

# **Double embeddedness and international empowerment: a study of Brazil's Trade Policy in comparison to India's**

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## Introduction

Which are the determinants of elaboration of foreign policy and of changes in the process of policy-making? How does it contribute to the ascension of nation-states in the international society—even if it happens through unintended consequences that empower some domestic social actors at the expense of others? The understanding of these theoretical puzzles is crucial to analyse national demands in international negotiations, as well as the strength of negotiating parts in times in which the distribution of power in both domestic and international levels seems to be shifting. Still being on the drivers' seat when the matter is conduction of foreign policy, the state is located between these two levels/societies. Of course the question of the impact of both domestic and international level in international negotiations has already been widely addressed in the literature, particularly in Putnam's work on two-level games.<sup>1</sup> This is not to mention academics whose main focus is the state and, thus, assume either its relation with other social actors or its relative independence in elaborating foreign policy.<sup>2</sup> In spite of being parsimonious, those frameworks cannot handle with the complexity of situations in which the distribution of power and actors' identities change, and, thus, impact their interests and how effective they are imposed and accepted by other actors.

A sociological perspective may offer the first steps to address those questions if two sets of literature in Political Science and International Relations are combined: the concept of state embeddedness in the (domestic) society elaborated by Neo-Weberians and the notion of international society defended by the English School.<sup>3</sup> Authors such as

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<sup>1</sup> Putnam 1988.

<sup>2</sup> Ikenberry 1988.

<sup>3</sup> Bull [1977] 1985.

Evans<sup>4</sup> define embeddedness as the ability of the state to keep relationships with actors in the domestic level. However, a state also needs to be autonomous in order not to be captured by interest groups. That been said, such dichotomy misses the fact that the state is not only embedded in the domestic level, but in the international one as well—and such evidence might be conceptualized for academic research. Therefore, the actors who act on the behalf of the state may control the way this field is embedded in both levels. Such process might be labelled as double embeddedness, which, as I define, is the ability of a state to establish connections with actors and to be impacted by trends not only in the domestic society, but also in international one. The major argument which the concept implies is that countries that prioritize domestic embeddedness<sup>5</sup> over the international one elaborates a more legitimate conception of national interest in issue areas—such as trade—and, thus, coalesce internally around a more coherent process of international empowerment. Therefore, a state that aims to have some international projection needs, first, to control the way it is embedded in the domestic level. Afterwards, with improved capabilities, the state might be able to claim recognition as an emerging power in the international society. Such dyad is relevant because, as Snyder's analysis of imperial overstretching suggest, countries should avoid domestic capture of the state by specific groups if they are willing to preserve power in the international level.<sup>6</sup>

For the purpose of developing this concept and showing its empirical implications, this paper analyses the Brazil's and India's economic rise in the international level in the first decade of the 21<sup>st</sup> Century, with focus on their demands in

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<sup>4</sup> Evans 1995.

<sup>5</sup> This idea also follows Migdal's (1994) approach that considers the state embedded in society, that is, the domestic level.

<sup>6</sup> Snyder 1991.

the multilateral trade negotiations during the Doha Round (DR) between 2001 and 2008.<sup>7</sup> Both countries present domestic and international characteristics that suggest a relevant comparison with theoretical and practical contributions. In the international level, Brazil and India—both former European colonies with continental-sized dimension—shifted from a position of distance and defensiveness in most international regimes in the 1980s towards a participatory-offensive approach starting in late 1990s, being later consolidate in the 2000s.<sup>8</sup> In the domestic level, both countries moved from an inward-looking economy, with high levels of state ownership, towards more external openness in trade and investment, and more participation of the private sector in the economy, as well as in the process of decision-making in trade policy. As far as the state is concerned, Brazil—which was democratized in 1985—and India—which has been a democracy since its independence in 1947 present similarities as well. Both countries are reputed to have—at least in foreign policy—a high-qualified bureaucratic body. That said, whereas the Indian negotiating process in trade is centralized at the Ministry of Commerce and Industry (MoC), the Brazilian negotiators comes from the Ministry of Foreign Relations, known as *Itamaraty*.<sup>9</sup> Such a difference suggests that, at least in international trade negotiations, India favours domestic embeddedness as the MoC has ties with business associations and firms/groups, whilst Brazil is more subject to international embeddedness as *Itamaraty* connects itself with social actors in the domestic level mainly through indirect means—such as other ministries—or, in spite of listening to internal demands, drives negotiations with both eyes in the international society. In both cases, decision-making—here understood as the process of collecting

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<sup>7</sup> George and Bennett (2005) defend the application of case studies for theory-building.

<sup>8</sup> Narlikar 2010. For more details in the Brazilian case, read Vigevani and Cepaluni 2007. Kim 2006 offers evidence for the Indian case.

<sup>9</sup> This was the name of the building occupied by the ministry in Rio de Janeiro prior to the transfer of the federal capital to Brasilia.

inputs for the final elaboration of negotiating positions—incorporated more actors in recent years. Nonetheless, decision-taking—that is, the final elaboration of the national demands—in Brazil remained more insulated from domestic actors than it did in India.

In the difference of how both domestic and international embeddedness are emphasised, as I argue, lies the divergence between Brazil and India as the DR evolved between its launch in 2001 and its major deadlock in July 2008. It was when, in spite of having a large industrial sector which has been losing export share since 2003, Brazil agreed to make concessions on Non-Agricultural Market Access (NAMA) and other non-agricultural related issues in order to have more access to agricultural markets in the United States (US) and European Union (EU) mainly. India, however, refused the deal alleging danger to its agriculture, which is still mainly focused on subsistence rather than market commercialisation. With this, India lost the opportunity to obtain a deal favourable to information technology (IT) services, which corresponds to about one third of its exports. This outcome was not obvious since only with economic liberalization Brazil became competitive in agricultural exports, whilst India considered at least until 2004 reforming its agriculture,<sup>10</sup> which would have included, according to official documents, the stimulus of exports in the sector.

Through process-tracing that involves interviews, analysis of official statements, and economic data, I concluded, on the one hand, that the Brazilian state increased its international embeddedness, while the domestic one remained relatively restricted, notwithstanding the incorporation of more domestic actors into the process. Such a fact suggests that the configuration of foreign policy making limited Brazil's international empowerment insofar as, unlike India, it lost competitiveness in industry and became

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<sup>10</sup> MOF 2002; BJP 2004.

again a major commodity exporter. The Indian State, on the other hand, kept prioritizing industrial demands over agricultural ones due to institutional channels established with domestic actors. Of course this does not suggest that the outcomes of DR can be explained looking *only* at Brazil and India: clearly the defensive position of the US and EU on agricultural subsidies matter. However, it is also clear that the “size” of the win-set in Brazil and India varied, demanding a framework that explains such variation and allows future generalization to other cases.

