

Government political-relational capacities and industrial policy profile: Brazil's experience at the beginning of the 21st Century *

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Abstract

Formulating industrial policies is a complex process marked by advances and setbacks, reflecting the political and institutional aspects. In the present article, we aim to better understand the role of government relational capacities in delineating the industrial policy profile. Based on a qualitative research on Brazilian industrial policies between 2003 and 2014, this study highlights how the interlocution and coordination between public and private actors are crucial in shaping the industrial policy profile. Our analysis shows that between 2003 and 2007, relational capacities were built, reflected in a focused industrial policy, predominantly applying regulatory instruments oriented to promote innovation. From 2007 to 2014, there was a progressive loss in relational capacities, the industrial policy lost strategic focus, and increased the use of tax relief instruments in its management.

Keywords: Industrial Relations, Public Policy, Industrial Policy, Participation, Brazil.

Resumo

Capacidades político-relacionais governamentais e perfil da política industrial: experiência brasileira no início do Século XXI

A formulação de políticas industriais é um processo complexo, marcado por avanços e retrocessos, refletindo fatores políticos e institucionais subjacentes. No presente artigo, pretendemos contribuir para a compreensão do papel das capacidades relacionais governamentais no delineamento do perfil da política industrial. A partir de uma pesquisa qualitativa sobre as políticas industriais brasileiras entre 2003 e 2014, este estudo aponta como a interlocução e coordenação entre atores públicos e privados são cruciais para o perfil da política industrial. Nossa análise mostra que, entre 2003 e 2007, houve uma construção de capacidades relacionais, refletidas em uma política industrial focada, aplicando predominantemente instrumentos regulatórios orientados à promoção da inovação. De 2007 a 2014, houve uma perda progressiva das capacidades relacionais, a política industrial perdeu o foco estratégico e houve uma crescente utilização de instrumentos de desoneração em sua gestão.

Palavras-chave: Relações trabalhistas, Políticas públicas, Política industrial, Participação, Brasil.

JEL: L5, O25, O38.

Introduction

In recent years, a research agenda has attempted to understand the reasons why Brazilian industrial policies launched in the first decades of the 21st Century have failed to reverse the ongoing de-industrialization processes and to produce persistent changes in the innovative behavior of firms, crucial for generating a virtuous trajectory of economic development (Chiarini et al., 2020; Guimarães, 2021; Stumm; Nunes; Perissinotto, 2019; Suzigan; Garcia; Assis Feitosa, 2020). In this

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literature, difficulties in building political support coalitions, problems of an administrative nature, and coordination difficulties are important in explaining the poor results of Brazilian industrial policies. The present article aims to contribute to this agenda, emphasizing the role of government political-relational capacities in delineating the industrial policy profile. For this purpose, we analyzed three cases of dialogue spaces between government, business, and workers, observing their contributions and limits in terms of developing this capability between 2003 and 2014. The cases chosen were the *Conselho de Desenvolvimento Econômico e Social* (Council for Social and Economic Development – CDES); *Conselho Nacional de Desenvolvimento Industrial* (National Council for Industrial Development – CNDI) and *Conselhos de Competitividade do Plano Brasil Maior* (Competitiveness Councils of the Great Brazil Plan).

It is our understanding that formulating economic policies is neither a linear nor obvious process. Decision-making in this policy field is not just about “getting institutions right”, as if there was a pre-defined scope of best institutions waiting to be selected. It is a complex process of coordinating actors and constructing a long-run development vision in creating a new institutional arrangement (Rodrik, 2007). Advances and setbacks mark this process of institutional creation, governed by the actions of different social actors who establish relations mediated by institutions. Thus, we propose that reinforcing political-relational capacities is essential to understanding the paths, character, as well as results of an industrial policy. Regarding political-relational capacities, we designate the capacity of government and public bureaucracy to expand channels of communication with social players to process conflicts and avoid rent-seeking behavior, both in the formulation of processes and execution of public policy (Cunha; Pereira; Gomide, 2017; Gomide; Pires, 2014). A democratically formulated and managed industrial policy depends on a high level of political-relational capacity. Therefore, we consider that the democratization of industrial policy creates an accountable institutional environment, favoring a better allocation of resources, especially regarding the provision of public goods. This environment, in turn, tends to generate industrial policies with a more horizontal profile, which avoids favoring some groups over others.

To further explain the matter, we analyze the experience of industrial policy formulation in Brazil during Luis Inácio Lula da Silva’s (2003-2010) and Dilma Rousseff’s (2011-2014) governments. We follow the proposition of Suzigan et al. (2020), who divide the evolution of Brazilian industrial policies into two phases. In the first phase, between 2003 and 2007, the government established policies focused on changing the behavior of firms, intending to increase innovation efforts. To this end, it engendered institutional creation efforts that made it possible to strengthen the coordination capacity and the legitimacy of the proposed policies. In the second phase, between 2008 and 2014, the government changed its strategy, adopting an industrial policy profile that tends to reinforce behaviors with little innovative potential on market agents. This phase turned into a policy pattern in which instruments such as subsidies, tax exemptions, and protectionist measures prevailed (Queiroz-Stein, 2017; 2016).

According to the authors, the reasons for the exhaustion of the policies in the first phase would include: 1) changes in the strategic orientation, from an innovation-focused strategy to a defensive one; 2) increasing difficulties in coordinating agents; 3) loss of industrial policy legitimacy (Suzigan; Garcia; Assis Feitosa, 2020, p. 2). Our argument in this paper is that the loss of political-relational capacities is a central aspect underlying the reasons listed above. To this end, we will try to

demonstrate how variations in these capacities occur concurrently with changes in the Brazilian industrial policy profile.

Empirically, we analyze how these capacities have been strengthened or weakened within formal spaces of direct dialogue between government, business representatives, and labor unions. The literature emphasizes the decisive role of public-private relations in delimiting industrial policy profiles and their results (Evans, 1995; Fernández-Arias et al., 2016; Haggard, 1994; Herzberg; Wright, 2005; Rodrik, 2007; Schneider, 2015). Thus, we proposed the following questions: how did political-relational capacities underlying Brazilian industrial policies evolve between 2003 and 2014? How is this evolution related to observed changes in the profile of industrial policies?

