STATES, MARKETS AND LABOUR UNIONS: THE POLITICAL ECONOMY OF OIL AND COPPER IN BRAZIL AND CHILE

Submitted by

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ABSTRACT

The thesis explores the political economy of natural resources in Brazil and Chile. The cases are drawn from oil and copper mining respectively. Using the twin lenses of historical institutionalism and critical international political economy (IPE), I probe into the significance of states and state enterprises in resource management. In this thesis, I seek to explain the process of market opening reforms in strategic resources industries, particularly the extent to which sector-specific dynamics and institutional complexities have obstructed the full privatisation of the resource sectors. Not only has neoliberalism been implemented partially, the persistence of state ownership in Brazil and Chile has reconfigured the balance between states and markets in managing strategic industries. Consequently, I demonstrate how state enterprises and labour unions have responded to demands of global competitiveness by way of maintaining a structure of relationships that address commercial goals, sectoral interests, and public policy objectives. Evidently, reforms have taken place prior to the commodity boom in 2003 and the rise of Left-led governments in the region. Overall, my comparative historical approach contributes to broader debates on IPE of natural resources, political economy of development, and Latin American politics.

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Abbreviations

ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis
BNDE	Banco Nacional do Desenvolvimento
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BRASPETRO	Petrobras International Braspetro B V
CDI	Comissão de Desenvolvimento Industrial
CENAP	Centre of Oil Upgrade and Studies
CENDA	Centro de Estudios Nacionales de Desarrollo Alternativo
CESCO	Centro de Estudios del Cobre y Minería
CNIC	Consejo Nacional de Innovación para la Competitividad
CNP	Conselho Nacional do Petróleo
CNPE	Conselho Nacional de Politíca Energética
CNTI	Confederação Nacional dos Trabalhadores da Indústria
COCHILCO	Comisión Chilena del Cobre
CODELCO	Corporación Nacional del Cobre de Chile
CONAMA	Comisión Nacional del Medio Ambiental
CORFO	Corporación de Fomente
CREAI	Carteira de Crédito Agrícola e Industrial do Banco do Brasil
CSN	Companhia Siderúrgica Nacional
CTC	Confederación de Trabajadores del Cobre
CUT	Central Unitaria de Trabajadores de Chile / Central Única de Trabajadores
CUT	Central Única dos Trabalhadores
CVRD	Companhia Vale do Rio Doce
DNP-CUT	Departamento Nacional dos Petroleiros da CUT
DNPP	Departamento Nacional dos Petroleiros e Petroquímicos
DT	Dirección del Trabajo
EITI	Extractive Industries Transparency Initiative
ENAMI	Empresa Nacional de Minería
ENAP	Empresa Nacional de Petróleo
ENDESA	Empresa Nacional de Electricidad
EPE	Empresa de Pesquisa Energética
FAFEN	Fábrica de Fertilizantes Nitrogenados
FCUP	Federação Única Cutistas dos Petroleiros
FDI	Foreign direct investment
FENAPE	Federação Nacional dos Petroleiros
FEES	Fondo de Estabilización Ecónomica y Social
FGV	
FINEP	Financiadora de Estudos e Projectos
FMC	Federación Minera de Chile
FOCH	Federación de Obreros de Chile
FTC	Federación de los Trabajadores del Cobre
FUP	Federação Única dos Petroleiros
GCC	Global Commodities Chains

