DEMOCRATIC DEVELOPMENTALISM

Essays on the political aspects of development policies in Latin America

By

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Author's declaration

I, the undersigned, Renato Henrique de Gaspi, candidate for the degree of Doctor of Philosophy in Political Science declare herewith that the present thesis is my own work, based on my research. The thesis contains no materials previously written and published by another person, except where appropriate acknowledgement is made in the form of bibliographical reference and notes. For those parts of the work which are based on joint research, disclosure of the respective contribution of the authors is made. I also declare that no part of the thesis has been submitted in this form to any other institution of higher education for an academic degree.

R de Gaspi

Vienna, April 2nd, 2024

Statement of inclusion of joint work

I confirm that Chapter 4 is based on the paper “The sectoral politics of industrial policymaking in Brazil: a Polanyian interpretation", currently under revision at *Development and Change*, which was written in collaboration with Pedro Perfeito da Silva. Dr. Silva and I developed the theoretical framework jointly and I was largely responsible for the primary data collection and empirical analysis of sectoral examples.

Both authors developed the methods used, contributed to the writing of the paper and gave final approval for publication. The authors endorse this statement with their signatures below.

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Abstract or executive summary

This dissertation discusses the practice of state-led development strategies and industrial policies in Latin American democracies and is comprised of three independent papers with different and complementary methodologies and levels of analysis. The first paper presents a fuzzy-set Qualitative Comparative Analysis (fsQCA) of 59 presidential administrations in 14 Latin American democracies. The paper posits that the state's proactive economic interventions in Latin America were usually incomplete, focusing on only one of two complementary channels: the sectoral, through sector-specific incentives like credit and subsidies, and the macroeconomic, pursued via exchange rate devaluation. Moreover, the paper explores the political dynamics that underlie each channel, taking advantage of the methodology to explore causal conjunctions. The second paper uses a case-study methodology to unpack the cases of Brazil and Chile. With similar political conditions, these countries had governments who attempted to create state-led development strategies aimed at diversifying productive structures which were overly reliant on commodity production. Informed by an inductively derived theoretical framework and by 50 interviews with stakeholders triangulated with documents, news articles, and secondary literature, the paper presents a detailed analysis of the developmental alliances forged by governments and their state managers to support their development strategies, with different levels of success. The third and final paper dives into the sectoral politics of industrial policies in Brazil, studying the specific dynamics that leads to the alignment of business interests and developmental goals. Analysing three prototypical sectors, the paper shows that the strength of a sectoral countermovement, or the existence of countervailing power enables the state to impose conditions and discipline investments in the sector. Overall, the dissertation shows democratic developmentalism as a factor of governments, their policies, and their capacity to form alliances to support their policy choices.

Acknowledgments

Some clichés are clichés for a reason. For example, pretty much every single dissertation out there starts by saying that doctorates are a collective endeavour. The reason for this cliché is simply because nobody (or most nobodies) could ever do this task alone. It takes a village or two to bring such a long and gruelling process to fruition. This dissertation is, of course, no different. Another cliché is to say that it is inevitable that the writer will forget to acknowledge someone and I'm sure I will, so I apologise in advance.

This dissertation was also borne out of yet another cliché. For decades, Latin American social scientists have written pages upon pages asking 'why God, why can't we develop"? "Why are we stuck?". This dissertation is yet another iteration of that, although one that tries to thread the needle between being overly pessimistic and just being laudatory that democratic governments have, at least, tried. To make this dissertation more than a repetition of complaints of our structural constraints, to make it go beyond tired comparisons between Brazil and some old case of autocratic—albeit successful—developmental state in some far away continent, I needed help and I found help.

Firstly, I need to thank my supervisor Professor Laszlo Bruszt. During the toughest times in this process, his support was absolutely fundamental. From my comprehensive examination and through my writer's block during Covid (although I was making do with interviews), he was the most empathetic supervisor one could hope for. Laszlo also defended me when I needed defending, believed in me when I needed believing, and pushed me to do a comparative case analysis which has led me down a more interesting and convincing dissertation.

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Because my research interests were not grown on a petri dish right after I got the PhD position, I also have to thank the many people who, from Campinas to Hangzhou, from Budapest to Vienna, were keen to geek out on Latin American development, neoliberalism, left(ish) politics, and productive structures with me. Bearing the risk of forgetting somebody, these people are: my *padrinho* Marcelo Carvalho, my China mentor José Medeiros, my friends Fabrício Barcellos, Matheus Augusto Soares, Rory Coutts, Carolina Condé, and so many others, and the love of my life and amazing scholar Marina Zucker Marques, who will get a separate paragraph by the end, as the cliché goes.

There is debate among CEU PhD candidates as to which cohort was the unluckiest. I contend that our *Covid-Guinea-Pig* cohort must be at least in the conversation. As we were crammed in the overcrowded Residence Center for the first month, as we moved for three months to a lifeless and unfinished campus, as we came back to Budapest temporarily and watched in disbelief as the first Covid lockdown was decreed—for some of us literally in the middle of class. This meant that we were scattered around the world for quite some time and, despite being physically distant, this built great solidarity among all of us.

From my cohort, I want to specially mention Barbora Valik, whose friendship and the unbelievable coincidence that we were doing fieldwork in Santiago at the same time meant that I could talk about literally anything else but my thesis for a couple of hours every now and again. It was great meeting you, comrade!

Also, Giancarlo Grignaschi was a fantastic cohort-mate in our Political Economy nook. Our shared love towards Brazil means we always had something to talk about. In Brazil, we may die of everything, but not of boredom.

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I want to also give a special thanks to Adam Pontius, who was my flatmate in Vienna during the first year and is currently starting his PhD at CEU. Adam's knowledge of real-life politics, craft beers, and the Roman Empire always gave us plenty to talk about. I'm so happy that we got to reconnect in Vienna in this last year and I already miss our long and geeky conversations.

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It might be completely out of order, but I also want to thank my therapist Lara, as I could not have done this without her services. By the end of 2021, I really believed that I wasn't capable of doing this. Well, here we are…

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Finally, I want to thank the love of my life and my role model. When I met Marina 14 years ago in the last year of high school, I could never imagine that we would build such a beautiful life together. To end this on another cliché, she makes me a better person. Thank you for staying with me through my lowest moments in this doctoral journey. I hope that you now have me at my very best.

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1. Introduction – Revisiting Developmentalism: Crafting Developmental Alliances in Democratic Latin America

There is no reason in principle why the kind of networks that connect the state and capital in the East Asian cases could not be constructed in relation to labor and other social groups. Indeed, there is good reason to suspect that such construction may be a necessity in most countries (Evans 1992, p. 181, on the concept of embeddedness in non-exclusionary contexts, my emphasis).

At the time of writing, the debate on Industrial Policy and its resurgence is at the forefront of global economic discussions and has been prominently featured in op-eds, policy reports, and academic papers[1]. This resurgence, however, finds an earlier and unique echo in Latin America, where discussions on Industrial Policy and the developmental role of the state have been ongoing for decades.

The ascent of the 'pink tide' governments in the early 2000s in the region marked a pivotal moment. These administrations, often influenced by the legacy of Latin American structuralists and the intellectuals associated with the Economic Commission for Latin America and the Caribbean (CEPAL), reinvigorated these debates. The ideologies of *Cepalino* scholars, along with the perspectives of their more radical counterparts in dependency theory (see Fajardo 2022 for a historical overview), were not merely transplanted onto the policies of 21st-century leftist Latin American governments. Instead, they were intricately woven into the fabric of existing global neoliberal order, creating a unique blend of old and new economic thought.

From the start, left and centre-left parties that came to power with the rise of the pink tide were faced with a complicated mission. They rose on the backs of neoliberal policies' lacklustre results in terms of growth, employment, deindustrialisation, inequality, and poverty reduction. Thus, not only did these parties historically have different ideas about the economy,

1 To name just a few in the past years: Durand 2023, DeLong 2023; Cherif and Hasanov 2019; Rodrik and others 2023; Mazzucato and Rodrik 2023, DiPippo and others 2022; Lebdioui 2022; Vukov 2020.

but also their mandate was to pursue some kind of economic change (Flores-Macías 2012; Kaufman 2007; Loureiro 2018; Queirolo 2013; Tussie and Heidrich 2008; Weyland et al. 2010).

On the other hand, these parties—some of them led by leftist leaders who fought against the military dictatorships from the 1960s to the 1980s—were no longer faced with the same international situation prevalent in the previous century. Although successive crises would uncover opportunities in the crevasses of neoliberalism (see Grabel 2019), the persistence of neoliberal institutions both globally and domestically (Madariaga 2019) would force governments to get creative and craft local hybrids that could beget some economic change without a total rupture with the past (see Ban 2013; 2016).

In terms of defining its object of study, this dissertation concurs with the existing literature, which keeps the boundaries of the concept deliberately broad to deal with its multifaceted nature (see Chang 1996; DiPippo 2022; Rodrik 2009). Here, when referring interchangeably to industrial policies and development strategies, I will mean "any government intervention aimed at incentivising production and investment decisions in certain firms or sectors". This definition will permeate all three papers, with minor changes.

This dissertation ventures into the dynamics of development strategies within the democratic contexts of Latin America, offering a distinct perspective from the traditional models of late development typically associated with authoritarian regimes. Scholars like Johnson (1982), Wade ([1990] 2004), and Amsden (1992) have extensively explored state-business relations within such regimes. However, the democratic landscape of Latin America presents a canvas for developmental alliances that includes a wider spectrum of social groups. This research extends beyond the state-business nexus to embrace a multifaceted, multi-actor framework. It is critical for understanding Latin America's unique developmental trajectories. Our examination hinges on how broad coalitions, including the state and diverse social actors, as conceptualized by Evans (1992) in the context of 'embeddedness' in inclusive settings, affect and are affected by the region's economic policies. This approach not only reveals the political dynamics driving these policies but also helps develop a theoretical framework to decipher patterns of continuity and transformation in Latin American development.

As such, this dissertation builds upon, but goes beyond the conventional focus in development studies. It presents an alternative lens to view the complex developmental landscape of Latin America, emphasizing the significant role of democratic processes and diverse societal actors. The case studies and comparative analyses in the subsequent papers aim to illuminate the multifaceted nature of developmental alliances in Latin America, assessing their successes and challenges. This comprehensive approach contributes significantly to the discourse on political economy and development in emerging democracies, offering vital insights into the broader implications and possibilities of democratic developmentalism.

This is the *basso continuo* which will permeate the three papers in this dissertation. They will present the theme of democratic developmentalism with different qualitative methods and over three levels of analysis: regional, cross-case, and sectoral. The first level will establish the ubiquity of development strategies in Latin America, the variegated forms they took, and how they were mostly *incomplete*, with sectoral policies seldom being underpinned by macroeconomic prices. This regional look will also aid with pointing the best cases for in-depth analysis. Next, I will focus on a cross-case comparison between two Latin American experiences with sectoral policies under centre-left governments to show the importance of building broad developmental alliances in order to overcome resistance from incumbent primary-sector exporters. The final paper will turn towards the internal struggles revolving around sectoral policies, showing the importance of non-business groups for the imposition of conditionalities and the aligning of investment decisions with development goals.

1.1. Research Questions

Building upon the diverse yet interconnected themes explored in the introductory section, this dissertation presents a cohesive narrative of democratic developmentalism in Latin America. Each of the three papers, though distinct in their methodological approaches and levels of analysis, intricately weaves into the larger tapestry of development strategies within democratic contexts. Together, they create a comprehensive exploration that moves from a broad regional perspective to in-depth case studies and sectoral analysis. This progression reflects a deliberate and strategic design, mirroring the complexity and multifaceted nature of development in democratic settings. The papers collectively advance our understanding of how political, economic, and social dynamics interact to shape development policies in Latin America. This leads to an overarching research question that not only binds these studies together but also captures the essence of this dissertation's inquiry:

General RQ: *How do democratic processes and diverse societal actors influence the formulation and implementation of development strategies in Latin America?*

In addition to this overarching question, a significant focus of this dissertation is the intricate mechanisms through which governments and their state managers in Latin America forge developmental alliances to support and sustain their policies. This exploration delves into the complex processes of alliance formation, examining how these collaborations are developed and maintained within democratic contexts. Such an inquiry is pivotal for understanding not only the 'what' and 'why' of development strategies, but also the 'how' of their operationalization and the collaborative dynamics essential to their success or failure.

Although this research question is broad, it addresses a crucial gap in the literature, as will be demonstrated in the literature review section of this introduction. Many studies of industrial policies in Latin America and elsewhere have either focused on the politics of development strategies in autocratic contexts or concentrated on describing the policies themselves or their results. However, less attention has been paid to the democratic power struggle around development strategies and industrial policies. As these strategies tend to favour some sectors over others and make choices, the redistributional aspects of these policies are severely political.

To address this comprehensive question effectively, the dissertation is structured in stages, with each of the three papers progressively focusing on more specific aspects of democratic development strategies, from a broad regional overview to detailed case studies and sector-specific analyses.

The first paper, "Developmental channels: (incomplete) development strategies in democratic Latin America," sets the stage by examining the regional landscape of development strategies across Latin America. It identifies the variety of approaches adopted by different governments, establishing a contextual understanding of how these strategies are formulated and implemented. It manages this through a *fuzzy-set Qualitative Comparative Analysis* (fsQCA). This regional overview serves as a foundation for the more focused analyses that follow, highlighting the diversity and intricacy of developmental efforts across the continent. The specific Research Question guiding that paper is the following:

RQ1: *How do political dynamics and government strategies in various Latin American democracies influence the development and implementation of their economic policies, as revealed through a comparative regional analysis?*

Moving to a more specific examination, the second paper, "The Limits and Possibilities of Democratic Developmentalism: building Developmental Alliances in Brazil and Chile," narrows the focus to a comparative analysis of two contrasting Latin American experiences. The case-selection is largely informed by the results of the QCA in the previous article. This paper delves deeply into how governments in democratic contexts, particularly in Brazil and Chile, mobilize diverse actors to form developmental alliances. It investigates the political processes behind these alliances and their role in enabling state-led development strategies, offering a nuanced understanding of the challenges and successes in these specific cases and making the more general theoretical argument of the three papers. The research question guiding the paper is:

RQ2: *How do democratic governments in Brazil and Chile mobilized societal actors to form developmental alliances, and what were the political processes and outcomes of these alliances in shaping state-led development strategies?*

The final paper, "The Sectoral Politics of Industrial Policymaking in Brazil: A Polanyian Interpretation," offers an in-depth exploration of the nuanced and often contentious landscape of sectoral policy-making in Brazil. This paper delves into the political arena at the sectoral level, scrutinizing the roles and power struggles among various political actors, particularly focusing on countervailing power works *on the ground* and how the lack thereof makes for Industrial Policies devoid of conditionalities that serve merely as instances of *corporate welfare*. It sheds light on the internal dynamics and conflicts that play a critical role in shaping policy decisions, examining the interplay between different interest groups and their impact on aligning investment decisions with broader development objectives. By highlighting these intricate power struggles and their influence on policy outcomes, the paper provides essential insights into the complexities of implementing development strategies within Brazil's unique political and economic context. The guiding question can be summarised as:

RQ3: *How do countervailing power dynamics, shape industrial policies in Brazil, and in what ways does the presence or absence of these dynamics enable the alignment of sectoral policies with broader development objectives?*

Together, these papers form a comprehensive exploration of democratic developmentalism in Latin America. They progressively dissect and address the overarching research question, with each paper not only standing on its own as a contribution but also collectively building a complete picture of the political, economic, and social dynamics shaping development strategies in democratic contexts.

1.2. Theoretical considerations: institutions and coalitions in democratic contexts

Extant literature on the politics of policy choice can be divided into more static explanations—which are quite helpful for cross-case comparisons—and explanations based broadly on the dynamics of coalition formation (see Puente and Schneider 2020 for a review). Given the necessity of explaining variation across time, this dissertation will mostly rely on the latter to build the theoretical framework, however, our cross-case comparison demands some engagement with other contextual elements such as institutions and bureaucratic capacity. Thus, the papers in this dissertation had to go beyond the literature on the political economy of industrial policy and development strategies and seek for explanations in other policy fields, drawing from the varied contributions in Comparative Political Economy (CPE).

In Comparative Political Economy, the Varieties of Capitalism (VoC) framework, notably by Hall and Soskice (2001), has been pivotal in categorizing capitalist economies. Initially, this apolitical perspective delineated ideal types: Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs), where institutional complementarities suggest static market forms with distinct coordination challenges and solutions. Primarily focusing on firms, this approach argued that institutional configurations determine varying capitalistic strengths and weaknesses.

The adaptation of the Varieties of Capitalism framework to developing economies brought forth dynamic models like Nölke and Vliegenthart's (2009) 'Dependent Market Economies' (DMEs) in post-communist Central Eastern Europe, emphasizing dependencies formed by foreign corporations and local political dynamics, akin to coalition-based analyses (Bohle and Greskovits 2012). Similarly, Schneider's (2013) concept of 'Hierarchical Market

Economies' (HMEs) for Latin America points to suboptimal, politicized institutional equilibria that perpetuate underdevelopment, marked by large firms' tendencies to uphold a nationally detrimental status quo. These evolving perspectives in institutionalism highlight the pivotal role of political struggles and coalition dynamics in driving institutional change, focusing on how social actor coalitions initiate and direct transformations in institutional landscapes (Amable 2003; Hall and Thelen 2008; Streeck and Thelen 2005).

As such, it is hard to overstate the importance of institutions for development and policymaking, as will be shown in the *fsQCA* of the first paper. Institutions, particularly Developmental Financial Institutions (DFIs), are essential, yet they represent only a segment of a more complex story. Despite minimal changes in institutional structures during the analysis period, shifts in incumbent parties and political actors significantly influenced the implementation of policies, meaning that a deeper analysis of the most interesting cases revealed by the QCA is warranted as is carried out in both the first and second papers following this introduction.

This focus on DFIs aligns with the broader theme of 'developmental bureaucrats,' a concept integral to the Developmental State (DS) literature. DS studies have historically concentrated on the economic triumphs in authoritarian East Asian countries, underscoring the role of career bureaucrats in pilot agencies like Japan's MITI or South Korea's EPB (Johnson 1982; Amsden 1992). This emphasis on the strategic interaction between government and bureaucracy in shaping policy direction is mirrored in our analysis, given the central role of developmental bureaucrats within DFIs—in lieu of pilot agencies—as brokers and *coalition magnets* (Béland and Cox 2016) for developmental alliances, which are essential in understanding policy outcomes and variations in development strategies. This exclusive focus on DFIs is present on the first paper to allow comparable measurements, but is relaxed in the subsequent ones, by including other key bureaucracies in the developmental process.

Evans's analysis of state intervention, central to Developmental State (DS) literature, asserts its variability based on inherent structural traits of states, regarded as static in the short term (Evans 1992, 1995). Contrasting with the Varieties of Capitalism approach, it emphasizes state rather than firm agency in shaping institutions, but traditionally views these capacities as either present or absent, without delving into their origins. Evans's framework, however, opens avenues for further exploration. It acknowledges bureaucrats as more than mere policy executors; they are initiators and key players in developmental alliances, acting as bridges between the state, the private sector, and coalition dynamics.

In democracies, I propose that their reshuffling with new governments positions them at the heart of policy formulation. Furthermore, Evans critiques the narrow concept of embeddedness in authoritarian regimes, limited to state-industry connections, and expands it in democratic contexts to include broader societal alliances. This broader approach situates bureaucrats as pivotal figures, balancing between static institutional settings and dynamic coalition-building. They become central to forming developmental projects, especially when the mobilisation of subordinate groups is necessary and the structural weakness of entrenched interests that characterised East Asian models (see Doner et al. 2005) is simply not present (Evans 1995, p. 246; Stark and Bruszt 1998).

This denotes a gap in the literature, an underexplored avenue of research that can be addressed by adding coalitional dynamics and electoral politics to the analysis of Industrial Policies and development strategies. Widening our scope of analysis beyond business-state relations does not, however, mean ignoring the preeminent role of capitalists in the politics of development. Conversely, all three papers in this dissertation *attest* to their privileged position but *nuances* it by making two basic claims: a) democracy relativises their power and makes them lose certain policy battles (Vogel 1987; Paster 2018) and b) governments willing to go against the interests of the dominant fraction of capitalists in their country need to form a broad *developmental alliance* in order to push their policies through, relying on making industrial policy a *louder* issue than it usually is (Bohle and Regan 2021; Culpepper 2011).

In this dissertation, the term *developmental alliance*[2], essentially denotes a coalition of diverging interests that coalesce around an Industrial Policy proposal and act to both enable and shape the policy's implementation. More specifically to our cases, in commodity-dependent countries that have stagnated at a low-level equilibrium, the pursuit of economic diversification is a key goal, yet often faces political obstacles (Wiig and Kolstad 2012). Developmental alliances in these settings play a crucial role in attempting to redirect focus from dominant sectors and towards broader developmental goals.

The difficulty of changing the economic structure, diversifying a commodity-dependent economy, and initiating a developmental process is well-documented by different strands of the literature (Acemoglu and Robinson 2006; Cardoso and Faletto 1979; Wiig and Kolstad 2012). Sierra (2022) underlines the trade-off where short-term economic success in bolstering the commodity-dependent growth model during prosperous periods ultimately hampers a nation's capacity to transition towards higher-value-added activities. However, as stated by Baccaro and others (2022), elected officials and the dominant growth coalitions that protect the status quo are not always aligned.

From this, we can infer that electoral dynamics also play a role in this process. More than landmarks, elections bring new people—and their ideas—to a place of power, thus shaping policy alternatives (Amable 2017; Sikkink 1991). In this regard, as will be explored in detail in the theoretical framework presented in the paper *The Limits and Possibilities of Democratic Developmentalism*, political actors championing economic change engage in a dual strategy: they must garner an electoral majority to sustain their agenda and simultaneously build a coalition of organized interests to make their policies politically viable (see Collier and Collier

[2] See Bruszt and Karas (2020) for their definition.

2002), essentially attempting to create enough *countervailing* power to go against prevailing interests[3].

This theoretical contribution addresses a main gap in the literature, since very few papers delve into the politics of Industrial Policies in developing democracies[4], with even fewer being dedicated to commodity-dependent countries or focusing on exploring the role of electoral politics and the participation of non-business groups (de Gaspi 2023). The papers presented in this dissertation provide three stand-alone contributions to this gap but are organised to complement each other almost as stages of a *Set-Theoretic Multimethod Research* (SMMR, see Schneider and Rohlfing 2019), making this contribution more robust. In this sense, the QCA paper works as both an exploration of possible causal pathways and a case-selection exercise, while the two sub-sequent papers present a more in-depth exploration of the phenomenon of actually existing development strategies in democratic Latin America.

1.3. Methodological notes and paper sequencing

As mentioned above, when taking the papers together, the fsQCA presented in *Developmental Channels* becomes akin to an exploratory design (see Thomann 2019) that gives a bird's eye view of the phenomenon of development strategies in democratic Latin American countries and allows us to clearly see the most interesting cases to be further explored. It also provides important definitions of our outcome of interest, by exploring the debate on instruments and how they can be complemented or undercut. By analysing 59 cases of democratic governments in the region, the paper signals the causal pathways leading to diverging—and mostly incomplete—development strategies and the importance of politics in making those viable. Although the design is based on proxies to ensure comparability among

[3] This is better documented in the literature of capital controls and financialisation (see Naqvi 2021, Silva 2022, and Gallagher 2015a).

[4] Although there have been advances in this regard (see Bondy and Maggor 2023; Maggor 2021; Fuentes and Pipkin 2023; Rangel-Padilla 2021).

cases, the basic idea of creating an index to measure sectoral politics is carried over to the next paper, which builds on the work of DiPippo and others (2022) to carry out measurements for our case studies.

Following the first paper, it is logical to qualitatively explore the cases that the QCA highlighted using an inductive, theory-building process tracing methodology (Bennett and Checkel 2015; Trampusch and Palier 2016). This approach is chosen because it aims to identify the causal mechanisms that explain variations under similar background conditions. Essentially, this approach represents a most-similar case study design (see Gerring and Cojocaru 2016). Importantly, this requires investigating outcomes in relation to the size of the countries to avoid distorting the findings. Consequently, the paper will primarily focus on relative numbers and present its version of the Quantifiable Industrial Policy (QIP) Index (DiPippo et al. 2022 and see Chapter 3 of this dissertation).

The central argument of *The Limits and Possibilities of Democratic Developmentalism* will be supported by 50 interviews conducted in Brazil and Chile over different periods from 2020 to 2023. The interviewees include policymakers, trade unionists, business owners, and experts. Additionally, the paper will utilize official documents, speeches, and news articles. The process tracing analysis will commence with the elections of the more institutionalized pink tide governments in Brazil and Chile (see Levitsky and Roberts 2011; Weyland et al. 2010), tracing the development of developmental strategy ideation, formulation, and the extent to which these strategies were implemented. This paper represents the core of this dissertation's theoretical argument.

With Brazil established as a case where left-of-centre governments have successfully initiated sectoral policies, it becomes crucial to examine the differences among various sectors. This paper also utilizes process tracing but draws upon a neo-Polanyian theoretical framework (see Bohle and Greskovits 2012; Schrank and Whitford 2009) to interpret the movement/countermovement dynamics within sectoral policies. The research is grounded in official documents and includes 13 interviews conducted in Brazil with policymakers and trade unionists[5].

This section has systematically presented the diverse methodological paths taken in each paper, from the expansive fsQCA to the detailed case studies in the subsequent papers. These methodologies reflect the evolving research focus, which progresses from a broad overview to an in-depth examination of specific sectors. Moving forward, the next section will outline the dissertation's structure and present the main findings of each paper.

1.4. Main Findings and Contributions

Although one would be hard-pressed to defend the thesis that Latin American development strategies in the 2000s and 2010s were a success in changing their countries' productive structure, the region presents some of the best examples of developmental attempts in democratic settings before the ongoing global resurgence of explicit Industrial Policies, with solid illustrations of public-private collaboration under a non-exclusionary environment (Devlin and Morguillansky 2012). The virtues and flaws of these designs can offer concrete lessons to the new endeavours being pursued in the region and elsewhere.

In brief, the overarching argument of this dissertation is that development strategies in commodity-dependent democracies are shaped by the interplay of electoral factors, appointed state managers that occupy key developmental institutions, and the dynamics of developmental alliance formation. This perspective highlights that developmentally-inclined political leaders need to secure electoral mandates while simultaneously forming broad coalitions, especially against dominant sectors, to drive transformative policies, even if those are not a complete

[5] The research for this entire dissertation draws on the 50 interviews conducted during this doctoral project. These interviews covered a wide array of topics, including those specific to certain sectors. Additional follow-up discussions with some interviewees were essential for developing 'The Sectoral Politics.' A subset of these interviews is also referenced in another paper not included in this dissertation (de Gaspi 2023).

rupture with the status quo. The dissertation thus illustrates the complexities of policy change in the face of entrenched economic structures and political alliances.

The first paper *Developmental Channels* shows a panoramic view of development strategies across 59 presidential administrations and in 14 countries in the region. The first main contribution of the paper is the systematic separation of two *channels* of developmental interventions. Although not usually considered as an *industrial policy* per say, exchange rates are a subject of important contention among economists in Latin America (see Bresser-Pereira and Rugitsky 2018) and are also considered more broadly as a key to development and structural change (Guzmán et al. 2018; Rodrik 1986). By separating the two kinds of intervention and treating them as complementary, the paper maps which country did what in the region and shows how rare it was for nations to manage doing both and pursuing a more *complete* developmental strategy.

More directly, the paper contributes by showing the importance of politics for influencing the path taken by governments in their development strategies. The conjunctural causality of QCA is particularly adept in capturing the multifaceted nature of these political dynamics and pointing at tentative causal pathways. The conjuncts found by the analysis point towards the need for political coalitions led usually by labour-supported political parties and leaders, especially when nations do not already have a more diversified economic structure. Moreover, by showing a broader view of the region, the paper highlights important avenues for future research, both in this dissertation (such as the Brazil-Chile comparison) and elsewhere.

The second paper, named *The Limits and Possibilities of Democratic, Developmentalism*, is the most important for theory building and it contributes in two ways. First, the paper enriches the dissertation by providing a deep theoretical foundation for understanding the complexities of development strategies in commodity-dependent democracies. While the QCA paper offers a broad empirical overview and points towards possible causal pathways in a stylised fashion, this second paper delves into the theoretical intricacies that underpin these strategies. It proposes a framework that integrates political, economic, and social dimensions, enabling a more nuanced analysis of developmental policymaking. This framework is vital for dissecting the intricate balance of power, interests, and alliances that shape the trajectory of development strategies in these countries. The theoretical insights offered here not only complement the empirical findings of the first paper but also provide a conceptual lens through which these findings can be interpreted and understood.

Second, through its detailed case studies of Brazil and Chile, the paper significantly contributes to the dissertation by illustrating the practical application of its theoretical framework. These case studies offer concrete examples of how developmental alliances are formed and how they function in real-world settings, providing an empirical grounding to the theoretical concepts discussed. By examining the successes and challenges of development strategies in these countries, the paper offers insights that are directly relevant to the overarching theme of your dissertation. These case studies not only validate the theoretical framework but help build the overall narrative of the dissertation by demonstrating the practical implications and realities of developmental policymaking in commodity-dependent democracies.

The third paper zooms into the practice of sectoral policies to analyse a theme which has been gaining in importance since the revival of Industrial Policy in policy discourse, namely, the political economy of *conditionalities* (Bulfone et al. 2021; Gabor 2023). Although the second paper focuses on the intricacies of alliance formation in Brazil and Chile, it only evaluates the capacity of these governments to get their overarching development strategies off the ground and what they have to do to sustain them over time. This means that the paper cannot delve into the specifics of the more tactical alliances shaping policymaking in each sector, which is a crucial part of negotiations, as repeatedly shown in interviews.

