

## Domestic coalitions in the FTAA negotiations: The Brazilian Case\*

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**Abstract:** This paper proposes an explanation to the domestic coalitions organised in Brazil around the FTAA negotiations, which stand as a hard case for the existing theories on political cleavages: industrialists and trade unions, albeit having shared common interests in the negotiations, did not adopt a joint strategy to foster their positions. The hypothesis to explain the political alignments in the FTAA is that the opening of the Brazilian market, which had advanced a lot in the years of negotiations, altered the priorities of workers and employers, as well as their preferences in foreign trade policy, hindering the reconciliation of class interests. Both agreed that the U.S. proposal for the FTAA was undesirable, but they completely disagreed on other issues that emerged in the political agenda during the reforms period, such as the role of the State in an open economy, the scope of labour and social rights and the social security system, the structure of taxation, etc. Some of the controversial issues were not new, but the international trade liberalisation intensified the dispute over them.

**Keywords:** Trade Negotiations - Foreign Policy - Free Trade Area of the Americas - Domestic Coalitions - Political Cleavages.

As various governments of the world opened their borders to international trade between 1970 and 1990, one question was insistently posed for scholars from various fields of the humanities: what are the effects of globalisation on political cleavages? Would the class struggle that marked the history of the 20th century definitely be buried by increased international competition?

Some events in Brazilian politics during the early 1990s implied that the answer to the last question could be 'yes'. Strikes dropped sharply, from an average of 1,750.80 working days lost in 1986-1990 to 712.9 between 1991-1995 (Noronha 2009:156). Meanwhile, the largest trade union federation in Brazil - the *Central Única dos Trabalhadores* (CUT) - addressed the public just to forgo the combative strategy of refusing to negotiate a Social Pact in the 1980s, and to announce that it would integrate

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the *Câmaras Setoriais*, which were the consultative chambers created during José Sarney's Government (1985-1990) to coordinate the liberalisation of prices, which had been taken over by Fernando Collor de Mello (1990-1992) during the implementation of structural reforms to stimulate sectoral collective bargaining of wages, taxes and prices (Cardoso and Comin 1995).

The arrangement caused perplexity, criticism (Franco 1992) and expectations (Arbix 1996), because it resembled the structure of the large labour negotiations on the welfare state that had characterised European countries (e.g. Denmark, Germany, Norway, and Sweden)<sup>i</sup> after World War II. Furthermore, the experience of the *Câmaras Setoriais* seemed to corroborate a strong thesis about political cleavages in open economies, presented in the work of Ronald Rogowski (1987, 1989) and also in the book organised by Keohane and Milner (1996). Generally speaking, the argument was that in backward and abundantly land endowed economies, like Brazil, trade expansion would stimulate a convergence of interests of workers and industrialists, specially on issues of international trade:

In such 'frontier' societies, both capital and labour are scarce: hence both are harmed by expanding trade and will seek protection. Only land is abundant, and therefore only agriculture will gain from free trade. Farmers and pastoralists will try to expand their influence in some movement of a 'Populist' and anti-urban stripe. (Rogowski 1987:1123-1124).

The author took care not to adopt a deterministic stand: even when there were common interests, they might have been insufficient to politically unite workers and employers. Therefore, it was not a gamble at the end of the battle between workers and capitalists that marked the 20th century. But, exactly for not having given an unequivocal answer,

it left an open question: in an open economy, what circumstances encourage or prevent workers and business representatives to ally themselves politically *when they have similar interests?*

In order to contribute, albeit modestly, to building a more comprehensive theory on political coalitions in open economies, this paper analyses the domestic coalitions formed in Brazil during the negotiations on the Free Trade Area of the Americas (FTAA). The FTAA negotiations are a crucial case for the study of domestic coalitions because labour unions and some industrial associations had similar positions regarding the trade agreement - both supported the Brazilian government's attempt to stem the accelerated momentum on the opening of the American markets – but, however, no political alliance was built between them to strengthen their stance. On the contrary, the businessmen consulted by the negotiators through the Americas Business Forum (a consultative body in the FTAA negotiations composed of business representatives) had risen up against the attempt by the unions to make themselves heard in the negotiations. The result is intriguing both because their similar interests did not lead to the constitution of a political coalition and also because the dialogue established in the early 1990s in the *Câmaras Setoriais* to coordinate the implementation of the trade liberalisation programme did not prevail. Hence the question, for which there are few answers in the studies of Rogowski: why did workers and employers avoid building a joint coalition to foster the common interests they shared in the FTAA negotiations?

In this article, we propose a hypothesis: the opening of the Brazilian market, which had advanced a lot during the years of negotiations on the FTAA, altered the political priorities of workers and employers, as well as their preferences in foreign trade policy, hindering the reconciliation of class interests expected by Rogowski. Both agreed that the US proposal for the FTAA was undesirable, but they completely disagreed on other

issues that emerged in the political agenda during the reforms period, such as the role of the State in an open economy, the scope of labour and social rights and the social security system, the structure of taxation, etc. Some of the controversial issues were not new, but the international trade liberalisation intensified the dispute over them. Rogowski (1987), though accurately predicting the convergence of interests in foreign trade issues, did not pay attention to the growing incompatibility in other areas that could hinder the construction of a cooperative coalition composed of workers and employers in the trade negotiations. For this reason, his theory is insufficient to explain the domestic coalitions organised during the FTAA in Brazil.

The hypothesis of this article, briefly presented above, will be discussed in the following steps: Section 1 will describe economic structural transformations engendered by international trade liberalisation that partially explain the political alignments of domestic interest groups in the FTAA negotiations; Section 2 will provide a description of the coalitions formed in the FTAA negotiations; and, finally, we shall resume the argument in the Conclusion.

## **1. Economic structure and political incentives**

### **(a) International competition, political mobilisation and criticism against the State**

The first structural change under which the Brazilian economy has been living for a few decades is the already known increase in foreign competition, which had resulted in both the allocation of a larger share of domestic production to foreign markets and the expansion of imported products on Brazilian shelves, so consolidating a strong and common interest among entrepreneurs in reducing certain activities of the State previously hardly challenged by this class.

