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Political Economy of Industrial Policy: Analysing longitudinal and crossnational variations in industrial policy in Brazil and Argentina

Grace Reeve

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Department of International Development

London School of Economics and Political Science

Houghton Street

London

WC2A 2AE UK

Tel: +44 (020) 7955 7425/6252

Fax: +44 (020) 7955-6844

Email: d.daley@lse.ac.uk

Website: http://www.lse.ac.uk/internationalDevelopment/home.aspx

Candidate Number: 13355

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Abstract

Since the 2000s, Argentina and Brazil witnessed a revival of heterodox development policies, including a renewed focus on industrialisation. However, despite some similarities, each case demonstrated different approaches to industrial policy. By 2015, orthodox policies had returned in both cases. This dissertation uses process-tracing within a comparative case study to explore the explanations for these paths and why they behaved differently. Ultimately, this study illustrates how exogenous factors alone do not determine policy choices. Instead, international conditions - either permissive or constraining - interact with distributive politics at the domestic level. Together, exogenous trends and the stability of the domestic political coalitions determine the policy space available for sustainable, long-term industrialisation strategies.

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List of abbreviations

ABDI – Brazilian Industrial Development Agency

BNDES – *Banco de Desenvolvimento Econômico e Social* (Brazilian Development Bank)

CCT – Conditional cash transfer

CFK – Cristina Fernández de Kirchner

CNDI – National Industrial Development Council

IMF – International Monetary Fund

IPI – *Imposto sobre Produtos Industrializados* (Tax on Industrialized Products)

ISI – Import Substitution Industrialisation

PBM – *Plano Brasil Maior* (Greater Brazil Plan)

PDP – Productive Development Policy

PITCE – Industrial, Technological and Foreign Trade Policy

PJ – *Partido Justicialista (Peronista)* / Justicialist Party (Peronist)

PT – *Partido dos Trabalhadores* (Worker's Party)

NTBs – Non-tariff barriers

WTO – World Trade Organisation

1. Introduction

At the turn of the 21st Century, political transformations across Latin America introduced left-wing leaders, rupturing from the previous two decades of neoliberal hegemony (Santarcángelo, 2019). Popularly dubbed the 'Pink Tide', these governments renewed visions of heterodox state-led economic development with a determination to improve living conditions and revive the productive forces of industry, although adjusted for the era of globalization – leading to the label 'neo-developmentalism' or '*neodesarrollismo*' (Bresser-Periera, 2009). In Brazil, the *Partido dos Trabalhadores' (*Worker's Party – PT) was led by Luiz Inácio Lula da Silva (2003-2011) and Dilma Rousseff (2011- 2016). In Argentina, the Peronist Party (PJ) was led by Néstor Kirchner (2003-2007) and Cristina Fernández de Kirchner (2007-2015 – hereafter CFK). However, in recent years, the right-wing has re-emerged - reversing neo-developmental policies, re-installing neoliberal alternatives (Oliveira, 2019).

There is an opportunity to study these shifts, asking what factors shape a country's use of industrial policies, particularly looking at how endogenous and exogenous pressures interact to permit or constrain domestic policy choices. This dissertation is a comparative case study, exploring the political economy of industrial policies in Argentina and Brazil during the 'Pink Tide' era, to answer the research question:

How do exogenous pressures and domestic political coalitions interact to explain longitudinal and cross-national variations in industrial policy?

Ultimately, each case exemplifies how international opportunities and constraints are appropriated by different class fractions which shapes the way social gains and losses are deployed. In other words, the state's ability to implement policies will be shaped by international pressures, both permissive and constraining, but also by tensions within the domestic political coalition – leading to unique trajectories.

There are parallels between the cases, with both Argentina and Brazil employing state-led approaches and reinvigorating industrial policies after 2003. Permissive international conditions, with high international commodity prices, provided the state space to minimise contestation from within their supporting alliances through the broad socialisation of gains. However, particularly after 2008, there was divergence in how they dealt with similar difficulties stemming from a reversal of international conditions. The pragmatic, non-confrontational approach taken by Lula and Rousseff in Brazil contrasted with the increasingly antagonistic stance taken by the Kirchners in Argentina, reflected in their industrialisation strategies. These variations highlight how uniquely configured interests within domestic political coalitions shape state decisions (DiJohn, 2009). Over time, both cases demonstrate how social conflicts narrowed the state's room to manoeuvre within an increasingly difficult global economic environment.

2. Literature review

State-led structural transformations have been commonplace throughout history, with even today's advanced economies using selective instruments to stimulate industrialisation (Chang, 2003). Industrial policies are 'back in fashion', not only in Latin America but also across the developed world (Stiglitz, 2016:1). Industrial policy refers to attempts to shield industries from market signals, to enhance productivity and transform production structures to stimulate industrial upgrading (Chang, 1996; Ocampo, 2014). In reality, 'industrial policy' can encompass an array of policies, including trade, fiscal, technology and competition policies (Rodrik, 2008a).

The subject sits within the ideological debate over the role of the state in economic development (Rodrik, 2008b). The neoclassical tradition views government interventions as inefficient at allocating resources and facilitating rent-seeking (Hayek, 1945; Rodrik, 2017). If an industry has strong prospects, free markets will stimulate private investment (Pack and Saggi, 2006). In contrast, developmentalism argues that markets do not 'pick winners' (Wade, 1989). Instead, states should overcome pervasive market imperfections and encourage structural change – which is 'not an automatic process' (Rodrik, 2008b:5; Greenwald and Stiglitz, 2006). Since the 2008 financial crisis, this dichotomy has weakened, with growing acceptance that some state interventions can be advantageous and sometimes necessary to overcome market failures (Aggarwal and Evenett, 2010; Chang and Andreoni, 2016; Stiglitz, 2016).

As industrial policy is normalised, the focus moves from *how* industrial policies should be used, rather than *why* (Rodrik, 2008a; 2008b). This includes whether industrial policies should be selective or horizontal – selectively protecting certain firms or industries, or non-discriminatory and widespread across an economy (Rodrik, 2008a). Moreover, there is the question of the politics of industrial policy, considering organisational attributes that are conducive to successful interventions. The success of the East Asian 'miracle' economies, who developed using strong industrial policies, is also often credited to their bureaucratic organisation, where the state avoided political capture whilst forging symbiotic relationships with key capitalist groups – or embedded autonomy (Evans, 1995).

However, a limitation of focusing on why and how to use industrial policy is that these questions neglect the motivations and constraints behind policies (Whitfield and Buur, 2014). Importantly, it fails to explain variations between states or why industrial policy approaches may change over time. With a vast literature debating the transferability of lessons from East Asia today, it is useful to understand what shapes a state's ability to use these strategies (Mkandawire, 2001; Routley, 2012). Two groups of literature contribute to this: those exploring the external pressures on industrial policies and those looking within the state to understand the conditions which are conducive to developmental strategies. Wade describes these as the 'outer wheels' which the 'inner wheel' of industrial policy depends on (2015:68).

There is a growing focus on changes in the global environment which restrict the 'policy space' available for state-led industrialisation strategies. The expanding remit of global trade laws under the WTO, including intellectual property and investment regulations, imposes limitations on the industrial policy tools available – with its goal of liberalising trade through removing discriminatory national policies (Wade, 2003; Mayer, 2009). This is exacerbated by the proliferation of preferential trade agreements imposing more stringent restrictions on states (Shadlen, 2005). Other restrictions include the conditionalities attached to aid and debt relief centring on neoliberal policies and the rise of global value chains which undermine protectionist policies (Kaplinksy, 2000; Gereffi, 2014; Chang and Andreoni, 2016). However, whilst the landscape is more complex to navigate, there is significant room to manoeuvre for developing countries to adopt selective industrial policies today (Chang et al, 2016). Instead, policy-makers must act 'smart' to design compatible interventions (ibid.:142).

This prompts further attention on how states should navigate the remaining flexibilities, what capabilities this requires and why there has been under-utilisation – thus, looking *inside* the policy space (Santos, 2012). There is a growing emphasis on domestic conditions and the political motivations behind industrial policies (Whitfield and Buur, 2014). To understand differences in industrial policy, we must understand the politics behind it (DiJohn, 2009; Tyce, 2019; Wade, 2015). As selective policies involve reallocating economic benefits towards targeted sectors and firms, these decisions are often contested by the 'losers' (Shadlen, 2017; Whitfield and Buur, 2014). Thus, exploring the balance of power between the state, businesses and citizens can contribute to understanding the extent to which the state is constrained in pursuing various policies (Wade, 2015).

Whitfield and Buur explore the politics behind the conditions that make industrial policies successful – asking why some states pursued industrial policies more confidently than others (2014). They argue that the primary determinant of sustained industrial policies relies on establishing a mutual interest with key capitalist groups to incentivise them to enter new economic activities (ibid.). This mutual interest relies on political stability, involving minimising contestation that may threaten the state's ability to promote a long-term directive (ibid.). Internal contestation or fragmentation within the ruling coalition and support for opposition parties must be minimised (ibid). Moreover, mirroring Evans' concept of embedded autonomy, the ruling coalition must maintain sufficient distance from the demands of external actors to ensure rents are conditional on increased productivity and industrial upgrading, yet not too insulated that it is not receptive to changing bottlenecks. This ideal type of political conditions is conducive to long-term, developmental strategies of industrial upgrading and provides a useful baseline to analyse degrees of variation within real-life cases.

Poteete provides a strong illustration, exploring how domestic political coalitions in Botswana were conducive to an assertive macroeconomic and development strategy, with the effective management of social contestation (2009:549). Coalitions are more than executive-legislative relations, but broader alliances between the state, society and key business groups. In Botswana, the leading party utilised hostile external conditions to strengthen the stability of its coalition amongst the electorate and used social policies to minimise contestation (ibid.). However, whilst maintaining a strong coalition until the 1990s, growing macroeconomic difficulties, emerging social frustrations and rising factionalism weakened the domestic political coalition, undermining the state's ability to maintain a confident development strategy (ibid.). Thus, as state capacity and power relations are not static, the changing stability of the state contributes to longitudinal variations in policy strategies.