Thus, in *The Sectoral Politics of Industrial Policymaking in Brazil*, we examine three exemplary cases of sectoral political economy regimes to demonstrate the varying power dynamics among societal actors in the automotive, pharmaceutical, and animal protein sectors. Drawing inspiration from Bohle and Greskovits (2012), the classification of these regimes reveals distinct balances of power. The automotive sector is characterized as a neocorporatist regime with formidable unions and business actors. The pharmaceutical sector represents an embedded neoliberal regime, where subaltern groups moderately succeed in challenging business interests. In contrast, the animal protein sector is typified by a disembedded neoliberal regime, marked by the minimal influence of workers and other actors, leading to unchecked corporate welfare and governments' failure to enforce conditions on substantial business incentives.

This sector-specific analysis is crucial for understanding the broader context of national development strategies and the capacity of governments to secure support for their policies. While overarching development strategies shed light on national developmental alliances, the political dynamics within individual sectors can differ significantly, influencing the bargaining power of governments. These dynamics are essential for understanding how some sectors, unlike others, allow for a stronger presence of non-business actors. This, in turn, enables governments to enforce conditions and direct policies beyond the realm of mere corporate welfare, as noted by Bulfone et al. (2021). This nuanced approach to sectoral politics highlights the complexities and variations in government and societal actor interactions across different industries and is a crucial finding in this dissertation, since it both contributes to the emerging debate on conditionalities and cements our argument on countervailing power.

1.5. Structure

The dissertation is structured to critically explore the dynamics of developmentalism in democratic Latin America. Although the three papers are stand-alone, they complement each other. The first paper, *Developmental channels: (Incomplete) development strategies in democratic Latin America*, lays the foundational understanding of the development strategies at play, providing definitions with the QCA, and pointing to potential cases. The second paper, *The Limits and Possibilities of Democratic Developmentalism: Building Developmental Alliances in Brazil and Chile*, advances this discussion by comparing the formation and function of developmental alliances in two key Latin American economies. The third paper, *The Sectoral Politics of Industrial Policymaking in Brazil: A Polanyian Interpretation*, narrows the focus to sectoral politics within Brazil, providing a closer view of the industrial policymaking process and the imposition of conditionalities. The final chapter concludes by synthesizing these insights to reflect on our findings and provide a few insights on the present and future of development strategies in the region as they resurface with old and new problems.

2. Developmental channels: (incomplete) development strategies in democratic Latin America[6]

2.1. Introduction

Latin American nations in the early 2000s were faced with a political choice. A decade after its wave of democratization resolved transitional and constitutional matters, many of the region's countries were faced with a different problem, namely the lacklustre social and economic results of the neoliberal policies adopted throughout the 1990s. This rekindled the debate on the role of the state and opened an opportunity for left-of-centre parties to rise to power and implement more active development strategies (see Santarcángelo et al. 2017). These strategies, however, diverged from the ones employed in the 20th century, since they were pursued on a different context, with much more open economies and generally more public-private consultation, although the goals of structural transformation and (re)industrialisation were mostly kept (see Devlin and Morguillansky 2012).

The return of active development policies in Latin America was not just a mixed story of successes and failures, but it also revealed a trend towards the segmentation of development strategies. Politically unable to pursue an overhaul in the country's productive structure, democratic administrations in the region that were willing to use the state apparatus to achieve developmental outcomes created a variety of *incomplete* solutions, very different from the more famous and successful cases of East Asia, where developmental pushes were made under autocratic polities (see Amsden 1992; Evans 1995; Johnson 1982; Wade 2004). They were also not akin to more recent cases of *complete* development strategies, where both sectoral incentives and exchange rate policies were used to steer national productive structures towards developmental goals (Kaur and Singh 2013).

[6] A version of this paper is published at Regulation and Governance.

To deal systematically with this phenomenon, this paper posits that incomplete development strategies were pursued in Latin America via two *developmental channels*, namely the sectoral channel—sectoral financing or direct government purchases—and the macroeconomic channel—mainly pursued via exchange rate devaluation. This paper systematises, typifies, and measures both channels and unveils the diverging political underpinnings of each incomplete development strategy. This task also demands engagement with the extant literature on the politics of development (Chibber 2003; Evans 1995; Maggor 2021) and of policy choice and comparative capitalisms (Baccaro et al. 2022; Hall and Soskice 2001).

This paper examines 59 presidential administrations across 14 democratic countries in Latin America over a span of two decades (1998-2018). The number of cases is too small for a purely quantitative analysis but too large to scrutinize individually. In political economy, the drivers behind development policies often involve a complex interplay of multiple factors, rather than being influenced by a single cause. This makes Qualitative Comparative Analysis (QCA) an ideal methodological approach, as it can identify specific combinations of factors leading to particular outcomes. Given the number of cases and the multifaceted conditions that could explain each outcome (in this case, the two channels), a fuzzy-set Qualitative Comparative Analysis (fsQCA) is particularly appropriate. The growing popularity of QCA in Political Economy research attests to the method's ability to handle causal complexity and multiple pathways to the same outcome (see Sander 2020; Silva 2022; Schneider and Makzin 2014; Zucker-Marques and Silva 2022).The results point to the importance of dynamic political conditions and societal coalitions for the presence of both the macroeconomic and the sectoral channel, although specific institutional capacities play a role in which channel is pursued. The paper shows the existence of *incomplete development strategies*[7] in Latin American countries

[7] Cases where both channels were present were so rare that no explanatory causal conjunction could be found using QCA.

and makes a theoretical contribution by shedding light on the political conditions that both enable and constrain these strategies. Further, we then turn our attentions to the most puzzling variation shown by the QCA, which happens between Brazil and Chile for the sectoral channel. This will be explored in a *paired comparison* based on secondary literature and official documents.

The paper will proceed with the following sections: Section 2 will present a brief explanation of both outcomes of interest, Section 3 will engage with the existing literature on the political economy of development and of economic policy-making, Section 4 will present fsQCA as a method and a detailed research design, Section 5 will present the fsQCA results and discuss each causal pathway, Section 6 will engage with a paired comparison for the sectoral channel with brief explorations of the Brazilian and Chilean cases, Section 7 concludes.

2.2. Developmental Channels: typifying and measuring incomplete development strategies

Although many authors have defined industrial and development policies (i.e. Chang 1996; Naudé 2010; Rodrik 2009), measuring its many constitutive parts remains a challenge. By and large, the main goal pursued when governments engage in this policy field is clear: to increase national wealth by intervening in markets and facilitating structural change. This goal is often pursued via targeted interventions in selected sectors and activities not necessarily in the industrial or manufacturing sector, but also on non-traditional agriculture and services (see Rodrik 2004). Another component of development policies that features prominently in the literature are macroeconomic prices, with special emphasis on exchange rate devaluation as an instrument of structural change (Bresser-Pereira 2020, Frieden 2015, Nassif et al. 2018; Steinberg 2015). Thus, to widen the scope and include different types of intervention, this paper will use a deliberately broad definition of industrial policy (based on Chang 1996; DiPippo et al. 2022; Rodrik 2009). When referring interchangeably to industrial and/or development policies, this paper defines it as: “any government intervention aimed at incentivising production and investment decisions in certain firms or sectors”. Given the multifaceted nature of this policy realm, definitions are usually broad[8], although this problem is mitigated by the research design, since the fsQCA allows us to see not *if* governments pursued development strategies (as arguably all countries do to some extent), but *how much* and under which conditions.

There are differences between the traditional literature on industrial policies that focus on targeted interventions and those focusing on exchange rate manipulation. Although most authors tend to agree that both kinds of intervention are necessary for development, they differ on their level of priority. The first group is composed by the classical works on the political economy of development (Amsden 1992; Evans 1995; Johnson 1982; Wade 2004) and they focus mostly on *targeted* or *vertical interventions* via *industrial and technological policies* (Astorga et al. 2014; DiPippo et al. 2022). Horizontal (or passive) interventions are less discriminatory at the firm or sectoral level and aim at creating general conditions for increasing general profitability (Khan and Blankenburg 2009; Naudé 2010; Schneider 2015), making them more difficult to distinguish from other business climate policies.

However, even authors more concerned with the more classical instruments of industrial policy conceded to the importance of keeping macroeconomic prices on levels that were conducive to development and structural change, or at least on a stable and non-disadvantageous level (Wade 2004). Most famously, Amsden (1992, 144), when studying the case of Korea, claimed late developers got relative prices deliberately ‘wrong’ to bolster

[8] Juhász and others (2022) present the most specific definition of Industrial Policy, but it still resonates quite closely with the concept presented here. To paraphrase their definition of industrial policy: Any policy pursued by national, or extranational, states to change relative prices across sectors or direct resources towards certain selectively targeted activities with the purpose of shifting the long-run composition of the economy (p. 9).

structural change. She was mindful that the "foreign exchange rate" was a "key relative price in economic expansion" and was "deliberately distorted by late industrialisers".

The crucial and direct role of exchange rates in pursuing development goals has also been the subject of more recent work. Guzmán and others (2018, p. 54) look at the maintenance of competitive exchange rates as a "as a type of industrial policy that can partially substitute for other traditional industrial policies", but one that should ideally be used in tandem with the more traditional sectoral IP. This point is also posited by Bresser-Pereira and Rugitsky (2018), who stress the past and current importance of exchange rates but warn that they should be used *with* more traditional industrial policies for better results. As such, although other macroeconomic prices play a role in the economy, for our purposes, exchange rates are the most important. Beyond its overarching economic influence (Frieden 2015), it directly drives structural transformation. Rodrik (1986) emphasizes that due to the trade differences between manufacturing and agriculture, misaligned exchange rates not only serve as a horizontal macro policy, but provide an alternative route to industrialization, aligning closely with the central focus of this paper[9].

However, writing after the first decade of the *pink tide*, when left-of-centre governments rose to power in Latin America and rescued development policies after years of neoliberal consensus, Bresser-Pereira and Theuer (2012) bemoan the fact that currency appreciation in Brazil made the large and manifold sectoral interventions of the Brazilian state less effective. On the other hand, while Argentina managed to keep its currency under control and avoid what they called the *Dutch disease* during the commodities boom[10] at the end of the 2000s, the set of sectoral instruments used by Argentina during its experience with industrial policies was limited

[9] While acknowledging the significance of other macroeconomic factors like wages and interest rates, this study specifically emphasizes exchange rates due to their more direct relationship with development strategies. Exchange rates not only influence sectoral dynamics but also significantly impact broader economic conditions.

[10] The Dutch disease is the tendency of currency overvaluation that arises from commodity exports and is aggravated by commodity price increases (see Bresser-Pereira 2018).

at best (Santarcángelo 2019). In this sense, a complete development strategy should, as posited by classical literature like Amsden (1992) and more recent interpretations of Industrial Policy (such as Guzmán et al. 2018) alike, engage in *both* sectoral policies and exchange rate policies (Bresser-Pereira and Rugitsky 2018), however, cases that had both outcomes in the QCA were so rare that there was no causal conjunction found to explain them, showing that incompleteness was a key characteristic of Latin American development strategies in the 21st century[11].

As such, this paper proposes dividing the developmental whole into what I call the two *channels* separately pursued by Latin American nations in the 2000s, namely the *sectoral* (subsidies, developmental loans, and other vertical instruments) and *macroeconomic channels* (mainly exchange rates). The political underpinnings of these strategies remain an underexplored question for the many academic assessments of the experience of developmental policies in 2000s Latin America (Santarcángelo et al. 2017).

To analyse this phenomenon, it is first necessary to place relevant experiences into the wider Latin American context during the swansong of neoliberal dominance in the region and into the years of the pink tide. The next section will present the extant literature on the politics of development and comparative capitalisms and provide possible explanatory conditions for the diverging outcomes in development strategies in Latin America in the 1990s and 2000s.

2.3. Extant literature and explanatory conditions

Political economy interpretations of economic policy choice can, *grosso modo,* be divided into those focusing on existing institutions and/or state capacity and those that put

[11] In our cases, Bolivia (2006-2009 and 2010-2014) appears as having both outcomes and could be a good case-study for the future (see Naqvi 2021 for an exploration). Outside of that, China and India (Kaur and Singh 2013) and Indonesia (Tijaja and Faisal 2014) appear as important examples of more 'complete' development strategies. These examples complement older *developmental states* examples who also pursued industrial policies with exchange rate manipulation, such as South Korea (see Amsden 1992).

business-state relations and political coalition dynamics into the forefront (see Puente and Schneider 2020 for a review).

Although generally more static, institutional frameworks *can* account for transformations. Following Hall and Soskice's (2001) seminal book, latter works deal with *institutional change*, either through shifts in the prevailing socio-economic equilibrium (Amable 2003) or through processes like policy drift and institutional resettlements (Streeck and Thelen 2005). In a same vein, writings on developmental states also have an institutional focus, but centre on the state's capacity to pursue developmental goals without being captured by interest groups. The concept of *embedded autonomy* (Evans 1995) clarifies why certain states can pursue a more successful developmental strategy than others even when looking at contemporary cases (Clark and Rosales 2023). These strands show that existing institutions are inescapable when it comes to the determinants of policy choice, but, for our purposes, it is necessary to focus on the *specific* institutional capacities that shape development strategies.

Conversely, broader and more dynamic understandings of coalitions and developmental alliances credit economic policy outcomes—especially those in redistributive fields—to the relationship between relevant societal groups and governments. This relationship may enable institutional change or maintain sub-optimal equilibria depending on interests and their importance to the government's ruling coalition or their social bloc (Amable and Palombarini 2008; Bruszt and Karas 2020). In this approach, social groups may include unions, the middle-class, farmers, businessowners, and other actors depending on the policy-field, although capitalists are ever present (Culpepper 2011; Paster 2018). Further, in democratic contexts, electoral legitimacy is pivotal. Governments must frame their agendas as aligned with national interests (Baccaro et al. 2022). The dynamics between societal groups and administrations, while intricate, can be distilled through rigorous case studies. However, this paper aims to discern what is immediately observable through a QCA approach.

This paper ventures the hypothesis that the interplay between institutional conditions and the relative strength of businessowners vis-à-vis civil society is an important factor for *any* development strategy, whether complete or, as in our cases, incomplete. As explored by Chibber (2003) and Maggor (2021), the capacity of the state to plan for development demands at least a degree of disciplining capital, which is an easier task when there is societal support to counterbalance the instrumental power of business (Naqvi 2021; Silva 2023). Essentially, an active development policy in the region would attempt to use societal support to diversify production and break from a mostly extractive and commodity-exporting economic structure (Veltmeyer 2020). This adds a layer of complexity to the literature of the politics of Industrial Policy, which is usually focused on quiet politics and business-state relations (see Bohle and Regan 2021; Evans 1995; Rangel-Padilla 2021).

As such, development policies are causally complex. They are marked by equifinality and are caused by more than one condition, which are particularly suitable for a QCA design (see Schneider and Wagemann 2012, p. 78). A panoramic view of the literature shows that the pursuit of developmental policies can be caused by strong bureaucratic capacities *and* its connections with society (Evans 1995), the sectoral composition of the economy, and the interests of producer and voter groups (Bohle and Regan 2022; Steinberg 2015).

As a result, this exploratory fsQCA design (Thomann and Maggetti 2020) will take into account multiple sources of possible political support for a more active state role. In order to achieve model specification, this paper cannot include all possible conditions that would be politically relevant for policy choice, but it can account for multiple explanations and show possible causal conjunctions for further exploration in case studies briefly in this paper and in more detail in future work. The following paragraphs will comment on each condition, its theoretical justification, and its expected relation with the outcome.

Institutional capacity of Development Banks or Development Financing Institutions (DBNK): both the accounts of VoC and writings on the Developmental State point out to the importance of institutions for policymaking. However, including all institutional factors that could impact the policy-making decision for development strategies would render model specification impossible. Thus, this paper focuses on the presence of a key technical-political body, National Development Banks (Ferraz and Coutinho 2019; Griffith-Jones and Ocampo 2018; Griffith-Jones et al. 2018). The role of these institutions in development strategies goes much beyond signing a check. Instead, they often have a crucial role in policy coordination (Zhang 2022) and their knowledge of local markets decisively impact policy implementation (Mertens and Thiemann 2019). The nature of development banks makes them an ideal proxy for developmental bureaucratic capacities and its presence is expected to have a positive impact especially on the pursuit of sectoral policies.

Support from organised labour (LABS): based on the literature of state discipline (Chibber 2003), the literature on core-constituencies (Hibbs 1977), and studies on the role of organised labour in development policies (Ornston 2012), the fsQCA will reveal if labour support for the ruling party is an explanatory condition for the pursuit of a development strategy. Although unions have lost importance in the past decades, recent studies by Fuentes and Pipkin (2023), Maggor (2021), and Bondy and Maggor (2023) underscore the evolving but crucial role they play in contemporary development strategies. By incorporating labour union dynamics into the fsQCA, this study aims to discern the relationship between labour support and the inclination of ruling parties to pursue specific development strategies, since organised labour is particularly hit by the dynamics of deindustrialisation that followed the adoption of neoliberalism in many countries in the region (Gindin and Cardoso 2018; Rossi 2017). Notably, for our cases, union support also doubles up as a reflection of ideological alignment[12], which is also expected to influence the inclination towards more interventionist policies (Camyar 2014).

Moreover, there is support for the importance of popular pressure (through both unions and the disorganised public measured next) from the literature on financialization and capital controls—which have some affinity with the MACRO channel. Analyses of this policy realm in Latin America usually highlight the importance of popular and labour union pressures for the pursuit of policies that diverge from the status quo (Gallagher 2015a; Naqvi 2021; Silva 2023). For them, marshalling popular support for heterodox economic policies is an important part of the process of legitimizing those options and to avoid (or at least mitigate) a complete boycott coming from the business classes (see Paster 2018). This serves for both labour support and the next condition.

Salience of economic issues (ECOS): although economic voting is important in Latin America (Singer and Carlin 2013), certain elections are more about the economy than others (Singer 2011), and the theme is not ubiquitously important over all elections analysed. As elections make economic issues 'louder' (Culpepper 2011), this signals a will for change within the disorganised public that can be instrumentalised to legitimise development strategies. While economic salience can lead to various policy changes and not only at the developmental realm, our expectation is that, when paired with certain conditions, it strengthens the legitimacy of willing governments, enabling them to pursue development strategies, either on a broad macroeconomic scale or within targeted sectors. To be sure, electoral pressures may demand different kinds of economic change. However, our QCA aims to identify specific conditions under which such pressures can effectively legitimize and bolster the pursuit of development-

[12] All cases that have the condition LABS are left-of-centre, although not all left-of-centre parties are supported by labour unions.

oriented policies. This approach helps to discern the circumstances that transform diffuse economic concerns into catalysts for targeted developmental action.

Sectoral composition of the economy (SECC): the structure of the economy affects the policies a government will adopt and the relationship between state and business. It would stand to reason, at least on average, that a country with an economy that is more concentrated would have a larger political power of commodity exporters, affecting the way governments negotiate. Although commodity exporters would not be against sectoral policies that benefit them, they may oppose large expenditures for fear of sectoral redistribution, namely a taxation of the successful commodity-exporting class to funnel money into non-competitive manufacturing (Giraudo 2021; Nem Singh 2010). The assumption is that the competitive primary-exporting sector which was shaped and consolidated as such during neoliberal periods (Ioris 2018) would not be the prime beneficiary of increased sectorial investments. These elites can also organise to block economic diversification for fear of elite replacement, which is curiously an argument that resonates both with mainstream institutionalists (Acemoglu and Robinson (2006) and theorists of dependency (Cardoso and Faletto 1979).

Based on the literature, the next section will briefly introduce fsQCA as a method, present the research design, systematise the explanatory conditions and outcomes of interest, and explain the calibration for the analysis.

2.4. Research design

An exploratory fsQCA design (Thomann and Maggetti 2020) is an ideal starting point for the analysis because it will allow us to compare different countries—with different governments and support bases—under the same context for the region. This is an important exercise since it will create *comparable measurements* for multiple Latin American countries and for both channels of development. It will also point to possible theoretical avenues to be explored regarding the most promising causal conjunctions (Schneider and Wagemann 2012) for each policy channel, since, as shown by the literature review, development strategies are likely caused by more than one factor. Given the multifaceted nature especially of the *sectoral channel*, which is composed of multiple, equally important, policy interventions, the research will also harmonise different variables to create an *index* (see Trueb 2013[13]).

In selecting fsQCA, this study benefits from the method's capability to unravel the complexity inherent in Latin American development strategies. While traditional regression techniques would not account for causal complexity and equifinality (Vis 2012), case studies alone on the other hand would not provide a more holistic mapping of the varied strategies and political conditions in democratic Latin America. To be sure, fsQCA has its drawbacks[14], such as the risk of omitting important conditions and the need for specific contextual calibration, but I argue that these are outweighed by the method's suitability for our problem and the number of cases analysed here.

Now, the first step in conducting a QCA study is to select cases of interest. Given that we are interested in policies adopted by national governments, each case will be a presidential administration[15]. This will allow us to see the differences between governments of different parties and how they dealt with the challenge of devising a development strategy.

However, since the main problems addressed by the paper refer to the possibilities and limitations of developmental policies in Latin American *democracies*, there is a minimum democratic threshold cases need to pass before a case can be included. Using V-Dem electoral democracy (polyarchy) index, I have excluded Nicaragua and Venezuela from the selection, as they spent most of their years under the 0.5 threshold established by V-Dem. Other cases were

[13] This paper will not follow Trueb's (2013) guidelines exactly, since it would hamper the composition of the index.

[14] For a critical overview see Lucas and Szatrowski (2014).

[15] These will be identified by the three-letter abbreviation of the country, the initials of the president in office, and the period.

excluded by length of administration[16] or simply for data unavailability or ambiguity[17]. After these exclusions, the analysis was conducted with the remaining 59 cases (see Table 2.1 in the Appendix).

The second step in the pre-analytic moment of a QCA is the choice and operationalisation[18] of possible explanatory conditions. Given the literature review, I will work with 4 conditions that may determine development strategies, namely, incumbent parties being supported by organised labour (LABS), the capacity of a country's development banks (DBNK), salience of economic matters among the electorate (ECOS), and the sectoral composition of the economy measured by their *Economic Complexity Index* (SECC). These conditions are applied in two consecutive QCA analyses for the outcomes SECTOR (proxy index for sectoral policies) and MACRO (a measurement of exchange rate misalignment).

For the condition of Labour Support (LABS), administrations were calibrated based on their degree of membership in the set of governments that have strong labour support. This was assessed using the V-Party database (Lindberg et. al. 2022), employing fuzzy-set calibration, where 1 represents full membership in the set and 0.5 as the crossover point.

Development Banks' capacities (DBNK) were scored based on data from the *Public Development Banks and Development Financing Institutions Database* (Xu et al. 2021), but qualitative knowledge was used to refine the degree of membership of each case. Considered for membership were only countries with *national banks* with either an *export-import* or *flexible* mandates (excluding all local banks and national housing or SME-focused banks); banks were scored considering the literature's assessments of the most important Latin American bank

[16] The decision was to exclude governments that failed to spend 12 months in charge, since this is too short for policies to be adopted.

[17] The Michel Temer government in Brazil, for example, would have to use government bank ownership data during a year in which he only governed for 6 months, namely, 2016. The Dominican Republic, for example, only has all necessary data available from 2010.

[18] For more details on the operationalisation of conditions, see Table 4 in the appendix.

coded as *small* by the database: Chile's CORFO (see Griffith-Jones et al. 2018). Given its importance and its larger endowment compared to other banks coded in the Database as *small*, CORFO was scored with a 0.65. Banks with one third of CORFO's endowment in the database were scored a little over the indifference point with 0.51. This measurement serves two purposes: it shows a major developmental tool and a development-specific bureaucratic and institutional capacity, but it does not punish the small countries in our cases that indeed have a strong Development Financing Institution relative to their size.

The next condition is based upon a specific feature of democracies, namely, economic voting (Palmer-Rubin and Collier 2022; Singer and Carlin 2013). To the best of my knowledge, there are no specific studies on the impact of elections on industrial or developmental policies, but including this condition allows us to see if they matter *directly* through the importance of economic issues, *indirectly* through the kinds of parties that are elected (whether supported by labour or not), or simply not at all. Using data from Latinobarómetro (2022), I have added percentages on answers about *the biggest problem in the country* only in *economic issues*, namely unemployment, low wages, and job instability. These indicators show an electoral preference for *economic change*. Here, the full exclusion threshold is 0%, while the minimum threshold for membership (indifference point) is of 20% of the electorate. Full membership is achieved if a country has 65% of the electorate focused on these issues.

Finally, the sectoral composition of the economy (SECC) matters because of the impact of the economic structure on policy decisions (Kang and Jo 2021; KjÆr 2015). Here, a theoretical grounding for calibration is elusive, but I will move forward with using the average of G20 *democracies* as the indifference point and their maximum score as the full membership threshold. Countries with complexity scores below zero are fully excluded from membership in the condition. Using the G20 gives us an *external anchor* for our calibration, which is ideal

(Schneider and Wagemann 2012), while utilising a heterogeneous group of countries which fall in different points of the economic complexity spectrum as reference.

On the outcomes, the Macroeconomic Channel (MACRO) is the simplest because it relies only on a harmonised dataset of Exchange Rates Misalignment (Couharde et al. 2018). Although there are no guidelines for what characterises a policy-made devaluation, certain countries are considered prototypical examples of currency under- and overvaluation and these were used for calibration, as I will explore in more detail in the analysis section[19]. Although the Macroeconomic Channel may have tools other than Exchange Rates (such as interest rates and even wages), this is the most important price and the one that relates more directly to the traditional goal of development strategies explicated above (Guzmán et al. 2018; Frieden 2015).

Conversely, the Sectoral Channel is more difficult to measure given its lack of a *main component*. The most complete measurement of Sectoral Industrial Policies is the *Quantifiable Industrial Policy* index (DiPippo et al. 2022), which brings six components and suffers to achieve comparability[20]. It would be difficult to compile this data for all of our cases, but it is possible to use their insights to measure the sectoral channel approximately for the QCA. In a broad aggregation, their measurements look at two main types of sectoral policies, namely, *direct government investments* and *funds through state-owned banks*. Thus, the index created here will rely on two available and comparable measurements: *government investment* (Government GFCF as % of GDP, IMF Data 2022) and *state ownership of banking assets*[21]

[19] To broaden availability for all cases and years, indices used were 'narrow' (with 30 largest trading partners) and based on 'currency misalignment' instead of REER.

[20] Maybe that is the reason why the authors focused their efforts on building a comprehensive index for China and compared with only 7 other countries and regions and only for the year 2019. Also, the authors had to carefully choose indicators in order to compare, finding functional equivalencies among the indicators of each country.

[21] Only a very small minority of state-owned banks are development banks. Although those are the most important for pursuing development strategies for matters of financing role and specific bureaucratic capacity, the indicator used on the outcome shows the evolution of a country's financial capital and the government's willingness to use state-banks (whether development banks or otherwise) to make sectoral investments.

(World Bank 2022). The first indicator shows a proxy for the government's willingness to invest. The second indicator, which is based on variation and not on absolute numbers, prevents us from giving a high membership score to governments that invested directly, but at the same time took away the power of state-owned banks to provide patient capital[22]. That said, anchors for individual components were kept forgiving to account for the most experiences in the region. Finally, these components will turn into a *multiplicative* index as our outcome SECTOR[23], meaning that, to pass the membership threshold, administrations cannot have mediocre scores in both components and that a very low score on either will likely mean a case will fall short of membership in the index (see Table 2.1 below).

[22] In Latin America, patient capital is almost exclusively provided by state-owned banks (see Griffith-Jones and Ocampo 2018).

[23] I recognise that there are drawbacks in using aggregated data to measure the use of sectoral policies. However, in lieu of standardised data for the use of multiple sectoral policy instruments, I argue that this index manages to capture variation in governments' willingness to use direct investments and state banks in the economy, which can signal their sectoral action.

Condition	Function	Source	Calibration
Support from Organised Labour (LABS)	Measure the main constituency of political party in power (Hibbs 1977; Maggor 2021; Ornston 2012)	V-Party Dataset (Lindberg et al. 2022)	0-1 score already from the original dataset (0=fully out, 0.5=indifference point, 1=full membership)
Capacity of the country's development bank(s) (DBNK)	Specific measurement of institutional and developmental bureaucratic capacity	Public Development Banks and Development Financing Institutions Database (Xu et al. 2021)	0-1 score (0=fully out, 0.5=indifference point, 1=full membership) score built on database and on literature on development banks (Griffith-Jones and Ocampo et al. 2018)
Salience of Economic Issues (ECOS)	Measures how important is economic change to the electorate	Latinobarómetro (2022)	Additive percentage score with selected answers to 'the most important problem in the country' question (0=fully out, 20%=indifference point, 51%=full membership)
Sectoral composition of the economy (SECC)	Indicates differences in the economic structure of each case	Economic Complexity Index (OEC 2022)	G20 democracies as scale (0=fully out, mean score of G20 democracies=indifference point, G20 democracies highest score=full membership)
	Index formation and Outcomes		
Government Investment (INVESTMENT)	C1 of SECTOR: measures the total investment (GFCF) for which the government is responsible	Investment and Capital Stock Dataset (IMF Data 2022)	G20 democracies as scale (Lowest value=fully out; 1 SD below the mean = indifference point; 1 SD above the mean=full membership)
Government Ownership of Banking Assets (ASSET)	C2 of SECTOR: proxy for the government's inclination to use government-owned banks	Bank Regulation and Supervision Survey (World Bank 2004; 2005; 2008; 2012; 2019)	Anchors based on variation from the country's average at the last year of an administration (or closest) (-10%=fully out, -4.5%=indifference point (normal variation); 10%=full membership).
Sectoral Index (SECTOR)	Measures both the direct investment of governments as well as their usage of public banks to provide sectoral incentives	See components above	Multiplicative index with the calibrated scored of both components (C1*C2=SECTOR, where C1 is the calibrated score of INVESTMENT and C2 the calibrated score of ASSET)
Macroeconomic Policy (MACRO)	Measures the governmental efforts to keep Exchange Rates devalued	EQCHANGE Database (1998-2018 Data) (Couharde et al. 2018)	Based on prototypical country examples of currency alignments. Full out = UK's maximum; Indifference = China's average (1998-2018); Full member = China's largest devaluation

Table 2.1 – Conditions and Outcomes for the QCA analysis. Source: own elaboration[24]

24 Unfortunately, for some of these conditions, a purely theoretical calibration (which is the best practice for QCA), was elusive. Since QCA is a qualitative method, the best practice is to have theoretically or qualitative-based operationalisations and calibrations (Schneider and Wagemann 2012), this was done where possible (for instance at the DBNK condition) and in the case of LABS this was already done by coders of V-DEM, but external anchors had to be chosen for other conditions, such as SECC.