[Graph 1]

The internationalisation of Brazilian industrial production began with the export surge between 1960 and 1980 (Bonelli and Malan 1976), and accelerated rapidly with the import liberalisation programme implemented by the Government between 1991 and 1994, as Graph 1 demonstrates. Each point on the graph represents an industrial activity with reference to two variables: propensity to export (horizontal axis) and import penetration ratio<sup>ii</sup> (vertical axis), in two instances: 1985 and 2005. Note that in these 20 years the penetration of imports had increased a lot, more than the percentage exported by industry, although not in a homogeneous form.

This fierce competition is certainly not something new. Also, it is not new that, faced with competitors, companies seek to reduce costs. But just when these competitors are *foreign*, changes in *national* regulations are able to improve the competitive position of domestic companies, since national regulations do not affect manufacturing processes abroad. In this context, the regulation of markets by the State arises as a potential barrier to capital accumulation and becomes a political priority for the entrepreneurial class. As Dani Rodrik (1997) well noted, this was a recent political movement which arose during globalisation and tended to create additional pressures for the demotion of labour and environmental standards, and other processes recorded as ‘cost’.

For this reason, increasing foreign competition contributed to change the ideology of many industrialists, who had become more critical of the expansion of State activities – something that, though it seems obvious today, did not characterise this class in the initial years of Brazilian modernisation, especially in 1930, when the *Confederação Nacional da Indústria* (CNI) – the most important industry association in Brazil – resorted to intellectual and business leaders such as Roberto Simonsen to get support for the project of State-led industrialisation, vehemently criticised by Eugênio Gudim and

other Liberal economists (Bielschowsky 2000:79). It is true that the position of the industrialists on state economic intervention historically had nuances. Even Simonsen, identified as a stronghold of the *desenvolvimentista* ideology<sup>iii</sup>, who was a vigorous advocate of import and exchange rate control, and of economic planning by State officials, considered that production itself should be conducted mainly by private capital - national and even foreign - by restricting the public power to act where the private capital was insufficient (Bielschowsky 2000; Diniz 1978). With the installation of the military regime in 1964 and with State-owned companies spread over many economic activities, criticism against the State became more frequent, especially since, in the view of Renato Boschi and Eli Diniz (1978), the circle of decision-makers became more restricted during the military regime, reversing the corporatist tradition founded by Getulio Vargas of incorporating class associations into the State's economic planning. The Constitution of 1988, by detracting from the State the possibility of economic activity for profit, restricted the space of public enterprises, but assigned some functions to the public sector which, in our view, due to globalisation, are today priorities on the agenda of the business community. Some State activities are criticised by the business community for being expensive and for requiring taxation, such as the welfare system and social policies, and others because they ask entrepreneurs to consider labour rights and environmental regulations.

Therefore, although the economic internationalisation didn't inaugurate the anti-State ideology among industrial companies, it certainly deepened it. This position became clear when, in 1995, a legislative agenda was released by the CNI called the *Custo Brasil* campaign, with emphasis on the reduction of taxes and the reform of 'inappropriate legislation for competitiveness'. Since then, each year the CNI has coordinated the construction of this schedule and follows closely those legislative

matters with potential impact on industry. Mancuso and Oliveira (2006:155), in a 2006 article, defended the same thesis that we present in this section: the *Custo Brasil* campaign gained momentum when industry, already exposed by Collor's reforms, faced the FTAA, which could have forced Brazilian companies even more to compete with foreign actors. Santana (2000:70) presents evidence in favour of this thesis in his analysis of the participation of Brazilian businessmen in the FTAA negotiations, when the adoption of structural reforms aimed at cost reduction was placed as a condition for the progress of the negotiations.

Apart from the *Custo Brasil* campaign, for which the business community attacked essential public policies for workers consolidated in the Constitution of 1988 – such as the social security system and taxes that support social programs - the movement also gained momentum by demanding the easing of labour rights (Vogel 2010). Needless to say, this political agenda, adopted during the liberalisation, was exactly opposite to that advocated by the workers. For both, the ‘adjustment policies’, so to speak, had become the priority in the face of trade liberalisation. And they had become a priority, above all, because the possible alternative, at that time – a setback in the opening of the economy - had been ruled out by the way liberalisation was implemented, and by international agreements that had removed the competence of national agencies to raise import taxes above certain levels. Possibly, this protectionist agenda could have allied workers and employers. However, as it didn’t come into being no reconciliation was possible over what each class considered to be the ‘adaptation and restructuring policy’.

It should be remembered that the expansion of the anti-State agenda by entrepreneurs was not exclusive to Brazil. Similar behaviour had been observed in Europe in the 1970’s, which served as the basis for Helen Milner’s (1988) studies about the liberal position that some industrial leaders came to demonstrate, even in the midst of a severe

economic depression. At that time, many engaged in campaigns against the lifting of import taxes as a way of overcoming the crisis, and Helen Milner theorised that the behaviour was typical for multinational corporations or firms that exported a significant part of their production. Her explanation was based on the national origin of capital, on the destination of production, and on the incorporation of foreign inputs to the manufacture of goods. In my opinion, the attack on ‘protectionism’ triggered by industrial leaders must be framed in a more general battle which capitalists waged, at the height of neoliberalism, against rising costs. On the one hand, progress has been made in a classic confrontation between capital and labour for the distribution of income: between 1968 and 1973, Europe went through what became known as ‘wage inflation’, when the wage share in income grew more than profits. At the time, the Conservatives argued that falling profits would lead to a reduction in investments, and thus they managed to reverse the trend of income distribution (Korpi 2002). On the other hand, the capitalists launched an offensive against the welfare state that was built the hard way by the previous generation, and against taxes that they held. Among the tributes, there was the import tax, which was especially painful to those who had internationalised the inputs in the ‘golden age’.

