MANUFACTURING FIRM COMPETITIVENESS: THE CASE OF VENEZUELA*

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1. INTRODUCTION*

To achieve international competitiveness, Latin American countries must take advantage of the industrial platform created during the import-substitution stage. The orientation of this industrial platform should change from one aimed primarily at the domestic market to one that strengthens exports.

In recent years, many Latin American countries have carried out trade liberalization reforms. However, while several countries have increased non-primary exports, most industrial firms have yet to change their orientation from an inward one to an outward one. Trade liberalization reform appears to be insufficient for encouraging firms in this transition. Policies to promote non-traditional exports, particularly manufactured goods, are required.¹

To be effective, these policies should be aimed at overcoming the main obstacles faced by firms when trying to be competitive and produce world-market products. Therefore, it is necessary to establish what these obstacles are. The impact of macroeconomic policy, as well as of trade and industrial policy, on firm behavior must also be assessed.

This paper analyzes the obstacles that Venezuelan industrial firms face when trying to be competitive and manufacture world quality products. The following section briefly describes the country's export trends in recent years. The third section describes policies that influence firms' investment and export behavior, such as macroeconomic policy and trade policy, including export promotion instruments and institutions. Section four details the export bottlenecks that can be deduced from a survey of Venezuelan manufacturing firms. These can be found in firms themselves, as well as in the economic framework. The last section presents the study's main conclusions and policy recommendations.

2. EXPORTS

Venezuela has traditionally been an oil-exporting country and was severely hit by the decrease of the price of oil. Between 1981 and 1992, the price of crude petroleum exported by this country dropped 46.4 per cent.²

The fall of oil export revenues has been a shock to the country's economy, above all because they are the main source of government income, as well as of foreign currency. In 1992, 81.2 per cent of the country's export revenues came from oil-based products, down from 94.9 per cent in 1980 (table 1).

* I would like to thank Renato Baumann, Rudolf Buitelaar, Ricardo Ffrench-Davis, Martine Guerguil, Wilson Peres, Jorge Katz and Joseph Ramos for their comments.
While there has been an increase in the value of other exports throughout this period, it certainly has not compensated the loss of oil revenues.

Table 1

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<tbody>
<tr>
<td>Main traditional exports</td>
<td>18.486</td>
<td>13.108</td>
<td>10.216</td>
<td>14.195</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Main non-traditional</td>
<td>799</td>
<td>1.330</td>
<td>2.928</td>
<td>3.302</td>
<td>2.633 c/</td>
<td>2.607c/</td>
</tr>
<tr>
<td>exports</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminum</td>
<td>402</td>
<td>511</td>
<td>896</td>
<td>914</td>
<td>714</td>
<td>208</td>
</tr>
</tbody>
</table>

Source: Joint ECLAC/UNIDO Industrial and Technological Development Unit of the Division of Production, Productivity and Management on the basis of official figures.

a/ Includes petroleum products, iron ore, coffee and cocoa  
b/ Preliminary estimates  
c/ Includes iron-ore

In spite of trade liberalization reforms undertaken since 1989, the opening up of the economy, expressed as the sum of exports and imports over GDP, is not substantially different today from what it was at the beginning of the 1980s. In 1991, Venezuela exported 28.2 per cent of its GDP and its imports were equal to 18.8 per cent, so that the degree of openness was 47 per cent. Ten years before that, the country exported 30.3 per cent of GDP and its imports were equivalent to 18.2 per cent of GDP, so that trade was equal to 48.5 per cent of its GDP.

The degree of openness dropped to 30 per cent in 1986, due to the revenue difficulties that arose from the decrease in the price of oil. This openness indicator appears to be more responsive to the availability of oil revenues than to trade liberalization by itself. However, further analysis would require analyzing more recent data, so as to evaluate the impact of trade liberalization after a few years.

Meanwhile, non-traditional exports increased regularly during the 1980s, but dropped as substantial export subsidies were eliminated in 1991. The depression in world aluminum markets put an added downward pressure on non-oil exports during 1992. Aluminum is Venezuela's most important non-traditional export. The fact that, in spite of the decrease in the price of aluminum, non-traditional exports were relatively stable during 1992 is generally perceived as a positive trend.
A counterpart to Venezuela’s specialization in primary exports, specifically oil-based products, is its lack of specialization in exporting manufactured goods. In 1988, only 6.3 per cent of its exports were manufactured goods, one of the lowest percentages in the region. Half of Venezuela’s manufactured exports came from industries that were capital intensive and had a low technological content.

Export-output ratios for several manufacturing industries (table 2) show that, with few exceptions, the sectors that exported more than ten per cent of their output in 1989 were natural resource based. Their products had low processing levels. The exceptions are non-electrical equipment and scientific instruments, but their contribution to non-traditional exports is negligible.

On the other hand, the increase of export-output ratios for several sectors between 1988 and 1989 may be an early result of trade liberalization. However, it is quite likely that the main cause for this increase is the recession that hit the Venezuelan economy in 1989, following a severe stabilization program.

Although some of the ten main non-traditional manufactured export products, such as vehicles and spare parts, are quite sophisticated, their share in non-traditional exports is very low (table 3).

Thus, Venezuela has specialized in exporting primary goods, mainly oil-based ones. The availability of oil revenues has resulted in a Dutch Disease Syndrome that has strongly encouraged investment in tradeables with extraordinary competitive advantage, such as oil products, and in non-tradeables, while discouraging investment in other exports.

In addition to this stifling of export diversification, efforts to increase exports’ processing level have also been hindered. The industrial sector produces primarily for the domestic market.

However, non-traditional exports’ stability during 1992, despite a booming domestic market during most of the year and the appreciation of the bolivar, is a positive sign.

Another positive tendency is private firms’ growing participation in exports: while in 1987, 58.6 per cent of non-oil goods were exported by state-owned firms, in 1991, 51.6 per cent of exports came from private firms. In 1992, 67 per cent of non-traditional exports came from the private sector, up from 35 per cent in 1988.