The article is divided into four parts in addition to the introduction. First, we present our methodology, followed by a summary of the trajectory of industrial policies between 2003 and 2014, emphasizing the changes in policy profiles. In section three, we analyze in-depth the three councils, observing their evolution and contributions to establishing industrial policies' guidelines and instruments. Next, based on the results of the three case studies, we discuss how the evolution of the government's political-relational capacities is related to the changes in the industrial policy profile. Finally, conclusions are made, seeking to give answers to questions raised.

1 Methodology

We studied three cases of interlocution spaces between government, business people, and workers linked to the industrial policy governance structure to answer our questions. Namely: The Council for Social and Economic Development, The National Council for Industrial Development, and The Competitiveness Councils of The Greater Brazil Plan. Regarding the last Councils, two specific councils were selected to carry out in-depth analyses: *Conselho de Competitividade da Indústria de Defesa, Aeronáutica e Aeroespacial* (Competitiveness Council of Defense, Aeronautics and Space Industry), and *Conselho de Competitividade da Indústria Química* (Chemical Industry Competitiveness Council). The criteria used to choose these boards were data availability, the frequency of meetings, and their relevance in formulating policies targeting transformation industry sectors.

Our study adopts a qualitative approach to analyze institutional characteristics, industrial policy proposals, and participation in the council's meetings. The main data sources were 17 policy papers and reports on industrial policy evaluation made by government agencies (ABDI, 2013a; 2013b; 2014; ABDI; Ferreira; Sarti, 2011; Brasil, 2003a; 2004a; 2006; 2008b; 2008a; 2010; 2011; CDES, 2008a; 2008b; 2009; 2011; 2013; Salerno; Daher, 2006); laws on industrial policy management (Brasil, 2003b; 2004c; 2004b; 2005a; 2005b) and council meetings' minutes (Table 1). All sources were publicly available on government websites or through federal government transparency services. Another important source was the publications from agents that directly participated in the councils as councilors or public servants (De Toni, 2013, 2015; Fleury, 2006; Garcia, 2010; Pinto; Cardoso Jr., 2010), and in-depth case studies written by other researchers (De Toni, 2013; 2015; Santos, 2012; 2014; Santos; Gugliano, 2015). Finally, based on the meeting's minutes, we quantified data on agents' participation in the councils (Queiroz-Stein, 2016, p. 98-99, p. 101, p. 125-127, p. 131-133) and the frequency of the meetings (Figure 1, Figure 2, Table 2, Table 3).

Table 1
Meetings' minutes analyzed

Council	Date of meetings' minutes analyzed
National Council for Industrial Development	17.02.2005, 26.04.2005, 05.05.2005, 28.06.2005, 23.08.2005, 25.10.2005, 07.12.2005, 15.02.2006, 18.04.2006, 12.12.2006, 27.02.2007, 29.09.2011, 31.10.2012
Competitiveness Council of Defense, Aeronautics and Space Industry	03.04.2012, 16.04.2012, 29.11.2012, 11.12.2012, 25.05.2013, 09.09.2013
Chemical Industry Competitiveness Council	08.05.2012, 15.05.2012, 26.03.2013, 13.06.2013, 14.06.2013, 05.09.2013, 06.09.2013 ¹ , 10.12.2013.

Source: Authors' elaboration. The minutes of the meetings were obtained through a request via the federal government's transparency portal. <http://www.portaltransparencia.gov.br/>. Accessed: 12 March 2022.

2 Brazilian industrial policies at the beginning of the 21st Century

When the *Partido dos Trabalhadores* (Workers' Party – PT) began to govern in 2003, it faced the challenge of proposing new directions for national development. Brazilian industry had lost competitiveness and participation in GDP since the 1980s. Because of the commercial market opening in the 1990s, many companies went bankrupt, and there was a growing denationalization of industrial capital. Early de-industrialization and “reprimarization” were clear and could imply drastic consequences such as external dependence, environmental problems, and income concentration (Cooney, 2016; Trindade; Cooney; De Oliveira, 2016). Thus, it was a favorable scenario for restructuring alliances between sectors of society that would support a new national development project (Diniz; Bresser-Pereira, 2016).

Considering this scenario, in 2003, a policy denominated “*Política Industrial, Tecnológica e de Comércio Exterior*” (Industrial, Technological, and Foreign Trade Policy – PITCE) was formulated (Kupfer; Ferraz; Marques, 2013). It aimed to increase the competitiveness and efficiency of the Brazilian economy. The government expected fostering innovation and technological diffusion to be the leading means to achieve this goal. The government chose strategic sectors to develop comparative advantages and raise the international insertion of Brazilian products, which was expected to increase industrial exports. Thus, four priority industries were listed: pharmaceutical, software, semiconductors, and capital goods. In addition to these four industries, four productive and technological activities were strategic: nanotechnology, biomass, renewable energies, and activities related to the Kyoto Protocol (Brasil, 2003a).

In practice, such policy was in force until 2008. An action plan focused on horizontal measures, such as regulatory policies, was devised. Advancements were made to a wide range of regulations during this period, simplifying bureaucratic and tax processes. For example, the approval of the *Lei Geral das Micro e Pequenas Empresas* (General Law of Micro and Small Enterprises) and the *Lei da Inovação* (Law of Innovation) allowed for new modalities of relationships between

(1) The records of the meetings that occurred on September 05 and 06, 2013 are registered in the same minute, officially accounting as just one meeting.

universities, government funds, and private companies to encourage technological development (Salerno; Daher, 2006).

Furthermore, the *Agência Brasileira de Promoção das Exportações* (Brazilian Agency for the Promotion of Exports – APEX-BR) was restructured, and the *Agência Brasileira de Desenvolvimento Industrial* (Brazilian Industrial Development Agency – ABDI) was created in 2004. In addition, there were operations aimed at more specific industries contemplated in the central policy, such as tax exemption for the acquisition of capital goods, tax relief for software exporting companies, and an increase in resources designated for the *Programa Brasileiro de Atividades Espaciais* (Brazilian Program of Spatial Activities) and in the *Programa Brasileiro de Atividades Nucleares* (Brazilian Program of Nuclear Activities) (Salerno; Daher, 2006).