**(a) Increase of imported inputs: consolidation of a pro-free trade group and diversification of interest**

The second change in the economic structures is not related to the destination of Brazilian products, but to the rising incorporation of foreign inputs into the manufacturing process of Brazilian goods. As a result, many entrepreneurs became critical of import controls that raised production costs, eroding the past protectionist consensus that prevailed in the import substitution period. As stressed by Veiga and Rios (2015), the ‘liberal industrialists’ had not been sufficiently expressive to shift the



government's trade policy, but they had occupied important positions in the class associations, which have made their claims more visible recently.

Note, in Chart 2, the shifts that happened in the 20 years that separate 1985, prior to the opening period, and 2005, when many of the firms had already adapted to the new tariff structure. Currently there are more economic activities that bring imported inputs from outside than there were in 1985. These are activities directly harmed by any possible increase of import tax rates, and that are placed in the rear against protectionist measures of the government. In 1985, the industrial sector spent an average of 5.9% of its annual budget on supplies of imported goods. In 2005 this figure went up to 14%, excluding services. It could be argued that the value is not high if compared to other countries, as some economists have said<sup>iv</sup>, but the magnitude of change – growth of 237% in 20 years – gives an idea of the forces that led entrepreneurs to get organised. This finding, in fact, had already been made by Maria Regina Soares de Lima and Fabiano Santos (2001), for whom the liberalisation of international trade would make foreign policy an object of domestic dispute, due to its distributional effects, just as occurred before the enactment of the 1957 Tariff Act, which consolidated the import substitution regime. In this sense, I might point out that the internationalisation began in the 1960s with exports and reached a high point after Collor's reforms.

[Graph 2]

This aspect of globalisation tends to change the politically and relatively apathetic and disinterested behaviour that a large part of the literature attributes to importers. This thesis was marked in the classic study by Schattschneider (1935) which stated, after long consultations at public hearings of the US Congress in the 1930s, that protectionist interests were found with greater force than liberals in foreign trade policy. Protected industrialists, certain that the tax reduction would harm them, were more organised than

potential winners, who only hypothetically could import goods more cheaply. With this study, the author explained the adoption of the Smooth-Hawley Tariff in 1930, considered by Kindleberger (1986) as one of the measures responsible for the devastation caused by the crisis of 1929.

Although Schattschneider's statements are obviously valid, they are valid only in the circumstances in which they were made, in the 1930s, which have, of course, changed completely since then. When the author conducted his research, the industrialised nations were immersed in protectionist trade policies: Germany had abandoned the gold standard in 1930 and for years tried to hoard dollars for the payment of reparations; liberal Britain had devalued the pound soon after Germany, and even France and the USA, which were the countries with the largest volume of reserves in gold, were protecting themselves against imports by the end of the troubled decade of the 1920s (Ellsworth, 1972; Kindleberger, 1986). In this context, it was natural to assume that the gains of importers were hypothetical and uncertain, simply because imports were controlled. Thus, there was no interest group strong enough to counterbalance the voices of the domestic producers who sought tariff protection.

The nationalism on tariffs and exchange rates that spread over the industrialised nations following the Great Crisis was hugely fought after World War II, on the initiative of the USA, through the General Agreement on Tariffs and Trade (GATT) of 1947, which applied the principles of non-discrimination and national treatment to foreign trade policy, and the International Monetary Fund (IMF) agreement of 1944, which laid the foundations for an international system of payments. Also the economic reconstruction policy adopted by the US Government, worried about possible communist advances in Europe, contributed to finance the deficits in the balance of payments of allied countries that could eventually stimulate restrictions on trade.<sup>v</sup> As a result, international trade was

resumed, and in the post-war years grew at rates rarely seen in the 20th century. These changes affected the political behaviour of industrialists between the decades of the 1930s and the 1970s, a result that Helen Milner (1988) observed, although the author has been more dedicated to the analysis of the outcomes of those facts regarding the ideology of entrepreneurs than about the way they relate to workers.

In Brazil, the results were no different, which contrasts with the uncompromising defence in favour of 'protectionism' made by industrial leaders both in the 1930s (Diniz 1978), when the Vargas regime discussed industrial policy measures, as in 1950, when it adopted tariffs consistent with the developmentalist project (Bielschowsky 2000), and even in the 1980s, when discussing the market reserve for the pharmaceutical industry and informatics - although on this last occasion there was no longer full support for the protectionist position (Velasco and Cruz 1992). Quoting Roberto Simonsen in the 1930s to clarify the contrast:

In the current stage of international political civilisation, it is not possible to conceive the idea of nation without the idea of protectionism (...). In fact, in those countries that embrace protectionism, any citizen can get into any industry that he chooses, as long as he keeps his feet on the ground, free of being crushed by *dumpings* or manoeuvres of powerful foreign competitors (Bielschowsky 2000:84; translation by the author).

This previous position is the opposite of the one expressed in 2013 by the president of the CNI, Robson Andrade, in favour of opening new fronts of trade liberalisation, which could attach the Brazilian market to global value chains:

In times of tough competition, nations that are closed to trade will lag behind. There is no isolated development that lasts. All experiments in this direction had

shortness of breath. Our industry and secondary sector show ability to suit both the domestic demand and the international (Andrade 2013; translation by the author).<sup>vi</sup>

Even associations which led the opposition to the FTAA, such as ABINEE for electrical and electronic materials, expressed support for negotiations with the United States during a conference in Denver in 2013. In the words of the president of ABINEE, Humberto Barbato,

We have changed our position. Ten years ago we were obstinate, and there was a will to close a treaty [...] Now we are isolated, Brazil is out of the global value chains, soon we will be similar to the former Iron Curtain countries.<sup>vii</sup>

The ABINEE position is intriguing because, in its 2013 balance statement, the organisation regretted that ‘imports continued occupying space in the Brazilian market’.<sup>viii</sup>

The way Brazilian international trade liberalisation was promoted - through international agreements that withdrew from national authorities the competence to change tax rates, or at least make them more costly - also contributed to consolidate among the industrialists a liberal position regarding trade policy. Today, any amendment of the Common External Tariff of Mercosur (TEC) that is not included in the list of exceptions should be approved by the Common Market Council of Mercosur, where the other members have a seat, and any elevation of applied duties above the commitments made in WTO is subject to objection by the other WTO members. Thus, the political paths by which manufacturers could get protection from imports have been closed or have become more tortuous. A reopening of these policies, which would

require a complaint by Brazil regarding the agreements of WTO or Mercosur, would be so harmful to exporters that practically it is not taken into consideration.

