

## **The Political Economy of Trade Policy in Latin America and the Caribbean**

**RG-K1198**

### **1. Background and Justification**

During the late 1980s and 1990s, it seemed like Latin America had embarked on a long-term process of market-oriented reforms. The pace and depth of reform varied from country to country, but the general direction seemed quite clear. Trade policy gradually shifted, in most countries, from protectionism to integration into the global economy, opening domestic markets to foreign competition while seeking better access to foreign markets for local producers.

Before the market-oriented reforms, tariffs had been set too high and kept in place for too long. State-sanctioned monopolies and isolation from global markets (which prevented even efficient firms from achieving economies of scale) resulted in economies that were, in many sectors, costly and inefficient. To economists, at least, the benefits of opening the domestic market to competition and of providing local producers with access to large, high-income markets seemed quite evident.

However, the pace towards open markets has not been steady. Even countries that went a long way towards opening domestic markets made important exceptions for sectors that were deemed worthy of special protection. In some cases, periods of liberalization were followed by policy reversals, often within the context of a shift to the left that swept through important parts of the region. This led to tariff increases or the establishment of non-tariff barriers including the pervasive use of instruments like antidumping, import license requirements, and quantitative restrictions on imports.

So how can these policy reversals, and more generally, protectionist trade policies in the region be explained? Economic theory is clear in that countries gain from trade. Few issues generate such widespread agreement in the economics profession. Yet, economists also agree that trade produces winners and losers. Who wins and who loses depends on the specifics of the trade model used. For example, in the Heckscher-Ohlin model, in which all factors of production are mobile across products, free trade benefits the owners of relatively abundant factors, while hurting the owners of scarce factors. Thus, in countries with abundant unskilled labor, skilled labor loses while unskilled labor gains. In the specific factor model, where some factors of production are specific to certain products, the owners of the factors used in the export sector gain, while the owners of the factors used in the import sector lose. More recent models (Melitz, 2003) emphasize that, even in exporting industries, likely only the most productive firms actually do export – less productive firms may be indifferent or even opposed to trade liberalization.

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If free trade produces winners and losers but benefits countries overall, it should be possible to devise compensation mechanisms that make everyone better off, leading countries to liberalize trade. However, compensation is the exception rather than the norm. Moreover, losers are sometimes powerful and have the incentives, the financial resources and often the political access to participate in the policymaking process, steering policies to their advantage. In this context, trade policy becomes the outcome of a policymaking game in which multiple actors, both public and private, participate actively. Understanding trade policy therefore requires an appreciation of this constellation of actors, their interests, and the way they play the game. Of similar importance are the social arrangements, institutions, constellation of power and organizations of the state that define the rules of the policymaking game and the arenas in which it is played.

Some of those rules are not defined at the national level, as countries are bound by existing trade agreements or their membership in the World Trade Organization (WTO). These constraints limit unilateral policy changes along with the use of certain policy instruments in the intra-regional and extra-regional arena. They may also limit the ability to autonomously engage in negotiations with countries beyond their regional trade agreements, as illustrated by the current negotiations between Mercosur and the European Union. Understanding the limits these arrangements impose on national policymaking is a key component of this project.

Normally, the trade policymaking game tends to take place between policymakers and private sector actors with high stakes in the game: import-competing firms seeking protection; importers and users of capital equipment, inputs, and consumer goods who stand to benefit from liberalization; and exporters who favor open markets to lower their production costs and minimize the risk of retaliatory protection by trading partners. Consumers and voters, who would benefit from trade liberalization through access to a wider range of products and lower prices, do not typically participate in this game, as they are a diffuse, scarcely organized group, and their stakes are not as high as those of other actors.

However, occasionally something happens that turns trade policy into a central issue in the broader political game. This may be triggered by a specific trade negotiation (such as CAFTA in Costa Rica), a recession that turns public attention against a country's imports, or a generalized backlash against free trade.

In the context of Brexit, the potential repeal or renegotiation of NAFTA, and the announced US tariff hikes for steel and aluminum along with China's retaliatory measures, trade policy issues are becoming very salient in our region and beyond.

At times like this, understanding the preferences of different interest groups, the way they intervene in the trade policymaking game, and their impact on policy outcomes, is not enough. When trade policy becomes a salient political issue, we need a better understanding of attitudes toward trade in the general public, and of its determinants and consequences, both in terms of policy and electoral outcomes.

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In summary, to understand trade policy and its outcomes, a better understanding of the political economy of trade policy is crucial. That is the purpose of this project.