Finally, there has been an extraordinary surge in trade with Colombia, since a free-trade agreement was signed in March 1992. Trade between the two countries has increased from US$525 million in 1990 to US$932 million in 1992, and most estimates assume it will continue to increase.
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<tr>
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<tr>
<td>Food products</td>
<td>0.46</td>
<td>0.58</td>
<td>2.52</td>
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<tr>
<td>Beverage</td>
<td>0.03</td>
<td>0.18</td>
<td>0.70</td>
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<tr>
<td>Tobacco</td>
<td>1.07</td>
<td>2.00</td>
<td>6.61</td>
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<tr>
<td>Textiles</td>
<td>0.29</td>
<td>0.47</td>
<td>4.41</td>
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<tr>
<td>Wearing apparel</td>
<td>0.04</td>
<td>0.69</td>
<td>16.41</td>
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<tr>
<td>Leather products</td>
<td>0.04</td>
<td>1.45</td>
<td>8.87</td>
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<tr>
<td>Footwear</td>
<td>0.17</td>
<td>0.42</td>
<td>6.87</td>
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<tr>
<td>Wood products</td>
<td>0.07</td>
<td>0.34</td>
<td>3.70</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.05</td>
<td>0.35</td>
<td>4.77</td>
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<tr>
<td>Paper</td>
<td>1.23</td>
<td>3.46</td>
<td>5.16</td>
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<tr>
<td>Printing and publishing</td>
<td>0.66</td>
<td>0.71</td>
<td>4.13</td>
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<tr>
<td>Chemical industries</td>
<td>12.45</td>
<td>14.20</td>
<td>33.01</td>
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<tr>
<td>Other chemicals</td>
<td>1.30</td>
<td>0.84</td>
<td>4.44</td>
</tr>
<tr>
<td>Petroleum and coal products</td>
<td>76.23</td>
<td>4.79</td>
<td>7.07</td>
</tr>
<tr>
<td>Rubber products</td>
<td>0.15</td>
<td>0.05</td>
<td>1.03</td>
</tr>
<tr>
<td>Plastic products</td>
<td>0.09</td>
<td>0.65</td>
<td>5.79</td>
</tr>
<tr>
<td>Pottery, china and earthenware</td>
<td>0.30</td>
<td>5.50</td>
<td>19.48</td>
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<tr>
<td>Glass</td>
<td>0.08</td>
<td>1.46</td>
<td>3.89</td>
</tr>
<tr>
<td>Other non-metallic minerals</td>
<td>0.27</td>
<td>4.15</td>
<td>11.98</td>
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<tr>
<td>Iron and steel</td>
<td>7.79</td>
<td>15.71</td>
<td>36.09</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>72.85</td>
<td>53.02</td>
<td>62.72</td>
</tr>
<tr>
<td>Metal products</td>
<td>1.05</td>
<td>3.00</td>
<td>10.87</td>
</tr>
<tr>
<td>Non-electrical machinery</td>
<td>5.03</td>
<td>1.23</td>
<td>14.30</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>1.09</td>
<td>1.39</td>
<td>8.66</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>1.43</td>
<td>2.47</td>
<td>8.54</td>
</tr>
<tr>
<td>Scientific instruments, etc.</td>
<td>4.70</td>
<td>3.79</td>
<td>20.82</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>3.58</td>
<td>10.18</td>
<td>40.34</td>
</tr>
</tbody>
</table>

Source: Joint ECLAC/UNIDO Industrial and Technological Development Unit of the Division of Production, Productivity and Management on the basis of official figures.
Table 3

VENEZUELA 1992: TEN MAIN NON-TRADITIONAL MANUFACTURED EXPORTS a/

(as % of non-traditional exports)

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Aluminum and aluminum manufactures</td>
<td>27.69</td>
</tr>
<tr>
<td>Casting, iron and steel</td>
<td>19.04</td>
</tr>
<tr>
<td>Organic chemical products</td>
<td>5.36</td>
</tr>
<tr>
<td>Vehicles, tractors, spare parts</td>
<td>3.78</td>
</tr>
<tr>
<td>Tobacco</td>
<td>3.58</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>2.95</td>
</tr>
<tr>
<td>Plastic and plastic manufactures</td>
<td>2.25</td>
</tr>
<tr>
<td>Inorganic chemical products</td>
<td>2.18</td>
</tr>
<tr>
<td>Other chemical products</td>
<td>2.08</td>
</tr>
<tr>
<td>Casting manufactures, iron and steel</td>
<td>2.07</td>
</tr>
</tbody>
</table>

Source: Joint ECLAC/UNIDO Industrial and Technological Development Unit of the Division of Production, Productivity and Management on the basis of official figures.

a/ Preliminary estimates up to September 1992.

3. POLICIES

This section describes policies that are relevant for industrial firms. Macroeconomic policy is covered, as well as the trade policy followed since 1989. Export promotion incentives and institutions are also described in detail.

3.1 Recent macroeconomic developments

Venezuela’s GDP increased 8 per cent in 1992, while per capita GDP rose by 5 per cent. After an abrupt recession in 1989, the country was on an expansive course from 1990 to 1992.

However, the economy is still under the shock of the fall in world oil prices. The price of oil on world markets has a strong influence on public revenues, since these are mainly financed by oil exports. Hence, it also has an impact on the country’s economic activity. While there are other contributing causes to the economic downturn, the oil shock can be illustrated by the fact that per capita GDP is still below the level it reached at the beginning of the 1980s.10
Recent growth has been fueled by a growing public-sector deficit, close to 8 per cent of GDP and the highest in the region for 1992. This deficit results from a rigidity of public-sector expenditures, in spite of the decrease in fiscal revenue at the end of the Gulf War, as well as from Congress' refusal to approve tax reform.

The deficit enabled domestic demand to surge. This led to high growth rates in various sectors, particularly in commerce (24 per cent), construction (18 per cent) and manufacturing (10 per cent). It also allowed the urban unemployment rate to decrease from 9.6 per cent in 1991 to 7.7 per cent at the end of 1992.

On the other hand, the public-sector deficit has also fueled inflation, which climbed to 33 per cent in 1992 in spite of the restrictive monetary policies instituted by the Central Bank.

One of the stabilization policy tools that has been actively used by monetary authorities is the exchange rate. Venezuela has had free convertibility at a unified, floating exchange rate since 1989. The Central Bank has a wide margin for intervention since it receives substantial portions of the foreign exchange that comes into the country.

Monetary authorities allowed the nominal exchange rate to remain unchanged from the beginning of 1992 until October of the same year. Meanwhile inflation between that month and the same period a year earlier was 33.4 per cent. During 1993, currency appreciation has decreased, but the depreciation of the Bolivar remains slower than the differential between domestic and international inflation rates.

The appreciation of the bolivar was not the only stabilization tool used by the Central Bank; nominal interest rates climbed to sixty per cent at the end of March 1993, a situation that was particularly shocking to a country that has been historically accustomed to low, or even negative, real interest rates.

The appreciation of the bolivar put downward pressure on exports, as well as on exporters' expectations. Meanwhile, imports continued growing (25.4 per cent), after increasing by 48.4 per cent in 1991, stimulated by increases in domestic demand and by trade liberalization.

While the trade balance still has a surplus of US$1,355 million, this is much lower than the surplus for 1991 (US$4,791 million), and 1990 (US$10,637 million). For the first time since 1988, the balance of payments had a current-account deficit.