Explicit analysis of the interaction between internal and external pressures surrounding industrial policy formation still remains relatively underdeveloped. Shadlen (2017), Oliveira (2018) and Richardson and Heron (2008) provide strong insights into how these two areas are interlinked. Shadlen explores the political economy of patent policies in Latin America after the expansion of WTO intellectual property laws, considering interactions between changing external environments, industrial legacies and export profiles, to observe how these shaped domestic coalitions, and how these coalitions shaped future policy choices (2017). Oliveira considers how macroeconomic conditions impact the state's ability to socialise gains broadly to minimise societal contestation, determining their ability to enact policies (2018). Richardson and Heron (2008) emphasis how internal dynamics reflect historically developed distributive politics which shape policies overtime, whilst exogenous shocks can impact the timing of policy changes. Ultimately, this group of literature suggests that longitudinal variations in policies are shaped by domestic distributions of power and gains, which can be altered by external triggers.

In contributing to the question of why states use policy space differently, this dissertation explores the nexus between external and internal pressures on policy choices. Building from debates surrounding exogenous constraints on industrial policy and the role of domestic political coalitions, this research intends to bridge the gap between these two groups to study the interplay between domestic and international pressures and how this varies between countries. Thus, this study will attempt to provide a stronger understanding of longitudinal cross-national variations in industrial policy strategies.

3. Methodology

3.1 Research design

Addressing the question '*How do exogenous pressures and domestic political coalitions interact to explain longitudinal and cross-national variations in industrial policy?',* this paper is a small-N comparative case study based on secondary literature. Using process-tracing to explore policy changes over time, the analysis will contribute to understandings of external pressures on policy-making in the global South through highlighting the explanatory power of domestic political coalitions. Comparing two cases to explore longitudinal *and* cross-national variations in approaches provides breadth and depth on the subject, but also provides a stronger understanding of how different political coalitions can lead to divergent outcomes.

3.3. Case selection

The chosen cases are Brazil and Argentina, which are two like-cases. The logic is that they both face similar external pressures yet display divergence in the policy instruments adopted, highlighting variations in domestic drivers of change. As a Most Similar Systems Design (MSSD), the aim is highlighting factors which contribute to divergence.

The selection criteria were that they (a) demonstrate evolving industrial policies over time, (b) have large industrial bases, (c) did not join the WTO post-1995, as this results in stricter entry requirements regarding industrial strategies and (d) did not have significant bilateral pressures from a major economic power for the same reasons as C. This narrowed the potential cases to Brazil, India, Turkey and Argentina. The final decision reflects the availability of literature.

Both countries followed import substitution industrialisation (ISI) policies between the 1930s until 1970s and both implemented neoliberal 'Washington Consensus' doctrines during the 1980/90s to varying extents (Casaburi, 1997). The reintroduction of state-led industrial strategies occurred in the 2000s alongside political shifts with the rise of left-wing governments – leading to claims they were 'neo-developmental states' (Ban, 2013; Bresser-Pereira, 2011; Görgen, 2018; Roa, 2016). Each unveiled multiple national development plans aiming to reinvigorate industrial productivity, yet have adopted different focuses and instruments. Ultimately, the similar external pressures on Argentina and Brazil yet different policy instruments adopted provides an opportunity to explore the interactions between exogenous changes and transforming political coalitions that may have shaped their choices.

3.4 Analytical strategy

This research uses a political economy approach to explore the nexus between politics and economic interests, through exploring the distribution of power between groups and the processes which sustain and transform power relations across time (Collinson, 2003). This approach illustrates how interests and incentives shape political mobilisation and policy outcomes (ibid.). Political economy analysis focuses on dynamic interactions between key actors, institutions and broader structures to understand the contestation and cooperation that underpins decision-making (ibid.).

After a brief structural snapshot of the cases to summarise the historical trends in industrialisation and export profiles, each case will be explored individually through process-tracing, before a comparative analysis. Process-tracing is a qualitative tool for making causal inferences about social and political phenomena as part of within-case analysis, highlighting the causal mechanisms behind 'trajectories of change' (Collier, 2011:823; Mahoney, 2010). This method also highlights 'how coalitions are constructed and changed' (Shadlen, 2017:25). Thus, the aim is to use this qualitative tool to provide a clear overview of how industrial strategies and political alliances have developed in Brazil and Argentina.

Following from Shadlen (2017), the central task is identifying external trigger events and moments of political contestation to then identify 'winners' and 'losers' within society. Understanding how dominant actors react to new constraints or opportunities posed by changing environments provides clarity on how future policies are shaped. This study focuses on patterns of interest from key groups identified within the literature. Drawing from Poteete (2009), Whitfield and Buur (2014) and Oliveira (2018), the analytical strategy then involves considering how domestic political coalitions are constructed and maintained through the state's configuration of the socialisation of gains to minimise contestation, and how the space to do this is shaped by internal tensions between key social groups and also the broader external environment. The key external triggers focused on in this dissertation are the impact of financial crises, fluctuating international commodity prices and, for Argentina, the changing status of external debt (Haggard and Webb, 1994).

As highlighted above, there is a tendency to focus on the external or macroeconomic pressures shaping industrial strategies. Thus, this will be pieced together with literature discussing the political landscapes during the same periods. The rise of neoliberalism across Latin America has been linked to oil shocks, declining terms of trade and other exogenous pressures, whilst the consequences of neoliberal policies have been linked to the changing political configurations that underpinned the 'Pink Tide' (Roa, 2016; Rojas, 2018). This research follows from these kinds of links to trace how the *interaction* between external pressures and domestic political coalitions shaped industrial policies.

3.5 Limitations

The main trade-off involves generalisability. As a small-N qualitative study, this research cannot demonstrate causality or statistical correlations between changes in policy direction and alterations in domestic political coalitions. Moreover, all possible variables that could shape policies cannot be accounted for. Although selecting cases with similar external pressures highlights the inadequacy of exogenous factors in explaining variation alone, there will of course be other relevant variables.

Thus, the study will not identify a single cause, instead highlighting complexity through exploring historical divergence and diversity - only contributing limited generalisations about cases (Della-Porta, 2008). Providing 'causal process observations' will strengthen the explanatory value of domestic political coalitions in future research, bridging the gap between literature exploring either exogenous pressures on industrial policy or the impact of changing domestic political coalitions (Shadlen, 2017:25).

There are also risks of relying on secondary sources. Identifying domestic coalitions is based on subjective readings of existing literature, relying on general trends of 'winners' and 'losers' based on existing literature, without delving into specific company-level, sectoral or municipal evidence. Thus, a broad approach to industrial policy is taken to observe the general trends, for example through analysing national development plans. This inevitably neglects nuances surrounding specific policy instruments and sectoral variation. However, this approach still targets the aim of exploring the interlink between domestic political coalitions and exogenous pressures.

4. Historical synopsis

4.1 Evolution of state-led development

ISI period

Between the 1930s and 1980s, both countries used state-led ISI strategies (Palma, 2010). In Brazil, protectionist trade with high tariffs was combined with the promotion of technology-intensive sectors, including petrochemicals and steel, and state-owned enterprises and a national development bank were established – becoming one of the most dynamic economies with 3% GDP per capita growth (Andreoni and Tregenna, 2018; Santarcángelo et al, 2018). It had mixed results, with the creation of new sectors including petrochemicals and paper, but difficulties encouraging traditional sectors including automobiles and textiles (Kupfer et al, 2013). State-business relations were dominated by multinational and domestic capital (Evans, 1979). However, powerful landowners from the colonial period remained politically important as primary goods remained a key element of trade (Kay, 2002; Kohli, 2004). The balance of power within the political coalition was relatively stable during this period, providing a favourable environment for consistent industrial policies (Bértola, 2006).

In Argentina, the key instrument in the 1930s to stimulate industry was trade protection, with high tariffs (Santarcángelo et al, 2018). A more comprehensive plan emerged with the rise of Peronism (1946-1955), combining populism and nationalism with state control over economic resources, protected trade, industrial subsidies and preferential exchange rates to promote manufacturing (Grugel and Riggirozzi, 2007). Vertical instruments were dominant, yet largely uncoordinated (Santarcángelo et al, 2018). Despite being one of the wealthiest countries at the beginning of the 20th century, its industrialisation efforts were less rigorous and successful than Brazil – resulting in a lack of structural change, locking it into specialisation in agricultural and industrial commodities (Bértola, 2006). In contrast to Brazil, Argentina's political environment was conflictive, with frequent unrest that undermined stable policies that successfully provided selective support – leading to divergence that heightened during the 1970s (ibid.).

Neoliberal period

Both countries experienced growing difficulty throughout the 1970s, with cycles of balance-of-payments issues, dependency on importing capital goods to sustain industry and external indebtedness (Haggard and Webb, 1994). By the 1980s, debt crises led to the demise of the state-led model (ibid.).

In Brazil, after hyperinflation and repetitive devaluations, the 1989 election of Collor reignited neoliberalism which was intensified under Cardoso from 1994 (Santarcángelo et al, 2018; Wylde, 2012). Industrial policies were progressively abandoned, state-owned enterprises were largely privatised and exchange rates, domestic finance, capital controls and foreign trade were liberalised (ibid.). However, key enterprises remained state-owned, including oil company Petrobras (Ebenau, 2013). The resulting power shift left representatives of the financial elite more influential than industrial actors within the state compared to the ISI period (Morais and Saad-Filho, 2003). The outcome was rising unemployment, the hollowing out of the manufacturing industry and a growing current account deficit (ibid.). High interest rates tamed growing inflation but the subsequent currency overvaluation stagnated export growth (Ebenau, 2013). With rapid capital flight from emerging markets after the 1997 Asian financial crisis, Cardoso devalued the *real* to avoid hyperinflation – increasing debt service payments and leading to an economic crisis (Wylde, 2012).

Before 2001, Argentina was neoliberalism's 'poster child', strongly complying with the Washington Consensus policies (Kaufman, 2011:106). Alfonsin (1983-1989) and Menem (1989-1999) implemented deep reforms which followed a similar approach to Brazil, however went further in pegging the Argentinian peso to the US dollar and privatising almost all state enterprises (Ebenau, 2013). The negative social consequences of were clear, with unemployment rising to 21.5% and the Gini coefficient measuring inequality reaching 0.578 (Oliveria, 2018). The impact on industry was equally as harsh, with severe deindustrialisation (ibid.). Triggered by the 1997 Asian crash and Brazil's devaluation, the country experienced the worst sovereign default in world history and a political crisis, with five different presidents within 15 days and an outbreak of violent protests (Roos, 2019; Wylde, 2012).