As a result, few businessmen today mobilise to increase the level of protection, with the exception of trade defence measures<sup>ix</sup>, which are also subject to strict WTO rules, and trade policy instruments less constrained by international agreements, like the national list of exceptions of TEC and the temporary tariff exemptions to capital goods and telecommunications and informatics not produced in Mercosur countries – both accorded in Mercosur agreements - in which the dispute over protection levels is still noticeable according to Veiga and Rios (2015:20). The sectors that are still protected by the TEC or preferential agreements defend their maintenance at all costs, but virtually no mobilisation for additional protection is happening among those who were exposed to competition in prior periods. The demobilisation by high rates shifts the political forces of globalisation. According to Schattschneider (1935:108), it was mainly the manufacturers, who sought to *raise* import duties, who also mostly mobilised during the 1930 tariff reforms. Then, there were those who were trying to *keep* a high rate. Finally, the least deployed were those who wanted to *reduce* taxes. With the consolidation of open borders in international agreements, which inserted limits on lifting tariffs, the first group lost the instruments to protect themselves. With the reduction of tax rates, the second group was reduced. And with the internationalisation of the inputs, the third expanded.

It should be remembered that certain industry interests can be – and are in fact – contradictory. The same businessman who begs the government to block the importation of the products he sells does not hesitate to ask for tax exemptions regarding the machinery and equipment he needs. This contradiction can hinder the formation of a common agenda for entrepreneurship in foreign trade policy, since the

result of trade liberalisation negotiations, involving numerous interests, usually is uncertain. In practical terms, the CNI has a lot of difficulty in forming a consensus on the topics of foreign trade.<sup>x</sup> Any proposal by its leaders has its supporters and opponents. In this sense, the consolidation of liberal interests among manufacturers must turn these preferences to become more heterogeneous, and not necessarily make them bastions of free trade. The truth, as we stated, is that everyone agrees that the ‘big state’, in times of globalisation, is the villain, not the hero of economic development. Pedro da Motta Veiga and Sandra Polónia Rios (2015) suggest that the diversification of trade interests was consolidated after shifts in Brazil’s foreign trade structure following the beginning of the 21<sup>st</sup> century, which created a ‘dualistic’ structure of interests in the setting of trade policy: offensive interests, corresponding essentially to the stances of agribusiness sectors, and defensive interests, reflecting the competitive weakness of the manufacturing sectors. (Veiga and Rios 2015:19).

These structural changes that, according to the argument presented, changed the interests of Brazilian business, have been expressed in one form or another in most business organisations that fit into this agenda. The principal organisation – the *Coalizão Empresarial Brasileira* (CEB) – was formed in 1996 under the leadership of the CNI, in response to the negotiations of the FTAA launched in 1994, where governments discussed the integration of trade and investments among 34 countries of the American continent, excluding Cuba (Mancuso and Oliveira 2006). Since then, the CEB has pronounced itself on other fronts opened up by the government, as in the WTO Doha Round and negotiations between Mercosur and the EU (Oliveira and Milani 2012). On those fronts, there were internal realignments to the coalition, expressing the diversity of interests: in 1999 the agribusiness, without abandoning the CEB, created an

organisation dedicated to agricultural interests, the Permanent Forum of International Agricultural Negotiations, which would lead to the formation of the *Instituto de Comércio e Negociações Internacionais* (ICONE) in 2003 (Carvalho 2003); and in the Doha Round, as opposed to the FTAA, the textile and other labour-intensive workforce placed themselves on the defensive.

The following section will analyse the position of entrepreneurs in the FTAA negotiations, with the purpose of investigating more closely their positioning and those of the workers. If they didn't form a joint coalition, how did they try to move forward in their political agenda?

## **2. FTAA: The position of entrepreneurs and workers**

### **(a) Analytical note**

The variable discussed at the end of the previous section - imported inputs to industrial production – is effective in explaining the position adopted by the business community in the face of a possible lifting of import tariffs or other measures that produce the same effect. Therefore, it is common that certain 'guardians of globalisation' arise among the manufacturers who stand up against barriers regarding importation of inputs that could harm their position in the market.

However, it is known that no government joins an international negotiation to raise their import duties. This practice is also condemned by the WTO agreements. On the contrary, a reduction of protection levels is negotiated, facilitating access to goods from other sources. That's why two other variables must be considered in the analysis of business positioning in international negotiations: (i) the destiny of the industrial production (domestic or export), which shows how important the negotiation would be

and the risk of a possible opening of the market; and, (ii) the margin of preference, or the difference between the tax rates applied to Brazilian goods and to foreign competitors in the principal markets, which shows the magnitude of the loss (or gain) that could be obtained with the negotiations.<sup>xi</sup>

The FTAA negotiations were officially launched in 1994, during the first Summit of Heads of State and Government of the Americas in Miami. Brazilian entrepreneurs did not organise themselves immediately as the government tried to resist the Agreement by showing little engagement during the discussions. This tactic was reversed in 1997, when the negotiators noted that the result of the delay could adversely affect ‘national interests’. From then on, in the words of Ambassador Waldemar Carneiro Leão, Brazil should ‘stop trying to put its feet on the breaks and just grab the wheel.’ The Minister of Industry, Trade and Tourism at that time, Dorothea Werneck, regarding this reorientation, suggested that the ministerial meeting scheduled for 1997 should take place in Brazil (Oliveira 2003:32).