Firstly, I outline my theoretical framework as I make a literature review of Neo-Weberian literature and of English School’s thoughts in international society, particularly on its traditional silence on economy.<sup>11</sup> In doing so, I explain why a focus on a single unit of analysis—the domestic and international levels or the state—does not suffice to elucidate both theoretical and empirical puzzles. Afterwards, I report the initial findings on both cases, derived from elite interviews with people involved in trade policy in Brazil and India, ranging from bureaucrats to representatives of social actors. At this stage of the research, there are 39 interviews with people who worked on the behalf or within India and 42 bureaucrats and/or society actors who followed this process in Brazil. Also, I worked with WTO Policy-Reviews and national archives tangent to topic. Finally, the conclusion points out to the need of explaining why states present variation in their degree of controlled embeddedness and, thus, in the possibilities of policy-making.

### **Beyond the state: international society meets the domestic one**

The state is not only—to paraphrase a classical definition—composed by the set of agents and institutions who claim and are also considered to have the monopoly of force

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<sup>11</sup> Buzan 2004.

within the domestic society. For the purposes of this study and the theoretical framework here employed, the state is the field where institutions and actors which represent social actors from the domestic level in the international one for purposes of redistribution are located. Also, the state ultimately regulates the exchanges between social actors, such as firms and non-governmental organizations, located in the two aforementioned levels. These levels can be understood as different societies which, however, are able to influence each other as social actors cannot avoid operating within each of them. In fact, although such a fact remains overlooked by the literature on both Comparative Politics and IR, the concept of international society presupposes the existence of domestic societies, not only a society of states.<sup>12</sup> States do not exist per se: they do represent societies,<sup>13</sup> even when, through authoritarian means, they limit the participation of domestic actors in the international level. There are also theoretical limitations to open the “black box” of the international level under sociological lenses: English School, which is implicitly structured around sociological principles, ignores economic processes.<sup>14</sup> So does Constructivism, which has insightful yet unclear analytical tools.

In revisiting the institutions of international society, Buzan says that, considering English School’s silences on economy, this school of thought tends to agree with constructivists who, in working with the idea of a global civil society (GCS), exclude the economic from the social. In fact, Buzan lists trade as one of the master primary institutions of international society, being the market a derivation from such

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<sup>12</sup> This assumption is corroborated by the fact that, prior to the organization of international society, some of the identities that would later constitute states, such as religious groups, already existed. For a discussion on this, read Almeida 2006.

<sup>13</sup> Migdal 1994.

<sup>14</sup> One of the few works that attempted to bring economy into international society is O’Brien 1984. For a critique of the missing link between states and economic structures in Bull’s work, read Alderson and Hurrell. 2000.

institution.<sup>15</sup> The market, as he argues, became a global institution with the collapse of communism and as long as most states embraced market principles, supported by secondary institutions, such as the international economic organizations<sup>16</sup>, among which the WTO is found. However, there is evidence that the market was an international, if not global, institution even before the “victory” of capitalism over communism. Starting in the 16<sup>th</sup> Century, diverse parts of the globe were incorporated into the international society as territories that provided raw materials and cheap labour to the systemic core, in advanced industrial societies, particularly in Europe.<sup>17</sup> So for the most of the developing world membership in the international society was not only achieved with political independence after World War II, as the literature usually assumes. Rather, it is a long term affair that started with colonisation in the 16<sup>th</sup> Century.

Brazil’s and India’s interactions with the international level are still pervaded by the manner both were admitted into the international society, but cannot explain alone their trade policy and routes of ascension in recent times. In spite of having a dominant Western heritage,<sup>18</sup> the Brazilian state—as any Latin American one—was hardly admitted by the European nations as a full member of the international society.<sup>19</sup> Furthermore, in political terms, the Americas in general were bounded by U.S. dominance in the region after independence in the 19<sup>th</sup> Century. In economic terms, however, there was a clear pattern of continuous subordination: the Brazilian economy still relied mainly on the agricultural-export model for more than 100 years after the

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<sup>15</sup> Buzan 2004, 184.

<sup>16</sup> *Ibid.*, 235. Buzan, however, does not consider IGOs as non-state actors, given the low actor quality they have. Rather, they would be part of the “social interaction capacity” (*Ibid.*, 120) upon and through which players (diplomats) and tools (states) act.

<sup>17</sup> O’Brien (1984, 60) contests this assumption as there was not a proper world market when international society emerged, in 16<sup>th</sup> Century Western Europe.

<sup>18</sup> Watson 1984, 130.

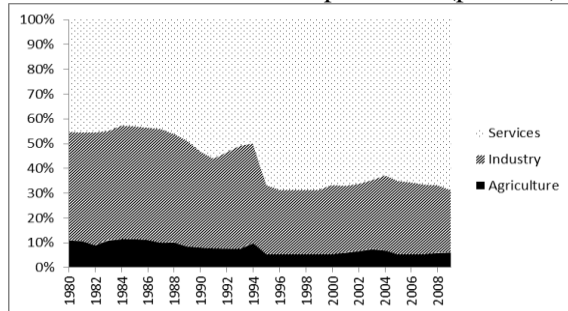
<sup>19</sup> Bull 1984, 123; Watson 1984, 138.



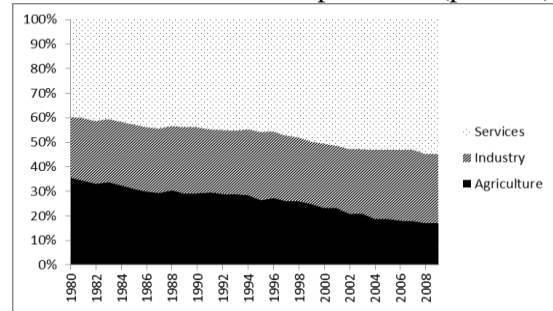
independence.<sup>20</sup> Such a pattern, however, changed in the second half of the 20<sup>th</sup> Century, as Brazil's exports in mid-1980s were composed of more than 50 per cent of manufactured goods and remained so until 2000s (**figure 1**).

