THE POLITICAL ECONOMY OF TRADE POLICY IN BRAZIL

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1 INTRODUCTION

Brazil is a late comer among developing countries in opening up its economy. Its trade policy pertains to the import substitution paradigm despite the fact that Brazil has a large and diversified industrial base and that import substitution dynamics has lost traction since the 80s.

By contrast with other large developing economies, the last trade liberalization episode in Brazil occurred in the late 80s and early 90s. Since then, the levels of tariff and non-tariff protection have not been reduced – on the contrary, non-tariff barriers have significantly increased in the last 15 years. Brazil completely ignored in its trade policy the deep changes that have affected the world economy since 1995.

Brazil is among the least active countries in the arena of preferential trade negotiations. Its trade policy has relied almost exclusively on the multilateral track of negotiations and the country remained at the margins of the boom of preferential trade agreements during the 90s and the 2000s. Beyond Mercosur and other agreements with South American countries, Brazil has a few FTAs with economically irrelevant partners and very limited trade agreements (based on fixed preferences) with other emerging economies (SACU, India).

Indeed, Brazil's foreign policy paradigm, dating back to the 1960s, was only marginally affected by the liberalization trends of the 1990s. Trade strategies continued to be designed in accordance with the broad political framework defined by the basic assumptions of the foreign economic policy put in place during the long period of protectionist industrialization. Hence, it is not by chance that, despite the fact that Brazil entered into many trade negotiations during the late 1990s and the beginning of the 2000s, these have generated few economic results.

To sum up, Brazil has not changed its trade policy in the last 25 years and even the unilateral liberalization episode of the early 90s has not challenged the main elements of the protectionist industrialization strategy. The effects of that episode continue to be at the stage of trade policy debate in Brazil, with some groups arguing that it contributed to jobs destruction, while others stating that it was crucial for the productivity growth and industry modernization in the second half of the nineties.

The main question this research aims to answer is "*Why protectionism is so resilient in Brazil?*".

Two domestic factors seem especially important in explaining the resilience of protectionism in Brazil's trade and industrial policies. The first one refers to the *weight of non-economic sources of preferences* (Jamal and Milner, 2013*) or ideas* (Rodrik, 2013) in shaping public policies. Here the central role of ideas points to the resilience of the paradigm of foreign economic

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policy consolidated during the period of import-substitution industrialization. This paradigm survived the liberalization episode of the 1990s and remains the hegemonic set of ideas in the country applying to policies dealing with Brazil's integration to the world economy.

Incumbent interests seem to have also accounted for the continuity and resilience of the trade policy paradigm in Brazil. The relevant point here is the primacy that import-competing sectors managed to maintain in the area of trade policy vis à vis the exporting sectors and interests, from the liberalization episode of the 90s' until today, and this despite growing evidence that the industrial sector lacks competitiveness and is gradually loosing relevance in the Brazilian economy.

To answer the main research question, this paper will address the following issues:

1) Which are the sectors favored by the structure of import tariff and other trade and industrial policy instruments? Have there been any major changes in the structure of protection since the beginning of the nineties in Brazil?
2) Has the manufacturing sector been able to be more influential than other sectors in Brazilian trade policy?
3) If the answer to the last question is positive, than why have manufacturing interests been successful in exerting influence in trade policy, even when this sector is shrinking in terms of its share in Brazil's GDP? How do different sectors exert their influence in trade policy (agribusiness and services)? Have labor unions been active in influencing trade policy in Brazil?
4) Which is the role of the institutional architecture in shaping Brazil's trade policy? Is it functional to the capture of trade policymaking by some sectors?

To address these questions, the paper is organized as follows. Section 2 analyzes the evolution of the structure of Brazilian economy and of the trade policy instruments affecting the different productive sectors with the aim to set the scene for the discussion about the weight of interests in shaping trade policy presented in following sections. It also summarizes the recent trends and debates involving trade policy in Brazil and its main dilemmas. Section 3 describes the institutional stage of the trade policy and the main public and private players that interact in the trade policymaking, stressing their motivations, the factors that were behind their entry in the trade policy arena and the modes of organization they choose to influence and participate in the trade policymaking. It also identifies and analyses the main drivers of the setting and the evolution of the institutional framework of the trade policy. Section 4 addresses the interplay between institutions and (public and private) players, summarizing the trajectory of trade policymaking since the unilateral liberalization and discussing the political economy's dynamics that drove this trajectory. In addition, this section presents four episodes on Brazil's trade policymaking, selected for "revealing" important features of the political economy of trade policy in Brazil. Section 5 presents a brief econometric exercise aimed at testing whether the main conclusions of the previous analysis are supported by the data, especially the ones related to the importance of sectoral lobbies and the prevalence of the manufacturing sectors' protectionist interests to explain the structure of the tariff protection. Finally, Section 6 synthetizes the main conclusions of the paper and includes some recommendations for an improved institutional arrangement as far as trade policy is concerned.

2 TRADE POLICY IN BRAZIL: MAIN FEATURES, RECENT EVOLUTION AND CURRENT POLICY AGENDA

Protectionist tradition has been hegemonic in Brazil for the last eighty years, among policy makers, business and trade union associations. A set of import-competing industrial sectors benefit from high levels of protection and make intense use of the mechanisms of public policy (high tariff rates, special import regimes, credit incentives etc.). Although with lower import tariff rates compared to those they enjoyed before the 1990s, these sectors are among the most protected before and after the unilateral trade reform.

Most of these sectors also concentrate a large share of the stock of foreign direct investment in Brazil. They played the protagonist role in the political economy of trade policy before the unilateral liberalization of the early 1990s and were able to keep this central position afterwards. The sources of power and influence of these actors arise from different factors, as the large number of workers, the ability and resources for lobbying, the Brazilian preference for "high value added" industries etc.

This influence in trade policymaking is rooted in the successful experience of the Brazilian industrialization. The foreign policy model that complemented domestic policies was historically oriented by the guideline to "neutralize" the outside factors perceived as capable of hindering the objectives of national economic development and the consolidation of industrial capacity. These were considered crucial conditions for ensuring that the country could operate autonomously in the international system.

These features were only partially impacted by the trade liberalization of the 1990s and these domestic conditioning factors of trade policy continued to prevail without any ambiguity during the phases preceding and following the "liberal decade".

Trade liberalization put into practice by Brazil at the start of the 1990s promoted a significant reduction in the levels of tariff rates. Nevertheless, it generated a structure of protection, based on tariff escalation, with higher rates of protection for the same sectors favored by trade and industrial policies of the previous decades under the import substitution strategy: automobile, electro-electronic, textile and apparel, and capital goods, among others. Many of these sectors also benefitted from the setting of new sector regimes that provided incentives for investment and production.

The emergence of a competitive and export-oriented agricultural sector from the beginning of the 21st Century on, with offensive interests and positions in trade negotiations, could have challenged the protectionist tradition of Brazilian trade policy. The trade-off between agriculture and industry has become a distinctive feature of the Brazilian trade negotiation strategy – for example, in the negotiations of the EU-Mercosur trade agreement. Nevertheless, this process has not deeply impacted the trade policy and its making in Brazil, with the agricultural sector focusing on trade negotiations (multilateral or preferential) and showing scarce interest in challenging the unilateral protectionist policies affecting manufactured goods. Moreover, there are several subsectors of the Brazilian agriculture (non-exporters) that call for protection against imports.

The services sector, which accounts for more than 70% of Brazilian GDP, has also been sheltered from import competition. The aggregated productivity level of the Brazilian services sector is relatively low, compared to other developing countries: it is similar to the ones calculated for Colombia and Peru, but it is lower than those for Mexico, Chile and India. Moreover, it has been stagnated in the last decades (CNI et al., 2016). A set of regulatory barriers and a tax regime that discriminate against imports are in place and increase the costs of imported services or, in some cases, impede the participation of foreign providers in the domestic market. Even those sectors that exports – such as financial services, IT and construction services – are relatively sheltered from imports competition.

2.1 The evolution of Brazilian economic structure

By the end of the forties, agriculture accounted for a little more than 20% of the Brazilian GDP, while the manufacturing's share was around 19%, with the services sector participating with more than 50%. The vigorous industrialization process was partially interrupted in the mid-sixties, but recovered impetus until the mid-Seventies, when industry reached 32% of GDP. The deindustrialization process began in 1980 and, while showing some rises and falls, industry's share of GDP has been undergoing a downward trend (Bonelli, 2013). During this period, Brazil adopted a set of industrial policy measures aiming to counteract the deindustrialization tendency, without success. In 2017, the industrial sector participation in the Brazilian GDP was only 11.8%.

In the opposite direction, the performance of the agricultural sector, along the years of heavy import substitution policies, was poor. The lack of dynamism was a result of the combination of high costs of inputs and machinery – due to the import barriers – with the migration of production factors (capital and employment) from the countryside to the cities stimulated by industrial policies. Many other distorting policies – prices controls, state monopolies in the trading of some agricultural commodities etc. – contributed to jeopardize the productivity of the sector.

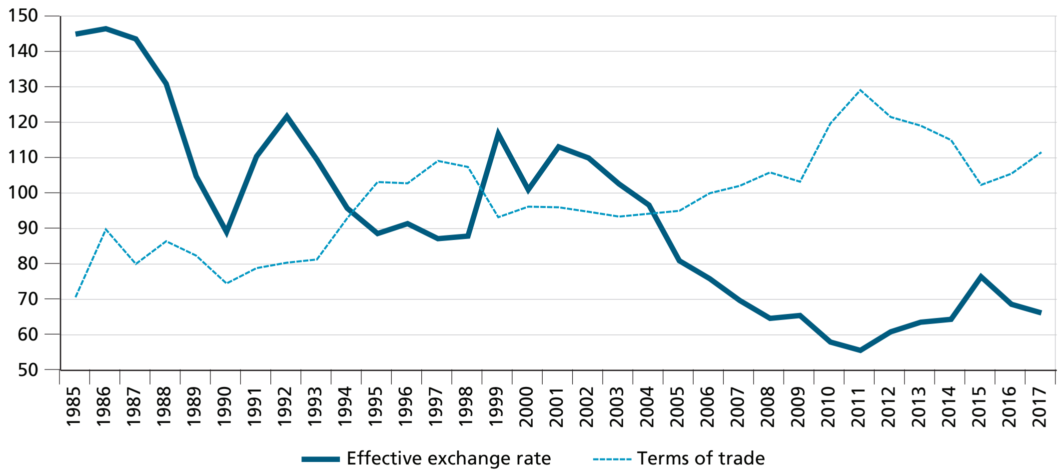
The trade liberalization episode of the 1990s, the macro and microeconomic reforms of the first half of that decade – with the end of price controls and state monopolies that affected the agribusiness exports – and the results of a technological research system for the sector led by EMBRAPA allowed for the flourishing of some very competitive agribusiness segments in Brazil. The results of this revolution were the rise of a very competitive agribusiness sector, with increased participation in Brazilian exports (Lopes et al., 2013).

Combining the good performance of agricultural productivity growth with the surge in international commodities prices of the 2000s, the exports of this sector gained traction and increased its share in Brazilian exports, reaching 17% of total exports in 2017.[7] Despite this good performance, the agriculture sector did not increase its share in Brazilian GDP, which remained stable around 5%.

The main macroeconomic consequence of the Brazilian agriculture good performance – combined to the surge in mineral exports – was its impacts on the exchange rate. The terms of trade increased 38% between 2003 and 2011, while the effective exchange rate appreciated by 46% in the same period. The appreciation of Brazilian currency spurred the demands of some industrial sectors for increased protection against imports, particularly after the international economic crisis. Brazilian government answered by deploying a set of industrial policy mechanisms, mainly in the form of fiscal and credit subsidies based on local content requirements, and intensifying the use of antidumping measures. As mentioned above, such incentives were not sufficient to counteract the deindustrialization trend.

7. See: <http://www.funcexdata.com.br/>.

FIGURE 1
Effective exchange rate and terms of trade in Brazil (1985-2017)



Source: Funcexdata.

The services sector has been accounting for the major part of Brazilian GDP since the beginning of the 20th Century. Its share was above 50% at that time and sharply increased along the period of deindustrialization beginning in the second half of the eighties. Services sector reached 73% of the GDP in 2017.

The participation of the services sector in Brazilian exports is incompatible with its economic size. The share of services in the country's total exports (goods and services) went from 8% in 1980 to 14% in 2002, oscillating around 15% since then.

2.2 Main features of Brazilian trade policies

Until the beginning of the trade liberalization process in 1988, the tariff structure in place in Brazil was practically the same as the one implemented 30 years earlier, when the import substitution strategy was at early stage. At the end of the 1980s, the import penetration coefficient hardly passed 5% (and 3% in the manufacturing sector). The liberalization began cautiously in 1988 by eliminating the tariff redundancy, suppressing certain surcharges applicable to imports and partially eliminating the 42 special tax regimes applied to imports in force. These measures decreased the average nominal tariff rate from 57.5% in 1987 to 32.1% in 1989.

Unilateral trade liberalization was extended in 1990 and concluded at the middle of 1993, eliminating the extensive range of non-tariff border barriers and reducing the average tariff to around 13%. In 1994, when "Plano Real" was put into effect to fight hyperinflation, certain additional tariff reductions were applied and the average nominal tariff rate that year dropped to 11.2%.

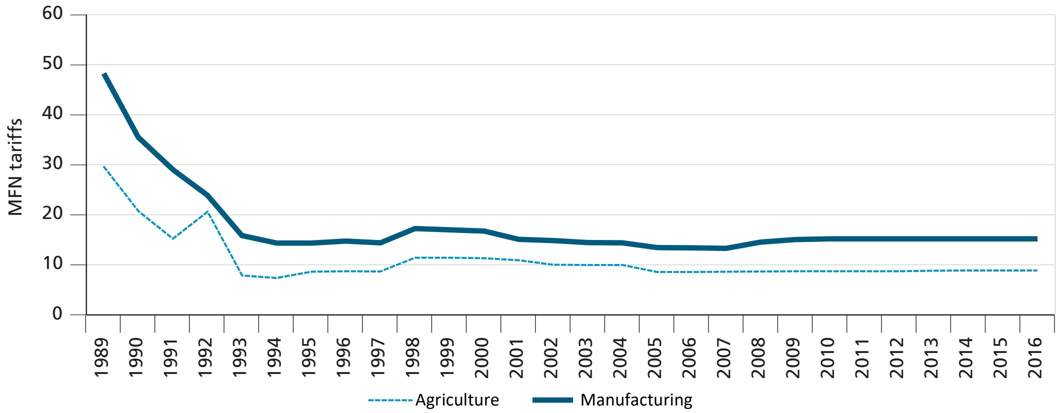
Currently the simple average nominal tariff rate is at 13.4%. As shown in figure 2, the average tariff rate for agricultural goods is lower than the one applied to manufactured goods. Despite the lower level of protection observed in the agricultural sector in Brazil, maximum tariff for some goods in this sector reaches 55% (for grated coconut, as instance),[8] while for manufactured goods maximum tariff rate is 35% for automobiles, textiles, toys, furniture and shoes.[9]

8. See: <https://is.gd/msTAgP>.
9. The maximum tariff rate bound by Brazil at WTO for agricultural products is 55% while for manufactured goods is 35%.

FIGURE 2

Brazilian average MFN tariffs: agriculture and manufacturing goods (1989-2016)

(In %)



Source: WDI/World Bank. Available at: <https://is.gd/MFGfp4>.

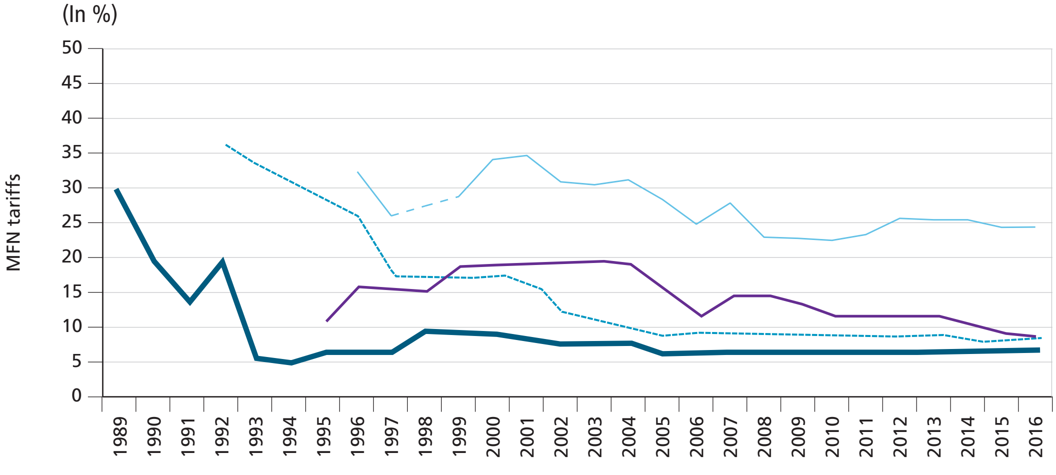
Compared to other emerging economies, such as China, India and Mexico, Brazilian tariff levels for agricultural products are relatively low. Indeed, these three economies are not competitive and are traditionally protectionist in agriculture. Nevertheless, China (after its accession to the WTO) and India went through processes of MFN tariff reduction since the beginning of the 2000s and Mexico did it from 2004 onwards. India has lowered its tariff rates in the first part of that decade, but maintains tariff levels that are twice higher than those applied by Mexico and China.

Concerning manufactured goods, Brazil's unilateral trade reform of the 1990s was sufficient to take the average tariff rates to the level applied by Mexico and bellow those applied by India and China at that time. However, the country did not follow the unilateral liberalization policies pursued by most of the emerging countries in the 1990's and 2000's and, as a result, average MFN tariff rates applied by China, India, and Mexico to manufactured goods became much lower than the one practiced by Brazil from 2008 onwards.

FIGURE 3

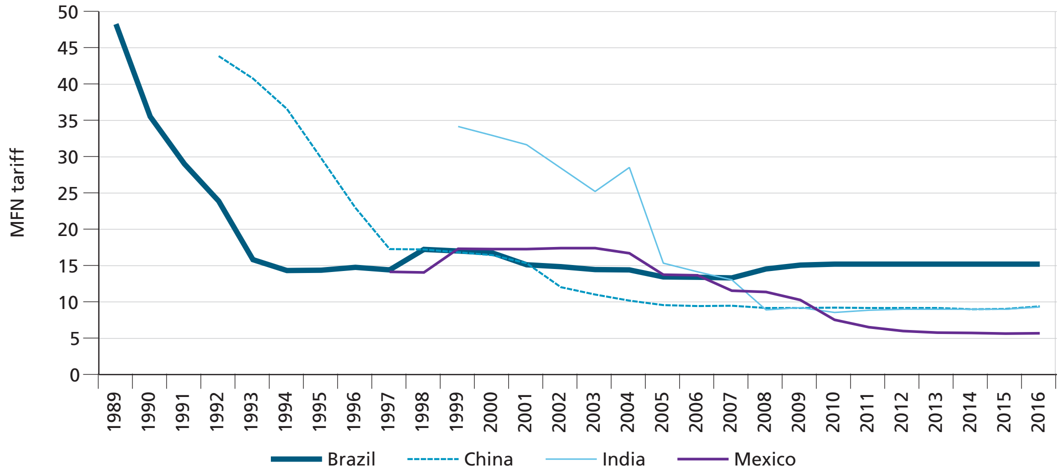
Agricultural goods: average MFN tariff rates Brazil, China, India and Mexico (1989-2016)

(In %)



Source: WDI/World Bank. Available at: <https://is.gd/MFGfp4>.

FIGURE 4
Manufactured goods: average MFN tariff rates Brazil, China, India and Mexico (1989-2016)
(In %)



Source: WDI/World Bank.