The first result yielded by a QCA is the *truth table*. Differently from a standard data matrix, instead of a variable, each row shows all logically possible combination of conditions or their absence (Schneider and Wagemann 2012)[25]. The researcher can then see if a particular combination is sufficient for the outcome of interest by looking at the OUTCOME column which will show the number 0 or 1 (Oana et al. 2021). The next step is the *logical minimisation* process, which creates aggregated solutions based on certain *criteria*: to have at least one case as member and to be declared sufficient for the outcome (past the selected consistency threshold of 0.8 and without too many contradictory cases) (Schneider and Wagemann 2012, 187). The logical minimisation process can yield three types of solutions, namely, the *conservative*, the *parsimonious*, and the *intermediate*[26]. When using an exploratory QCA that seeks to narrow down *potential* explanatory conditions, it is better to use the conservative solution, since it does not risk omitting important conditions from the explanation (Álamos-Concha et al. 2022).

2.5. fsQCA results: the political underpinnings of developmental channels

The Sectoral Channel

The components INVESTMENT and ASSET were calibrated individually in order to generate a fuzzy-score between 0 and 1. Separately, indifference points were kept permissive, in order not to punish small fluctuations. In the investment indicator, countries that were inside the range of one standard deviation below the mean investment of G20 democracies were scored over the membership threshold. In the bank asset ownership indicator, a downward variation of less than 5% was considered *cyclical* and was chosen as the indifference point. However, since the final index is *multiplicative*, countries that are too close to those thresholds in both indicators

[25] Truth tables are available in the appendix as table 2 for the SECTOR channel and table 3 for the MACRO channel.

[26] The conservative solution does not minimise logical remainders, meaning solutions are not aggregated into simpler conjunctions. The parsimonious solution presents a more minimalist version of the solution, namely, it will yield solution formulas with less conditions. Finally, the intermediate solution demands that the researcher includes their own directional expectations to the model.

would have a SECTOR membership score well below 0.5. With this index in hand, the fsQCA yielded the solution terms presented on the table below (Table 2.2).

FULL SOLUTION FORMULA -> LABS*DBNK*~SECC + ~LABS*DBNK*SECC*ECOS

		Consistency	*PRI*	*Raw Coverage*	*Unique Coverage*	*Cases covered (outcome above 0.5)*
TERM 1	**LABS*DBNK*~SECC**	0.872	0.61	0.353	0.273	**BRA_DVR_11-14; BRA_LULA_03-06; BRA_LULA_07-10; BRA_DVR_15-16**
TERM 2	**~LABS*DBNK*SECC*ECOS**	0.922	0.609	0.124	0.044	**MEX_FCH_07-12; MEX_EPN_13-18**
	Full model	0.869	0.621	0.397	--	

Table 2.2 – Solution for outcome SECTOR. Source: own elaboration[27].

The full solution model shows that, for the outcome of *sectoral policy*, it is sufficient for an administration to have the support of labour unions, strong development bank(s), and no economic complexity *or* to have no labour support (usually a business-friendly party), strong development bank(s), high economic complexity and to have been elected on a moment when the economy was a *salient* issue for the disorganised public. Both solutions show the importance of electoral politics (either directly or indirectly) and, at least for the democratic Latin American context, contradict a generalised hypothesis that industrial policy is the realm of *quiet politics* or, in other words, a matter only of business-state relations (see Bohle and Regan 2021). Note that the solution covers administrations in two countries which are *typical* examples of structurally opposite *types of Latin American capitalisms* (see Bizberg 2019).

Discussion

A commonality between both terms is on the importance of electoral politics, albeit in different forms. The first term, points to an *indirect effect* of elections since labour-based parties were a deviation from the norm in the early 2000s in Latin America. Bringing these new actors into power was a change of pace for the region and this was brought by the vote of the disorganised public. The second term, however, brings a different twist to the electoral

[27] QCA is based on Boolean algebra. As such, the “*” sign means a logical AND and the “+” sign means a logical OR. The “~” means the negation of the condition (or the outcome in certain cases).

argument. It seems elections matter also when non-labour-friendly parties are in power, but only when the disorganised public is invested in economic change.

A unique feature of Term 2 that limits its wider applicability for comparative studies is that few countries in the region have high economic complexity—most are on the lower end of the index. Mexico stands out as an exception, with unique integration in Global Value Chains that leads to distinct policy strategies (see Bizberg 2019; Rangel-Padilla 2021). Conversely, the ensuing visual representations (see Figures 2.1 and 2.2) reveal an interesting dynamic for comparative analysis between Brazil and Chile, as they differ in conditions but not in outcomes.

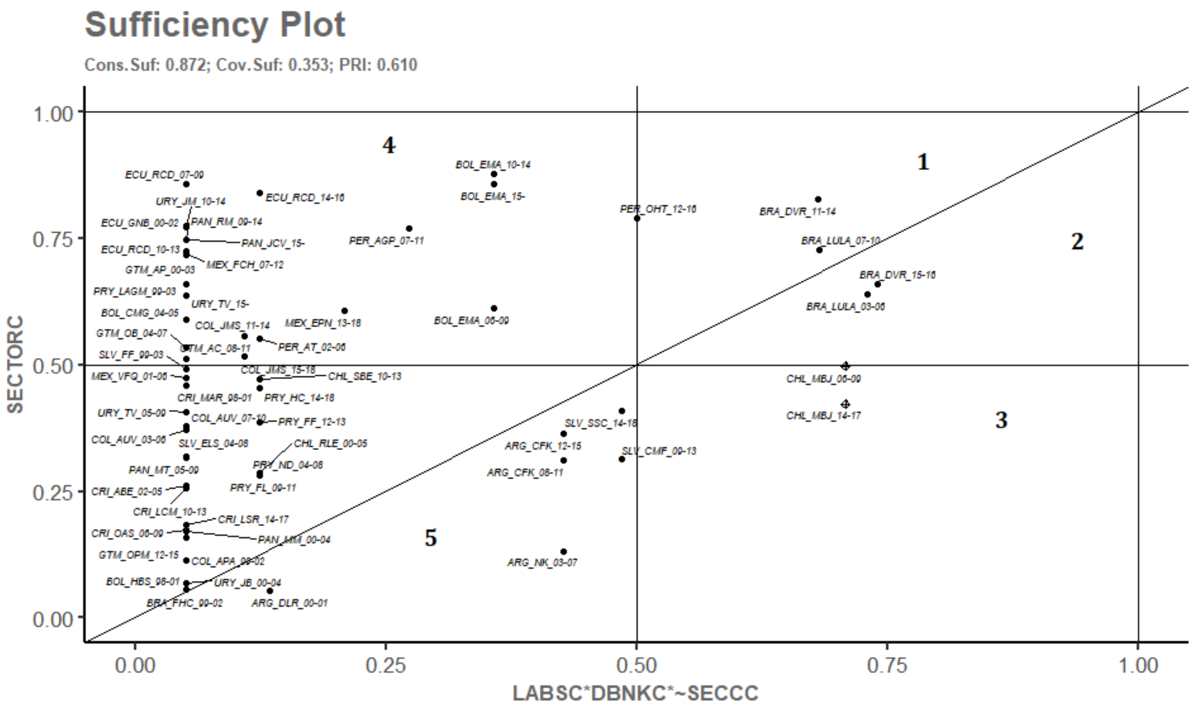

Figure 2.1 – Sufficiency Plot for outcome SECTOR Term 1. Own elaboration.

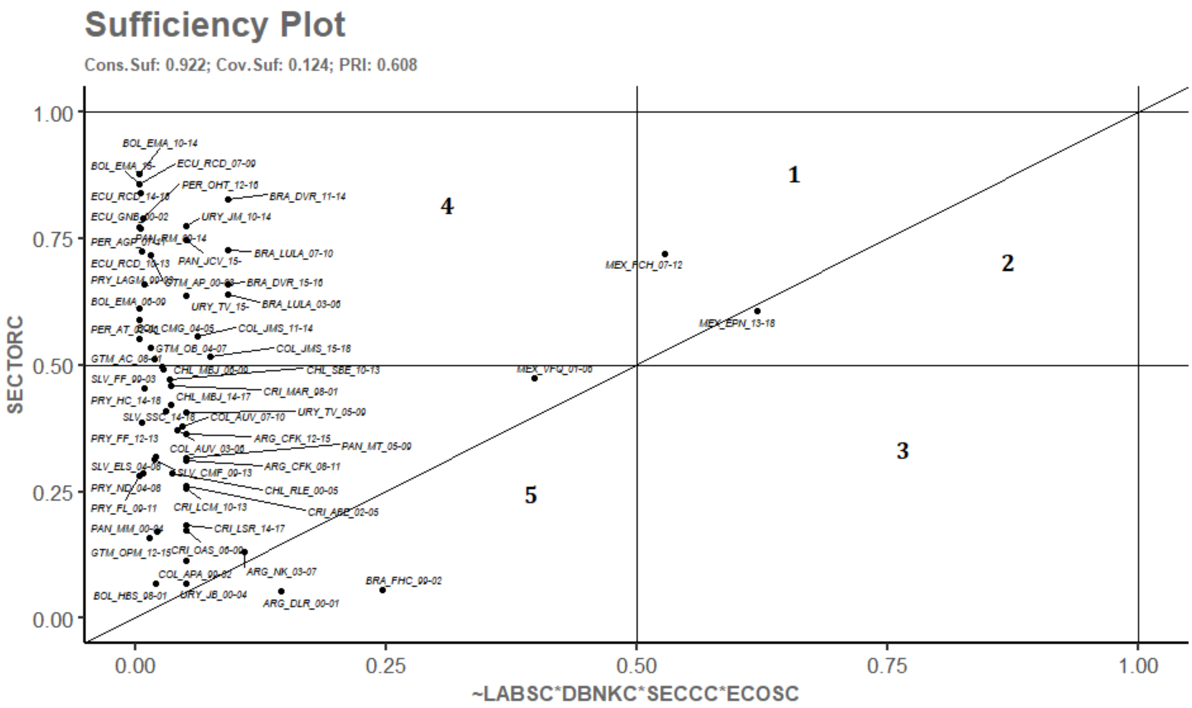

Figure 2.2 – Sufficiency Plot for outcome SECTOR Term 2. Own elaboration.

Aligned with the literature, the two most typical administrations for sectoral policies in Brazil are exactly during the heyday of its National Development Bank and the largest Industrial Policy pushes, namely under Lula's second term (2007-10) and Rousseff's first (2011-14) (see Ferraz et al. 2014). The other two PT administrations are also present and show the outcome, but to a different degree. Conversely, both administrations of Michelle Bachelet and the Chilean Socialist Party (PS) are members of the conditions, but deviate in the outcome, falling below the membership threshold.

Both terms show the importance of robust development banks for the pursuit of sectoral policies. The role of these institutions goes beyond handing out cheaper and more patient loans (although this is a key aspect). In the cases of Chile and Brazil, the literature shows that CORFO and BNDES also play an important role in policy formulation given the quality of its bureaucracy (Ferraz and Coutinho 2019; Teichman 2012).

Institutional capacity, however, is not sufficient for the outcome. Taken together, both terms show that a government needs political support to pursue sectoral policies, either from a labour-based core-constituency that is pushing for better and more formal jobs, or from a more complex economic structure that needs active sectoral policies to remain competitive. This is a matter of coalition-building and the creation of support for more government action via the sectoral channel.

More definitive explanations would demand, however, that we take a closer look at the mechanisms by pursuing case studies. The divergence between Brazil and Chile is promising for theory-building since it allows for a paired-comparison in a *most-similar* case-study design (Seawright and Gerring 2008).

The Macroeconomic Channel

Since there are no specific guidelines for what can be considered a *big enough* devaluation, I resorted to prototypical country examples for each calibration anchor. As China is considered a prototypical case to use devaluation as policy (Steinberg 2015, p. 78), their minimum and maximum points of devaluation in our dataset (1998-2018) were, respectively, the indifference and full membership thresholds. Countries that reached an overvaluation as large as the average value of the Pound Sterling were marked as fully-out of the outcome. The results of the analysis are in Table 2.3 below.

FULL SOLUTION FORMULA -> LABS*~DBNK*~SECC*ECOS				
LABS*~DBNK*~SECC*ECOS	0.859	0.595	0.438	**ARG_NK_03-07; ARG_CFK_08-11; ARG_CFK_12-15; URY_TV_05-09; URY_JM_10-14; URY_TV_15-**

Table 2.3 – Solution for outcome MACRO. Source: own elaboration

Discussion

The analysis yielded a single term, and it is coherent with results for the sectoral outcome. Again, the importance of electoral politics is shown, this time both directly and indirectly. Having a government supported by labour is still key, since the country does not have a complex economic structure, but the engagement of the public is also important, showing a more difficult political equation to enable the macroeconomic channel. It is possible that this is because of the impacts of currency devaluation on the population's purchasing power (Steinberg 2015). The absence of a development bank in the solution indicates that, for countries without this kind of developmental institution, the macroeconomic channel may be more viable, given the lack of bureaucratic capacity to formulate and deploy more systematic sectoral policies (Vainer and Vieira 2017).

This result is also coherent with a literature that is related to exchange rate policy, namely, the literature on financialization and capital controls. Analyses of this policy realm highlight the importance of popular and labour union pressures for the pursuit of policies that diverge from the status quo (Gallagher 2015; Naqvi 2021; Silva 2023). For them, marshalling popular support for heterodox economic policies is an important part of the process of legitimizing those options and to avoid (or at least mitigate) a complete boycott coming from the business classes (see Paster 2018). That said, the literature directly dealing with exchange rates defends that labour unions need to be convinced to support devaluation, since a big devaluation without a development plan could also erode their wages (Steinberg 2015).

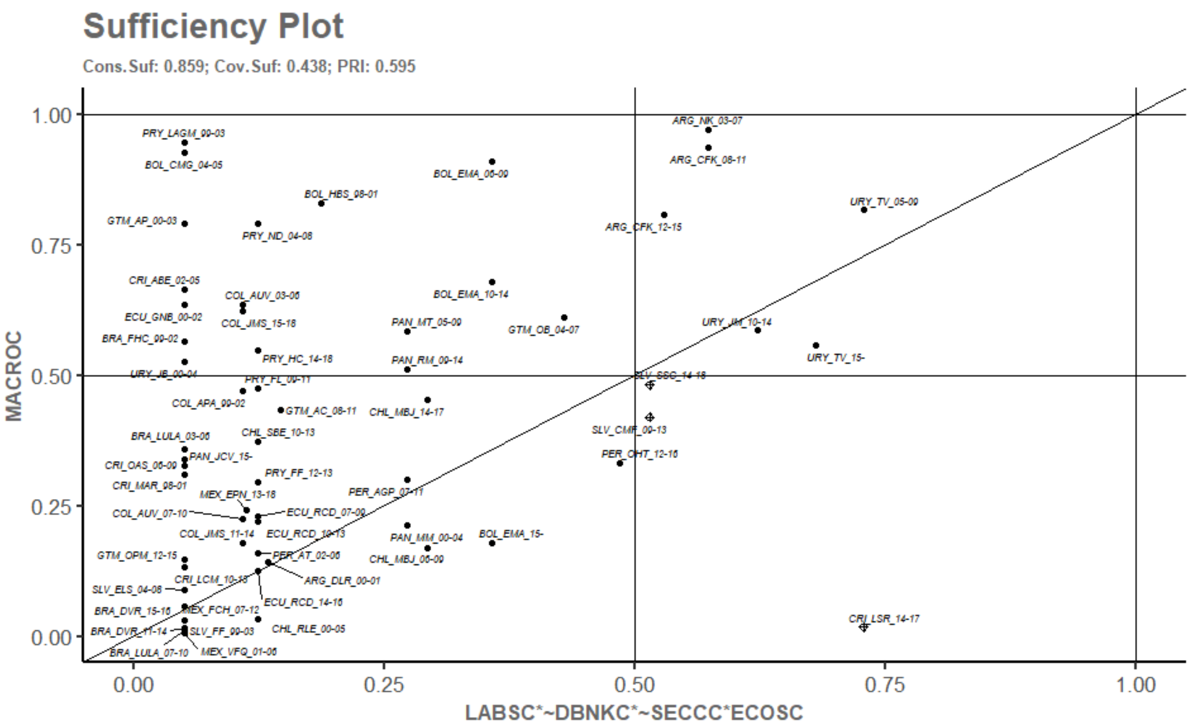

Figure 2.3 – Sufficiency plot for outcome MACRO. Source: own elaboration

The more typical cases for the MACRO outcome are the Argentinean administrations led by the Kirchners (Néstor and Cristina) (see Figure 2.3). Although they offer a good opportunity for deeper exploration of this developmental channel, the conflictual process of the maintenance (and ultimate defeat) of devaluation in Argentina shows a different side of the political economy of development policies in democratic contexts that would demand a more careful *single-case study*.

2.6. Case studies

This section will now advance a *paired-comparison* of the more interesting deviation uncovered by the fsQCA in the sectoral channel, showing how these conditions worked in each case and why the case of Chile failed to present the outcome despite having the explanatory conditions. The case of Mexico, which drives Term 2 of the SECTOR solution, would be an interesting opportunity for exploring the relationship between elites in more complex sectors (and usually connected with TNCs) and governments. In this case, it seems that business-state relations can be more fruitful, and partisanship is less important. Although we cannot properly explore this case here, arguments along these lines have been made by others (see Rangel-Padilla 2021; Fuentes and Pipkin 2023). Also, the macroeconomic channel will not be fully explored at this point, as the case of Argentina would demand a *pathway single-case design* and a lengthier exploration.

As such, this section will explore the cases of Brazil and Chile in parallel, firstly describing how sectoral efforts transpired and then showing how our conditions explain each case. Their pairing is particularly fortunate here, because, in terms of theoretically anchoring this *most-similar* design, their parties in power are usually lumped together in the literature (see Levitsky and Roberts 2011; Weyland et al. 2010).

In many ways, the rise to prominence and positions of power of economists who professed *verticalismo* in Chile[28] and *desenvolvimentismo* (in its old, new, and social variations)

[28] The term is used by Agosín and others (2010) and by Bril-Mascarenhas and Madariaga (2019) to describe economists who wanted policies to be more sectorally-focused instead of just focusing on creating a better business climate and a culture of innovation.

in Brazil were iterations of the same process[29]. After democratization, the first democratically elected presidents in both Brazil and Chile were coming from centrist parties with a more hands-off approach to the economy than their successors[30]. What followed with the beginning of the *pink tide* with Lula in Brazil and Lagos in Chile was not a clean break with the past, but an attempt to build an edifice of interventionist sectoral policies towards economic diversification over neoliberal fiscal foundations. Chronologically, even the order was similar; Lagos and Lula I were both more cautious, but still attempted to get some vertical policies off the ground. Later, Lula II (also Dilma I to an extent) and Bachelet I could be qualified as the heyday of industrial policies, as both governments presented the most proposals towards this end. With that said, Lula's victory was much more significant in terms of a partisan change, since Lagos was a very moderate socialist connected with the *Partido por la Democracia* (PPD) and who participated in the Christian Democratic governments in various capacities. This is also captured by the QCA, since the PPD-Lagos government does not pass the threshold for Labour Support, unlike Bachelet and the PS.

Crucially for our analysis, however, is the cases' divergence on their capacity in actually *implementing* effective sectoral policies. Although on the whole it would be hard to argue that either Brazil or Chile managed to diversify their economies, the former has more examples of positive sectoral initiatives (with some positive results in pharmaceuticals, wind power, and even the automotive sector), while the latter did not manage to get even its most modest efforts off the ground.

[29] See Ban (2013) on Brazil and Agosín and others (2010) on Chile.

[30] The Concertación was a broad-based coalition, although the first ten years saw presidents coming from the more moderate Christian Democratic (DC) party. After that, the literature considers as socialist the governments of Ricardo Lagos and Michelle Bachelet (see Weyland et al. 2010).

Brazil

The context of the first Lula government brought forth two conflicting stimuli to the incoming government. Firstly, the euphoria with Lula's victory in an election rife with discourses of economic change[31] joined with the wide support of labour unions would give the government some legitimacy to pursue a change in economic policies. However, the turbulence in markets following Lula's election on October 27th, carried through to his taking of office on January 1st, 2003. This meant that the first Lula government had to walk a tight rope between signalling fiscal responsibility (and promoting a sizable fiscal adjustment), while at the same time pursuing pin-pointed development policies (see Ban 2013).

The solution to this was to focus the government's intervention efforts on increasing the power of public banks[32], on attributing priority to very few sectors in its first formalised industrial policy plan and to reconvert the BNDES from a manager of privatisations back to a development bank (Arbix 2019; Doctor 2015). To be sure, the BNDES was always a large and robust institution, but its functions were changed, and it grew larger as centre-left governments advanced.

The first Lula government relied on a very targeted development plan, the *Industrial, Technological and Foreign Trade Policy* (PITCE) which targeted very few and highly technological activities. Although reduced in size, the PITCE significantly impacted the technological component of BNDES loans and rekindled the Bank's sectoral lines of credit, with important examples on pharmaceuticals and software (BNDES 2021). Mere months before the 2008 crisis started spreading throughout the globe, Brazil's newly minted development plan, the *Productive Development Policy* (PDP) was released and it showed a continuation of the

[31] In debates, not even Cardoso's successor José Serra claimed to continue his party's economic policies, instead talking of import substitution as a solution to reindustrialize the country (PSDB, p. 11).

[32] This indicator is what pulls up the SECTOR outcome of the first Lula government (BRA_LULA_03-06).

government's commitment to sectoral policies. This second phase was much larger in funds, but it was also broader in scope; while high-tech credit was kept and enlarged, incumbent sectors such as steel and animal protein were also included (Brazil 2003; 2008; 2011)[33], which also quelled these sectors' resistance to attempts of economic diversification.

The first government of Dilma Rousseff followed the trend of enlarging sectoral policies, this time with the most ambitious (and unfocused) effort pursued in Brazilian democratic history. Here, the government deployed its purchasing power in pharmaceuticals, infrastructure—the former through the National Health System and the latter through a sizable infrastructure policy named *Growth Acceleration Programme* (PAC)—, and other sectors, which increased the government's participation in total investments (Chernavsky et al. 2020). Her first government also captained the *Greater Brazil Plan* (PBM), which created sectoral policies for nearly all sectors of the economy, which was almost an oxymoron (Schapiro 2013). Eventually, with the erosion of political and economic conditions, even if Rousseff got re-elected, her developmental efforts waned and she was eventually impeached, inaugurating a period of radical neoliberalism which made sectoral policies marginal or solely focused on the incumbent commodity exporters (see Milhorance 2022).

Extending the analysis beyond the confines of the QCA, the partisan influence on BNDES loan allocation becomes strikingly evident in the post-PT era, from 2017 to 2022 (see BNDES 2021; 2022). Loans designated for agriculture and livestock experienced a significant surge, surpassing those allocated to manufacturing for the first time in the bank's recorded data[34]. Both the Temer and Bolsonaro administrations markedly focused on reinforcing Brazil's existing economic framework, thereby deepening the country's reliance on commodities.

[33] See Stein and Herrlein Júnior (2016) for a descriptive analysis of each plan.

[34] Sectoral data goes back to 1995. More disaggregated data that allows evaluating technological content goes back to 2002.

In Brazil, the significance of development banks in shaping industrial policy is evident. Moreover, the active participation of labour unions and civil society, especially in sectoral and developmental councils, underscores the collaborative nature of policymaking during the era of left-of-centre governance (De Toni 2015), going beyond mere electoral collaboration and advancing to the occupation of key positions in government (D'Araujo 2009). In contrast, as we will see, Chile's less successful engagement with similar stakeholders might partially explain its limited progress in implementing effective industrial policies. Notably, Brazil expanded the scope of its industrial strategies to encompass both incumbent sectors and new, diversifying activities. Although this approach proved ultimately unsustainable, it highlights the complex political challenges that middle-income democracies face when navigating economic diversification.

Chile

In Chile, although the Bachelet government was the first to have a formalised labour linkage with the relationship between unions and the *Partido Socialista* (PS), her predecessor Ricardo Lagos is usually considered a part of the *pink tide* (Weyland et al. 2010). In terms of industrial and development policies, the Lagos administration is a landmark for the inclusion in government of economists who advocated for vertical interventions instead of horizontal ones (Agosín et al. 2010). However, consistent with the findings of Bril-Mascarenhas and Madariaga (2019) and the results of the fsQCA, these efforts failed to meaningfully implement sectoral policies. By the time Lagos took office, CORFO was saddled with debt and was mostly used as a manager of privatizations and not at all resembled the strong developmental institution that it was in its foundation (Madariaga 2017; Muñoz Gomá 2009). His first mandate was to rejuvenate CORFO, mostly by supporting Small-and-Medium Enterprises (SMEs), but without any targeted sectoral orientation. His presidency did, however, witness the establishment of InvestChile, designed to attract high-tech Foreign Direct Investments, particularly from IT multinationals. As a precursor to more verticalist aspirations, Lagos used mining royalties to initiate the Innovation Fund for Competitiveness (FIC), aiming at sectoral redistribution (Chile 2005, p. 6).

When the labour supported *Partido Socialista de Chile* (PS) became the centre of government, *verticalistas* were even more prominent. As shown in the QCA, Bachelet I was the closest Chile has got to utilising the sectoral channel systematically, although it still fell short of the outcome. This was set in motion by instrumentalising both the FIC and its adjoint council, the National Innovation Council for Competitiveness (CNIC), which was created in the final years of the Lagos administration. The institutionalisation of the CNIC was a vital step for the establishment and legitimation of sectoral policies (Zahler et al. 2014) and was responsible for gradually building legitimacy for converting CORFO's horizontal programmes into more directed support to priority sectors (Madariaga 2017). Although still timid, one can see the drive of a more labour-based party and a host of their appointed bureaucrats towards more developmental aspirations and the creation of an incipient developmental coalition.

The main initiative of the Council was to propose a 'clusters policy'. Despite seeking legitimacy with the hiring of the Boston Consulting Group to determine priority sectors, the initiative encountered scepticism from the business community. Of the five selected clusters, mining, agriculture, and aquaculture aligned with Chile's comparative advantages, while global services and special interest tourism were considered emerging sectors. Yet, these initial sectoral efforts were modest and eventually undermined, particularly by the mining lobby. Subsequent administrations, like Piñera's, further weakened or abolished these public-private collaborations, solidifying the absence of robust sectoral policies in Chile.

Chilean governments aiming for vertical strategies grapple with the cohesive mining sector, which opposes diversification. The CNIC exemplifies this, with the mining sector gaining dominance in the Council and subsequently weakening diversification initiatives (Bril-

Mascarenhas and Madariaga 2019). Piñera's election further diminished support for vertical policies. While ideological shifts play a role, the key factor is the strength of incumbent sector elites in resisting diversification efforts. Bachelet's second term, despite economic pressures to diversify, saw only modest attempts, lacking the earlier clusters policy and not venturing into comparative-advantage-defiant activities (Bértola 2019). While Chile and Brazil both demonstrated formal alliances between labour and centre-left parties, the depth and substance of these ties and the formation of a developmental alliance tell a more nuanced story. Etchemendy (2020) notes that in Chile, the alliance between centre-left parties and labour unions remained largely electoral and did not progress to substantial interest group participation. In the context of industrial policy, this lack of deeper integration was not necessarily by choice, as the intention to incorporate labour in industrial policy formulation was heavily opposed by a very conservative (and dominant) fraction of businesses.

In this comparative framework, the role of coalitions opposing economic diversification becomes even more salient when scrutinizing the divergent paths of Brazil and Chile. In Brazil, the coalition of political interests underpinning the government managed to facilitate an environment where various sectoral efforts—although not transformative—could at least materialize. This dynamic capacity to tolerate a degree of interventionist experimentation explains some of the relative success in areas like pharmaceuticals and wind power. Conversely, in Chile, the prevailing vested interests created a political environment that stifled even the most cautious attempts at sectoral policies, thereby perpetuating the country's reliance on existing commodity sectors.

2.7. Concluding remarks

The revival of developmental thinking in Latin America has not simply been a return to an era when fixed exchange rates were commonplace and state intervention was widely accepted. Rather, it has taken place within a complex political environment marked by scepticism towards neoliberalism and uncertainty about suitable alternatives. This context may help to explain why numerous countries have been unable to implement comprehensive development strategies that successfully combine ambitious sectoral policies with favourable exchange rate measures. Notably, the paper also finds that complete development strategies in the region were very rare.

In this vein, the main contribution of this paper was to show the incompleteness of development strategies in 21st century Latin America, typify the developmental channels pursued by different countries, and present possible political conjunctions that can account for each of these policy paths. Although previous work explored the unsuccessful nature of 21st century developmental interventions in Latin America, this is, to my knowledge, the first work to take a panorama of the region and to typify these interventions to investigate political underpinnings. This is a step towards understanding the politics of development policies in democratic developing countries and could help in the analysis both of the new wave of development policies which are sure to follow the election of new (and old) centre-left leaderships in the region and cases outside Latin America as well. This paper also aims to add to a growing literature that goes beyond business-state relations and quiet politics as determinants of Industrial Policy outcomes in democracies (see Bondy and Maggor 2023; Fuentes and Pipkin 2023; Maggor 2021).