Thus, each country experienced crises towards the end of the neoliberal years which underpinned changing perspectives amongst ruling elites (Wylde, 2012). Severe downturns created new battles between domestic groups, influencing the post-crisis periods in different ways (ibid.). In both cases, there were renewed efforts to alleviate the negative consequences neoliberalism had on industry, yet these efforts were shaped by the increasingly polarised interests set in motion during the 1990s era – this will be the focus of the case study analysis.

4.2 Recent structural trends

Between 2003 and 2008, the Latin American region witnessed remarkable growth, largely attributed to the high commodity prices or 'commodity boom' between 2000 and 2014, led by China's demand (Gallagher and Porzecanski, 2009). Between 2003 and 2007, both cases saw improved GDP growth – with Argentina's particularly strong (7.7%) compared to Brazil's (2.8%) (Santarcángelo et al, 2018). However, despite this economic recovery and renewed industrial policies, each case aligned with the wider regional trend of growing dependence on primary commodity exports, or re-primarisation, alongside deindustrialisation (Petras and Veltmeyer, 2014; Katz, 2015). The structural change has been more regressive in Brazil, with its comparably stronger manufacturing industry before the 2000s (Castillo and Neto, 2016). This can be demonstrated through falling manufacturing value added (MVA) (*Fig.1),* growth of primary exports vis-à-vis manufacturing (*Fig.2* and *Fig.3),* sectoral specialisation (*Fig.4* and *Fig.5)* as well as falling shares of manufacturing employment (*Fig.6* and *Fig.7)*.

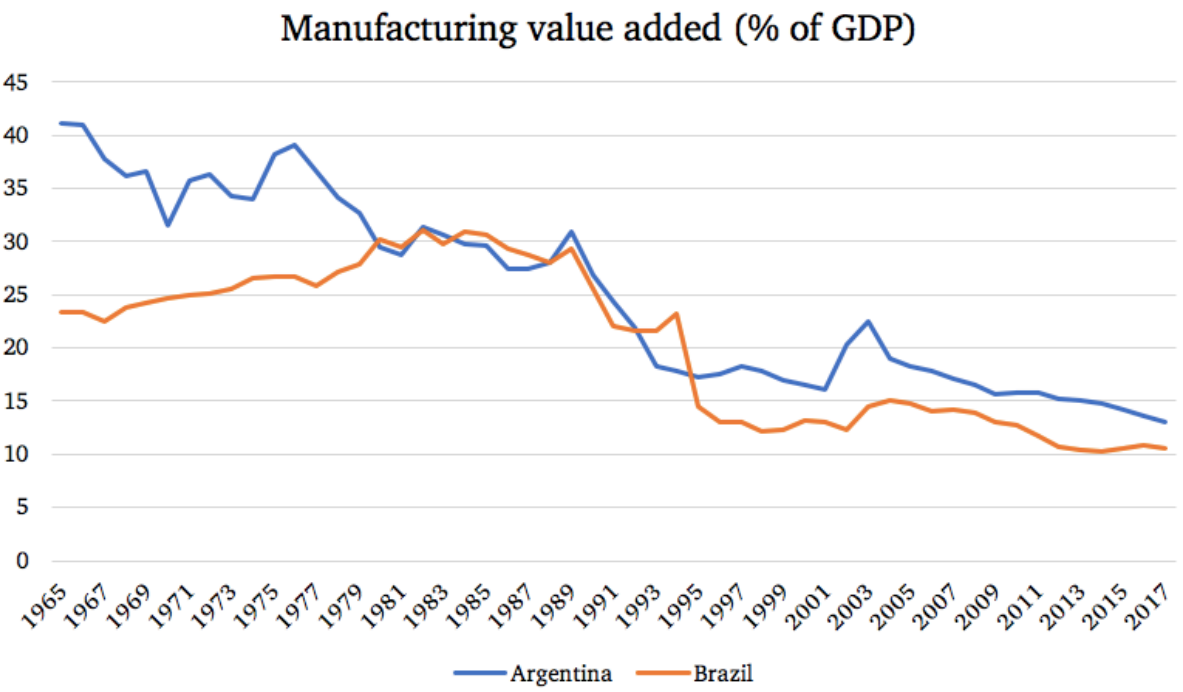

Figure 1: Comparison of manufacturing value added trends in Argentina and Brazil from 1965 until 2017 (based on World Bank Indicators, 2019)

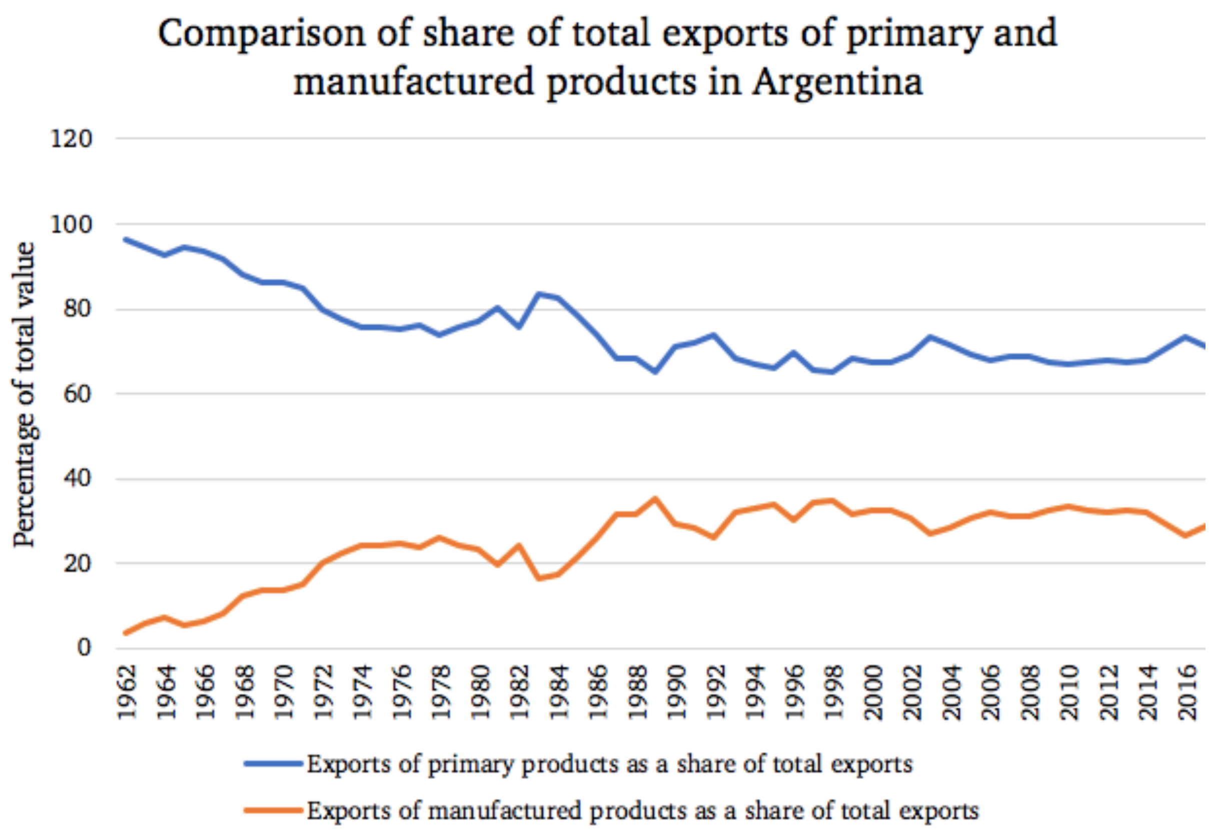

Figure 2: Exports of primary products and manufactured products as a share of total exports in Argentina (based on CEPALSTAT data, 2019).

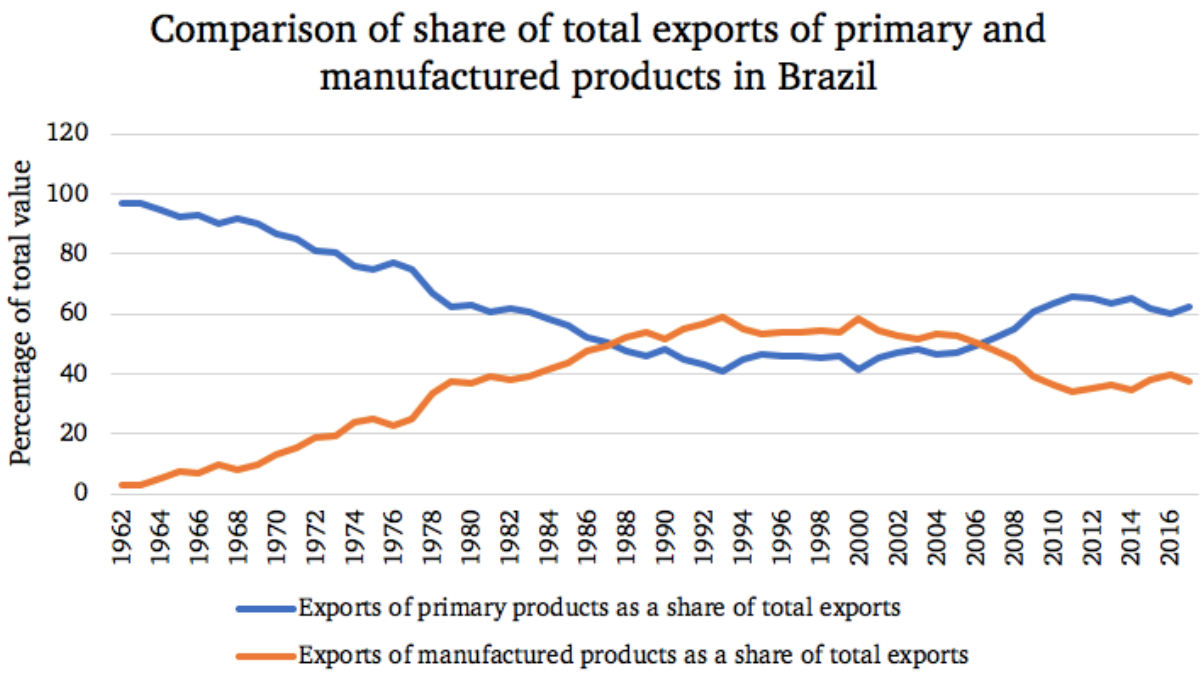

Figure 3: Exports of primary products and manufactured products as a share of total exports in Brazil (based on CEPALSTAT data, 2019).