During 1991, privatization of state-owned firms, such as the telephone company, attracted significant foreign investment flows. PDVSA, the state oil company, also made large investments.

Although more recent data on investment is not yet available, most estimates assume that uncertainty combined with high interest rates have put downward pressure on domestic private investment and that most private investment comes from foreign firms.

3.2 Trade policy

Until 1989, Venezuela's trade regime was made up of a large and intricate series of regulatory instruments that sought to protect domestic industry from import competition through a variety of tariff and non-tariff barriers. It also relied on a fixed exchange rate (the exchange rate was fixed from the
late sixties to 1983, when a system of multiple fixed exchange rate was instituted). In February 1989, the exchange rate system was unified and left to fluctuate freely.

Nominal tariffs were often quite high and had a high degree of dispersion, from 0 per cent to 972 per cent. In addition to these tariff barriers, there was an assortment of non-tariff barriers such as import quotas, lists of goods that it was forbidden to import, import licenses, tariff exemptions for public-sector imports, as well as multiple exchange rates and preferential exchange rates for specific goods. Import licenses were granted by government institutions, but trade associations could exercise a right of veto over them.

These types of regulations were a powerful incentive for importers to try to try to get exemptions. The numerous exemptions resulted in tariff ineffectiveness. Thus, while the average nominal tariff was 52 per cent, tariff revenue never went over 7 per cent of total CIF import figures.

The government made extensive use of price setting prerogatives and intervened frequently in a wide range of economic decisions. Equipment imports were heavily subsidized through low or negative interest rates and enabled firms to have access to preferential exchange rates.

There was, before 1989, some export diversification policy, not through direct export-promotion incentives, but through the support that government firms in natural resources production provided for private investment in downstream firms. This policy was to some degree successful, as can be seen in the petrochemical and aluminum sectors.

However, the intricacy of the regulatory system and the anti-export bias that resulted from it, along with the shock from the drop in the price of oil that caused a plunge in the country's export revenues and in the public sector's income, prompted the government to substantially modify the main policies that had been enforced over several decades.

In 1989, the Venezuelan government launched a widespread reform, eliminating most of the restrictions that had previously regulated the country's economic life and that had set the scene for ample rent-seeking activities. Most of the price-setting interventions were eliminated, while a few remain for basic foodstuffs and medicines. However, prices of a variety of goods are still set by government officials because they are produced by state-owned firms. That is the case of most oil-based products, electricity, steel and aluminum.

Trade liberalization reform was far-reaching, since most import quotas were eliminated, as were nearly all import license requirements. Nominal tariffs were reduced, as well as their degree of dispersion. Further tariff reductions were planned, according to a progressive schedule over several years. The goal was to achieve moderate and uniform protection levels. The scheduled tariff reductions were effectively implemented, in spite of strong opposition from the business sector.

These reforms were supposedly accompanied by industrial restructuring programs. However, for all practical purposes, their scope was ultimately quite limited.

Exports were also heavily subsidized by a bond. This export promotion instrument was eliminated in 1991, due to numerous fraud cases as well as to the public sector’s financial difficulties.
Nowadays, the highest nominal tariff for most goods is 20 per cent and average tariff is close to 12 per cent. Vehicles under US$15,000 pay duties of 25 per cent and those above that price pay 40 per cent. Import licenses are required for a few items, mostly basic foodstuffs. Only two per cent of imports were subject to non-tariff barriers in 1991.

Venezuela belongs to LAIA (Latin American Integration Association) and, since 1973, to the Andean Pact. The country belongs to GATT (General Agreement on Tariffs and Trade) since 1990, an adhesion that has influenced its trade policy.

In recent years, following a current trend in Latin America, Venezuela has signed bilateral free-trade agreements with several countries in the region. A comprehensive agreement signed with Colombia in 1992 has substantially increased trade between the two countries.

Free-trade agreements have also been signed since with Chile and the Caribbean countries. Meanwhile discussions are under way between Colombia, Mexico and Venezuela to create a free-trade area that would include those three countries, as well as the Central American ones.

3.2.1 Export promotion incentives

This section describes export promotion instruments as they appear in Venezuela’s official publications. An evaluation of these incentives’ performance, as it is perceived by manufacturing firms, will be made further on in the section dealing with firm behavior.

a) Export bond for agricultural products

This incentive pays an export bond equal to 10 per cent of the f.o.b. value of the good being exported. Primary agricultural items are the only ones that can obtain export bonds since 1991, when this incentive was cancelled for all other goods.

In order to have access to this incentive, agricultural products must have national value added of over 98 per cent and must also be included in a list that was published in an official publication in June 1991. This list shows that most of the products have very low processing levels.

b) Drawback

This instrument enables firms to be fully reimbursed for tariffs paid for importing inputs used to produce exports.

It has been included in the legislation that pertains to customs since 1978, but was not enforced, for all practical purposes, because firms found that the export bond was more profitable.

This incentive appeared to be the most convenient one for exporting firms since the export bond was eliminated in June 1991 for all goods other than the primary agricultural ones mentioned above. It seems to have been of special interest to firms that do not export regularly.
c) Special Temporary Admissions System

This incentive, Régimen de Admisión Temporal para el Perfeccionamiento Activo, also known as "ATPA", allows firms to be exempted from paying tariffs on imported inputs used for manufacturing exports. Tariffs must eventually be paid after a given period of time if the goods are not reexported. As was the case for the drawback described previously, this instrument has existed since 1978, but it is only being used since 1989.

Firms wanting to use this system must submit a new application each time they are going to import inputs. They must also provide a detailed description of the production process so as to avoid firms taking advantage of this incentive by omitting to pay tariffs on inputs, when they will in fact be used to produced goods sold domestically. Pretabulated physical input-output coefficients are not used for this purpose. The administration decides on a case by case basis.

d) Replenishment system

Firms may use this instrument to replenish imported inputs without paying tariffs. These imported inputs must be identical to previously imported ones that were used to manufacture export goods but did not benefit from another export promotion incentive. A new application must be submitted each time it is used, and it appears to be more convenient for occasional exporters.

e) Bonded warehouses

Firms may store imported goods in these warehouses, so as to use them for manufacturing exports or export them as such. The warehouses are supervised by Customs.

f) Export processing zones

Venezuela has an export processing zone in Paraguaná, Estado Falcón. There is also a free port in Isla Margarita, where imported goods may be sold without paying tariffs. These zones are administered by the Urban Development Fund.

g) Dumping legislation

Venezuela’s anti-dumping legislation has been valid since June 1992. It is based on GATT’s anti-dumping code and seeks to protect domestic firms from damage arising from dumping or imports that have been subsidized in the country where they were manufactured. This law also created a Anti-Dumping and Subsidies Committee that is charged of enforcing it.14

This legislation does not penalize importing subsidized goods or dumping under all circumstances; it requires proof of damage to domestic firms.
3.2.2 Export promotion institutions

Venezuela has several export promotion institutions. Their main features will be set forth below and their performance, from manufacturing firms’ viewpoint, will be evaluated in the section dealing with firm behavior.

a) Instituto de Comercio Exterior

The Instituto de Comercio Exterior (ICE) is Venezuela’s trade promotion institution. It is responsible for designing trade policies, specifically those dealing with promoting non-oil exports.\textsuperscript{15} It plays an important role in negotiating free-trade agreements and is the country’s representative in GATT.