More precisely, this paper underscores the importance of establishing broad political alliances in democratic contexts to support development strategies. While Evans (1992) touched upon this briefly, our study has shown that this extensive political backing is essential for the sustainability of these policies in democracies.

Additionally, this paper employs succinct case studies to underscore the divergent outcomes in sectoral strategies between countries like Brazil and Chile, despite the presence of seemingly favourable political conditions. While Brazil managed to broaden the scope of its policies to include incumbent sectors and also aim for economic diversification, Chile found itself stifled by entrenched elites who resisted such diversification efforts. This contrast serves as a potent illustration of how even under comparable political climates, the intricate dynamics of elite organization and societal influence can yield significantly different policy outcomes. While this study provides an initial framework for understanding these divergences, it acknowledges its limitations in fully capturing the complexities of political support and opposition. The case studies of Brazil and Chile, in particular, underscore the need for further exploration into the roles of dominant business sectors and government capacity in forming developmental alliances. These aspects, challenging to encapsulate within the QCA framework, are crucial for a more comprehensive understanding and will be the focus of subsequent, in-depth studies.

In conclusion, this paper underscores the challenges and political complexities that democratic developing nations encounter in their quest for development. It also affirms the potential for these governments to offer pragmatic, if not complete, solutions. As progressive and labour-supported governments continue to rise in Latin America, these developmental issues are bound to reclaim their place at the heart of political discourse.

3. The Limits and Possibilities of Democratic Developmentalism: building Developmental Alliances in Brazil and Chile

3.1. Introduction

Lately, there has been a rise in interest about Industrial Policies in both research and policymaking cycles. However, debate over this policy realm and on the role of the state for development strategies and outcomes saw an earlier iteration during the 2000s in Latin America, especially with the phenomenon of the *Pink Tide* (Clark and Rosales 2023; Loureiro 2019). The region, thus, presents an important place to study the limits and possibilities of governmental development strategies under democratic contexts, open economies, and especially for governments that were not proponents of radical rupture, like those of Brazil and Chile.

Much of the existing literature in the political economy of development has been anchored in the study of authoritarian regimes. While these studies offer valuable historical insights, they may not fully capture the complexities and specific challenges of contemporary developing and middle-income democracies (Haggard 2018). This paper seeks to bridge this gap by focusing on the unique developmental challenges faced by democratic nations, particularly those with economies heavily reliant on commodities. In such contexts, influential and politically organized primary exporters can pose significant obstacles to state-led economic diversification strategies (Wiig and Kolstad 2012). The central inquiry of this research is to understand and analyse how democratically elected governments successfully navigate, or in some cases fail to navigate, the intricacies of implementing economic diversification strategies amidst the pressures and constraints inherent in commodity-dependent economies.

Given the specific difficulties imposed to countries stuck at a developmental hurdle, this paper posits that governments that can mobilise broad developmental alliances are more able to pursue diversification strategies, although those may not be enough to completely overhaul the national productive structure.

In order to make a suitable theoretical contribution, I will employ a *most-similar* case-study design to uncover possible blind spots in the existing literature (Gerring and Cojocaru 2016), focusing our analysis on the period of the more developmentally-minded *pink tide* governments. This research will rely on secondary literature, newspaper articles, official documents, descriptive statistics, and 50 interviews conducted with policymakers, labour unionists, businessowners, and other relevant stakeholders of development strategies in Brazil and Chile.

The remainder of the paper will be divided in eight sections. The first section will present a review of the extant literature and point to their contributions and gaps. The second section will show a theoretical framework emphasising the steps in the construction of developmental alliances and their influence on development strategies. The third section will briefly present the case selection and empirical strategy. The fifth and sixth sections will show the cases of Brazil and Chile, with the seventh section showing some comparative insights. The eighth section concludes.

3.2. Ideas, Interests, and Institutions in the politics of policy choice

Comparing bureaucracies and institutions: Varieties of Capitalism and Developmental States

The Varieties of Capitalism (VoC) approach, initially tailored to advanced capitalist economies, categorizes institutional complementarities in capitalism into different, mostly static models (Hall and Soskice 2001). However, its application to politicized, peripheral economies necessitated more flexible interpretations. Nölke and Vliegenthart (2009) developed the concept of Dependent Market Economies (DMEs) for post-communist Central Eastern European nations, focusing on coalitional dynamics between multinationals, local capitalists, and the state. In the Latin American context, Schneider (2013) identified Hierarchical Market Economies (HMEs), marked by sub-optimal institutional complementarities that contribute to persistent underdevelopment. Schneider's analysis of HMEs highlights a politicized and contested institutional landscape, often maintained by large firms to preserve their dominant positions, resisting reform. In sum, these adaptations of the VoC framework illustrate a shift from static institutional analyses to more dynamic considerations of institutional change, emphasizing the role of coalitions of social actors in instigating and shaping these changes, as highlighted by Amable (2003), Hall and Thelen (2008), Streeck and Thelen (2005), and Emmenegger (2021).

In his comparative analysis of developmental states, Evans (1995), points out that state intervention is ubiquitous, but the variation in kind and in degree of intervention depends on the structural characteristics of states, which are fixed in the short-term. This literature gave importance to state agency (instead of firms, as in the VoC approaches) in creating specific institutional arrangements, but the feasibility of initiatives would also depend on the structure of the bureaucracy and the private sector (Doner et al. 2005). As such, this literature, like its institutionalist counterpart, can be quite static, since states either have this type of bureaucratic capacity or they do not; little is said about how states came to create these specific capacities in the first place.

However, the Developmental State literature and more specifically Evans's work (1992, 1995) leaves open two very important research opportunities. Firstly, bureaucrats or state managers are not just automata executing government policies, but they are also important policy initiators and a key part of developmental alliances. Ensconced within the state apparatus, they are in constant relationship with the private sector and actively offer input in policy discussions. Incoming governments promote changes in key appointed bureaucratic positions and those state managers are responsible for providing the main initial bases of discussion and for keeping it alive. Secondly, Evans is clear about the limitations of looking only at authoritarian political economies. In those contexts, the notion of embeddedness is significantly simpler and narrower. For an authoritarian state apparatus to be embedded, it would suffice for bureaucrats to forge relationships with fractions of businesses. As Evans puts it: “[f]or developmental states, connections with society are connections to industrial capital” (1995, p. 234).

However, when it comes to building developmental projects in democratic settings, forging a broader developmental alliance both in the formulation and implementation of policies becomes essential and bureaucrats effectively become another actor in a possible alliance. Thus, if the exogenously-caused weakness of conservative capitalists that characterised East Asian success stories is not replicable[35], then the “mobilization of subordinate groups can serve as a substitute” (p. 246). In fact, bureaucrats or state managers will often act only to the extent that their preferred policies have the support of social groups or even in anticipation of these groups’ actions (see Stark and Bruszt 1998)

Social groups and their alliances: dynamic interpretations for policy and institutional outcomes

In order to understand industrial policies and development strategies in democratic developing economies, it is important to broaden the scope beyond mere business-state interactions to include the influence of diverse social groups, but also to properly explore business power.

The political clout of businesses in capitalist democracies is well-established by pluralists such as Dahl and Lindblom (Dahl and Lindblom 1976; Dahl 1982; Lindblom 1995). Their unique role, derived from the prerogative to withhold investments, impacts economic

35 Evans (1995), Naseemullah and Arnold (2015), and Doner and others (2005) give details about how exogenous shocks created a context in which economic elites (and especially a conservative fraction of those) had less bargaining power vis-à-vis governments.

indicators like employment and growth, effectively giving them “a veto over state policies” creating “major political problems for the state managers” (Block 1977 [2020]). This influence manifests as both *structural power,* through investment decisions (Dafe et al. 2022), and *instrumental power*, via collective action, lobbying, and partisan linkages (Fairfield 2015). The interplay of these power forms, underscores the critical role of business in shaping policy environments, often leveraging their structural power implicitly while explicitly exercising their instrumental power to guide governmental policies (Hacker and Pierson 2002).

Now, if the power of businessowners is so prevalent, how is it possible that sometimes organized and powerful business interests lose a policy battle[36]? Although democratic politics is permeated by business interests, there are *countervailing* effects that make it possible to go against them from time to time. Without disregarding their privileged position, Culpepper (2011) argues that businesses fare better in the dynamics of “quiet politics”, as Industrial Policies are usually characterised[37]. Away from the noise of elections and the countervailing power of Civil Society Organizations (i.e. labour unions, advocacy groups, and social movements), businesses are free to negotiate a more advantageous policy package with governments. This is not usually the case in arenas which are more *salient* and where governments either suffer specific pressure from societal groups or have incentives to tend to their core clientele *against business interests* (see Hibbs 1977; Remmer 2002 and Scharpf 1987).

Since direct representatives of business interests are not always elected, democracy imposes constraints on business power. Paster (2018) delves into the reaction of businesses when their interests clash with political challenges, especially when challengers—social groups advocating policies against business interests—are backed by elected governments. The

[36] See Vogel (1987).

37 Bohle and Regan (2021) describe Industrial Policy as an area of “quiet politics”. However, they also acknowledge the role of trade unions in Ireland's "social partnership" model, particularly in establishing a centralized triennial wage-bargaining regime.

government's stance (and its ministers and senior staff) in a possible alliance with challenging social actors can force businesses to adapt or, if they choose to confront, impose a business defeat (Meckling and Nahm 2022).

In Latin America's commodity-dependent nations like Brazil and Chile, these dynamics have an additional twist. These countries often have unified, politically organized commodity exporters who resist economic diversification and favour maintaining the status quo (Ahumada 2019; Cardoso and Faletto 1979; Khan 2018, p. 11; Wiig and Kolstad 2012). Consequently, governments pursuing economic diversification confront the challenging task of building a developmental alliance robust enough to counterbalance the influence of dominant sectors (Bruszt and Langbein 2020; Morgan and Ibsen 2021; Sierra 2022).

In this sense, when mapping the impact of these alliances on other contexts, O'Riain (2004) lays the groundwork by emphasizing the power of alliances in reshaping productive structures. Beyond the partnership between state managers and business owners, he introduces a more nuanced picture: academics offer advisory insights, bridging policy with practice, whereas labour unions were key for the formation of a *social partnership*, participating in the formulation of the general strategy (but less in the fine-grained implementation). The role of labour unions is further elaborated by Ornston (2013), who introduces the notion of *creative corporatism*. In economies undergoing technological transitions, labour unions were important—even when reluctant—partners in promoting pacts that pushed traditional industries to climb the technological ladder. Bondy and Maggor (2023) underscore the crucial role of unions in forming change coalitions and driving alternative growth models in Israel, Ireland, and Brazil. This bond between social groups and state managers is key in ensuring state discipline (Maggor 2021), and in aligning investments with developmental objectives (Bulfone et al. 2023).

Party politics, ideas, and the difference-making power of governments

As highlighted earlier, the dynamism of democratic politics can dramatically challenge a nation's economic foundation. At times, the electorate may choose leaders who question and oppose the prevailing economic paradigm.

In this regard, Baccaro, Blyth, and Pontusson (2022) present very valuable insights. Firstly, they contend that national *growth models* are only reproduced through *political arrangements* composed of a “coalition of more or less organised interests, including corporate elites, and unelected as well as elected government officials, with a common policy agenda” (p. 30). Secondly, the sustainability of these models hinges on the mobilization of electoral majorities that empower actors who will actively work for the model’s reproduction.

As such, the authors highlight that voter choices in the ballot box will not *directly* affect policies, but they will affect the way actors in the *dominant growth coalition* act. In line with our reiterated point that democracies damper powerful status-quo-aligned interests, the authors add that conflicts between the dominant growth coalition and elected governments may lead to moments where extant economic structures become politically contested.

Firms and sectors that are key to the smooth functioning of the existing growth model will have privileged access to policymakers and a larger amount of power resources at their disposal, since they are at the core of the dominant growth coalition. In moments of crisis, however, growth coalitions may fail to get an electoral majority or different political brokers may work to form a coalition in favour of change. Although the authors do not specify the way in which change is pursued, changes in economic structure usually hinge on multiple industrial policies.

Thus, political actors looking to promote economic change (even if falling short from reforming the entire growth model), are playing a *two-level game*, having to secure both an electoral majority—without which their political project is doomed to fail—*and* a supporting coalition of organised interests. This two-level politicisation—on the mass and organised interest group spheres—of the development issue can be mapped onto the two “arenas” identified by Collier and Handlin (2009). The electoral arena determines the accession of a given party to government, who propose and carry out economic policies. This process brings with it new ideas and proposals to a place of power as well as the state managers who spouse them and who can broker different developmental alliances both at the national and the sectoral levels.

In turn, ideas are important to shape the policy alternatives seen as acceptable by social groups, since actually existing interests can only be perceived through a previously held ideational framework (Amable 2017; Sikkink 1991). Thus, ideas act as “coalition magnets” that hold a developmental alliance together (Béland and Cox 2016; Bell 2012). Stark and Bruszt (1998, pp. 192-193) stress the importance of government narratives in legitimising their policies, reconfiguring social groups, and creating possibilities for sometimes counterintuitive connections. As such, political parties are not just competing for the right to wield power and represent certain social groups, but, at its most ambitious, to actively shape social groups’ perceptions of political possibilities (ibid).

The next section will advance a theoretical framework in two steps. Firstly, I will cement the base elements that work as the foundation of the framework; these are broad assumptions that permeate the steps of the causal mechanism. Secondly, I will show the sequence of political interactions that connect the election of developmentally-minded governments to the development strategies they deploy

3.3. The political aspects of development strategies in democratic developing economies: a theoretical framework

Base elements

(I) Status quo bias of primary-sector elites

The status quo bias of primary exporters in commodity-dependent economies is foundational to our framework. In many Latin American economies, the prevailing equilibrium is shaped by the interests of conservative commodity-based elites. Thinkers like Cardoso and Faletto (1979) and Gunder Frank (1974) posit that these elites resist economic diversification and lean towards free trade, as it preserves their economic and political dominance. From a very different theoretical starting point, Acemoglu and Robinson (2000; 2006) indicate that fears of elite replacement deter traditional elites from endorsing diversification initiatives.

It is important to note that this is not a necessarily permanent or absolute state and fractions of the dominant business fraction can be convinced to cooperate. Notably, strategies of diversification can use commodities as levers. Hirschman (2014[1976]) shows that commodities, can have the traditional *production or physical linkages (*either backwards or forwards), *fiscal linkages* (through taxation), and *consumption linkages*, in which the rise in income levels generated by primary exports changes consumption patterns, creating demand for more sophisticated products that can later be a target for import substitution. However, incorporating incumbent elites into a developmental alliance remains challenging. The significant contrast between primary and high-value-added activities may deter elites from diversification efforts, while advocating for protectionist measures or incentivizing local processing could face resistance due to potential cost increases. Although consumption linkages hold promise for political compromise, currency overvaluation during commodity booms can pose a significant obstacle to subsequent import substitution (Sierra 2022). Finally, commodity producers often succeed in opposing the creation of fiscal linkages to avoid being taxed (see Giraudo 2021).

As such, there are ways in which commodities can be used towards diversification strategies and governments often try to either integrate parts of the incumbent elite onto the plans or compensate them, but this is often an uphill battle. This process of attempts of integration, compensation, and resistance will be demonstrated in the cases of Brazil and Chile.

The difficulties of these strategies were pointed out by Sierra's (2022) analysis of the challenges of structural change. Sierra identifies a self-reinforcing cycle in Commodity-driven Growth Models, encapsulating three core dilemmas. The first addresses the Dutch Disease[38]: as commodity prices soar, these economies tend to succeed, but this simultaneously diminishes the competitiveness of industrial exports due to currency appreciation, while primary producers benefit from a natural hedge. In other words, their prices are externally given, and currency appreciation also lowers their production costs. Such growth paired with appreciation is popular, as it raises purchasing power (Campello 2015). The second dilemma highlights the dependence of commodity producers on fixed assets, which fosters elite competition and hinders income redistribution from rural to urban sectors (Ansell and Samuels 2014). Collectively, these conditions produce a 'commodity-pull'—a gravitation towards economic patterns that, if unregulated, risk fostering regressive specialization[39]. This shows the double-edged sword of commodity prices, since, on the one hand, booms bolster government revenue and can open avenues for diversification, however they also increase the power of incumbent elites and makes change less politically salient.

The third and central dilemma is about the domestic balance of power. This balance creates disparities in elite competition, further driving the commodity-pull dynamics.

38 For a more detailed exploration see Bresser-Pereira (2018).

39 Regressive specialisation refers to processes in which countries tend to specialise, over time, in trading goods that are of low technological sophistication (see Nassif and Castilho 2020).

Governments striving for industrial advancement navigate a complex landscape, often partnering with a shrinking industrial elite. Given the primary sector's economic prominence, they wield more structural and instrumental power compared to their challengers. Thus, facilitating economic diversification requires aligning with challengers, pooling power resources, and advancing compelling developmental narratives to bridge distinct interests (Paster 2018; Korpi 2006; Chang 1999, p. 194). Grounding this discussion in Sierra's (2022) insights, the hypothesis emerges that while governments can shape collective interests through policy proposals and narratives (Stark and Bruszt 1998), core members advocating for the commodity-exporting growth model are difficult to integrate. Although ideally they would join the political alliance and have their linkages activated to bolster diversification, these actors are not actively searching for a policy alternative As such governments partial to economic diversification will often be forced to seek support from other actors.

(II) Ideological aspirations, policy realities, and the role of state managers

In the recent political and economic trajectory of Latin America, the re-emergence of developmentalist ideologies in democratic contexts is connected to the 'pink tide' phenomenon. This period indicated a shift away from the dominant neoliberal policies of the 1990s, which, because of its lacklustre results in employment and growth, laid the foundation for the ascent of left-of-centre alternatives (Flores-Macías 2012; Kaufman 2007; Loureiro 2018; Tussie and Heidrich 2008; Weyland et. al. 2010). Such changes not only illustrated a renewed appetite for state involvement in the economic sphere but also encouraged the inclusion of diverse interest groups in policy formulation, notably social movements and labour unions (Collier and Handlin 2009; Etchemendy 2020; Silva and Bandeira 2021).

Upon closer examination of the 'pink tide', two distinct trends emerge: countries such as Brazil and Chile witnessed the rise of governments from established centre-left party structures, whereas nations like Bolivia, Ecuador, and Venezuela saw leaderships rooted in social movements (Levitsky and Roberts 2011). Despite these distinctions, a shared affinity for national development, influenced by Latin American structuralism and its contemporary interpretations, is discernible across these nations (Leiva 2008; Wylde 2012).

In the 21st century, the modern descendants of the Latin American left embraced various forms of neo-developmentalism (Ban 2013; Bastos 2012; Bresser-Pereira and Theuer 2012; Clark and Rosales 2023) emerging as the primary advocates for industrialization and structural change.

Beyond their ideational roots, the centre-left parties in the region have a core clientele that incentivizes political leadership to prioritize economic diversification. Organized labour, historically rooted in manufacturing, faces pressing concerns related to deindustrialization, which directly impacts their membership (Kollmeyer 2021). The connection between leftist movements and organised labour in the region (see Collier and Collier 2002) is an essential element linking *pink tide* elections and development strategies.

The link between ideas, the public, and the interests of social groups is described by Stark and Bruszt (1998) when speaking about the importance of political programmes. More than just representing the social groups that form the party's core clientele, these programmes seek to form new possibilities of association by reconfiguring interests and 'establishing novel, and sometimes counterintuitive connections among them' (p. 193). Along these lines, Baker (2013), Chwieroth (2010), and Gallagher (2015a) give importance to the training received and ideas held by state managers appointed by governments. In contexts where a truly dominant paradigm fails to materialize, and the institutionalization of ideas is less concrete (see Campbell 2002), there is a constant changing of the guard in bureaucratic appointments, especially when the ideological colour of the ruling party changes (Gallagher 2015a, pp. 85-86), initiating a process of policy change.

(III) Countervailing power and the importance of developmental alliances

After the process of economic liberalisation, the remaining dominant bourgeoisie were those who survived and thrived under neoliberalism (see Castro 2001; Kingstone 2001; Silva 1993), so they tend to be more sceptical of state intervention. In other words, and to borrow Polanyi's (1944[2001]) terms, this dominant fraction of the bourgeoisie aligns with the *movement* advocating for governments to create the conditions for capital accumulation and not interfere with the *natural* tendencies of markets. In this context, building a *countermovement* defending purposeful and coordinated state action for diversification becomes an imperative step towards deploying a development strategy[40].

In democracies, governments usually lack the capacity to *command* investment decisions (see Lindblom 1977). As such, there is an inherent tension on the role of the state: as a *universal state*, it must represent the collective societal interest against unchecked market forces, and as a *class state,* it reflects the ambitions of the capitalist class, and primarily the dominant business fraction (Block and Somers 1984). The delicate balance lies in the state's ability to maintain autonomy, both in moulding societal viewpoints and directing policies which challenge a commodity-led growth model (Baccaro et al. 2022; Sierra 2022).

As such, the state is a disputed territory; whether it will be occupied by governments siding more with the *movement* or the *countermovement* depends, in democratic contexts, primarily on elections. It must be said that governments siding with the *movement* will most likely keep the existing low-level equilibrium, but an overly ambitious and powerful countermovement can also generate unworkable policies and economic standstill. Thus, echoing Bohle and Greskovits (2012, p. 16), the success of economic development relies "ultimately in the capacities of the political sphere". This dynamic interplay between movement

40 Movement and countermovement are used here in the same sense as in Polanyi (1944[2001]). For more modern iterations see Bohle and Greskovits (2012), Block and Somers (2014), Goodwin (2022).

and countermovement, mediated by state agency, is not just an abstract theoretical construct but manifests concretely in various policy domains.

In this respect, Meckling and Nahm (2018; 2022) delve into the strategies used by state actors to align actors' preferences with policy objectives. The authors stress that, in face of political competition, schisms can be capitalized upon, especially when state agencies and their managers are deeply committed and backed by external stakeholders. State actors might strategically choose groups who participate, inviting those aligned with their goals and sidelining potential adversaries. They might also craft narratives to reshape preferences, or broker compromises to mute divergent interest groups.

So far, however, the literature on the participation of interest groups in countervailing dominant interests is more explicit in the field of financialisation and the deployment of capital controls. Gallagher (2015a, 2015b) shows how the relationship between organised workers and developmentally minded government economists in Brazil facilitated the deployment of capital controls against the wishes of dominant financial actors, a point reinforced by Alami (2019). Naqvi (2021) shows that the popular sector has both electoral *and* mobilizational importance in strengthening the hand of policymakers from governments that want to pursue policies that are not aligned with the prevailing interests of businesses. Along these lines, Silva and Bandeira (2021) builds a Polanyian framework to show how left-of-centre governments instrumentalised the forces of a countermovement to build an alliance in support of interventionist policies in capital markets.

Building upon this literature, I argue that, in democracies, governments attempting to pursue a policy of structural change must build a *developmental alliance*. The strength of this alliance will also determine said government's capacity to create a development plan that goes beyond incumbent sectors, and to exert enough state discipline that will align sectoral incentives and the investments those generate with national development goals (Bulfone et. al 2023; Maggor 2021).

Sequencing and causal mechanism

The starting point of our analysis will be the election of governments who propose economic diversification. Given the strong pull of status quo-oriented actors in the region, having the government siding foremost with *challengers* is key (Paster 2018). During elections, candidates will signal their priorities in development strategies and provide the starting point for discussions. After winning the election, governments will then appoint their preferred state managers who will start the iterative process of policy formulation and implementation.

Here, governments will initiate the construction of developmental alliances. These alliances enable and constrain development strategies based on the different ideas and interests present in its core. While governments and state managers are responsible for creating narratives that bind diverse societal groups (Béland and Cox 2016; Stark and Bruszt 1998), the ideologies and preferences of these groups significantly influence the strategies governments adopt.

Usual participants of developmental alliances are labour unions, developmentally-minded state managers, business owners in non-incumbent sectors, academics, and other civil society organisations (see Bruszt and Karas 2020; Maggor 2021). Here I will not specify the potential participants too narrowly, since these can vary according to national and sectoral contexts. Ideally, governments should be able incorporate parts of the incumbent sector, as this could bolster diversification by activating linkages (Hirschman 2014). With that said, broad developmental alliances, while essential to enable development strategies, may also be limiting, since more interests must be placated.

In the process of alliance formation, dominant business actors face a decision: they can adapt to potentially objectionable development strategies either by seeking compensation, acquiescing and integrating the coalition, or trying to shape these strategies through negotiation. Alternatively, they can choose to confront these strategies and attempt to block policies (Meckling and Nahm 2022; Paster 2018).

Figure 3.1 outlines the causal process. This process starts with elections that bring in political actors inclined towards state-led development strategies and industrial policies. Subsequently, the government appoints state managers who draft and propose these strategies to societal groups. The following stages detail the interaction between governments, state managers, and societal groups:

I) *Initial consultations*, based on the initial development plan, mark the first step in forming a developmental alliance. These consultations may become recurrent, or they may be just a limited set of meetings.

II) *Pressure* is exerted through various channels such as opinion pieces, official statements, and informal means to negotiate the development strategy's framework. The dominant business segment seeks funds with minimal conditionalities or compensation for being excluded from the core of the strategy. Other groups, like unions, academics, and other business fractions, advocate for increased resources and terms that favour economic diversification and the strengthening of national production chains.

III) The government responds to these pressures by adjusting the development plan, potentially compensating opposing forces, and thereby laying the groundwork for the development strategy. This leads to the formation of a developmental alliance.

IV) The *dominant business segment*, depending on how much it feels *contemplated* or *compensated* will choose to either adapt or confront.

The development process leads to adjustments in the initial plan, influenced by the developmental alliance's strength and the dominant business segment's reaction. The final strategy encompasses various measures. A strong alliance of industrial policy advocates, state managers, and developmentalist governments will shape ambitious developmental interventions. The strength of this alliance plays a key role in determining the level of ambition. Additionally, sectoral dynamics influence the government's ability to integrate sector-specific goals with the broader development plan (Bulfone et. al 2023).

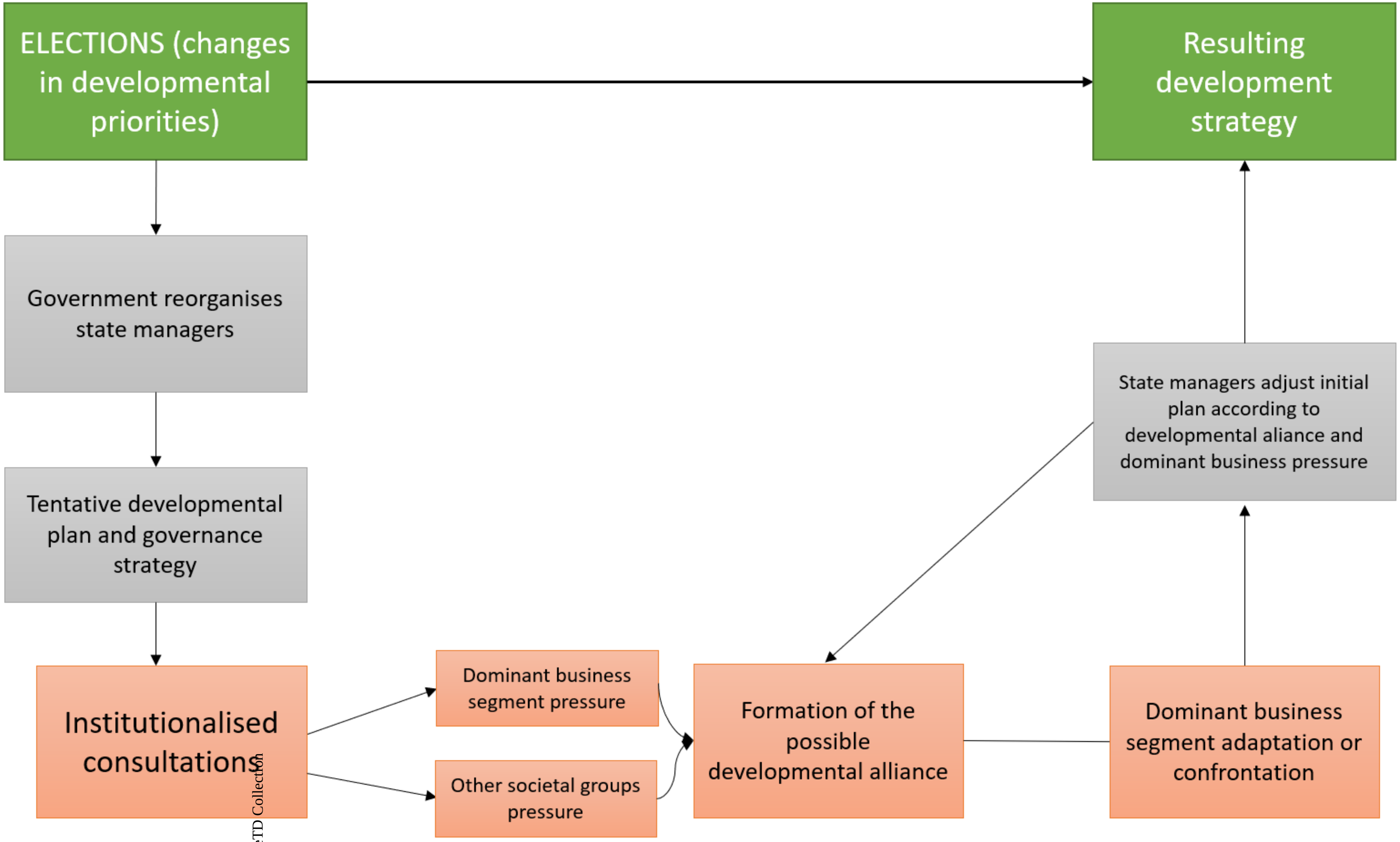

Figure 3.1 - Causal mechanism

3.4. Case selection and empirical strategy

The theoretical framework presented above was crafted from an inductive approach, shaped by diverse theoretical influences and insights from 50 interviews[41] with key actors in the development policymaking process. The selection of Brazil and Chile as case studies was informed by preliminary readings on background conditions. Both nations are suitable for a most-similar case study design[42] to elucidate the influence of interest groups on development strategies, especially during the era of their pink tide governments which introduced explicit development plans.