**Figure 1 – Selected Economic Data—Brazil and India, 1980-2009**

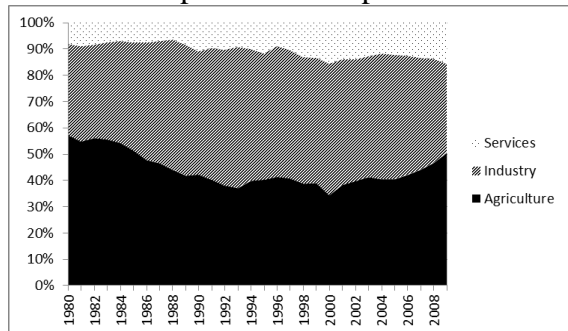
**Brazil – Share of the GDP per sector (per cent)**



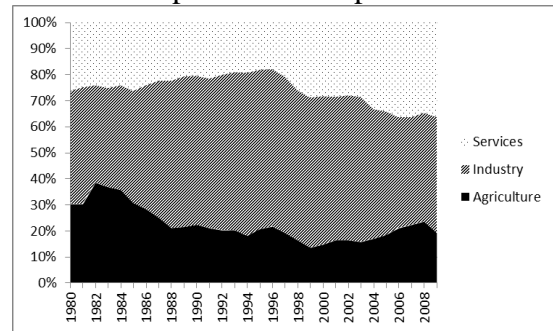
**India – Share of the GDP per sector (per cent)**



**Brazil – Composition of Exports**



**India – Composition of Exports**



Source: World Bank (2010). Note: agriculture includes the primary sector in general, including mining.

This suggests that the turn towards agriculture exports after 2003 was not necessarily an obvious, unavoidable consequence of economic liberalisation in the 1990s. India, as an ancient civilisation, was far from being regarded as Western or claiming such an identity.<sup>21</sup> The country led the non-aligned movement during the Cold War<sup>22</sup> while increasing its bargaining power with both the USSR and the US partially due to its strategic geopolitical location and the conflict with Pakistan. In economic

<sup>20</sup> Singer 2009.

<sup>21</sup> Krishna 1984.

<sup>22</sup> Ibid., 269.

terms, the Indian state pursued a far more inward-looking strategy than Brazil, putting the country in a position of almost autarchy during the post-World War II Import Substitution Industrialisation (ISI) strategy.<sup>23</sup> In the 1980s, industry was not so competitive and the sector feared liberalisation, whereas agriculture production had been improved in the 1970s thanks to technological advancements of the Green Revolution.<sup>24</sup>

In the literature on stateness in the developing world, Brazil and India are seen as inchoate states, which, despite their bureaucratization, remain partially subjected to rent-seeking.<sup>25</sup> For the goals of this paper, the most relevant parts of the state are the ones directly involved in international trade negotiations, particularly where decisions are actually taken. In the case of Brazil, it is the *Itamaraty*, whereas in India the MoC elaborates strategies for WTO negotiations. Both are, according to the literature on the topic, bureaucracies with more autonomy and internal coherence than the average within Brazilian and Indian states. The *Itamaraty* and the MoC for instance, have no political appointees but the head of ministry, who is selected by the head of government. The MoC, however, has linkages with social actors, from firms to business groups. That been said, the fact is that the state, through the ministry, remains as a strong gatekeeper for domestic demands.<sup>26</sup> Those definitions on the Brazilian and Indian states are affiliated to the Neo-Weberian tradition; a reaction to the theoretical models that emphasized domestic pluralism and interdependence based on non-state actors. Unlike in Marxist models, under Neo-Weberianism the state is not a product of class relations, but rather a unit with some degree of autonomy from other social actors.

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<sup>23</sup> Kohli 2009.

<sup>24</sup> Basu 2008, 565.

<sup>25</sup> Evans 1995; Kohli 2004.

<sup>26</sup> Narlikar 2008, 277. In fact, especially in federal systems, such as the Brazilian and the Indian, stateness is a negotiated process with domestic actors (King and Lieberman 2009, 558).

To some extent, it is a social actor embedded in history, yet subject to changes in its trajectory.

For instance, the *Itamaraty* was formed, as the Brazilian state in general, by members of agricultural classes. However, the ministry adopted, in the 1920s, public examinations before the first relevant reforms in the civil service in the 1930s.<sup>27</sup> In spite of still recruiting diplomats from the elites, it embraced the ISI project. Nonetheless, once the project collapsed, in mid-1980s, and until the beginning of the current world instability, the *Itamaraty* seems to have embraced the idea that Brazil could gain economic strength through agricultural exports,<sup>28</sup> although the dependence on the commercialization of low-added value products is not associated at all with economic and political empowerment in the international level. This composes an empirical puzzle particularly considering that, in the 1990s, foreign policy making was opened to social actors and other ministries, and, as it will be shown ahead, industry articulated itself to defend its positions in trade policy.<sup>29</sup> In India, an analysis of the MoC alone does not suffice to explain its reluctance in liberalizing agriculture, insofar as the sector is not organized in a national association, not resembling a lobby group at all.<sup>30</sup> Furthermore, the IT services sector had direct access to policy-makers,<sup>31</sup> who, however, did not embrace their demands in the elaboration of national demands in DR.

In sum, the notion of autonomy, which comes along with embeddedness in Comparative Politics, does not fit in the model to analyse formulation of negotiating positions. Nor does a focus on the international level only. At least in Brazil's and

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<sup>27</sup> Sikkink 1991, 129.

<sup>28</sup> Interview with Rubens Ricupero, 25 July 2011; Interview with Luiz Felipe Lampreia, 8 Aug 2011.

<sup>29</sup> Oliveira 2003.

<sup>30</sup> For a discussion on farmers' movements in India, read Brass 1995.

<sup>31</sup> Interview with Gagan Sabharwal, 29 Sep 2011. The industries of the sector are congregated in an association called NASSCOM.

India's cases, the bureaucracies responsible for trade negotiations are relatively insulated from social pressures given their skills, training, and spirit-du-corps. Domestic embeddedness exists in both Brazil and India, although in different degrees, as the analysis will show. Nor a single focus on the international level explains the demands of a given country. However, the idea that embeddedness is relevant in international terms as much as in domestic ones may indicate the reasons why both countries diverged in their set of preferences in the DR in spite of having similarities in their transition from ISI to a liberalised economy, and much more common positions in 2001 than in 2008.

