, but it lost a significant share of the market to imported products.

Toward the end of the book, Bitar and Troncoso consider industrial policy, an area that has afforded few successes for the Venezuelan government. After reviewing industrial protection and promotion through tariffs and subsidies, pricing policies for industrial products and their inputs, tax and financial policies, human resource and technological policies, and ownership policies, the authors propose a drastic revamping. As they observe, these policy instruments have sometimes been used for stabilization purposes in Venezuela but have frequently been incompatible with industrial planning strategy. The authors suggest that if Venezuelan industrialization is ever to achieve its potential level of maturity, industrial policies should be made subservient to industrial planning strategy. The central role of the industrial policy mechanisms for achieving this planning objective is thus recognized somewhat belatedly. Given the key role of these policy instruments, perhaps more space should have been devoted to examining their possibilities and failures in Venezuela.

El desafío industrial en Venezuela closes with a politico-economic appeal. Bitar and Troncoso assert that in Venezuela, democracy and industrialization have gone hand in hand, not necessarily a common experience. They point out that economics is not an end in itself but should provide the underlying structure for achieving the basic goals of society. Thus the authors enter a plea for strengthening the interplay between the industrializing effort and political development in Venezuela.

Industrial Firms, Transnational Influences, and the Role of the State

Fred Jongkind also has written a very useful book, *Venezuelan Industrialization: Dependent or Autonomous?* Published by the Center for Latin American Research and Documentation in Amsterdam, the book is a worthwhile effort at confronting theory with facts. Jongkind undertook much of the empirical effort himself, an admirable accomplishment. The source of the data was a wide survey of Venezuelan industrial concerns and their top executives. The survey covered 10 percent of the industrial firms employing more than fifty workers. The extensive questionnaire of nearly ninety questions was conducted in interviews, followed by personal contact with a principal executive in each company. Jongkind's direct involvement in the interviewing significantly enhanced the reliability and sharpness of his conclusions.

Although short, *Venezuelan Industrialization* contains many substantial insights. Beginning with a macroanalysis of the problems of the Venezuelan economy, the work focuses on the influence of foreign interests. The process of industrial development in Venezuela is examined within the context of a center-periphery relationship. Jongkind tentatively concludes that the financial resources that oil produced for the Venezuelan government allowed the country to experience a relatively autonomous industrialization process with a distinct national character.

The monograph then explores the dependency perspective, particularly the Osvaldo Sunkel version. According to this view, foreign investment is an adverse influence that limits the potential of developing countries for autonomous development. Jongkind carefully examines Sunkel's thesis that increasing international integration is accompanied by progressive national disintegration. Jongkind tests this hypothesis on several levels: Venezuelan society as a whole, industrial firms, and individual industrialists. The areas he tested fall into four categories: first, foreign impact over the industrialization process in Venezuela, and specifically the role of multinational corporations; second, the characteristics of national industrial firms versus foreign firms; third, the similarities and differences between Venezuelan and foreign owners or managers; and fourth, the ways in which foreign executives differ from Venezuelan executives, as well as Venezuelans' identification with an international style and their possible alienation from their own culture.

After carefully confronting the implications of the new Sunkel model with the Venezuelan reality, Jongkind regretfully rejects the model's applicability. Next he elaborates on his empirical examination of each hypothetical strand. Jongkind infers that the Venezuelan industrial development process, even after the postwar period of foreign domination via multinational firms, has been intrinsically autonomous.

The evidence for autonomous development is strong regarding the relatively small influence of foreign investment in the Venezuelan industrial sector, the keen competition it faces from national firms, and governmental regulations imposed upon foreign investment. No evidence was found to support the alleged concentration of foreign firms serving export markets. Furthermore, as Jongkind states, "the dependency notion that domestic industry fulfills predominantly supply and auxiliary functions for foreign multinationals could not be confirmed" (p. 142).

Comparing methods of management, marketing, production, planning, and computerization in domestic and foreign firms revealed no clear differences. Neither could Jongkind corroborate the alleged transcultural influences that would make native entrepreneurs, particularly in the modern industrial sector, resemble international executives from advanced nations. Moreover, Jongkind adds, "the use of modern management methods and the way products are marketed differ considerably between subsidiaries on the one hand and locally owned and managed firms on the other. Modern management and marketing methods as used in the subsidiaries of the transnational companies are not copied thoughtlessly by domestic firms" (p. 146).

In sum, Jongkind's *Venezuelan Industrialization*, like other studies with an empirical bent, has put another nail in the coffin of current dependency theory. If this theory is to be more than a relic of the ideological past, much research must be undertaken to adapt dependency theory to reality, an undertaking that Jongkind and other reformers are attempting to accomplish.

Other Research

Heinz Sonntag and Rafael de la Cruz have written a very interesting article, "Estado e industrialización en Venezuela," on the state's role in Venezuelan industrialization.[9] The authors start with the premise that the state under capitalism must accomplish a substantial degree of intervention in economic affairs, especially in countries on the periphery. Governmental bureaucracy constitutes an important support mechanism for strengthening the bourgeoisie and fostering reproduction and expansion of capital. State activism grows particularly in those crucial periods when the contradictions of capitalism become more acute.