### 2. Objective

The studies in this research project should contribute to our understanding of the political economy of trade policy. They should further our understanding of the institutions, the constellation of political and economic players, and the *rules of engagement* between them, that is, of the trade policymaking game that in turn produces trade policy outcomes. The studies should account not only for general trends and patterns (for example, the evolution of average tariffs), but also for exceptions and their political economy determinants. While we expect that a substantial part of the project will focus on trade policy as it relates to goods, policies related to trade in services are of interest as well. In the remainder of this call for proposals, it will be understood that trade policy refers to goods as well as services.

The research should be aimed at the following objectives:

- (i) Provide an overview of the recent evolution<sup>1</sup> of trade policy in the country.
- (ii) Provide a detailed description of current trade policy.
- (iii) Identify and describe the policy instruments at play (such as trade agreements, tariffs, import licenses, antidumping, etc.; see the next section for a more detailed discussion). If there are explicit mechanisms or policies to compensate those who lose from trade shocks, these should be discussed as well.
- (iv) Identify and describe the key public sector participants in the trade policymaking game, their roles, attributions, areas of responsibility and sources of influence. In other words: describe the institutional architecture of the trade policymaking process. Leadership, coordination and conflict resolution mechanisms within the public sector should be examined, as should the roles of the executive, the legislature, and decentralized agencies. When appropriate, the different roles and agendas of national and subnational governments and other authorities should be discussed. If relevant, the judiciary should also be included.
- (v) Identify and describe the key private sector players, including individual firms, business sector organizations (such as sectorial or regional business chambers, national leadership organizations encompassing all sectors) and if appropriate, workers organizations with interests and participation in the trade policymaking process.
- (vi) Discuss how the actors mentioned above interact in the trade policymaking process. Include channels of communication, dialogue, and conflict resolution between different private sector actors and public authorities, regarding both policy design and policy implementation. To whom do different business sectors and organizations direct their complaints, needs and requests? How is the dialogue between the private and business sectors organized? In some cases,

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<sup>1</sup> Researchers are invited to define the relevant recent period. Our focus is on current policy, but proper historical context should be provided where relevant to understand current policy.

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governments by design incorporate what in fact are representatives of the private sector within government itself, creating a system of informal checks and balances, or at least ensuring that different points of view are heard and analyzed inside the government itself. In other case, policymakers may try to keep the private sector (or parts of it) at arm's length. What is the case in the country under analysis? Why?

- (vii) Discuss the role of multilateral, regional or bilateral trade commitments, including the general rules resulting from WTO membership as well as those that stem from bilateral or regional free trade agreements, customs unions or common markets.
- (viii) Provide policy recommendations to improve the country's institutional architecture for trade policy in light of the insights gained from the overall (not just country-specific) project.

### 3. Main Issues of Interest to Be Covered by the Research

#### 1. Current Trade Policy and Instruments

As a starting point, current trade policy should be described in detail. As even the most free trade-oriented countries protect some sectors or industries, the structure of protection should be described, including key industry- or sector-level differences, as well as the type of instruments used – tariffs, non-tariff barriers, or other related instruments. Recent or current policies that aim to change the trade regime, from protectionism to liberalization or vice versa, should also be described. Trade policy implications of a country's international agreements, from WTO membership to bilateral, regional and multilateral trade agreements should be clearly spelled out.

Note that competition from foreign suppliers of goods and services in the domestic market can be promoted, or prevented, through the use of a variety of instruments, some of which will be immediately identifiable as typical instruments of trade policy, while others may not have been designed with trade policy in mind but can nevertheless be mobilized to serve trade policy. It might be convenient (but it is not required) to group the available instruments in three groups: long-term policy instruments, short-term trade management instruments, and indirect policy instruments.<sup>2</sup>

#### *Long-term Trade Policy Instruments*

Multilateral, regional and bilateral trade treaties can be used to define long-term trade policy and a time-consistent evolution of trade policy over extended periods. While, in principle, treaties can be renegotiated or even repealed, the process is cumbersome and the outcomes hard to predict, so most countries will resort to unscheduled renegotiations or repeal processes only in exceptional circumstances, Brexit and recent changes in US trade policy

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<sup>2</sup> The reason for the suggested grouping is that the set of actors playing the game involving these instruments, as well as the arenas where the game is played, may differ from group to group.

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notwithstanding. In fact, one of the uses of treaties may be precisely to signal a country's long-term commitment to a stable trade policy, which may evolve over time according to pre-defined rules, such as tariff reduction and phase out schedules, agreements regarding technical, environmental or labor norms, rules of origin, etc. On the public sector side, these policy instruments tend to involve the legislature, in addition to different agencies of the executive branch.