### **Empirical analysis**

In the process of tracing<sup>32</sup> the determinants of Brazil's and India's demands in multilateral trade negotiations, four state/bureaucratic clusters will be analysed along with their patterns of interactions with the domestic and international levels: the units responsible for the negotiations, the office of the head of government, the parliament, and the ministries with direct interest in the negotiation.

#### ***Brazil: looking to the domestic over the shoulder***

In one of the interviews I conducted with people who worked on the behalf of India in the DR or tried to influence the Indian position, a former Indian civil servant complained that Brazilian diplomats do not know well their own country.<sup>33</sup> Diplomats are usually recruited among elites given the high competition in the public examinations. Most enter the career just after college, lacking any work experience.<sup>34</sup> That said, hardly somebody contest their intellectual and professional training, acquired during a two-year professional masters' programme organized by the own ministry.

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<sup>32</sup> Mahoney 2003.

<sup>33</sup> Interview, India, 7 Sep. 2011.

<sup>34</sup> Different interviews, Brazil, July, Aug, Dec 2011.

Such elite of the Brazilian public service, however, is not the only responsible for formulating foreign policy. President of the Republic—who in Brazil, as in any pure presidential system, is both the head of state and the head of government—has this constitutional attribution. This fact becomes more crucial in the analysed period, as the two presidents who were in office between 2001 and 2008—Fernando Henrique Cardoso (1995-2003) and Luiz Inácio Lula da Silva (2003-2011)—actively engaged themselves in both execution and formulation of foreign policy.<sup>35</sup> Their engagement was more evident in economic diplomacy in general, as both clearly visited countries which later became relevant markets for Brazilian exports.<sup>36</sup> Also, Cardoso and Lula appointed as chancellors—the name given to the Minister responsible for the *Itamaraty*—only former ambassadors responsible for the Brazilian Permanent Mission in Geneva.<sup>37</sup> It reflects the fact that, in spite of President's constitutional prerogative to conduct foreign affairs, both Cardoso and Lula clearly relied on the expertise that *Itamaraty*'s officials offer and gave priority to economic issues in foreign policy.

As far as trade policy is concerned, both Cardoso and Lula developed institutional mechanisms to wider the number and type of social actors contributing to inputs for the formulation of trade policy, including negotiations of agreements. After taking the oath in 1995, Cardoso created the CAMEX, a permanent consulting body. It replaced the CACEX, a former body that existed during the ISI period and placed under the auspices of the Bank of Brazil, the largest public federal bank of the country. The CACEX, however, had a vertical, authoritarian, non-consultative structure as most of

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<sup>35</sup> Fishlow 2011, 165.

<sup>36</sup> Rodrigues Vieira 2010.

<sup>37</sup> They are Luiz Felipe Lampreia (1995-2001), Celso Lafer (2001-2003, who is not a career diplomat, but has a strong background on international law insofar as he is a Professor in the School of Law of University of Sao Paulo), and Celso Amorim (2003-2011, who had been minister before, between 1993 and 1995).

the literature in the field points out. The CAMEX has, among its attributions, the prerogative of determining the directives of negotiation of international agreements related to trade issues. The main decision-making body within the CAMEX is the Council of Ministers, originally formed by Minister of Development, Industry and Foreign Trade, who chairs it; and the Ministers of the Civil House (Chief-of-Staff); Foreign Affairs; Finance; Planning, Budget and Administration; Agriculture and Supply.<sup>38</sup> In 2003, after Lula's election, the Minister of Agrarian Development, responsible for land reform, was incorporated into the council,<sup>39</sup> reflecting Workers' Party (PT) linkages with small peasantry organisations and landless movements.

In spite of officially controlling the CAMEX, the Ministry of Development, Trade and Foreign Trade (MDIC, in the Portuguese acronym) is far from having the last word in trade negotiations: it is still essentially an *Itamaraty's* affair.<sup>40</sup> In their respective biographies, both Cardoso<sup>41</sup> and his first chancellor, Luiz Felipe Lampreia (1995-2001) describe clashes on trade policy in general between the *Itamaraty* and the MDIC,<sup>42</sup> created in 1999, and its predecessor, the Ministry of Industry and Commerce. This ministry had historical connections with the industrial sector, including its two most relevant associations of this economic segment in Brazil, the FIESP, which congregates companies in Sao Paulo—the most industrialised state of the country—, and the CNI, the National Industrial Confederation. Those ties, particularly with the CNI, prevailed as the ministry was converted into the MDIC, as part of Cardoso's strategy launched in his second term (1999-2003) to boost Brazilian exports and to

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<sup>38</sup> WTO 2009, 15.

<sup>39</sup> The Presidential Decree that organized the CAMEX in 2001 does not list this Minister (Presidência da República 2001).

<sup>40</sup> Different interviews, Brazil, July, Aug, Dec 2011.

<sup>41</sup> Cardoso 2006, 656.

<sup>42</sup> Lampreia 2009.

avoid disruptions in the balance of payments.<sup>43</sup> The clashes between the two ministries, as a former high-ranked official of Lula's government reports, prevailed in the president's first term (2003-2007) insofar as the chancellor Celso Amorim disputed the domestic leadership of the negotiation with Luiz Fernando Furlan, an agro-industrial entrepreneur who was heading the MDIC.<sup>44</sup> Nonetheless, more than a conflict of ministers took place in that period. As former and current MDIC officials report, the ministry used to receive inputs from industrialists regarding trade issues in general, but hardly *Itamaraty* answered them.<sup>45</sup> FIESP's office for foreign trade reports the same.<sup>46</sup>

Meanwhile, *Itamaraty* clearly developed a strategy to enhance the quality of inputs for the agriculture sector. In the beginning of 2003, prior to the crucial Cancun meeting in September of that year, when the G-20 was launched, the minister stimulated agribusiness associations—including the FIESP section for the sector—to set up a think-tank to elaborate studies to assist Brazil's delegation in DR negotiations.<sup>47</sup> Being called ICONE, the think tank sent researchers, including its director, Professor Marcos Jank, to negotiations along with Brazilian diplomats. When the round was launched in 2001, Cardoso's ministry of agriculture, Marcos Vinicius Pratini de Moraes, reports to have talked directly with associations of agro-export sectors to have inputs to formulate Brazil's positions.<sup>48</sup> In the meantime, as a FIESP officer for trade affairs reports, the industrial federation faced limitations in reporting manufacturers' demands to *Itamaraty*'s negotiators due to the lack of direct connections with them.<sup>49</sup> Also,

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<sup>43</sup> Rodrigues Vieira 2010.