One feature of the import tariff structure is the low degree of selectivity in the protection offered for domestic production of manufactures. Only 15% of the agricultural goods are subject to tariff rates considered as a tariff peak by the WTO (above 15%). On the other hand, almost 40% of tariff lines are subject to duties higher than 15% in the manufacturing sector, as shown in table 1. This frequency distribution is considerably different from those seen in most emerging economies.

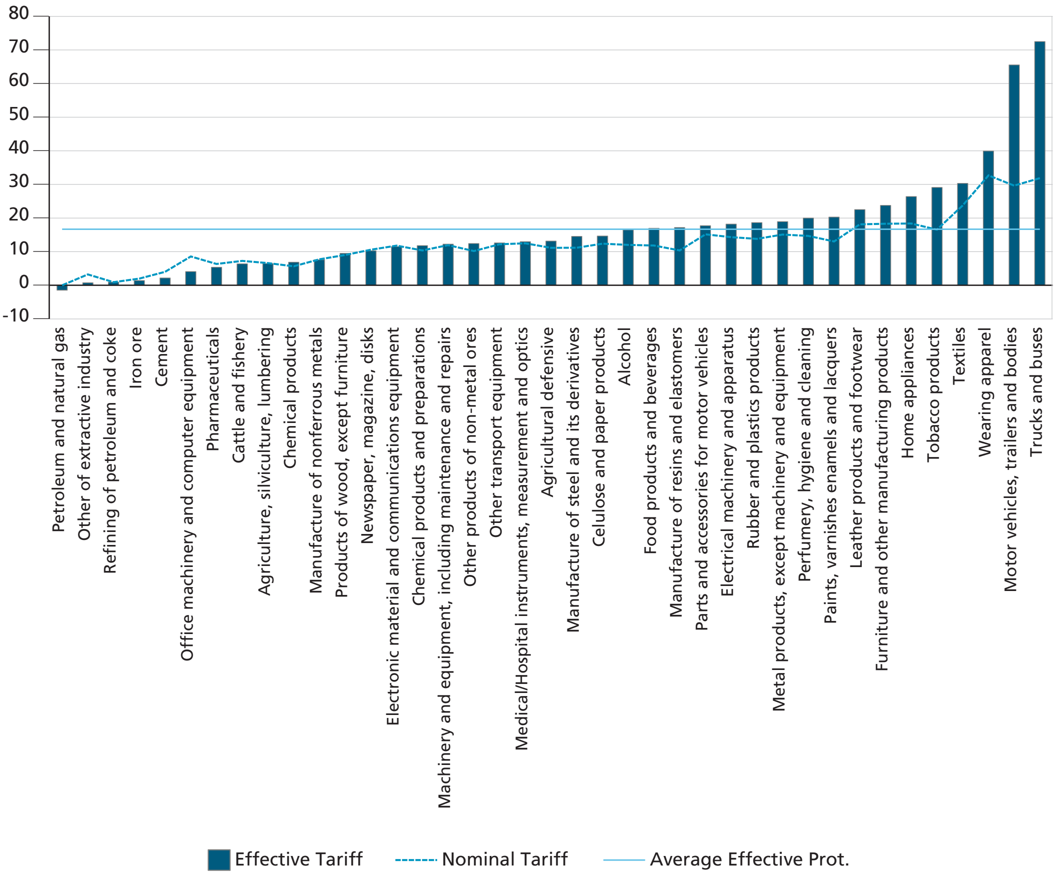
TABLE 1
Frequency distribution by ranges of MFN applied rates in Brazil (2017)

	Brazilian import tariffs in % (MFN applied) - 2017						
	Duty-free	0 <= 5	55 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100
Agricultural products	7.2	6.8	57.1	14.2	13.4	1.1	0.1
Non-agricultural products	5.2	15.2	13.3	27.7	24.9	13.7	0

Source: WTO Tariff Profiles. Available at: <https://is.gd/mt6HZl>.

Tariff escalation was a key parameter used in the design of the tariff reform implemented in the 1990s. This could result in negative rates of effective protection in some competitive sectors such as agriculture, mining or even services. It is difficult to measure effective protection in the services sector, but Castilho and Miranda (2017) provided estimation for goods. According to their estimation, the only sector with negative rates of effective protection in 2014 was petroleum and natural gas. As figure 5 shows, vehicles, apparel, textiles, tobacco, home appliances, furniture and leather products are among those sectors enjoying the highest effective protection rates in Brazil in 2014.

FIGURE 5
Sectoral effective protection in Brazil (2014)
(In %)



Source: Castilho and Miranda (2017). Available at: <https://bit.ly/2SoNUkJ>.

Kume (2018) compares the effective protection rates of the Brazilian tariff structure to those of other groups of countries[10] for the years 1995 and 2011. These estimations are shown in tables A1 and A2 of appendix A. In 1995, right after the liberalization reform, the distribution of the sectors by duty ranges in Brazil was relatively compatible to those calculated for middle and low-income countries, although more concentrated in high rates than in the case of high-income countries.

The evolution of MFN tariff rates and the distribution of sectors by range of effective protection rates suggest that the trade liberalization reform of the nineties was able to update Brazilian protection policy bringing it to the patterns adopted by most developing countries. However, the photography of the same exercise for 2011 shows a very different picture. In Brazil, although the number of sectors classified in the upper range of rates fell from nine to six, the effective protection for vehicles and textiles, clothing and footwear substantially increased.

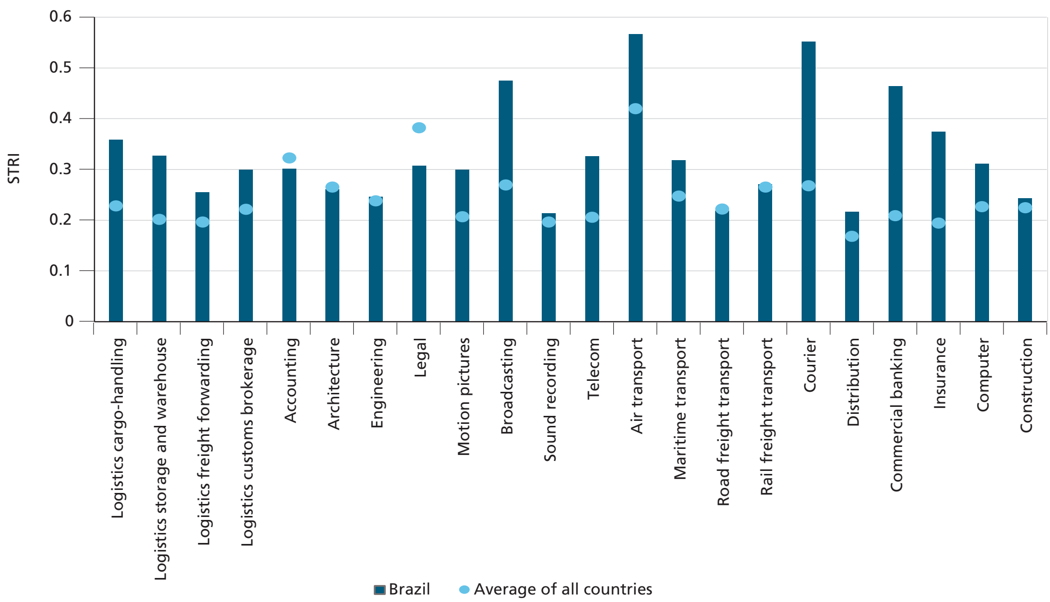
There is a striking change in Brazil's position among the countries included in the tables, when comparing the two pictures. In 1995, Brazil was aligned with middle and low-income countries in concentrating sectors in the two higher duty ranges. In 2011, the majority of sectors had migrated to the lower range of duties in all groups of countries, except for Brazil, with only one sector subject to low effective protection and one with a negative rate.

10. The estimations for the effective protection provided by Kume (2018) are different from those calculated by Castilho and Miranda (2017), due to differences in the aggregation level of information and methodological details.

This analysis is revealing of the peculiar Brazilian stance regarding tariff protection policy. While the world was moving towards trade liberalization, be it in the unilateral or negotiated tracks, Brazil remained stuck to the tariff structure inherited from the trade reform of the early nineties, promoting only punctual changes, some of them in the opposite direction.

Protectionism is present in the services sector, as well. OECD calculates an indicator of services trade restrictiveness, taking into account national regulations that affect the imports of services in the developed and some developing economies. As shown in figure 6, the levels of restrictiveness faced by foreign providers in Brazil is higher than the ones observed, in average, on all countries included in the OECD data for almost all sectors.

FIGURE 6
Services trade restrictiveness index (STRI) – Brazil (2017)



Source: OECD. Available at: <https://is.gd/CiVp2K>.

High tariffs applied for goods probably hinder the competitiveness of Brazilian services providers in international markets, but the reverse is also true: Brazilian industry representatives complain that the high costs of imported services jeopardize their export competitiveness. This is particularly true for services such as logistics and transportation, courier, commercial banking and insurance.[11]

The protectionist paradigm has been driving Brazilian trade negotiations stances as well. Supported by an extensive coalition of bureaucrats and business associations from the industrial sector, which played a central role in crafting national positions in the area of trade and investment international negotiations, it has been dominating negotiations strategies be it under presidents Cardoso, Lula or Rousseff. The main consequence of this hegemony is that, even though it has engaged in several trade negotiation initiatives, Brazil systematically adopted defensive stances.

This scenario – resistant to changes – has presented some fissures during the nineties. Indeed, Brazil's economic evolution starting in 1990s has led to the emergence of less defensive interests and visions in relation to the perspective of the country's international integration – both in the private sector as well as with public agencies. The determining

11. See: <https://is.gd/DBu484>.

factor for this change is the consolidation of a strongly competitive exporter sector with geographically diversified offensive interests. For the most part, this "competitive block" mingles with agribusiness and with the mineral extraction sectors.

Lula's Administrations pursued an increased level of ambition in the foreign policy, aiming at raising Brazil's profile in the international fora. However, the trade negotiations agenda lost the priority it had had under Cardoso, the FTAA and Mercosur-EU negotiations stalled and many new South-South initiatives were launched by Brazil in South America and outside the region – without relevant outputs in the trade and investment area. The FTAA negotiations were abandoned in 2003, while those with the EU were halted in 2004. Although Mercosur-EU negotiations were resumed in 2010, they are still in progress.

During that period, trade negotiations with developed countries concentrated on the WTO's Doha Round, in which Brazil played a relevant role. Gradually, however, as the impacts of the economic crisis became all too evident, Brazil's enthusiasm with the Doha Round seemed to phase out.

Brazil has been lagging behind in the race to negotiate preferential trade agreements that have dominated the international trade system since the beginning of the 1990s. In addition to the free trade agreements signed with South American countries (Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela), after a long period of negotiations, and with Israel, the other trade agreements in force are very limited in its scope (Mexico, the South African Customs Union and India). There are also FTAs negotiated with Egypt and Palestine that are not in force yet.

More recently, the perception that Brazilian companies are not integrated in the global value chains and that the country needs to count on exports to recover economic growth has been fostering the domestic debate about the need to open up the economy. A new agenda for trade negotiations was announced in 2015, which was maintained by the Temer's government. It sets as its main priorities the conclusion of the EU-Mercosur Agreement and of negotiations to enlarge and deepen the existing agreement between Brazil and Mexico. Currently, Mercosur is negotiating with Canada, the EFTA, South Korea and Singapore. Trade talks to enlarge the preferential agreement with India and to launch negotiations with Lebanon and Tunisia are in the official agenda, as well.

2.3 Trade policy in Brazil: recent trends and debates

Brazilian trade policy saw no relevant inflexion since the 1990s.The shift towards an even more protectionist stance began to show up in the beginning of 2010, following a sharp increase in Brazilian imports led by the increasing domestic consumption and the appreciation of the Real. The "Plano Brasil Maior", the new industrial policy plan, launched by the Dilma Rousseff's Administration in 2011, deepened this move towards a more protectionist trade policy. There were few changes in import tariffs during this period, but a comprehensive set of industrial policy measures was deployed.

The new industrial policy included the expansion of domestic content requirements for access to official credit and tax incentives, preferences for local companies in government procurement and reforms in the trade defense area to improve the "efficiency" of the investigation processes of dumping and subsidy practices. The intensification of the requirements of local content in different instruments was the main feature of the industrial policy in Brazil between 2011 and 2016. These mechanisms affected the FDI regime as they have been drafted in a way that make their application contingent to the (high) level of national content and to technology-intensity.

The "trade component" of the new industrial policy included discrimination against imported goods through the use of differentiated domestic taxes as the one put in practice for the motor vehicles (the Inovar-Auto program).

The strategy used to face the international crisis and to counter the loss of dynamism of the industrial sector – through the mobilization of a wide arsenal of industrial and trade policy measures – seems to have reached its limits. Under a growth model based on the credit-led expansion of the domestic consumption, industrial and trade policy were supposed to make sure that the domestic producers should capture the benefits of growth, not the imports.

The limits of both the consumption-led growth strategy and the policy view behind the recent industrial and trade policies appeared clearly from 2013 onwards. As far as trade and industrial policy measures are concerned, the broad array of instruments mobilized by the government was not able to counteract the deindustrialization process and, on the contrary, might have contributed to deepen the trend, as it increased costs and inefficiency in the resources allocation.

On the other side, the fiscal space to support industrial policies intensive in the use of subsidies is exhausted. The slowdown of the economic growth has negatively affected the federal tax revenue and pressures from other sectors and policy areas are increasingly competing with the demand for incentives that come from the industrial policy and its constituencies.

In such scenario, the Temer Administration essayed a shift in the focus of the industrial policy from the management of short-term problems and sectoral difficulties – whose instruments remain in place – to issues that are predominantly "horizontal", affecting all the sectors of industry.

Concerning specifically the trade policy, there is a growing convergence of visions coming from segments of the business community and of trade policymakers around the convenience of deepening the participation of Brazil in preferential trade agreements. There is ample consensus on the need to streamlining customs procedures in order to facilitate the integration of Brazilian companies to the global value chains. Trade facilitation is, perhaps, the only area where relevant progress has been made in recent years.

Much less convergence exists around the idea of a new round of unilateral import liberalization and its role as a driver of productivity and economic growth in Brazil. The difficulties faced by the government as it pushes for the enforcement of trade liberalization should not be underestimated. In every issue related to this agenda, there are strong public and private stakes that benefit from the current situation and will resist any attempt of change. Beyond that, many of the principles that guide this agenda – the search for enhanced productivity and improved competitiveness – do not fit into the political and policy view of those who oppose trade liberalization.

3 TRADE POLICYMAKING: INSTITUTIONS AND PLAYERS

Since the beginning of the 90s, trade policy-making has gone through deep changes in Brazil involving the internal organization of the State's Executive branch, the participation of different groups of civil society, and the forms and channels of dialogue and negotiation between the State and these groups.

The main drivers of the resetting of the trade policy's institutional structure have been: i) the unilateral trade liberalization in the early years of the decade – and the tariff structure that resulted from the reform; and ii) Brazil's commitments in Mercosur – most notably the Common External Tariff – and in the WTO's Uruguay Round.

Specifically on the export policy side, the concerns generated by the 1995 Mexican crisis and the appreciation of the Real after 1994 have created incentives to the setting of new financing and guarantees instruments, as well as for a new trade promotion agency.

Besides the setting of the policy's institutional structure in the nineties, the FTAA and, secondarely, the EU-Mercosur negotiations produced a strong impact in the political economy of trade policy arena. The thematic scope of these negotiations was wide and the issues to be dealt with in many areas were almost unknown for Brazilian officials and even more for the civil society organizations. Not by chance, they triggered an intense mobilization of players from the civil society – especially those from the business sector – beyond their impacts on the State's institutional structure and the public players.

At the same time, trade policy is a competence of the Executive branch of the government, the role of Congress in trade policy being limited to ratifying the trade agreements negotiated and signed by the Executive. Maybe reflecting this distribution of power within the State structure, trade policy has historically deserved very little institutional attention from the Legislative.

3.1 The institutions of the Executive: CAMEX and the institutional framework of protection policies

After the unilateral liberalization episode of the early 90s, the institutional structure of trade policy was gradually revamped and the different policy issues – financing and guarantees, export promotion, trade defense – were distributed among different bodies of the Executive branch of the State.

A high level inter-ministerial body – Foreign Trade Chamber (CAMEX) – was set as a mechanism to streamline the decision making process in trade policy and to improve policy coordination among the different institutions in charge of trade policy-related issues. At its origin, CAMEX had no operational functions in the trade policy making, and its competences did not affected those attributed to other public institutions acting in the trade policy arena.

Originally allocated to the Presidential office, at its setting in 1995, CAMEX was subsequently (in 1998) moved to the Ministry of Development and Foreign Trade, where it remained for the bulk of its existence – except for a short period in 2016/2017, when it was located at the Ministry of Foreign Affairs.

Constituted as a Council of Ministers – despite being institutionally allocated at a specific ministry – and an Executive Secretariat, CAMEX gradually established, in its structure, a network of collegiate bodies gathering in general the same ministers that compose its Council. These bodies act as working groups and they advise the Council on specific policy issues: investment, negotiations, trade facilitation, trade defense, services etc.

In 2001, CAMEX received competence to take – by consensus – binding decisions in trade policy, through its "Resolutions"; in the same year, CAMEX was granted the right to decide on import and export tariffs and on the adoption of trade defense measures. Previously, changes in tariffs were an attribution of the Ministry of Finance and trade defense measures were adopted through a joint decision by the Ministry of Development and Foreign Trade and the Ministry of Finance.

These have been important institutional movements as they reduced the power of the Ministry of Finance – historically more liberal than other Ministries intervening in the trade policy – on definition of import protection policies and shifted the balance in favor of the Ministry of Development, Industry and Foreign Trade, whose main constituencies are the import-competing industrial sectors.[12]

Gradually, CAMEX's institutional profile moved away from its original coordinating functions to a more operational one, specialized in "the daily operation of topic issues" in the trade agenda, at the same time strengthening its linkages to the industrial sector (Fernandes, 2013).

Although CAMEX's institutional assignments cover all the fields of trade policy, in practice its role is especially relevant in four areas: the management of tariff policy, trade defense, trade negotiations and, more recently, trade facilitation. Trade promotion and export financing and guarantees have institutional structures that operate de facto in a relatively autonomous way vis à vis CAMEX, despite being formally subordinated to CAMEX.

The following topics synthetize the main features of the institutional structures and policy functions operating under the "umbrella" of CAMEX and playing a relevant role in the management of protection to the domestic producers and in the political economy of trade policy: tariff policy, trade defense and trade negotiations.

3.1.1 The management of tariff policy

As commented above, CAMEX was granted, in 2001, the right to decide on import tariffs and their daily management. Brazil's tariff structure, as it emerged from the nineties' trade reform, is characterized by a high dispersion, in terms of nominal and effective protection, as well as by a large number of tariff levels.[13] This tariff structure imposes high management costs as it creates incentives for sectoral interests to lobby for specific increases or reductions of tariffs.

The fact that the tariff policy includes "exception mechanisms" – allowing for the shift of product-specific tariffs between different levels – adds complexity to its management, and increases its vulnerability to the lobbies' pressures and demands.

12. Article 237 of the Federal Constitution attributes to the Ministry of Finance the control and supervision of Brazil's foreign trade, following a "tax collection" rationale (since the national tax authority is institutionally located within the structure of the Ministry of Finance). However, the power to change import tariffs was moved to CAMEX on grounds that tariffs are a regulatory tool for industrial policy – not a tax instrument (Fernandes, 2013).
13. The number of tariff levels has further increased following the negotiations on the establishment of Mercosur's Common External Tariff.