ICE has organized Comités de Promoción Comercial (CPC) in several manufacturing sectors, such as the chemical and garment industries, since 1991. These committees are made up of private entrepreneurs, trade association delegates and civil servants. One of their goals is to determine the main obstacles faced by exporting firms and to suggest measures to overcome them. Export market research, as well as participation in trade fairs abroad, are other areas ICE deals with, often in close collaboration with these committees.

The trade promotion institution is also trying to organize shoe firms to manufacture products for export markets that have uniform standards and measurements, so as to offer a relatively homogeneous export supply. Venezuela appears to have competitive advantages in shoe manufacturing.

The institute assists exporters by providing them information on export markets through the Centro de Atención Directa al Exportador (CADEX), since 1992. This center also issues certificates of origin that allow firms to benefit from preferences negotiated in the Andean Pact, LAIA and other trade agreements.

It has participated in designing a project to set up a Foreign Trade Bank that would consolidate different institutions that currently offer services to exporters. It would be a financial institution that would provide commercial banks with export credit and would also administer export insurance. Information on export markets and assistance in selling abroad would also be provided. This project was approved by the government in 1992, but has not yet been approved by Congress.

b) Export financing

The Fondo de Financiamiento de las Exportaciones (FINEXPO), part of the Central Bank, was created in 1973 to provide credit for non-traditional exports at rates that would be competitive with those on world markets. It supplies preshipment export credit for working capital and postshipment credit for foreign firms buying Venezuelan exports.

If the credit application is submitted directly to FINEXPO, the institution charges an interest rate that is 10 per cent lower than the one charged by commercial banks. It requires a collateral equivalent to 110 per cent of the loan and it must be backed by a bank or an insurance company. Real goods such as buildings or equipment cannot be used as collateral. Loan applications submitted through commercial banks carry the market interest rate.
c) Export credit insurance

Credit insurance for non-traditional exports is provided by only one company, *La Mundial*, created by a pool of private insurance companies. It protects firms against the risk that client firms abroad may go bankrupt. However, it does not protect them against any risk that may arise from political problems in the country that is buying.

d) Promexport

Promexport, *Oficina de Promoción de Exportaciones*, is a nonprofit institution created by firms from the private sector in 1987. Its goal is to promote non-traditional exports. It currently has around 90 members, mostly large private firms. This institution seeks to promote contacts between domestic and foreign entrepreneurs. However, it has focused on providing firms with information on export markets and the main trends in international trade. With this purpose, it is setting up an information system designed by Wharton Econometrics Forecasting Associates.

e) Asociación Venezolana de Exportadores

This trade association, also known as AVEX, assembles exporters and is their representative in dealing with the government. It organizes seminars on topics related to exports. It also provides exporters with information, particularly that related to trade fairs abroad. However, it has no budget to send trade missions overseas.

4. FIRM BEHAVIOR AND COMPETITIVENESS BOTTLENECKS

The previous section describes the economic framework that influences firms’ export and investment decisions.

However, to go beyond a mere description of these policies and find out how they are effectively perceived at the micro level, a firm survey is needed. This survey also helps to determine the main obstacles that firms face when trying to be competitive, both in an open domestic market and in markets abroad.

A survey of 22 medium and large domestic firms was carried out in Venezuela in March 1993, in the framework of the ECLAC/UNDP Project RLA/88/039 ”Policies to promote technological innovation and international competitiveness in Latin American and Caribbean firms“. Eleven were garment firms and the others belonged to the petrochemical sector. Some of these last-mentioned were in fact groups that had more than one firm. The two sectors were chosen so as to include firms both from a labor-intensive sector and from a capital-intensive one. The survey’s goal was to determine the main constraints faced by these firms when trying to be competitive. It focused primarily on matters related to technology, human resources and exports.\(^\text{16}\)
This section analyzes the survey’s main conclusions in relation to firms’ export capabilities and the main bottlenecks they face. The obstacles investigated are those that can be found within firms themselves, as well as those related to export policies and infrastructure.

4.1. Firm behavior

Most of the garment firms interviewed export only indirectly, by selling small amounts to customers who come from abroad and take merchandise back to their country.

Some of the largest garment firms do export small percentages of their output, rarely more than five per cent. They do so through personal contact, while very few go through trading companies. Firms that imported inputs also obtained them directly without going through traders. The use of imported inputs was not as frequent as one might have expected, given trade liberalization. Some firms appeared to have difficulties in obtaining good quality imported inputs on a regular basis, mostly due to information problems.

Most garment exports go to countries in the Caribbean or in the Andean Pact. Several firms from this sector which used to export to the United States have stopped doing so, due to quality problems, changes in the exchange rate and the recession in that country. A few of the biggest firms are planning to increase and strengthen their exports to the Andean Pact countries, and only then try to sell to other countries in Latin America and the United States.

The petrochemical firms interviewed were obviously much larger than the garment ones, at least from the output point of view. They often had joint ownership with a multinational firm that enabled them to have access to technology. Several firms had scale sizes that were appropriate for selling in the Venezuelan domestic market but that did not allow them to be competitive on world markets. When these firms export, they generally send a greater percentage of their output abroad than the garment firms, from 20 to 50 percent. But several exported only marginal amounts, while many imported a substantial part of their inputs. The main markets for petrochemical exports are the Caribbean and the Andean Pact countries and other South American countries.

Both garment and petrochemical firms often believed that one of their main competitive advantages is Venezuela’s geographical location which gives them a convenient vantage point for exporting to the Caribbean, the United States, Central and South America. Fewer firms mentioned the advantage of having access to cheaper inputs.

Some of the competitive disadvantages frequently mentioned were human resource constraints, such as poor education and training institutions that do not prepare students for an industrial working environment, and relatively high labor costs; i.e. while wages are relatively low, entrepreneurs complain that labor costs are in fact high due to a rigid labor legislation and confrontational relationships with unions. Non-professional administration decision procedures are another weak spot. Firms often function on a family-based decision system.