In 2008, the PT government presented a second industrial policy called *Política de Desenvolvimento Produtivo* (Productive Development Policy – PDP) (Brasil, 2008b). There are some critical differences between this policy and the Industrial, Technological, and Foreign Trade policy. The scope of the Productive Development Policy, in terms of the number of target industries, was much higher, aimed at 33 sectors. This policy maintained its focus on high technology industries with the potential for developing comparative advantages. However, sectors that had already proven competitive, such as oil extraction, steel, and aeronautical production, or sectors of low technological level, which were suffering considerable losses in the face of competition from imported products, were also included. One example was the textile and toy production industry, which faced significant challenges due to importing Chinese products (Almeida; Lima-De-Oliveira; Schneider, 2019).

With the advent of the 2008 financial crisis, the PDP assumed a countercyclical character and incorporated into the *Plano de Suporte ao Investimento* (Investment Support Plan). Regarding the instruments mobilized, the type of action taken was closer to the profile of import substitution policies held in the 20th century. There was significant growth in the credit resources of the *Banco Nacional de Desenvolvimento Econômico e Social* (Brazilian Development Bank – BNDES), predicted at R\$ 210 billion between 2008 and 2010 (Brasil, 2008b, p. 24), or around US\$ 118.6 bi. The BNDES was supposed to allocate these resources to diverse purposes, from financing the purchase of machinery and equipment in small and medium-sized companies to making investments feasible in the internationalization of leading national companies (Kupfer; Ferraz; Marques, 2013, p. 330-334).

During this period, the government announced the discovery of the *Campos do Pré-Sal* (Pre-Salt fields)², accompanied by the planning of Petrobras S.A to deploy heavy investments in deep offshore exploration. These investments would foster productive national chains linked to oil production and extraction, in particular an ambitious program to reactivate the shipbuilding industry. Along with the use of public companies and banks, the government continued offering tax relief policies focused on capital goods and export products. Moreover, tax exemptions on consumption and income were applied to combat the economic crisis to encourage demand for final consumption (Almeida; Lima-de-Oliveira; Schneider, 2019; Kupfer; Ferraz; Marques, 2013).

In 2011, under the Presidency of Dilma Rousseff, the government presented a new industrial policy called the *Plano Brasil Maior* (Greater Brazil Plan). Concerns surrounding the international

(2) Discovered in 2008, Pre-salt fields are deep-sea oil reserves capable of producing up to 1,500,000 barrels per day.

crisis dominated the formulation of this new plan. Furthermore, an increasing share of imported products in national consumption and increasing dependence on agricultural and mineral exports could have led to sustainability problems in external accounts (Almeida; Lima-de-Oliveira; Schneider, 2019).

Thus, as of 2008 the mobilization of industrial policy instruments assumed a sense of emergency to save the national industry. The most visible action was a significant increase in tax exemptions, which included 55 sectors of the Brazilian economy, mainly tax exemptions on consumption and the payroll (Queiroz-Stein; Herrlein Jr., 2016, p. 279). In order to illustrate this change, tax exemptions represented 11.8 percent of the industrial policy budget in 2006 and grew to 30.6 percent in 2013 due to this new policy strategy (Curado; Curado, 2016, p. 23).

Among these policies are elements of continuity regarding their intentions given that they all aimed to promote economic development, betting on technological innovation to raise national industry competitiveness. The government intended to increase insertion into the international market and investment rates. However, the transformation to the instruments used to promote these policies was more critical. While in the Industrial, Technological and Foreign Trade Policy, horizontal actions were predominant, such as regulatory measures, institutional reforms, and reorganization of public funding for science and technology; in subsequent policies, there was an intense and progressive use of tax exemptions. It also became clear that there was a loss of strategic direction. In the first policy, the government prioritized four sectors and four productive activities. In the Productive Development Policy the government tried to promote 33 productive complexes. In the *Greater Brazil Plan* tax exemptions were granted for more than 55 sectors of the national economy (Queiroz-Stein; Herrlein JR., 2016).

3 The role of councils in industrial policy formulation

This section discusses three cases of councils that played an essential role in industrial policy formulation. We aim to describe how the political-relational capacities constructed in these councils varied over time in association with the changes in industrial policy discussed above. Thus, we present the Council for Social and Economic Development, the National Council for Industrial Development, and the Competitiveness Councils of *The Great Brazil Plan*, respectively.

3.1 The council for social and economic development

The Council for Social and Economic Development was created in the initial months of Luiz Inácio Lula da Silva's Presidency in 2003. The PT government created this council to establish direct interlocution between the President, Ministers, and civil society representatives. Its role in the government structure was to advise the Presidency on policies and guidelines for long-term social and economic development and formulate proposals and recommendations on reforms and public policies (Brasil, 2003b). To do so, the council worked on seeking consensus, in addition to taking into consideration the interests of minorities. For this purpose, each deliberation was classified as consensual, recommended by the majority, or suggested by a minority (Fleury, 2006, p. 99; Garcia, 2010, p. 47). Ninety-six civil society representatives and eighteen ministers participated in this

Council (Queiroz-Stein, 2016, p. 67). The President himself was often present at meetings (Garcia, 2010, p. 48).

Thus, as verified throughout the existence of the council, the highest levels of government participated (De Toni, 2013, pp. 248-252; Garcia, 2010). Civil society representatives were prominent leaders in their segments, linked to different sectors of Brazilian society, and personally appointed by the President for biannual mandates (Fleury, 2006; Santos, 2012). At the outset, the very creation of this council expressed the government's adherence to a strategy of establishing a direct dialogue with broad sectors of society, carried out since the announcement of PT's victory in the 2002 elections (Garcia, 2010). The government sought to consolidate bases of legitimacy and political support for new directives proposed in different areas of public policy, including economic and industrial policies (De Toni, 2013).

Between 2003 and 2006, this goal was to a certain extent achieved, with the council becoming a crucial space for structuring political-relational capacities. These capacities decisively influenced Brazilian industrial policy by elaborating development guidelines, presented in the *Sexta Carta de Concertação* (Sixth Letter of Policy Concertation), launched in March 2004, which dealt exclusively with industrial policy issues (Brasil, 2004a). This document explicitly argued in favor of industrial policy implementation. It also explicitly recommended the creation of the Brazilian Agency for Industrial Development and the National Council for Industrial Development.

In terms of representation, still within the same year of 2003, it was necessary to adjust the initial composition by increasing the number of councilors and seeking a better balance concerning regional representation and religious groups (Garcia, 2010, pp. 44-46). Participation was dominated by individuals linked to the business sector (varying between 43 and 50 percent of the total composition of the board), followed by workers' representatives (varying between 14 and 27 percent). Other important players comprised social movement leaders, non-governmental organizations (NGOs), religious groups, and intellectuals. Among the participants, the vast majority were male, resulting in female underrepresentation. The highest percentage of women in this council did not surpass 12 percent in the biennium 2005-2006 (Santos, 2012, p. 31-36).