### *Short-term Trade Management Instruments*

These include discretionary tariff and import duty adjustments, as well as trade-related instruments such as antidumping measures, countervailing duties and temporary *safeguard* emergency measures. This also includes non-tariff barriers to trade such as import licensing, rules of valuation, pre-shipment inspection requirements and similar instruments. Recourse to the WTO's Dispute Settlement Body or similar bilateral or regional mechanisms to resolve trade disputes should be included as well. Recategorization of items between tariff headings (from items with lower tariffs to others with higher tariffs) should also be considered where relevant.<sup>3</sup>

### *Indirect Trade Management Instruments*

Phytosanitary norms, technical norms, and norm-compliance requirements can also be manipulated and designed to make entry of new, foreign competitors into the domestic market harder, costlier or even impossible.<sup>4</sup> Government procurement policies can also be used to create preferential treatment for local suppliers, or outright prohibition of foreign suppliers in some markets, and are therefore also of interest.

There may be other policies that are not trade policy per se, but interact with trade policy in ways that may affect policy outcomes of interest. One example is competition policy. Think, for example, of the sole supplier of an intermediate input. If the input is highly protected, downstream firms may be forced to purchase it from this supplier. If protection is reduced, downstream firms may want to import instead. If liberalization is not fully credible and can be easy to overturn, the supplier may use its market power to force the downstream firm to purchase from it, under the threat of cutting off supply if protection resumes. Competition policy may help address this problem by providing downstream firms with alternative suppliers. Weak enforcement of competition policy may allow dominant incumbents to operate unchallenged even in nominally open markets. Thus, under some circumstances, weak competition policy may render liberalizing trade policy ineffective.

Another set of policies relevant for this study are those that compensate losers. An example of this is the US Trade Adjustment Assistance program, which combines subsidies to workers

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<sup>3</sup> Jeff Frieden recalls the case of the US lunch box producers that, facing competition from Brazil, were able to reclassify their product for customs purposes as *luggage*, which was subject to a higher tariff.

<sup>4</sup> A recent, potentially tongue-in-cheek reference by President Trump to an alleged *bowling ball test* for foreign cars in Japan is a case in point.

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who lose their jobs due to trade shocks with training to facilitate their reentry into the labor market. Another interesting recent case is the *Programa de Transformación Productiva* in Argentina, which aims to facilitate the reallocation of workers from crisis-stricken sectors and firms to other more dynamic ones with competitive potential. These types of policies, as well as generous social safety nets, may facilitate trade reform by lessening the blow to those who are negatively affected by liberalization.

Researchers should note that long-term trade policy instruments and short-term trade policy management instruments, as described above, **must** be included in the studies. Instruments that are not directly trade-related, such as the ones described above or others, should be included within the study's scope **if and only if** they are used or deployed at the service of trade policy.

### 2. Trade Policy Credibility and Private Sector Adjustment to Policy Changes

The impact of formal policy changes may elicit different adjustments in private sector behavior depending on whether the public sector is perceived as actually capable of implementing and enforcing the new policy, and whether the policy changes are perceived as permanent – or at least long-lasting – or as potentially short-lived and volatile, as the example above illustrates.

Perceptions of implementation and enforcement capabilities are likely to depend on the technical, operational and political capabilities (TOP capabilities, for short) of the agencies in charge of them, as well as on the qualities and track record of the political and technocratic leadership in those agencies.

Expected policy life may depend on who has the authority to change the policy and on whether international policy obligations and commitments are at play. Policies that can be decided at the discretion of the executive power are likely to be perceived as easily reversible, particularly if the ideological preferences of the executive are not aligned with current policy. In some, but not all, countries, policies that are established by law may be difficult to reverse, and the process, in any case, time-consuming and of uncertain outcomes.

On the other hand, policies established in the context of international trade treaties, or as part of the conditionality of large-scale development programs and loans are likely to be perceived as difficult to change and therefore more stable, except under extraordinary circumstances. These considerations may have an impact on the behavior of both private and public actors in the trade policymaking game.

### 3. Key Players in the Policy Game

As explained above, one of the key objectives of this project is to identify the key players in the trade policy process, both in the private and the public sectors, the roles played by each of them, the sources of their influence, and the interaction between them. Some examples are provided below, but the relevant players in each country differ.

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### *The Public Sector*

Trade negotiations are typically the responsibility of either Ministries of Foreign Trade or Ministries of External Relations. When separate ministries exist for trade and foreign (political) relations, there is typically tension between them, leading to turf wars or skirmishes.

The results of trade negotiations impact the constituencies of ministries that do not normally play a central role in such negotiations, such as ministries of production, industry or agriculture.

In some cases, trade negotiations are the responsibility of one institution, say the *Cancillería* or Ministry of Foreign Relations, but the administration of trade instruments falls to another institution, such as a production-related ministry.