As such, it is worth noting the various similarities between the two nations. Firstly, both countries' levels of democracy are constantly similar over the period of interest (2000-2016), as is their presence of a relatively professional bureaucracy (V-Dem 2023). Secondly, the parties that are considered part of the Pink Tide in both countries are generally lumped together in the literature as part of the *moderate and institutionalised* side of the phenomenon (Levitsky and Roberts 2011; Weyland et al 2010). Secondly, both the *Partido Socialista* (PS) and the *Partido dos Trabalhadores* (PT)[43] were formally supported by labour unions and were also met with scepticism by businessowners, which created incentives towards moderation and negotiation. Third, both Brazil and Chile were *de facto* barred from pursuing one important aspect of development policies, namely, exchange rate management (Guzmán et al. 2018; Bresser-Pereira and Rugitsky 2018; Frieden 2015).

Exploring this in more detail, the independence of the Chilean Central Bank and the significant autonomy of monetary policy in Brazil given the so-called *macroeconomic tripod*[44],

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41 Full list at the appendix.

42 Here, I will be using Gerring and Cojocaru's (2016) definition of a causal most-similar design, where cases are similar in relevant background factors and differ on the outcome.

43 All acronyms in the paper are in the original language.

44 The macroeconomic tripod is a macroeconomic policy regime constrained by inflation targeting, a floating exchange rate, and targets for fiscal surplus (Nassif et al 2018).

precluded these countries from adopting exchange rate policies or strong capital controls that could partially substitute for or complement their sectoral policies and serve as a lever towards economic diversification (Guzmán et al. 2018; Silva 2022), leaving them both with an incomplete developmental toolbox (see the previous paper in this dissertation).

To unpack the cases in line with the theoretical framework, I will use a process tracing analysis. This approach clarifies the impact's nuances and mitigates the equifinality challenge, given the phenomenon's complexity (Bennett and Checkel 2015, p. 34). My interviews will be triangulated with official documents, campaign manifestos, news articles, descriptive data on sectoral policies, and secondary literature. Moreover, to achieve better comparability between the cases, I have constructed an additive index for industrial policies based on the *Quantifiable Industrial Policy Index* (DiPippo et al. 2022). This blend of sources ensures a comprehensive understanding of the development strategies in both countries during their pink tide eras.

3.5. Brazil: sectoral policies and the art of the possible (2003-2014)

In essence, Brazil's pink tide era and the resurgence of explicit industrial policy was marked by three development plans. These evolved from highly aspirational in technological terms to ones more aligned with existing comparative advantages (see Almeida et al. 2018; Arbix 2019; de Gaspi 2023). Nonetheless, the left-of-centre governments stood out for their proactive stance, in stark contrast to both their successors and predecessors. Their relative success was constantly negotiated with more traditional sectors and with primary exporters by keeping them from actively opposing diversification strategies.

Notably, these plans became sectorally broader over time, as fiscal space became more comfortable due to initially cautious macroeconomic policies, moderate but steady growth rates, and a commodity boom which blew favourable winds into the sails of the Brazilian economy (see Campello 2015). This allowed administrations to keep policies for technologically advanced sectors afloat, while attending to the glut of more traditional and politically organised sectors. This was not a sustainable strategy in the long-run, but it did generate some important success stories, setting the Brazilian experience apart.

Lula's initial years (2003-2006) and the return of Industrial Policy

The PT's electoral promises in 2002 emphasized inclusive economic strategies and a push for industrialisation. In the campaign manifesto, the party emphasised its commitment to a "profound structural change in productive systems, especially those intensive in high-technology" (PT 2002, p. 37), giving special emphasis to the microelectronics, capital goods, and chemical sectors. They also recognised the role of agriculture and of *agro-industry*, especially for achieving trade surpluses, but made clear that the Lula government would "not accept the ideas of those who believe it is enough for Brazil to consolidate as a large and efficient commodity producer" (p. 9).

During its initial term, the PT sought to strike a balance between its developmental goals and the need to convey fiscal responsibility to prevent speculative attacks that had occurred throughout the electoral period (Saad-Filho and Morais 2018) and also to overcome the distrust of capitalists towards the party. Lula appointed Antonio Palocci, from the more neoliberal faction of the Workers' Party, as his Finance Minister. Yet, he also chose heterodox economists for the roles of Planning Minister and President of the Brazilian National Development Bank (BNDES) respectively. At this initial point, however, with the government divided in terms of the role of the state, the drafting of the Industrial Policy plan was much more connected with the government think-tank IPEA[45], then headed by a group of academics from the University of São Paulo[46].

45 Institute for Applied Economic Research (IPEA)

46 One key actor was Mario Salerno, who was also connected with the DIEESE (think-tank connected to labour unions) and was cited in an interview as a bridge between unions and the government on the first developmental plan, the PITCE (Interview B11).

The first development plan presented by the government was the *Industrial, Technological, and Trade Policy* (PITCE) which espoused an industrial policy focused on innovation in very few technologically advanced sectors, but ones that were directly connected with existing sectors by *production linkages*[47] (Brazil 2003; Arbix 2019). At an initial phase, state managers made attempts to discuss the PITCE with universities, workers, and the business sectors, but were met with resistance by the latter, who were sceptical about the very theme of innovation in Brazil (Interview B8).

However, the idea of innovation was important as a selling point, since it was used to square the circle of making industrial policies work while fiscal space was limited and led to the IP discussion being institutionalised (Interview B21). The unity of the government around the innovation-centred strategy was shown in a newspaper article signed by the ministers of Finance, Development, Industry, and Commerce, Science and Technology, and the presidency's Chief of Staff (Furlan et al. 2004).

The context is important to explain this innovation focus. After the 2002 election, the government acted quickly to iron out the details of its development strategies, drawing on Lula's significant mandate from a victory centred on economic reform discussions (De Toni 2015; Singer 2011; de Gaspi 2023). A BNDES official emphasized that Lula's post-election legitimacy was crucial for the creation of a focused IP plan that largely sidelined established interests (Interview B6). This allowed the government to focus on advancing legal landmarks for innovation investment[48] and also to create instances of consultation where incumbent interests were a lot more lateral. The advances in financing in higher technology investments were also the product of the PITCE, such as the strengthening of the BNDES's programme for

47 Using the term future-bearing activities, the PITCE focused on: semiconductors, software, pharmaceuticals and biotechnology, and capital goods.

48 Including the 'Good Law' and 'Law of Innovation,' which introduced innovation tax incentives in Brazil. The 2006 establishment of CEITEC, a state-owned semiconductor firm operational by 2008, exemplifies the government's ambitious innovation policies.

Software development and the creation of a similar programme for pharmaceuticals, the ProFarma (Ferraz and Coutinho 2019).

The establishment of the National Council for Industrial Development (CNDI) and the Brazilian Agency of Industrial Development (ABDI) bolstered dialogue on productive transformation and enhanced inter-ministerial coordination. The CNDI, comprising ministers, business owners, and civil society representatives—including labour unions—was pivotal in refining the government's developmental strategy. Workers and some industrialists tentatively backed the initiative (De Toni 2013, 2015; Interview B1). This support fostered a developmental alliance, predominantly held together by the ideas of academics and state managers and mostly focused on fostering innovation and investment on higher-technology sectors.

To maintain this delicate alliance and avoid conflicts with primary exporters, the government expanded subsidized credit availability through the *Harvest Plan*, which standardized agricultural credit (Sousa et al. 2020). Despite underlying tensions on issues like debt and land reform (Alencar 2005), the primary sector adjusted to the government's newfound inclination towards manufacturing.

As the results of the PITCE were not immediately apparent—although the focus on innovation led to the BNDES creating important programmes and changing the sectoral composition of its loans (BNDES 2021)—two distinct pressures emerged. On one hand, established primary exporters felt overlooked by the government despite financing increases. This discontent was fuelled by perceived government negligence towards the sector and its pro-land reform stance (Folha de São Paulo 2006). Lula balanced two fronts: supporting family agriculture and land reform while ensuring productive agribusiness. This strategy, however, had limitations, as the interconnectedness of these sectors kept commodity exporters wary of his government (Pompeia 2021).

On the other hand, within the developmental alliance supporting the PITCE, rifts also appeared. State managers, industrialists, and labour union representatives believed that the sectoral focus should be broadened to better promote employment and growth (DIEESE 2008; Billi 2006), as unemployment was falling slowly (WDI 2023). This division is noticeable when reading the transcription from the 2nd extraordinary meeting of the CNDI in September 2006, when BNDES officials were concerned that the narrow focus of the policy was creating missed opportunities at a moment of reactivation of the Brazilian economy (CNDI 2006).

As the pressure mounted and Lula's re-election campaign neared, the government signalled with a re-organisation of key state managers and with an economic team more unified around developmentalist ideals, but also with the broadening of the sectoral focus and a flexibilization of innovation requirements.

The second Lula government (2007-2010) and the Productive Development Policy (PDP)

During the 2006 campaign, the PT emphasized the importance of building on the initial momentum of the PITCE and using the state as a driver for economic development (PT 2006). Lula's resounding victory provided a mandate to streamline the government and foster unity in economic policy. Palocci left his position in 2006 amid corruption allegations, and many of his associates who held more market-friendly views also departed. Guido Mantega transitioned from the BNDES to the Finance Ministry, and industrial economist Luciano Coutinho took the helm at the Bank. This change solidified a developmentalist approach in two pivotal roles during this next phase of industrial policy, which continued throughout the first Rousseff government.

This personnel change impacted directly on the adopted developmental strategy. On the one hand, in the start, the government was careful to keep what was working during the PITCE. Lines of credit for high-technology sectors were not just kept but expanded. This had a noticeable impact on actual policy as 2007 was the highest point for loans towards medium-to-high technology sectors of the economy (see Figure 3.2).

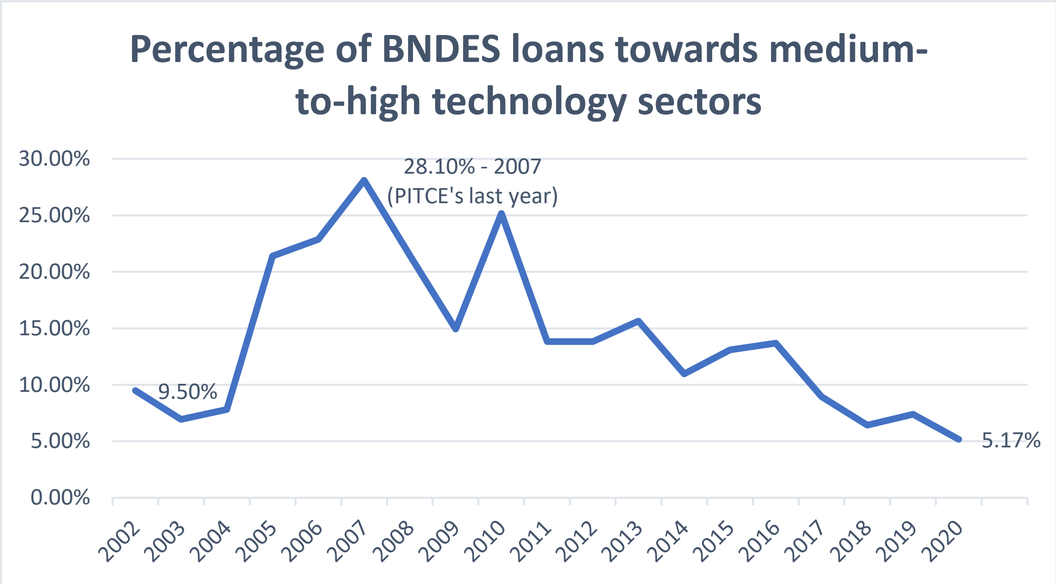

Figure 3.2 - Percentage of BNDES non-automatic loans towards medium-to-high technology sectors. Own calculations based on data from BNDES (2021) and technological intensity classification by Galindo-Rueda and Verger (2016).

Conversely, state managers at the Bank recognized the imperative to expand beyond the PITCE's limited emphasis on innovation and took the front-seat in the policy formulation. The brewing dissatisfaction within the prior narrow developmental alliance compelled the government to prioritize established sectors, ensuring continued investment and sustained growth. This was the idea of the government's new development plan, the *Productive Development Policy* (PDP). As confirmed by a BNDES top official, this stance "naturally brought allies to the process" since at this time this aligned with the wishes of both labour unions and businessowners to grow their productive capacity (Interview B22).

The PDP, launched in May 2008 by President Lula, emphasized collaboration between workers and business leaders, echoing Brazil's developmental ambitions from the mid-20th century, as noticeable in his speech (da Silva 2008). It was structured into three broad categories: *i) strategic area mobilization, ii) leadership strengthening and expansion*, and *iii) raising competitiveness*. Out of the 25 economic sectors included in the plan, three notably converged with the primary-exporting nexus: agroindustries, meatpacking, and mining (Brazil 2008), while others spanned multiple technological levels. This shows an attempt of the government to compensate or placate status-quo interests.

Though the PDP emphasised economic diversification, the urgency from the private sector for immediate measures to bolster investment posed political challenges for excluding sectors (De Toni 2013, pp. 174-175). At the same time, organized workers' emphasis on job preservation necessitated broader sectoral allowances, even though they held a preference for technologically advanced national production chains known to generate higher-quality employment opportunities (Interview B10)[49].

This difficulty would become even greater after the 2008 crisis. The deceleration in capital markets and the over appreciation of the Brazilian currency against the dollar threatened bringing productive investment to a halt. To counter this, the BNDES and the Finance Ministry spearheaded the *Investment Maintenance Programme* (PSI), which significantly lowered interest rates for productive investment. This addendum to the PDP was a purely countercyclical policy (Almeida et. al 2018; Interviews B22, B23, and B29), but it helped to keep investment afloat by increasing the Bank's total loans sharply (see Figure 3.3). At this point, unions also fought to back PSI investments with conditionalities of employment maintenance (Interview B17).

49 Here, both the DIEESE and business associations such as the IEDI lauded the PDP. DIEESE's technical note on the PDP stated: "the coordinators of the PDP, businessowners, civil society, and even from organised labour see in the currently proposed Industrial Policy a real opportunity for sustained development" (DIEESE 2008, p. 10), but noticed that preoccupations with macroeconomic stability may undercut the policy (also see Vieira 2017).

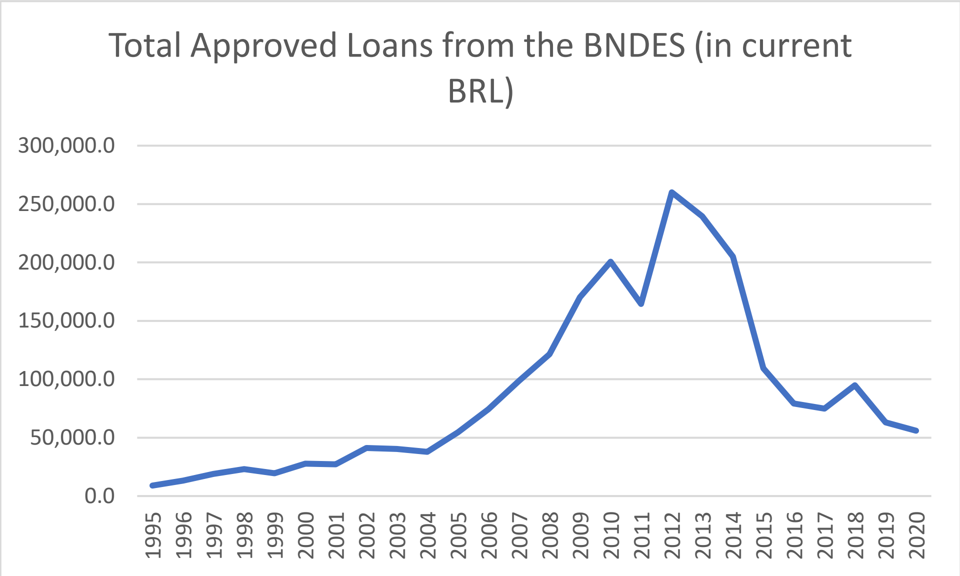

Figure 3.3 – Total BNDES Approved Loans (1995-2020). BNDES (2023).

Although the secular trend towards a lower *relative* participation of manufacturing in the economy continued, this was noticeably slowed in this period, while employment in manufacturing also rose in absolute numbers, reversing a long-term trend for the sector (UNSD 2023; MDIC 2023; Kruse et al. 2023).

Lula's second tenure was marked by yet another important development: the so-called 'commodities boom' went into full gear after his re-election, which eased redistributional pressures among incumbent and non-incumbent sectors, although it made increasingly difficult to increase the relative participation of manufacturing in the total output. Given that Lula never made a motion towards taxing the now more profitable than ever soy crops—a strategy pursued by Argentina (see Giraudo 2021)—, incumbent actors acquiesced. Moreover, the government purposefully included these sectors (even if marginally at first) in its sectoral policies and increased resources available through the Harvest Plan (Sousa et al. 2020).

The Greater Brazil Plan (PBM), the Dilma government(s), and the demise of developmentalism

Dilma Rousseff beat her opponent by a comfortable margin in 2010. Rousseff's manifesto advocated for transformative industrial and agricultural policies, emphasizing innovation, job creation, and a balance between family farming and agribusiness, backed by state-driven energy and infrastructure strategies (PT 2010, p. 9). On taking office, she maintained many of Lula's state managers, preserving the developmentalist approach (Schedelik 2023).

The Greater Brazil Plan (PBM) was launched in August 2011, amidst concerns about the lasting impact of the commodity boom. It encompassed various economic sectors, organized into specific productive systems with dedicated executive committees. Notably, the agroindustrial sector received its own committee, highlighting its significant economic and political role (Brazil 2011). Around this time, major private entities like FIESP, and peak labour confederations such as CUT-BR, and Força Sindical jointly proposed the "Dialogue for Brazil's Production and Employment," a plan aligning with the PBM's broad scope and indicating support for a developmental alliance, conditioned on increasing benefits.

The PBM represented a shift from the PITCE by incorporating a broader spectrum of sectors. The PDP initially adopted a wide-ranging sectoral focus as a reaction to the 2008 financial crisis, but the PBM's extensive approach later became predominantly political. This transition was not only observed by analysts (Reynolds et al. 2019) but also acknowledged by those implementing the policy. A principal official involved noted that while the crisis necessitated an emphasis on traditional sectors over emerging ones, this strategy soon became fixed due to business pressures. In his words, "once the door was opened, it stayed open" (Interview B8). This observation, underscoring the permanence of early policy choices, was a recurring theme among other interviewees, especially those from union and policy-making backgrounds (Interviews B9, B10, and B22).

The PBM's open-door approach considerably diminished the influence of countervailing interests. Peak labour confederations expressed concerns of being marginalized, especially in discussions on tax breaks and conditionalities (Lima 2011). While the increased emphasis on sectoral consultations implied greater union involvement compared to past plans, their role paradoxically waned. Day-to-day issues took precedence in these negotiations, making discussions more prone to capture by lobbying (Interview B10). Criticisms of the PBM being technologically backward (Arbix 2019) and defensive (Schapiro 2013) highlighted the importance of political economy within sectors. In sectors with stronger unions, like oil and gas and automotive, strong national content clauses and other conditionalities were pursued (Interviews B8, B16, and B17). This shows the pivotal role of strong unions in aligning state investment with developmental goals (see de Gaspi and Silva in the next chapter). When almost all sectors are included, pressures are not about where to invest, but under which conditions.

Politically, the PBM proved to be an initial success. Although unions were wary of the possible sparse monitoring and non-enforcement of conditionalities, they did not oppose the Plan frontally. At the same time, the president of the National Industrial Confederation (CNI) lauded the plan as an "important step" towards reindustrialisation (CNI 2012), with businessowners oscillating between enthusiastic and cautious support (see Ianoni 2018; Vaccari and Perez 2021). In terms of primary exporters, however, Rousseff's relationship over her first term was more dubious. In addition to the presence of agroindustries in the Industrial Policy plan, the president made more concessions to the sector, increased resources to the *Harvest Plan* consistently (Sousa et al. 2020), and constantly hailed the sector's importance (Pompeia 2021). On the other hand, a political conflict over new environmental regulations made relations tense (Angelo et al. 2012).

As elections neared and the commodity boom's effects diminished, the developmental alliance began to fracture. By 2013, with the end of commodity-led growth, industrialists who had supported the government's developmental policies started to push for spending cuts and lower interest rates, realizing the domestic market might not support their growth. This realignment broke the alliance between organized labor and industry (Vaccari and Perez 2021), leading to business support for Rousseff's rivals in the 2014 election (Estado de S. Paulo 2014; Olmos et al. 2014).

Rousseff's re-election intensified these tensions. Despite her attempts to implement spending cuts and a more orthodox economic policy, she lost nearly all capitalist support from manufacturing, finance, and primary sectors, culminating in her impeachment in 2016 and the rise of Michel Temer's government (Carvalho 2018; Ianoni 2018).

Temer and later Jair Bolsonaro would pursue a policy of almost exclusively catering to incumbent interests. For the first time in recorded history, approved loans of the BNDES to primary sectors surpassed those for manufacturing in 2017 (see Figure 3.4). Their alignment with the demands of commodity producers was a lot less dubious and these governments were largely sustained by the political power of the primary sector (see Pompeia 2021).

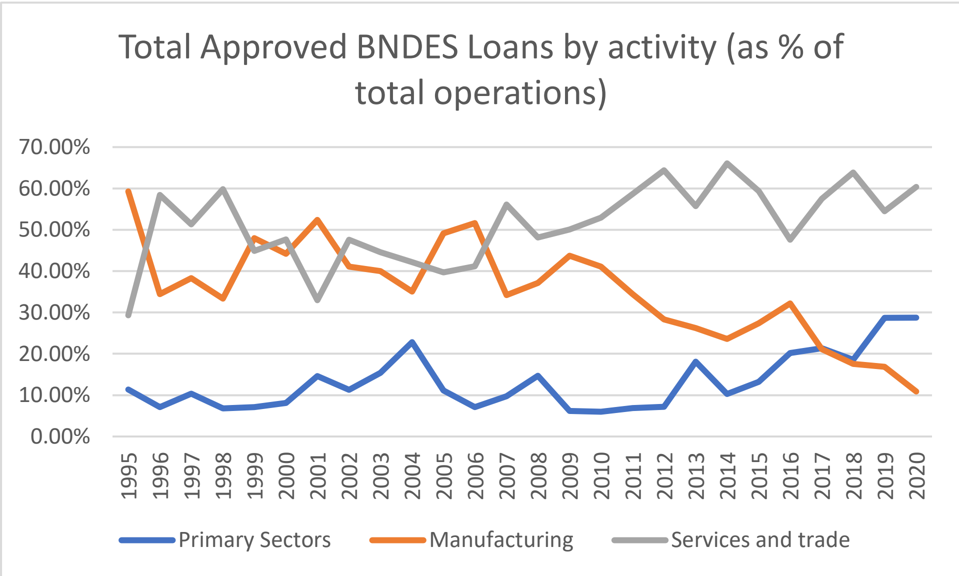

Figure 3.4 – Total BNDES Approved Loans by activity (1995-2020). BNDES (2023).

3.6. Chile: the political pull of commodity dependence (2000-2018)

Chile's industrial policy trajectory during its pink tide era offers a contrast to Brazil, providing a valuable case for comparative analysis and generalization. While Brazil experienced a consistent partisan direction over 13 years, Chile's pink tide witnessed a disruption after Bachelet's initial term, allowing for a closer examination of the effects of political shifts. The fiscal prudence characterizing Lagos' presidency also parallels Lula's struggle to reconcile neoliberal fiscal policies with burgeoning developmentalist ideas. Agosín et al. (2010) observe that during Lagos' term, the influence of *verticalistas*—proponents of vertical policies favouring certain sectors—grew significantly.

However, Chile's narrative differs notably in terms of successful sectoral policies. Sectoral achievements are notably absent, with even the least ambitious vertical policy initiatives failing to secure momentum. The interlude of centre-right leadership between Bachelet's administrations reasserts the extreme dominance of commodity exporters and provides a good opportunity to explore their importance in development strategies. These groups effectively diluted policy initiatives during public-private consultations, obstructing efforts at economic diversification (Madariaga 2017). Additionally, in Chile, marshalling countervailing forces was particularly challenging, resulting in a power dynamic that heavily favoured the preservation of the status quo.

From Lagos to Bachelet (2000-2010): nodding towards diversification

Ricardo Lagos is recognized as the first socialist leader of Chile since Salvador Allende and was one of the first leaders elected in the left turn that swept across Latin America (Huber et al. 2010; Roberts 2016). Although his government starts in 2000, the story of developmental strategy changes gear following significant constitutional reforms initiated by Lagos in 2005. These reforms marked a compromised solution for the political struggle post-democratization, given that business distrust towards *Concertación* governments had limited the spectrum of politically viable actions and limited governance to the centre-right wing of the Christian Democrats (PDC). This ensured that certain aspects of economic policy remained untouched (Madariaga 2017).

Much like Lula in Brazil, Lagos was the first tinge of leftism after democratization in Chile, leading to a relationship marked by initial distrust between the government and businessowners, which almost came to a capital strike (Silva 2002; Bril-Mascarenhas 2016). From its beginning, Lagos had to backtrack in his plight to lower social inequalities and, after a tight election ran against a *bona fide* representative of business interests and a distancing from social movement and labour unions, the government lacked legitimacy and the capacity to pursue some of its campaign promises (Concertación 1999).

The Lagos government also had a split in his state managers. At the powerful Finance Ministry, Lagos placed Nicolás Eyzaguirre, who was a representative of economic orthodoxy and had to counterbalance the pressure from his more Keynesian colleagues in government, who claimed that more state intervention was needed to restart the fledgling Chilean economy (Fairfield 2010). On the other hand, the main financing body for the Chilean economy, the Chilean Economic Development Agency (CORFO), was populated with some development economists. This was the first upswing of the so-called *verticalistas* in Chile (Agosín et al. 2010; Bril-Mascarenhas 2016; Interview C5), a particularly new and important development, given the importance of state managers (or *técnicos*) in Chilean policy discourse (Silva 2008).

A victory for the minority heterodox fraction in the government, however, came when Lagos strived for the creation of the Innovation Fund for Competitiveness (FIC) and its managing National Council of Innovation for Competitiveness (CNIC) in July 2005. The text of the bill defended creating *dynamic comparative advantages* to counteract the vulnerabilities of the country's "static comparative advantages in natural resources" (Chile 2005, p. 1). The Fund was financed by a special taxation on mining, aiming to create a *fiscal linkage* with incumbent sectors (Fairfield 2010; Madariaga 2017).

Thus, the Lagos administration created important institutions that allowed for more explicit developmental attempts later on. Bachelet's campaign manifesto built upon the creations of the FIC and the CNIC and proposed a development policy guided by public-private collaboration, that would introduce new products into Chile's export basket, using the country's comparative advantages as a guide for diversification (Concertación 2005).

Bachelet's victory was important for verticalists, who would now be even more prominent, although still sharing the spotlight with an orthodox finance ministry. Since the 1990s, some state managers had been advocating for a conversion of the CORFO into a more robust development bank, a process analogous to the BNDES's reconversion from a manager of privatisations in the 1990s back to its original developmental mission (Doctor 2015)[50]. Finance Minister Velasco was less opposed to this idea than his predecessors, but eventually, this movement fizzled out, leaving CORFO as a stronghold for verticalists, but with less firepower (Bril-Mascarenhas 2016). With that said, CORFO was in Chile the main executor of the vertical policies, meaning that, like the BNDES, it needed a political direction, but was essentially *the* executor of Industrial Policies (Griffith-Jones et al. 2018; Interview C1).

During Lagos' tenure and continuing into Bachelet's administration, Chile saw a rise of verticalistas in influential positions within state entities like CORFO and industrial policy forums. However, forming a coalition supportive of industrial policy was challenging, largely due to limited backing from the private sector. To address these challenges, the government engaged the Boston Consulting Group (BCG) to identify sectors for targeted interventions (Agosín 2010; Interview C5). An early participant in the forum revealed that despite the government's efforts to include labour unions, strong opposition from business owners threatened the forum's continuity if that were to happen (Interview C14).

The BCG report and discussions at the CNIC were pivotal in shaping the clusters policy and more vertical industrial policy initiatives. Yet, these efforts were relatively modest and lacked depth (Bril-Mascarenhas 2016). A state manager with continuous involvement in the

[50] At its creation, the CORFO was a very robust institution and responsible for much of the industrialization of Chile in the 20th century before the dictatorship (see Nazer 2020).

Concertación governments since democratization remarked that while the Lagos and Bachelet governments were more receptive to these policies, they were mostly "pilot initiatives," and small in comparison to the scale of Chile's economy (Interview C5)[51]. A businessowner related to the global services cluster and who supported the initiative claimed that the policy design was good but was essentially "toothless" (Interview C11).

The failure of these policies to fully launch was not due to inertia but stemmed from the complexities of domestic politics and the government's inability to build even a nascent developmental alliance. Lagos's relationship with unions and non-business entities was fragile (Barrett 2001), and Bachelet's ties with these groups, though closer, were primarily electoral and had little real influence on policy making or appointments (Etchemendy 2020) [52].

The integration of non-business actors into Chile's policy-making was further complicated by the strong unity within the business sector. The attempt to create a fiscal linkage with primary exporters immediately ignited a policy battle, but upcoming elections and the proposal's popularity helped push it through (Fairfield 2010). Establishing the FIC marked an essential initial step, yet its execution and the CNIC's makeup quickly became contentious. As time passed, entrenched business interests steered more FIC funding towards traditional mining areas. The mining sector's influence was also evident in the CNIC, notably through significant representation by the mining association SONAMI and the president of the industrialist Confederación de la Producción y del Comércio (CPC), which was led by an individual from the mining sector (Bril-Mascarenhas and Madariaga 2019).