<sup>44</sup> Interview, Brazil, 14 Dec 2011.

<sup>45</sup> Interview, Brazil, 20 July 2011.

<sup>46</sup> Interview with Fernando Meira, Brazil, 2 Aug 2011.

<sup>47</sup> Different interviews, Brazil, July, Aug, Dec 2011, and May-Ago 2012.

<sup>48</sup> Interview with Marcus Vinicius Pratini de Moraes, 13 Aug 2011.

<sup>49</sup> Interview with Frederico Meira, Brazil, 2 Aug 2011.

preliminary evidence suggests that CNI's associates encountered similar difficulties in their attempt to influence Brazil's stances in multilateral trade negotiations.<sup>50</sup>

The political weakness of Brazilian industrial groups is often explained due to the lack of organization among firms.<sup>51</sup> With the end of the ISI strategy, the corporatist mechanisms in which industries relied, such as sectorial councils with strong state participation, were extinguished. This explanation, however, ignores the fact that, under CNI's coordination, entrepreneurs in the manufacturing sector organized the Brazilian Business Coalition (CEB in the Portuguese acronym) in 1996 to influence government's positions in the negotiations of the Free Trade Area of Americas (FTAA).<sup>52</sup> Due to the fear of facing competition from the American market, CEB's members were skeptical of,<sup>53</sup> yet not totally against, the agreement—which never came into force in large part thanks for Brazilian government negotiating tactics of postponing substantial decisions up to the point when the US abandoned the project, in 2005. These tactics satisfied part of PT's agenda in foreign policy, which supported strengthening ties with the South as means of countering the imperialist North, particularly the US. Considering that FTAA negotiations preceded and largely took place in parallel with DR, it is surprising that CEB's organizational capacity could not be used influence Brazilian government and diplomacy. As an interviewee says, “since the beginning, it was known that in the Doha Round manufacturing would be sacrificed”.<sup>54</sup> However, it was not until mid-2000s when the share of industry in Brazil's merchandise exports fell below 50 per cent due to China's rise and grievances within Mercosur, the common market the country started forming in 1991 with Argentina, Paraguay, and Uruguay.

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<sup>50</sup> Ibid.

<sup>51</sup> Marques 2009.

<sup>52</sup> Oliveira 2003, 129.

<sup>53</sup> Different interviews, Brazil, July, Aug, Dec 2011, and May-Ago 2012.

<sup>54</sup> Interview, Brazil, June 2012.



So how could the *Itamaraty* have remained insulated from industry's demands in a context in which the process of decision-making of international negotiations included more actors from within the federal government and the domestic level in general? The answer lies in the fact that, in spite of all the aforementioned changes in decision-making, decision-taking remained in *Itamaraty*'s hands, which, in turn, kept itself more internationally rather than domestically embedded, looking more at the international society rather than the domestic one. In 1987,—when Uruguay Round (UR) was still in place, decision-making remained confined to *Itamaraty*'s bureaucracy, and ISI had not been dismissed as a development strategy in spite of all economic instability in Brazil—, Ambassador Rubens Ricupero arrived in Geneva to represent the Brazilian government before United Nations agencies and bureaus located in the city, including the secretariat of the General Agreement on Trade and Tariffs (GATT).<sup>55</sup> He replaced another experienced career diplomat, Ambassador Paulo Nogueira Batista, known for his strong nationalist stands, which meant the defence of national industry. As Ricupero reports, he thought at that time that Brazil should start considering demanding more access to agricultural markets even if the country would end up making concessions on issues related to industry and services.<sup>56</sup> One of his successors, ambassador Lampreia, shared the same perception<sup>57</sup> when he led Brazilian mission in Geneva as UR was concluded between 1993 and 1994. The round did not bring relevant changes in agricultural tariffs and rules in a period in which economic liberalism reigned as the only viable economic paradigm to promote development in the aftermath of the fall of Berlin Wall (1989) and the vanishing of the USSR (1991).

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<sup>55</sup> Interview with Rubens Ricupero, 25 July 2011.

<sup>56</sup> Ibid.

<sup>57</sup> Interview with Luiz Felipe Lampreia, 8 Aug 2011.

The export potential of Brazilian agriculture became a key component in trade policy after economic stabilization, with the end of hyperinflation in 1994. Of course the claim here is not that what seems to be an emerging perception among top diplomats in late 1980s/early 1990s was the major cause of the rising prominence of agriculture in Brazil's demands in trade policy. Nonetheless, the support of *Itamaraty* is relevant part of the puzzle, although it does not answer why industry lost political power. Cardoso's first term (1995-1999) relied on a policy of overvaluation of the exchange rate to keep inflation rates low.<sup>58</sup> However, manufacturing goods were still composing more than 50 per cent of Brazil's exports. The decline of productivity rates in industry does not provide a clear answer, insofar as such a process had been taking place since early 1980s, when ISI had not been dismissed either in government or in economic diplomacy. Rather, productivity grew slightly in the four years after economic stabilization,<sup>59</sup> and, when the DR was launched, Brazil was moving towards an export-led strategy that included emphasis on both commodities and manufactures.<sup>60</sup> The prioritization of gains in agriculture continued even under PT-led government in spite of the fact that Lula's traditional basis of support was industrial workers organised in strong labour unions,<sup>61</sup> not to mention that he run his campaign with severe criticisms against Cardoso's policies supposedly against industry.<sup>62</sup> Under Lula, Brazil—and the world—faced stronger competition from Chinese manufactures.<sup>63</sup> In this context, Brazilian exports became more and more composed by commodities. Whilst this

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<sup>58</sup> Rodrigues Vieira 2010.

<sup>59</sup> According to calculations made by Palma 2011.

<sup>60</sup> Presidência da República 2002.

<sup>61</sup> Keck 1992.

<sup>62</sup> Etchemandy (2011, 258) demonstrates that Cardoso's government, in fact, compensated Brazilian entrepreneurs for negative externalities in the liberalization, with subsidies and in fostering the creation of national champions.

<sup>63</sup> Hirst 2008.

explains the maintenance of emphasis on the defence of liberalization of agriculture, it does not account for the origins of the strength of that sector vis-à-vis industry.