State intervention in capitalistic societies at the center of the system differs from those at the periphery. In Venezuela, particularly since the late 1930s, government industrialization policies have been directed toward implementing capitalistic social relations in the productive sphere and toward "modernizing" society. This process did not begin in the late 1950s, as is often maintained, but was actually initiated by the strong expansion of the oil industry.[10] The period of import-substituting industrialization built momentum during the 1940s, aided by strong support from the Venezuelan state.[11] During this era, economic groups clearly divided into two camps, with industrialists on one side and landlord and commerical classes on the other. The superior strength of the industrial bourgeoisie became noticeable following the revision of the Reciprocal Trade Treaty with the United States in 1952. This event greatly facilitated erecting trade barriers against industrial imports.

With the advent of representative democracy in 1958, the government increased its participation in economic life, indirectly stimulating industrial capitalism. The principal policy elements of increased state activism were the rise of industrial planning, administrative reform of the bureaucratic apparatus, and substantial allocations to industrial investment. In the sixties, the predominance of industry vis-à-vis commerce and agriculture left no doubt as to which sector led the nonpetroleum area of the Venezuelan economy.[12] Yet all this development was accompanied by an increasing concentration of production in the hands of a few firms as well as substantial foreign ownership of the industrial sector.

Industrial Location and the History of Industrialization in Venezuela

Jovito G. Valbuena's "Etapas del crecimiento industrial venezolano" is interesting despite being mostly descriptive. It divides the historical development of Venezuelan industry into three periods: the era of artisanry and crafts (1900–1936), the era of industrial factories resulting from war conditions and growth in the oil sector (1936–1950), and the period of modern industrial growth based on import substitution (1950–1985). A geographer, Valbuena argues that from the beginning of the twentieth century, most industrial activities were located in Caracas, and to a lesser degree in other coastal cities. During the first third of the century, the Andean region's isolation allowed the development of artisan industries and cattle-oriented industrial processing activities in the western hinterlands (*los llanos*).

During the second period, the west-central region (Barquisimeta, Valencia, and Maracay) began to expand its industrial production rapidly. Being relatively near Caracas and linked by an expanding transportation network in the 1940s, these three cities combined with Caracas to form a four-city regional nexus that became the largest market area in Venezuela. During the third era, the area comprising the capital city and west-central region continued to solidify its industrial leadership. But another potential industrial center emerged in the Guayana region in the southeast, based on the exceptional natural resources of the Orinoco Basin.

Weine Karlsson's monograph, *Evolución and localización de la industria manufacturera en Venezuela y América Latina*, compares characteristics of the Venezuelan industrialization process with those of other Latin American countries. The article derives some hypothetical statements about industrial location and infers that urban concentration preceded and attracted industry to Latin American cities, with urbanization being one of the main determinants of industrialization in the region.

Venezuelan industrial power has evolved swiftly and forcefully, mainly since the early 1960s. Yet it remains a puzzling phenomenon. Venezuelan industrial production per capita leads the list of Latin American nations, but the per capita value of Venezuelan industrial exports is contrastingly small. Was the overvaluation of the bolívar the main cause of such an anomaly? The coming years will provide a unique opportunity to test this hypothesis and thus enhance understanding of industrialization in Venezuela. This little-understood topic has only been hinted at here, but perhaps this essay will suggest how much remains to be discovered about the complex industrial structure of Venezuela.

NOTES

1. See Jorge Salazar-Carrillo, *Oil in the Economic Development of Venezuela* (New York: Praeger, 1976).
2. Of the economic components other than petroleum, agriculture has experienced uneven growth for decades while services, utilities, and construction have followed the country's increasing industrialization and urbanization. See ibid., chaps. 4–7, for a fuller treatment.
3. The official devaluation represented close to 40 percent of the bolívar's original value in comparison with the U.S. dollar.
4. The great expansion in Venezuelan foreign-exchange resources resulting from the oil boom was supplemented by heavy external borrowing. Such massive external resources led to an increased import coefficient and rising participation by foreign industrial products in aggregate demand.
5. *El desafío industrial* does not offer misleading general conclusions because, as mentioned earlier, the long-term pattern of Venezuelan industrialization was not altered dramatically by the 1983 change in the country's terms of trade. Industrial trends in Venezuela inexorably led toward an increasingly complex, export-oriented, and mature industrial sector.
6. The sharp devaluation of the bolívar, if not cancelled by a relatively higher inflation rate in Venezuela, may provide the initial incentive for industrial exports.
7. The reasons for such incipient development have been relatively low tariff rates, liberal import exemptions, and the absence of quotas or import controls on capital goods.
8. *El desafío industrial* provides only meager analysis of the Venezuelan private industrial sector, an important vehicle for realizing the goal of expanding Venezuelan industrial exports.
9. See Heinz R. Sonntag and Rafael de la Cruz, "Estado y industrialización," *Nova Americana* 5 (1982):331–37. This journal is published in Torino, Italy.
10. This point was made in several places in Salazar-Carrillo, *Oil in the Economic Development of Venezuela*.
11. The military dictatorship established at the end of 1948 did not bring about a retrenchment in industrial policy, according to Sonntag and de la Cruz. For an opposing view, see Salazar-Carrillo, *Oil in the Economic Development of Venezuela*, chap. 6.
12. Ibid.