The shortage of technicians in the Venezuelan labor market has been assuaged by a regular flow of immigrants, particularly from Europe, and by training offered by bigger companies. However, training efforts in Venezuela are relatively limited and ineffective. Training tends to concentrate on middle and higher-level employees and covers more administrative matters than productive aspects. It has been
estimated that the private sector spends 0.2 per cent of payroll on training; larger companies spend more, but not more than 0.5 per cent of payroll.  

Some firms stated that the availability of human resources was a stronger constraint than cost when it came to buying new technology. This has led to an overcapitalisation of the firms, along with very limited investment in human capital and R&D. While it was relatively easy for firms to buy machinery, as long as the exchange rate was overvalued, a few business managers mentioned that the main difficulty was finding qualified technicians able to repair the equipment.

In the course of the interviews, a topic that currently has a considerable influence on Venezuelan firms' investment decisions came up repeatedly: the problem of uncertainty. In effect, Venezuela is presently afflicted by a high degree of uncertainty.

In the first place, there is considerable political and institutional uncertainty. These circumstances are certainly not the best for firms deciding whether to invest in new export-oriented projects, nor for firms thinking of reorienting their activities (even if it would entail no or scant new investment).

In addition to this state of affairs, there is also substantial ambivalence surrounding trade liberalization. There does not seem to be a consensus about the irreversibility of this process, and there are important political sectors that claim that the country should back down, at least to some extent, from the reforms carried out in 1989. Rather, they expect specific (sector or producer-based) exceptions, following the country's tradition of business lobbying.

This uncertainty, along with high interest rates, is an added constraint on entrepreneurs' decision to transfer resources to the production of tradeables. Most of the firms interviewed stated that they had no major investment plans in the near future and that they would only carry out quick-yielding projects. They are generally adopting a wait and see attitude before taking decisions about future investments.

Moreover, there is a strong distrust between government officials and the private sector. Public officials often believe that most entrepreneurs are accustomed to profiteering from import-substitution protection. Meanwhile, many business people feel that the government opened the economy recklessly, without thinking about the consequences. They also complain about the lack of industrial restructuring projects that could have helped firms in the transition.

The survey showed that in spite of the fact that there were important differences in the export behavior of garment firms as compared to that of petrochemical firms, there were many similarities in the main obstacles they face when trying to export.

The obstacles can be classified in three groups, as discussed below: those that can be found within firms themselves; those that relate to export promotion policies and institutions; and those that arise from export infrastructure.

4.2. Obstacles within firms

Most of Venezuela's entrepreneurs have been accustomed to producing for the domestic market with very little competition. They are not used to exporting and their firms are not organized to do so.
There have serious quality problems, and several firms mentioned losing export contracts due to difficulties in meeting deadlines.

In the past, many firms could sell their products easily in the domestic market and rarely had to worry about adapting their products to consumers' tastes, while they only sent abroad occasional surplus output.

The country's exports increased when domestic demand dropped and slowed down at the end of recessions. Substantial incentives also boosted exports for a few years until subsidies were eliminated in 1991.

This firm behavior was rational while the domestic market was strongly protected. However, circumstances changed with trade liberalization in 1989. Since then, firms have been facing growing competition in the domestic market, and this has been particularly strong since 1991, as importing know-how improved. The rise in competition comes not only from increasing imports, but also from other domestic firms trying to preserve their market share.

Some large companies now have serious scale problems, since their production scale was function of the size of the domestic market, and not of the optimal plant size from a technical point of view. Costs are frequently higher than those of comparable firms in other countries.

There is a similar problem with firms that have a high degree of vertical integration and produce most of their inputs, a strategy that made sense under extreme import-substitution. They now find that they can no longer sell the inputs they produced and did not use in the production process. Meanwhile, their final products have lost competitiveness in the domestic market because the inputs they manufacture themselves are too costly.

Most of the entrepreneurs interviewed have expressed interest in starting to export or increasing exports in the future. However, most firms' first priority is strengthening their competitive edge in the domestic market and surviving trade liberalization.

This strategy is based, to some extent, on the steady increase in domestic demand during 1991 and 1992, which has allowed many firms to survive in spite of strong import competition and a decrease in their market share. Sizable profit rates and a large domestic market, along with the foreign currency availability resulting from oil exports, combine to create a powerful anti-export bias.

However, the strategy is also based on entrepreneurs' belief that their products, with their current characteristics, would not be competitive on world markets. The main difficulties appear to be related to quality, adapting products to consumer tastes in export markets and meeting deadlines.

Many entrepreneurs have a considerable lack of knowledge about potential export markets, what the procedures should be and how to establish contacts with traders, both for importing and exporting purposes. They are also inexperienced in hiring consultants to assist them with the production process and product design adapted to world markets.

They are wary of adapting their products' characteristics to satisfy foreign consumers' tastes because they are afraid they will not be able to sell them in the domestic market, if export possibilities
fail. Foreign markets appear to be much riskier than the domestic one, and the costs of initiating exports too high.

Firms have not joined together in export associations that would allow them to jointly produce and export goods of standardized quality, in spite of some efforts by ICE in this direction.

4.3. Export promotion incentives and institutions, as viewed by firms

The performance of export promotion incentives and institutions was assessed throughout the survey, as well as during interviews with civil servants and business association representatives.

4.3.1. Export promotion incentives

The rebate designed to promote agricultural products was unimportant to the firms surveyed. However, the interviews showed that it may be the only rebate currently in effect.

The drawback that allows firms to be reimbursed for tariffs paid when importing inputs for export manufacturing does not exist for all practical purposes. Export promotion is not a priority for the government and export incentives have a bad reputation given the substantial abuses the private sector incurred in when using them in the past. However, the main obstacle for this incentive’s utilization is the government’s financial hardship. Many firms are still waiting for the administration to pay them the bond from the export subsidies scheme cancelled in 1991. Those firms that are currently receiving the payments have seen their value dwindle, owing to inflation.

An incentive that is used by some of the firms surveyed is the Special Temporary Admissions System (ATPA). It appears, in fact, to be the only export-promotion instrument currently employed by companies from the industrial sector.

Several of the entrepreneurs that import inputs through ATPA believe that it does not function properly and are discouraged by the amount of red tape required to complete an application. The delay in approval also was a source of complaints, although it is somewhat shorter for firms submitting claims regularly.

While there are no data on the amount of exports and the size of firms that benefited from ATPA, only the larger ones in the survey mentioned using it. This result is consistent with a procedure that is quite complicated, requires a lot of paperwork and very careful accounting procedures, and would only make sense for a firm that exports large amounts regularly.