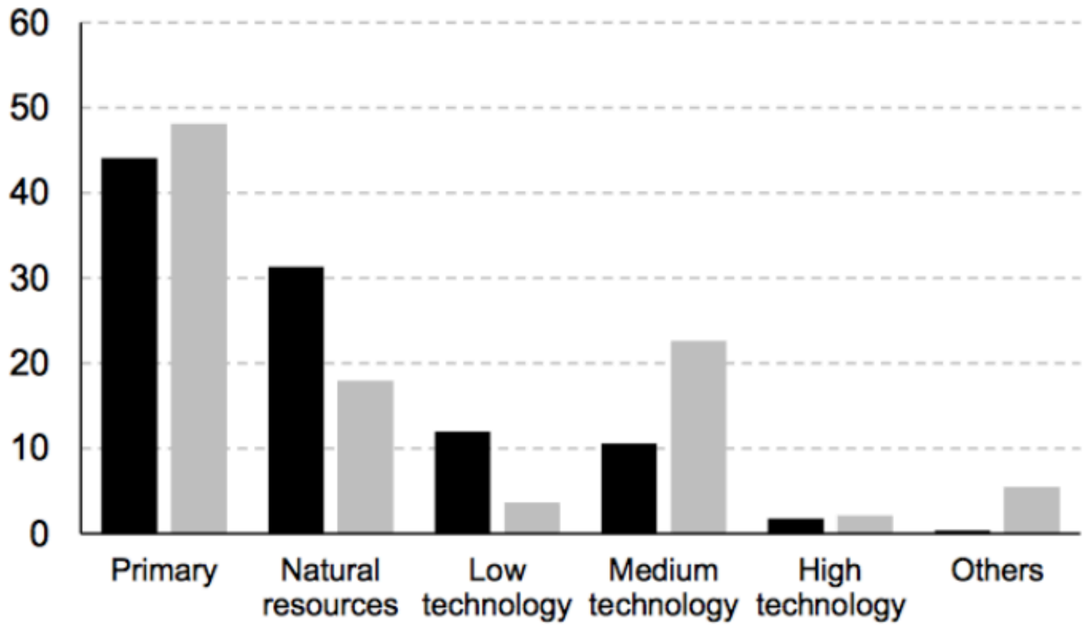

Figure 4: Trade specialisation in Argentina in 1990 compared to 2014 (Castillo and Neto, 2016)

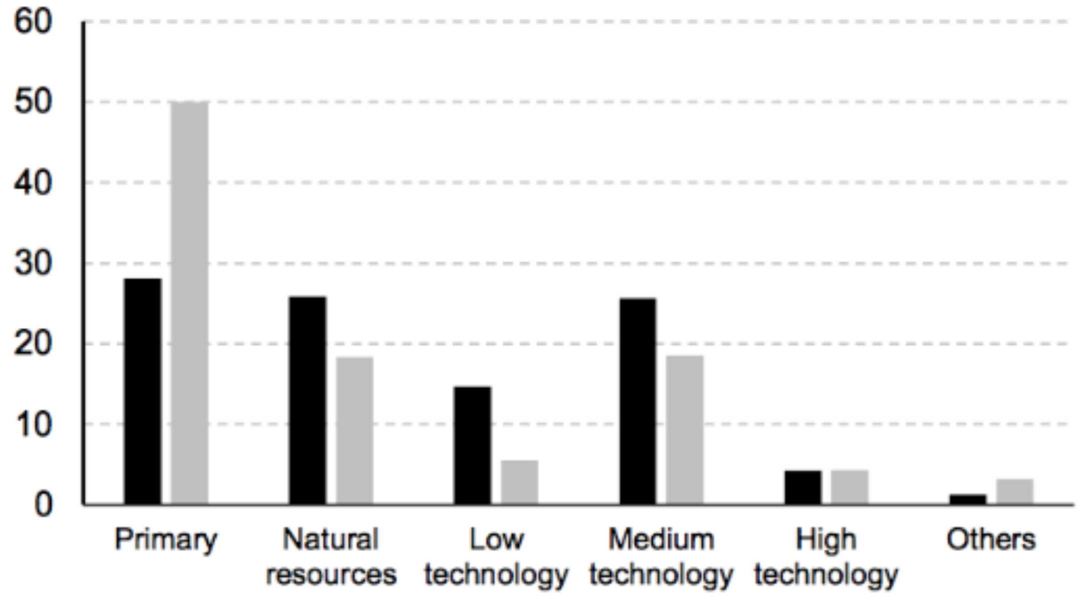

Figure 5: Trade specialisation in Brazil in 1990 compared to 2014 (Castillo and Neto, 2016)

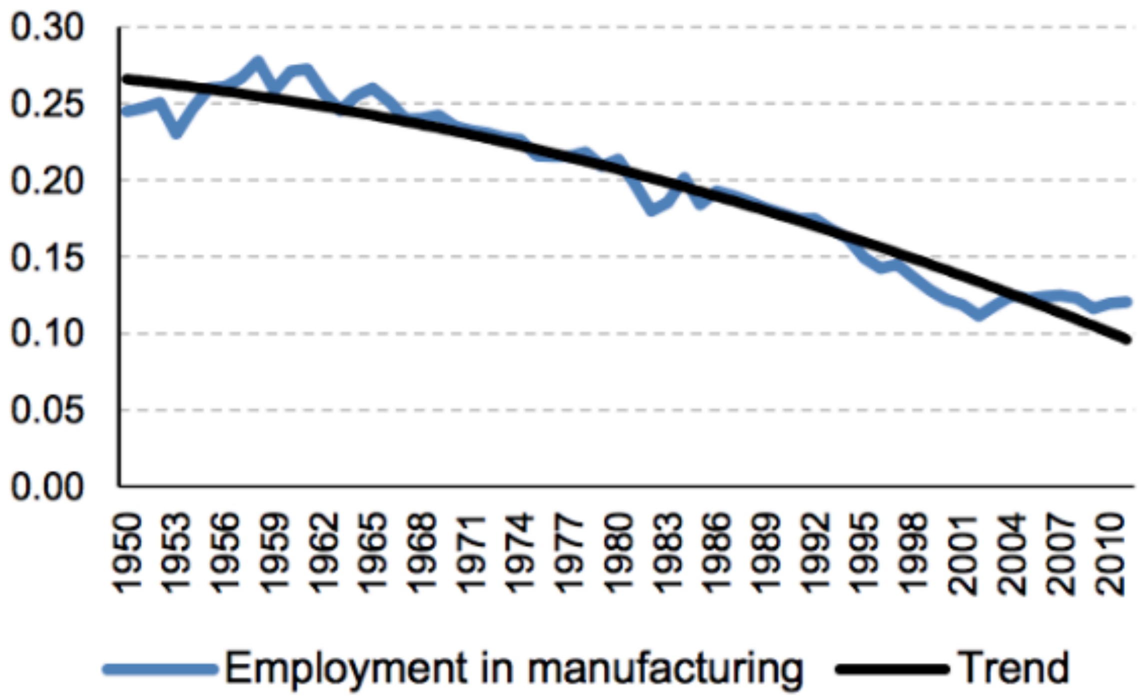

Figure 6: Employment in manufacturing (total percentage) in Argentina (Castillo and Neto, 2016)

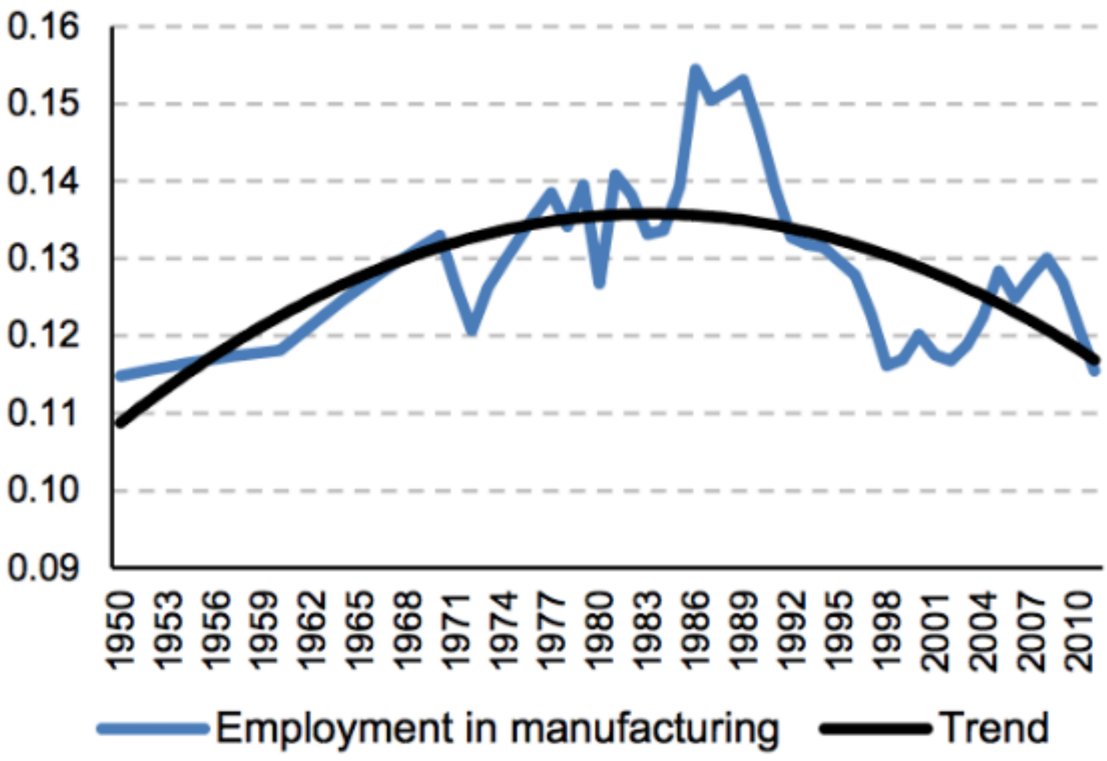

Figure 7: Employment in manufacturing (total percentage) in Brazil (Castillo and Neto, 2016)

In Argentina, whilst remaining dependent on primary exports, there has been a growth of medium-technology industries and engineering-intensive industries (Castillo and Neto, 2016). This is also reflected in employment, with a rise of technology-intensive jobs (ibid.). The top exports are soybeans and derivatives, corn, delivery trucks (OECa, 2019). In contrast, Brazil displays a clearer process of deindustrialisation alongside 'regressive specialisation' or 're-primarisation' – with a growing concentration of exports of primary goods based on natural resources (Medeiros et al, 2019:61). Alongside the growing share of primary goods from 28 percent in 1990 to 50 percent in 2014, there has also been a significant decline in medium-technology industries during the same period (Castillo and Neto, 2016). This is also reflected in the decline of employment in manufacturing (ibid.). The top exports are now soybeans, iron ore, petroleum, raw sugar and cars (OECb, 2019).