There are two main "exception mechanisms": the so-called exception list to Mercosur's Common External Tariff (LETEC) and the *ex-tarifário* regime, a unilateral tool that allows for the reduction of tariffs of capital, informatics and telecommunications goods, when there is no domestic production of the goods to be imported.[14]

Mercosur's exception list is limited, in the case of Brazil, to a small number of goods – whose composition varies in time. But, in June 2018, the *ex-tarifário* mechanism affected 4.119 goods (at HS ten-digit level): 64% hitting capital goods; 24% related to optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, parts and accessories thereof; and 9,2% for informatics and telecommunications goods. The analysis of the existence (or no existence) of domestic production of the goods to be imported involves the business associations representing the sectors affected and is far from transparent.

Besides these two main "exception mechanisms", Brazilian trade policy incorporates several special import regimes,[15] which provide for the exemption or suspension of the payment of tariffs and other taxes, according to the end use of imported products.[16] These instruments allow for the non-payment of tariffs when the imported products will be incorporated in the production of goods destined to exports or to the domestic consumption in some cases. In order to have access to these special regimes, companies must go through bureaucratic processes, which are burdensome and costly. Most of them benefit large companies, since the small and medium ones are not able to comply with the bureaucracy or the requirements demanded.

The existence of these exceptions and special regimes reduces the import costs for the large exporting companies that incorporate imported inputs and parts in their production processes. Hence, they act as a compensation scheme for those exporting companies that could be the ones to support import liberalization in Brazil.

In broader terms, the main features of Brazil's tariff structure and the presence of "exception mechanisms" as well as of various special import regimes (as the drawback regime) make the management of the tariff policy in Brazil complex and subject to punctual negotiations with the private sectors demanding tariffs "adjustments". Such an environment is conducive for the action of special interests aiming at preserving the protected domestic market for local producers.

3.1.2 Trade defense instruments

A Department of Trade Defense – dedicated specifically to conducting the trade defense investigations – was created within the Ministry of Development and Foreign Trade in 1995, when Brazil internalized the WTO Agreements on Antidumping and on Subsidies and Countervailing Measures.

In 2001, the legal competence to decide whether to apply trade defense measures was given to CAMEX, but the Department of Trade Defense maintained the responsibility for conducting the investigations and formulating the proposals to be submitted to CAMEX's decisions. Quite paradoxically, the legal framework determines that the Department's

14. There are other "exception mechanisms" to the tariff policy, as the one created within Mercosur normative structure, allowing for temporary reductions for reasons of supply shortages of specific products. This tool is regulated through the Common Market Group's Resolution 08/2008 and it has been more intensively used by Brazil between 2014 and 2016.

15. Drawback, Reporto, Repetro, Recof are some of these especial import regimes. See: <https://is.gd/tZY9Di>.

16. See: <https://is.gd/fsJ52F>.

conclusions are binding and the plenary of CAMEX has to adopt them, except if a case of public interest is invoked by the private sector or by another member of CAMEX.

In 2011, *Plano Brasil Maior* set, among its priorities, specific goals relating to the investigation and application of trade defense measures. These goals concern the reduction of the average duration of antidumping investigations (from 15 to 10 months) and of the decision-making process for the setting of preliminary duties (from 240 to 120 days), as well as a substantial strengthening of the Department as far as human resources are concerned. For Goldbaun and Pedrozo (2017), these changes were relevant to explain the significant increase in the number of antidumping actions initiated by Brazil in the period following the launching of the plan.

Brazil has occupied, during the current decade (2010-2017), the second place in the world ranking of users of the antidumping instrument, only surpassed by India. In this period of time, Brazil has initiated 230 antidumping investigations. Between 2010 and 2014, Brazil was responsible for a significant share (from 10% to 23% according to the year considered) of initiated antidumping investigations.[17]

In an apparently paradoxical movement, a technical group, under the aegis of CAMEX, was simultaneously created to evaluate the presence of elements of public interest in every process of revision of an antidumping measure. The Ministry of Finance is in charge of this evaluation, but the responsibility for the conduction of the investigations and for the final recommendation to CAMEX Council of Ministers on the enforcement of the measure remains entirely with the Department of Trade Defense

3.1.3 Trade negotiations

In the Nineties, trade negotiations acquired an unprecedented relevance in Brazil's trade policy, as a consequence of the simultaneity of intra-Mercosur, the FTAA and EU-Mercosur negotiations. This change had impacts on the institutional structure of trade policy, with huge implications not only for the organization of the public entities involved, but also for the relationships between the public and private stakeholders.

At the government level, taking part in negotiations with a broad thematic scope required that many public entities, not directly in charge of trade issues, be brought to the trade policy-making process for the discussion and formulation of negotiating positions.

These consultation and coordination mechanisms went beyond the scope of the public sector, involving entities representatives from the civil society. In fact, the FTAA negotiations have been the driving force of a broad mobilization and organization of different social groups around the trade negotiations issue, although intra-Mercosur negotiations (mainly between 1994 and 1997) and WTO-related activities (between 2005 and 2008) also provided the opportunity for different social groups to approach the trade negotiations agenda and policy arena.

From 2003 on, as the FTAA and EU-Mercosur were halted or lost traction, the network of intra-governmental coordination instances was almost completely dismantled. The relevance of trade negotiations in the Brazilian agenda faded – with some episodic "surges" of mobilization, as in 2008, during the "Lamy package" negotiations at the WTO – and the trade policymaking turned to the "business as usual" management of unilateral tools.

17. PC em Foco – Observatório de Política Comercial – various issues.

3.2 The Legislative branch and trade policy

In Brazil, trade policy is a competence of the Executive branch of the government, the role of Congress in trade policy being limited to ratifying the trade agreements negotiated and signed by the Executive. Maybe reflecting this distribution of power within the State structure, trade policy has historically deserved very little institutional attention from the Legislative. For instance, agreements signed within the scope of Mercosur, such as the Protocol of Trade in Services, spent years in Congress waiting to be ratified.

During the nineties, the main "initiative" of the Legislative as far as trade and investment policy is concerned was the decision not to ratify the many bilateral investment agreements signed between Brazil and developed countries.

However, the FTAA negotiations captured the interest of the Legislative branch of the federal government. In fact, with the development of the FTAA negotiations, the issue began to draw the attention of the Congressmen, especially those close to the leftist parties, who were against the very idea of the agreement. A Special Commission on the FTAA negotiations was created in the Congress, in 1997, as a forum to monitor the process and participate in it.

In 2003 a draft law "defining the Brazilian Government's objectives, methods and modalities of participation in multilateral, regional or bilateral trade negotiations", drawn up by a Senator affiliated to the Workers' Party (PT), began to be discussed in Congress. The draft law conditions the referendum of the Congress – provided for in the Constitution – on trade agreements signed by the President of the Republic to the "strict compliance" by negotiators with the conditions set forth by the Law. It also defines the general and immediate objectives of the negotiations.[18]

Inspired by the Trade Promotion Authority model of legislative piece, the draft law listed nineteen immediate objectives to be pursued in the negotiations and provided for setting up a mechanism for Congress to follow up on the trade talks. The initiative produced no output as the interest of Congressmen in trade negotiations faded when the FTAA negotiations were interrupted in 2004.

Later on, in another episode involving trade policy, the Congress rejected, under the pressure of the Textile Parlimentary Front, the Brazilian commitment at the WTO to eliminate import duties and quotas applying to imports from least developed countries.[19]

Therefore, the institutionalized presence of the Legislative bodies in trade policy arena has been very limited in the considered period. However, the same cannot be said of the Congressmen individually or grouped in specific product-driven coalitions. As stressed by one of the interviewees in this project, former Secretary of Foreign Trade of the Ministry of Development and Foreign Trade, "there is almost no interest in trade policy among Congressmen, but they can be very active in very specific issues"[20] in general relating to the interests of constituencies from their territorial electoral basis.

Businessmen use to come (to the Foreign Trade Secretary) with "their" Congressmen or local authorities to ask for protection for specific products without any "rational reason" for it.

18. Among other objectives, the Project aimed at restricting the scope of non-multilateral negotiations to market access for goods, reserving for the negotiations at the WTO the treatment of issues such as services, investment, intellectual property rights and government procurement. In addition, the Project rejected "any and all cross-conditionalities involving other areas, such as labor and the environment".
19. Interview with a former Foreign Trade Secretary.
20. Ibidem.

According to the interviewee, "it happens all the time and it absorbs a lot of the working time of the government agents" working with trade policy.[21] In a very recent episode, the role of Congressmen from different political parties and from the states producing coffee (Minas Gerais, Espírito Santo and Rondônia) in pushing for the imposition of trade restrictions to the import of a specific kind of coffee from Vietnam was widely acknowledged.[22]

3.3 The civil society in the trade policy arena

3.3.1 The industrial sector

In the mid-nineties, there was a widespread perception, inside the business sector, that the lack of mobilization to influence trade policy during the unilateral liberalization and the early Mercosur years was a mistake. This perception provided the incentive for a strong and growing participation of the business sector during the FTAA negotiations.

Articulated around the *Confederação Nacional da Indústria* – CNI (National Confederation of Industries), CEB was founded in 1996, bringing together industry, agriculture and the service sectors.[23] CEB is an institutional novelty not only because it puts together on a voluntary (and autonomous vis à vis the government) basis different sectors and acts as a forum for direct negotiations and consensus-building between these sectors, but also because it is a business organization focused on one issue: trade negotiations.

Despite its broad coverage, in terms of sectors participating in the initiative, CEB is strongly dominated by the interests of the Brazilian industry and, within the industry, by the import-competing sectors. Not by chance, the interests of the business sector, as expressed by CEB, concentrate on issues involving access to markets (agricultural and non-agricultural products), such as tariff issues, rules of origin, instruments of trade defense and, to a lesser extent, government procurement. Issues such as trade in services, investment and subsidies have specific interest for some sectors or companies but do not attract the attention of the business sector as a whole.

The positions expressly manifested by the business sector in the trade negotiations, through CEB, focused mainly on issues relating to protection of the domestic market and gave priority to the need to moderate any new initiatives to liberalize trade – whether preferential or multilateral. In these preferential negotiations processes, the positions advocated by CEB have traditionally been close to those adopted by the Brazilian government: defense of asymmetric reciprocity in the trade liberalization schemes negotiated with Northern countries, adoption of the GATS model of agreements in services etc.

CEB also follows WTO negotiations and its documents usually emphasize the key relevance of the multilateral sphere for Brazil, especially as regards the negotiations on trade rules and on new issues – a position that is also very close to the one adopted by the State players. CEB articulated the various sectoral interests of the business sector by coordinating interlocution with the organs of the federal government. Depending on the dynamics of the negotiations, there can be frequent meetings with the negotiators and negotiating positions in the areas related to market access for goods are the main topics of the government's consultations with the CEB. Through its webpage, CEB makes the consultations available to its associates – more

21. Ibidem.
22. See: <https://is.gd/NlGRsz>. Accessed on: Aug. 1, 2018.
23. In 1996 CNI took part in setting up the Mercosur Industrial Council (CIM), gathering national industrial entities of the four member--countries of the bloc. CIM lost relevance as intra-bloc tensions and conflicts grew intense after 1999 and the preferential negotiations with developed countries showed the divergences of sectoral positioning among the countries.

than one hundred (sectoral and other) associations – and collects and systematizes the positions received from them before forwarding them to the government. In addition, CEB follows the rounds of preferential negotiation by means of the "next door room", where the interlocution with the government agents is processed before and after the negotiations.

3.3.2 The agricultural sector

Until 1990, agricultural exports concentrated in traditional primary goods – coffee, cocoa and cotton, among others – and the sector was protected from imports and strongly regulated by the government, including through entities dedicated to specific products (sugar and ethanol; cocoa, coffee).

As a consequence, until the beginning of the nineties, the private sector showed scarce interest in trade negotiations and the participation of agriculture representatives in the Uruguay Round has been very limited, if any. At that time, during the negotiations for launching the sub-regional integration process, the sector adopted an essentially defensive stance, focused on the alleged risks of competition in the domestic market arising from the elimination of tariffs among Mercosur's member countries. At the end of the Uruguay Round, the consolidated tariffs for the agricultural goods were, in Brazil's schedule, higher than those for industrial products.

In the early nineties, the sector benefitted from a series of market deregulation measures that dismantled the State's institutional structure responsible for managing the prices, the exports and the stocks of agricultural products. The unilateral trade liberalization also played a relevant role as it reduced the tariffs of inputs and machinery for the agricultural sector. A new legislation, exempting agricultural exports from subnational taxes, gave an additional contribution to change the policy environment where the agricultural sector operated and to boost exports.[24]

The response of Brazilian agriculture to this new environment was impressive: productivity grew rapidly, the exports of commodities expanded and, at the end of the decade, the sector became a net exporter. The sector "discovered itself as a player internationally competitive that faced export barriers in other countries".[25] At this time, the sector representatives adopted a "pro-active" strategy, pushing the government towards more aggressive negotiating positions in agriculture, in the FTAA as well as in EU-Mercosur trade talks. In the WTO, this new stance from the private sector was crucial for the government decision to require the setting of three dispute-settlement panels against the US and the EU, in the beginning of the first decade of the new Century.[26]

This "pro-active" strategy included the mobilization of the main sectoral associations of the agribusiness to set a research institute geared at providing technical support to the ongoing agricultural negotiations. This institute, ICONE, developed a series of studies and impact assessments, dealing with the many complex issues that characterize agricultural trade negotiations and trade policies in different countries. ICONE's studies provided the technical rationale for various positions presented by Brazil in these negotiations and in the domestic discussions on the Brazilian strategy.

24. Interview with a business leader of the agricultural sector and former Secretary in the Ministry of Agriculture.
25. Interview with the former CEO of ICONE.
26. The products concerned by the dispute settlement cases were cotton, soya and chicken meat.

From 2004 onwards, the policy dynamics that gave traction to the participation of the agricultural sector in trade negotiations faded. At the same time, China emerged as a huge potential importer of Brazil's commodities, giving the agricultural sector a new "big push" based on rising productivity, increased mechanization and the strengthening of export-oriented production.

This new context significantly reduced the interest of the modern and export-oriented agricultural sector in the trade policymaking and in the trade policy agenda. The sector turned to the Asian markets and left aside the attention to the negotiations on market access and subsidies with developed countries. This mood does not seem to have been affected by the resumption of the EU-Mercosur negotiations in the current decade. The export-oriented agricultural sector remained distant from the trade policy arena.

By contrast, the recent years have witnessed the activism, in trade policy, of the agricultural sectors that compete with imports. According to an expert from the export-oriented sector, "these segments (dairy, apple, wheat, coffee and even ethanol) have occupied the trade policy arena with a protectionist agenda".[27] Recent episodes confirm that some agricultural segments have been active in demanding protection from imports for their products: the more notorious episodes involve coffee – and the imports from Vietnam – and ethanol – and imports from the US – both in 2017.[28]

3.3.3 Other stakeholders: workers trade unions and NGOs

For the trade unions, Mercosur was the "entry door" in the trade policymaking arena. Trade unions ignored the unilateral trade liberalization of the early nineties.[29] The original institutional structure of Mercosur included instances of representation of civil society groups, most notably the national business and trade union confederations. They were members of the FCES – the Consultative Economic and Social Forum – and used to participate in the Technical Working Sub-Groups – especially the ones focused on industry and on labor issues – created within the structure of the Common Market Group.

As the sub-regional project began to lose traction, the interest of trade unions for Mercosur diminished – as has also happened to the business sector. According to an interviewee, the more active trade unions in the region seem to have "delegated" to the new governments – politically close to them – the responsibility for managing the integration agenda.

The FTAA and EU-Mercosur negotiations did not add much to the trade agenda of the trade unions in Brazil. FTAA was *a priori* rejected by the most active workers organizations, perceived as a US project for hegemony over Brazil and the rest of Latin America. The EU-Mercosur negotiations got a more favorable reaction from the workers world, as the EU integration model is identified as "inclusive" and its trade agreements contemplate the political and cooperation dimension – not only trade and investment issues.[30]

27. Interview with the former CEO ICONE.
28. In the first case, in February, under the pressure of the sector, CAMEX quantitatively limited the annual imports of the conilon type of coffee from Vietnam. However, the mobilization of the sector, including through the National Confederation of Agriculture as well as Congressmen from different political parties and from the producer states, led President Temer to suspend the imports of the product, even within the quota set by CAMEX.In the second case, CAMEX approved in September a quantitative quota for the imports of ethanol free of tariff. Beyond the quota, the imports will be taxed at 20%. The decision was greeted by the business organization that represents the sugar and ethanol sector, which, in trade negotiations, had always adopted offensive positions and pledged for the suppression of tariffs and quantitative restrictions to trade by the other negotiating partners.
29. Interview with an advisor on trade issues to the largest Brazil's trade union confederation.
30. Ibidem.

As for NGOs, trade is hardly a relevant focus of this kind of organizations in Brazil. However, it has gained momentum in the agenda of some NGOs as the FTAA negotiations started. The main initiative launched at that time was the setting up of a network of about 35 NGOs, trade-union entities and social movements specifically designed for dealing with issues related to trade negotiations and, in particular, with the FTAA process: REBRIP (Brazilian Network for the Integration of Peoples).

Drawing on the previous sub-sections, appendix B synthetizes the areas of responsibility, roles, policy preferences and sources of power and influence of the main players acting in the trade policy arena in Brazil. Trade unions and NGOs have not been included in the appendix as their participation in the trade policy arenas has been episodic and limited in time.

3.4 The drivers of the evolution of the institutional framework

As seen in previous sections, the institutional framework of trade policy set in the nineties showed a high degree of continuity. From 1995 on, the institutional structure was quite stable, but it underwent some changes, reflecting the evolution of the trade policy agenda – and its growing complexity – as well as the dynamics of its political economy.

There are two main drivers of the the evolution of the institutional framework established during the nineties.

First, the thematic expansion of the trade policy agenda as a result of the participation of Brazil in different negotiating fronts – particularly those involving developed countries (the EU and the US). The fact that a wide array of State institutions have some kind of competence related to the control of trade flows has also contributed to amplify the trade policy arena and to bring to it new players in the public sector. Besides pushing for institutional evolution at the public sector level, the negotiations with developed countries triggered a strong mobilization of segments of the civil society, most notably the business sector.

Therefore, the institutional implications of this process should not be understated as they have gone beyond the setting of collegiate bodies inside the government to involve the establishment of permanent instances of consultation and negotiation among State agencies and civil society entities.

Similar phenomena have been identified in many other developed and developing countries (Halle e Wolfe, 2007). As for Brazil, it impacted deeply the institutional structure of trade policymaking, although the degree of "activation" of the networks in place varied in the last quarter of Century,[31] according to the broad trends of trade and foreign policy.

The second driver relates to the central role gradually acquired by the Ministry of Development and Foreign Trade in the formal coordination and enforcement of trade policy – through CAMEX's Executive Secretariat – and, particularly, in the control and management of the tools relevant to the protection policy – most notably, the tariff exception mechanisms and the trade defense instruments. As stressed by Fernandes (2013), "the control over the import and export tariffs and on the trade defense instruments widened the range of measures available to the MDIC to attend its main constituency": the industrial sector.

31. It is worth noticing that the proliferation of collegiate bodies acting in the design and enforcement of Brazil's trade policy can be seen as a institutional mechanism to accomodate the different – and, in some cases, divergent - views and interests of the governmental and non-governmental stakeholders of trade policy. The setting, within CAMEX structure, of a Working Group on Public Interest at a time when Brazil was growingly resorting to antidumping actions illustrates this dimension of the "networking" dynamics of institutional evolution.

Moreover, the Ministry has consolidated a strong position as the main governmental interlocutor of the industrial sector, whose views and interests it expresses within the government. This role appears clearly in the process of position-building of the business sector, where the main business organization in the field of trade negotiations – the CEB – and the Secretariat of Foreign Trade of the Ministry interact actively.

Hence, besides a privileged position to set CAMEX agenda and to coordinate the committees and working groups within its scope, the Ministry manages a large part of the interests' agenda of the import-competing industrial sectors, positioning itself, within the government, as the "representative" of these sectors' interests and concerns.