In Carvalho’s view (2003), bringing the 3rd meeting of ministers to Brazil was a government tactic to raise awareness and give voice to sectors that were likely to protest against the negotiations. Having decided to complicate the deal there was nothing better than to disseminate widely the negotiations that could alter the productive structure of the country and interfere with important economic interests. Knowing that the meeting would take place in Belo Horizonte, the CNI took the initiative to organise the Business Forum, which met in parallel with the ministerial meetings. For entrepreneurs, a deal that would include the US should be treated with less indifference, given the weight of the North American market. It was then that the *Coalizão Empresarial Brasileira* (CEB) was created, in 1996, ‘as a response of businessmen to the need for greater participation



and influence in shaping Brazilian international insertion strategies'.<sup>xii</sup> Veiga and Rios (2015), and also Oliveira and Milani (2012), consider the FTAA negotiations a milestone in the mobilisation of civil society in foreign trade issues.

The CEB was open to various proposals from business, but in the end prevailed on those who were opposed to the accelerated hemispheric integration proposed by the US Government – a position similar in many aspects to the one held by the Brazilian Government. The opposition from businessmen was not as obvious as it may sound. In aggregate terms, on the one hand, the ‘colossus of the North’ was apparently a threat to Brazil because ‘Latin America and the Caribbean [were] among the few regions with which the United States had a surplus in 1998, about US\$12.3 billion’ (Santana 2000:40). Nevertheless, the USA has always been a great market for Brazilian industrial products: in the late 1990s, 70% of exports to the USA were composed of manufactured products, compared to 38% intended for the EU (Pereira 2001:36). However, it must be considered that aggregated data is useful to analyse the position of the government, which strives to balance payments, but not representatives of specific sectors, who strive to eliminate competition against their goods. Probably, the results of the trade balance had shifted the position of the United States Trade Representative (USTR), or of Itamaraty and the Ministry of Finance in Brazil, but not those industry sector associations, concerned about the impact of integration on their own activities.

When the data is disaggregated, it points to the fact that in 2005 – the year in which the FTAA negotiations stalled - among the 10 industrial activities that exported more than ¼ of the production, namely those concerned directly with foreign trade policy, seven of them had the USA as their main destination.<sup>xiii</sup> Therefore, the official protectionist position of the CEB – in favour of a gradual and selective agreement – is not as obvious as might appear at first glance.

## **(b) Liberal Group<sup>xiv</sup>**

Among industrial exporters, effective mobilisation measured by the success of the FTAA - although conditioned by certain results - came from groups that faced barriers in shipments to the USA, like steel producers. This sector exported 29% of the total production, of which about 30% was to the USA, and where an average 4.03% was collected in taxes.<sup>xv</sup> Although ordinary taxes were low, in 2001 a policy of restructuring of the steel sector, supported by trade defence measures, was issued by the US government, and provided for in sections 201 and 301 of US trade law. In the words of Fred Bergsten (2002), the 'Bush Administration initiated an investigation of steel imports, imposed tariffs of up to 30 per cent on a sizable portion of foreign steel shipments to the United States, and launched an effort to organise global steel production'. It was against these trade safeguards that the industry was betting in the FTAA, suggesting to the Brazilian government that the progress of the negotiations be conditional on the suspension of these measures (Oliveira 2003). The industry's position in the FTAA was delicate, because at the same time, 71% of the production was intended for the Brazilian market, protected by average rates of 13.74%, where it faced certain competition from the Americans (the USA was the fourth largest supplier of steel to Brazil in 1997, following only the EU, Argentina and Japan).

The textile and clothing industry, in turn, although it didn't depend too much on exports, saw in a hemispheric liberalisation an opportunity to access the US market with more favourable terms compared to competitors. Even though it was mostly oriented to the domestic market (88% of production), by the 1990s the sector already faced sales difficulties in Brazil because of imports. The company Hering, which for a long time wove their own cloths, in 2012 produced only 30% of its stock, acquiring 45% from

third parties and importing another 25% from China ('Valor Economico', [n.d.], p. 430). Consequently, the Brazilian Textile Industry Association (ABIT) saw in the FTAA negotiations a possibility to redirect its production and to access the U.S. market, where wages were relatively high, using more favourable conditions than those encountered by Asian competitors. The textile industry was one of the main advocates of negotiations — including accelerated negotiations - which could liberalise the market before 2005, when the last review stage of the Multi Fibre Agreement<sup>xvi</sup> of the WTO was planned to reduce, on a multilateral basis, the protection of textiles (Santana 2000:72).

Finally, the last of the mobilised sectors in favour of the FTAA negotiations – and the one that showed the greatest support for the agreement - was that of agricultural and food products, due to the quota system and farm subsidies still allowed by GATT and used by the US government. In addition to the quota system for sugar and ethanol subsidies, Brazil was the only Latin American country in 1999 whose sugar was not eligible under the General System of Preferences (GSP) of the WTO, because it was viewed as 'competitive'.<sup>xvii</sup> The pressure of the sugar industry, which in 1999 faced a crisis of demand, was especially influential on the government in order to adopt an aggressive stance in the negotiations in favour of a liberalisation of agricultural trade. In an interview in 2012, the President of the *Associação Brasileira de Agrobusiness* (ABAG) and former Director of the *União da Indústria de Cana-de-Açúcar* (UNICA) acknowledged that the consideration by the Minister of Foreign Relations, Celso Lafer, of the industry's interests was important so that bottlenecks were.<sup>xviii</sup> The position of the *Confederação Nacional da Agricultura* (CNA) leaves no doubt about the importance that liberalisation acquired for agriculture employers:

About the timing of the negotiating process, the Brazilian agricultural sector would like to have an FTAA as fast as possible, always subject to the complete liberalisation of agricultural markets. The deadline to initiate the FTAA in 2005 was a very hard position advocated by industrial sectors, which fear the FTAA, unlike the agricultural sector that would have much more to gain than to lose with respect to the free trade area.' (Antonio Donizete Beraldo, Head of the Department of Foreign Trade of the CNA, apud Santana, 2000, p. 88).