According to Fleury (2006), civil society participation in the council was minimal in the first year. The hegemony of the state reform agenda, such as the pension reform, implied a low intensity of information exchange, with meetings largely dominated by government members. The unbalanced representation put into question the legitimacy of the Council for civil society. In turn, it affected the very coordination of the participants and the council's effectiveness. Changes needed to be made to the Council's workings, opening up room for negotiation in an attempt to retrieve civil society involvement. In 2004 and 2005, these changes occurred while elaborating a so-called *Agenda de Desenvolvimento Nacional* (National Development Agenda) (Brasil, 2010).

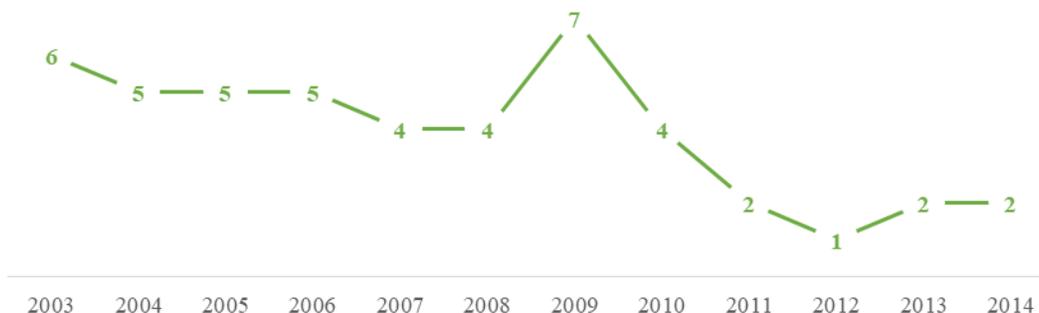
This process entailed the creation of several working groups to discuss specific topics in which counselors entered voluntarily (De Toni, 2013, p. 252-256; Garcia, 2010; Pinto; Cardoso Jr., 2010). In these spaces, disputes over short-term issues, such as macroeconomic policy, were left aside in the search for a consensus on long-term development guidelines. Thus, information exchanges and the quest for coordinating interests around common political agendas were favored. In 2006, a similar deliberative process led to guidelines from the National Development Agenda being translated into

practical measures, consolidated in the document entitled *Enunciados Estratégicos para o Desenvolvimento* (Strategic Statements for Development) (Brasil, 2006; CDES, 2013; Santos, 2014). The document made several contributions to formulating innovation and funding policies for the national industry; they also proposed that the state should make significant investments in infrastructure.

The state began playing a more decisive role in fostering economic development and investing in social policies in Lula's second term. The National Development Agenda and the Strategic Statements for Development were used to subsidize the formulation of the 2008/2011 Pluriannual Plan³ (Brasil, 2008a, pp. 44-45) and the *Programa de Aceleração do Crescimento* (Growth Acceleration Program)⁴, an expression of the council's effectiveness (CDES, 2013; Pinto; Cardoso Jr., 2010, pp. 288-289). In this sense, the council acted as a critical space for consolidating the political-relational capacities necessary for political inflection.

Lula's second term, on the one hand, began with the need to expand the bases of political support of the government, weakened by the corruption scandals. On the other hand, the Brazilian economy presented significant dynamism, which favored governability. However, the fair winds changed in 2008 when the financial bubble burst in the United States, triggering a global economic crisis that brought significant risk to the Brazilian economy. During this period, the government was seeking political support for countercyclical policies. It mobilized the council, and civil society representatives also joined in formulating a series of propositions regarding policies (CDES, 2013). A significant increase in general meetings in 2009 reflects this mobilization (Figure 1).

Figure 1
Number of general meetings in the Council for Social and Economic Development



Source: Author's elaboration based on information on the council's agenda.

In turn, the efficacy of this council's mobilization was expressed in documents advising the President, which concerned the most important decisions taken during the period to combat the economic crisis. These include the *Parecer Sobre Moradia de Interesse Social* (Opinion on Housing of Social Interest) (CDES, 2008b); the *Moção ao Presidente da República sobre a Crise Financeira*

(3) The "Pluriannual" Plan is an instrument of governmental planning, required by the Brazilian Constitution. It determines that each government must establish public policy guidelines, objectives and targets for the subsequent three years.

(4) The Growth Acceleration Program was a broad set of coordinated investments in infrastructure, launched by the Federal Government in 2007. After the 2008 crisis, this program became the main countercyclical economic policy.

Internacional (Motion to President of the Republic on the International Financial Crisis) (CDES, 2008a); and the *Moção sobre o Pré-Sal* (Motion on Pre-Salt) (CDES, 2009).

Most of these recommendations dealt with short-term problems. In order not to lose assignment in formulating long-term development guidelines, a process of information exchange and agent coordination began in 2009. In terms of the operating mode, this process was similar to the formulation of the National Development Agenda in 2004. The document presented to the President in 2010 was the *Agenda para um Novo Ciclo de Desenvolvimento* (Agenda for a New Development Cycle – ANDC) (CDES, 2011; Santos, 2014). Given that 2010 was Lula's last year in the Presidency, only the policies elaborated in Dilma Rousseff's government incorporated the ANDC. Launched in 2011, the policy in which this incorporation became clear was the Great Brazil Plan, since its goals were formulated based on the ANDC guidelines (Brasil, 2011).

However, as of 2011, the Council for Social and Economic Development operations were precarious and ineffective. The council no longer had a privileged place in Rousseff's government's strategy for acquiring political support. It also lost governmental adherence, and constant changes in institutional positions were common. In 2011, the council left the *Secretaria de Relações Institucionais da Presidência da República* (Institutional Relations Bureau), where it had been since its creation, and became subject to the responsibilities of the *Secretaria de Assuntos Estratégicos* (Strategic Affairs Bureau). In 2013, again, the council changed and became part of the *Casa Civil da Presidência da República* (Presidency Civil House)⁵. Contrary to Lula's previous two terms, after 2011, the Council lacked stability and institutionalization (Santos; Gugliano, 2015).