Technical norms and norm-compliance verification mechanisms are typically not under the same authorities in charge of trade negotiations or the administration of trade instruments but can be used to avoid or promote competition in the domestic market. It is important to recognize that not all actors within the executive have similar preferences. Ministries of production or industry (or the Department of Commerce in the US) often tend to be closer in preferences to their constituents and tend to be more protectionist than ministries of finance or the Treasury.

So far, the discussion has focused on the roles potentially played by different organizations within the executive branch of government (including decentralized agencies). A further question to be examined is the relationship and distribution of authority between the executive and legislative branches of government.

In most cases, trade agreements are negotiated by the executive but have to be approved by the legislative, and there may or may not be fast-track and other mechanisms that allow for a timely up or down vote. If these mechanisms do not exist and the legislative can introduce amendments to trade treaties, the approval process might be lengthy and uncertain.

Similarly, leaving aside trade-related measures such as antidumping and countervailing duties (for which executives tend to have sole responsibility), the discretionary authority of the executive to modify tariffs or impose import licensing requirements may vary from country to country.<sup>5</sup> In some cases, legislative approval may be required. In others, the legislature may even have the authority to propose and approve trade-related legislation on its own.

Different rules regarding the involvement of the legislature may lead to different policy outcomes, for a variety of reasons. On the one hand, legislators tend to respond to business

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<sup>5</sup> Discussion of the country's antidumping administrative arrangements is also important, at least in cases in which this policy instrument is used extensively.

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interests in their districts, and thus their deep involvement may lead to a more protectionist stance, particularly under institutional arrangements that facilitate logrolling.<sup>6</sup> Executives, in contrast, tend to internalize the externalities generated by these tariffs, and thus tend to have a more liberal stance. As an example, in the 1930s in the US, complete legislative authority for trade policy (other than the veto prerogatives of the president) gave rise to substantial tariff hikes under the Smoot-Hawley Act. Trading partners retaliated, and, by most accounts, the act exacerbated the Great Depression. In 1934, Congress enacted the Reciprocal Trade Agreement Act (RTAA), authorizing the president to reduce tariffs vis-a-vis specific countries, in exchange for reciprocal tariff reductions.

This delegation of authority to the president, a precursor to the fast-track authority (the modern-day Trade Promotion Authority) where the president negotiates and Congress votes up or down, led to substantially lower tariffs. Interestingly, the reciprocal nature of the law brought exporters to the policymaking game, since now they had reasons to lobby Congress for lower protection in exchange for improved market access. Thus, the enactment of the Reciprocal Trade Agreements Act not only shifted authority to an actor that had a less protectionist stance, but also shifted the preferences of members of Congress, as it brought new relevant players in their districts to the table, with interests that were opposed to those of the traditional import-competing industries that had long been part of the policymaking game.<sup>7</sup>

The second way in which the role of the legislature is important is that it can act as a limit to the discretion of the president, creating checks and balances and leading to increased policy stability. If, for example, different parties have different preferences regarding openness to trade, excessive executive discretion may lead to frequent policy changes, as parties alternate in power. A greater role for the legislature, or the requirement of special legislative majorities to modify treaties and policies, may lead to more stable and more predictable policy outcomes.

National-level executives and legislatures may not be the only public players. Regional or provincial governments may play a role in the policy process as well. As production is distributed unevenly across the territory, the protection of an industry may generate benefits for specific regions specializing in that industry. Thus, local authorities may have goals and interests that are not necessarily aligned with those of the central government, let alone specialized central agencies in charge of trade negotiations and day-to-day management of trade policy instruments.

Finally, when a country is part of a regional trade agreement, it may need approval or acquiescence of its trading partners to modify some aspects of its trade policy. Foreign countries also participate in the policymaking process through the threat of retaliation. If one country increases tariffs on a certain product, the affected countries may retaliate by imposing

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<sup>6</sup> I vote for protection in your district's industries if you vote for protection in mine.

<sup>7</sup> This example shows clearly how the nature of the game itself, as well as the identity and the preference of the players, is itself endogenous to the rules of engagement between the different actors.



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tariffs on others. On occasion, retaliating countries will take into account the political economy of the trade partner, imposing retaliatory measures that hurt powerful players that are likely to exert pressure to reverse these policies. For example, in response to recent US increases in steel tariffs, retaliation may involve increased tariffs on orange juice, since orange growers are a powerful lobby, and the main producing state, Florida, is a swing state that can affect electoral results nationwide.