HI	Historical Institutionalism
IBP	Instituto Brasileiro de Petróleo, Gás e Biocombustíveis
INTERBRAS	PETROBRAS Commercial International SA
IOC	International oil company
IPE	International Political Economy
IRS	Internal Revenue Service (SII in Chilean)
ISI	Import Substitution Industrialisation
MME	Ministério de Minas e Energia
NOC	National oil company
PAC	Programa de Aceleração do Crescimento
PETROBRAS	Petróleo Brasileiro
PND	Programa Nacional de Desestatização
PRF	Fondo de Reserva de Pensiones
PT	Partido dos Trabalhadores
PUC	Pontificia Universidad Católica de Chile
PUC Rio	Pontifícia Universidade Católica do Rio de Janeiro
RC	Rational Choice
RENAVE	Empresa Brasileira de Reparos Navais
SEAM	Mechanised Agriculture Equipment Service
SEP	Public Enterprise System
SERNAGEOMIN	Servicio Nacional de Geología y Minería
SINDIPETRO	Sindicato dos Petróleiros
SOE	State-owned enterprise
SONAMI	Sociedad Nacional de Minería
STIEP	Sindicato dos Trabalhadores na Indústria de Extração de Petróleo
SWF	Sovereign wealth fund
TST	Tribunal Superior do Trabalho
UFRJ	Universidade Federal do Rio de Janeiro
WIR	World Investment Report
WST	World Systems Theories

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Chapter 1
INTRODUCTION

I explore in this thesis the political economy of natural resources in Brazil and Chile. I situate my arguments in the debates on state autonomy, global political economy, and development politics. More specifically, I probe into the significance of states in natural resource governance. Since the 1980s development policies towards natural resources in Latin America have been shaped by neoliberalism. At face value, economic restructuring appears to be a critical juncture in the region, and in particular reference to resource-rich states, its adoption involved the opening of previously state-controlled extractive industries, corporate restructuring of state enterprises, and flexibilisation of labour relations. The overarching logic of the reform project was global competitiveness and the valorisation of private capital as the primary motor of recovery from the economic crisis in 1982. This constituted an apparently radical break away from state-led development. However, as the cases of Brazil and Chile show, neoliberalism was not a hegemonic paradigm imposed from above that restructured state-market and state-society relations. Although economic imperatives have opened up their strategic resource sectors, in both countries, a new discourse was articulated to achieve a more inclusive politics of development. In this thesis, I explore the extent to which Brazil and Chile have shifted towards a *neo-developmental* policy paradigm. Whilst this emerging logic of state action is still nascent, my research elaborates on what the relationship between states, markets, and organised labour within the context of natural resource sectors might look like.

Whilst the central focus of the thesis is on states and resource management, my research has implications to debates on institutional theory and on post-neoliberalism in Latin America. Some scholars are now speaking of post-neoliberal governance in Latin America in reference to the rise of Left-led governments (Burdick et. al. 2009; Grugel & Riggirozzi 2009; Levitsky &

Roberts 2011; E. Silva 2009). The contemporary export boom in South America is, in fact, underlined by the extensive and intensive exploitation of natural resources. Indeed, the commodity boom is permitting national elites in the region to reconstitute the bargain between the state and the public. However, the extent to which we can genuinely speak of a post-neoliberal phase of development depends ultimately on the extent to which neoliberalism was, and remains, embedded and how far changes to states, their developmental roles, and state-market-society relations have been deeply 'locked in'. Whilst Latin American political economists have traced the political turn towards the Left, the task for second wave generation of researchers is to identify the new roles for the state in economic governance, particularly in natural resource management, and the tensions arising from national development strategies under Left-led governments.

Theoretically, my strategy is to draw from historical institutionalism (HI) and critical political economy perspectives to investigate the complex processes of institutional change from neoliberalism to neo-developmentalism. I aim to develop a distinctive *historical institutionalist* approach that emphasises political time, conflicts in preferences and motivations, and ideational sources of change in analysing the significance of states in resource politics. It is, in fact, important to move beyond stark dichotomies between neoliberal and post-neoliberal political economies. The task of this thesis is to investigate how natural resources are managed in the context of economic liberalisation in Brazil and Chile. By tracing the continuities and changes in economic reforms in the strategic sectors of copper and oil, I contribute to the analysis of the triangular structure of social relations – that is, the relationship between labour, business/capital, and states – and the diversity of capitalist organisation and sets of power configurations within a globalising world order. Instead of binary oppositions, these two models of growth can be understood as phases of capitalist modernisation underpinned by natural resource exploitation.