This situation highlighted a significant gap in forming a developmental alliance, even as verticalists gained prominence for over half a decade. As the 2009 elections approached and

[51] An economist who was important in the Bachelet campaign (and later on as a state manager in Bachelet II) went further to say that most initiatives were completely rhetorical (Interview C4).

[52] In the V-Party dataset, Lagos's Partido por la Democracia (PPD) has a much lower labour support score than Bachelet's Partido Socialista (PS) (Lindberg et al. 2022).

growth in Chile stalled, the public's fatigue with Concertación governments grew, paving the for a victory of the traditional right and closely linked with mining interests, began to gain competitive ground, signalling a potential shift in the political landscape.

The right-wing interregnum (2010-2014): Piñera and the dismantling of timid developmental initiatives

Although timid, Bachelet's tenure saw some initiatives in terms of Industrial Policies. Those were dismantled during the Piñera government, and this was accompanied by lower spending on vertical instruments (Álvarez and Sutin 2017; see Figure 3.5). Other than quantity, there were also important qualitative changes in the pursuit of sectoral policies in Chile after the rise of a business-friendly right-wing coalition in the country led by the Independent Democratic Union (UDI). Piñera's manifesto leaned heavily into Chile's mining comparative advantage, denouncing Concertación governments for squandering them (UDI 2009).

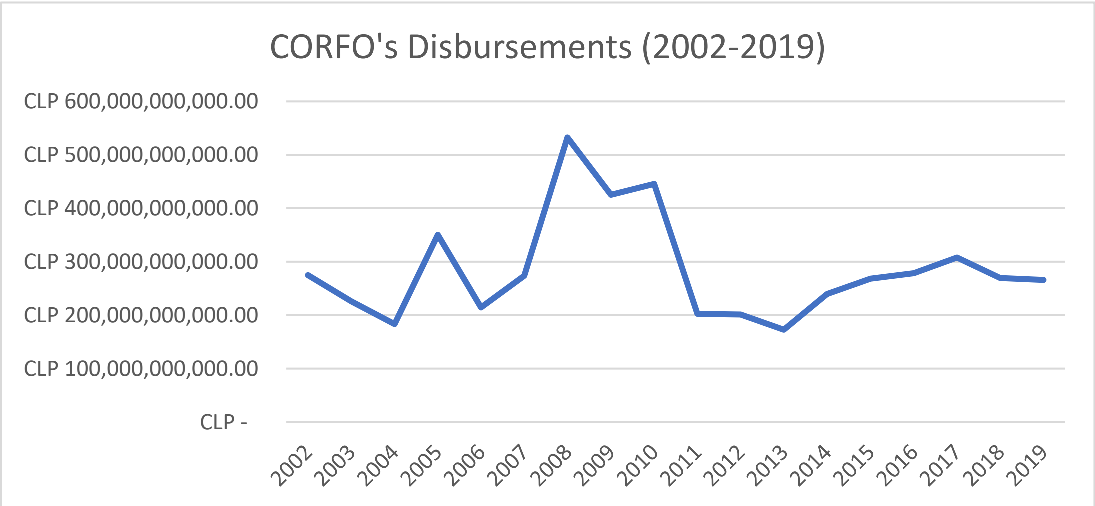

Figure 3.5 – CORFO's total disbursements from 2002-2019 (in constant 2019 prices). Own elaboration with data from DIPRES (2022).

As soon as Piñera took office, verticalists were decisively shunned from government. CORFO's new chief executive was a member of the conservative Chilean think-tank *Libertad y Desarrollo* and the new president of the CNIC, Fernando Flores, categorically claimed that he did not "buy into the argument that there is a methodology for innovation (…) what we Chileans need to get rid of is the idea that for everything to go well, there has to be a policy to make it happen." (Diario Financiero 2011). A state manager who worked at the CORFO during the first Piñera government stressed the differences with the Bachelet government, stating that theirs was a "culture of sectoral neutrality" (Interview C6).

The partisan linkages of Piñera with large businessowners who benefitted from the wave of privatisations in Chile is also complemented by a strong ideological component of defending minimal state involvement (Bril-Mascarenhas and Madariaga 2019; Etchemendy 2011). Although this ideological pull is undeniable, it is also true that it plays very much into the economic interests of the dominant business fraction (Interview C7) and as such, it was not difficult to undo development strategies. By his last year of government—and mostly due to the lack of providing operationalizable strategies—the CNIC came close to being terminated by Piñera, eventually operating only with minimal budget (Ramírez and Bezama 2013). The clusters policy was also virtually terminated, as no one from the private sector actively defended it (Bril-Mascarenhas and Madariaga 2019; Interview C5).

Bachelet II (2014-2018): legitimacy and new attempts

Bachelet's second government was a promising moment for the Chilean left. Running this time for a left-leaning coalition that included the Chilean Communist Party (PCCh), Bachelet won in a landslide against UDI's candidate in an election where the political discourse in Chile had moved towards the left (Mella Polanco et al. 2019) and under a context of severe political mobilisation of subaltern groups which allowed Bachelet to win with a discourse much more focused on socio-economic change (Fairfield 2015; Madariaga 2019). With that said, opposition towards Industrial Policy remained an issue, as is explicit in reports from conservative think-tanks in Chile at the time (see Parro 2018).

This did not stop the second Bachelet government from trying to revive the CNIC and vertical initiatives. At the outset, the president named development economists Eduardo Bitrán and Gonzalo Rivas to the leaderships of the CORFO and the Council respectively and presented a development plan named the *Productivity, Innovation, and Growth Agenda*. The document was the most assertive development plan in the period studied here, emphasising the need to diversify Chile's productive structure (Chile 2014).

However, the administration grappled with persistent issues, notably in forging a developmental alliance and ensuring inclusive participation. Despite revitalizing the CNIC under a new name, integrating civil society proved challenging.

As a senior state manager revealed (Interview C14) [53], labour unions were focused on short-term goals, and many business owners harboured deep-seated mistrust towards the state's role in economic diversification. The end of the commodity boom further complicated matters, ushering in a period of slow growth and casting unwarranted blame on Bachelet for the broader economic downturn (Madariaga 2019), thereby eroding her political capital for more transformative policies. Although CORFO's role expanded, it did so only modestly.

Despite these hurdles, it should be noted that the Bachelet administration successfully forged sector-specific alliances, notably in copper mining and lithium sectors. The state-owned Chilean Copper Corporation (CODELCO) under Bachelet's tenure established a technological subsidiary with union support (Interview C4). Additionally, labour unions played a pivotal role, advocating for increased state involvement in lithium exploration (Interview C10; Carrasco and Irrázaval 2023), showcasing the government's capacity to catalyse some sectoral cooperation even amidst challenges.

3.7. Comparative insights

In exploring the Chilean case, less emphasis is needed on program descriptions and coalition-building intricacies, as the narrative is straightforward with direct business opposition from traditional sectors, coupled with lukewarm support from some emerging sector business

[53] C14 for this direct quotation, but this point was made in many interviews with policymakers (C7, C8, C14)

owners. The comparison between Brazil and Chile highlights the importance of sectoral details, which can be pivotal in garnering enough support to initiate policies, even against the backdrop of rising traditional sector influence. However, the success of these initiatives is critically dependent on the ability to build a supportive developmental alliance. To provide a comparable measure of developmental attempts in both countries, especially since neither utilized exchange rates in their development strategies (Guzmán et al. 2018; Rodrik 1986; de Gaspi 2024), an index based on the work of DiPippo et al. (2022) is used to estimate their sectoral policies, as shown in Figure 3.6 below[54].

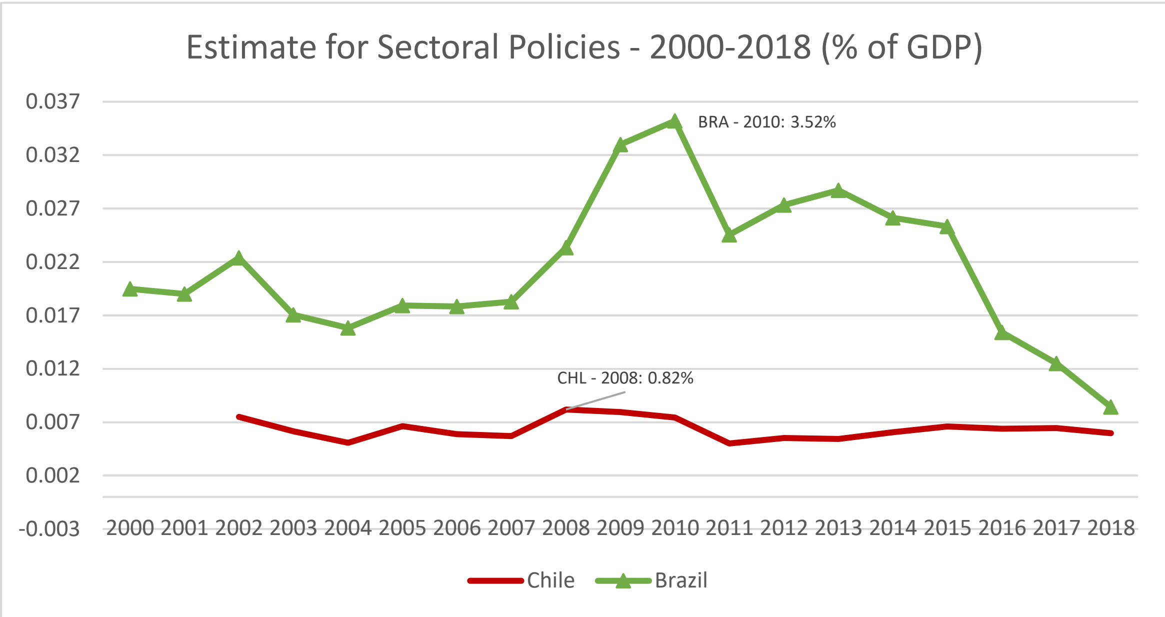

Figure 3.6 – Sectoral Policies as a percentage of GDP in Brazil and Chile (2000-2018). Own elaboration based on data from Brazilian Treasury, OECD, DIPRES, and BNDES and on the index by DiPippo et al. (2022).

This figure illustrates that, despite Brazil's longer history with sectoral policies, the incremental increase in sectoral policy funding during Bachelet's first administration is negligible even for Chilean standards. It also reveals the significant role of political cycles in the pursuit of sectoral policies, as seen by the reduction of such policies in Brazil to almost Chilean levels by the end of Temer's government, and the reversal of the moderate increase in spending during the first Piñera government.

[54] See the annex for a detailed description of the index and a note in replication and generalisation.

While Brazil's history with sectoral policies is notable, the data distinctly illustrates the substantial role politics has played in their fluctuating commitment to industrial strategies. This is exemplified by the sharp decline in sectoral incentives following the PT administrations, suggesting a political retraction from previously established developmental paths. In Chile, political decisions have similarly shaped the trajectory of sectoral policies. The modest increase during Chile's period of heightened sectoralism suggests a potential missed opportunity for more ambitious development, which might have been achieved through a broader and more inclusive developmental coalition. This goes against more static explanations of policy choice, showing the importance of analysing domestic politics dynamically.

The comparative study of Brazil and Chile sheds light on the varied outcomes of developmental alliances in shaping industrial policies. Brazil's broader, yet unfocused, approach contrasts sharply with Chile's more constrained efforts, highlighting the role of political dynamics in economic strategy formulation. This analysis points to the necessity of a deeper dive into sector-specific policies and their underlying political economies, setting the stage for a more comprehensive understanding of democratic developmentalism and its impact on economic diversification.

3.8. Concluding remarks

This paper has explored democratic developmentalism in Brazil and Chile, focusing on the formation and impact of developmental alliances within these commodity-dependent economies. We have seen that these alliances, involving a dynamic interplay between governments, labour unions, business owners, and other societal actors, are crucial in shaping the economic diversification strategies of democracies.

In Brazil, the formation of broad developmental alliances played a crucial role in navigating the challenges of economic dependency on commodities. These alliances, characterized by their strategy of legitimation-by-inclusion, significantly influenced policymaking. While the sectoral policy approach was somewhat unfocused, it nonetheless led to notable success stories, underscoring the potential of such alliances in driving economic diversification. However, this approach also encountered limitations, particularly as the broad scope of the alliances sometimes led to diluted focus and conflicting priorities. Status quo interests were compensated or sometimes explicitly included in the development strategy.

In contrast, Chile's experience with developmental alliances paints a different picture. Despite efforts by developmentally-minded state managers and government attempts at modest economic diversification, the absence of a strong and cohesive developmental alliance proved to be a significant obstacle. This lack of a robust alliance was further compounded by the entrenched resistance of incumbent sector elites, who were markedly more averse to state-led diversification efforts compared to their counterparts in Brazil. This divergence in elite attitudes towards state intervention and diversification in Chile underscores the critical role that organized sector elites play in shaping the trajectory of economic development strategies.

While this study centres on Brazil and Chile, the developed theoretical framework has relevance for other commodity-dependent developing democracies, especially where incumbent sectors are well-organized. The applicability of these concepts to different settings is promising, yet it invites further empirical exploration. Future research should focus on validating and adapting this framework in diverse contexts, enhancing our understanding of developmental alliances in various democratic environments. This endeavour is crucial for extending the scope and impact of our findings in the broader field of political economy.

In conclusion, the study of developmental alliances in Brazil and Chile provides valuable lessons for understanding the complex interplay of political and economic forces in democratic developmentalism. As these countries continue to navigate the challenges of economic diversification, the role of these alliances remains a critical area for further exploration and understanding.

4. The sectoral politics of industrial policymaking in Brazil: a Polanyian interpretation[55]

Co-authored with Pedro Perfeito da Silva

4.1. Introduction

Since the mid-1970s, the crisis of state-led political economy regimes such as developmentalism, social democracy, and socialism, catalyzed the ascent of neoliberalism (Sandbrook 2022). This shift, marked by liberalizing reforms like the removal of trade barriers, the weakening of state-owned banks, and the reshaping of public expenditure, positioned industrial policies as primary targets in the global push for marketization (Ban 2016). However, during this period, state support for private capital persisted, albeit carefully aimed at strengthening market forces and reinforcing powerful business interests rather than trying to shape them (Berry 2021; Schrank and Whitford 2009).

In many countries, the combination of stronger competition and lack of state support led to the demise of key industrial sectors, creating problems like the reduction of qualified jobs, the decrease in economic complexity, and the emergence of new socio-cultural grievances (Rodrik 2008). The negative consequences of marketization on the industrial front also fostered a myriad of reactions. For instance, domestic business owners lobbied policymakers for supportive measures to cope with the integration into globalized markets, while labour unions pushed for governmental initiatives that could save jobs and wages (Bruszt and Karas 2020; Ornston 2012).

Especially in the wake of the 2007 Global Financial Crisis, neoliberalism came to terms with broader forms of state intervention, entering into a mature, roll-out stage and moving away from the roll-back reforms of previous decades (Fine and Saad-Filho 2017; Peck and Tickell 2002). In this sense, Ban (2013, 2016) contends that countries may edit market reforms, forging

[55] This paper is currently submitted to *Development and Change* and on the Revise and Resubmit stage.

local varieties of neoliberalism, which reflect specific links between state, market, and society without breaking with core neoliberal prescriptions. Following this rationale, it is possible to identify instances of sectoral variegation within industrial policymaking (Döring et al. 2017; Langbein and Markiewicz 2020), especially as globalization constrains the policy space for coherent initiatives (Cerny 2008; Gallagher 2015).

Against this background, this article brings a Polanyian perspective to the debate on the sectoral variegation of industrial policymaking. Drawing upon a reformulated version of the framework put forward by Bohle and Greskovits (2012), we first propose the notion of sectoral political economy regimes, which are defined according to the governmental incentives to business groups, the conditions tied to this support, and the set of actors with influence over policy design. After that, going beyond the state-business dichotomy, we investigate why industrial policies have varied across sectors, paying attention to how policymakers manage national developmental goals, business lobbies, and popular demands.

Considering this research question, our main argument states that the strength of the countermovements within each sector shapes the capacity of policymakers to exert state discipline over business interests and consequently diverge from neoliberal scripts of industrial policymaking. Countermovements rooted in strong labour unions and/or vibrant civil society organizations, favour the emergence of neocorporatist sectoral regimes, characterized by encompassing conditionalities and the incorporation of non-business actors in policy formulation. Conversely, the lack of bottom-up mobilization leads to disembedded neoliberal sectoral regimes, allowing business owners to turn industrial policies into corporate welfare, obtaining incentives almost without conditionalities. Finally, countermovements based on diffuse societal pressure and/or less powerful labour unions are likely to forge embedded neoliberal sectoral regimes, which open space for limited non-business participation in the policy design and impose only selective conditionalities.

To assess this argument, we build an exploratory case-study centred on Brazil since the achievement of price stability in the mid-1990s, paying special attention to the left-of-centre governments led by the Workers' Party from 2003 to 2016. The focus on Brazil stems from the fact that its economic traits are applicable to a broader set of national experiences. For instance, as a middle-income economy, Brazil faces relevant external constraints while safeguarding some policy space (Gallagher 2015). Moreover, due to its premature deindustrialization (Castillo and Martins 2016), Brazil must address typical challenges of a developing country, like nurturing new sectors to approach the technological frontier, while dealing with usual dilemmas of advanced economies, like deciding the level of support for declining industries.

Further, as Brazilian policies have targeted a broad set of industries, especially after the rise of the Workers' Party to power (Stein and Herrlein Júnior 2016), it allows building cross-sectoral comparisons, exploring variegated choices of policy tools and conditionalities. Methodologically, we rely on interviews (see appendix), official documents, and related literature to compare industrial policies within three sectors: automotive, animal protein, and pharmaceuticals. Even though we are aware of their differences, these industries are, respectively, prototypical cases of neocorporatist, disembedded neoliberal, and embedded neoliberal sectoral regimes. As noted by Gerring (2007), a prototypical case-study design is preferred when the goal is to introduce a new theoretical framework and establish causal relationships that should be reassessed by future works. Furthermore, these sectors have a recurrent presence in the public debate and are among the main beneficiaries of industrial support during different post-democratization governments (Brazil 2003; 2008; 2011). Finally, in contrast to sectors like oil, mining, and steel where the state often plays a key role, none of the three selected sectors has a record of the state acting as a producer. This allows an analysis of industrial policy in the context of mature neoliberalism, in which policymakers have limited tools to face the structural power of private business groups.

This article makes three contributions. Primarily, we shed light on the potential role of popular mobilization for giving an upper-hand to policymakers in their relationship with business groups. This Polanyian-inspired argument provides further theoretical and empirical support to the works of Chang (2009), Evans (1995), Maggor (2021), and Ornston (2012), which see the incorporation of non-business actors as supporting the monitoring of industrial incentives and the embedded autonomy of policymakers, paving the way for democratic developmental states. Regarding the industrial policy literature centred on the prevention of corporate welfare and rent-seeking practices (Bruszt and Karas 2020; Bulfone et al. 2022; Langbein and Markiewicz 2020), we offer a theoretical framework based on a clear and limited set of analytical dimensions, which favours future comparative studies. Finally, when it comes to recent debates on Brazil's industrial plans (Ban 2013; Döring et al. 2017; Etchemendy 2011; Singh 2014), our article offers a new approach to understanding sector-specific state action, moving away from studies that either centred on state-dominated sectors or took sectoral dynamics as the manifestation of a dominant national strategy.

After this introduction, this paper is organized as follows. The second section presents the theoretical framework, combining Polanyian political economy and recent studies on the politics of industrial policies. The three subsequent sections analyse Brazil's industrial policies for automotive, animal protein, and pharmaceuticals. The sixth section summarizes the findings. The seventh section concludes.

4.2. Theoretical framework

According to Polanyi (1980[1944]), capitalism evolves around the double movement, that is, the opposition between the *movement* towards self-regulating markets and the *countermovement* against the subordination of society to market imperatives (Goodwin 2022). Besides shedding light on the perils of commodification, the Polanyian approach also offers a guide for understanding institutional transformation (Sandbrook 2022). Its core proposition is that key institutional changes – like the post-war building of European welfare states – can be traced to the conflict between the social groups that seek to expand the realm of markets and the ones that demand protection from the dislocations caused by marketization (Bohle and Greskovits 2012).

Goodwin (2022) emphasizes that the composition of coalitions in the historical double movement is dynamic, varying with each historical and geographical context. The drive for social protection that characterises countermovements originates from diverse groups like labour unions, territorial social movements, and civil society organizations, leading to diverse and possibly diffuse political agendas (Silva 2022). Aligning with Polanyi's concept, the global ascent of neoliberalism after the demise of the Fordist production regime in the late twentieth century marks a shift towards market self-regulation (Sandbrook 2022). This period saw a weakening of countermovements against marketization and an increased capacity for corporations to select from multiple investment locations, prompting capitalist states to reduce post-war economic interventionism and grant more freedom to private business groups (Bulfone et al. 2022).

Against this background, it is possible to define neoliberalism as a set of ideas and policies that aim to subordinate the state and all social domains to the market logic and the powerful economic interests within it (Laruffa 2023). In this sense, even at peak of roll-back neoliberalism, states have repurposed their patterns of intervention rather than disappearing from the economic sphere (Fine and Saad-Filho 2017; Peck and Tickell 2002).

After that, as early market reforms led to socioeconomic instability, neoliberal states gradually embraced new forms of intervention, which included the channelling of public resources to the internationalization of domestic companies and the attraction of foreign investors (Cerny 2008). Accordingly, in this mature or roll-out phase of neoliberalism, there has been a growing trend towards sectoral policies, but ones that support profitability and promote powerful economic interests within the market without significantly altering corporate behaviour towards developmental outcomes (Hathaway 2020; Laruffa 2023).

These policies position the state either as a market-maker or a risk-absorber, thereby fostering better investment conditions without intervening in or directing corporate decisions[56] (Gabor 2023). In our framework, those policies which benefit private capital without asking for much (or anything) in return are aligned with the business-friendly nature of neoliberalism and should be considered instances of corporate welfare (Berry 2021; Bulfone et al. 2022).

However, the specific features of neoliberal management also vary across space, forging policy regimes that also reflect the strength of popular organizations, the national position in global markets, and the relationship between business leaders and state managers (Ban 2013; Bruszt and Karas 2020; Peck and Tickell 2002). Following this rationale, Bohle and Greskovits (2012) propose a Polanyian-inspired typology to compare national capitalist varieties that emerged with the rise of neoliberalism. These scholars classify these political economy regimes conscious of how state managers combined the pursuit of economic liberalization with different forms of political governance and compensation to harmed social segments.

According to their framework, disembedded neoliberal regimes seek radical economic liberalization, providing little compensation to harmed social groups and a limited space for political participation in the policy design. Embedded neoliberal regimes, on the other hand, build more inclusive political systems, which favour moderate forms of compensation for the losers of liberalization. Finally, neocorporatist regimes follow the least radical strategy of marketization, offering generous compensation to harmed social groups that are negotiated through tripartite bargains.

[56] While Gabor's framework is comprehensive, we focus on how corporate welfare aligns more closely with "derisking" than conditional Industrial Policies.

An advantage of the Polanyian approach is the capacity to capture the diverse institutional aspects of industrial policymaking, especially under the constraints of globalization and neoliberalism (Bohle and Greskovits 2012; Döring et al. 2017). Goodwin (2018) highlights the multiscale nature of countermovements, which allows for disaggregating the analysis of the double movement into sectors.

Building upon the typology of Bohle and Greskovits (2012), we propose the concept of sectoral political economy regimes, namely the different forms through which state managers combine the support for private corporations in each sector with the conditions tied to these incentives and the participation of non-business actors in the respective policy formulation.

This effort leads to three significant extensions of the Polanyian framework. First, our approach diverges from the traditional focus on how state managers maintain social cohesion and craft political support for liberalizing reforms. Instead, we delve into the complexities of mature neoliberalism, exploring how state tools are used to bolster private sector performance and the societal reactions this engenders (Cerny 2008; Fine and Saad-Filho 2017). Secondly, we refocus the double movement's political governance from a national to a sectoral level, recognizing the significance of sector-specific bargains without disregarding broader political institutions and government partisanship. Finally, we reshape the Polanyian approach to countermovements by looking at the issue of compensation from a different perspective. Specifically, instead of analysing how state managers compensate harmed social groups for the costs of market reforms, we discuss what society gets in exchange for channelling public resources into private business groups. In short, we discuss the issue of conditionality or the requirements that firms should meet to access public resources (Langbein and Markiewicz 2020; Maggor 2021).

As highlighted by Bulfone and others (2022), a proper definition of conditionality should go beyond the fulfilment of legal obligations, paying attention to the alignment of corporate behaviour to state preferences and the mitigation of rent-seeking practices. In line with this orientation, we take an additional step by analysing state preferences from the perspective of broader societal demands like the achievement of full employment and the internalization of sophisticated economic activities. This is important because, even in the absence of rent-seeking practices, policymakers may see inherent social benefits in any corporate gain, setting conditions that are fully centred on the improvement of private performance. Therefore, drawing upon the works of Amsden (2001), Chang (2009), and Evans (1995), we follow a stricter definition of conditionality, which takes the form of norms and mechanisms that align corporate behaviour to the upgrading of the national productive structure.

Considering this theoretical framework, we classify sectoral political economy regimes into three ideal-types (see Table 4.1). Disembedded[57] neoliberal regimes support the leading corporations in each sector without relevant conditionalities[58]. In these arrangements, the governance remains between state managers and business leaders, shielding policy design from the demands of social movements and civil society organizations. As these regimes align conditionalities to the predetermined goals of private actors, they can also be classified as instances of corporate welfare, as defined by Bulfone et al. (2022).

[57] As highlighted by Laruffa (2023), rather than a retreat of state, the concept of a "disembedded" regime refers to a pattern of economic management that reinforces powerful interests within the market, being less responsive to the public interest and largely escaping democratic control.

[58] In light of our framework, sectors that do not count with relevant state support are also instances of disembedded neoliberalism. The rationale for this classification is that the absence of significant industrial policies implies an acceptance of the dominant position of certain business interests within the sector. Accordingly, there are two kinds of disembedded neoliberal regimes: (i) the roll-back subtype, where the state follows a hands-off approach; and (ii) the roll-out subtype, where states are more explicit in their support to powerful businesses, expanding the set of industrial policy tools. As our theoretical argument in rooted in the roll-out stage of neoliberalism, we focus on the latter subtype.

Analytical Dimensions	Neocorporatism	Embedded Neoliberalism	Disembedded Neoliberalism
Conditionalities	Encompassing	Selective	Weak or Absent
Policy Design	Tripartite	State-business with some non-business participation	State-business collusion
Non-business actors	Strong	Weak or Diffuse	Irrelevant

Table 4.1 – Sectoral Political Economy Regimes. Source: the authors.

Embedded neoliberal regimes require something in return for corporate incentives, imposing selective conditionalities to force some alignment between business strategies and developmental goals. In terms of governance, labour unions and civil society organizations have some voice, but keep a marginal position in policy formulation. By seeking to achieve economic transformation without a deep intervention into corporate behaviour, these arrangements follow a similar rationale of what Bruszt and Vukov (2017) characterize as liberal developmental states.

Further away from business dominance, neocorporatist regimes impose encompassing conditionalities in exchange for backing private corporations in a sector. Concerning governance, policy design takes the form of a tripartite bargain, allowing for a high degree of participation of labour unions and civil society organizations. As these arrangements prioritize developmental goals amid the pressures of globalization, they approach the ideas of neo-structuralism, as summarized by Singh and Ovadia (2018).

To explore the drivers of sectoral variegation of industrial policies in the Brazilian context, we build upon three complementary strands of the political economy literature. The first one refers to the debate on the role of non-business actors in the formulation of industrial policies. For instance, Evans (1995) contends that the building of democratic developmental states presupposes an expansion of the scope of state-society relations, taking the balance of forces between different social groups as the basis for a robust embedded autonomy. Similarly, Chang (2009) and Schneider (2015) argue that the participation of labour unions and civil society organizations may strengthen the monitoring of industrial support. More recently, Maggor (2021) and Ornston (2012) also associated tripartite bargains to competitiveness gains in high-technology sectors. Despite looking beyond the standard state-business bargain, these studies do not put social mobilization at the center of the theoretical framework, keeping a mostly speculative approach regarding its repercussions for industrial policymaking.

The second strand focuses on the politics of industrial policymaking in Brazil since economic liberalization. In this sense, Ban (2013), Döring et al. (2017), and Singh (2014) argue that the rise of neo-developmentalism led to industrial policies that combined the exposure to global competition with sectoral incentives. Similarly, Etchemendy (2011) and Musacchio and Lazzarini (2014) shed light on the pivotal role of state-owned banks in this strategy. Despite contributing to the description of the resurgence of industrial policies in Brazil, these scholars overlook sector-specific drivers, taking sectoral policies as an illustration of the national development model or at least an intentional implication of the neo-developmentalist project.

Finally, the third strand covers studies that investigate to what extent popular forces can shape financial policymaking. In this regard, Gallagher (2015), Naqvi (2021), and Silva (2022) contend that strong labour unions and social movements can use their electoral influence and mobilizational capacity to countervail the different dimensions of the power of financial interests, enabling policymakers to impose stricter regulations. Even though these scholars make only marginal references to industrial planning, they show that bottom-up societal pressures can contribute to rebalance the usually asymmetrical bargains between state and business. Moreover, as both financial regulation and industrial policymaking are considered technical issues and in the realm of quiet politics (Culpepper 2010), this literature paves the way for taking the latter policy arena as equally liable to bottom-up societal pressures.