### *The Private Sector*

Existing political economy models of private sector trade policy preferences suggest a variety of considerations that go into the making of trade policy. One approach, based on theoretical principles of Heckscher-Ohlin/Stolper-Samuelson, emphasizes the role of broad factors of production: abundant factors favor trade, scarce factors favor protection. Farmers in land-rich Latin American countries would be pro-trade, while workers in labor-scarce countries would be protectionist. While this certainly captures some of the determinants of attitudes toward trade, it assumes monolithic factors of production (capital, labor, human capital, land), certainly a very strong and largely inadequate assumption. Another approach, based on Ricardo-Viner/specific-factors assumptions, posits that some factors of production are *stuck* in particular industrial sectors, so that the relevant divisions are sectors, not factors. In this approach, exporting industries tend to favor trade, while import-competing industries lean toward protectionism. Still a third, more recent, theoretical perspective emphasizes differences among firms within a sector (Kim, 2017 and Osgood, 2017), with more productive firms more favorable to trade.

Despite differences among theoretical perspectives, we can find some consensus on the sorts of considerations likely to affect trade policy preferences. The most productive firms in industries closest to a country's comparative advantage – as defined largely by its factor endowments and revealed by actual or potential exports – are more likely to favor trade liberalization. Less productive firms in industries far from a country's comparative advantage – again, as defined largely by factor endowments, and revealed by existing protection or competition with imports – are more likely to favor trade barriers.

Given the focus of this project on the political economy of trade policy, the first and most obvious stakeholders in the private sector are the producers in hitherto protected sectors or activities, i.e., producers that would be directly impacted by trade liberalization. Their customers, who may be able to purchase more varied, higher quality and/or cheaper products under liberalization, are also of interest. Final consumers, being a diffuse group with relatively smaller stakes, may not participate actively in this game (except when these issues become prominent in the political debate, see below). Buyers of intermediate inputs, on the other hand, should have greater stakes in this game. They are particularly interesting for our project, as we will discuss below, whether or not they choose to play an active role in the policymaking process.

Producers may be organized in national or regional chambers, with different degrees of sector representation, and different types of producers may have more or less say than others. They

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may influence the policy process through traditional lobbying activities, campaign contributions, and other means, and through local and national authorities, at the executive or legislative branches. Where local, provincial or state governments are powerful, and the national government needs their collaboration to pursue its agenda, setting up production facilities in different regions may be a politically efficient strategy, even if the cost is some loss of production efficiency.

In the case of widely used inputs (cement, steel and others), downstream producers are likely to benefit from trade liberalization, or at least from reduction of tariffs on these inputs. Whether they are organized and play an active role in the policy process or they are passive, these potential beneficiaries of trade liberalization are of interest for this study. In the first case, for the obvious reason that they are part of the policymaking process. In the second case, because understanding why potential beneficiaries of trade liberalization choose to stay out of the policymaking process is a key element of the political economy of trade policy. For example, downstream producers may be threatened by suppliers, as discussed above. Or suppliers may offer their help, putting pressure on the government to protect the downstream sector as well, thus turning potential conflict into cooperation.

Trade unions may also play a role in the trade policymaking process. In some cases, there might be strong unions in protected industries, and worker benefits might be above what industries in competitive markets could afford, in which case it can be expected that unions would be a key player opposing trade liberalization.

In some cases, exporters may also have a stake in trade liberalization, depending on the nature of trade negotiations. As discussed above, through the 1934 RTAA, Congress delegated to the executive the authority to discretionally cut tariffs vis-a-vis specific trading partners, in exchange for reciprocal treatment. Thus, trade liberalization was automatically bundled with market access for the country's exports, so exporters suddenly became part of the policymaking game. More generally, exporters tend to fear retaliation and be a force against protection.

Some of the beneficiaries of trade liberalization might be firms and workers in sectors and activities that will only emerge or grow to a significant scale as a result of trade liberalization. A strong asymmetry may therefore exist between losers and winners resulting from trade policy. Losers are well identified, may be well organized and wield considerable economic and political power, and their losses would be certain and, in some cases, swift. Winners from trade liberalization might be emerging sectors that have yet to develop economic and political influence or may simply not yet exist.<sup>8</sup>

How do policymakers and policy entrepreneurs mobilize support for policies whose beneficiaries are uncertain and which, at any rate, will become significant players in the policymaking process only in the future, if ever? This is also an important question to be explored in this research project.

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<sup>8</sup> See Fernandez and Rodrik (1991).

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While dispersed consumers as voters are typically not organized enough, or do not have strong enough views, to play a major role in the making of trade policy, there is evidence that at times public opinion on trade does affect the behavior of politicians. The issue may mobilize nationalist sentiment; or it may motivate consumers who see benefits from access to more varied and cheaper imports (Baker, 2005). Politicians may be moved to respond to broad electoral considerations where they are prominent, especially in election periods (Conconi et al., 2014).

### 4. Sources of Power and Influence

As befits a political economy study, the sources of power and influence of the key players should be part of the analysis.