Formally, this strategic positioning did not require major institutional shifts, besides the allocation of CAMEX's Secretariat to the Ministry and the concentration on the Department of Trade Defense of the competence to conduct the antidumping investigations and to decide on the application of the duties. These formal changes in the institutional structure have been accompanied by the narrowing of relationship between the Ministry and the industrial sector – and this close relationship appears nowadays as the main source of power and influence of the Ministry within the trade policy-making process.[32]

In this sense, the evolution of the institutional structure of trade policy has given import-competing industrial sectors an edge in advancing their interests. Agricultural segments that compete with imports and have protectionist positions – dairy products, wine, coffee, peaches etc. – have also benefitted from this evolution. In fact, the Ministry of Development and Foreign Trade manages the protection tools geared not only to the industry, but also to agriculture (tariffs, trade defense, import licenses etc.).[33]

4 TRADE POLICYMAKING: THE INTERPLAY BETWEEN INSTITUTIONS AND PLAYERS

Until the end of the eighties, the trade policy arena was almost completely dominated by a few Government agencies, among which CACEX, the foreign trade branch of Banco do Brasil that controlled the bulk of trade policy instruments and especially the tools of administrative protection against imports. Compared to administrative barriers imposed through CACEX's tools, tariffs played a very secondary role in the management of protection.

Informal and formal channels of dialogue between the government and the business sectors did exist: for instance, the business sector was formally represented in the Council of CPA – Comissão de Política Aduaneira –, the agency in charge of the micro-management of tariffs according to the companies' annual import programs previously approved by CACEX. But it seems correct to argue that informal channels played a relevant role in this dialogue, as CACEX's powers over imports were discretionary and managed through a myriad of non-transparent instruments.

Trade negotiations were limited to the ALADI agreements, based on reciprocal concessions that were carefully designed not to hurt vested interests in the countries

32. The low priority accorded to trade policy by the traditionally more liberal government ministries and agencies (as the Ministry of Finance) has certainly given a contribution to the political strengthening of the Ministry of Development and Foreign Trade during this period.
33. It should be added that, in contrast with the ministry that is the main interlocutor of the export-oriented agricultural sector – the Ministry of Agriculture – the Ministry of Development and Foreign Trade has been considerably strengthened in institutional terms during the nineties and the beginning of the current decade. Human and technical capabilities in the institutional areas dedicated to trade policy have been considerably reinforced – a process unparalleled by the Ministry of Agriculture.

involved. The interplay between public and private players concerned, in this case, the official negotiators and the companies and sectors that could be affected by the concessions – or interested in them.

Despite the existence of these mechanisms and instances of dialogue, the macroeconomic crisis, which intensified from the second half of the 80's on, led to a gradual deterioration of the institutional framework built to support industrial and trade policies during the import-substitution period. The main sectoral and informal mechanisms of dialogue between the State and the business players were seriously damaged in this process and they lost their effectiveness for both sides.

4.1 The trajectory of trade policymaking since the unilateral liberalization: a stylized description

Not by chance, the unilateral trade liberalization undertaken in the beginning of the nineties and the early years of Mercosur are usually quoted as a model case of non-participation by the private sector and of Government resistance to private sector attempts at interference. As shown below, the real picture is somewhat different from this idea, as far as the negotiation and the enforcement of the new tariff structure with the business sectors are concerned. But it is undeniable that the decision to undertake an unilateral trade liberalization has been, in the Brazil's context, a unique landmark of State autonomy in face of the private sector's demands and pressure for protection.

The negotiation of Mercosur's Common External Tariff (CET) reopened the doors of the trade policymaking for the business sector. This happened not only as a result of pressures from the business sector. The Brazilian government pushed the business sector to participate in the process as the former was looking for a CET as closest as possible to the tariff structure that resulted from the unilateral trade liberalization in Brazil.[34]

At the same time, Mercosur's institutional structure was defined, accommodating the participation of business sector and trade unions representatives, through the FCES and the Technical Working Subgroups of the Common Market Commission. As already stressed, for the trade unions, Mercosur's institutional structure was the entry door in the trade policy agenda and in trade policymaking.

The first movements of the FTAA negotiations provoked an "earthquake" in the trade policy arena, as described in the previous sections. The net output of these evolutions was a gradual but impressive growth in the number of players involved in the policy process, both in the State and in civil society. As a consequence, a significant diversification of positions in respect to the issues treated in trade negotiations was observed, largely as a result of new players appearing in the political arena. A policy arena almost entirely dominated by a traditional type of protectionist coalition putting together the State and import-competing business sectors was replaced by a more diversified policy landscape.

On the business side, the export-oriented agricultural sectors assumed unprecedented offensive positions in the negotiations. Positions on the NGO side combined elements of classic protectionism – but geared to benefiting small-farmer sectors – with an important "societal" component that was made explicit in the work of the NGOs focusing on public health/TRIPs and the environment.

34. Interview with a former Brazilian official negotiator for the CET. It is worth reminding that the timetable set for the unilateral trade liberalization in Brazil was still on way during the CET negotiations.

On the State side, as the trade agenda was enlarged by incorporating issues that until then were considered as strictly domestic, the Ministry of Foreign Affairs' monopoly in trade negotiations was eroded and other government agencies required participation in the negotiation processes. Besides this, different Ministries expressed different (and at times divergent) positions of civil society within the State: this was the case of the opposition between the Ministries of Agriculture and Land Reform concerning negotiations at the WTO.

The Legislative branch also showed an unusual interest in trade issues, promoting some seminars and debates to discuss the FTAA negotiations and likely impacts. As already commented, a law project inspired by the US Trade Promotion Acts was presented in the early 2000s, by a legislator from the Workers Party (PT).

Despite the diversification of the channels of dialogue and participation, the great majority of these were not formally institutionalized: civil society representatives were invited by the State, which defined the players to be invited, the occasions for these invitations, the convenience of circulating information pertinent to the meetings, and so on.

Changes to trade policy orientation in the Lula Government were the second major "tipping point" in trade policymaking since 1995 – the first one being the launching of the FTAA negotiations. The "semi-institutionalized" structures created within the State and between the public sector and civil society gradually lost their relevance. The interruption of the preferential trade negotiations in 2004/2005 led to a rapid "de-mobilization" of the State's institutional structure dedicated to these negotiations as well as of the mechanisms of consultation with the civil society.

With the freezing of trade negotiations with developed countries and the paralysis in the Mercosur's trade agenda, the trade policymaking came back to its "normal" track, concentrating on the management of unilateral mechanisms of trade policy. In the first years of the Century, the exports went through a strong growth and China emerged as a major trade partner for Brazil. No relevant threat to the domestic producers in the trade negotiations front did exist and Brazil concentrated its trade negotiation resources in the Doha Round, at least until 2008, when the so-called "Lamy Package" failed to pave the way to a successful conclusion of the Round.

The third post-1995 "tipping point" in trade policymaking in Brazil occurred in the first years of the current decade, through the resurgence of protectionist measures to deal with the increase in industrial imports and the long lasting difficulties faced by the industry to recover growth since the 2008 crisis. As mentioned before, the appreciation of the Real, observed in that period, combined with the boost in domestic consumption coming from the economic policies stimulated imports, giving support to the demands of the industrial sector for the strengthening of protectionist policies.

The main instruments mobilized in this new protectionist cycle were non-border measures, as the requirement of local content, the setting of new government procurement rules favoring the domestic producers, tax exemptions and a huge subsidized program for investment financing through BNDES.

As far as trade policy instruments strictu sensu (border measures) are concerned, trade defense mechanisms and the management of tariff exceptions – both instruments managed by the Ministry of Development and Foreign Trade – were prioritized.

By the way, some of the industrial policy programs adopted by Brazil in this period were challenged by other countries at the WTO through the dispute settlement mechanism and were considered by the Panel as inconsistent with the multilateral disciplines that Brazil was committed to.

A four "tipping point" intervened after the impeachment of President Rousseff, in 2016 and after two years of economic recession. Many industrial policy tools with an anti-import bias were discontinued or revised, the use of trade defense instruments was reduced and preferential trade negotiations came back to the trade policy agenda. In this new scenario, the debate on the country's trade policy and the need of opening the Brazilian economy to the world gained some traction. This debate echoed within the public sector, where the Ministry of Finance took a more active – and pro-liberalization – stance, counterweighting some positions from private sectors and the Ministry of Industry.

4.2 Trade policy in the making: what drives the political economy of trade policy?

Even for those players involved in the policymaking process, it is difficult to assess the actual influence exerted by the civil society´s organizations and interests in the setting of the trade strategy. It seems realistic that, as the trade policy arena expanded and many players got involved in the policymaking process, the implementation of the agenda – and, in some measure, its setting – has been more influenced by organized groups.

4.2.1 The weight of interests

There are many examples of this kind of influence at the micro-level of the negotiations: in the negotiations with the EU, Mercosur's agenda for rules applying to the trade in goods owes a lot to the positions coming from the CEB. In the FTAA negotiations, the pressure exerted by NGOs and labor unions did not lead the government to abandon the process, but it surely helped it to politically support its reluctant position towards the negotiation process.

Maybe an iconic example here is the one provided by the Mercosur – Gulf Cooperation Council free trade negotiations, launched in 2006. From the Brazilian side, there were different offensive interests, especially among agricultural sectors, pushing for the agreement, the only defensive interest being concentrated on the petrochemical sector, while from the Gulf side, this sector was the only offensive interest. The sectoral nationwide chemical association requested the exclusion of the petrochemical sector from the tariff elimination schedules, which was rejected by the Gulf countries. The setting of a special safeguard for the sector was envisaged and the Gulf countries agreed on a limited market access regulated by quotas. These proposals were rejected by the main petrochemical companies in Brazil – Petrobras and Braskem – and by the sectoral association on the grounds that the quota would put pressure on the petrochemical goods' domestic prices. CAMEX ratified the position of the companies and the negotiations were abandoned.[35]

Despite these striking examples of almost direct influence of vested interests in the trade policy decisions, the political economy of this policy should not be reduced to the interplay of public and private actors set in motion exclusively according to economic interests.

35. Interviews with two former high-ranked officials of the Foreign Trade Secretary.

This leads the research to a central question on the drivers of trade policy making in Brazil during this period and on the sources of influence of different economic interests and ideas on trade policy's direction and options.

In the case of the export-oriented segments of the agricultural sector (the so-called "agribusiness"), influence in trade policy, between 1995 and 2003, relied on a structural change, namely the huge expansion of this sector's productivity and the striking growth in exports from the nineties on. By the same token, lately, the distance taken by the agribusiness sector from the trade policymaking after 2003 can be explained by the growing dynamism of new markets for its products in Asia – particularly in China – and their impacts on commodity prices. Therefore, in the case of the agribusiness sector, its relationship with the trade policy arena seems to be strongly related to structural factors. It approached the arena of trade negotiations as its offensive interests became clear, but it distanced itself when new markets emerged, the commodities prices boomed and trade negotiations proved a hard way to go as a market access strategy.

However, even in the case of the agricultural sector, other factors beyond structural shifts have influenced trade policy – at least at very specific moments. Backed by social movements and NGOs, the Ministry of Land Reform got closer to the trade policy arena to voice the interests of the small-scale (familiar) agriculture, against those of the agribusiness sector. For those defending the small-scale farmers, the offensive stance adopted by Brazil in trade negotiations in the late nineties made no room for accommodating some demands for protection emanating from specific productions based on these small-scale farms. The setting of a new agricultural coalition in the Doha Round negotiations – the G20 – was the output of a "two-level game" in trade strategy, whose domestic dimension combined offensive and defensive interests within the broad agricultural sector.[36]

In the case of the manufacturing sector, structural change goes in the opposite direction from the one observed in the agribusiness sector: the weight of the manufacturing sector in GDP and in exports has decreased sharply, labor productivity has stagnated and manufacturing exports have lost market-share in their main foreign markets. Besides, contrarily to what happened in the agricultural sector, the development of an export-oriented sector was a phenomenon almost marginal in the manufacturing sector. Except for very few sectors (aeronautics among them), manufacturing focuses on the domestic market and faces the competition of imports.

As the influence of the agricultural sector grew *in tandem* with its contribution to Brazil's exports and trade balance, one should expect that the "shrinking" of the manufacturing sector would lead to a decreasing influence on the trade policymaking. However, this is not what happened.

On the contrary, since more than fifty years, and despite the trade liberalization episode of the early nineties, the interests of the manufacturing sector continue to dominate the political economy of trade policy in Brazil. How to make sense of this privileged stance granted in the trade policy making to the manufacturing sectors that compete with imports?

The ability of the industrial sector to develop a high capacity of organization and mobilization to defend its interests – since the unilateral trade liberalization, but especially during periods where major threats were perceived – has played a major role here.

36. The fact that the nationwide organizations representing the small farmers were political constituencies of the recently elected government of the Workers Party (Partido dos Trabalhadores) was likely the main driver of their influence on the trade negotiation strategy adopted at this moment.

To exert its influence, the industrial sector not only put in place an unique organization geared at the trade negotiations – CEB – but it also set technical staffs exclusively dedicated to trade and investment issues, especially in nationwide "horizontal" and sectoral organizations. These staffs produce technical studies and notes and act in the gathering of business positions in trade negotiations, thus strongly increasing their leverage in the discussions and negotiations with the public players.

According to representatives of industrial associations, interviewed for the research, technical studies and documents produced by the staff of these organizations play a major role in the relationship they have established with the government agencies, particularly MDIC – the main interlocutor of the associations for a broad array of policy issues – and the Ministry of Foreign Affairs – when the issue relates to trade negotiations.

However, both horizontal and sectoral business associations have also stressed the relevance of "direct contacts" and "informal dialogue" with the government, this mechanism being particularly relevant for the latter. In the case of horizontal (cross-sectoral) associations, as CNI, more institutionalized channels of influence are also available: CEB is a permanent partner of the public entities in charge of trade negotiations, CNI participates in some committees created within CAMEX's structure and it exposes its ideas in the media, through articles signed by its President etc.[37]

Besides, the industrial sector was able to influence the power shifts taking place in the State institutional structure, fostering those changes that were favorable to its interests – contributing to freeze shifts seen as unfavorable to the industrial sector.

In this sense, the evolution of the institutional structure of trade policy has given import-competing industrial sectors an edge in advancing their interests, but that evolution itself was strongly influenced by the organization and mobilization of the industrial sector, pushing for increasing MDIC's control on the protection tools.

Not by chance, the representatives of industrial associations have a very positive assessment of their ability to influence trade policy, as expressed by "the rate of success" of the demands they present to the government. One of the sectoral associations sets at 95% the rate of success of the lobby carried out by its association. For the CNI representative, on his side, "CNI ranks first among business associations, as far as the ability to influence trade policy is concerned".[38] Although the industry is by far the main beneficiary from the protectionist trade policy historically adopted by Brazil, this policy does not stop at the limits of industry. As already stressed, the recent years have witnessed the activism, in trade policy, of the agricultural sectors that compete with imports – even when they also export. The more notorious episodes involve coffee – and the imports from Vietnam – and ethanol – and imports from the US – both in 2017 and, in both cases, the protectionist pledges from the sectors got positive responses from the government. As Jank (2018) reminds, "among the five largest exporters of agricultural goods in the world, Brazil is the only one that has marginal imports. Wheat, cocoa, coffee, shrimp, dairy products and fish are examples of goods where punctual protectionism hinders high volumes of potential exports".

37. In some few cases, when a trade issue becomes a source of public disagreement between the players, advertising in newspapers to expose the position of an association (or of a group of associations) has also been a tool for influencing governmental decisions. This was the case in the intra-industrial dispute on the enforcement of antidumping duties on the imports of steel from China and Russia (see section 5.3. below).

38. Another mechanism of pressure and influence on trade policy refer to very specific demands from regionally concentrated producers concerned with import competition, as stressed in Section 4.1. In such cases, the recourse to Congressmen to mediate the contacts with authorities from MDIC or other Ministries is quite usual, especially when the "threatened" producers are small or medium-size companies without direct access to governmental authorities.

In an apparent paradox, the level of conflict between the export-oriented agricultural sectors, on one side, and industrial and agricultural sectors competing with imports, on the other, is low – if any – in Brazil. It has emerged at very specific moments, when trade negotiations in the FTAA and with the EU seemed to reach decisive steps, but otherwise frictions between these interests have been quite mild. The export-oriented sectors do not push for unilateral imports liberalization.

How to make sense of this? On one hand, the agribusiness sector exports the bulk of its production and its exports have largely benefitted from high international prices and from strong demand from Asian countries during a large share of the period herein considered. On the other hand, imports of inputs can be made through drawback mechanisms, exempting the imports of the export-oriented sectors from the cost of industrial tariffs (and other taxes charged to imports).

In the case of the few export-oriented manufacturing sectors, something similar occurs. These sectors do not carry the burden of the import tariffs applied to their inputs as they benefit from drawback – or even more favorable – mechanisms. At the same time, they get some protection from tariffs for their products in the domestic market, while often facing zero or residual tariffs in their export markets. This leads to a situation where export-oriented and internationally competitive industrial sectors do not press for trade liberalization in Brazil.[39] On the contrary, they support the protectionist status quo that guarantees them some non-residual level of tariff protection in comparison to export markets where frequently they face no tariffs.

The implications of that interests' configuration for the political economy of trade policy are twofold:

1) On the trade negotiations front, export-oriented agricultural sectors are the only offensive interest but their presence in the negotiations arena varies according to economic conjuncture. In the last few years, those sectors did not act as a counterweight to the defensive interests in trade negotiations as they were focused on the Asian markets.
2) On the unilateral trade policy front, no pressure in favor of liberalization comes from the business sector, either agricultural or industrial. The export-oriented and competitive segments and companies in both sectors benefit from special import regimes that exempt them from import tariffs and do not make pressure for trade liberalization.

4.2.2 The role of ideas

However, the "privilege" granted to the manufacturing sector cannot be understood without referring to the weight of non-economic sources of preferences (Jamal and Milner, 2013) or ideas (Rodrik, 2013) in shaping public policies. Here the central role of ideas points to the resilience of the protectionist paradigm of foreign economic policy consolidated during the period of import-substitution industrialization, even after the import-substitution process lost traction as an engine of growth and industrial diversification. This resilience relies on the fact that the support it has gathered goes far beyond the economic interests that benefit from the policies adopted, being based on a set of ideas largely shared by different segments of the Brazilian society.

39. The mining sector, despite being essentially export-oriented, has never been active on the trade policy arena. It benefits from drawback and special import regimes when importing inputs and equipment and does not face barriers in external markets.

This set of ideas lies, in the domestic front, on the identification of the industrialization process to the "national economic project" and to "development" – the ultimate economic goal of an underdeveloped country –, a view crafted during the import substitution period and widely shared by politicians, academics, business and trade unions.

In addition, there is a widespread perception that the Brazilian import-substitution experience was successful, as compared to other Latin American countries. Brazil was able to build a very diversified industry under the import substitution model, a performance that appears to be in clear contrast with the poor performance of Brazil's economy in the first decades of the 20th Century, when the economy was open and based on primary exports (Bacha, 2016). For sure, as asserted by one project's interviewees, "the costs of the model were not clear at the time and they appear later on. Competitiveness problems associated to this model were hidden by the transfer of resources, through different policies, from the government to the private sector".[40]

Besides, protecting the domestic production against imports and favoring foreign investment (over imports) as an engine to increase domestic productive capacity has been, since the fifties, the favorite mix of "development policies". This policy mix was widely perceived as positive in any situation, regardless the incurred costs. It would not be excessive to argue that this perception became almost a "common sense" idea among Brazil's policy makers and the public bureaucracy dealing, within different Ministries, with trade and industrial policies and issues.

It is worth reminding that in the external front foreign policy in Brazil has historically been, since the beginning of the 20th Century, essentially driven by economics: "the nucleus of Brazil's trade policy agenda has always been conditioned by the economic model in place" and it held a "strong developmentalist component". In this sense, "the foreign policy became a relevant tool of the import substitution model" (Lima, 2009).