Building upon these complementary strands, we argue that the emergence of different sectoral political economy regimes reflects the strength of industry-specific countermovements, which are rooted in the demands of labour unions and/or civil society organizations (see Table

4.1). According to this rationale, strong popular organizations favour the building of a neocorporatist regime by demanding encompassing conditionalities and a relevant voice in the policy design. Conversely, the absence of relevant unions or civil society organizations paves the way for disembedded neoliberalism, with the countermovement unable to prevent corporate welfare. Finally, countermovements based on diffuse societal pressures and less powerful labour unions exert a partial influence over policymaking and extract some conditionalities but fall short of going beyond embedded neoliberalism.

This argument stems from four interrelated mechanisms. Firstly, by being frequently an issue of quiet politics (Culpepper 2010), there is a chance that industrial policies will slide into corporate welfare (Bulfone et al. 2022). However, the presence of relevant non-business actors may contribute to industrial policymaking by strengthening the monitoring of incentives and increasing the political cost of state-business collusion (Chang 2009; Schneider 2015). Similarly, when governments are willing to be more ambitious in their industrial policy goals, popular mobilization strengthen the hand of policymakers in their negotiations with business leaders (Naqvi 2021; Silva 2022), favouring the imposition of stricter conditionalities and tripartite bargains. Moreover, the existence of bottom-up pressure has a positive impact on institutional capacity by challenging state managers to meet societal demands and making embedded autonomy more robust (Bruszt and Karas 2020; Evans 1995). Finally, strong popular organizations have implications for the behaviour of business groups, which may become more willing to accept stricter conditionalities in exchange for the support of labour unions and social movements in the cross-sectoral conflict around the orientation of macroeconomic management (Gallagher 2015; Silva and Bandeira 2021). To be sure, this point is not necessarily about these policies' results, since those are affected by structural conditions which go beyond the scope of this paper. Stricter conditionalities are not a guarantee of better results, but a way for the state to influence private actors, instead of leaving investment decisions solely to market forces.

In our argument, sector-specific countermovements go beyond a vague demand for more state support to their respective industry, requiring that workers and other non-business actors advocate for government funds to be conditional upon certain obligations for capitalists, such as employment protection, the development of more comprehensive national production chains, increased technological innovation, and stricter environmental responsibilities. In this sense, sectoral countermovements focus on demands within their specific sector and will not necessarily extend their concerns to conditions in other sectors. On the other hand, when unions and other non-business actors align closely with capitalist goals without advocating for these specific conditions, there is no countermovement, since the neoliberal agenda of reinforcing powerful business interests within the market remains unchallenged.

The proposed framework applies exclusively to industries with specific policies in place, as the presence of vertical policies is what triggers the political dynamics of a sectoral double movement[59]. While one might argue that any form of government involvement inherently diverges from market orthodoxy, this paper focuses on sectors underpinned by a concrete Industrial Policy. In this regard, recent developments in the literature of Industrial Policies and conditionalities enable us to distinguish between public-private deals aimed at developmental outcomes and those that are just attending business interests (Bulfone et al. 2022; Gabor 2023; Mazzucato and Rodrik 2023). Consequently, sectoral policies should not be automatically perceived as counteractions to neoliberalism or as assured steps towards re-embeddedness. In scenarios where these policies lack specific conditions, they tend to maintain the status quo in private sector decision-making.

In a similar vein, it is worth noting that the choice of targeted sectors by policymakers lies outside the scope of our argument. Even though we acknowledge the shortcomings of this option, we identify two reasons that mitigate its negative impact on our contribution.

[59] As previously mentioned, in the absence of significant industrial policies, sectors should be classified as cases of disembedded neoliberalism.

Theoretically, the rise of mature neoliberalism led to an expansion of industries that benefit from some kind of corporate welfare. Empirically, Brazil's shift in industrial policymaking under the Workers' Party governments serves as a case in point. The transition from focusing primarily on innovation to adopting broader sectoral policies (Arbix 2019) changed the focus from *which* sectors receive support to *how* they can access this support and *what* is asked of the private sector (de Gaspi 2023).

Finally, we do not assert that the strength of countermovements was the sole cause for different sectoral political economy regimes in Brazil. For instance, as left-wing administrations have organic ties with popular organizations (Gallagher 2015; Silva 2022), it makes sense to expect that government partisanship will shape the longitudinal evolution of each regime. Additionally, we do not dispute that factors like the degree of institutional capacity, the legacy of import-substitution industrialisation, and the level of internationalisation of business groups play a part in the evolution of sectoral regimes (Bruszt and Karas 2020; Döring et al. 2017; Etchemendy 2011). In this sense, our focus on the double movement at the sectoral level is an analytical choice to secure a proper space to analyse its impact on industrial policymaking.

4.3. Tripartite bargains and the automotive sector: from the Sectoral Chamber to the Inovar-Auto programme

The discussion of sectoral policies for the automotive industry illustrates the nexus between a strong sector-specific countermovement and the building of a neocorporatist regime. The bottom-up pressure for encompassing conditionalities and their influence in policy design owes to the fact that metalworkers[60] are the most powerful labour unions in the country, which are responsible for a major part of strikes in the private sector (DIEESE 2006, 2009, 2021; Riethof 2019).

[60] In Brazil's labour classification, metallurgy is the sectoral division that encompasses automobile production.

In the early 1990s, despite their commitment to market reforms, the administrations led by Fernando Collor (1990-1992) and Itamar Franco (1992-1994) included labour unions in the sectoral chamber of the automotive sector (Cardoso et al. 2015), after they had organized massive strikes (DIEESE 2021).

Later on, even though the presidency of Fernando Henrique Cardoso (1995-2002) hollowed out the chamber, a new wave of strikes in the mid-1990s contributed to the creation of the New Automotive Agreement in 1996, which conceded further tax incentives in return for the regional decentralization of automotive production, the preservation of employment levels, and the meeting of light national content requirements (Doctor 2007; Santos et al. 2021).

This neocorporatist sectoral regime gained further impulse with the election of Luis Inácio Lula da Silva, a former metalworker himself, in 2002. The historical connection between his Workers' Party (PT) and the struggles of labour — especially in the automotive cluster of São Paulo's ABC region — meant that former union leaders were now in prominent government positions (D'Araujo 2009). The combination of metalworkers' mobilization capacity and a labour-based governing party counteracted the relative power of business in negotiations, empowering unions to call for better work conditions and the nationalisation of the production chain.

To assess the evolution of the sectoral regime during the PT administrations, it makes sense to analyse their three industrial plans, namely the Industrial, Technological and Foreign Trade Policy (PITCE, 2004-2007), the Productive Development Policy (PDP, 2007-2010), and the Greater Brazil Plan (PBM, 2011-2014) (Cardoso et al. 2015). Moreover, it is worth noting that many of the implemented initiatives had first appeared in the Seven-Goal Plan for Brazil's Automotive Sector, which was presented to the Lula candidacy by metalworkers' unions in the 2002 election period.

When it comes to the automotive industry, the PITCE initiatives reflected two contradictory forces. On one hand, the social linkages of the new incumbents favoured the creation of new spheres of participation, which included unions and broadened policy consultation (Doctor 2007). On the other hand, the context of high unemployment and the alignment of unions with the Workers' Party contained sectoral mobilization, leading to a historical low in the number of strikes (DIEESE 2021; Riethof 2019). As a result of these heterogenous drivers, the government did not break with the principles of the Automotive Regime, opting for a complementary approach that prioritized investment on capital goods and R&D[61] (Brazil 2003). In this sense, during the PITCE period, the total operations of the BNDES for the automotive sector increased from R$ 1.5 billion in 2002 to a maximum of R$ 2.9 billion in 2006, providing subsidized loans in exchange for the design of new vehicles, production lines, and component systems[62] (BNDES 2022).

Launched after Lula's re-election in the wake of the 2007 crisis, the PDP was more explicit on its policies for the automotive sector, including goals of expanding productive capacity, making national production chains denser, strengthening engineering activities, and increasing exports. This led to an increase of BNDES financing to the sector, which reached R$ 3.8 billion in 2010 and was complemented by tax benefits (Brazil 2008). The substantial increase in funding for Brazil's automotive sector, supplemented by tax benefits (Brazil 2008; Schapiro 2017), included emergency measures in response to the 2008 crisis. These were part of the Investment Sustainability Programme (PSI), a countercyclical financing scheme for sectors with high employment. After the crisis, the Lula government introduced R&D and investment requirements for tax credits in this sector, enforced through two presidential decrees

[61] This option was confirmed by Interviews 3, 5, and 6.

[62] Own calculations were brought to 2021 values and include all loans for activities related to the automotive sector.

and overseen by the Ministries of Science and Technology, Industry and Commerce, and Finance[63] (Brazil 2010; Sarti and Borghi 2017).

This countercyclical impetus led Brazil to be one of the countries with the quickest recovery from the 2007 crisis. As normalcy ensued, the revision of development interventions was precluded during the electoral year of 2010, when the Workers' Party elected Dilma Rousseff (2011-2016) as Lula's successor. In this new context, the government's commitment to reindustrialization took the form of the PBM, which was the developmental plan with the broadest sectoral scope since the country's democratization (Stein and Herrlein Júnior 2016).

Regarding the automotive sector, two aspects paved the way for a deepening of the neocorporatist regime. Firstly, the policy design of the PBM departed from the previous plans by instituting Sectoral Councils. According to a researcher at the Inter-Union Department of Statistics and Socio-Economic Studies (DIEESE), this governance model had heterogenous effects on the union influence over sectoral policymaking (Interview 6). On one hand, it undercut the participation of weak unions from non-traditional sectors, favouring the lobby of business groups; on the other, it gave more voice to unions with greater mobilizational capacity, like the ones in the automotive industry.

The influence of unions over policy formulation also stemmed from extra-institutional actions. In this sense, it is worth noting that the PBM debates occurred amid the highest number of automotive strikes since the Workers' Party took office (Cardoso et al. 2015). One of the most debated topics at that time was the unions' concern about market access of newcoming firms with no factories in Brazil. This led to a workers' demonstration against the rising imports of vehicles (SMABC 2011), pushing the government to impose further conditionalities on business groups (Interviews 7 and 8).

[63] The law linked access to tax benefits to investing at least 10% of the credit value in R&D or engineering.

Against this background, in 2012, the government launched the Inovar-Auto Programme, which was the most comprehensive set of initiatives for the automotive sector during the PT administrations. Drawing upon the debates within the Automotive Sector Council of the PBM, the diagnosis underlying the programme was that the growing balance of payment deficit of the sector showed a loss of national production chain density (Ibusuki et al. 2015). As highlighted by a former minister, this policy focus was fully aligned with the agenda of labour unions, and it was "a lot easier" to conduct the "tough discussion on national content clauses" when unions were at the government's side (Interview 4).

The Inovar-Auto Programme, aimed at bolstering Brazil's automotive sector, imposed heavy taxes on imported cars and doubled import taxation for non-operating manufacturers in Brazil. It also offered significant tax incentives and credit for adhering to stringent national content requirements, leading to a World Trade Organization dispute (Barbosa 2018). Participants had to meet two out of three productivity goals[64] (Brazil 2012), aligning with automotive workers' demands (Cardoso et al. 2015). From 2011 to 2013, BNDES credit surged from R$ 3.5 billion to R$ 6.7 billion (BNDES 2022). In return, legal obligations under law 12715 (Brazil 2012) made compliance mandatory, with penalties for non-compliance[65].

An official report highlighted the programme's focus on strengthening production chains and mitigating import competition (Brazil 2019). In this sense, it managed to reduce the market share of imported cars and surpass targets in volume of new investments, energy efficiency, sustainable development, and R&D investment (Brazil 2019). From 2011 to 2014, it also succeeded in boosting employment and investment (Brazil 2019; Sarti and Borghi 2017).

[64] Companies could choose from: (i) growing percentage of gross revenue invested in R&D (started at 0.15%); (ii) growing percentage of gross revenue invested in engineering (started at 0.5%) and (iii) adopting national energy certifications gradually until 2017 (Brazil 2012).

[65] An emblematic case of benefit cancellation was around the Chinese car manufacturer JAC Motors who failed to timely comply with conditions (Rocha 2016).

However, this latter policy outcome was harmed by the post-2014 economic downturn, reducing vehicle demand despite the observed adherence to the programme's conditionalities.

The Inovar-Auto program's impact on Brazil's automotive industry had mixed outcomes[66]. It was initially hailed for enhancing industry competitiveness, catalysing 51% of new sector investments, and improving energy efficiency in domestic automobile production (de Mello et al. 2016). Also, although both R&D and export impetus saw limited growth, the program contributed to a short-term decrease in imports caused by national content requirements (Sturgeon et al. 2017).

The impeachment of President Rousseff in 2016 brought repercussions for the automotive sector. Launched in the transition between the right-wing presidencies of Michel Temer (2016-2018) and Jair Bolsonaro (2019-2022), the Route 2030 programme was formulated in a challenging context for labour unions, which were facing economic recession and had lost their privileged access to state managers, making their negotiation position weaker (Interview 8). As a result, workers could not exert the same influence in policy design, failing to safeguard strict conditionalities. On the other hand, illustrating the resilience of sectoral neocorporatism, unions organized several strikes and kept their parliamentary influence (Brazil 2018; DIEESE 2021), being able to include job guarantees and vocational training as programme goals.

Summing up, the analysis of industrial policies at the automotive sector indicates an arrangement that approaches a neocorporatist regime. In general terms, this arrangement reflected the strength and cohesion of metal labour unions, which managed to use their high mobilizational capacity to effectively participate in policy formulation and push state managers to impose conditionalities on businesses. Despite its resilience throughout the analysed period, this sector-specific countermovement had a stronger impact on policymaking when the

[66] For an abridged version of the pros and cons of the policy, see Barbosa (2018) and Pessoa (2018).

governing party had organic linkages with unions and the policy design took place at the sectoral level.

4.4. The lending hand of the state: corporate welfare in the animal protein sector

Food products have always played an important role in Brazil’s export basket. In the case of animal protein, the mid-1990s price stabilisation led to the consolidation of the sector’s business model, paving the way for the internationalisation of its major players, which was further encouraged through sizable government policies (Del Bel Filho et al. 2012).

Against this background, this section will look more closely at the policies executed by the BNDES for the largest companies in the sector, with a focus on the state-induced rise of JBS to the position of largest animal protein producer in the world. We claim that the absence of a relevant countermovement in this sector paved the way for a disembedded neoliberal regime.

Myriad factors underlie the weakness of popular pressure. For instance, Brazil’s agricultural and agro-industrial activity is characterized by a very fragile presence of unions (Toledo and Amodeo 2014). Since the late 1990s, the Landless Workers Movement (MST), which is the strongest territorial social movement in the country, has also experienced a decrease in mobilizational capacity, gradually reducing the number of land occupations (Araujo 2015). Similarly, since the creation of the Ministry of Agrarian Development in 1999, popular demands were diverted from the Ministry of Agriculture, which concentrates most of the administrative and financial capacity. Even though this process empowered social movements by creating a more favourable policy arena, it also eased their points of contention with large producers[67] (Carvalho 2021).

[67] The launching of the Food Acquisition Programme in 2003 also led the MST to occupy a different role in domestic food supply, limiting its actions against major meat exporters (Carter 2015).

In the early 2000s, as the dominant companies in the sector were vying to go beyond domestic borders, the combination of fragile bottom-up pressures and a high degree of firm concentration created a fertile ground for corporate welfare. Specifically, the requirements imposed by large markets, such as the European Union, pushed animal protein corporations to improve their quality control and production standards, unifying the interests of businessowners (Amaral et al. 2012). As they were not global giants yet, even leading firms like JBS, Marfrig, and Minerva needed public support to pursue this strategy effectively. According to a researcher from the Brazilian Agricultural Research Corporation, state managers were fully aligned with these private goals: "We already had some large meatpackers (…) so we wanted to give incentives to structure big firms, who had more conditions to export" (Interview 11).

Throughout the administrations led by the Workers' Party, internationalisation efforts were heavily financed through the BNDES and its shareholding company BNDESPar. In credit operations from 2003 to 2015, the bank invested over 30 billion reais in the sector. In terms of shareholding participation, the Bank owned more than 30% of JBS and almost 14% of Marfrig in 2011 (BNDES Aberto 2022).

The case of JBS is a good example of unmediated state-business relationship. According to calculations made public by the Bank after an independent investigation[68], JBS received close to 31.2 billion reais through either loans or shares. A timeline of its main operations shows the relevance of these funds for the company's internationalisation during the 2000s (see Table 4.2).

[68] Both a Parliamentary Inquiry Committee and an independent investigation showed no clear evidence of corruption in the relationship between the Bank and JBS (Cleary Gottlieb Steen & Hamilton LLP and Levy & Salomão Advogados 2019).

Data	Operation	Description	Operation's Value (Current Million BRL)	Location
August 2005	Financing	Loan for the acquisition of Swift Armour	**187.46**	Argentina
July 2007	Shareholding (BNDESPar)	Investment for the acquisition of Swift US	**1,130.00**	United States
April 2008	Shareholding (BNDESPar)	Investment for the acquisition of National Beef e SmithField	**995.86**	United States
Throughout 2008	Shareholding (BNDESPar)	Investment at Bertin (who would later be acquired by JBS)	**2,490.00**	Brazil
December 2009	Shareholding (BNDESPar)	Investment for the acquisition of Bertin and Pilgrim's Pride	**3,470.00**	Brazil and United States
Throughout 2011	Shareholding (BNDESPar)	Conversion of debentures into JBS shares	**Not applicable**	Brazil

Table 4.2 – Main operations of the BNDES for JBS internationalization. Source: authors' elaboration based on BNDES Aberto (2022).

Among the distinct forms of support, a major (and controversial) one was the conversion of the JBS variable-rate debentures owned by the bank into company shares. In December 2009, the Bank acquired 1.3 million debentures in exchange for 3.47 billion reais, which were used by JBS to buy the companies Bertin and Pilgrim's Pride. This operation was conditioned on the Bank having shares in JBS forthcoming IPO in the American stock market (BNDESPar 2022; Cleary Gottlieb Steen & Hamilton LLP and Levy & Salomão Advogados 2019). When the IPO was not released, in the beginning of 2011, these debentures were converted into shares of JBS Brazil. As per the agreement, the price of each share should be between 6.5 and 12.5 reais. In the end, the price was close to the lower bound, but still over the market price of the share, which was 5.48 reais at the time of the operation (Landim and Inhesta 2011).

As the Bank was now a relevant shareholder of both JBS and Marfrig, it made sense to not punish its debtors[69]. At this point, policymakers had an incentive to take stricter conditionalities off the table for the animal protein sector, since any bolder moves in this respect could trigger a reaction of financial markets and negatively impact large open capital companies, which in turn could lead to losses for the Bank and taxpayers. As the government involvement grew larger, so did the sector's power to push for benefits with weak conditionalities.

In fairness, the internationalization of the sector was a successful state-made phenomenon. However, we argue that, in this instance, policies did not align business interests with the developmental goal of upgrading the Brazilian productive structure, which is the focus of this paper. Instead, the power imbalance between large business groups and sector-specific countermovements made for a scenario where policy goals reinforced the position of powerful capitalists within the industry and the Brazilian position as a commodity exporter.

In terms of conditionalities, in October 2009, after most large operations were already past, the Bank approved specific socio-environmental guidelines for the beef industry. However, these requirements were minimal, falling short from any contribution to the country's productive capabilities. For instance, the first kind of conditionality was essentially about complying with Brazilian law, requiring regular environmental licences and prohibiting practices like illegal land occupations and the utilisation of modern slavery or child labour (Amaral et al. 2012; Wilkinson 2014). The second kind of condition was particularly convenient for large export firms, as they were a version of the phytosanitary barriers imposed by Europe and Japan (BNDES 2022), meaning that companies could either be already compliant or use loans to enable future compliance (and access external markets).

[69] A BNDES staff-member working on matters related to agro-industries claimed that it did not "make sense" to speak of conditionalities given that the Bank was a shareholder (Interview 13).

The contribution of channelling investments into lower-technology sectors, such as meatpacking, for the pursuit of economic development remains a topic of debate (Hidalgo et al. 2007). Nonetheless, the animal protein sector has demonstrated some growth. While there have been natural oscillations, the sector's share of Brazil's total exports grew from 6.8% in 2005 to 7.77% in 2016 (COMTRADE 2024). This growth, albeit modest relative to significant state investment highlights the sector's role in the national trade balance during the period of major policies for the sector that saw a roll-back after the end of the PT period[70]. In sum, although exports have expanded somewhat, a study on agricultural supply chains—including beef and poultry—shows the paucity of the sector's linkages with national companies (Cruz et al. 2022).

Moreover, the benefits of hosting the world's largest animal protein company are unclear at best. After years financing large overseas operations of JBS, almost half of the company's net revenue is now concentrated in the United States, while Brazil gets less than one sixth (JBS 2019). Also, even though some environmental pledges were made (Wilkinson 2014), this was not a sustained and structural process. For example, after the *de facto* relaxation of environmental regulations under the Bolsonaro government, livestock was responsible for 75% of deforestation (Salomão 2021), while large companies like JBS and Minerva admitted to having bought cattle from farms owned by environmental criminals (Hoffmeister et al. 2022).

In sum, the conditionalities imposed on large animal protein companies in Brazil did not go beyond mere compliance with the law (Amaral et al. 2012). The weakness of countermovements and the consequent lack of non-business participation in the policy design forged a disembedded neoliberal sectoral regime, which deepened firm concentration, promoted a movement towards amassing profits abroad, and returned very few benefits to the Brazilian productive system.

[70] The BNDES non-automatic loan database—thus loans that must go through the Bank's bureaucracy for approval—shows the last major loan in the period to an animal protein firm was a BRL 134,153,059 disbursement to BRF in April 2015 (BNDES 2024).

4.5. National companies and diffuse countermovements: the case of the pharmaceutical sector

The bottom-up demands that affected the pharmaceutical industry had two main origins. Firstly, despite being less powerful than their automotive counterparts, chemical labour unions built some mobilizational capacity, becoming one of the few organizations that can regularly organize strikes in Brazil's private sector (DIEESE 2006, 2009, 2021). Secondly, following the country's democratisation, the social mobilization for health reform – led by public health doctors and professionals – enshrined the right to health in the 1988 Constitution, creating the Unified Health System (Sistema Único de Saúde – SUS). Besides forging a vibrant public debate on access to treatments and pharmaceuticals, this process also established local and federal health councils, which allowed a broad set of social movements to have a voice in policy formulation (Menicucci 2006).

Ten years after the SUS creation, the centre-right government of Cardoso faced a crisis in the pharmaceutical industry. From 1990 to 1998, both the price of medicines and the sectoral profits had tripled (Vieira 2022). To make matters worse, the noise around the sector became more intense after scandals related to inactive birth control pills and fake cancer medication were unearthed in 1998 (Fonseca 2014). As the government became pressured to act, lobbying efforts against stricter regulations were also watered down by the public outcry.

Two weeks later, President Cardoso and his health minister José Serra signed the Generic Drug Law, which regulated the process of certification and production of generic medicines, a clear shift from the government's overcompliance with patent laws that marked most of the administration (Shadlen and Fonseca 2013). Being a key step for the subsequent sectoral policies, this created the necessity for bioequivalence, a process by which companies must prove that their generic medicine is identical to the reference medicine in the market (Palmeira Filho 2013).

With the PT's victory and the party's explicit commitment to industrial policymaking (Ban 2013; Kupfer et al. 2013), the pharmaceutical sector became a focus for sectoral incentives, given its potential for innovation and the instruments available to the government. In addition to loans and fiscal incentives, the existence of the Unified Health System (SUS) and the structure of the Brazilian Health Ministry allows the government to act as a final buyer and to guarantee demand for businessowners, enabling a more complete policy package (Costa et al. 2019).

As the previous government had created a legal framework that opened an avenue for bolstering the pharmaceutical sector, PT administrations actively designed policies to seize these opportunities and support domestic business groups (Shadlen and Fonseca 2013). Moreover, as the formulation of industrial plans gave formal channels of influence to labour unions, chemical workers' unions gained some voice in the policy design for the pharmaceutical industry, albeit falling short of the tripartite bargains of their more influential automotive counterpart (Casas 2009; Interview 12).

Throughout this period, one of the key tools for the pharmaceutical sector was the development of credit lines for regulatory compliance in the Profarma programme. Besides enabling investments on fixed assets, it also offered subsidized credit supply for the acquisition of tangible or intangible assets that were expected to create innovative capacities. Departing from other BNDES initiatives, the Profarma followed an evolutionary approach, changing over time to better attend the needs of the National Health Policy in articulation with the Ministry of Health[71] (Palmeira Filho 2013).

The Profarma highlights distinctions in sectoral regimes compared to those discussed earlier. Unlike the automotive sector, pharmaceutical companies faced fewer requirements,

[71] According to Gomes et al. (2014) the programme had three distinct phases: i) strengthening of productive capacities and compliance to stricter regulations (2003-2007); ii) innovation-focused (2007-2013); iii) catch-up in biotechnology (2013 until the dismantlement of Profarma).

lacking national content clauses and measures to address the trade balance deficit (Rodrigues et al. 2018). However, Profarma's credit was tied to specific productivity goals, unlike the incentives in the animal protein sector. The programme mandated investment in productivity and R&D exceeding the Bank's loans, leading to significant investment increases, indicating compliance with these conditions (Pieroni et al. 2011).

Moreover, from the second phase of the programme from 2008 to 2013, around 22% of Profarma-related loans were directed towards the development of new products, albeit with only moderate and incremental innovation potential (Palmeira Filho 2013). In addition to credit schemes, the pharmaceutical sector has also benefitted from a unique aspect in Brazilian Industrial Policy, namely the use of governmental purchasing power to guarantee demand to national firms. After the generics legislation and the increase in quality control practices in Brazilian firms during the 1990s, this became a major factor in pharmaceutical sectoral policy (Vargas et al. 2016). More specifically, during the PT years, the most innovation-inducing part of this purchasing power was exerted through the Productive Development Partnerships (PDPs[72]).

The launching of the PDPs aimed at technology transfer, enhancing national productive capacity and catering to the demands of the SUS[73]. These partnerships consisted of activating public laboratories and binding them with private partners for the development of health technologies to reduce the vulnerability of the national health system. In these contracts, private companies were expected to develop and transfer technology to public laboratories, while a pharma-chemical firm based in Brazil[74] was responsible for internalising the production of the

[72] Not to be confused with the Productive Development Policy (PDP), which was the industrial policy plan of the second term of the Lula presidency (2008-2010).

[73] Instead of creating this initiative for all pharmaceuticals, the PDPs had a quite narrow filter for what could qualify for its benefits. On the specific conditions, see Silva and Elias (2016).

[74] In theory, the BNDES cannot distinguish between companies from national or international capital (as long as they operate in Brazil). However, a senior official from the Bank said that in most situations it does not seem reasonable to expect that a bank funded with public money use these resources to induce investment from foreign multinationals that have their innovation capacities elsewhere (Interview 3).

Active Pharmaceutical Ingredient. By meeting these requisites, companies could sell this medicine faster, being waived from compliance with the usually long procurement process (Pimentel et al. 2022). Like Profarma, this led to the development of new products for national pharmaceutical companies.

In both Profarma and PDPs, the state support to the pharmaceutical industry included selective but relevant conditionalities, which resulted in clear social benefits. These, however, were not simply conceded by private firms, but extracted through negotiation. More specifically, the matter of technology transfer was key to unions, as they understood that this could lead to more and better jobs. Despite resistance from private firms, the broad countermovement constellation was helpful, as unions "pushed firstly for technology transfer" and the broader societal interests "increased legitimacy (of union demands)", as health is not seen as "some specific corporatist interest" (Interview 12).

These policies were important to increase the participation of national groups in the sector and the access to generic medicines by the population and for government purchases (Rodrigues et al. 2018). On the other hand, efforts to strengthen the national production chain remained limited, especially as there were no national content clauses that could spur the recovery of the Brazilian ailing chemical sector[75]. As such, in terms of current account repercussions, although the national pharmaceutical sector grew substantially, its production was mostly focused on attending the domestic market and continued to rely mostly on imported chemical inputs[76]. Other than this negative result, even though some incremental innovation came to fruition, this process was concentrated in large companies and incomplete, demonstrating shows the hybridity of this sectoral regime (Paranhos et al. 2022).

[75] Out of all manufacturing sub-sections (excluding mining and foodstuffs), the chemical sector had the worst performance from 2003 to 2013 (Morceiro 2016).

[76] The dependency on imports of the pharmaceutical sector is one of the most severe in the Brazilian economy (Morceiro 2016). This was also a concern expressed in Interview 3.

The conditions for accessing the Profarma's credit lines and the government purchases in the pharmaceutical industry were more fluid than the ones required from the automotive sector. The top official of the BNDES responsible for the Profarma at the period state that "looking back, maybe the conditions were less strict, less explicit, than they should have been". In this regard, it is possible to contend that health-related diffuse interests lacked bargain power in comparison to the strong and cohesive unions that underpinned the neocorporatist automotive arrangement. Moreover, there was certain tension between national production and access to health (Shadlen and Fonseca 2013), meaning that the imposition of national content requirements to overturn the sector's huge commercial deficit could lead to increased prices to the final consumer. This denotes a heterogeneity that was absent from our other sectoral examples, illustrating the contradictory political pressures that characterize the Polanyian double movement at the sectoral level.

4.6. Summary

The previous sections discussed Brazil's industrial policymaking in Brazil from a Polanyian-inspired framework. In brief, we contended that the strength of sector-specific countermovements affected the extension of conditionalities and the governance of the policy design, forging distinct sectoral political economy regimes.

Analytical Dimensions	Automotive	Pharmaceutical	Animal Protein
Main conditionalities	Encompassing national content clauses; labour-related benefits; vocational training	Negotiable metrics to join and keep Partnerships (PDPs); light innovation targets	Following the country's law; compliance with requirements from 'exigent' external markets
Policy Design	Tripartite and institutionalised	Institutionalised forums with some voice for unions; diffuse participation	State and business (quiet politics)
Non-business actors	Strong and cohesive labour unions	Less powerful unions joined by diffuse societal interests	Irrelevant

Table 4.3 – Sectoral Political Economy Regimes in Brazil Source: the authors.