Thus, Brazil's industrial stagnation is more pronounced than Argentina's, going from a rising economic superpower to a country in economic and political crisis (Oliveira, 2018). The case studies and comparative analysis will examine the Pink

Tide periods, considering the forces that have led to these structural changes and shaped state attempts to encourage the opposite result.

5. Brazil

5.1 Overview of industrial strategy since the 2000s

The return of industrial policy occurred in 2004 and has since been led by strategic policy plans (*Fig.8*). However, despite clear improvements in targets and evaluation metrics, export diversification has been neglected and re-primarisation has not been targeted (Milanez and Santos, 2015).

The initial focus in 2004 was innovation and technology, with the Industrial, Technological and Foreign Trade Policy (PITCE) aiming to modernise industry (Peres, 2011). This included horizontal actions emphasising broader technological development alongside targeted efforts in sectors including biotechnology and renewable energy (Kupfer et al, 2013). This was accompanied by legislative and institutional changes to enhance linkages between firms and improve research infrastructure, including the creation of the Brazilian Industrial Development Agency (ABDI) and National Industrial Development Council (CNDI)– coordinating the state and key industrial stakeholders (De Toni, 2016).

By 2008, the Productive Development Policy (PDP) established a more ambitious plan encouraging globally competitive ‘champions’, with clear quantitative targets (Santarcángelo et al, 2018). Horizontal measures included infrastructure and education investments, whilst selective aspects increased subsidies, tax incentives and technical support for strategic sectors (Kupfer et al, 2013). However, by 2011 in a tougher global environment, the Plano Brasil Maior (PBM) was introduced, with 40 measures attempting to both strengthen and build sectoral competences (Santarcángelo et al, 2018).

More protectionist than the previous plans, it included tax refunds for key exporters and introduced defensive trade measures to protect domestic manufacturers from the influx of Asian imported goods (Mendes, 2012). A key element was the Tax on Industrialized Products (IPI) under the new automotive regime, imposing a 30% tax on vehicles not meeting a 65% local content requirement (Singer, 2017). Another key legacy was the strengthening of the Brazilian Development Bank (BNDES), a central actor across the plans. BNDES provides subsidised loans to selected large 'national champions', attempting to make them internationally competitive (Boito and Resende, 2007). Since 2009, it has become the largest development bank globally (Boito and Saad-Filho, 2016).

5.2 Lula, pragmatism and the 'alliance of losers'

Lula's election in 2002 occurred during a period of crisis, with the PT becoming an anti-neoliberal symbol (Sirohi, 2019). Lula's electoral support base has been described as a 'losers' alliance' - a broad-based, heterogenous coalition encompassing the working-class, organised labour groups and fractions of the national bourgeoisie who struggled to compete with new international players and rising imports, and oligarchs who had lost relative influence vis-à-vis the financial elite (Saad-Filho, 2007). Despite differing interests, the common thread was the losses experienced under neoliberalism– gaining Lula over 65% of votes (ibid).

Particularly within his first administration (2002-2007), there was significant continuity with the neoliberal macroeconomic policies, including high interest rates and floating exchange rate (Wylde, 2016). From the first instance, radical reforms were prevented by external pressures and domestic political considerations, with both domestic and international capital increasingly concerned about losing their leverage (Morais and Saad-Filho, 2012; Pedersen, 2008). Domestic actors refused to purchase new government bills and international actors downgrading Brazilian bonds due to a 'lack of policy credibility' and fear of default, leading to a loss of credit lines and loans (Morais and Saad-Filho, 2003:20).

The political repercussion was pressure on Lula to reassure the market by committing to policy continuation from Cardoso's presidency (Wylde, 2012). Despite the PT's traditional support base, Lula had to step to the right to win the election (Palma, 2008). In his 'Letter to the Brazilian People', he commits to maintaining IMF policies and legislative guarantees on Central Bank independence (ibid.). This gained support from centrist political forces and middle-class voters, that whilst experiencing losses under neoliberalism, were opposed to radical left-wing policies (Robinson, 2004). However, not enough to fully reassure capital owners, rapid currency depreciation and looming balance-of-payments issues ensued (Mollo and Saad-Filho, 2006). To avoid default, the state had to rely on a new IMF loan, with neoliberal conditionalities further entrenching continuity (ibid.).

Thus, Lula's administration began with strict external constraints, shaping his policy choices (Oliveira, 2018). However, by 2003, disappointment from the PT's traditional working-class and labour union base grew after rising unemployment and falling worker's average incomes (Morais and Saad-Filho, 2005; Carvalho 2007). The political repercussions were clear, with the loss of municipal elections by 2004, growing criticism from industrial elites and rising fragmentation within the ruling party (Oliveira, 2018). This growing contestation underpinned a shift towards neo-developmentalism during 2006, marked by the appointment of heterodox economists within the administration, namely Finance Minister Guido Mantega (ibid.).

This shifting mindset was also reflected in the socialisation of gains for multiple social classes, with the introduction of social welfare programmes targeted at working-classes, increased minimum wages, rising public sector salaries and broader infrastructure investments (Barbosa-Filho and Souza, 2010). However, Lula's approach remained pragmatic, ensuring enough gains to minimise criticisms and boost domestic consumption yet avoiding deep reforms (Martínez, 2016; Singh, 2014). *Bolsa Familia* is the central illustration, with the targeted, palliative conditional cash transfer (CCT) scheme aligning with neoliberalism, rather than structural attempts to address social development (Carvalho, 2007). Despite successful reductions in poverty, without systemic changes, these trends are likely a result of broader growth policies with a residual impact of social policies (*Fig.9,* Saad-Filho, 2007).

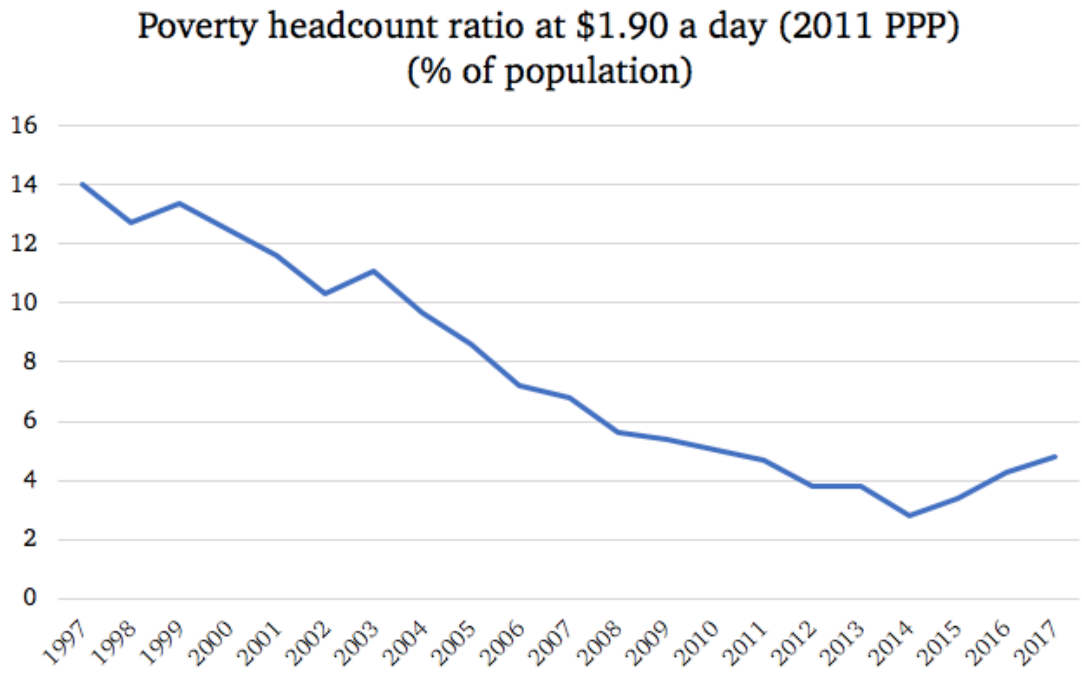

Figure 8: Poverty headcount ratio in Brazil (Based on World Bank Development Indicators, 2019)

Fuelled by rising contestation from the traditional base, this broad socialisation of gains was made possible through the commodity boom and early repayment of IMF loans – expanding the state's fiscal and political room to manoeuvre (Panizza, 2005). Lula has been described as 'the country's luckiest ever president', with the commodity boom and simultaneous offshore oil discoveries – funding policies that enhanced his legitimacy with the traditional base (Marcondes and Mawdsley, 2017:687; Saad-Filho, 2013). However, the commodity boom also consolidated the long-standing influence of Brazil's agricultural elites, contributing to an erratic, hybrid attempt to protect industry whilst pushing for liberalisation in large-scale agribusiness (Bresser-Pereira and Theuer, 2012; Hopewell, 2013; Rothacher, 2016).

Under Cardoso, amidst the step-back by the state, promoting agricultural exports through credit and machinery remained central – leading to growing soybean and corn exports and political importance of the Ministry of Agriculture (MAPA) (Delgado, 2010). This power was unchallenged by the PT as the sector remained central to its coalition, displaying the historical legacy of land concentration in Brazil (Hopewell, 2014; Kohli, 2004). This was supported by social policies, as improvements for the poorest weakened key sources of support for agrarian movements pushing against agribusiness elites (Hall, 2008; Sauer and Meśzáros, 2017). Thus, booming primary exports allowed the state to minimise societal contestation whilst entrenching the influence of agrarian interests and complacency to target re-primarisation (ibid.).