During the import substitution period, the Brazilian foreign policy's practices and discourses emphasized the search for "autonomy" within the world economic order that emerged from the Second World War. This international order and its international regimes were taken as expressions of developed countries interests – as opposed to developing countries aspirations – and as threats to the "autonomous" industrialization project (identified to development).

In this view, the North-South cleavage plays a central role, not only in explaining the difficulties faced by Brazil in the international economic space, but also in setting the parameters for the alliances and coalitions to be pursued in this arena. As a consequence of such perception, Brazil's participation in trade fora (as the GATT/WTO) and in preferential trade negotiations was driven by the demand for special and differentiated treatment (as a developing country) and by the objective of avoiding external commitments that might jeopardize national economic development and the consolidation of the industry.[41] Therefore, Brazil's reluctance in negotiating, in preferential trade agreements with Northern countries, rules that could hinder its "industrial policy space" comes as no surprise.

40. Interview with an ambassador who occupied high ranks in the Ministry of Foreign Affairs and CAMEX.
41. According to a retired Ambassador who occupied high ranks in the Ministry of Foreign Affairs and CAMEX: "through the idea of infant industry, the foreign policy defined a waiver from the GATT rules. Brazil would participate in GATT, but under a waiver as the world system is not fair and its liberalizing framework conflicts with industrialization goals". Lima (2009) points that "since the end of the Seventies, Brazil acted to postpone or even prevent the adoption of new rules and procedures that could differentiate among developing countries, weaken multilateralism and make domestic policies and practices more strictly conditioned to the legal discipline of the international trade regime".

According to an Ambassador and former Ministry of Industry, for the Ministry of Foreign Affairs "the liberal framework of the GATT/WTO did not match the objectives of industrialization. The Ministry absorbed the idea of 'infant industry', self-authorizing a waiver to the GATT rules".

This set of ideas on the international order and the challenges it imposed to Brazil's project of development has largely informed the positions taken by Itamaraty (the Ministry of Foreign Affairs) since the period of import substitution. As a strategic component of the model of industrial development, they leveraged institutionally the role of Itamaraty and the professional diplomacy in trade policy.[42] On the domestic as well as the external front, ideas were able to influence the political economy of trade policy because they were embedded into institutions in charge of defining the direction of trade policy. This is the case of the Ministry of Foreign Affairs, but also of other public bureaucracies dealing with trade and industrial policies. In the trade liberalization of the nineties, much of the pressure against some tariff reductions came from inside the same State that was implementing the reform. And some of these pressures were motivated by ideas and views on the priorities of the industrialization process and the role of specific industrial sectors (e.g. informatics) in it. Ideas seem to have also played a major role in influencing the pattern of engagement of Brazil in the FTAA process, one that could be referred to as "refractory".

Trying to explain this pattern of participation, ex-President Cardoso – interviewed for this research – stressed its ideational component. According to the ex-President – in charge during almost all the FTAA negotiations – "we kept our successful model of the past, while the world was going through an integration process. We missed the train". Or: "Brazil's elites were educated under import substitution and protection and it was difficult to understand what the national interest should be in such a world".

Without resorting to the hypothesis that ideas matter for the understanding the political economy of trade policy in Brazil it seems impossible to make sense of the continuity that has characterized the political economy of Brazil's trade policy before and after the unilateral trade liberalization of the nineties. The influence of these ideas owes a lot to the fact that they have been "absorbed" and sustained by several public institutions in charge of trade policy and by their bureaucracies.

4.3 Some revealing episodes of the political economy of trade policy

4.3.1 The unilateral trade liberalization of the Nineties and the negotiations of Mercosur's CET: rupture and continuity

The current Brazilian tariff structure is the output of two consecutive initiatives: the unilateral trade liberalization and the setting of Mercosur's Common External Tariff (CET). These episodes are relevant because they are landmarks in the trade policy trajectory of the last thirty years, but also because they still provide the basic reference for the Brazilian debate on trade liberalization and its impacts, costs and benefits.

42. As expressed by an Ambassador interviewed for the research, "rigorously speaking, the Ministry of Foreign Affairs has no competence on the setting of trade policy, but its influence derives from the fact that it acts as the external interface of the policy and it has bureaucratic autonomy and continuity, in contrast with other Ministries".

The first movements for reforming the tariff structure took place from 1985 on, through the Tariff Policy Commission (CPA – Comissão de Política Aduaneira), a Ministry of Finance's agency in charge of the micro-management of tariffs required to enforce the companies' annual import programs approved by CACEX. The decision was taken at the Ministry to "modernize" the Brazilian tariff "to adapt it to the needs of development of the industry". At this time, "trade policy was exclusively driven by balance of payments' concerns".[43]

CPA presented a proposal for the rationalization of the protection structure, which reduced the average level of nominal tariffs for manufactured goods to 51% (and the average for all products to 50%). A small number of special import regimes were eliminated – although the bulk of it remained in force – some surcharge taxes levied on imports were extinguished, tariff peaks were reduced, but the system of non-tariff barriers remained in place.

According to Tyler and Gurgel (2009), "this timid tariff reform however was pursued in such a way as to have little effect on imports or on the protection afforded to domestic producers through Brazil's elaborate incentive system". The limited reach of the reform did not prevent it from being resisted by highly-ranked diplomats and the bureaucracy in charge of managing the import programs of the companies and the investment projects supported by government incentives.[44]

The following step was the trade liberalization initiated in 1990, whose original timetable for tariff reduction would conclude in December 1994. Lately the timetable was accelerated and the tariff levels targeted were reached at the end of the first half of 1993.

The myriad of non-tariff barriers that characterized the Brazilian trade policy was also targeted by the reform, which extinguished the import prohibition applied to 1.200 goods, the requirement for the firms to present their annual import programs, the requirement to get the previous authorization from the government for the import of specific goods and so on.

The decision to enforce a trade reform was taken before the inauguration of Fernando Collor de Mello, who was elected President on December 1989. Collor had been previously the governor of a small state in the Northeastern region – the poorest region of the country – and was at the time an outsider vis à vis Brazil's economic and political establishment. Outsider as he was, Collor brought to the Brazilian State a set of new ideas and policy guidelines where openness to the world economy, industry modernization, privatization and macroeconomic stabilization work together and are strongly valued. These ideas were almost inexistent among the State bureaucracy at that time and, as seen from the Ministry of Foreign Affairs, they diverged a lot from the foreign policy prevailing since the sixties.[45]

The first proposal for tariff reform that circulated within the government adopted a 40% maximum tariff, the modal tariff was defined at 20% and the average tariff at 14%. The proposal did not specify the intermediate tariff levels to be included in the tariff structure and it was approved in the Tariffs Technical Coordination (CTT) – the former CPA.

43. Interview with a former CPA's President.
44. Ibidem. At this time, CPA also worked on the texts internalizing the GATT's Codes on Antidumping and Subsidies and Countervailing Duties, which Brazil had signed at the Tokyo Round.
45. Interview with an Ambassador, having occupied high-ranked positions in the Ministry of Foreign Affairs and the Ministry of Finance. Not by chance, the officials' team that designed and enforced the new guidelines in trade and industrial policy were institutionally distant from the political and economic establishment in Brasilia. Many of them came from Rio's Catholic University (PUC-Rio) and had economic ideas close to the so-called "Washington Consensus".

The tariff structure was gradually "filled" based on some criteria. The decision was taken to reduce the tariffs of capital and intermediate goods more rapidly than those of final goods. The rationale behind this decision was a political economy one. As the liberalization was scheduled to be gradual, pressures were expected to increase and the government opted for gathering the support of the sectors negatively impacted by the protection afforded to capital and intermediate goods.

Even before the official announcement of the new tariff structure – which occurred on February 1991 – the pressures arouse, surprisingly coming mainly from high-ranked officials of the Ministry of Economy.[46] These pressures were addressed at specific sectors that were the traditional targets of industrial policies: the informatics – strongly protected by a highly protectionist sectoral policy - vehicles and electronics sectors. The tariffs of these sectors were set at 20%, but after the pressures they were raised to 30% or 35%.[47]

The pressures coming directly from the private sectors emerged once the new tariff was formally announced. But the reactions were limited to a few sectors and did not result in tariff changes. For example, the petrochemical sector pressed strongly to have the tariffs of the sector raised, but there was no change as a result of the sector's lobby.

The tariff reform of the nineties raises a relevant question for the future of trade policy in Brazil: under which economic and political circumstances is a trade reform feasible in the country?

As commented, Collor was an outsider to the Brazilian establishment and as such he was able to revamp the institutions in charge of trade policy and to enforce a reform that was, in Brazil's context, an unique landmark of State autonomy in face of the private sector's demands and pressure for protection.

As a consequence, the inflexion produced by the trade reform of the early nineties was not marginal – on the contrary. Besides the withdrawal of many non-tariff barriers, the tariff reform led the average tariff from 50%, in 1989 to 13.2%, in 1993, the maximum tariff decreased from 105% to 40% and the modal one from 40% to 20%. Between 1990 and 1995, the import coefficient of the industry grew from 9.1% to 13.8%, while the export coefficient went from 9.1% to 12.8% (Markwald, 2001).

Despite these impressive outputs, previous assessments of the tariff structure resulting from the trade reform of the early nineties have stressed that some major features of the tariff structure in force before the reform were not challenged. Among these features it is worth mentioning the fact that the highest levels of post-reform protection benefitted the same sectors that have been favored by the industrial and export policies in the previous decades: the vehicles, capital goods and electronics sectors (Veiga, 1999).

In this sense, "the import policy of the nineties represents a rupture with the protectionist tradition in Brazil's trade policy, but it did not abandon the option for protection and incentives structures highly discriminatory in inter-sectoral terms" (Veiga, 1999). This feature of the post-trade reform scenario is even strengthened by the fact that some of the sectors benefitted by high levels of protection before (and after) the reform were further favored by sectoral incentives and regimes, that survived the reform (Zona Franca de Manaus, for the electronics sector) or that were set after the trade reform (Regime Automotivo, for the auto sector).

46. Collor government promoted a reorganization of the State structure, merging different Ministries. The newly-created Ministry of the Economy put together the former Ministries of Finance, Planning and Industry & Trade.
47. Interview with a former Coordinator at CTT.

As far as the political economy of the trade reform is concerned, opting for a tariff structure based on "tariff escalation" and benefitting the same industrial sectors favored by the pre-reform structure seems to have smoothed the reactions of the private sector. That said, the unilateral trade liberalization remained, as perceived by the industrial sector, as a model case of non-participation by the private sector and of government resistance to private sector attempts at interference.

The negotiation of the Mercosur's CET, held in 1992 and 1993, provided the opportunity for resetting the close relationship that had prevailed before the trade reform between the governmental entities in charge of the tariff policy and the different manufacturing sectors.

These negotiations made clear that Brazil's partners in the Mercosur project were interested in "negotiating an expressive reduction of the tariffs as compared to the previous subregional average tariffs and to the Brazilian tariff, especially in some sectors considered as sensitive". Besides this horizontal issue, there were strong divergences between Brazil and its partners as far as tariffs applying to capital, informatics and telecommunications goods were concerned.

To deal with this threat, "SECEX/MDIC had frequent meetings, during all the negotiations period, with representatives from all the industrial and agricultural sectors" some of which acted as advisors to the government's negotiators (Baptista, [s. d.]). According to the same author, the sectors' participation was essential to conclude the negotiations as well as to make the negotiated CET acceptable to the various sectors in Brazil.

If the unilateral tariff reform can be seen as an autocratic movement towards trade liberalization, the negotiation of the CET with the other Mercosur partners sought to avoid further reductions in the tariff levels already applied to manufacturing goods in Brazil. In order to accommodate the divergences between Brazil and its partners around the tariffs to be applied to capital, informatics and telecommunications goods, several exceptions mechanisms were deployed, besides the exception list to Mercosur's Common External Tariff (LETEC), already mentioned.

Therefore, if the unilateral trade liberalization is a landmark of State autonomy in setting and enforcing a trade policy – despite its limitations –, the negotiation of Mercosur's CET can be seen as a process that re-established the "bridges" between the trade policy makers and the representatives of the industrial sector. In these first movements, concerning Mercosur's CET negotiations, the links were established at the sectoral level, but with the beginning of the FTAA negotiations they would acquire a broader dimension, encompassing the industrial sector as a whole, through "horizontal" entities as CNI and CEB.

4.3.2 Brazil and the FTAA negotiations: the foreign policy paradigm at work in trade negotiations

As previously noted, the FTAA negotiations have triggered an "earthquake" in the trade policy arena in Brazil. In part, this impact owes to the novelty of the FTAA concept, as seen from the Brazilian public and private sectors' point of view: a broad and multi-thematic free trade agreement inspired by the NAFTA model, in sharp contrast with the gradual integration methodology adopted by Mercosur in the first years of the nineties.

In addition, Brazil had just concluded its unilateral trade liberalization initiated in 1990 when the FTAA negotiations were launched at the Miami Summit, in December 1994. Less than a year after, the process gained traction as the First Meeting of Trade Ministers, held in Denver, defined the main parameters for the setting of the free trade area and seven working groups were created to deal with the main issues to be negotiated.[48] Brazilian high-ranked diplomats and officials report to have been heavily surprised by the ambition and the timetable set for the FTAA by the US government: "There was a strong pressure to go forward with the FTAA, to make it an ambitious liberalization agreement, a kind of generalization of NAFTA to the whole Latin America".[49]

However, the impact of the launching of the FTAA in Brazil and the positions adopted by Brazil during the negotiations cannot be understood without reference to the paradigm that has dominated the Brazilian foreign policy for at least half a century. In the case of the FTAA, this reference is relevant for three reasons.

Firstly, as already explained, Brazil's foreign policy has avoided international commitments perceived as potentially limiting the space for industrialization and for development policies. The FTAA "model" and its broad thematic agenda were soon perceived by the Brazilian establishment as threats to the autonomous management of such policies.

Secondly, from this point of view, the bilateral relationship with the US has historically been a sensitive issue for the Brazilian foreign policy: Brazil is situated in the Western Hemisphere, within the US "sphere of influence", and the US is the main sponsor of the international regimes that Brazil has traditionally identified as a risk to its autonomous development project.

Not by chance, one of the permanent objectives of the Brazilian foreign policy has been the geographical diversification of partners and alliances, deemed to be a factor of power "rebalancing" in the bilateral relation between Brazil and the US. In this sense, the negotiations between Mercosur and the European Union – simultaneously to the FTAA ones – were perceived by the Ministry of Foreign Affairs as a 'healthy alternative' to the FTAA option and to the concession of exclusive preferences (among developed countries) to the US. The negotiations with the EU would provide the "counterweight" required by the Brazilian diplomacy and policymakers, faced with the challenges of the FTAA project.[50]

Thirdly, Mercosur was at the time the main priority in the Brazilian foreign policy and trade agenda and its consolidation was seen as the first step towards its expansion to the whole South America: "from this point of view, the FTAA was obviously a de-structuration threat (or this project) more than an opportunity of market enlargement" (Ricupero, 2017).[51]

This "foreign policy" factor, in its three dimensions, is by far the more relevant to understand the reluctant positions assumed by Brazil towards the hemispheric project during the whole period of negotiation.[52] Its presence points to the fact that Brazil's positions in trade negotiations with Northern countries – but especially with the US – owe a lot to the main assumptions of its foreign policy paradigm.

As the negotiations evolved and the Brazilian business sector got involved in the process, the defensive stance that accrue from the foreign policy paradigm has been reinforced by the mobilization of the import-competing industrial sectors, concerned about the "risks" of the

48. The Second Ministerial meeting, in Cartagena (1996) would add four other negotiating groups to those initially set.
49. Lampreia (2010). The ex-President Cardoso, joined, as president elected, the Miami Summit in 1994. He admitted, in his interview to this research, that he had "no idea on the FTAA" and he was surprised by the timetable and the goals set by the US.
50. Interview with an Ambassador and former Ministry of Industry.
51. Since the Cartagena Ministerial Meeting (1996), Mercosur countries have acted as a sole player in the FTAA negotiations, presenting common proposals in the different working groups and in the other instances making for the institutional structure set for the negotiations.
52. The other two impacts were relevant immediately after the launching of the negotiations and at their first stages, but they were reduced as the negotiations evolved.

project. But the political leverage of the industrial sectors would have been a less relevant factor in shaping Brazil's position if their defensiveness did not converge with the public sector's one.

Brazil's reluctance towards the FTAA was a relevant and permanent feature of its participation in the process. In the FTAA's first years, it materialized through several positive proposals whose likely consequences were to extend, as much as possible, the pre-negotiation – and then the negotiation – period and to make it difficult to reach a convergence at the end of the process.

In two opportunities – 1994 and 2001 – the Brazilian negotiators rejected attempts to anticipate the date set for concluding the negotiations (2005).[53] In the first years of the process, Brazil proposed a three-stage methodology; the first one addressing business facilitation issues, and the last one, market access issues. Other efforts, some successful, to extend the pre-negotiations phase of the process, were also undertaken by Brazil. In addition, the country defended the adoption of the "single undertaking" as a principle, conditioning the signature of the FTAA to agreements in all the themes under negotiation.

Once the negotiations effectively started, Brazil – through Mercosur – was one of the most active participants of the process, presenting a huge number of proposals for the texts of the different chapters that would compose the agreement. Except for agriculture, the proposals presented by Mercosur – largely reflecting Brazil's positions – were defensive and backed by an increasingly mobilized business sector.

As well known, the negotiations were not able to narrow the positions gaps between Mercosur, on one side, and the US – followed by a wide number of Latin American countries – on the other. Tensions and divergences on the content of different chapters have multiplied, but Brazil kept its positions and even reinforced them when President Cardoso, at the Americas Summit, in Quebec (2001) presented, in his speech, a "list of conditions to be filled to avoid the FTAA being irrelevant or undesirable". The speech, according to Ricupero (2017), "lined up all the characteristics that the FTAA would likely not possess (...) Its reiteration in the president's speech corresponded to setting conditions that would make the agreement unfeasible from the US point of view".

Therefore, seven years after the beginning of the negotiations, President Cardoso's speech completely ignored the evolution of the negotiations and the issues at stake. On the contrary, it merely repeated principles and the well-known main elements of the Brazilian agenda for the FTAA, presenting them as conditions to the country's commitment to the hemispheric process.

A last question on the participation of Brazil in the FTAA negotiations remains: why did Brazil join the process despite the notorious resistances in the public and private sectors? An obvious answer to this question would point to the risks of being isolated within the Hemisphere and even within Mercosur. In addition to this perception of risks, one could argue that there were some "mixed feelings" towards the liberalization that the FTAA would imply. The recent unilateral trade reform undertaken by Brazil in the first half of the nineties was positively asserted by the recently elected President Cardoso and its advisors and a new trade liberalization wave could contribute to the continuity of the productivity gains achieved in the second half of that decade.

53. Abreu (1997) and Barbosa (2011).

However these perceptions do not seem to have had lasting impacts on the official Brazilian positions in the negotiations: they were rapidly replaced by a view where the risks of the FTAA project outpassed the opportunities potentially generated by it. The entry of the Brazilian business sector in the trade negotiations arenas, from 1997 on, through the setting of CEB, had surely a relevant impact on strengthening the defensive component of the Brazilian official positions within the FTAA process.

4.3.3 The "ex-tarifário" import regime: a frustrated revision

"Ex-tarifário" is one of the "tariff-exception" mechanisms put in place within the scope of the trade Policy. The "ex-tarifário" regime was instituted by CAMEX in 2001 and it allows for a temporary reduction (up to two years) of the import tariff (in Mercosur's CET) of capital goods (set at 14%) and informatics and telecommunications goods (16%), if "similar" goods are not produced domestically.[54] From July 2017 on, the tariffs of goods under these regime are reduced to 0%. Before that date, they were set at 2%.[55]

The rationale of the program is to reduce the costs of investments that require capital goods imports, without causing any negative impact on the demand for the domestic production of such goods (hence the "similarity" – in fact a "non-similarity" – test). In this sense, the regime is only applied to products that complement – and do not compete with – the domestic offer of capital goods.