This general argument was supported by three prototypical case-studies that analysed key sectors of the Brazilian economy (see Table 4.3). In the automotive industry, for example, metal labour unions used their strong mobilizational capacity to push for a neocorporatist pact, based on institutionalized tripartite bargains that tied the support for transnational companies to encompassing conditionalities such as national content clauses. In the animal protein industry, on the other hand, the fragility of unions, the weakening of social movements, and the diversion of popular pressure from the main policy arena paved the way for disembedded neoliberalism, creating a scenario of corporate welfare in which state-owned credit supply enabled the internationalisation of domestic business groups without imposing any conditionalities related to the upgrading of the national productive structure. Finally, in the pharmaceutical industry, the combination of diffuse societal demands for public health and labour unions with some relevance forged an embedded neoliberal regime that has been characterised by some bottom-up participation in the policy design and selective conditionalities like the meeting of light innovation targets.

4.7. Final remarks

The analysis of Brazil's sectoral policies through a Polanyian lens offers three interrelated contributions. Regarding the politics of industrial policymaking in Brazil (Ban 2013; Döring et al. 2017; Etchemendy 2011; Singh 2014), we show that sectoral variegation was not necessarily a manifestation of a dominant national model, but a reflection of political conflicts in each sector.

Considering the recent literature centred on the prevention of corporate welfare in industrial policies (Bruszt and Karas 2020; Bulfone et al. 2022; Langbein and Markiewicz 2020), we develop a theoretical framework based on a clear and limited set of analytical dimensions, which favours future comparative studies on the role of popular mobilization and participation. When it comes to the literature on democratic developmental states (Chang 2009; Evans 1995; Maggor 2021; Ornston 2012), we provide further support to the thesis that the incorporation of non-business actors strengthens the monitoring of industrial incentives and the embedded autonomy of policymakers, staving off corporate welfare.

The scope of this paper, centered on developing a theoretical framework and examining the politics of policy design, did not permit an extensive investigation into the long-term economic outcomes of sectoral policies. This constitutes a limitation of our study. While there is existing literature on the consequences of these policies, as our brief analysis of results indicates, a comparative analysis of their effects across these three sectors would be an interesting avenue for future research.

More generally, the article shows that creating a coalition to support industrial policies demands a broader arrangement of social forces, especially in democratic settings. As mentioned above, although many authors have hinted at greater societal participation as an antidote to rent-seeking and other possible unwanted side-effects of sectoral incentives, this article has shown, by looking closely at different types of sector-specific dynamics, that even under similar institutional settings, the dynamics of organised interests matter greatly. As such, instead of only focusing on convincing business groups to invest, governments committed to a transformative economic agenda should activate other actors who can bring with them the necessary drive to divert industrial policy results towards societal goals.

5. Conclusion

This dissertation was organised a little like a funnel that channels a broad question into an ever-so-narrow stream of findings on developmentalism in democratic Latin America. I started with a wider opening in the first paper, employing a Qualitative Comparative Analysis (QCA) of 59 presidential terms to map out the terrain of development strategies across the region. This panoramic view set the stage for a more concentrated analysis, as seen in the second paper, which more narrowly focused on the comparative dynamics between Brazil and Chile, revealing the intricate interplay of alliances and policymaking. The third paper further narrowed the scope, delving into the sectoral aspect of industrial policymaking within Brazil, thus providing a granular understanding of how sectoral policies can be geared towards particularistic interests or developmental goals. Together, these studies work towards a singular conclusion: that the practice of developmentalism is deeply influenced by democratic politics and the action of interest groups, as well as by the ideological underpinnings of political parties, bureaucratic and institutional capacities, and the dynamics of alliance formation.

The dissertation offers a fresh perspective on the return of Industrial Policies in the early 21st century—which predates the current global resurgence—focusing on how governments favouring state-led development manage and counteract the challenges posed by globalized capitalism. This theme is most explicitly addressed in the second paper, which examines the role of democratically elected governments in forging developmental alliances to enable their preferred policy direction but is empirically legitimated by the other two.

The first paper sets the stage by analysing a wide array of development strategies across Latin America through Qualitative Comparative Analysis, offering a broad view of the political landscape. The third paper, focusing on Brazil, delves into the sectoral intricacies of industrial policymaking, shedding light on how specific industries are influenced by, and contribute to, the overarching developmental agenda. These papers collectively underscore the nuanced interplay between political ideology, state capacity, and alliance formation in shaping development paths.

This dissertation contributes to the expanding body of literature on the political economy of development policies, with a particular focus on their underexamined aspects in democratic contexts. Moving beyond a purely institutional perspective and challenging the notion that development strategies are invariably a domain of 'quiet politics,' this work presents a dynamic interpretation of these strategies. It underscores the complex interplay of political, economic, and social forces in shaping development policies. By focusing on the pursuit of industrial policies aimed at economic diversification, the dissertation highlights the unique challenges and opportunities inherent in pluralistic societies. It demonstrates how these contexts, characterized by diverse interests and competing ideologies, impact the formulation and implementation of development strategies, offering new insights into the nuanced process of development in democracies.

5.1. Main Findings

The first paper, *Developmental Channels*, provides a comprehensive view of development strategies across 59 presidential administrations in 14 Latin American countries. Its primary contribution lies in systematically distinguishing two channels of developmental interventions: exchange rate policies and more traditional sectoral industrial policy measures. By treating these interventions as complementary, the paper effectively maps regional approaches to development and underscores the rarity of nations pursuing a complete developmental strategy. Additionally, it highlights the significant role of political dynamics in shaping these strategies, particularly in cases where countries lack a diversified economic structure, emphasizing the importance of political coalitions, often led by labour-supported parties. It systematises and cements the coalitional direction of the paper and gives important definitions.

The second paper, *The Limits and Possibilities of Democratic Developmentalism*, stands as a cornerstone for theory building within the dissertation. It extends beyond the empirical overview provided by the first paper, delving into the mechanisms of development strategies in commodity-dependent democracies. The paper proposes an integrated framework that considers political, economic, and social dimensions, enhancing our understanding of developmental policymaking. Through detailed case studies of Brazil and Chile, it demonstrates the real-world formation and function of developmental alliances, showing the practical application of this theoretical framework and its relevance to the broader themes of the dissertation.

In the third paper, *The Sectoral Politics of Industrial Policymaking in Brazil*, the focus narrows to the sectoral level, examining the political economy of conditionalities in three distinct industrial sectors. This paper fills a gap left by the second paper, providing an in-depth look at the tactical alliances shaping sector-specific policymaking. By analysing the automotive, pharmaceutical, and animal protein sectors, it reveals varying power dynamics and classifies these sectors as neocorporatist, embedded neoliberal, and disembedded neoliberal regimes, respectively. This sector-specific analysis is vital for understanding the broader context of national development strategies, especially in terms of government bargaining power and the role of non-business actors in shaping policies, also giving us a privileged overview of the political economy of state discipline and the imposition of conditionalities, thus extending a branch of the dissertation towards another growing body of literature.

This dissertation also had the goal of showing that, although the developmental policies carried out in 21st century in Latin America did not bring any massive rupture with the status quo or steps towards structural change, these attempts should not be dismissed out of hand. Instead, they were important landmarks that had mixed successes and offer important lessons for the future.

5.2. Limitations

Since the three papers should stand on their own, each had its own limitations and, hopefully, those were transparently pointed out. This section will present an overview of said limitations, how they were mitigated by the overall dissertation design, and what general limitations emerged.

The first paper, employing Qualitative Comparative Analysis (QCA) of 59 presidential terms across Latin America, faces limitations inherent in QCA methodology. While it provides a broad and comparative overview of development strategies, its ability to delve into the nuances and complexities of each case is limited. The QCA approach, while effective for identifying patterns and potential causal relationships, may oversimplify the intricate political and economic dynamics within each country. Also, the use of proxies for the Sectoral and Macro channels is something that is open to questioning, especially as to whether the measurements for the Sector channel could not be refined.

The subsequent paper complements the first by addressing certain limitations inherent in the QCA approach. It enriches the broader analysis with detailed case studies of Brazil and Chile, providing a deeper dive into the mechanisms at play in development strategies. This approach offers a more intricate view of sectoral policies, lending granularity to the overarching findings of the first paper.

However, the exploration of Brazil and Chile, while shedding valuable light on specific developmental dynamics, comes with its own set of constraints. The unique political and economic contexts of these two countries mean that the insights gained may not be fully transferable to other Latin American nations with distinct developmental trajectories. Furthermore, the bilateral comparison between Brazil and Chile, chosen for their particular relevance to the study, might prompt questions about the comparability of such distinct cases, given their differences in size, historical development, and industrial structures. Additionally, this comparative analysis focuses predominantly on one of the two channels of development identified by the QCA in the first paper, which may limit its breadth in covering the full spectrum of development strategies. These challenges are inherent in cross-national comparisons, as no two countries are perfectly analogous. This common limitation in comparative political economy research means that national comparisons can never be as controlled or uniform as experimental conditions. Thus, while this paper provides a valuable counterbalance to the broader strokes of the QCA, its focus on only one of the two channels covered by the previous paper and the intrinsic limitations of cross-national analysis may impact its generalizability.

The third paper, focusing on the sectoral industrial policymaking within Brazil, provides an in-depth analysis of the automotive, pharmaceutical, and animal protein sectors. While this detailed examination offers valuable insights into the sector-specific dynamics of industrial policy, it also comes with inherent limitations. Firstly, the selection of these three sectors, although representative of significant segments of Brazil's economy, is prototypical, meaning that sectors that would "in-between" or ones that have a large participation of the state as producer (such as oil), are not covered.

Also, while the methodological approach of the third paper is thorough in its examination of the selected sectors, it touches upon the influence of broader macroeconomic processes on these sectors' trajectories only marginally. Macroeconomic factors such as inflation, interest rates, and exchange rate fluctuations can significantly impact industrial policymaking and sectoral objectives and how they negotiate. The focus on sector-specific political economy dynamics, while providing detailed insights, may overlook how these larger economic forces shape the opportunities and challenges within each sector. This limitation suggests the need for further research that integrates macroeconomic considerations with sectoral analysis to fully comprehend the multi-layered nature of industrial policy development in Brazil.

This section highlighted that while the combined approach of the dissertation helps to offset some limitations of individual papers, overarching challenges in generalization and scope still exist. The focus on specific contexts, while providing in-depth insights, limits broader applicability across the diverse landscapes of Latin American development and also towards other middle-income or commodity dependent economies. These limitations are threads to be pulled and developed in future research. The next section will outline these opportunities, suggesting paths for extending the current understanding of development strategies in the region.

5.3. Agenda for future research

This dissertation has addressed several critical questions about development strategies in Latin America, yet it also highlights key gaps warranting further exploration. The focus on Brazil and Chile was important to give concreteness to the most ambitious case of return of sectoral policies in the region and contrast that with a case where developmental alliances were not sufficiently powerful to enable even moderate policies. The theoretical framework presented here could be adjusted, however, to pursue a deeper evaluation of other countries and governments, like Argentina with their exchange rate focused policy, for example.

Further, the current reality of Latin American politics presents a good research opportunity, with the new emergence of centre-left governments in a context of global resurgence of Industrial Policies. In this light, a book manuscript could add information with new interviews and materials and offer a nuanced comparison between the earlier administrations discussed here and the more recent centre-left governments of the 2020s, such as Lula's third term in Brazil and Boric's administration in Chile. These newer governments face the challenge of navigating development within a highly polarized political landscape, where they often find themselves at odds with powerful commodity exporters and economic groups. Building upon the points made here and applying them to past and present administrations could provide valuable insights into how development strategies have evolved and adapted to changing political and economic circumstances.

Such a project could also be an opportunity to touch upon a crucial theme that was explored in our papers, yet in less detail than it merits: the role of status quo coalitions. Future research should focus on mapping out these coalitions in greater detail, examining their composition, influence, and strategies. As deindustrialisation advances in almost all Latin American economies and the interests of commodity-exporters becomes more politically prominent, understanding the agents acting to maintain a low-equilibrium status quo is particularly relevant.

Finally, the line of inquiry presented in this dissertation—with alliances, democratic politics, and policies targeted at changing production patterns—lends itself well towards studying the pressing theme of the energy transition and a green path to industrialisation. In many ways, this political economy question follows a similar pattern with the building of environmental alliances against powerful status quo interests (Hochstetler 2020; Madariaga and Allain 2020). As development strategies become more steeped in environmental concerns, this presents a great opportunity for future policy-relevant work which will inevitably touch upon the growing literature on the political economy of conditionalities (Bulfone et al. 2021; Mazzucato and Rodrik 2023).

5.4. Final remarks

The road leading to this dissertation was not linear, much the opposite. For most of the time, the overall structure of the argument was unclear to me, and the research process was very much inductive, with each interview and each reading changing pieces big and small in my theoretical thinking. However, what was clear to me since the beginning was that there was a piece missing in the analysis of developmental policies in 2000s Latin America, with accounts being either too fatalistic, too negative, or simply descriptive about what had transpired.

A main concept inspiring this dissertation was what Albert Hirschman aptly called *possibilism* (2013[1971]). Hirschman's concept covers many dimensions, from the interaction of politics and economics to the idea of blessings (or curses) in disguise. For my work, however, what stuck were particularly two aspects: firstly, that I was not looking for general laws and explanations for my phenomenon. Instead, I was mostly fine with the fact that my explanations were contingent on context, although happy that some patterns could be discerned to a certain extent. Secondly, this also meant rejecting very static explanations, but especially those that see peripheral countries necessarily bound by a developmental straitjacket only breakable by revolutions or by invitation from a foreign power. Although Hirschman agrees that change during 'normal' times is more difficult, he posits that "sociopolitical change (…) is often partial, grudging, and with a lot of unfinished business left behind" (p. 15). For me, this meant that the fact that change does not conform with the predilections of bureaucrats or intellectuals does not mean that it did not happen or that it was moot.

Thus, although the developmental alliances studied in this dissertation were not successful in bringing by structural change, the ideas that were contained in these alliances helped shape the debate and were able to transform policymaking to a veritable extent, also creating possibilities for policies in the future. In time, as it is happening now, some of the same actors that were interviewed here about past administrations are there once again pushing the discourse of structural transformation forward, with some success. The *National Lithium Policy* in Chile and the new Brazilian mission-based neoindustrialisation strategy are two examples of how, even in hostile environments, change is possible. Although these policies are sure to run into hurdles and contain imperfections, they will promote change. Perhaps not sweeping, perhaps not satisfying for planners, but change, nonetheless.

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Appendixes

Appendixes for Chapter 2 – Developmental Channels

COUNTRIES	CASE NAMES				
ARGENTINA	ARG_DLR_00-01	ARG_NK_03-07	ARG_CFK_08-11	ARG_CFK_12-15	
BOLIVIA	BOL_HBS_98-01	BOL_CMG_04-05	BOL_EMA_06-09	BOL_EMA_10-14	BOL_EMA_15-
BRAZIL	BRA_FHC_99-02	BRA_LULA_03-06	BRA_LULA_07-10	BRA_DVR_11-14	BRA_DVR_15-16
CHILE	CHL_RLE_00-05	CHL_MBJ_06-09	CHL_SBE_10-13	CHL_MBJ_14-17	
COLOMBIA	COL_APA_99-02	COL_AUV_03-06	COL_AUV_07-10	COL_JMS_11-14	COL_JMS_15-18
COSTA RICA	CRI_MAR_98-01	CRI_ABE_02-05	CRI_OAS_06-09	CRI_LCM_10-13	CRI_LSR_14-17
ECUADOR	ECU_GNB_00-02	ECU_RCD_07-09	ECU_RCD_10-13	ECU_RCD_14-16	
EL SALVADOR	SLV_FF_99-03	SLV_ELS_04-08	SLV_CMF_09-13	SLV_SSC_14-18	
GUATEMALA	GTM_AP_00-03	GTM_OB_04-07	GTM_AC_08-11	GTM_OPM_12-15	
MEXICO	MEX_VFQ_01-06	MEX_FCH_07-12	MEX_EPN_13-18		
PANAMA	PAN_MM_00-04	PAN_MT_05-09	PAN_RM_09-14	PAN_JCV_15-	
PARAGUAY	PRY_LAGM_99-03	PRY_ND_04-08	PRY_FL_09-11	PRY_FF_12-13	PRY_HC_14-18
PERU	PER_AT_02-06	PER_AGP_07-11	PER_OHT_12-16		
URUGUAY	URY_JB_00-04	URY_TV_05-09	URY_JM_10-14	URY_TV_15-	

Appendix 2.1. – Cases Explored in the QCA. Author's Elaboration

	LABSC	DBNKC	SECCC	ECOSC	OUT	n	incl	PRI
13	1	1	0	0	1	2	0.963	0.811
8	0	1	1	1	1	2	0.922	0.608
14	1	1	0	1	1	4	0.887	0.559
10	1	0	0	1	0	9	0.809	0.379
6	0	1	0	1	0	12	0.802	0.420
2	0	0	0	1	0	28	0.704	0.403
1	0	0	0	0	?	0	0.937	0.547
3	0	0	1	0	?	0		
4	0	0	1	1	?	0		
5	0	1	0	0	?	0		
7	0	1	1	0	?	0		
9	1	0	0	0	?	0		
11	1	0	1	0	?	0		
12	1	0	1	1	?	0		
15	1	1	1	0	?	0		
16	1	1	1	1	?	0		

Appendix 2.2. – Truth Table for Sectoral Channel. Author’s elaboration.

	LABSC	DBNKC	SECCC	ECOSC	OUT	n	incl	PRI
10	1	0	0	1	1	9	0.859	0.595
13	1	1	0	0	0	2	0.740	0.275
14	1	1	0	1	0	4	0.739	0.324
2	0	0	0	1	0	28	0.623	0.319
8	0	1	1	1	0	2	0.606	0.050
6	0	1	0	1	0	12	0.598	0.227
1	0	0	0	0	?	0	0.863	0.404
3	0	0	1	0	?	0		
4	0	0	1	1	?	0		
5	0	1	0	0	?	0		
7	0	1	1	0	?	0		
9	1	0	0	0	?	0		
11	1	0	1	0	?	0		
12	1	0	1	1	?	0		
15	1	1	1	0	?	0		
16	1	1	1	1	?	0		

Appendix 2.3. – Truth Table for Macro Channel. Author's elaboration.

Condition	
Support from Organised Labour (LABS)	**This operationalisation was taken directly from data compiled by the V-Party dataset which works on a 0-1 scale. The expert score is on whether the party is supported by "Urban working classes, including labor unions" (Lindberg et al. 2022, p. 33).**
Capacity of the country's development bank(s) (DBNK)	**National banks with either an export-import or flexible mandates were singled-out, since they are the ones that are most important for Development Strategies (excluding housing or SME-focused banks)[77]. For our cases, CORFO is by far the most important bank coded as *Small* at the database, both in the literature and in its budget and was used as a reference point. In the pre-analytical moment, a score of 0.51 was given to Small DBs with one third of CORFO's budget. As such, scoring was based on the database, but adjusted qualitatively.**
Salience of Economic Issues (ECOS)	**Using data from Latinobarómetro (2022), I have added percentages on answers about the biggest problem in the country in economic issues, namely unemployment, low wages, and job instability. This allowed mapping elections in which economic issues were more important than, for example, violence or corruption.**
Sectoral composition of the economy (SECC)	**This was operationalised based on the national Economic Complexity Index (ECI). Number used is the average ECI for the years of the specified government.**

Appendix 2.4. – Detailed Operationalisation of Conditions

[77] The comprehensive index compiled by Xu and others (2021) classifies Development Banks by mandate (EX-IM, Flexible, SME-focused, Agro, housing, infrastructure, and others) and by size (Micro, Small, Medium, Large, and Macro), since those thresholds were broad and did not account for the size of the economy relative to the Development Financing Institution, calibration was based on those only partly and refined by qualitative knowledge before calibration.

Appendixes for Chapter 3 – The Limits and Possibilities

Appendixes

Appendix 3.1. – Interview lists[78]

Interview list – Brazil

B1 – Researcher, ABDI. [15/01/2021]
B2 – Public Policy Specialist, former EPPGG at Ministry of Development (2011-2014). [23/02/2021]
B3 – CEO, Brazilian multinational in automotive parts. [24/02/2021]
B4 – Policy Expert, EPPGG; experienced in Industrial Policy, served in various ministries since 1997. [08/03/2021]
B5 – Former Secretary of Economic Development, Ministry of Development (2011-2014). [27/04/2021]
B6 – Senior BNDES staff, led pharmaceutical sector department since 2004. [11/05/2021; 11/10/2022]
B7 – Industrial journalist, covering Brazilian industry since 2011. [27/05/2021]
B8 – Ex-president of ABDI and Minister of Development under Rousseff. [01/07/2021]
B9 – University Professor, ex-president of IPEA and FINEP, key figure in PITCE. [24/08/2021]
B10 – Researcher, DIEESE. [26/08/2021]
B11 – Trade unionist since 1986, currently president of TID-Brasil, CUT. [01/09/2021]
B12 – Trade Unionist, Steelworkers Union ABC, ex-Director for Industrial Policy. [10/09/2021]
B13 – Ex-chief economist, BNDES (1976-2012). [13/09/2021]
B14 – Trade unionist, Força Sindical, ex-CNDI member in first PT government. [14/09/2021]
B15 – BNDES staff since 2002, ex-aide to bank's presidency (2006-2016). [14/09/2021]
B16 – Researcher, DIEESE; Technical Director since 2020. [24/09/2021]
B17 – Ex-Technical Director, DIEESE (2004-2020). [30/09/2021]
B18 – President, Central for Brazilian Unions (CSB), ex-CNDI member. [30/09/2021]
B19 – Researcher, DIEESE (1987-2009); CDES member (2004-2009). [06/10/2021]
B20 – CEO, machinery parts sector. [11/10/2021]
B21 – University Professor, former director at IPEA and ABDI. [13/10/2021]
B22 – Former Vice-President, BNDES; (2007-2016). [25/10/2021]
B23 – Businessman, director at Abimaq and member of São Paulo's Superior Economic Council. [26/10/2021]
B24 – Economist, Institute for Industrial Development Studies (IEDI). [15/06/2022]
B25 – Chief Economist, Institute for Industrial Development Studies (IEDI). [21/06/2022]
B26 – Chief Economist, Industrial Federation of the State of São Paulo (FIESP). [22/06/2022]
B27 – Engineer, state-owned semiconductor company (CEITEC). Former President, Association of CEITEC Employees [04/07/2022]
B28 – CEITEC employee and trade unionist [29/07/2022]

[78] All interviewees were warned about anonymity, especially when their positions were unique and thus total anonymity was impossible. All interviewees accepted those terms. Not all interviews were cited directly, but all of them informed this article.

B29 – Former President of the BNDES (2007-2016) [28/07/2022]
B30 – Researcher in microelectronics and former Technical Director at CEITEC [30/08/2022]
B31 – DIEESE researcher, specializing in the chemical and pharmaceutical sectors. [17/10/2022]
B32 – Researcher at the Brazilian Agricultural Research Corporation (EMBRAPA). [24/10/2022]
B33 – DIEESE researcher, focusing on the pharmaceutical sector. [08/11/2022]
B34 – BNDES employee, specializing in the agricultural sector. [17/11/2022]

Interview List – Chile

C1 – Assistant Manager, StartUp Chile at CORFO. [10/06/2022]
C2 – CORFO founder, Laboratorio de Gobierno project. [16/03/2023]
C3 – Researcher at CEPAL [17/03/2023]
C4 – Economist, university professor, and former President of CODELCO (Corporación Nacional del Cobre de Chile). [20/03/2023]
C5 – Researcher with former roles at CORFO, Chilean Ministry of Economics, and CEPAL. [21/03/2023]
C6 – University professor, former General Manager at CORFO during Piñera administrations. [21/03/2023]
C7 – University professor and researcher, former Under-Secretary of Economic International Relations under Boric administration. [22/03/2023]
C8 – University professor with experience in various economic roles under both Bachelet and Boric administrations, Ministry of Economics. [23/03/2023]
C9 – University professor and industrial policy researcher. [30/03/2023]
C10 – President, Metalworkers' Confederation of Industry and Service Workers (CONSTRAMET). [04/04/2023]
C11 – Businessowner in the IT sector. [05/04/2023]
C12 – General Manager of CORFO during the Bachelet II and Boric administrations. [05/04/2023]
C13 – Business owner in the IT sector, former Vice-President of Chile's Entrepreneurs Association. [07/04/2023]
C14 – Industrial Policy Researcher, held various positions in Concertación governments, Bachelet II, and Boric administrations. One of the key figures at the founding of CNIC. [09/04/2023]
C15 – Researcher of economic development, with extensive experience at CEPAL [10/04/2023].
C16 – University professor and industrial policy researcher, advisor on productive transformation policies in the Ministry of Economics during the Boric administration. [25/04/2023]

Appendix 3.2. – Industrial Policy Quantification

The *Quantifiable Industrial Policy Index* (QIP, from now on) was created by DiPippo and co-authors (2022) and compounds *six* indicators to represent the weight of sectoral industrial policies in eight selected countries for the year 2019. It covers: direct subsidies, R&D tax incentives, government support for R&D, credit subsidies, state investment funds, and other tax incentives.

For our cases, the idea is to keep data consistent (from the same source when possible) across Brazil and Chile and across multiple years. Also, like the QIP, our work will select certain sectors to be excluded from the total expenditures, like agriculture (agroindustry is included) and infrastructure, but certain contextual exceptions were made. Given that in both Brazil and Chile's data for *state investment funds*[79] and *other tax incentives* are not available for a larger period, we are compounding the first four indicators to create a comparable sectoral policy index for the period of 2000-2019 which gives us a baseline to compare *across* the two countries and also among the pink tide administrations and their successors and predecessors.

Component[80]	***Brazil***	***Chile***
Credit Subsidies	BNDES (Disbursements to industry, electric energy, telecom, railways, and services)	CORFO (agriculture, SMEs and regional funds excluded. Fishery is kept)
Direct Subsidies	From 2000-2002 – Data from the FGV Fiscal Observatory. From 2003-on, detailed data from the Brazilian Budget (Brazil 2022)	DIPRES Subsidy Data (all capital transfers)
R&D Tax Incentives	OECD R&D tax expenditure (2022)	OECD R&D tax expenditure (2022)
Direct Government R&D Investment	CEPALSTAT (2022) – all R&D expenditures available on COFOG[81]	CEPALSTAT (2022) – all R&D expenditures available on COFOG

Composition of modified QIP. Own elaboration.

[79] Brazil's BNDESPar was an important state investment fund, but data is only consistently available from 2010 on.

[80] Following DiPippo and others (2022), this is an index of selected sectors. It excludes most infrastructure and agriculture, but contextual exceptions were made (like fisheries in Chile and electric energy in Brazil, so we can capture investments on wind power, for example).

[81] The Classification of Functions of Government (COFOG) has a separate R&D line for each function. These were aggregated to get the total direct government R&D expenditure.

Aggregating the total spent in each indicator (national currencies at current prices) and dividing it by the yearly GDP gives us the weight of the Sectoral Channel Index for both countries. It is certainly still an *underestimation*, since it does not count all possible credit subsidies (from alternate government financial institutions) nor the sizable tax incentives that exist. When a decision to include or exclude was not obvious, I underestimated Brazil and overestimated Chile to give a tougher test to the cases' outcome divergence.

Appendix for Chapter 4 – *The Sectoral Politics*

Appendix 4.1. – Interview list[82]

Interview 1 – Specialist in Public Policies and Government Administration (EPPGG) who was in multiple ministries from 1997-present and specialises in Industrial Policy and Innovation. Online Interview on 08/03/2021.

Interview 2 – Secretary of Economic Development at the Ministry of Development, Industry, Foreign Trade, and Services from 2011-2014. Online Interview on 27/04/2021.

Interview 3 – Senior staff member of the BNDES (1998-2016) and head of the bank's department for the pharmaceutical sector from 2004-2016. Online Interviews on 11/05/2021 and on 11/10/2022.

Interview 4 – Former Minister for Industry and Commerce and Former President of the Brazilian Agency for Industrial Development. Online Interview on 01/07/2021.

Interview 5 – University Professor and Researcher who served as president of the Institute of Applied Economic Research (IPEA) and of the Fund for Studies and Projects (FINEP). Largely responsible for the PITCE. Online Interview on 24/08/2021.

Interview 6 – Researcher at the Inter-Union Department of Statistics and Socio-Economic Studies (DIEESE). Online Interview on 26/08/2021.

Interview 7 – Trade unionist since 1986. In union leadership since 2005 and president of the Institute for Labour, Industry, and Development (TID-Brasil) of the Unified Workers' Central (CUT) since 2018. Online Interview on 01/09/2021.

Interview 8 – Trade Unionist in the Steelworkers Union of the ABC Region since 2001. Was the Union's Director for Industrial Policy matters from 2017-2020. Online Interview on 10/09/2021.

[82] The same anonymity disclaimer applies. There is overlap between these interviews and the ones for Chapter 3.

Interview 9 – BNDES staff member (2002-present). Aide to the bank’s presidency from 2006 to 2016. Online interview on 14/09/2021.

Interview 10 – Senior executive of the BNDES. Served as the bank’s executive director and vice-president from 2007 to 2016. Online interview on 25/10/2021.

Interview 11 – Scientist at The Brazilian Agricultural Research Corporation (EMBRAPA) since 2002. Online interview on 24/10/2022.

Interview 12 – Researcher at the Inter-Union Department of Statistics and Socio-Economic Studies (DIEESE) specializing on the chemical and pharmaceutical sectors. Online interview on 08/11/2022.

Interview 13 – BNDES staff-member working on agro-industrial projects. Online interview on 17/11/2022.