The other two export-promotion incentives that are set forth in government publications - one that allows firms to replenish inventories used for producing exports and another that authorizes bonded warehouses - do not seem to be currently employed.

Although the survey did not include export processing zones, it appears that the Zona Franca de Paraguáná is used more frequently as a port of entry to the country for imported goods than as an export platform.
Despite the fact that the government did set up an Anti-Dumping and Subsidies Committee, there have been hardly any complaints filed. This is due, to some extent, to private-sector agents’ lack of knowledge on the legislation, as well as to their inexperience in this matter.

However, the high cost of doing research in a foreign country so as to gather evidence that dumping is effectively taking place, as well as the distrustful relationship between the private sector and the government, also contribute to firms’ lack of initiative in this matter.

4.3.2. Export promotion institutions

Some entrepreneurs stated that while ICE does the best it can, given the current circumstances, the trade promotion institution’s limited resources restricts its ability to effectively help exporters. They claim that a yearly budget of US$300,000 for promoting Venezuela’s products in trade fairs abroad and subsidizing firms’s participation in these fairs is insufficient.

Moreover, many executives complain that ICE’s main goal has recently been to negotiate free-trade agreements, without consulting consistently with the private sector. There is concern about the consequences of a free-trade agreement with Mexico, if it is not properly negotiated.

FINEXPO extended credits for Bs 4,503 million in 1992 (around US$66 million); Bs 768 million went to direct loans, both for preshipment working capital (28.6 per cent) and for postshipment credit to importing firms overseas. The remaining funds, Bs 3,735 million, went to indirect export financing through foreign banks, while a very small amount was loaned through domestic financial institutions.

FINEXPO has been unable to provide export firms with substantial financial support and its coverage has decreased in recent years. While it financed 3.9 per cent of non-traditional exports in 1989, in 1991 it financed only 2.88 per cent. Preshipment working capital credit was used by only ten firms in 1991.

A few entrepreneurs that had received export credit from FINEXPO complained about the delays between the time financing is granted and when it is effectively paid, claiming that the loan is reduced by inflation. Moreover, the interest rate charged by FINEXPO, from 90 to 100 per cent of the one charged by commercial banks, is far from being currently competitive in world markets.

FINEXPO’s current situation is uncertain. Since the government approved the creation of the Foreign Trade Bank, with which FINEXPO would merge, its financial resources have been reduced. However, since Congress has yet to approve the Bank’s creation, for all practical purposes the institution is on hold.

These circumstances have constrained the institution’s financial resources and its ability to extend bigger loans. There have been numerous cases in which Venezuelan firms have won competitive biddings in other Latin American countries, but then have had to withdraw for lack of credit support.

Export insurance was provided by La Mundial for a few of the firms interviewed throughout the survey. These firms were satisfied with the insurance company’s services.
Forty-five firms bought export credit insurance in 1991, down from 79 in 1987. Most of these were big companies that have no problems in providing collateral. Many of them are from the petrochemical industry. *La Mundial* executives believe that one of the main obstacles to providing services for more firms is the expense of checking on importing firms’ credit rating.

Promexport is widely known, but the general feeling is that it still has to fulfill its goals of providing information to firms.

Firm executives claim that there is a considerable lack of information on export markets, and that Promexport and ICE are unable to provide them with substantive support in this matter.

Interviews also showed a significant lack of information on the country’s export procedures. Many firm executives believe that exporting still requires special permits.

This confusion is not limited to the private sector. It is widespread and public officials themselves are often misinformed and provide incorrect information.

Discussions with public officials in export-promotion institutions established that although many of them are dedicated to their work and committed to trying to promote non-traditional exports, the lack of a clear policy designed to achieve this goal, as well as the scarcity of funds available for this purpose, seriously hinders their work.

The interviews demonstrated that Venezuela has inadequate support for non-traditional exports, and that the few instruments that are of some use are geared towards larger firms, owing to some extent to the intricacy of the procedures involved in using them.

4.4. Export infrastructure

Customs is undoubtedly one of the main obstacles to a firm’s desire to import and/or export. It is plagued with unpredictable delays that result in shipments being missed, particularly for firms that are using "ATPA", the only export incentive currently in effect for manufacturing firms.

There is an important amount of red tape required for any customs formality. The lack of information among customs officials is widespread and many of them continue demanding that exporters fulfill requirements that are no longer valid, such as proof of being registered as an exporter. Since there are no clearly established procedures, the level of discretionality is very high and allows rampant corruption.

The risk of goods being stolen while in customs is quite high. Medium and small firms are particularly vulnerable because they frequently use boxes, rather than containers, for importing and exporting.

Some progress has been made towards automating customs services. However, there has been an additional delay owing to the decision to discard the French system that was being installed and to replace it with one that is compatible with those used by Colombian and United States customs.
Communications difficulties are also critical. Venezuela's national telephone company was privatized in recent years, but its deficient performance is a significant bottleneck for firms. Company executives often deplore having lost export clients after these have tried repeatedly to get through to their firm to place an order and have finally given up, deciding instead to import from another country.

Transportation networks connecting Venezuela with some of its main markets abroad, such as the Caribbean, are inadequate. Shipping and airline schedules to those destinations are neither frequent nor regular enough.

Colombia is an exception, since flight frequency increased after a open-skies agreement was signed between the two countries. But entrepreneurs complain about difficulties in bulking cargo, crowded roads and long waiting lines at the border.

Public utilities continue to be very inefficient, in spite of price increases in the past years. Firm executives claim that they would not mind paying the rates if the services provided were commensurate.

5. CONCLUSIONS AND POLICY RECOMMENDATIONS

In order to be competitive on the domestic market and, in some cases, on world markets, Venezuelan manufacturing entrepreneurs need to reorganize their firms and upgrade their production and marketing capabilities.

One of the first conditions for firms to be willing to invest in upgrading is a substantial abatement of uncertainty. The current climate of political uncertainty is the main obstacle to investment by the private sector.

However, achieving political stability will not be sufficient. The uncertainty surrounding trade liberalization must also be eliminated. There must be clear signals that there will be no drawing back and that trade reforms will be maintained in the long term. This is necessary for trade reform to be credible and for firms to be willing to invest in long-term upgrading projects.

The permanence of trade reforms should be accompanied by specific policies to help firms adapt to the new economic environment and be competitive in the domestic market, while some of them could also strive to be competitive in world markets.

Although some of the firms surveyed are on the right track, the efforts required from firms themselves must not be underestimated. It will take substantial changes to enable Venezuelan manufacturing companies to survive competition from imports and to produce world quality products. Many of them will fail in the process.