For example, some companies or business sectors may derive at least part of their influence from the fact that they have production facilities and are an important source of employment in various regions in the country and can thus mobilize the support of several sub-national governments and legislators at once. In other cases, they might be able to count on the support of unions.

Some firms or business organizations also have strong lobbying capabilities, as well as deep technical knowledge and capabilities that occasionally may be much stronger than those of the relevant agencies of the public sector. They may use these informational advantages in their favor, arguing that public officials got it all wrong, and discrediting them. Some powerful firms or business organizations may promote the placement of their staff in public office, indirectly influencing the policymaking process from the public side.<sup>9</sup>

Some firms or business organizations may wield influence because they have deep pockets and can provide campaign contributions as a way to affect policy outcomes, as in Grossman and Helpman's (1994) famous *Protection for Sale* model. Or they may outright pay politicians, engaging in corrupt practices.

Similarly, the legislative branch may have direct authority over some areas of trade policy, but its authority may extend beyond those areas if the executive needs congressional support to implement its policy agenda, trade-related or not. Not only the legislators individually, but their political parties as organizations may therefore play an important role.

At any rate, the point is that researchers should identify in detail the specific means by which influential players, in fact, become influential.

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<sup>9</sup> This may be completely legitimate. It is common in many countries of the region for public officials to come from the private sector. Some may have a pro-business approach.

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### 5. Policy Actions Versus Policy Declarations

Policy actions and actual authority over policy formulation and execution may or may not follow official policy declarations and formal organizational charts. While the latter should be included as a necessary reference point in the studies, it is the former that should be the main focus.

Some examples may help illustrate the point.

A government may be formally committed to market liberalization, while in reality dragging its feet or making extensive use of supposedly nontrade-related policy instruments to keep local markets protected. A minister might be formally an equal among peers, while in reality acting as *primus inter pares* because he or she is recognized as *speaking for the president*. The constitution may assign the legislature certain responsibilities, but de facto the president may be conducting trade policy unchecked. A government may be using some WTO-compatible instrument, while in fact blocking imports through more drastic and obscure means. Formal public-private fora may be the designated channel of communication between the private and public sector, but key issues may be settled outside formal channel in more obscure arenas if influential firms or sectors have direct access and influence over public authorities and can avoid the spotlight.

The point of these examples is simply to emphasize that researchers are expected to dig into what the public sector actually does in terms of trade policy and how it does it, and not to limit themselves to the examination of official policy documents.

Since the details of actual policymaking are in many cases known only to those who participate in the process, access to policymakers and other key participants in the policymaking process is absolutely essential to the success of this research project. In order to be selected, researchers will be expected to provide evidence that they indeed have such access.

### 4. Scope and Methodology

As noted above, the focus of interest is on current trade policy and particularly on the political economy and institutional architecture of current policy. However, researchers are expected to provide context and historical background as needed to make sense of current trade policy, institutional arrangements and political economy dynamics.

Regarding current policy, the studies should provide not only an in-depth description, but also, and crucially, discuss the issues described in the previous section, as well as other relevant issues they may identify. While describing the policy constitutes a requirement, this project does not aim to evaluate a country's trade policy from a normative perspective. Rather, the main goal is to understand how trade policy came to be, how it gets done, and how the policymaking process affects policy outcomes from a positive perspective.

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A review of the relevant literature, both theoretical and empirical, including country-specific studies, and an examination of available sources of statistical information, official reports, third-party studies and similar sources is required. The proposals should clearly indicate the sources of information they plan to use and the instruments they will use to collect it.

However, it is the information that can only be provided by policy players and stakeholders that will make the difference and which, properly curated, will allow the research teams to understand the political economy of trade policy.

Therefore, the proposals must include at least a preliminary list of key informants and justify their selection. Additionally, researchers should provide some evidence that they will have access to those sources. If, as is likely, semi-structured interviews are to be used, a draft of the interview guide should be included in the proposal.

In order to illustrate as precisely as possible the workings of the trade policymaking game, it is important to go beyond a general characterization of what the different actors and institutions want, what they do and how they interact. These actors and their interactions in the relevant arenas are best observed not in the abstract, but rather by looking at them in action, as they engage in the policymaking process, deploying their capabilities around specific critical issues. We therefore propose that researchers focus on a few episodes that may help bring to light key features of the policymaking game. These revealing episodes should be selected carefully, in order to allow the research teams to infer or validate their analysis of the workings of the policymaking process. Naturally, we are not interested in the episodes per se, but as windows through which the actions of the actors and institutions can be observed.

Thus, we ask that research teams include in their proposals the list of episodes they intend to study as part of their analysis; that they provide a brief summary of these episodes; and that they argue why the episodes are theoretically relevant for observing and analyzing the relevant actors and institutions as they shape policymaking. In other words, we ask research teams to explain why they think that we can learn from these selected episodes.