The business nationwide sectoral associations representing the mechanics and electronics industries are responsible for carrying out the "similarity test" and for issuing the respective certificate. If the certificate does not attest the "non-similarity", it can be challenged by the company that demanded its inclusion in the "ex-tarifário" regime and a final decision is made by the Committee for the Analysis of "ex-tarifários" (CAEX) within CAMEX's structure.

In 2016, CAMEX Executive Secretariat, at the time under the Ministry of Foreign Affairs, proposed a regime reform, which should include the adoption of objective criteria to be used in the similarity test and of zero tariff for the products benefited by the regime (instead of 2%). A change in the governance of the regime was also proposed, whose adoption would imply changes in the composition of CAMEX to include new members.

The only recommendation approved by CAMEX was the proposal to apply zero tariffs to the goods whose imports would be made through the "ex-tarifário" regime. Frustrated by CAMEX's refusal to introduce changes to the regime,[56] the Ministry of Finance submitted to CAMEX, in April 2018, a proposal for a unilateral reduction of the tariffs of capital and informatics goods to 4%, arguing that Brazil's tariffs applied to these sectors were much higher than the world average for the same sectors and even than developing countries average.

The proposal was supported by the Secretariat for Strategic Affairs of the Presidency, but gathered criticism from within and outside the Government. CAMEX's Executive Secretary stressed the inconvenience of taking such a decision "in a hurry" and without evaluating "the collateral effects of the measure on the economy as a whole".[57]

54. Because of divergences between the national tariffs of Mercosur's countries during the CET negotiations, the countries are allowed to maintain exceptions to the common tariff for capital, informatics and telecommunications goods. These exceptions, originally temporary, have been renewed several times and, according to Mercosur's Decision 25/2015, will be in force until 2021.
55. In 2016, according to the Ministry of Development and Foreign Trade, 3.278 "ex-tarifários" were authorized by CAMEX (on 3.965 requirements made to CAMEX), corresponding to US$ 11.2, billion in imports. The regime also applies to auto parts, but the bulk of the authorizations refer to the other two groups of goods.
56. At this time, CAMEX's Executive Secretariat was back to the Ministry of Development and Foreign Trade, after a fierce and public dispute with Foreign Affairs. The "hurry" refers to the fact that the term of the federal government in charge was reaching its end.
57. See: <https://is.gd/cgnLLE>. Accessed on: Aug. 9, 2018.

The President of the Industry National Confederation (CNI) published in the main Brazilian economic newspaper an article strongly rejecting the proposal on the grounds that it was disconnected from the "real economy" and should be discussed "with all the interested parties, mainly businessmen and workers". In the same article, the idea of a unilateral liberalization was disowned in favor of a negotiated liberalization to be introduced in tandem with domestic reforms that could create a favorable environment for the domestic industrial production.[58]

High-ranked representatives from the sectoral associations potentially affected by the proposal also voiced their disagreement. For the president of ABIMAQ – the nationwide mechanical capital goods producers' association –, the measure, if adopted, would "annihilate a sector that employs more than 2 million people".[59]

At the end of the processes herein described, the "ex-tarifário" regime survived with almost no change and the proposal presented by the Ministry of Finance was not considered for CAMEX decision so far.

4.3.4 The steel anti-dumping controversy

In the middle of 2016 Brazil initiated an anti-dumping investigation on imports of hot rolled flat steel from China and Russia[60] at the request of two domestic steel producers. The investigation conducted by the Department of Trade Defense (DECOM) of the Ministry of Industry and Foreign Trade concluded that the imports from both countries were dumped and set the level of AD duties to be applied. The report established by the Department was then taken to the plenary of CAMEX to be confirmed. However, what followed has been far from the normal processing of the decisions on the adoption of anti-dumping measures.

As the conclusions of the Department's report were made public through the press, the case turned into a controversy opposing, on one side, the steel producers – represented by the nationwide steel association – supported by the Ministry of Development and Foreign Trade and, on the other side, a broad coalition of public and private players that included the Ministries of Finance and Agriculture and around twenty business associations of the sectors consuming steel products, under the leadership of ABIMAQ. Other powerful sectoral associations joined ABIMAQ (as the auto sector and the electronics associations) and the coalition undertook a public campaign against the adoption of the duties defended by the steel producers. The main argument of this coalition points to the impacts that the adoption of the duties would have on the productions costs – and the prices – of the sectors consuming steel.

This unusual situation led the plenary of CAMEX to postpone its decision on the matter on October 2017, rescheduling it for its January 2018 meeting. The campaign against the adoption of the duties intensified as the date of the decision approached and on the eve of the decisive CAMEX meeting, the Ministry of Finance made public a Technical Note stressing the adverse effects of the application of the duties on main industrial consumers of steel and on the domestic prices indexes.

Besides, the note stressed that the problems faced by the domestic producers of steel derived from the reduction in the demand of its main consumers, not from the increase in the competition from Chinese and Russian exports.[61] In this sense, the note sustained

58. See: <https://is.gd/wPdShV>. Accessed on: Aug. 9, 2018.
59. Ibidem. Accessed on: Aug. 9, 2018.
60. On November of the same year, a countervailing duties investigation was also initiated against imports of the same product from China.
61. Antidumping (and countervailing measures against the Brazilian exports of the same products targeted by Brazil's investigations

that the argument of "serious prejudice" caused by the imports to the Brazilian producers was not sound.[62]

Furthermore, in the days preceding the CAMEX's meeting, the Ministry of Agriculture publically announced that its vote would be against the imposition of the anti-dumping duties. In this case, the rationale for the vote was the risk of Chinese retaliation against Brazil's decision and the negative effects that it could produce on Brazilian agricultural exports to China.

On January 18, 2018, the CAMEX's plenary of Ministers decided to apply the antidumping measure, as recommended by the Department's investigations and conclusions, but suspended the application of the measure for one year, for public interest reasons. During the period, the evolution of the market would be monitored to subsidize the decision-making after the suspension period. This intermediary decision "saved the face" of the Department of Trade Defense, but should be perceived as a result of the strong mobilization of the productive sectors potentially affected by the adoption of the measure and of the Ministry of Finance.

These are precisely the elements that make this episode revealing and noteworthy. On one side, the Ministry of Finance invested its political capital in the affair, challenging the status quo practices and behaviors within CAMEX. This attitude is unusual in the case of the Ministry of Finance, despite the liberal profile of the majority of Ministers and technical teams that have occupied the Ministry along the years. It is impossible to conclude, based on this episode, that the Ministry of Finance will upgrade permanently its presence in the trade policy arena, but it undoubtedly represents a departure from the traditional attitude of the Ministry towards trade policy and particularly to the freedom accorded to the Ministry of Industry and Foreign Trade for managing the policy's protection tools.

On the other side, the wide composition of the business coalition of sectors consuming steel and its decision to "go public" with its positions, frontally opposed to those of the steel sector, also constitute a novelty in Brazil's trade policy arena. The strong mobilization of the sectors potentially affected by the protection demanded by their suppliers – and the positive outputs gathered from this mobilization – can act as a signal that, at least under specific circumstances and for certain sectors, the margins to demand additional protections have become narrower.

5 EMPIRICAL ASSESSMENT

This paper developed the argument, and presented factual and qualitative evidence, that the lobbying pressure of some organized sectors is an important element in determining the Brazilian trade policy. More specifically, it was argued that the power of sectoral lobbies is one of the essential features that explains why the country still have a relatively high level of protection from imports and why it´s been so reluctant to sign free trade agreements.

The objective of this section is to present an econometric exercise aimed to test whether these conclusions are supported by the data. The exercise follows the methodology applied by Goldberg and Maggi (1999), which was based on the seminal paper "Protection for Sale" of Grossman and Helpman (1984).

were imposed by the US on October 17, 2016 and by The EU on October 6, 2017. According to Jank (2017), "between 2010 and 2016, Brazilian imports of these products felt from US$ 734 million to US$ 88 million, practically disappearing". Retrieved Aug. 10, 2018, from: <https://is.gd/JGIbG9>.

62. See: <https://is.gd/H2xT2C>. Accessed on: Aug. 10, 2018.

5.1 Methodology

The prominent "Protection for sale" model developed by Grossman and Helpman (1984) emphasizes the influence exerted on policy-makers by interest groups aiming to obtain certain policy measures in their benefit. It has been largely used in the literature as a basis to analyze the cross-sector structure of trade protection. The model predicts that the differences in protection between sectors depend fundamentally on three variables: the price elasticity of imports, the import penetration ratio, and the fact that a sector is (or not) organized so that it can actively be engaged in lobby activities.

The logic of the Grossman-Helpman model is that the optimal trade policy (or, more specifically, the tariff structure) is defined so as to maximize the joint surplus of the consumers, the government and the domestic firms, considering that the utility function of the government is a linear combination of the welfare of the society and the contributions (or the political pressure) made by the lobbying sectors.

Considering trade policies, the joint surplus can be written as:

$$\boldsymbol{\Omega = a + \alpha_L + \sum_{i=1}^{n} (a + I_i)\pi_i + \sum_{i=1}^{n} (a + \alpha_L)(t_i^s M_i + s_i)} \qquad (1)$$

Where:

- α represents the government valuation of social welfare relative to the pressures from lobbies (α>0);
- αL is the share of the population that owns some specific factors used in the production, so 0 < αL <1. It can be interpreted as the people that have interests in the firms that compete with imports;
- π_i are the returns on the specific factor used in the production of the good i;
- t_i is the import tariff on the good i;
- M_i are the imports of the good i;
- s_i is the consumer surplus from the consumption of the good i; and
- I_i is a dummy variable that takes 1 if the producers of good i are organized to do lobbying and 0 otherwise.

Maximizing the equation 1 on tariff t_i gives the following result:

$$\boldsymbol{\frac{t_i}{1 + t_i} = \frac{I_i - \alpha_L}{a + \alpha_L} \cdot \frac{z_i}{e_i}} \qquad (2)$$

Where z_i is X_i/M_i, what is the inverse of the import penetration ratio and e_i is the price elasticity of imports of good i.

In their attempt to do an econometric testing of the Gossman-Helpman model for the US economy, Goldberg and Maggi (1999) adapt the above equation to the following form:

$$\frac{\boldsymbol{t_i}}{\boldsymbol{1 + t_i}}\boldsymbol{e_i} = \boldsymbol{\gamma}\frac{\boldsymbol{X_i}}{\boldsymbol{M_i}} + \boldsymbol{\delta I_i}\,\frac{\boldsymbol{X_i}}{\boldsymbol{M_i}} + \boldsymbol{\varepsilon_i} \qquad (3)$$

Where $\gamma = -\alpha L/(a + \alpha L)$ and $\delta = 1/(a + \alpha L)$.

So the task is to estimate the parameters $\boldsymbol{\gamma}$ and $\boldsymbol{\delta}$. If the Grossman-Helpman model applies, $\boldsymbol{\delta}$ must be positive and $\boldsymbol{\gamma}$ must be negative. A positive $\boldsymbol{\delta}$ indicates that the tariffs are greater in the sectors that are organized and make lobby than in the non-organized sectors. A negative $\boldsymbol{\gamma}$ means that, within the set of non-organized sectors, the benefit of the tariff for the share of the population that owns some specific factors used in the production is greater than the cost supported by the consumers, so the relationship between import penetration and tariffs is positive. It also means that, when the price elasticity of imports is lower, the deadweight loss of the tariff for the society is lower, so the government is more willing to raise the tariff.

It is plausible that the import penetration ratio is endogenous, so that the level of imports and the domestic production can be affected by the tariffs. The solution adopted by Baumann and Messa (2015) is to transfer the term X_i/M_i to the left-hand side of the equation, so that:

$$\frac{\boldsymbol{t_i}}{\boldsymbol{1 + t_i}}\frac{\boldsymbol{M_i}}{\boldsymbol{X_i}}\,\boldsymbol{e_i} = \boldsymbol{\gamma} + \boldsymbol{\delta I_i} + \boldsymbol{\varepsilon_i} \qquad (4)$$

That is the specification of the model that will be estimated.

5.2 Data

Ideally, this model should be estimated at a high level of disaggregation. But it would be very difficult to determine the value of the dummy variable, so we decided to use a subsectoral level that contains an acceptable number of sectors so as to estimate a cross-section model. This is the product level disaggregation available in the input-output matrices for the Brazilian economy, which contain 86 tradeable items, related to agricultural, mining and manufacturing sectors. The Brazilian System of National Accounts gives information about imports and domestic production of each sector, necessary to obtain the import penetration ratio.

The tariff data for each sector is obtained from the TRAINS/UNCTAD basis, at the Harmonized system 6-digit level. To aggregate this data to the 86-level sectors, we use a translator available on the IBGE website[63] that relates each item of the NCM (Nomenclatura Comum do Mercosul) at 8-digit level with each of the 86 sectors. This one is adapted to relate each sector to the 6-digit level of the NCM (equal to the SH 6-digit classification) and then the tariff for each sector is calculated as a simple average of the tariffs of all the related SH-6 products.

The price elasticity of imports is obtained from a World Bank database available on the bank's website.[64] This database contains price and income elasticities for various countries, calculated at the SH 6-digit levels. To obtain the elasticities for the 86-level sectors, the same translator and the same method of simple average described in the previous paragraph was applied. The elasticity used in the estimates are the same for every year.

63. See: <https://is.gd/LEBt1t>.
64. See: <https://is.gd/G84tJV>.

Finally, there is the dummy variable for defining organized and non-organized sectors. Goldberg and Maggi use data on political action committee campaign contributions, defining a threshold so that the dummy is set as 1 if the sectoral contributions were above the threshold, and as zero if they were below. Other papers used alternative methods. For example, McCalman (2004), who tested the model for Australia, considered as lobbying sectors the ones that presented lawsuits for tariff reviews after the country had eliminated many non-tariff barriers in 1960, based on information published by the Tariff Commission. A more qualitative approach was used by Mitra, Thomakos and Ulubasoglu (2002), studying the Turkish economy. They gathered information on the 470 members of the Turkish Industrialists and Businessman Association, divided them on 37 sectors, and considered as organized the ones that have at least 5 members. They also included 4 more sectors that were considered to be influential on economic matters based on relevant newspaper articles.

In fact, determining if a sector is or is not organized and influential and if it develops relevant lobbying activities concerning trade policy is certainly a subjective matter, and even quantitative measures, as political campaign contributions, are imprecise, once one cannot be sure how much (if any) of these contributions are devoted to influence trade policy matters.

In this paper, in the absence of any objective information, the dummy was constructed using qualitative data. Three sources of information were used:

1) The interviews mentioned in the previous sections, once the interviewees (especially the government officials and the representatives of the sectoral associations) were asked to cite which sectors were the most active in formal and informal trade policy discussions within the most important government institutions (especially CAMEX, MDIC and the Ministry of Foreign Relations) and the ones that were most influential on the final decisions concerning trade policy issues, such as tariff changes, application of anti-dumping measures, negotiation of trade agreements etc.
2) Information supplied by the Ministry of Foreign Relations, on the sectors that are more interested on bilateral or regional trade negotiations and most influential on the outcomes of these negotiations.
3) Information supplied by the Brazilian Business Coalition (CEB) on the sectors most involved in the Coalition discussions and most influential on the positions assumed by the institution concerning trade policy issues and the negotiation of trade agreements.

As there were few changes in the Brazilian tariff structure since the beginning of the 1990's, the estimations were made considering some selected years in the period 2000-2015. It is important to note that the Brazilian System of National Accounts passed through some methodological changes on 2010. One of them concerns the classification of products and sectors of the Input-Output matrices. For the years before 2010, there are some differences in the 86 level sectors compared to the matrices of 2010 onwards. So, some adjustments were required to make the two classifications comparable, which implied that the number of sectors considered before 2010 had to be reduced to 79.

5.3 Results

Table 2 shows the results of the estimations of equation 4, using the least squares method, for the years 2000, 2007, 2010, 2013 and 2015. The data used in the estimations are presented in appendix C.

Both the estimated coefficients are statistically significant for every year. The **δ** coefficient is positive, as the model would predict, which means that the tariff levels are higher in sectors that are organized and make lobby. The **γ** coefficient, however, is positive. It means that tariff level is greater in sectors that have lower price-elasticity of imports and higher import penetration, contrary to what would be expected from the Grossman-Helpman model. It is neither possible to calculate the implied values of a and αL, because αL would be negative (which makes no sense). In general terms, the exercise shows that the Grossman-Helpman model does not apply to the Brazilian case.

TABLE 2
Econometric results

	2000	2007	2010	2013	2015
Constant (y)	0.0102	0.0116	0.0115	0.0169	0.0199
	(0.0031)	(0.0057)	(0.0055)	(0.0069)	(0.0077)
Significance	1%	5%	5%	1%	1%
δ	0.0184	0.0241	0.039	0.0438	0.0471
	(0.0048)	(0.0089)	(0.0086)	(0.0106)	(0.0119)
Significance	1%	1%	1	1%	1%
Observations	79	79	86	86	86

Authors' elaboration.

Anyway, the fact that the **δ** coefficient is positive and significant deserves further analysis. One possibility is to consider in the empirical exercise an issue that was discussed earlier in this paper: the structure of the protection in Brazil is inherited from the import substitution period, in which there was a clear bias to protect the manufacturing sector. So it can be tested if this is true for the tariff structure, including a dummy that takes 1 if the sector is a manufacturing one and 0 otherwise. The non-manufacturing sectors are the ones related to agriculture, forestry, fishing, mineral extraction, meats, milk and sugar (see appendix C).

Table 3 shows the results of the new estimations. The **δ** coefficient remains positive and significant, the manufacturing dummy is also positive and significant. It means that we cannot reject the hypothesis that the tariff structure is influenced by the powers of the sectoral lobbies and that the protection is biased towards manufacturing sectors. But the **γ** coefficient becomes non-significant, what means that the estimations reject the hypothesis that the tariff structure depends on the price-elasticity of imports and the import penetration. Considering this result, new regressions were run using only the tariffs as the dependent variable. The results of this new specification are shown in table 4. The **δ** coefficient and the manufacturing dummy remain positive and significant.

TABLE 3
Econometric results using the manufacturing dummy

	2000	2007	2010	2013	2015
Constant (y)	0.0025	-0.0004	-0.0019	0.004	0.0044
	(0.0041)	(0.0076)	(0.0076)	(0.0096)	(0.0108)
Significance	Non-signif.	Non-signif.	Non-signif.	Non-signif.	Non-signif.
δ	0.0141	0.0175	0.0325	0.0375	0.0396
	(0.0049)	(0.0092)	(0.0087)	(0.0110)	(0.0123)
Significance	1%	5%	1%	1%	1%
Manufacturing dummy	0.0141	0.022	0.0232	0.0224	0.0268
	(0.0051)	(0.0096)	(0.0093)	(0.0118)	(0.0132)
Significance	1%	5%	1%	5%	5%
Observations	79	79	86	86	86

Authors' elaboration.

TABLE 4
Econometric results using tariffs as the dependent variable

	2000	2007	2010	2013	2015
Constant (y)	0.0455	0.0332	0.0286	0.0478	0.0480
	(0.0092)	(0.00914)	(0.0091)	(0.0095)	(0.0097)
Significance	1%	1%	1%	1%	1%
δ	0.0409	0.0393	0.0456	0.0461	0.0455
	(0.0110)	(0.0109)	(0.0104)	(0.0108)	(0.0110)
Significance	1%	1%	1%	1%	1%
Manufacturing dummy	0.0401	0.0476	0.0524	0.0346	0.0353
	(0.0116)	(0.0115)	(0.0112)	(0.0116)	(0.0118)
Significance	1%	1%	1%	1%	1%
Observations	79	79	86	86	86

Authors' elaboration.