Firms must bear most of the cost of upgrading. However, they will also need substantial support if potentially competitive firms are to survive. The role of policy is to enable these firms to go through the transition, remain alive and become competitive. Industrial restructuring programs, as well as export-promotion policies and expansion of export infrastructure are essential to this upgrading effort.
5.1. Industrial restructuring

The government should design industrial restructuring programs to upgrade firms' competitiveness and promote their transition from a behavior that made sense in a protected market to one that allows them to be competitive on an open domestic one.

Firms, whether they plan to export or not, need assistance in upgrading their competitiveness. They need support in buying good quality inputs at world prices; in designing their products according to the industry's latest standards; in organizing their layout and production process; in quality control procedures, as well as product certification assistance. Marketing support is also needed.

Human resources and technology are two key areas that should be addressed in these restructuring programs. Training programs must be designed, and first priority must be given to providing managers with the skills required to upgrade their firms. Start-up funds for centers providing technological, as well as training and design assistance to firms in a specific sector should be provided, as long as participating firms are committed to contributing matching funds.

Labor legislation rigidities should be reviewed, since there appears to be considerable room for improving workers' and firms' current situation.

Restructuring projects could be carried out in a few selected industrial sectors that would be chosen in agreement with the private sector for their potential competitiveness and dynamic entrepreneurs. They should have a relatively short time span, so that firms effectively view them as an upgrading reinforcement and not a subsidy that can be indefinitely renewed though lobbying efforts.

These projects should seek to progressively upgrade firms' competitiveness, following examples from other countries, such as Malaysia. The governments in these Asian countries carried out upgrading policies that began by promoting labor-intensive activities, but then moved on to more capital-intensive activities, thanks to policies that emphasized investment in human capital and technological know-how.¹⁸

What is required for projects to succeed is a close and systematic collaboration, including a financial one, between the administration and the private sector. These restructuring programs could serve as showcases for enhancing other sectors' competitiveness, as well as models for future programs in other industrial sectors. They should include resources for financing consultants and require matching funds from firms buying their services.

5.2. Export Promotion

Export-promotion policies are essential in Venezuela because the country's extraordinary competitive advantage in oil-based products leads to an appreciation of the real exchange rate, rendering other potential exports less competitive than they would be otherwise. Due to this "Dutch Disease Syndrome", the country concentrates its exports in goods in which it has extraordinary competitive advantages, such as oil and aluminum, and investment in non-tradeables is fostered, while other exports are discouraged.

In the absence of effective export-promotion incentives, the country's exports will continue to be made up essentially of natural-resource intensive products with low processing levels, primarily oil-based. Meanwhile, manufactured goods with higher processing levels will still constitute a very minor share of
exports and will be primarily made up of the surplus left over from the domestic market. Venezuela will continue to depend mainly on the fluctuations of the price of oil, while the opportunity of creating more productive and higher-paying jobs will have been lost.

Promoting exports is also important because exporting induces firms to upgrade their production and marketing capabilities, thus improving their competitiveness on the domestic market. Firms that have been exporting for some years claim that doing so enabled them to get on an learning path that substantially accelerated their upgrading process. Trading firms appear to have been particularly helpful in this progression.

First-time exporters have high costs, run definite risks, and provide substantial externalities that benefit late-comers and the economy as a whole, as selling in foreign markets becomes more commonplace. These externalities require active government support for pioneer firms through export-promotion incentives and an upgrading of export infrastructure.

Firms that are planning to export are particularly in need of assistance in the areas mentioned in the section above, since competition in exports markets is much harsher than in the domestic one. Improving their capability to meet international quality standards and deadlines, as well as in marketing abroad, through traders or directly, is crucial.

Special matching funds could be set up for financing consultants to provide assistance to firms, or groups of firms, that are starting to export. Product design and specification, professional managerial practices, production process organization, quality control, meeting deadlines, and marketing abroad should be some of the topics considered.

Training managers to export should be a top priority since their change of attitude and their awareness of export requirements can initiate changes in the rest of the firm.

The survey showed that Venezuela’s export-promotion incentives are deficient. The gap between the incentives such as they are described in the legislation and how they are effectively applied justifies firms’ perception that the government is uninterested in promoting non-traditional exports. The lack of information and assistance for exporters, as well as the meager budget for export promotion activities confirms the firms’ viewpoint.

In addition to the government’s lack of commitment concerning exports, export-promotion institutions are also sapped by the public sector’s widespread institutional weakness. The traditional practice of using public employment as a political instrument and low wage levels have resulted in a pervasive lack of skills, as well as in inefficient government institutions, undermining public administration capability.

The country’s export-support system, i.e., export incentives as well as export-promotion institutions, must be overhauled if firms are to be persuaded to make long-term investments in export-oriented activities.

There should be an explicit, consistent export-promotion policy with long-term goals, as well as evidence that the government as a whole will have the political will to effectively carry it out, as one of its priorities. Economic policies in other areas should be compatible with export-promotion goals.
Export incentives should be moderate, be granted on a temporary basis in exchange for specific performance goals, and decrease over time. It is important that it is made clear from the beginning that benefiting from export incentives is time-bound. This will enable firms to decide their investment knowing that export incentives will help them to become exporters, but that they will no longer be available after a given period deemed sufficient for upgrading potentially competitive firms.

Priority should be given to providing financial support for new exports. This includes not only exporting new products, but also exporting goods to new markets.

Efforts should be made to establish simple and transparent procedures, and to eliminate discretionality where possible, so that export-promotion incentives are corruption-proof. These incentives should be regularly appraised to insure that they do benefit a large number of firms and that they have encouraged exports that would not have taken place otherwise.

Some degree of selectivity, within a wide range, is indispensable for export-promotion policies to be successful. A wide range of support is not enough; target markets must be narrowly defined.

The project of setting up a foreign trade bank should be carried out and it should bring together all the institutions that are currently involved in export-promotion matters, such as financing, insurance, information on foreign markets, consolidation of consignments of cargo, exhibitions in trade fairs abroad, promoting export products, etc. It should work closely with exporters’ associations and other boards of trade.

The bank’s financial resources should allow it to be self-financed, as is the case for the Mexican Foreign Trade Bank, Bancomext, and not depend on the public sector’s regular budget. This bank is endowed with resources that it uses to provide exporters with financial support, as well as substantial assistance in other export-related areas. Rates charged for export financing should be competitive with those on world markets.

These resources should also enable the Foreign Trade Bank to hire highly qualified personnel and provide them with systematic training, so as to strengthen its institutional capability.