A partial answer for such continuity might be out of both presidential office and *Itamaraty*: Lula's coalition in both houses of National Congress—the Chamber of Deputies and the Senate—was not so much different from Cardoso's. Support among Congressmen is crucial for the stability of the government, although Brazil has a presidential system.<sup>64</sup> In spite of having centre-left origins, both presidents had to govern with the support of centrist and centre-right parties, who have large landowners among their members.<sup>65</sup> Part of this constrain derives from the larger representation less industrialised states form the North, Northeast, and Centre-West regions have in both houses—a legacy from the negotiated transition from the Military Dictatorship to Democracy, as well as a means of balancing political power among the units of the federation.<sup>66</sup> Not necessarily landowners and their representatives are engaged in agro-exporting activities, but they tend to vote together regardless of their party if a legislation that affects the sector is under discussion. This is probably due to the spillovers that agricultural expansion provokes on unproductive land, such as rising prices, not to mention new possibilities of rent-seeking opened to oligarchs and their allies in the subnational level.

That all said, the fact is that the National Congress has no role in the decision-making process of trade policy—it does not have even a specific standing committee on foreign trade, only in foreign policy in general—, but it has to ratify any agreement signed by the president. As far as multilateral agreements are concerned, the only case

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<sup>64</sup> Abranches 1988.

<sup>65</sup> On PT's changes, read Samuels 2004. On Cardoso's government, see Ames 2001.

<sup>66</sup> Carey (2001, 29) shows that, in a scale from 0 to 1, Brazil had a malapportionment of 0.10 in the lower chamber. No changes in the number of seats in per state have been reported since them.

after re-democratisation was the approval of the Marrakesh Treaty, which finalized the UR. The approval happened in December 1994 without major problems for President Itamar Franco (1992-1995), Cardoso's predecessor. As the new president had already been elected and the country was taking the first steps in a successful and popularly-supported stabilization plan that implied in further liberalisation, members of the parliament consented in the ratification. Such a situation will not happen again if the DR actually reaches an outcome, argues Flavio Marega, a Brazilian diplomat who served in Geneva between 2003 and 2005. According to him, more social actors in the domestic level, ranging from economic associations to Congressmen, have gained awareness of the impact of liberalisation in the domestic market and acquired interest on trade.<sup>67</sup> The National Congress, however, is far from being supportive of liberalisation *per se*, as the difficulties Cardoso and Lula had in proposing and passing reforms, not to mention the fact that large part of the Brazilian economic liberalisation was feasible due to change in specifics of legislation that did not depend on deputies' and senators' initiative.<sup>68</sup> Fear of National Congress's actions in economic foreign policy explains why Itamaraty does not to stimulate their further participation on discussions related to the issue, as a leaked e-mail between diplomats reveals.<sup>69</sup>

In sum, international embeddedness prevailed in the process of elaboration of trade negotiating positions in Brazil in spite of changes as more actors took part in decision-making. Being centralized in the hands of the President, who tends to rely on *Itamaraty's* expertise, decision-taking clearly stemmed more from perceptions on what could be better to the country looking at the conjecture offered by the liberalising trends

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<sup>67</sup> Interview with Flavio Marega, 25 Jan 2012.

<sup>68</sup> For instance, in the case of privatisation, only about eight per cent of the legislation was proposed by MPs (Almeida 1999).

<sup>69</sup> Personal Communication, 30 April 2012.

in the international level/society along with PT perceptions on global power dynamics rather than balancing the views of different groups in the domestic one. In other words, decision-taking was essentially kept in a bureaucratic unit with relatively weak connections with the domestic level. This lack of connections—or, better said, the creation of new, but ineffective linkages with the domestic level—paralleled with a continuous relative decline of manufactures in Brazil's exports. This is a unique case among large countries that made a smooth transition from either ISI or socialist to a world-integrated economy, as it is the case of China, India, and Korea. As the Australia's and Canada's experiences as high-income, middle powers suggest, commodity export is not necessarily opposed to development—the major goal of Brazilian foreign policy since the mid-20<sup>th</sup> Century. However, such an economic strategy is surely less associated to international empowerment, a goal Brazilian diplomacy also pursued in the course of the DR, given Brazil's increasing assertiveness in the international level. The Indian case tends to corroborate this conclusion.

***India: mistrust of the international, balancing the domestic***

“We listen to all stakeholders' demands prior to negotiations”. Ten in each ten diplomats from both Brazil and India interviewed for this research say that sentence or something similar when asked about the incorporation of social actors from the domestic level into the process of elaborating trade policy. Listening, as shown in the Brazilian case, does not mean accepting actors' demands as the state—represented by bureaucrats, ministries, and the head of government—has eventually the last word over the adopted positions. Nonetheless, in India more non-state actors and government bureaucracies other than the one responsible for the decision-taking participate in depth the process of decision-making. That is perhaps why India is known in international

negotiations as the country that says “no”<sup>70</sup>: in taking into consideration diverse domestic positions—at least in trade negotiations, although the argument could be extended to other issue areas—, the state has difficulties in offering a large set of options at negotiation tables in the international level, as negotiators know potential vetos and the strength of their proponents beforehand.

The nodal point of elaboration of trade policy in India is the MoC. Although India has a separated ministry or department (which is under a ministry) for commerce-related issues (including trade negotiations) since its independence in 1947, it was placed along with industry only in 1999.<sup>71</sup> In that year the WTO had failed to launch in Seattle what two years later became the DR. The organization of a bureaucratic unit responsible for industrial and trade policies, and trade negotiations reveals India’s concerns in co-ordinating these two issue areas. The negotiations were under the auspices of the Trade Policy Division (TPD) of the Department of Commerce. Unlike in Brazil, bureaucrats involved in the DR were not concerned only with WTO issues, but had to handle other agreements, such as the preferential trade agreements (PTAs) which India either started negotiating or signed in the 2000s.<sup>72</sup> As in Brazil, however, all people in the unit of decision-taking were career bureaucrats, with the exception of the Minister, appointed by the Prime-Minister.<sup>73</sup> That been said, Brazilian and Indian economic diplomats have a crucial difference in their training. Whilst Itamaraty’s members have a general training in diplomacy, MoC’s bureaucrats come from the Indian Administrative Service (IAS). All civil servants of the IAS start their career in the subnational level, in states, where they handle a wide variety of domestic affairs. As

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<sup>70</sup> Narlikar 2010.

<sup>71</sup> MOC 2012.

<sup>72</sup> Interviews in India, Sep 2011. India has been engaged on nine different negotiations (GOI 2012).