The PDP reflects Lula's pragmatic attempts to balance the interests of protectionist industrial actors and export-oriented agribusiness. Whilst the PITCE was established during less favourable economic conditions, the PDP reflected the strong economic climate and abundance of foreign reserves facilitated by the commodity boom (Kupfer et al, 2013). The PITCE emphasised export diversification and targeted a fewer industries, whereas the PDP became expansive and less focused on the technological sophistication of exports (ibid.). Moreover, BNDES support has favoured resource-intensive sectors, with 75% of its portfolio covering mining, energy and oil and gas sectors by 2012 (Milanez and Santos, 2015). Thus, despite growing dependence on primary exports, Lula's administration appeared complacent to radically prevent further re-primarisation – reflecting the shared interest between historically-influential agro-exporting elites and the state, able to fund its broad socialisation of gains during a favourable external environment.

Ultimately, Lula's administration illustrates a 'precarious balancing of forces' – explaining the mix of continuity and change from the 1990s and broadening of the industrial policy plan from PITCE to PDP (Milanez and Santos, 2015:21). Whilst the financial and agrarian elites have enhanced their political influence, working-classes have been effectively neutralised by expanding social policies (Boito and Resende, 2007). In an externally favourable environment, Lula could remain popular - with the commodity boom permitting a 'winners' alliance' (Saad-Filho and Boito, 2016:214). Yet changing conditions under Rousseff challenged the domestic balancing act, crystallising a neoliberal opposition.

5.3 Rousseff, the ‘alliance of winners’ and cracks in the coalition

In 2011, Rousseff’s administration reinvigorated the neo-developmentalist agenda. However, the contradictory demands of different social groups intensified alongside worsening external conditions, ultimately leading to her impeachment in 2016 and reversal of heterodox policies.

Rousseff’s ‘new economic matrix’, attempted to align industrial policies with monetary and exchange rate policies (Lourerio and Saad-Filho, 2019:75). In a brief push to contain rising debt and inflation, she cut Central Bank interest rates and pressured private banks to follow (Singer, 2015). The decision to cut interest rates reflects the shift towards privatising losses for the financial sector, attempting to revitalise domestic demand (Oliveira, 2018). With a growing recognition of industrial stagnation, the PBM also introduced a new narrative – directly addressing the need to reverse the ‘hollowing out’ of industry due to rising imports from Asia (Kupfer et al, 2013:333). Whilst not entirely rupturing from Lula’s complacency, still retaining a focus on agribusiness, there was a renewed emphasis on upgrading industrial capacities within local and global value chains (ibid.). Yet, despite the recognition of re-primarisation, the strategy remained compatible with the process – reflecting the conflict between maintaining growth and funding the supporting alliance. Moreover, BNDES funding continued to be directed to Brazil’s largest conglomerates, including Petrobras (oil) and Vale (mining) (Powell, 2016; Schneider, 2009, 2015).

Her efforts were unsuccessful. Investment rates stagnated and GDP growth rates fell 6% between 2010 and 2012 (Lourerio and Saad-Filho, 2019). Exports struggled to recover due to external constraints. Commodity prices fell in briefly 2010, linked to falling global demand after the 2008 crash and China’s slowdown, decreasing Brazil’s primary export earnings which had been leading growth (Wylde, 2012). The ensuing economic slowdown in Brazil constricted the funds available to continue the broad socialisation of gains established under Lula (Oliveira, 2018).

The reduction of interest rates already left the financial elite uneasy, reflected in an increasingly critical business and mainstream media (Singer, 2017). However, pressure also arose from the PT’s traditional base, which had been neglected under

Lula's strategy of appeasing finance capital, with strikes and broad social protests in 2013 (Evans, 2018). The mobilisation of a wide social base which became fragmented and lacked unifying demand highlighted the PT's fragility (Saad-Filho, 2013). Beginning with frustrations over the quality of social services, it shifted towards attacks against the PT by large fractions of the middle-class, financial elites and traditional bourgeoisie, whose ability to drive politics had weakened since the 1990s (ibid.). The unrest illustrated the contradictory demands of the population; the working-class wanting to expand their benefits, whilst the middle classes wanting to prevent further squeezing (Oliveira, 2018). After the protests, Rousseff's approval ratings fell from 80% to 30% (ibid.).

With further economic stagnation in 2014 with another fall in commodity prices, Rousseff's ability to socialise gains for ordinary Brazilians diminished and the determination of financial elites to return to the orthodox accelerated (Evans, 2018). Under Lula, the state had been able to manage these contradictory pressures, yet with a growing current account deficit after 2012, Rousseff narrowly won the 2014 election - with the closest result since 1989 (ibid.). Taking a discursive move towards the left, warning that the opposition party would implement harsh neoliberal policies, she attempted to consolidate past fears from the traditional base (Lourerio and Saad-Filho, 2019). However, by 2015, rising inflation, increased hostility from the media and mounting contestation from within the PT contributed to a reversal of many previous neo-developmental policies and implementation of an austerity program (Wolford and Sauer, 2018).

The outcome was the alienation of the traditional working-class base whilst failing to secure support from the middle classes, capital elites or mainstream media (Lourerio and Saad-Filho, 2019). The conservative Congress capitalised on this weakness, with corruption viewed as 'the ideal pretext' for impeachment, considering the opposition also lacked a positive reputation and broad-based support (Lourerio and Saad-Filho, 2019:78). With cuts in public spending undercutting access to credit and tax relief, key industrial and agrarian representative groups announced their support for her impeachment (Oliveira, 2018). The well-publicised *Lavo Jato* corruption scandal resulted in Lula's imprisonment and Rousseff's removal, arguably a parliamentary coup – ending the PT's stretch in power (Evans, 2018; Wolford and

Sauer, 2018). The subsequent elections of right-wing Temer and far-right Bolsonaro have reversed heterodox policies and represent an elite-led alliance (Saad-Filho, 2018).

5.4 Conclusion

Brazil's recent history can be understood through struggles between fragile alliances, shaped by global conditions. The strength of the domestic political coalition declined throughout the PT's two administrations, as the external environment became less favourable to the broad socialisation of gains and non-confrontational stance.

From the outset, the PT era demonstrated the difficulties of pushing a developmentalist agenda after an era that strengthened a financial oligarchy (Sirohi, 2019). Pressured into pragmatism, Lula and Rousseff attempted a balancing act, forging an alliance with disparate groups with contending demands and expectations. However, when state revenues became strained due to external constraints, they were unable to continue class reconciliation and maintain popularity amongst the population and support in Congress. The limits of pragmatism are also reflected in the disappointing results of the industrial strategy, which was discursively strong, particularly under Rousseff, but lacked coherence and transformative impact.

It is clear how the contradictory interests within the domestic political coalition interacted with the external environment to shape this trajectory. The attempt to appease industrial and agrarian elites led to a hybrid mix of protectionist, heterodox industrial policies for manufacturing and orthodox, liberalisation policies to promote agro-industry (Rothacher, 2016). High commodity prices contribute to how, rather than successfully promoting industrial development and diversification, the overarching trend is the improved international competitiveness of agribusiness vis-à-vis deindustrialisation. Not only has this underpinned structural deficiencies, the reinforcement of the agricultural elite's historic influence further contributed to the growing alienation of the PT's support base.

Ultimately, attempts to balance heterodox and orthodox interests through different policies simultaneously reflect the importance of domestic pressures, however, the success of this balancing act was conditioned by external pressures including fluctuating demand for primary goods.

6. Argentina

6.1 Industrial strategy since the 2000s

2003 marked a new period in Argentina's economic and political history, with the election of Kirchner. Between 2003-2008, exports boomed, inequality, poverty and unemployment fell, and economic growth reached Chinese rates (Oliveria, 2018:205). Cristina Fernández de Kirchner (CFK) later spoke of 'a decade won', compared to the 'lost decades' of the 1980s (Webber, 2014).

The post-crisis Argentine developmental strategy rested on two policy areas: macroeconomic policies and industrial policies (Wylde, 2018). The cornerstone was the use of competitive exchange rates to protect domestic industries – rejecting IMF pressure (Gezmiş, 2018). The emphasis on maintaining a stable and competitive exchange rate (SCRER) through foreign exchange controls avoided the isolated nature of ISI, instead reflecting an open economy with strong state management (Aytaç and Ónis, 2014). Both an industrial policy which boosted exporting industries and manufactures, it also contributed to the accumulation of foreign exchange reserves and tax revenues – necessary for avoiding another debt crisis and providing the state with a source of rents (Wylde, 2012).

Industrial policies were also strengthened, including tax breaks, subsidies, technical assistance, credit and non-tariff barriers like import licenses (Oritz and Schorr, 2009). Whilst the exchange rate was the key mechanism promoting industry, industrial policies initially aimed to stimulate aggregate demand, however, vertical tools remained limited (ibid.). Some selective incentives like tax breaks were used for commodity exports, which were complemented by export taxes on agro-exports, which provided a fiscal surplus to reallocate into promoting industry and redistributive policies (Richardson, 2009). These began under Duhalde in 2001 but expanded by Kirchner (ibid.). CFK attempted to further increase these but was unsuccessful due to factors explored in the next section (Fairfield, 2011).

The 2008 financial crisis, stimulated discussion on enhancing reindustrialisation with more vertical industrial policies (Santarcángelo et al, 2018). This was translated into a focus on 'fine tuning' by 2011, with two clear development plans between the public and private sector, each emphasising vertical approaches: Plan Estratégico Industrial 2020 and Plan Argentina Innovadora 2020 (Santarcángelo et al, 2018). There was an expansion of financial support for public enterprises and renationalisation of key companies, including petroleum conglomerate YPF and airline Aerolineas Argentinas (ibid.). By 2012, a comprehensive approach to non-automatic licenses and import permits was launched (ibid.).

6.2 Kirchnerism and *Neodesarrollismo*

Despite being elected by default after Menem pulled out, Peronist Kirchner forged a strong domestic coalition amidst widespread social discontent and a fragmented party – creating a political vacuum (Wylde, 2011; Fiorentini, 2012). The widespread losses under the previous orthodox model fuelled a nationalist, anti-neoliberal public sentiment – providing Kirchner the space to enact neo-developmental policies (Grugel and Riggirozzi, 2009).