Naturally, the results of the estimations must be taken with caution, once many other variables that could explain the tariff structure have not been tested.[65] Moreover, the sample is not as large as it would be desirable to have more robust estimations, and the variable that determines whether or not a sector is organized and makes lobby is somewhat arbitrary. Even recognizing these limitations, the numbers give some support to two of the main important arguments developed in the previous section of this paper to explain the trade policy-making in Brazil: the power of sectoral lobbies and the domination of the political economy of trade policy by the interests of the manufacturing sector.

6 ASSESSMENT OF THE TRADE POLICYMAKING CONTEXT IN BRAZIL: RECOMMENDATIONS FOR AN IMPROVED INSTITUTIONAL ARRANGEMENT

This paper analyzed the main drivers of trade policy making in Brazil, departing from one more general question: "*Why protectionism is so resilient in Brazil*?" The assessment of the resilience of protectionism relied in the evaluation of the role of two main factors in shaping trade policy in the country: ideas and interests.

65. See, for example, some variables used in McCalman (2004).

The first conclusion is that interests count. The common sense suggests that the manufacturing interests still dominate the trade policymaking in Brazil, considering that the structure of protection heavily favours this sector. It would also be expected that there exists a high level of conflict between industrial sectors demanding protection and agriculture and services business representatives calling for trade liberalization. As the process of deindustrialization of the Brazilian economy deepens, and industrial sector loses share in the country's GDP, the interests of this sector should be losing grounds in trade policy.

While the hypothesis that industry is highly contemplated with tariff and non-tariff protection instruments and that it was able to deploy a broad and efficient structure to influence trade policy is confirmed, one of the main conclusions of the paper is that manufacturing is not the only sector to have protectionist interests in Brazil. Conflict over trade policy between industrial sectors demanding protection and agriculture business representatives has not played a relevant role in the dynamics of the political economy of trade policy.

On one hand, there are some economically relevant agriculture segments that are oriented to the domestic market and that do not want to face competition from imported goods. Their interests converge with those of the manufacturing sectors.

On the other hand, the agribusiness sector became competitive and saw its exports grow rapidly, having largely benefitted from high international prices and from strong demand from Asian countries during a large share of the period herein considered. These exports can rely on drawback mechanisms to benefit from exemptions of industrial tariffs (and other taxes charged to imports) when importing agricultural inputs for production.

This leads to a situation where export-oriented and internationally competitive sectors (be it in the agribusiness or manufacturing) do not press for trade liberalization in Brazil. On the contrary, especially in the case of export-oriented manufacturing sectors (e.g. pulp and paper), they support the protectionist status quo that guarantees them some non-residual level of tariff protection in comparison to export markets where no tariff (or residual tariffs) is faced.

So, in an apparent paradox, the level of conflict between the export-oriented agricultural sectors, on one side, and industrial and agricultural sectors competing with imports, on the other, is low – if any – in Brazil. It has emerged at very specific moments, in the FTAA and with the Mercosur-EU negotiations. However, most of the time, the export-oriented sectors do not push for domestic liberalization.

The implications of that interests' configuration for the political economy of trade policy are twofold:

1) On the trade negotiations front, export-oriented agricultural sectors are the only offensive interest, but their presence in the negotiations arena varies according to particular circumstances. In the last few years, those sectors did not act as a counterweight to the defensive interests in trade negotiations as they were focused on the Asian markets.
2) On the unilateral trade policy front, no pressure in favor of liberalization comes from the business sector, either agricultural or industrial.

The second main conclusion is that ideas are also essential to explain this resilience. First, there is a widespread perception that Brazil owes its diversified industry base to the import substitution model of industrialization. Second, the matching of a protected and large domestic market with the stimulus for foreign investment as an engine to spur national production is perceived as a winning strategy for industrialization.

These views are widespread among policymakers and business representatives in Brazil, and continue to receive support of part of the academic world in the country. This is why, even in the absence of specific lobbies or pressures, Brazilian bureaucracy continues to devise policy mechanisms to stimulate the increase of domestic content in national production and to avoid the pressure of imported goods competition.

In the recent years, a wedge in this consensus began to appear, as the Finance Ministry is intervening more fiercely in the trade policy debate. Naturally more concerned with costs and efficiency, this Ministry has been working to avoid the rise of protectionist tools and have been proposing some trade liberalization initiatives, like the (frustrated) proposal to reduce tariffs on capital goods and informatics and telecommunications intermediate goods.

Departing from the main conclusions, a preliminary set of recommendations can be devised. It is important to recognize that, while this report is being written, the reshaping of the institutional framework of the trade policy is under way by the transition team of the elected federal government. The new institutional arrangement will possibly concentrate the main functions of trade policy making in a strong Ministry of the Economy, merging MDIC with the current Finance and Planning Ministries. The recommendations presented below refer to the institutional framework in place, which will, undoubtedly, be affected by a deep change in the current institutional chart.

As argued, the evolution of the institutional structure of trade policy has given import-competing industrial sectors an edge in advancing their interests. Agricultural segments that compete with imports and have protectionist positions – dairy products, wine, coffee, peaches etc. – have also benefitted from this evolution.

A relevant feature of this evolution has been the central role gradually acquired by the Ministry of Development and Foreign Trade (MDIC) in the formal coordination and enforcement of trade policy – through CAMEX's Executive Secretary – and, particularly, in the control and management of the tools relevant to the protection policy: the tariff exception mechanisms and the trade defense instruments.

Moreover, MDIC has consolidated a strong position as the main governmental interlocutor of the industrial sector, whose views and interests it expresses within the government. This close relationship appears nowadays as the main source of power and influence of the Ministry within the trade policy-making process.

Therefore, the institutional structure of trade policy is not "neutral" as to the policy objectives set – implicitly or explicitly. On the contrary, it is functional to the policy objectives and it must go through some changes if these objectives change.

In this sense, if a deeper and broader integration of Brazil to the world economy is perceived as a major policy goal, some new institutional arrangements to enable such an evolution will be required.

These institutional arrangements involve CAMEX's Executive Secretariat, the management of the tariff policy and the trade defense instruments as well as the import facilitation agenda.

As for CAMEX's Executive Secretariat, it should be located at the Presidency's general secretariat (Casa Civil da Presidência), which would greatly facilitate a closer alignment between its activities and initiatives, on one side, and the Government strategic goals for trade policy.

Besides, this institutional shift would upgrade the status of trade policy among the priorities of the Executive branch. Originally, the Presidency has been CAMEX's institutional setting and its shift to MDIC, a few years after its creation, significantly reduced its policy status besides creating a paradoxical situation – in institutional terms – where an inter-ministerial agency was located within the structure of a particular ministry.In this sense, the creation of a strong Ministry of the Economy, concentrating the management of economic and trade policy, if confirmed, makes the location of CAMEX at the Presidency's general secretariat even more important.

In the case of the tariff policy, the complexity of the tariff structure and the incentives it creates for the demand of exceptions should be significantly mitigated through a broad tariff reform that would reduce the dispersion and the number of tariff levels. The tariff structure resulting from this reform should be much closer to the ones of other emerging economies and the average protection granted to the import-competing sectors should be significantly reduced. The reduction of the tariffs applied to capital, informatics and telecommunications goods could facilitate the elimination of the ex-tarifario regime, providing for greater transparency in the tariff structure. These measures would greatly simplify the management of the tariff policy.

In the trade defense area, it is worth noting the fact that public interest reasons have been recently integrated to the framework of assessment of the application of anti-dumping measures. This is a very positive trend, but it needs to be complemented by measures that reduce the risk of capture of the governmental bodies by private interests. In this sense, it seems relevant to separate the investigation phase of the anti-dumping (and countervailing duties) measures from the injury analysis and the decision on the application of such measures. "Bifurcated" models are adopted, in this policy field, in the US, the EU and Canada, where the commissions in charge of analyzing the injury produced to the domestic producers and deciding on the application of the measures are independent from the government's structure.

In the case of Brazil, the setting of such an agency could work as a safeguard against the capture of the trade defense instruments by the protectionist interests. The projected reorganization of the government, with the merging of ministries and other institutional changes, could provide a good opportunity to discuss the adoption of the "bifurcated model" in the area of trade defense. If the adoption of this institutional model appears to be unfeasible in the short term – considering Brazil's fragile fiscal situation – other less ambitious options should be assessed.

A more modest option would attribute the decision on the application of the measures to CAMEX's Council of Ministers, relying not only on DECOM's opinion, but also on CAMEX's Executive Secretary's one. In this model, it would be important to have CADE (the governmental body in charge of competition policy) participating as a full member of CAMEX's structure.

Trade facilitation has become a priority for the Brazilian government in trade policy. In a first moment, these efforts have targeted the export procedures, but it has now involved the import side of foreign trade. It is essential for the objective of further integrating the Brazilian economy into the world that the process of import be drastically simplified, putting together in a same system the wide array of institutions that can have a say on foreign trade operations.

An additional, but also relevant institutional issue relating to trade policymaking, concerns the relationships between the Executive and Legislative branches of the State. As commented, in Brazil, trade policy is a competence of the Executive branch of the government, the role of Congress being limited to ratifying the trade agreements negotiated and signed by the Executive.

The adoption of legislation aiming at giving additional powers over trade policy to the Congress has seldom been debated in Brazil – even within the Congress. As mentioned, during the FTAA negotiations (2003), a proposal in that direction was presented and discussed within the Legislative. The draft law – inspired by the Trade Promotion Authority model of legislative piece – listed the Government's objectives to be pursued in the negotiations and defined methods and modalities of participation in multilateral, regional or bilateral trade negotiations. It proposed setting up a mechanism for Congress to follow up on the trade talks and conditioned the referendum of the Congress – provided for in the Constitution – on trade agreements signed by the President of the Republic to the "strict compliance" by negotiators with the conditions set forth by the Law. The draft law was never taken to decision within the Congress.

Congress has already the attribution of ratifying international trade agreements, and has shown activism by not ratifying many bilateral agreements on investment protection and on duty free, quota free imports from least developed countries. In this sense, the Legislative has already exerted some influence on trade policy.

Should this influence be bigger than it is nowadays? There are reasonable arguments in favor of and against increasing the role of the Legislative in the trade policy arena.

In the next years, Brazil will probably face the challenge of a new unilateral trade liberalization, and it does not seem wise to bring the Legislative to the management of unilateral trade policy instruments, such as tariffs or antidumping duties, which are subject to very specific sectoral interests.

However, from a longer-term point of view, the attribution of additional powers to the Legislative in the area of trade agreements appears as a relevant and politically legitimate objective. Trade agreements are increasingly encompassing regulations that go much beyond the management of traditional trade policy instruments such as tariffs or antidumping. Commitments in areas such as intellectual property rights, labor or environment rules, among others, have deep impacts on domestic regulation and societies' revealed preferences. In this sense, Congress could have a more active role to legitimize trade agreements that are thematically comprehensive.

In this case, the main challenge would be to define the scope and the limits of such powers. In fact, while the setting of broad objectives to trade negotiations and the monitoring of such negotiations seems to fit fairly into the Legislative attributions, the management of tariffs and trade defense mechanisms should be kept as Executive functions.

As a transition mechanism (between the current situation and the post-reform status quo), it is recommended that a mechanism to consult and discuss with the Legislative on trade policy matters be set, as an Executive initiative. This is not meant to formally increase the decision power of the Legislative in trade policy matters, but rather to bring this branch of the government to the institutional sphere of trade policy, mitigating the risks associated with the (possible) rejection by the Parliament of decisions or commitments made by the Executive.

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APPENDIX A

TABLE A.1
Sectoral effective protection: distribution according to level the level of income – Brazil and groups of countries (1995)
(In %)

Tariff	Group of countries: sector and tariff			
	High income	Middle income	Low income	Brazil
High (> 15.1)		Vehicles (32.5) Food, drink and tobacco (25.1) Rubber (21.3) Other (22.1) Metal products (16.1) Wood (15.7) Non-metallic minerals (15.2)	Vehicles (60.2) Other (42.9) Textiles, clothing and footwear (37.0) Food, drink and tobacco (34.5) Wood (27.8) Metal products (26.6) Rubber (26.0) Non-metallic minerals (20.6) Electrical equipment (17.8) Pulp and paper (16.3) Agriculture (15.2)	Other (22.4) Petroleum refining (21.3) Machines and equipment (21.0) Vehicles (21.0) Textiles, clothing and footwear (20.5) Electrical equipment (19.4) Metal products (18.9) Computers and electronics (18.5) Rubber (18.3)
Middle high (10.1–15)	Food, drink and tobacco (12.3) Textiles, clothing and footwear (10.1)	Electrical equipment(12.6) Pulp and paper (12.1) Agriculture (10.3)	Computers and electronics (12.4)	Other transport equipment (13.8) Pulp and paper (13.5) Food, drink and tobacco (12.3) Non--metallic minerals (10.9) Basic metals (10.6)
Middle low (5.1–10)	Vehicles (7.4) Rubber (7.3) Wood (6.4) Electrical equipment (6.3) Other (6.2) Metal products (6.0) Pulp and paper (5.2)	Computers and electronics (9.1) Chemical (7.6) Basic metals (7.3) Petroleum refining (5.2)	Petroleum refining (8.7) Machines and equipment (7.9) Mining (7.8) Basic metals (6.9) Chemical (6.4) Other transport equipment (5.7)	Wood (9.4) Chemical (7.7) Agriculture (6.5)
Low (0–5)	Non-metallic minerals (5.0) Computers and electronics (4.0) Machines and equipment (3.8) Basic metals (3.5) Chemical (2.5) Agriculture (2.3) Other transport equipment (2.3) Petroleum refining (1.5)	Machines and equipment (4.0) Mining (3.9) Other transport equipment (3.7)		Mining (2.7)
Negative (< 0)	Mining (- 0.1)			

Source: Reproduced from Kume (2018).
Obs.: High income: Australia, Brunei Darussalam, Canada, Chile, European Union, Singapore, Hong Kong, Iceland, Israel, Japan, New Zealand, Norway, Russia, Saudi Arabia, South Korea, Swiss, Taiwan and United States. High-medium income: South Africa, China, Colombia, Costa Rica, Malaysia, México, Thailand, Tunisia and Turkey. Low-medium and low income: Cambodia, India, Indonesia, Philippines and Vietnam.

TABLE A.2

Sectoral effective protection: distribution according to level the level of income: Brazil and groups of countries (2011)

(In %)

Tariff	Group of countries: sector and tariff			
	High income	Middle income	Low income	Brazil
High (> 15,1)		Food, drink and tobacco (22.6) Vehicles (22.5)	Food, drink and tobacco (20.2) Vehicles (17.6)	Vehicles (39.7) Textiles, clothing and footwear (31.0) Other (22.2) Metal products (18.3) Rubber (17.9) Electrical equipment (17.7)
Middle high (10,1–15)		Other (14.5) Agriculture (12.8) Textiles, clothing and footwear (12.1)	Other (14.5) Metal products (12.6) Textiles, clothing and footwear (10.9) Rubber (10.8)	Computers and electronics (14.9) Machines and equipment (13.7) Pulp and paper (13.0) Basic metals (12.0) Non-metallic minerals (11.2)
Middle low (5,1–10)	Food, drink and tobacco (9,1) Textiles, clothing and footwear (6,8) Other (5,2)	Metal products (9.4) Non-metallic minerals (8.7) Rubber (6.6) Wood (6.3) Electrical equipment (5.1)	Non-metallic minerals (9.2) Agriculture (7.9) Electrical equipment (7.6) Wood (7.3) Pulp and paper (6.7)	Food, drink and tobacco (9.7) Wood (9.4) Other transport equipment (8.5) Agriculture (8.1) Chemical (6.5)
Low (0–5)	Rubber (4.5) Vehicles (4.4) Metal products (3.6) Electrical equipment (3.3) Wood (3) Non-metallic minerals (2.6) Agriculture (1.5) Petroleum refining (1.0) Machines and equipment (0.9) Chemical (0.9) Pulp and paper (0.9) Computers and electronics (0.8) Other transport equipment (0.8) Basic metals (0.3)	Pulp and paper (4.3) Petroleum refining (2.6) Computers and electronics (2.2) Chemical (2.1) Basic metals (1.3) Other transport equipment (0.7) Machines and equipment (0.6) Mining (0.1)	Computers and electronics (4.6) Chemical (4.6) Petroleum refining (4.3) Other transport equipment (4.1) Mining (3.8) Machines and equipment (3.6) Basic metals (3.5)	Mining (2.9)
Negative (< 0)	Mining (- 0.1)			Petroleum refining (-9.8)

Source: Reproduced from Kume (2018).

Obs.: High income: Australia, Brunei Darussalam, Canada, Chile, European Union, Singapore, Hong Kong, Iceland, Israel, Japan, New Zealand, Norway, Russia, Saudi Arabia, South Korea, Swiss, Taiwan and United States. High-medium income: South Africa, China, Colombia, Costa Rica, Malaysia, México, Thailand, Tunisia and Turkey. Low-medium and low income: Cambodia, India, Indonesia, Philippines and Vietnam.

APPENDIX B

MAPPING THE KEY PLAYERS IN BRAZIL'S TRADE POLICYMAKING

TABLE B.1
Areas of responsibility, roles, policy preferences and sources of influence

	Areas of responsibility	Role	Policy preferences	Sources of influence
Public Sector – Executive				
CAMEX	Intra-governmental coordination, High-level decision on trade negotiations, tariffs and other unilateral instruments	Trade policy making is the exclusive focus of CAMEX	Depends on the balance of forces between the Ministries	Institutional position (Presidency) and collective decision-making
Ministry of Finance	Customs management (SRF), export credit – PROEX - and guarantees - COFIG	Trade policy barely a priority in the Ministry agenda	Liberal	Control over macro-economic (fiscal) policy and sources of funding for export credits and guarantees (Treasury)
Ministry of Planning	Export credits through BNDES	Indirect through BNDES. Does not intervene in the debate	Undefined	Control over BNDES and its export financing lines
Ministry of Industry Foreign Trade and Services	Management of anti-dumping and CVD and tariff changes for industrial and agricultural goods (ex-tarifarios, exceptions to Mercosur CET etc.)	Active as a consequence of its main functions and objectives	Protectionist in general, defensive in trade negotiations	Close relationship with the industrial sectors and their associations
Ministry of Agriculture	Management of sanitary and phytossanitary measures	Active in trade negotiations and functions related to its areas of responsibility	Liberal in trade negotiations, can be protectionist in unilateral trade measures favoring domestic constituencies	Close relationship with the agricultural and agro industrial sectors and their associations
Public Sector - Legislative				
Senate	Ratification of the international agreements signed by Brazil Legislative debate on foreign and trade policy issues through a dedicated Permanent Commission	Barely active, can be mobilized if the policy issues gain traction in the public debate	Depends on the composition of the Senate's Commission. Broadly protectionist, but pragmatic	Direct people's representatives, elected regularly.
Private sector				
CNI	Coordination of the interests of different industrial sectors. Representation of industrial interests next to the government.	Representation and influence on issues relating to trade policy and to the interests of the industrial sectors. Formal and informal dialogue with the government	Protectionist	Legal authority to represent the interests of the industrial sector. Close relationship with (and access to) government high-level officials
CEB	Representation of the business sector (not only industry) in trade negotiations. Prepares technical and non-technical documents expressing the views of the business sector	Representation and influence in the trade negotiations agenda	Mostly protectionist, but pragmatic.	Diversified participation of representatives from national and regional business associations, consensus-based decision-making. Close relationship with (and access to) government trade negotiators.
CNA	Coordination of the interests of different agricultural sectors. Representation of their interests next to the government.	Representation and influence on issues relating to trade policy and to the interests of the agricultural sectors. Formal and informal dialogue with the government	Liberal in trade negotiations, can take protectionist stances to defend specific sectors in the domestic market.	Legal authority to represent the interests of the agricultural sector. Close relationship with (and access to) government high-level officials

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	Areas of responsibility	Role	Policy preferences	Sources of influence
Public Sector – Executive				
Sectoral associations (nationwide)	Representation of specific business sectors next to the government, the business national confederations and CEB. In general, they have a foreign trade department.	Representation and influence on issues relating to trade policy. Formal and informal dialogue with the government (especially MDIC)	Protectionist	Relevance of the sector dimension of trade and industrial policies in Brazil. Closeness to the main firms of the sectors. Close relationship with (and access to) government high-level officials. Tradition of informal direct dialogue with the government.
Regional associations	Representations of the interests of regional business sectors	Representation and influence on issues relating to trade policy. Formal and informal dialogue with the government	More or less protectionist, depending on the composition of regional interests.	Relevance of the regional concentration of some sectors (industrial in the South-East, for instance). Influence over Legislative representatives from the same state or region. Close relationship with (and access to) government high-level officials. Influence over state officials and governments.