<sup>73</sup> Ibid.

an experienced negotiator who spent 15 years in Indian state before going to Delhi analyses, such a fact enables civil servants to have a better understanding of the country.<sup>74</sup> This is crucial if one becomes involved in international negotiations. No matter how well-trained Brazilian economic diplomats are, they are unlikely to have a similar experience as an Indian one in domestic affairs.

The process of decision-making starts in the TPD. Bureaucrats subordinated to the Joint-Director of Trade responsible for the DR elaborated reports on the sectors. In this process, part of the applied research work—in all negotiating areas, from agricultural to non-agricultural issues—is outsourced to think-tanks, most of which had already been in place when negotiations started in 2001.<sup>75</sup> The most prominent are the Consumer Unity and Trust Society (CUTS)—a NGO that advocates trade liberalisation since mid-1980s—, the Indian Council of International Economic Relations (ICRIER)—founded in 1981 and with close links with top policy-makers who led economic liberalisation in India—, the National Council on Applied Economic Research (NCAER)—sponsored by the union government, and the Research and Information System for Developing Countries (RIS)—funded by the Ministry of External Affairs (MEA), which created the think-tank in the 1980s. The Centre for WTO Studies, founded in 1999 with government and private support, joined the Indian Institute of Foreign Trade (IIFT) in November 2002. Founded in 1962, the IIFT is the training academy of economic diplomacy, independent from the MEA training offered to diplomats of the Foreign Service.

The think-tanks, thus, are far from being insulated from the political and economic circles of power in Delhi. In fact, nine out of ten researchers interviewed for

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<sup>74</sup> Interview, India, 7 Sep 2011.

<sup>75</sup> Interviews in India, Sep 2011.

this project had already occupied positions in either government or other think-tanks prior to their current occupation. As a researcher who had worked for more than an institution said, “In the end, it is the MoC and the government who decides the positions”.<sup>76</sup> Many of the confidential reports think-tanks elaborate, another researcher tells, end up not being considered in the final decisions.<sup>77</sup> That been said, the inputs given by these organisations open room for a higher degree of participation and contribution of social actors in the formulation of trade policy than the one existent in Brazil, where inputs seemed to have had a bias in support of the commodity sector. A brief analysis of the evolution of the Indian positions suggest that the country started the DR prioritizing its offensive interests in services and more willing to liberalise agriculture, whilst industry was pushing for more protectionism. By 2008 the space for concessions in agriculture had been reduced, as well as the priority initially put in services, whereas industry foresaw more gains<sup>78</sup> than in the beginning of the talks.

The MoC and think-tanks are not alone in the process of opening decision-making to non-state actors. The overall structure of government became more adapted to receive more inputs from domestic stakeholders in trade negotiations: other ministries were consulted in the process of elaboration of national positions in the DR. After the definition of positions in the TPD, the Secretary of Commerce sends it to the Minister of Commerce and Industry, which, in turn, submits the positions to the cabinet headed by the Prime Minister.<sup>79</sup> The positions are discussed among the ministers. All 39 interviewees who participated in the formation of India’s positions unanimously report the Ministry of Agriculture as among all government unites but the MoC as the one

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<sup>76</sup> Interview, India, 7 Oct 2011.

<sup>77</sup> Interview, India, 12 Sep 2011.

<sup>78</sup> Interview with Manab Majumdar, 27 Sep 2011.

<sup>79</sup> Interviews in India, Sep 2011.



having more interest in the negotiations. This is understandable considering the fact that about two thirds of all Indians still depend on agriculture to survive. Properties are small on average, and many still cultivate food for subsistence only. Other interviewees quoted the ministries responsible for specific sectors of the economy, such as Textiles and Small Scale, as contributing with minor inputs in the formulation of the final national positions, but having far less power than agriculture in doing so.

The power of agriculture's interests in shaping India's positions in WTO does not come only from the ministry—whose main position was occupied on both National Democratic Alliance's (NDA, 1998-2004) and United Progressive Alliance's (UPA, 2004-incumbent) governments by politicians from parties other than the head of the coalition and with strength among the peasantry. The Parliament ends up channelling—even indirectly—the demands of the sector, which—unlike industry and IT services—does not compose even a single strong national association.<sup>80</sup> This is crucial insofar as the government—as all interviewees said—would fall if it takes a stance against the majority of the agricultural sector. Unlike the Brazilian President, the Prime Minister of India has autonomy to ratify any international agreement without MPs' approval, but would certainly receive a non-confidence vote if embraces positions considered controversial amongst his/her own basis of support in the Parliament. The *Rajya Sabha*, the upper house, which represents states, has even a standing committee on commerce. Research conducted in India's Parliamentary Library points out to a low participation of the committee in discussions on trade policy. The only relevant report with regards to the DR was published in 2005.<sup>81</sup> That been said, many members of the parliament (MPs) in the upper house and in the *Lok Sabha* (the lower house, which represents the

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<sup>80</sup> Interview with Yudhvir Singh, 3 Oct 2011.

<sup>81</sup> Parliament of India 2005.

people) asked questions to the Minister of Commerce on WTO-related issues. In the upper house, there were 205 questions between 1999 and 2009, while in the lower house MPs posed 170 points of clarification in the same period.<sup>82</sup>

Trade liberalisation proved to be dramatic to some agricultural sectors—particularly smaller producers and the peasantry in general—insofar as there were waves of suicide among farmers whose production had declined in late 1990s. The Indian central government even held consultations with state governments—each of which has its own agricultural policy—on the stances defended in the DR.<sup>83</sup> At this stage of research that set of data on parliamentary questions has not been fully systematised yet. Nonetheless, 20 per cent of the questions in both houses were on agriculture *only*.<sup>84</sup> The hypothesis is that MPs from parties and constituencies or states more dependent on agriculture tended to ask more questions as means of showing to the electorate as well as to governors concern with DR. In spite of the change of government in the course of the round, in May 2004, such a political constraint is not expected to have shifted insofar as India has been governed since late 1980s by heterogeneous coalitions which inevitably draw most support from agricultural-dependent constituencies. The NDA, headed by the centre-right Bharatiya Janata Party (BJP), proposed in its manifest for the 2004 election a reform in agriculture to boost production and expand commodity exports.<sup>85</sup> The proposal seems to have been directed to its supporters in Northern states, from where most members of the coalition came from. In those state, there are a higher number of larger farms than in the South.<sup>86</sup> However, the reasons for NDA's defeat to the UPA, led by the centre-left Indian

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<sup>82</sup> Lok Sabha 2012; Rajya Sabha 2011.