This institution should be solely responsible for administrating export-promotion incentives. If possible, present obstacles to utilization of the drawback should be lifted and firms should be allowed to start using this incentive. Another choice, maybe preferable in the short run given inflation and the public sector’s financial constraints, would be to broaden access to ATPA by modifying its procedures to make them more flexible, and thus allow this incentive to be used by a larger number of firms.

However, even if the financial cost of reestablishing the drawback for all non-traditional exports is thought to be unsustainable, given Venezuela’s current public-sector financial difficulties, a drawback should be instituted for emerging exports, so as to promote new non-traditional exports. This drawback, that would apply only to products whose exports in the past year were below a given threshold, is based on one currently used by Chile. This would enable the administration to send a signal to the private sector that it is serious about its commitment to promoting non-traditional exports.

The red tape required for most export-support procedures should be as simple as possible, and information about these should be widely disseminated. This is one of the measures that would enable smaller firms to try to export.
The above-mentioned foreign trade bank should work closely with trade and exporters' associations in designing time-bound projects to promote exports in narrowly defined promising sectors. Projects must include export goals and regular evaluations.

Medium and small firms often have difficulties in meeting collateral requirements when applying for export loans and insurance. A special fund could be set up to help these firms when applying for the first time. A good credit history should enable them to face lower requirements on subsequent loan applications.

Arrangements must be set up to enable more firms to have access to export insurance, particularly medium and smaller firms. The high cost of obtaining information on the creditworthiness of firms in other countries could be reduced by joining a regional information network.

Associations of medium-size firms to produce exports of standardized features should be promoted. ICE's current efforts in this direction should be pursued with the support of other export-promotion institutions, such as AVEX and Promexport. Sectors should be chosen for their potential competitiveness in world markets.

Government support in establishing long-term relationships between domestic firms and developed country buyers, within specific markets, allows companies to acquire specialized information on product requirements and production techniques.

The foreign trade bank should work closely with the private sector in organizing commercial trade exhibitions abroad and promoting Venezuela's products in foreign markets. A reform that would make commercial attaches abroad accountable to the foreign trade bank, and no longer to foreign-affairs authorities would support efforts in this direction.

The survey showed that one of the most important export bottlenecks is information. The lack of information allows customs officials to have a high degree of discretionality. It also discourages firms from contemplating exporting.

Therefore, one of the main goals of this institution should be to provide information on export-related matters, such as export formalities, tariffs and non-tariff barriers in foreign markets, potentially attractive export markets, product specifications, conditions required to have access to preferential clauses in trade agreements, etc.

There should be widespread dissemination of information on export-promotion policies, export procedures and exporting's potential advantages. A highly publicized campaign about firms that are successful exporters would make it possible to use them as showcases. This propagation of export-related topics should also take place in seminars aimed at private entrepreneurs, as well as at civil servants.

The administration should actively promote filing of anti-dumping complaints in those sectors where it is obvious that there has been unfair competition and that it has damaged domestic firms. Efforts in this field, as well as in promoting fair competition practices within the country itself, would show that the government has a comprehensive economic program. They would also improve relations between public and private sectors.
Mexico has recently enforced firm anti-dumping procedures to stop imports from China from doing considerable damage to its garment and toy industries. There are definite circumstances in several sectors of Venezuelan industry that would justify imposing similar countervailing duties.

Systematic consultations between government officials and trade association representatives on free-trade negotiations would also improve relations between the private and public sectors and could certainly reduce resistance to agreements in this field.

5.3 Export infrastructure

Export incentives are not the only issue that must be tackled when creating appropriate conditions for firms to export. Export infrastructure also plays a key role in firms’ competitiveness.

Firm executives interviewed stated that customs was one of the most discouraging bottlenecks for importing or exporting. Customs reform must be carried out and should include compulsive training for customs officials on new regulations. Public dissemination of export procedures would also contribute to decreasing discretionality, and thus reduce corruption. A shortening in customs procedure delays would reduce the added costs they entail for firms and would also hamper theft.

Basic communications systems must be substantially upgraded to enable firms to deal with clients abroad. Colombian and Venezuelan governments should invest in improving the roads linking their countries, and continue current efforts to allow a single customs station at the border.

Attempts should be made jointly by the public and the private sectors towards setting up associations that will enable firms to consolidate the cargo they ship abroad. Similar efforts should be made to increase the frequency of shipping schedules to important markets, such as the Caribbean.

Export-promotion policies, institutions and export infrastructure are essential in supporting firms’ export attempts. As long as Venezuelan firms do not have access to export conditions similar to those available to firms in other countries, such as Colombia and Mexico, they will be at a competitive disadvantage and will prefer to concentrate on the domestic market. The country’s exports will then continue to be almost exclusively oil-based products.

However, Venezuela’s current reliance on oil exports, and, to a lesser extent, on aluminum exports, makes it extremely vulnerable to fluctuations in these products’ world markets, with significant consequences for the economy as a whole.

To counter this vulnerability, the country needs to systematically increase its non-traditional exports. It must go from exporting occasional surplus to steadily increasing the value, as well as the diversity, of non-oil exports. Exports with higher value added must have first priority.

Experience in recent years, in Venezuela as well as in other Latin American countries, has shown that trade liberalization reforms by themselves are insufficient to promote the growth of non-traditional exports with increasing amounts of value added.

If Venezuela wants its manufacturing firms to be competitive on world markets, it must provide them with an export support system that is at least equivalent to those in other countries.23 Substantial
efforts are needed for the country’s export-promotion policies, institutions and infrastructure to be adequate.

The increase in the private sector’s participation in non-traditional exports, as well as the stability that these have shown - in spite of a total lack of export-promotion incentives, a growing domestic market and a unfavorable exchange rate, all of which add up to a strong anti-export bias - show that Venezuela has a potential for increasing non-traditional exports if appropriate policies are followed.
Notes


11. ECLAC (1990): Changing Production Patterns with Social Equity, Santiago, Chile.


16. The survey was carried out by ECLAC staff members Mr. Wilson Peres, Chief Technical Adviser, Ms. Martine Guerguil and the author. Mr. Peres was responsible for the technology-related issues, Ms. Guerguil for the human resources ones and the author for the export ones.


21. The Interamerican Development Bank (IDB) is establishing a regional information network on export financing (Boletín ALIDE, Asociación Latinoamericana de Instituciones Financieras de Desarrollo, march-april 1993).

22. Egan, Mary Lou and Ashoka Mody, op. cit.

23. Keesing, Donald B. (1979): *Trade policy for developing countries*, Washington, World Bank Staff Working Papers, Number 353; Mr. Keesing points out that countries wanting to promote manufactured exports should have export-promotions measures that are at least similar to those of other countries that are serious about promoting manufactured exports; if it this is not done, the country is putting its exporters at a relative disadvantage.