There was also a substantial decrease in general meetings, with just one meeting in 2012 (Figure 1). Since there were almost no meetings, any adherence by civil society or ministers was difficult to perceive. Regarding issues discussed during this period, there was a clear predominance of governmental agenda, which mobilized the bureaucratic structure of the council⁶ to formulate proposals related to the Rio + 20 Conference in 2011 and for large events held in Brazil in the following years, namely the World Cup and the Olympics. In this context, there was a decrease in the capacity for fostering information exchange and coordination of actions among agents. Industrial policy was simply abandoned by this council, which played a vital role in formulating ideas and supporting industrial strategies while Lula was in power.

Consequently the council moved away from the government's political nucleus, focusing on a smaller agenda. Consequently, there was no longer a privileged space for civil society to discuss strategic economic policies during Dilma Rousseff's presidency (Santos; Gugliano, 2015). Therefore, we consider that, after 2011, there was a substantial drop in the consolidation of political-relational capacities within the Council for Social and Economic Development.

(5) The Civil House is a ministry in Brazilian government, responsible for coordinating government action and is a direct advisory body for the President.

(6) The council had a staff that was responsible for organizing meetings, documentation and financial management, among other functions. This staff held a political stance and in the Rousseff government had the opportunity to increase its political power above the council participants.

3.2 The National Council for Industrial Development

In 2004, the PT government created the National Council for Industrial Development in the context of structuring arrangements of governance for industrial policy, which included the creation of institutions such as the Brazilian Agency for Industrial Development and legal reordering of existing institutions to develop tools and capabilities that were perceived as necessary to achieve government goals (Chieza; Queiroz-Stein, 2020, p. 9). Informally, this council held its first meetings in 2004, and the Minister of Development, Industry and Foreign Trade personally invited the advisers (De Toni, 2013). It was legally regulated at the beginning of 2005, with its first formal meeting occurring in March, which implied a greater level of institutionalization. Its function would be to advise the Presidency of the Republic on measures related to topics such as investment, financing, infrastructure, regulation, and coordination of industrial policies. Other tasks included proposing goals and priorities for industrial policies, suggesting strategies for monitoring and evaluating actions, and recommending studies, debates, and strategies on issues related to industrial development (Brasil, 2004c, 2005a).

However, in practice, these council functions were more directed towards the Minister of Development, Luiz Furlan, than the President of the Republic (De Toni, 2013). The Minister used this space as the primary means to articulate and consolidate support bases for its policies and improve strategies for industrial development. This council also played an essential role in promoting coordination among various government agencies directly involved in elaborating and implementing industrial policies (De Toni, 2013, 2015). This ability to promote government coordination was related to the presence of high level government officials. In its formal constitution, the national council counted on the presence of 15 Ministers of State. In more than 50 percent of the meetings, those responsible for the most influential ministries in Brazilian economic policy were present⁷.

The council also counted on 14 private sector representatives directly appointed by the Minister to create a comprehensive and heterogeneous representation. Regarding the appointment of advisers, it was sought to ensure the presence of the most prominent representative organizations of entrepreneurs, thereby expressing the diversity of industrial sectors. Thus, various entities participated, such as the *Confederação Nacional da Indústria* (National Industry Confederation – CNI), the *Associação Brasileira da Indústria de Máquinas e Equipamentos* (Brazilian Association for the Machinery and Equipment Industry – ABIMAQ), and the *Associação Brasileira da Indústria Têxtil e Confecção* (Brazilian Textile Industry Association – ABIT). Among the entrepreneurs invited to participate in the council, leaders with active public participation came from different regions. Another important criterion when inviting participants was that they were national capital holders, with only indirect ties with transnational companies. The National Council for Industrial Development did not only have business representatives. For the first time in Brazilian history, three of the main trade unions also participated: The *Central Única dos Trabalhadores* (Workers Centre of

(7) The minister of development, Luiz Furlan, participated in all the meetings. In addition, others were recruited to participate, namely: Dilma Rousseff, Chief Minister of the Civil House; Antonio Palocci Neto, Minister of Finance; Guido Mantega, who first participated as President of the BNDES and, after 2006, as Minister of Finance; Paulo Bernardo Silva, Minister of Planning and Luiz Marinho, Minister of Labor (Queiroz-Stein, 2016, p. 99).

Brazil – CUT); *Força Sindical* (Union Force); and the *Central Geral dos Trabalhadores do Brasil* (General Workers from Brazil – CGTB) (De Toni, 2013).

The result was a high level of private sector participation. Between 2005 and 2007, each private sector councilor, including workers' representatives, participated in 58% of the meetings, which was high compared to the average participation of Ministers, which was 28%. These councilors also actively participated in working groups formed together with agents of state bureaucracy to advance deliberations in the periods between the meetings (De Toni, 2013).

Regarding transparency, the composition of the council created a dynamic that favored accountability and forced debate to focus on issues of general interest (De Toni, 2013). The presence of players from heterogeneous positions in the socioeconomic structure, with different and even divergent interests, favored the fact that some exercised vigilance over others. Union participation was crucial in this aspect because it favored the control by workers of the agreements established between the government and business representatives. Thus, in the presence of heterogeneous players, direct relations between the government and the private sector in a public and institutionalized arena favored social control over industrial policy.

Also, between 2004 and 2007, the council was not a place where the government simply announced its policies. Analyzing the council's meeting minutes, we observed that these informational exchanges operated in multiple directions. Diverse council members were able to present their points of view, studies, and positions in meetings and working groups. There was active participation by civil society councilors, and in practically every meeting technical advisors or public bureaucracy officials provided information and analysis to support discussions. The presentation and discussion of studies carried out by participating entities, which included holding exclusive meetings for this purpose, was also not uncommon.

The council was also essential for promoting the coordination of actions and interests among stakeholders in that first phase of Brazilian industrial policy. In this sense, a primary element previously highlighted was government coordination. Fragmentation and coordination difficulties can be considered features of Brazilian industrial policy (Stumm; Nunes; Perissinotto, 2019; Suzigan; Furtado, 2006; Suzigan; Garcia; Assis Feitosa, 2020). Instruments mobilized to achieve guidelines relating to industrial policies were dispersed across many ministries, agencies, and public companies, which are autonomous and work differently. Once it became a place for constant contact between ministers and bureaucrats as well as in the period between meetings, inter-ministerial groups advanced in constructing policies based on council deliberations. Thus, the council contributed to mitigating this coordination problem (De Toni, 2013).