Examples of such episodes may include i) the moment in which congress delegates some trade policy authority to the executive (and the discussions and arguments of the actors at the time); ii) the negotiation of a specific trade agreement shedding light on the private sector's influence on exemptions and phase-out schedules; iii) a shift in trade policy associated with an incoming administration with different trade policy preferences; or iv) the discussions and actions surrounding the protection of a specific item (such as the current episode surrounding canned

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tomatoes in Argentina, or the current episode on steel and aluminum in the US).<sup>10</sup> In constructing the narratives of these episodes, researchers are encouraged to minimize confirmation bias by identifying and exploring alternative narratives, if available, and by trying to disprove their own narratives.

Whenever possible, and as a complement to the narrative approach suggested here, authors are encouraged to provide quantitative evidence supporting their interpretation of the political economy of trade policy, include assertions regarding the prevalence or influence of different groups with a stake in the policymaking process and the instruments they use in order to influence policy. An example of this type of work would be the paper by Ludema et al. (2010) on the role of cheap talk and lobbying on the political economy of tariff suspensions in the US (see references).

While the previous paragraphs present some general methodological guidelines, researchers are encouraged to complement these with additional methodological perspectives and interpretative frameworks where relevant to the proposed studies, explaining their methodological choices as explicitly and clearly as possible.

### 5. Content of the Studies

1. Brief review of the recent evolution of the country's trade policy.
2. A detailed description of current policy, as well as the current policy agenda and debates.
3. Identification of the key institutional and personal players in the public sector, their agendas and constituencies, their roles, jurisdictions and sources of authority; the organization of public-public cooperation and the identification of who makes what decisions; the interplay and distribution of authority across different branches of government (the executive, judicial and parliamentary branches, including agencies with different degrees of autonomy with respect to the branches or institutions to which they are formally attached) are key elements of this description.

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<sup>10</sup> The leading producer of canned tomatoes in Argentina is Arcor, a very large and powerful firm that is facing important competition from imported canned tomatoes. Arcor has asked for reference prices on canned tomato imports. According to the government, the problems arise from the cost of the heavily protected cans, which Arcor procures from another Argentine industrial giant, Techint. Rather than asking for a reduction in the protection of the cans, however, the downstream firm is asking to have its own product protected. This is a classic example of *cascading tariffs*, in which tariffs on one product lead to demands for tariffs on downstream products. All this came to light recently, in the form of contentious exchanges between Arcor and the *Unión Industrial Argentina*, on one side, and Francisco Cabrera, the Minister of Production, on the other.

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4. Identification of key institutional and personal players in the private sectors, their roles, constituencies, sources of influence or power.<sup>11</sup>
5. A description of the policymaking process. How do the different agents identified in the previous section engage and interact with each other, how are decisions arrived at, and how is policy implemented? This may include the detailed discussion of a few revealing episodes that show clearly the way the game is played.
6. A concluding chapter in which researchers should assess how the institutional arrangements, sources of power and influence and interest of key stakeholders in the trade policymaking process have led to specific policy outcomes (such as high protection or low protection; a stable policy with a well-defined direction, or unstable policies with frequent changes between market liberalization and market protection options). The studies should assess whether the institutions and policymaking process described contribute to reasonably paced progress in policy reform or if, to the contrary, they slow it down unduly. The features of successful political strategies given the institutional setup and the configuration of political and economic power should be identified and described. The authors should also include recommendations regarding the improvement of the institutional architecture for trade policy, as well as a feasibility assessment of changing the process in light of these recommendations.<sup>12</sup>

### 6. Content of the Research Proposals

To participate in the project, research institutions must submit a proposal detailing the following:

- Relevance of the country case: what are some specific insights that the country case will bring to the overall project? Why should we include the country in the study? What particular features of the political economy of trade policy will be highlighted by the country study? In other words, why is the case of interest for this project as a subject of inquiry?
- Brief discussion of the main actors and institutions, and the workings of the trade policymaking process.
- Methodology to be used in the case study to address the issues discussed in Section 3, including the data and proposed information sources. If revealing episodes are going to be used, proposals should include the list of proposed revealing episodes, and argue how these episodes will illustrate the trade policymaking process. If the study will include quantitative empirical evidence, a clear summary of the hypotheses to be tested, the data and the methodology should be spelled out.

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<sup>11</sup> Note that for both the public and the private sector an organization's TOP capabilities may be a source of influence, while inadequate capabilities may go a long way towards explaining the lack of influence and ineffectiveness of other organizations.

<sup>12</sup> Ideally, these recommendations should be based on the lessons of the country case study, but also on lessons drawn from the project as a whole.