It is interesting to note that, when trade liberalisation was discussed multilaterally in the WTO, the 'liberal' coalition within the CEB reorganised itself. Textiles became protectionist, afraid perhaps of Asian competitors; and agricultural producers sought a more aggressive tactic. On the initiative of the ABAG, the *Organização das Cooperativas Brasileiras* (OCB) and the *Confederação Nacional da Agricultura* (CNA), the *Forum Permanente de Negociações Agrícolas Internacionais* (which later became the *Instituto de Estudos do Comércio e Negociações Internacionais* (ICONE) was founded in 1999 and in which a number of further actors from the agribusiness took part: financial institutions, research institutions, producers of pesticides, machinery and equipment, transport companies and communication companies. Even without abandoning the CEB, agricultural producers distanced themselves from the industry, in Carvalho's view (2003:372), so that their specific and more aggressive demands would have a stronger influence on the government, whose ministers had no consensual view about the FTAA.<sup>xix</sup>

### **(c) The Protectionist Group**

*Entrepreneurs*

Opposition to the FTAA - predominant in the CEB and defended from the beginning by the Brazilian government – was led by the electric and electronic sectors, through the Brazilian Association of Electrical and Electronics Industry (ABINEE) and the National Association of Manufacturers of Electronic Products (ELETROS), by the chemical industry, through the Brazilian Chemical Industry Association (ABIQUIM), and by the producers of machinery and equipment, arranged at the Brazilian Association of Machinery and Equipment (ABIMAQ) (Oliveira 2003:39). All sold to the domestic market, where they faced strong competition from the USA: between 1997 and 2003, electrical appliances, machinery, equipment and chemicals were the major US export goods to Brazil. In 1997, the tax levied on these products ranged from 3% to 35%, and the average was 13.37%. The automotive industry joined the protectionist sectors, although with less engagement because the position of the Brazilian subsidiaries came into conflict with their North-American head offices. The Brazilian car manufacturing industry directed 72% of its production to the domestic market and 7% to Argentina, and the bus and truck industry directed 64% of its production to Brazil and 12% to Argentina. Both in Brazil and in Argentina, these two sectors did not pay import tax, unlike products originating from outside of the block, which in 1997 had to pay taxes of up to 60%.

Therefore, the opposition to the FTAA among the business community was led by industries that sought to defend the margin of preference on sales to Brazil and Mercosur. It should be stressed that the Mercosur Customs Union is an important political mechanism, regardless of the level of import duties, because each change of taxes not provided for in the national lists of exceptions must be submitted to the Mercosur common market group, where the government has a power of veto. Since TEC was built almost like a mirror of the Brazilian tax rates resulting from tariff

reforms initiated in 1990 (Vaz 2002:242), the institution is fundamental to the protection of the industry. Sectors that relied on economies of scale and could not dispense the integration of markets, such as consumer durables, were the main proponents of preferential agreements with developing countries – an alternative designed to strengthen the consumer market from poor countries without exposing themselves to the competition of the industrialised countries, as ECLAC defended in previous moments to the region.

In the end, the official position of the CEB tried to reconcile the interests of the industrial and agricultural sectors: it stated that it was in favour of the liberalisation of agricultural markets, but included a series of objections and observations to be taken care of during the negotiations. In the vision of Amâncio Jorge de Oliveira, a protectionist bias prevailed with respect to the liberalisation of the industrial park, because ‘these sectors tend to be more structured organisationally to influence and be more vocal to the extent that they identify more clearly the potential risk they've taken in the case of further opening and liberalisation via continental integration’ (Oliveira 2003:39; translation by the author). In the following paragraphs, we analyse the position of the trade unions to see why a defensive alliance between workers and employers became inconceivable.

### *Workers*<sup>xx</sup>

The Brazilian labour unions had discussed trade policy reforms since the early 1990s. In 1991, when the government announced the signing of the Treaty of Asunción, which created Mercosur, the *Central Única dos Trabalhadores* (CUT) articulated internationally its intention to influence the direction of economic integration, through

the *Coordenadora de Centrais Sindicais do Cone Sul* (CCSCS), which included also two other central Brazilian trade unions: *Força Sindical* and *Central Geral dos Trabalhadores* (CGT).<sup>xxi</sup>

Trade unionism was not opposed to integration per se, but to the way it was conducted: insulated from society, aimed at economic liberalisation and without workers' protection policies for the productive re-conversion (Vigevani 1998:113). *Regional* trade, which was stimulated already prior to Mercosur by regional integration initiatives, could in the view of the CUT lead to economic specialisation and strengthen the region's countries in trade negotiations – which would be positive, although the reduction of tax rates compared to other countries, as implied in the project of 'open regionalism', should be contested. To this end, the CCSCS proposed that the TEC respect the higher rates already in force in the block (CUT 2003:67), as indeed occurred. Furthermore, liberalisation would have a huge social cost by being implemented during a period of fiscal adjustment, when public funds for the protection of the worker were reduced. In this way, unions proposed that the Mercosur agreement take into account social protection measures: (i) the creation of a social fund guaranteeing wages and labour rights in case of closure of companies during the process of restructuring and, (ii) the signature of a charter of fundamental social rights, to be annexed to the agreement and approved by legislatures, with a commitment to minimum rights – a strategy to bind internationally the governments to policies threatened by the wave of structural reforms in labour markets, in vogue during the 1990s.

When FTAA negotiations were launched, workers rushed to offset the 'historical delay' due to the globalisation of capital (CUT 2003:74). The big step in this direction was the formation of the Continental Social Alliance (ASC), which coordinated actions of resistance throughout the continent.

The formation of the ASC was preceded, in the case of the CUT, by the decision to integrate organically with the international trade union movement, by joining the International Confederation of Free Trade Unions (ICFTU), in 1992 (CUT 2003:48). There was a lot of criticism in the trade union movement regarding the CUT approach to international trade unionism, despite the constant reaffirmation of the leadership that the step was necessary to reverse the trend of weakening trade unions. The ICFTU was accused of being an arm of the US government used to intervene in Latin America during the Cold War. In addition, the 'organic' integration was viewed with concern because it could reduce the autonomy of the CUT and make it less democratic, since the organic integration supposed that the union would follow superior decisions, which in some cases would be disadvantageous (Teixeira 2008). According to Berrón (2007:38), resistance to rapprochement with ICFTU (and with the Latin-American section of ICFTU, called *Organização Regional Interamericana de Trabalhadores - ORIT*) was reduced after 1997, when the direction of the North American union AFL-CIO changed, although there remained groups that criticised such a strategy.