Initiated by Duhalde in the immediate post-crisis years, Kirchner strengthened the state's role in social policy and regulating the market (Wylde, 2016). The impact of the commodity boom was clear, with rising primary exports, particularly its main export soybeans (Murillo, 2019). However, Kirchner harnessed these permissive conditions– illustrated in the simultaneous enhancement of manufacturing (Wylde, 2016). GDP grew significantly (*Fig.10)* and attempts to resuscitate industry were successful, with manufacturing output growing 11% between 2003-6 through supplying domestic markets and exporting cars to Brazil (Svampa, 2008).

Kirchner maintained political stability with broad-based support, echoing Lula's pragmatism (Wylde, 2011). As with the PT, the PJ's traditional support base came from trade unions and working-classes that were central during the Peronist period –organised labour has historically been stronger in Argentina than other Latin American countries (Richardson, 2009). Kirchner took a pro-labour approach through enhancing collective bargaining and raising minimum wages (Wylde, 2016). Whilst enhancing Kirchner's popularity, rising wages also increased domestic demand, boosting the productivity and dynamism of the manufacturing sector - with the 2003-2007 period displaying strong job creation and major reductions in unemployment (Santarcángelo et al, 2018). Middle-classes and agribusiness were also part of the early alliance, as the SCRER favoured domestic exporters (Wylde, 2016).

Another early challenge was to gain support from the 'new poor' (Katz, 2016). Poverty levels peaked in 2001, creating a new, vocal social strata of newly unemployed and previous middle-classes (*Fig.11,* ibid.). Kirchner successfully co-opted piquetero (unemployed) groups, through proactively implementing social policies in their favour and providing formal state positions for leaders as a concession for their support (Mayekar, 2006). Kirchner's 'relationship of consultation' with social movements was used to diffuse popular contestation (Wylde, 2015:73). Despite successful poverty reduction, social policies remained palliative without radical attempts to tackle systemic poverty, whilst minimum wage and pension reform policies were more proactive (Wylde, 2012).

One of Kirchner's early policies was negotiating the restructuring of international debt and the repayment of outstanding IMF debt – reducing the debt burden but also expanding policy autonomy by diluting the Fund's influence on domestic decisions (Wylde, 2011). This rested on Kirchner's ability to frame international creditors as villains to promote national unity and state-led development project, arguing 'Nobody can collect a debt from the dead' (Kirchner, 2003 ct. Busso, 2016:111). The proactive, confrontational approach to creditors drew support from society at large, the industrial and agricultural sectors who sought the protection of the internal market, and also the national media who were granted concessions after their essential bankruptcy before 2003 (Becerra, 2015; Busso, 2016). In 2006, Kirchner defied the IMF again through repaying remaining debts with help from a Venezuelan loan – enhancing its economic independence (Manzetti, 2016).

Ultimately, through taking advantage of high commodity prices, Kirchner was able to enact his ambitious state-led agenda – resulting in strong economic growth, renewed industrial dynamism and improvements in living conditions. With twin surpluses in current and capital accounts, the state had space to socialise gains across a broad supporting alliance whilst also restructuring foreign debt which had previously led to crisis (Wylde, 2016).

6.3 CFK and an antagonistic alliance

Kirchner stepped down early in 2007, letting his wife CFK run for election (Lewis, 2009). She won the election with a landslide, reflecting the popularity of Kirchner and strengthened by the fragmentation of the opposition (Lapegna, 2017). However, during her administration, worsening international conditions led to macroeconomic vulnerability – making decisive policy choices became a losing battle in the face of growing political contestation from various social groups (Oliveira, 2018).

With the 2008 global crash and subsequent decline in commodity prices, the Argentine macroeconomic model displayed signs of fragility and, due to the growing reliance in primary exports, the supporting alliance began to crack as the state's ability to finance a broad socialisation of gains declined (Oliveira, 2018). However, rather than avoid conflict, CFK chose to strengthen her focus on the working-class and industry, whilst alienating agricultural and financial national capital (Lapegna, 2017). Whilst rising inflation could be targeted with devaluation, this choice would threaten the state's popularity with workers and middle classes by reducing salaries (Oliveira, 2018). Instead, with low global demand and increased competitiveness from other emerging economies threatening an influx of imports, CFK responded to external conditions by expanding NTBs like non-automatic licenses to protect domestic industry and, in attempt to encourage investments towards industry, proposed an increase in export taxes on soy from 35% to 44% (Bresser-Pereira, 2012; Fairfield, 2011). However, the latter decision was constrained by domestic pressures - triggering a counter-reaction in the form of protests and roadblocks in 2008 from an unusual coalition between medium and large-scale land-owners, which had previously been fragmented (Lapegna, 2015).

Whilst Duhalde and Kirchner had successfully implemented and increased taxes on agro-exports, CFK's attempt led to government defeat (Lapegna, 2017). These producers were unable to successfully mobilise and prevent increases under

Kirchner as strong international demand for commodities and devalued peso reduced the structural power of these groups – the state was not concerned about declining profitability from higher taxes and producers were not disincentivised (Fairfield, 2011). Moreover, under Kirchner, there was minimal consultation with agricultural groups compared to the industrial sector, nor did they have ties with opposition parties (ibid.).

In contrast, under CFK, although the external conditions remained strong and the state maintained a current account surplus, the significant increase in taxes convinced agricultural groups to overcome previous collective action problems (Fairfield, 2011). Cooperation between agrarian elites and poorer producers undermined CFK's attempts to frame the issue as a progressive tool for redistribution, with the tensions eventually being framed by producers as a broader issue of general discontent with the state – gaining support from other business groups (Lapegna, 2017). The clashes were utilised by the corporate media who depicted CFK as confrontational, opposition parties which began building anti-government alliances and also fractions within the Kirchners' coalition who turned against the state (Busso, 2016). Ultimately, it was the growing contestation within the governing coalition which led to the breakdown of the policy, which was rejected by the Senate and Vice President (Lapegna, 2017).

When the 2008 crisis ensued, commodity prices crashed – leading to the declining value of Argentina's main exports (Oliveira, 2018). In addition to increasing agricultural export taxes being off the table, devaluing the Argentinian peso would also be politically unpopular due to increasing the cost of imports (ibid.). Thus, the interaction between exogenous trends and domestic contestation became a constraining factor on CFK's policy choices. Rather than stretching to continue the broad socialisation of gains, CFK accepted the loss of agricultural elite and upper-middle class support, instead renewing her focus on solidifying her support from the left through a growing anti-elite and more radical neo-developmental narrative (Lasa and Beun, 2019). This was witnessed through currency devaluations, increased wages, expanded social programmes and progressive legislation including marriage equality laws (ibid.).

The increasingly radical nature of CFK's responses included the re-nationalisation of key companies, including Aerolineas Argentinas and YPF (Kulfas, 2016). The 2010-2011 period displayed strong growth, increased exports, rising wages and falling unemployment, driven by strong external conditions with rising commodity prices and expansive fiscal policies – described as the Kirchnerist Spring (Kulfas, 2016; Santarcángelo et al, 2018). During this expansionary period, CFK unveiled the two national development plans with ambitious sectoral commitments, with the Plan Estratégico Industrial 2020 covering over 80% of industrial GDP (ibid.). Despite the industrial sector was performing well before 2008, industrial policies were weak, largely horizontal and lacked strong monitoring (ibid.). Thus, the 2008 crisis highlighted the need to deepen the reindustrialisation strategy, whilst the post-recovery period provided the fiscal space to enact it.

Creating a polarising discourse between the people versus the elite, *la grieta*, or the fracture, and expanding radical policies was politically successful in the short-term, contributing to her success in the 2011 elections (Lasa and Beun, 2019; Kulfas, 2016). This success was strengthened by the lack of clear alternative, with a fragmented opposition (Oliveira, 2018). However, with a growing current account deficit and clear domestic constraints, CFK to attempt to re-enter international financial markets (ibid.). This was impeded by the technical default of the economy in 2014 and the rising impact of holdouts in the years prior (Wylde, 2016). Whilst CFK had negotiated a debt restructuring package accepted by over 90% of creditors, a 2012 New York court case granted 'vulture hedge funds' the right to demand full repayment (Grimson, 2018).

The decision to remain non-compliant did not undermine broader public support, due to the continued negative perception of international actors (Oliveira, 2018). However, it contributed to rapid capital flight and blocked the state from international markets – limiting the possibility of future expansive fiscal policies (Murillo, 2015). Moreover, it provided an opportunity for renewed attacks from large domestic corporations and the mainstream media (Busso, 2016). With rising inflation, CFK finally privatised losses for her core base, with wage ceilings leading to declining real wages (Murillo, 2015). The final limits of CFK's narrowing coalition presented in 2015, when she failed to secure leadership for her successor and right-wing Macri became president and, within only 3 days, eliminated agricultural exports (Grugel and Riggirozzi, 2018). Similarly to Brazil, the opposition capitalised on a weakened economy to corruption allegations to gain anti-incumbent votes (ibid.).

6.4 Conclusion

Argentina's trajectory during the 2000s aligns with changes in the political alliance and global conditions. During Kirchner's administration, the broad population was united by the recent memory of their losses under neoliberalism and its contribution to the 2001 crisis. The necessity of enhancing state revenues without access to international capital markets provided the political space to promote a national development project focused on state-led development. This approach was enabled by the booming commodity sector, contributing to a balance of payments surplus. Thus, Kirchner was able to expand the socialisation of gains and maintain a broad, stable coalition – although narrower than Lula's.

The parallels between the two expansionary periods, 2003-2008 and 2010-2012, illustrate the interaction between class interests and external conditions. During a strong external environment, with high commodity prices, the state was able to broadly socialise gains across multiple classes with often contradictory demands (Oliveira, 2018). However, falling demand after the 2008 crash and the falling commodity prices in 2012 put a stress on the state's ability to maintain a strong class alliance, with CFK adopting a confrontational approach towards agricultural and financial classes (ibid.). The choice to preserve support from the traditional support base and left-wing allowed CFK to expand neo-developmentalist policies, with the expansion of industrial policy measures and re-nationalisation. However, this narrow and fragile alliance facing growing contestation undermined the ability to promote a long-term, strategic vision which is reflected in the shallow policy framework (Loureiro, 2019). The situation was exacerbated by the 2012 US court-case and default in 2014, leading to the end of the neo-developmental agenda.