Authors' elaboration.

APPENDIX C

TABLE C.1
Data used in the empirical assessment

Sector	Price-elasticity of imports	Lobby dummy	Manufacturing dummy	Tariffs 2015 [t/(1+t)]	Import penetration 2015	Tariffs 2013 [t/(1+t)]	Import penetration 2013	Tariffs 2010 [t/(1+t)]	Import penetration 2010
Rice. wheat and other cerals	0.93	1	0	0.05	0.45	0.05	0.47	0.00	0.42
Corn	3.56	0	0	0.04	0.01	0.04	0.02	0.04	0.01
Cotton and other natural fibers	1.03	0	0	0.03	0.00	0.04	0.02	0.02	0.08
Sugar cane	-	0	0	0.07	-	0.07	-	-	-
Soybeans	-	0	0	0.04	0.00	0.04	0.02	-	0.00
Other products from temporary crops	3.08	0	0	0.06	0.04	0.06	0.03	0.05	0.03
Orange	0.72	0	0	0.09	0.01	0.09	0.01	0.09	-
Coffee beans	3.12	1	0	0.09	-	0.09	-	0.09	-
Other products from permanent crops	1.67	0	0	0.10	0.09	0.09	0.09	0.05	0.09
Bovines and other live animals	1.67	0	0	0.05	0.00	0.05	0.00	0.04	0.00
Milk	-	1	0	-	-	-	-	-	-
Pigs	0.70	0	0	0.01	0.00	0.01	0.00	0.01	0.00
Birds and eggs	1.89	0	0	0.03	0.00	0.03	0.00	0.01	0.00
Forestry	1.64	0	0	0.04	0.06	0.04	0.06	0.04	0.11
Fishing	2.91	0	0	0.08	0.11	0.08	0.09	0.04	0.06
Mineral coal	3.08	0	0	-	5.22	-	0.81	-	7.72
Non-metallic minerals	2.89	0	0	0.04	0.11	0.04	0.09	0.04	0.09
Oil and gas	1.04	0	0	-	0.25	-	0.24	-	0.19
Iron ore	1.20	0	0	0.02	-	0.02	-	0.02	-
Non-ferrous metals	1.37	0	0	0.02	0.21	0.02	0.30	0.02	0.24
Bovine meat and ohter meat products	2.00	0	0	0.08	0.01	0.08	0.02	0.08	0.01
Pork	3.99	0	0	0.09	-	0.09	-	0.09	-
Poultry	1.08	0	0	0.09	0.00	0.09	0.00	0.04	0.00
Fish meat	3.50	0	0	0.10	0.64	0.10	0.43	0.03	0.64
Processed milk	4.63	1	0	0.11	0.00	0.11	0.00	0.06	0.00
Outra dairy products	1.28	1	1	0.16	0.03	0.16	0.03	0.14	0.04
Sugar	1.29	1	0	0.13	0.00	0.13	0.00	0.10	0.00
Fruit and vegetables preserves. juice	1.97	0	1	0.12	0.12	0.12	0.13	0.11	0.09
Vegetal and animal fats and oils	2.23	0	1	0.09	0.05	0.09	0.06	0.08	0.04
Processed coffee	8.42	0	1	0.11	0.03	0.11	0.02	0.11	0.01
Processed rice	0.80	0	1	0.09	0.03	0.09	0.05	0.09	0.04
Wheat. manioc and maize products	2.89	0	1	0.10	0.02	0.10	0.02	0.10	0.03
animal rations	1.34	0	1	0.09	0.03	0.09	0.02	0.09	0.02
Other food products	2.71	0	1	0.12	0.03	0.12	0.03	0.10	0.02
Beverages	2.02	0	1	0.15	0.10	0.15	0.10	0.15	0.09
Tobacco products	4.02	0	1	0.15	0.38	0.15	0.28	0.12	0.26
Textile wires and fibers	2.66	1	1	0.14	0.17	0.14	0.15	0.14	0.16
Fabrics	3.08	1	1	0.20	0.25	0.20	0.19	0.20	0.18
Textile articles for domestic use	2.55	1	1	0.22	0.20	0.22	0.15	0.22	0.13
Clothing	2.75	1	1	0.25	0.19	0.25	0.14	0.25	0.11
leather products	1.72	1	1	0.17	0.09	0.17	0.09	0.17	0.06
Wood products	2.98	0	1	0.08	0.02	0.08	0.02	0.08	0.02
Pulp	2.90	0	1	0.04	0.05	0.04	0.16	0.04	0.06

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Sector	Price-elasticity of imports	Lobby dummy	Manufacturing dummy	Tariffs 2015 [t/(1+t)]	Import penetration 2015	Tariffs 2013 [t/(1+t)]	Import penetration 2013	Tariffs 2010 [t/(1+t)]	Import penetration 2010
Paper	2.57	1	1	0.11	0.06	0.11	0.07	0.11	0.08
Printing services	2.20	0	1	0.12	0.02	0.11	0.02	0.11	0.01
Aviation fuels	1.13	0	1	0.02	0.45	0.01	0.50	0.01	0.69
gasoalcohol	-	0	1	-	-	-	-	-	-
Petrochemical naphtha	1.13	0	1	-	1.02	-	0.49	-	1.17
Fuel oil	1.13	0	1	-	0.03	-	0.06	-	0.09
Diesel oil	1.13	0	1	-	-	-	-	-	-
Other oil refinery products	2.21	0	1	0.01	0.14	0.01	0.20	0.01	0.25
Ethanol and biofuels	1.03	1	1	0.11	0.02	0.11	0.01	0.12	0.04
Inorganic chemicals	1.59	1	1	0.05	0.88	0.05	0.50	0.05	0.87
Fertilizers	4.57	0	1	0.02	0.08	0.02	0.08	0.02	0.06
Organic chemicals	1.24	1	1	0.06	0.65	0.06	0.39	0.06	0.51
Resins and artifical and synthetic fibers	1.35	1	1	0.11	0.53	0.11	0.38	0.11	0.43
agricultura defensives and disinfectants	1.63	1	1	0.09	0.54	0.10	0.35	0.10	0.34
Other chemical products	1.50	1	1	0.09	0.33	0.09	0.27	0.09	0.24
Ink and varnishes	1.07	1	1	0.12	0.09	0.12	0.08	0.12	0.06
Perfumery. sops and cleaning products	1.90	1	1	0.14	0.32	0.14	0.25	0.14	0.30
Pharmaceuticals	1.39	0	1	0.05	0.45	0.05	0.28	0.05	0.32
Rubber	1.19	0	1	0.12	0.30	0.12	0.25	0.12	0.25
Plastics	2.05	1	1	0.13	0.12	0.13	0.10	0.13	0.09
Cement	3.09	0	1	0.04	0.03	0.03	0.03	0.03	0.03
Cement and plaster products	5.88	0	1	0.08	0.01	0.08	0.01	0.08	0.01
Glass. ceramic and other non-metal mineral products	2.41	0	1	0.10	0.12	0.10	0.12	0.10	0.11
Pig iron and iron garters	1.04	1	1	0.05	0.07	0.05	0.10	0.05	0.05
Semifinished. rolled. long and tubes of iron	2.71	1	1	0.11	0.13	0.11	0.13	0.11	0.10
Non-ferrous metals metallurgy	1.93	0	1	0.07	0.26	0.07	0.27	0.07	0.27
Fused items so iron and non-ferrous metals	0.72	0	1	0.14	0.06	0.13	0.04	0.13	0.02
Metal products	2.25	0	1	0.14	0.14	0.14	0.12	0.13	0.10
Electronic components	1.18	1	1	0.07	3.88	0.07	0.81	0.07	2.98
Informatics and office machines	0.59	1	1	0.10	0.59	0.11	0.34	0.11	0.53
electronic material and comunnication equipment	1.69	1	1	0.14	0.60	0.13	0.37	0.13	0.52
Measurement. test. control and optical equipment	1.36	1	1	0.12	1.34	0.12	0.56	0.12	1.00
Electrical appliances	1.20	1	1	0.13	0.41	0.13	0.30	0.13	0.34
Home appliances	2.34	1	1	0.16	0.18	0.15	0.13	0.15	0.10
Tractors and other agricultural machine	2.46	1	1	0.13	0.08	0.13	0.06	0.13	0.06
Machines for construction and mineral extraction	3.17	1	1	0.11	0.29	0.12	0.27	0.11	0.32
Other mechanical machine and equipment	1.63	1	1	0.11	0.60	0.11	0.38	0.11	0.49
Automobiles	1.75	1	1	0.23	0.22	0.22	0.19	0.22	0.22
Trucks ans buses	2.58	1	1	0.23	0.09	0.22	0.08	0.22	0.05
Parts and pieces for automobiles	1.09	1	1	0.14	0.38	0.14	0.27	0.14	0.21

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Sector	Price-elasticity of imports	Lobby dummy	Manufacturing dummy	Tariffs 2015 [t/(1+t)]	Import penetration 2015	Tariffs 2013 [t/(1+t)]	Import penetration 2013	Tariffs 2010 [t/(1+t)]	Import penetration 2010
Aircraft. vessel and other transport equipment	2.07	1	1	0.11	0.53	0.11	0.36	0.11	0.31
Furniture	3.15	0	1	0.15	0.05	0.15	0.04	0.15	0.03
Other manufacturing products	1.94	0	1	0.14	0.38	0.14	0.26	0.14	0.27

Authors' elaboration.

TABLE C. 2
Data used in the empirical assessment

Sector	Price-elasticity of imports	Lobby dummy	Manufacturing dummy	Tariffs 2007 [t/(1+t)]	Import penetration 2007	Tariffs 2000 [t/(1+t)]	Import penetration 2000
Rice. wheat and other cerals	0.93	1	0	0.01	0.34	0.02	0.47
Corn	3.56	0	0	0.07	0.02	0.09	0.02
Cotton and other natural fibers	1.03	0	0	0.02	-	0.04	0.02
Sugar cane	-	0	0	-	-	-	-
Soybeans	-	0	0	-	0.00	-	0.02
Other products from temporary crops	3.08	0	0	0.05	0.05	0.06	0.03
Orange	0.72	0	0	0.09	-	0.12	0.01
Coffee beans	3.12	1	0	0.09	-	0.12	-
Other products from permanent crops	1.67	0	0	0.05	0.00	0.07	0.09
Bovines and other live animals	1.67	0	0	0.04	0.00	0.04	0.00
Milk	-	1	0	-	-	-	-
Pigs	0.70	0	0	0.02	0.00	0.04	0.00
Birds and eggs	1.89	0	0	0.02	0.00	0.02	0.00
Forestry	1.64	0	0	0.05	0.08	0.07	0.06
Fishing	2.91	0	0	0.04	0.03	0.04	0.09
Mineral coal	3.08	0	0	-	0.82	-	0.81
Non-metallic minerals	2.89	0	0	0.04	0.09	0.06	0.09
Oil and gas	1.04	0	0	-	0.25	0.01	0.24
Iron ore	1.20	0	0	0.02	-	0.05	-
Non-ferrous metals	1.37	0	0	0.02	0.26	0.05	0.30
Bovine meat and ohter meat products	2.00	0	0	0.08	0.01	0.09	0.02
Pork	3.99	0	0	0.09	-	0.12	-
Poultry	1.08	0	0	0.04	0.00	0.05	0.00
Fish meat	3.50	0	0	0.03	0.28	0.04	0.43
Processed milk	4.63	1	0	0.09	0.00	0.10	0.00
Outra dairy products	1.28	1	1	0.15	0.02	0.16	0.03
Sugar	1.29	1	0	0.11	0.00	0.12	0.00
Fruit and vegetables preserves. juice	1.97	0	1	0.10	0.06	0.10	0.13
Vegetal and animal fats and oils	2.23	0	1	0.08	0.11	0.09	0.06
Processed coffee	8.42	0	1	0.11	0.00	0.13	0.02
Processed rice	0.80	0	1	0.07	0.06	0.08	0.05
Wheat. manioc and maize products	2.89	0	1	0.10	0.03	0.12	0.02
animal rations	1.34	0	1	0.09	0.02	0.11	0.02
Other food products	2.71	0	1	0.10	0.02	0.12	0.03
Beverages	2.02	0	1	0.15	0.08	0.17	0.10
Tobacco products	4.02	0	1	0.11	0.17	0.13	0.28
Textile wires and fibers	2.66	1	1	0.12	0.16	0.14	0.14
Fabrics	3.08	1	1	0.15	0.09	0.15	0.07
Textile articles for domestic use	2.75	1	1	0.16	0.06	0.18	0.03
Clothing	1.72	1	1	0.14	0.05	0.12	0.04
leather products	2.98	1	1	0.08	0.02	0.06	0.02
Wood products	2.90	0	1	0.04	0.06	0.06	0.08
Pulp and paper	2.57	1	1	0.11	0.07	0.10	0.10
Printing services	2.20	0	1	0.12	0.01	0.14	0.01
Aviation fuels	1.13	0	1	-	0.04	-	0.10
gasoalcohol	-	0	1	-	-	-	-
Petrochemical naphtha	1.13	0	1	-	0.04	-	0.10

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Sector	Price-elasticity of imports	Lobby dummy	Manufacturing dummy	Tariffs 2007 [t/(1+t)]	Import penetration 2007	Tariffs 2000 [t/(1+t)]	Import penetration 2000
Fuel oil	1.13	0	1	-	0.03	-	0.01
Diesel oil	1.13	0	1	-	0.06	-	0.08
Other oil refinery products	2.21	0	1	-	0.23	-	0.18
Ethanol and biofuels	1.03	1	1	0.13	0.00	0.18	-
Inorganic chemicals	1.59	1	1	0.06	0.28	0.08	0.23
Organic chemicals	1.24	1	1	0.06	0.26	0.08	0.28
Resins and artifical and synthetic fibers	1.35	1	1	0.10	0.21	0.12	0.25
Agricultural defensives and disinfectants	1.63	1	1	0.09	0.22	0.05	0.26
Other chemical products	1.50	1	1	0.09	0.20	0.10	0.20
Ink and varnishes	1.07	1	1	0.11	0.05	0.14	0.07
Perfumery. sops and cleaning products	1.90	1	1	0.14	0.18	0.15	0.19
Pharmaceuticals	1.39	0	1	0.05	0.22	0.07	0.20
Rubber	1.19	0	1	0.12	0.16	0.09	0.16
Plastics	2.05	1	1	0.13	0.07	0.15	0.07
Cement	3.09	0	1	0.03	0.01	0.05	0.01
Cement and plaster products	5.88	0	1	0.09	0.06	0.07	0.06
Pig iron and iron garters	1.04	1	1	0.05	0.05	0.07	0.02
Semifinished. rolled. long and tubes of iron	2.71	1	1	0.10	0.06	0.12	0.06
Non-ferrous metals metallurgy	1.93	0	1	0.07	0.20	0.09	0.17
Fused items so iron and non-ferrous metals	0.72	0	1	0.13	0.01	0.15	0.03
Metal products	2.25	0	1	0.14	0.08	0.15	0.07
Informatics and office machines	0.59	1	1	0.10	-	0.10	0.33
electronic material and comunnication equipment	1.69	1	1	0.14	0.15	0.09	0.34
Measurement. test. control and optical equipment	1.36	1	1	0.12	0.80	0.14	0.47
Electrical appliances	1.20	1	1	0.13	0.26	0.15	0.33
Home appliances	2.34	1	1	0.15	0.66	0.16	0.05
Tractors and other agricultural machine	2.46	1	1	0.13	0.01	0.15	0.22
Automobiles	1.75	1	1	0.22	0.30	0.23	0.14
Trucks ans buses	2.58	1	1	0.21	0.26	0.18	0.07
Parts and pieces for automobiles	1.09	1	1	0.14	0.01	0.15	0.21
Aircraft. vessel and other transport equipment	2.07	1	1	0.11	0.28	0.13	0.29
Furniture	3.15	0	1	0.25	0.22	0.15	1.00

Authors' elaboration.

APPENDIX D

List of interviewees

1) Abrão Arab Neto – Foreign Trade Secretary at the Ministry of Development, Foreign Trade and Services.

2) Adriano Ramos – Director of the Department of Trade Defense at the Ministry of Development, Foreign Trade and Services.

3) Carlos Márcio Cozendey – Ambassador, former General Undersecretary for Economic Affairs at the Ministry of Foreign Affairs and Secretary of International Affairs at the Ministry of Finance

4) Daniel Godinho – former Foreign Trade Secretary at the Ministry of Development, Foreign Trade and Services.

5) Denise Gregori – former Advisor at CAMEX.

6) Diego Bonomo – Executive Manager Foreign Trade at CNI – National Confederation of Industry.

7) Domingos Mosca – consultant ABIT – Brazil's Textile Industry Association.

8) Fernando Henrique Cardoso – former Minister of Foreign Affairs, Minister of Finance and President of the Republic.

9) Honório Kume – former Coordinator at the Tariff Technical Commission at the Ministry of Economy.

10) José Botafogo Gonçalves – Ambassador, former CAMEX's Executive Secretary and Minister of Ministry of Industry, Foreign Trade and Services.

11) José Tavares de Araújo Jr. – former Director at the Tariff Policy Commission.

12) Lígia Dutra – Responsible for International Affairs at the National Confederation of Agriculture.

13) Marcelo Estevão – Secretary of International Affairs at the Ministry of Finance.

14) Marcos Jank – former CEO of ICONE.

15) Marco Polo Lopes – Director at IAB – Instituto Aço Brasil – nationwide steel association.

16) Marcos Pinheiro de Sá – Advisor to the Secretary of International Affairs at the Ministry of Agriculture.

17) Maria Sílvia Portella – Advisor to the Central Única dos Trabalhadores – CUT (trade union confederation).

18) Mário Branco – Advisor – Brazilian Electrical and Electronics Industry Association.

19) Pedro Camargo Neto – former President of the Brazilian Rural Society and former Agricultural production Secretary at the Ministry of Agriculture.

20) Pedro Passos – CEO of Natura.

21) Renato Baumann – Undersecretary of International Affair of the Ministry of Planning.

22) Ronaldo Costa – Ambassador – General Undersecretary for Economic Affairs at the Ministry of Foreign Affairs.

23) Rosária Baptista – former Director of the Technical Department of Tariffs and of the Department of International Negotiations at the Ministry of Industry, Foreign Trade and Services.

24) Rubens Barbosa – Ambassador, former General Undersecretary for Economic Affairs at the Ministry of Foreign Affairs, Brazilian ambassador to London and Washington.

25) Tomás Zanotto - Director of International Trade at FIESP – São Paulo's Industry Federation.

26) Tatiana Rosito – former CAMEX's Executive Secretary.

27) Welber Barral – former Foreign Trade Secretary at the Ministry of Industry, Foreign Trade and Services.

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