Anyway, with integration with the ICFTU, Brazilian trade unionism took a step toward in the formation of a grand coalition against the hemispheric integration. The resistance was the initiative of the trade union movement in Canada back in the 1980s, when the possibility of a Canada-US agreement came up, which later would become a mainstay of the *North American Free Trade Area (NAFTA)*. At that time, Canadian unions allied with other social movements, since almost a decade of neo-liberal attacks had weakened them politically. As the frontiers of integration went South, with NAFTA, the Initiative for the Americas and the FTAA, the Canadians gained support in Mexico, in the USA and in other countries of Latin America through the ORIT/ICFTU to discuss trade liberalisation (Berrón 2007).



Initially the ICFTU/ORIT did not assume a position contrary to the FTAA, but to participate in the negotiations they sought the recognition of the Trade Union Forum, analogous to the Business Forum that was integrated in the negotiations structure, and not the end of the FTAA. Some sectors, such as the Chilean trade unions, supported an agreement that would reduce tax rates in the USA. According to Berrón (2007:38) it was only in 2000 that the movement adopted a stance widely contrary to the proposal of integration. The trade union meetings, as well as other social movements, occurred in parallel with the official schedule: in the first Summit of the Americas, in Miami, the American AFL-CIO union delivered a letter to government representatives on behalf of ORIT. In Cartagena, in 1996, when the II Conference of Trade Ministers was taking place the Union Forum was created and also the convention of simultaneous mobilisations by CCSCS. Finally, in 1997, at the 3rd meeting of ministers in Belo Horizonte a parallel conference called Forum Nuestra America was organised, where the *Manifesto dos Trabalhadores e Trabalhadoras de Nossa América* was adopted together with a document entitled 'Building a Continental Social Alliance in the face of Free Trade'.

It must be stressed that this document had been approved both by members of the trade union movement as well as social movements present in the Forum Nuestra America. For this reason, it marked the approach of the trade union movement towards social actors opposed to globalisation, a political alliance sealed in the USA on the occasion of the opposition to the approval of NAFTA (Gilpin 2004: 8) and which for some time already had been taken into consideration by Brazilian unions. the CUT led the rapprochement with social movements, getting support from the Regional Economic Council of Rio de Janeiro, and by NGOs like Fase, Ibase, Inesc and Ser Mulher to form the *Rede Brasileira para a Integração dos Povos* (REBRIP), which focused on the

resistance to the FTAA. REBRIP attended the meeting in Costa Rica, in 1999, that formalised the existence of the Continental Social Alliance (Berrón 2007:38 and 42; CUT 2003:56), which remains active as a forum to coordinate interest groups during discussions on the international agenda of Brazil (Oliveira and Milani 2012).

[Figure 1]

### **Conclusions: Alliance of classes in globalised countries**

The workers, in the fight against the FTAA, allied with social movements that, for various reasons, opposed globalisation. At the CUT, the approximation occurred after it joined ICFTU, where the unions of the USA and Canada put forward proposals to incorporate the environmental agenda and social clauses into trade negotiations. The alliance between labour unions and social movements, environmentalists, native peoples and others was not without strains. Most of these movements opposed industrial development policies, which came along with large infrastructure projects generally welcomed by the trade union movement. For this reason, the coalition was built on a selective basis – resistance against the FTAA - but later expanded into a movement against ‘globalisation’. It is important to note that even with the tensions and conflicts within the coalition, concessions were made and an alliance was built. In this alliance, however, Brazilian business community members, who also fought the hemispheric integration, did not participate.

The explanation for the political estrangement of employers was not exactly the interest of workers and employers in foreign trade policies, which were compatible, but the preferences they had in policies of economic restructuring, social protection and the role of the State in an open economy, which became priorities during the economic opening process. This aspect of globalisation was neglected in analyses studying the political

coalitions in open economies, gathered in Rogowski (1987), but they became clear in the case of Brazil. Unlike workers who sought to condition trade liberalisation to policies of social protection, entrepreneurs were interested in reforms to reduce the ‘Brazil Cost’, and especially in tax reforms. Both resisted the accelerated liberalisation proposed by the USA in the FTAA, but fought for opposing policies: entrepreneurs, advocating the reduction of costs, including labour costs; and workers, trying to get protection through the State and fighting for the maintenance of rights. So, despite superficial similarities – ‘no to the FTAA’ – there was no alliance between these different groups in the negotiations. Entrepreneurs even tried to stop the incorporation of NGOs and trade unionists into the consultations that governments set up regarding the FTAA, arguing that only businessmen represented the ‘private sector’.<sup>xxii</sup>

The international trade liberalisation fostered another shift in the political preferences of industrial leaders: it spread liberal ideas about foreign trade policy among some sectors, eroding the past protectionist consensus that prevailed in this class during the import substitution period. As noted by Veiga and Rios (2015), the liberal group does not command the majority of the class associations, but they are strong enough to make their voices heard in the media whenever the government proposes protectionist policies as a solution to ‘save industry’. Even in the most important Brazilian industrial associations, like the CNI and FIESP, there is a noticeable growing dissatisfaction with the alleged low engagement of the government in the trade negotiations. It is difficult to say if this is a long term trend or if it is, instead, a momentary wave of criticism against the government’s orientation, specially because the liberal block of the industry has not presented a detailed proposal on foreign trade policy. Anyway, the reorientation of industrial associations towards liberalism should be studied carefully, as it serves to

strengthen the aggressive interest in trade negotiations already evident in the agribusiness sector.