7. Comparative analysis

There are significant parallels between the two cases which highlight the influence of global economic conditions and factors beyond the state's control on possibilities for national economic growth and space for transformative industrial strategies. Yet, the variation in approaches taken, particularly post-2008, demonstrates how external trends enable or constrain the state's ability to maintain a stable domestic political coalition. These political coalitions reflect case-specific historically-formed alliances and tensions over capital formation.

In the 2000s, both Argentina and Brazil displayed renewed heterodox discourses focused on state-led growth and renewed efforts to promote re-industrialisation. Emerging from political crises, especially severe in Argentina, the new charismatic leaders forged broad alliances that united multiple classes with contradictory expectations and demands. In order to maintain the political authority to implement reforms, both Lula and Kirchner had to ensure the socialisation of gains across the electorate to minimise opposition (Whitfield and Buur, 2014).

In both cases, there were clear interactions between broader economic conditions and the stability of political coalitions. During externally favourable periods, characterised by high commodity prices, there was a unique opportunity to promote economic growth with a balance-of-payments surplus – providing relative autonomy for neo-developmental policies and the economic stability to enact them (Wylde, 2016). Expansionary periods were exploited as political opportunities, where fiscal incentives for firms, broader industrial investments and social programs were expanded – providing further support from domestic coalitions to deepen this direction (Martínez, 2016).

However, even during this permissive period, there were slight differences in approach, reflecting how the unique configuration of each alliance underpinned variation. In Brazil, CCTs were used to redistribute wealth to the poorest groups, whereas in Argentina, due to the historical influence of organised labour, the primary instrument was enhancing salaries. Importantly, in Brazil, these progressive policies were balanced by the demands of financial capital, national bourgeoisie and landed oligarchs (Grigera, 2017). This constrained Lula's ability to promote radical reforms to reverse deindustrialisation or structurally improve inequality (Wylde, 2012). Forced to appease the markets to get into power by ensuring continuity with the neoliberal economic policies, drastic changes to exchange rate policies or price controls were absent (Robinson, 2004). However, these external pressures did not entirely dictate policy, instead, Lula navigated and moulded the available policy space (Panizza, 2005). To maintain the support base, he avoided radical economic policy changes, yet, through paying its IMF debts early, Lula was also able to reduce the influence of conditionalities (ibid.).

In contrast, with Argentina locked out from international capital markets after its default, Kirchner's primary instrument for promoting exports was the SCRER, complemented by export taxes on commodities to provide state revenues and reduce vulnerability to external swings. The default not only minimised pressures against state-led policies from above, Kirchner's antagonistic discourse towards the business community also rallied support from the disillusioned electorate (Grigera, 2017). In Brazil, the historically-dependent bourgeoisie undermined the ability to tax commodity exports (Bresser-Pereira and Theuer, 2012). Instead, the growing influence of agricultural exporters, aided by the commodity boom, has contributed to an incoherent attempt to maintain protectionist measures for manufactures whilst aggressively opening up for primary commodities.

Although Brazil's industrial policy plans were more comprehensive and vertical than Argentina's, the pragmatic attempts to maintain a broad, heterogenous support base resulted in uneven sectoral performance, with re-primarisation alongside the hollowing out of manufacturing (Santarcángelo et al, 2018). Whilst Argentina remains dependent on primary exports, this has not substantially altered its export profile from before 2003. For both, the opportunity posed by China's demand for primary goods combined with the rise of globally competitive Asian imports plays an important part in the trajectories in other developing countries, with growing difficulty competing. However, Brazil's regressive specialisation compared to Argentina's more moderate changes illustrates how these external trends can be appropriated by different social groups, with different political possibilities being limited by uniquely balanced class alliances.

The clearest variations occurred after 2008, under Rousseff and CFK. With a reversal in global conditions, with the 2008 crash and falling demand for commodities, both states' abilities to continue the broad socialisation of gains became strained. Yet, they dealt with similar problems in different ways, highlighting the importance of considering the nature of domestic political coalitions. Moreover, this variation corresponds with historical differences in industrialisation and political representation of classes (Kohli, 2004; Oliveira, 2018).

Continuing from Lula's pragmatic approach, constrained by multiple historically influential actors, Rousseff avoided antagonising any groups – attempting to continue expanding gains and avoid confrontation. Only after 2012, when economic stagnation worsened, Rousseff briefly attempted to prioritise industrial capital over financial groups through intervening in the Central Bank to reduce interest rates (Oliveira, 2018). This contributed to her impeachment as the pragmatic balancing of contradictory interests led to widespread disillusionment and an opportunity for opposition groups to capitalise on the disappointment.

In contrast, CFK was increasingly confrontational, favouring working-classes and organised labour whilst antagonising international capital and agricultural groups - illustrated by the renationalisation of pension funds and large companies like YPF. However, her approach was also limited by these groups– highlighting the impact of both external and internal pressures. Externally, the 2012 US ruling on vulture funds undermined CFK's expansionary policies– fuelling wider discontent and confidence within the opposition. Internally, attempts to increase agricultural export taxes were blocked by a broad coalition of agrarian groups, supported by fractions of the PJ-held Congress. Ultimately, whilst maintaining the support of progressive groups, enough of the opposition was alienated for the party to become the minority in the 2015 election.

The confrontational aspects of Argentina's leadership align with the historical populist tendencies and the importance of organised labour stemming from Peronism, whilst agrarian elites and financial capital have been framed as the enemy. In contrast, the historical importance of agrarian elites in Brazil alongside the growing weight of finance during the 1990s aligns with both Lula and Rousseff's pragmatic approaches that led to a hybrid system.

8. Conclusion

This dissertation has sought to examine how industrialisation strategies are shaped, through highlighting the relationship between broader external conditions a state faces and the stability of the political coalition supporting it. Through analysing changing policy approaches and social relations over time, it has demonstrated that exogenous trends can enable or constrain a state's policy choices. However, variation between countries experiencing similar external trends underscores that these factors shape policies, whilst not entirely determining them. Instead, changes in policies targeting productive structures develop through an interaction between these international pressures and the stability of the domestic political coalition.

The state's ability to maintain a supportive coalition and minimise contestation expands the space available for sustainable, transformative industrialisation strategies with long-term visions. The East Asian miracle economies demonstrated how successful 'developmental states' were led by assertive national development projects, with a mutual interest between state and business to promote industrialisation. Underpinned by a stable domestic coalition, leaders implemented selective industrial policies that benefitted strategic sectors over others, whilst minimising contestation through socialising gains for broader groups. The importance of coalition stability has also been demonstrated in other developing countries (DiJohn, 2009; Poteete, 2009).

In Argentina and Brazil, the limits of which policies were possible were clearly shaped by both exogenous and internal pressures – with the external trends largely permitting how successfully the state could minimise domestic tensions. These forces combined to dictate how much room to manoeuvre the state had to implement radical industrial policies.

Both left-wing leaders emerged from periods of crises which framed the political coalitions – they had to engage groups that had lost out during the preceding neoliberal period. In Argentina, the crisis was more severe and effectively shut them out from international markets. Kirchner created a broad nationalist pact which attacked international capital and creditors, emphasising the need to enhance state revenues from within. The antagonism towards international capital underpinned his ability to push stronger exchange rate policies to stimulate exports. In contrast, Lula's alliance had to be even broader in order to retain investor confidence and mobilise domestic groups – resulting in a more centrist, mediated agenda with neoliberal macroeconomic policies alongside stronger industrial policy plans.

Both countries were then aided by the permissive external environment, with a commodity price boom led by China's demand. The increased revenues from commodity exports allowed each state to expand social policies and industrial policy measures including subsidies to strategic sectors. Again, these external conditions were mediated by domestic coalitions. In Brazil, the growing strength of agrarian elites during the 1990s, strengthening already powerful historical legacies, undermined the possibility of using export taxes to further capitalise on the commodity boom and minimise the impact on industry. It also contributed to complacent industrial policies, lacking strong attention to re-primarisation. In contrast, Kirchner was able to mobilise more resources for industry and redistributive policies – initially neutralising the negative impact on manufacturing (Bresser-Pereira, 2013).

With falling commodity prices after 2008, the ability to socialise gains and minimise contestation weakened, particularly as both were increasingly reliant on primary exports. However, the leaders reacted to the same constraint differently, reflecting the influence historically-powerful groups. Rousseff avoided narrowing the alliance, conditioned by Lula's pragmatism, which contributed to economic stagnation. In a quickly deteriorating economy, the ability to socialise gains across a stretched, fragile alliance failed, with the right-wing opposition capitalising on growing contestation under the pre-text of corruption.

In contrast, CFK mirrored Kirchner's confrontational stance towards international capital and agricultural groups to mixed success. However, the legacy of the 2001 crises re-emerged with a significant constraint beyond the state's control – the 2012 US decision allowing private creditors to 'holdout' and demand full repayment. Upholding the same anti-neoliberal rhetoric, CFK remained non-compliant and the country technically defaulted in 2014. This external trigger led to the mobilisation of opposition groups and deterioration of her already narrowed alliance, resulting in the election of right-wing Macri in 2015 – reversing many of the industrial strategies she had implemented, including commodity export taxes.

Ultimately, the experiences of Brazil and Argentina highlight how domestic drivers of change can alter industrial policies, whilst these changes are shaped by international pressures. The space to formulate transformative and selective industrial and development policies is thus conditioned by the interaction between exogenous pressures and the stability of the domestic coalition. Brazil demonstrates how attempting a balancing act between contradictory interests can undermine the state's ability to make selective, authoritative policy decisions to promote reindustrialisation – instead, resulting in expansive industrial strategies without sectoral priorities. The historical influence of agrarian elites was consolidated by the commodity boom, diluting the state's impact in industry. Whereas, Argentina highlights how, although confident approaches to exchange rate policies and export taxes can stimulate industry, external triggers can significantly alter a country's trajectory and minimise the space for neo-developmental policies, whilst there are also limits to how much domestic pressures can be minimised.

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