A similar dynamic occurred in the private sector. Its representatives actively participated in working groups responsible for transforming deliberations into actions, contributing to coordination among the government, workers, and business representatives. Coordinated action between entrepreneurs from different sectors was therefore stimulated openly and transparently in the eyes of various governmental agencies and trade unions. Most importantly, coordination led to effective deliberation as a result of broad discussions involving heterogeneous players in a public, collective,

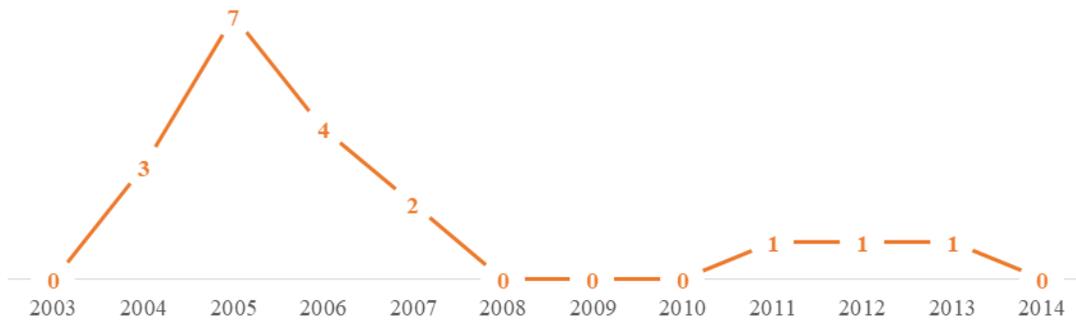
and institutionalized dialogue arena. Contrary to a Brazilian tradition of privileged access to state bureaucracy, the council forged a new way to deliberate on tax relief instruments and regulations as well as incentives for innovation. The result was the introduction of horizontal regulations, aiming to improve the innovation environment in Brazil, as in the case of the *Lei da Inovação* (Innovation Law) (Brasil, 2004b) and the *Lei do Bem* (“Good Law”) (Brasil, 2005b). These regulatory measures facilitated interaction between governmental funds, public universities, and companies in innovative investments. It also provided income tax rebates for companies that invested in research and development (De Toni, 2015).

Although the government formulated vertical policies, they had a clear public and broad purpose. In this case, we highlight budgetary resource allocation in the *Fundo Nacional para o Desenvolvimento Científico e Tecnológico* (National Fund for the Development of Science and Technology). This fund designated resources to innovation in specific areas, such as biotechnology and nuclear research. To access these resources, companies needed to present projects in application processes, characterized as a ruled and openly announced competition for a public-private contract (Guimarães, 2016). Thus, between 2004 and 2007, the industrial council allowed for improving the level of political-relational capacity, which, in turn, was fundamental to the formulation of a creative and strategic focused industrial policy. This industrial policy showed promising results in the long run, especially in promoting innovation (De Toni, 2015).

However, in March 2007, at the beginning of the second PT government, the Minister of Development was replaced, and, throughout this government, no meetings took place. With the deactivation of the National Council for Industrial Development, the government lost political-relational capacities constructed in the previous period. At the same time, there was an increase in the number of sectors covered by the industrial policy as well as in the use of tax relief instruments – particularly tax exemptions on investments and durable consumer goods – to bring the industrial policy within the scope of countercyclical policies formulated to combat the 2008 economic crisis (Queiroz-Stein; Gugliano; Mendes, 2020).

Between 2011 and 2014, Dilma Rousseff’s government (2011-2014) attempted to rescue the industry council by restructuring it, but was unable to recover the political-relational capacities. During these four years, only three meetings of the national industrial council took place (Figure 2), in which the government announced guidelines of industrial and macroeconomic policies for the business community and trade unionists. The government did not recover capabilities based on information exchange and coordination of action. At the same time, the Great Brazil Plan covered 55 industries of the Brazilian economy, thereby losing strategic focus, and was more aggressive in promoting tax exemptions, which also included exemption of taxes on consumption and payroll. There was a rapid increase in the amount of tax relief, accounting in part for the origin of the Brazilian fiscal crisis (Curado; Curado, 2016).

Figure 2
Number of National Council for Industrial Development's general meetings



Source: Author's elaboration based on the meetings' minutes, in the news linked by government agencies and in analyses presented by De Toni (2013).

3.3 Competitiveness Councils in the Great Brazil Plan

Resuming a strategy of governance applied in the 1990s (De Toni, 2013, p. 223-235; Queiroz-Stein; Gugliano, 2017), in the Great Brazil Plan (2011-2014), the government created tripartite sectoral councils of an advisory nature. There were 19 competitiveness councils (Table 2), which had the function of conducting sectoral diagnoses, contributing to the elaboration and implementation of vertical sectoral policies, and recommending business counterparts to achieve the goals of these policies. Unlike other ad hoc and quasi-informal experiences in past decades, dominated by the lobby, this initiative had a delimited functional position and a statute that governed the collegiate. Moreover, it was successful in achieving transparency. On the BMP's web page, directors' names, meeting minutes, and other organizational documents were easily accessible. Thus, at least in these criteria, competitiveness councils had the potential for mobilizing political-relational capacities.

However, when we look at how the councils worked, it is necessary to put into perspective these positive aspects. The statute which governed the council's operation provided for quarterly meetings. However, on average, each council met only five times in four years (Table 2). There was also a concentration of meetings in 2012, with an average of 3.3 meetings, which decreased to 1.7 in 2013 and 0.2 in 2014. Thus, these arenas reproduced a history of low institutionalization, lasting very little over time and were unable to create expectations of being permanent spaces for negotiation to develop long-term industrial policies. The concentration of meetings in 2012 took place during the formulation of the policy. The number of meetings significantly declined in subsequent years during the monitoring and evaluation stages. Therefore, contrary to the formal intentions expressed in the Great Brazil Plan documents, these boards had a limited role in the strategy of consolidating the government's support. The boards only worked in the formulation phase of the policy, which hindered the development of a political-relational capacity to its full potential.