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- List of proposed interviews, as well as a statement regarding the degree of access to the main interviewees.
- Potential relevance of the lessons and conclusions to be extracted for the trade policy debate in the country.

In addition, proposals must include:

- The name of the research leader and a list of the researchers who will be involved in the project. The center should justify the choice of the research team, highlighting their capacity to meet the objectives of the project, including relevant prior experience. Curricula vitae of the researchers may appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from the IDB Network coordinator, but the project leader should lead the entire project to completion.
- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan must be included. The budget proposed by the research center should disaggregate items financed by the IDB contribution and those financed by the research center. The budget should distinguish between amounts assigned to professional honoraria, data collection, overhead and other major categories of research expenditures.
- Institutions need to provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study.
- An indicative proposal for the diffusion strategy of the final version of the paper and its policy implications.

**Note: Proposals must be submitted in English.**

### 7. Selection Criteria

**Only research institutions** (including think-tanks) may present proposals. Research teams will be selected according to three main factors:

- Relevance.** Research teams must spell out in detail the relevance of the country case and the episodes chosen to meet overall project objectives stated above, and how they will contribute to the understanding of the political economy of trade policy.
- Data and Methodology.** The proposals should explain in as much detail as possible how they will approach the subject under study. Data collection issues should be



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- spelled out in detail (what sources of data will be used, what interviews is the team planning on doing, what are the chances of success in obtaining such data/interviews, what channels are they planning to use to obtain data, etc.).
- iii) **Team Experience.** The relevance of the team's experience for the proposed project will be a very important criterion in the selection process. Previous experience in trade policymaking, or research showcasing the team's ability to clearly describe policymaking processes using quantitative and qualitative sources of information would be a plus.

### 8. Proposal Submission

Interested research institutions should submit a proposal no later than **May 13, 2018** using the web submission form that is provided in the Call for Proposals announcement. If you are unable to submit the form electronically, please send an e-mail to [red@iadb.org](mailto:red@iadb.org).

Proposing **research institutions** should be registered as Research Network members (contact Elton Mancilla at [red@iadb.org](mailto:red@iadb.org)) and should be based in the Latin American and Caribbean region. US and European institutions do not qualify as members of the Research Network. However, researchers from the United States and Europe can participate in research teams from proposing institutions.

### 9. Coordination and Schedule

The project will be administered by the Research Department (IDB/RES), under the technical coordination of Ernesto Stein (IDB/RES), IDB Advisor Mauricio Mesquita Moreira (INT/INT) and external advisors Jorge Cornick (DRP Trejos & Cornick, Costa Rica) and Jeffrey Frieden (Harvard University).

The tentative schedule of activities is as follows:

- **May 13, 2018:** Due date for **proposal submissions**. Institutions should make sure to submit complete documentation to the evaluation committee. Complete documentation includes: registration form with all requested information; the research proposal; budget; and curricula vitae (CVs up to three pages long).
- **May 29, 2018:** Announcement of **selected research proposals**.
- **June 26-27, 2018: First Discussion Seminar** in Washington, D.C., with the technical directors of the projects and the coordinating committee for the purposes of discussing methodological issues, as well as presenting a preliminary analysis of some of the main issues to be explored in each study.

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- **July 6, 2018:** Due date for receiving an **annotated outline** of the research paper, incorporating the changes associated with the comments received in the discussion seminar.
- **August 12, 2018:** Due date for receiving a **first draft** of the research paper.
- **August 23-24, 2018 (to be confirmed): Second Discussion Seminar** in Washington, D.C. with the technical directors of the projects and the coordinating committee to discuss the first draft of the research papers.
- **October 15, 2018:** Deadline for a **final version** of the research papers, including a **summary that discusses policy lessons**. Data should be submitted by this date. Deadline for presenting a list of the most relevant dissemination activities (e.g., events, seminars, workshops, etc.) to discuss the main policy lessons of the country study with local authorities. Research papers must follow the **IDB Manual of Style** for working papers.

Studies that are of good quality will be considered for publication in the IDB working paper series.

A selection of the best papers may be included in a special issue of an academic journal or in an edited volume on The Political Economy of Trade Policy in Latin America.

### 10. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$30,000** to the total budget of each study, depending on the number of cases selected. The payment schedule is as follows:

- **20 percent** within 30 days of signing the formal agreement between the IDB and the respective research center.
- **10 percent** within 30 days of presenting and approval by the IDB of the annotated outline following the first seminar.
- **35 percent** within 30 days of presenting and approval by the IDB of the first draft of the research paper.
- **35 percent** within 30 days of presenting and approval by the IDB of the final research paper and upon delivery of the datasets utilized by the study to the IDB.

### 11. References

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