<sup>83</sup> Interviews in India, Sep 2011.

<sup>84</sup> Lok Sabha 2012; Rajya Sabha 2011.

<sup>85</sup> BJP 2004.

<sup>86</sup> Brass 1995.

National Congress (The Congress), are still unclear according to several works on Indian Politics.<sup>87</sup> Therefore, even constituencies in the North seem to have rejected NDA's proposal of launching a second "Green Revolution" due to the fear of social disruption. Such a fear haunts India's politics and society whenever solutions for poverty associated from the current state of agriculture are proposed.<sup>88</sup>

The facts mentioned above may suggest that the Parliamentary system imposes to India's positions in trade negotiations a system of checks and balances that Brazil's Presidentialism could never provide. Nonetheless, the American experience in trade policy suggests that there is no inherent pattern of policy-making and decision-taking to this political system. Even authors, such as Ikenberry and Goldstein,<sup>89</sup> who emphasise the role of state over interest groups in defining economic diplomacy in general in the US, agree that social actors have channels to inform decision-takers about their preferences. The isolation of economic diplomacy from foreign affairs in general does not explain alone different preferences in trade policy. In India, the MEA has been interacting more with the MoC. As a senior member of the Foreign Service reports, the MEA contributed to set up most of the PTAs India negotiated in the 2000s in an attempt of expanding Indian influence in Asia and markets, particularly for manufactures.<sup>90</sup> MEA's emphasis on non-agricultural issues did not constrain the MoC in WTO negotiations. In Brazil, with the mixture of political with economic diplomacy, Itamaraty's insulation would make one expect that, even with liberalisation in the 1990s, diplomacy would have preferred to maintain its alignment to industry, as it had

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<sup>87</sup> As Wilkinson (2007, 29), election results in India are multi-causal.

<sup>88</sup> Interviews in India, Sep 2011.

<sup>89</sup> Ikenberry 1988, Goldstein 1988.

<sup>90</sup> Interview, India, 23 Sep 2011.

been the case since late 1940s.<sup>91</sup> This becomes more complicated if one considers that nothing in the beginning of economic liberalisation implied that integration into the world economy would mean commodity exporting in Brazil, and consolidation of IT services and manufacturing in India.

The concept of double embeddedness solves this puzzle, which the dyad embeddedness-autonomy would have failed to. In India, the state became more domestically embedded than internationally. It enabled a better balance among different social actors in the aftermath of economic liberalization, and eventually constrained it, insofar as India's reluctance in opening its agriculture is, along with US's and EU's unwillingness to reduce agricultural subsidies, a major factor that led the DR to face what seems to be a fatal deadlock in 2008. In terms of international power, India, in comparison to Brazil, acquired more prominence in parallel to a consolidation of high-added value production in IT services and manufacturing. Surely other factors, such as geopolitics, compose the equation of empowerment of countries in the international level. That been said, the balance among different social actors lead the state to build more coherent notions of national interest, avoiding eventual negative impacts that arise from uncritical incorporation of foreign trends, as it seems to have been the Brazilian case as liberalisation evolved—a pattern clearly reflected in the national preferences in the DR thanks to the prioritisation of international embeddedness of trade policy at the expense of incorporating more views from the domestic level.

## **Conclusion**

This paper aimed to argue—based on Brazil's and India's economic transformations—that state has to balance its embeddedness between the domestic level and international

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<sup>91</sup> Sikkink 1991.

one to build a more optimal rising path in the international society. Once the experience of those two countries in the DR in WTO is put into comparative perspective, there is evidence, on the one hand, that the dominance of international embeddedness in Brazil's trade negotiating positions bought the liberal economic paradigm dominant in the international level up to the point of hindering the potential of its manufacturing sector. On the other, India's emphasis on domestic embeddedness in elaborating its positions is associated to a better balance across domestic sectors, insofar as its offensive interests in services in multilateral negotiations were not placed above the will of millions of agricultural workers and farmers to remain out of a proper market economy, dependent on cash crops rather than on subsistence.

Of course the findings of this paper do not allow claiming with enough strength the generalisation of the concept of double embeddedness. That been said, the framework as currently elaborated suggests that Brazil's and India's experience in trade policy after economic liberalization cannot be understood with a focus in the domestic level, as in Moravcsik's domestic liberalism<sup>92</sup>, in the state, as Ikenberry and Goldstein<sup>93</sup> argue in the US case in the 20<sup>th</sup> Century and Narlikar defends for India,<sup>94</sup> or in the international level—perhaps the approach most applied by critical scholars when dealing with cases involving the former Third World, including the emerging powers.

Two avenues of research could be followed to advance the concept of controlled embeddedness: one would be focused in the micro-level, related to diplomatic practices—patterns of behaviour of bureaucrats involved with international negotiations—and modes of socialization of diplomats, in an attempt to trace how their educational and overall social background impact the policy options they defend. Other

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<sup>92</sup> Moravcsik 1997.

<sup>93</sup> Ikenberry 1988, Goldstein 1988.

<sup>94</sup> Narlikar 2008.

is macro, related to answer the “why of the why”: why the patterns of double embeddedness—which explains the trends of policy-making and final decision-taking—persisted in Brazil and India? That is, whilst the argument here was applied to explain why certain policy outcomes under economic liberalisation were reached, it still remains a puzzle why the institutional configuration of positions in trade negotiations inherited patterns that favoured an imbalance towards agriculture in Brazil and equilibrium across different sectors in India. The understanding of both Brazilian manufacturing loss of power and Indian agriculture’s political empowerment demands further research. This is crucial if one assumes that social actors in the domestic level may shape not only preferences, but the institutions that will channel those preferences. Thus, preferences do not suffice when analysing policy outcomes and policy-making in periods of change. One has to look at institutional formation and reform.

In theoretical terms, the interplay between historical institutionalism and other sociological perspectives than Neo-Weberianism may shed light in future enquires. Empirically, the answer could be found in two distinct facts: 1 ) the process of economic liberalization in Brazil and India, accelerated on the start of the 1990s; and 2 ) the power of different sectors not only in terms of contribution to exports and economic output, but also in what concerns identities, such as ethnicity, gender, regional distribution, and religion participation within agriculture, industry, and services. These eventual analyses, if shown to have merit, could even be generalizable to the established powers, insofar as in the EU and US certain identities—Christianity in Religion and white in ethnicity—dominate agriculture, a sector whose efficiency in the old industrial societies depends largely on state subsidies.

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