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## Notes

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<sup>i</sup> The European experience of large collective bargaining coordinated by top class associations was called ‘Corporatism’ (or ‘Neo-corporatism’ for the post-World War II cases). Charles Maier (1984:40) defines this regime as ‘a broad concertation between employer and employee representatives across industries, which is usually established and sometimes continually supervised under State auspices’, while David Cameron (1984:146) has a more critical view: ‘In short, corporatism can be seen as a system of institutionalised wage restraint in which labour, acting “responsibly”, voluntarily participates in and legitimises the transfer of income from labour to capital’. A good collection of studies about the issue can be found in Goldthorpe (1984), while an analysis of the adequacy of the concept to Brazilian experience is presented by Glauco Arbix (1996).

<sup>ii</sup> The import penetration indicator, for any product, refers to the percentage of the domestic consumption that is satisfied by imports. In Chart 1, this indicator was applied to each industrial activity classified in the Table of Resources and Uses of IBGE. As each industrial sector manufactures more than one product, the penetration of imports in the sector is calculated by multiplying (i) import penetration for the product by (ii) participation of the product in the activities of the sector.

<sup>iii</sup> For an analysis of the *desenvolvimentista* ideology see Bielschowsky (2007).

<sup>iv</sup> Nassar, André Meloni. A onda das cadeias globais. *O Estado de São Paulo*, 20 March 2013.

<sup>v</sup> About US participation in the construction of post-World War II order, see Gilpin (2002).

<sup>vi</sup> This position was also presented in *Mapa Estratégico da Indústria 2012-2013*, a document formulated by the CNI.

<sup>vii</sup> ‘Indústria brasileira propõe firmar acordo de livre-comércio com EUA’, *Folha de São Paulo*, 14 November 2013.

<sup>viii</sup> *Desempenho setorial*, Abinee website, available at <http://www.abinee.org.br/abinee/decon/decon15.htm>. Accessed on 10/02/2016.

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<sup>ix</sup>About its use in Brazil, see Thorstensen *et al* (2012).

<sup>x</sup>An example is a study published by *Federação das Indústrias do Estado de São Paulo* (Fiesp 2011) on potential impacts of trade negotiations.

<sup>xi</sup>When import taxes are already low, using the import tax rate to measure the ‘margin of preference’ is ineffective, because there are other instruments of trade policy that are more relevant to the opening of the market. But we believe that, by having relatively high rates in Brazil, this indicator is still effective.

<sup>xii</sup>CNI Web site. Available at <[www.negociacoesinternacionais.cni.org.br](http://www.negociacoesinternacionais.cni.org.br)>. Accessed on 12/01/15.

<sup>xiii</sup>Ministry of Development, Industry and Trade, *AliceWeb System*. Accessed on 12/12/2015.

<sup>xiv</sup>In the following sections the interest groups were classified in ‘liberal’ and ‘protectionist’, even though during the negotiations the proposals were much more diversified than the two categories suggest. For a detailed description of *Coalizão Empresarial Brasileira* positions in each negotiation topic see the work of Amâncio Jorge de Oliveira (2003). More information about the workers’ position can be found in the thesis of Gonzalo Berrón (2007).

<sup>xv</sup>In this section, the information on import tariffs was obtained from the system of WTO Tariff Analysis Online; export and import data was calculated by the author based on the *Tabela de Recursos e Usos* of IBGE and the AliceWeb System of the Ministry of Development, Industry, and Trade.

<sup>xvi</sup>Until the end of the GATT Uruguay Round of trade negotiations (1986-1994), textile trade was plastered by the Multi Fibre Agreement, which included export quotas for producing countries. Later the sector was governed by the Agreement on Textiles and Clothing of the WTO, which outlined a plan of liberalisation within a period of ten years taking place in four stages (1995, 1998, 2002 and 2005) for four categories of products (thread, fabrics, coverings and clothing). In each step there would be liberalisation of a certain percentage of the textile sector: 16% for the first stage, 17% for the second, 18% for the third and, finally, 49% for 2005 (Thorstensen, 2002, p. 475). Thus, in 2005, textiles were free of existing quantitative barriers since the signing of the Multi Fibre Agreement.

<sup>xvii</sup>The US Trade Act of 1974, which established the GSP, defined circumstances in which the tariff preferences granted under the GSP could be removed or suspended. Among them is the ‘limitation of competitive necessity’, which among other things determines that the preferences are suspended if the imports of the product, originating of the beneficiary member, exceed 50% of the total imports of the product by the US (1974 Trade Law, Section 2463, ‘Designation of eligible articles’).

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<sup>xviii</sup>Interview with the President of ABAG, Luiz Carlos Corrêa Carvalho, on BrasilAgro, 03/12/2012. Available at <<http://www.ABAG.com.br/index.php?mpg=00.00.00>> Accessed on 20/01/2014.

<sup>xix</sup>In a 2013 statement, the Minister of Foreign Affairs in Lula's government, Celso Amorim, revealed that Roberto Rodrigues, Minister of Agriculture, Livestock and Supply, and Antonio Palocci, Minister of Economy, were 'vigorous fighters in favour of FTAA', and said also that the Minister of Development, Industry and Trade was an 'adherent of a real engagement in the negotiations' (Amorim 2013:55, translation by the author).

<sup>xx</sup>In this section, I analyse only the position of the CUT as it is the organisation which participated more actively in the negotiations of the FTAA, published more documents and is more important for the fact that Brazilian unions like CGT, Força Sindical and CUT have adopted a similar position, aligned to ORIT, as Valdir Vicente de Barros' (Secretary of CGT International Relations) testimony reveals: 'CGT does not position itself in an isolated manner but within a structure under the guidance of ORIT. *It can be said that there is not a unitary position at CGT. Since the beginning of the discussions on FTAA we are not interested in working with an isolated position. We follow the guidance of ORIT, culminating in the creation of a Continental Social Alliance including trade unions and organized civil society [...]*' (apud Santana 2000:85; translation by the author).

<sup>xxi</sup>An analysis of the participation of trade unions in Mercosur can be found at Tullo Vigevani (1998), Chalout and Almeida (1999) and CUT (2003).

<sup>xxii</sup>'*Coalizão Empresarial Brasileira: documento da posição empresarial brasileira na ALCA*'; Belo Horizonte, May 1997:44, *apud* Santana, 2000:75.

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