Table 2
Number of meetings in the Competitiveness Councils

Competitiveness Councils	2011	2012	2013	2014	Total
Defense, Aeronautics, and Space Industry	0	3	4	1	7
ICT / Electronic Complex Industry	0	6	1	0	7
Logistics Services Industry	0	3	4	0	7
Services Industry	0	3	4	0	7
Commerce Industry	0	3	4	0	7
Chemistry Industry	0	4	2	0	6
Mining Industry	0	4	2	0	6
Furniture Industry	0	3	2	0	5
Personal Hygiene, Perfumery, and Cosmetics Industries	0	4	1	1	5
Health Complex Industry	1	2	3	0	5
Oil, Gas, and Naval Industries	0	3	1	0	4
Capital Goods Industry	0	3	1	1	4
Leather, Footwear, Textiles & Jewelry Industry	0	3	1	0	4
Automotive Industry	0	4	0	0	4
Construction Industry	0	3	1	0	4
Agribusiness Industry	0	3	1	0	4
Renewable energy Industry	0	3	0	0	3
Metallurgy Industry	0	3	0	0	3
Cellulose and Paper Industry	0	3	0	0	3
Total	1	63	32	3	95
Average	0.1	3.3	1.7	0.2	5.0

Source: (ABDI, 2014).

We carried out a detailed study on the Competitiveness Council of Defense, Aeronautics and Space Industry (CCDASI), and the Chemical Industry Competitiveness Council (CICC). In the analysis of the council meetings' minutes, the participation of high-level officials was not noted, which could have posed a problem in generating political-relational capacities (Fernández-Arias et al., 2016; Herzberg; Wright, 2005). There was also no participation of ministers or presidents of companies or public banks. Those with higher hierarchical positions who participated in the meetings held the position of directors in their agencies or, in the case of the council of the defense industry, military officers with the rank of Colonel or General.

Regarding representation, in the initially planned composition of the defense industry council, 52.6 percent of councilors came from state agencies, 31.6 percent were business representatives, and 15.8 percent were workers' representatives. Regarding the Chemical Industry Competitiveness Council, these percentages would be 39.3 percent of government representatives, 42.9 percent of business representatives, and 17.9 percent of workers' representatives (Queiroz-Stein; Gugliano, 2017, p. 185 e 192).

When we observed this classification for councilors who participated in more than 50 percent of the council of the defense industry meetings, these percentages were 79.2 percent of government representatives, 16.7 percent of entrepreneurs, and 4.2 percent of workers. In the Chemical Industry Competitiveness Council, we observed the following values: 37.5 percent of government representatives; 37.5 percent of business representatives, and 25.0 percent of workers' representatives

(Queiroz-Stein; Gugliano, 2017, p. 186 e 193). That is to say that in practice, there was a clear predominance of government agents in the Competitiveness Council of Defense, Aeronautics and Space Industry, which led to weak participation from non-state actors. In the Chemical Industry Competitiveness Council, there was more balanced representation, increasing adherence by non-state players.

Both councils presented good performances regarding information exchange and coordination. In the minutes of the meetings, we observed that the chemical industry council was not only an arena to make announcements of governmental measures. In all the meetings, businesspersons and workers' statements were taken seriously in discussing government proposals, making complaints, and presenting their critical views, diagnoses, and policy suggestions. It was a space for proposal discussions, where the work was divided between government agencies and civil society representatives to improve proposals of the strategic agenda. The result was the approval of the following proposals: the *Regime Especial de Incentivos ao Investimento na Indústria Química* (Special Regime for Incentives for Investment in the Chemical Industry), the *Regime Especial de Incentivo ao Desenvolvimento de Infraestrutura da Indústria de Fertilizantes* (Special Regime of Incentives for the Development of Infrastructure of the Fertilizer Industry), the tax exemption of the payroll for the petrochemical chain, and the *Regime Especial de Incentivo à Inovação na Indústria Química* (Special Regime for Incentive Innovation in the Chemical Industry) (ABDI, 2013a, p. 40).

In the defense industry council, a similar process occurred. We did not verify the predominance of just one sector speaking in the meetings' records. The minutes cited recurring "comments/suggestions" from both entrepreneurs and employee representatives. The same was observed among the various government agencies present at the meetings. Since the main aim of the Competitiveness Councils was to delimit a strategic sectoral agenda, the councils coordinated to carry out a series of tasks, such as detailing of action, reviewing writing, consulting third parties on pertinent information, and building timelines, with active contribution from non-governmental actors. Discussions focused on various aspects, such as general strategic guidelines for production chains, instruments to be used in policies, the definition of targets, sources of financing, policies to encourage exports, the need to promote micro and small enterprises, and the development of technological frontiers.

Three main issues were on the defense industry council's agenda: government purchases to promote sectors, the shortage of skilled labor, and financing of investment, exports, and innovations in the *Base Industrial de Defesa* (Industrial Defense Base). All these themes had already appeared in other documents launched by the Brazilian Industrial Development Agency, namely the *Diagnóstico: Base Industrial da Defesa Brasileira* (The Industrial Base of Brazilian Defense Diagnosis) (ABDI; Ferreira; Sarti, 2011) and *A Base Industrial de Defesa: Panorama do Segmento Aeroespacial* (The Industrial Base of Defense: Aerospace Segment Panorama) (ABDI, 2013b). Thus, the flow of information in the council favored advancing a policy agenda that was already a government concern, resulting in effective measures, included in the *Agenda Estratégica Setorial do Setor de Defesa* (Defense Industry Sectoral Strategic Agenda) (ABDI, 2013a, p. 21-27).

Government financing and purchasing become important instruments in policies such as the *Programa de Financiamento para Empresas Estratégica de Defesa* (Financing Program for Strategic

Defense Companies), the *Política Nacional de Compensação Tecnológica, Industrial* (Commercial National Policy on Technological, Industrial and Commercial Compensation), and the *Núcleo de Promoção Comercial do Ministério da Defesa* (Center for Commercial Promotion in the Defense Ministry). In the minutes of meetings held in June 2013, we found that the proposal on labor qualification, sent by a workers' representative, would be considered for evaluation at the ABDI. Nevertheless, the labor qualification issue, which the council had already discussed as the principal factor in fostering this industry, was not referenced in the final formulation of the sectoral agenda. Thus, the main limiting factor for political-relational capacities in this council was the lack of civil society representation, particularly for workers who lacked the power to fight for their demands.

4 Political-relational capacities and the industrial policy profile

Our analysis of these three cases makes it possible to describe how the evolution of the political-relational capacities is related to different phases of Brazilian industrial policy (Suzigan; Garcia; Assis Feitosa, 2020). The first phase of Brazilian industrial policy, between 2003 and 2007, covers a process of structuring these capacities, expressed in the creation of the Council for Social and Economic Development and the National Council for Industrial Development. These councils operate to consolidate political support and legitimacy for the Industrial, Technological, and Foreign Trade Policy and formulate proposals on administrative structure, to guide directives, instruments for mobilization, and government regulatory action, within a broader project of productive and social development. Some factors were critical for enhancing the political capacities of these spaces, particularly the weight they had in government strategy and the presence of ministers in meetings; adherence of civil society players was also fundamental, which primarily reflected a careful choice based on significant representation criteria. Therefore, these arenas began to operate information exchanges and coordinate agents, resulting in creative propositions to carry out policies to invigorate the Brazilian industry.

After this period, there was a progressive loss of political-relational capacities, characterizing the second phase of Brazilian industrial policy. On the one hand, the Council for Social and Economic Development continued to be an essential space for formulating guidelines for economic development, gaining political weight with the option of carrying out countercyclical policies to combat the 2008 economic crisis. On the other hand, in 2007, the National Council for Industrial Development stopped meeting. Deactivation of this Council meant the loss of a direct and public channel of interlocution with businesspeople and workers' representatives, which had the sole purpose of discussing industrial development. Above all, there was a loss of a political dynamic of deliberation in which the presence of agents with distinct interests were able to find long-term coordinate interests and actions.

As of 2011, there was an accentuated loss of political-relational capacities. The most striking factor was that the Council for Social and Economic Development lost its political importance, and its rhythm of activity and production decreased significantly. There were constant changes in the institutional position occupied by the council within the governance structure. The result was low effectiveness in terms of propositions for guidelines and actions. An attempt to reactivate the National Council for Industrial Development was also unsuccessful during this period, and the function of the

meetings became a space for announcing government decisions rather than promoting information exchange and coordination of interests.

Finally, the experience of the competitiveness councils between 2011 and 2014 was relatively limited. The councils could not counterbalance political-relational capacities lost in the Council for Social and Economic Development and National Council for Industrial Development. Sectoral arenas tended to reproduce a history of low institutionalization of past experiences, thereby diminishing expectations of civil society players concerning their efficacy. The confidence in their functioning was affected, associated with a general deterioration in business expectations regarding Dilma Rousseff's government.

Other factors contributed to this low confidence in the competitiveness councils. It partially reflected the non-participation of officials with decision-making capacity and the precarious functioning, where meetings did not occur as they should have. The meetings were predominately in the formulation phase, without continuity in the evaluation and monitoring phases of policies. As in the case of the Competitiveness Council of the Defense Industry, problems in representation may also have led to low efficacy of deliberations.

There was concomitance between the evolution of these political-relational capacities and transformations in the scope and instruments of Brazilian industrial policy. In the political-relational capacities building phase, when the Council for Social and Economic Development and the National Council for Industrial Development were established and operated regularly, the industrial policy had a greater strategic focus on mobilizing regulatory instruments, restructuring investment funds, and vertical actions aiming actively at promoting technological development. This concomitance is not simply a coincidence. Policy action was deliberated in these arenas or even formulated in their workgroups. The industrial policy in force in this period reflected the synergy between the players in these public spaces. Therefore, there were more innovative and creative guidelines, instruments, and actions as political-relational capacities were structured.

This reality changed from 2008 onwards when political capacities began to fall. The Productive Development Policy, launched in 2008 and covering 33 sectors, began applying more robust tax relief instruments on investment and consumption. Not by chance, the government executed this policy in the same period it deactivated the National Council for Industrial Development. In the subsequent period between 2011 and 2014, the Great Brazil Plan came into force, in which the use of tax exemptions on consumption and payroll was even more extensive, covering more than 55 sectors of the economy. This was a decisive factor in leading to the serious fiscal problems faced at the end of the government at the time.

Conclusions

Industrial policy formulation is a complex process expressed in institutional creation, marked by advances and setbacks, guided by social actors – usually politicians, bureaucrats, businesspeople, and Unions – who establish political relations mediated by institutional spaces. Our study corroborates the argument that the functioning of public-private interlocution arenas is crucial in determining the industrial policy profile. Higher political-relational capacities in democratic systems could imply a horizontal industrial policy that provides public goods and generates positive

externalities. On the other hand, a loss of political-relational capacities can imply a progressive loss in strategic focus and the predominant use of vertical measures directed at specific industries with high fiscal costs.

In the empirical analysis of Brazilian industrial policy, we identified a process of constructing institutional spaces such as The Council for Social and Economic Development and The National Council for Industrial Development between 2003 and 2007. This process reflected the creation of political-relational capacities mobilized to formulate new guidelines and regulatory instruments for industrial policy. After this timeframe, there was a progressive deinstitutionalization and loss of the councils' political role. In 2011, the Brazilian leftist government tried a new strategy to consolidate political-relational capacities, creating Competitiveness Councils of "The Greater Brazil Plan". However, these new councils were less active than was initially planned, and there was no participation of high-profile officials, such as Ministers. Thus, they could not reinforce the political support for industrial policy and coordinate interests. The incapacity to negotiate policy in these public and institutionalized spaces favored the predominance of direct lobby activities, putting pressure on the attendance of private interests and changing the industrial policy profile.

The changes in political-relational capacities are related to the different phases of Brazilian industrial policy. Starting with a well-defined policy in 2007, with a strict range of four economic sectors and four high technology activities, it passed to 33 target industries in 2008, including low technology sectors. When the industrial policy came to an end in 2014, 55 sectors were receiving government incentives. Changes in adopted instruments accompanied this loss of strategic focus. In the first phase, between 2003 and 2007, the government concentrated its actions on producing regulatory instruments and incentives for technological development. After 2008, we saw an increase in the adoption of tax relief instruments leading to an unexpected result. The Brazilian economy continued its process of de-industrialization and, at the end of the period, faced fiscal crisis.

Finally, political-relational capacity is a crucial aspect underlying democracy. The loss of this capacity can lead to insufficient power to fight against inequalities and development problems. As we saw in Dilma Rousseff's government, the disarticulation of dialogue channels between the Federal Government, entrepreneurs, and labor classes was decisive in designing an ineffective industrial policy and losing political support. The end of this story was a progressive degeneration of the political and economic environment, resulting in an impeachment process.

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