Central to Latin American political development is the role played by natural resources in shaping conflicts around distribution, alliances between states and private capital, and modes of incorporating organised social sectors – particularly labour unions – in the reconstitution of development models. Phrased somewhat differently, top-down projects of development are emerging across resource-rich states as a result of external demand. For example, intense political debates have developed in recent years as regards how to best use resources for welfare provision without falling into the trap of the 'resource curse'. One way to do this, as the case studies detail, is to use resource revenues directly and indirectly to ameliorate the costs of neoliberalism through the financing of social and anti-poverty policies but within the framework of fiscal discipline. As commodity prices remain buoyant after a decade of overproduction and low prices, Latin American governments have begun to 'actually govern from the left' (Levitsky and Roberts 2011: 10). As I argue in the thesis, the current economic transformation sweeping the region, albeit unevenly and in complex ways, can and should be understood through the political economy of natural resources. This, inevitably, reflects and feeds into dominant debates about economic growth, distinctive transformative capacities of states, and reconstitution of models of development in the post-Washington Consensus context.

In the literature on post-neoliberalism, Brazil and Chile are grouped together because of the important role played by institutionalised party politics as opposed to protest movements in explaining the rise of the Left (Castañeda & Morales 2008; Levitsky & Roberts 2011; Panizza 2009). However, I expand the comparison by looking at the distinctive aspects of their resource governance models, which is currently the backbone of economic recovery and sustained growth. Both are exemplary of 'politicised capitalism', in which the state has traditionally structured business relations and organisational capacity of labour unions (Schneider 1999, 2004a).[1] They likewise reflect the difficulties of challenging neoliberalism and moving beyond private sector-

[1] These scholars view the rise of Left governments as a function of organisational differentiations, such as the degree of institutionalisation of left-wing political parties and social movements.

driven models of extraction. National policy choices of greater state activism sit alongside the consolidation of embedded notions of global competitiveness. Whilst economic imperatives have produced a general pattern of market-opening in extractive industries, Left governments have embraced state intervention in varying degrees and differing scope.

The thesis focuses on the extent to which attempts at privatisation and market opening of extractive industries have succeeded in the petroleum and mining industries of Brazil and Chile respectively. This dual comparison – between Brazil and Chile as well as between oil and copper – allows me to analyse how resource sectors have been transformed first by past legacies and second by discourses of neoliberalism. Whilst oil in Brazil was deemed crucial for its ambitious industrialisation project between 1930 and 1985, copper mining in Chile is the single commodity that has shaped its political economy since 1930. In other words, copper and petroleum are evidently of political and economic importance to states and strategies of development. In the context of neoliberal globalisation, how do we explain the persistence of state control in the extractive industries despite two decades of economic restructuring in favour of private participation? Equally, what are the changing roles played by state-owned enterprises (SOEs) and organised labour in the contestation of resource governance? In seeking answers to these two issues, the following questions comprise the main themes of the thesis:

- To what extent have market-opening reforms in strategic resource sectors empowered the private sector in Brazil and Chile?
- To what extent have state enterprises achieved political autonomy from the state and what does this imply for resource management?
- What has been the role of labour unions in shaping labour relations in extractive industries in the context of global market integration?

These questions interrogate the intrinsically politicised processes of institutional transformation in Brazil and Chile. The first question unpacks the tensions between neoliberal and neo-developmental strategies of managing resources and analyses how far policy reforms towards greater state intervention in the resource sector have been carried through by Left governments in power. The latter two questions explore how state controlled enterprises graft competitive strategies in response to pressures of global competitiveness and domestic politics. Since the 1980s, neoliberalism has been embraced in the economic governance of resources yet these reforms have been incompletely applied to strategic industries. Upon the election of Left governments in Brazil and Chile, the persistence of state ownership and limited privatisation in the extractive sectors were further strengthened by highly interventionist policies. I attempt to unpack this complex process of institutional change and transformation of state-market-labour relations.

1.1 The argument of the thesis

My argument is that states are engaging in hybrid strategies of *neo-developmentalism*, which represent a cluster of ideas attempting to explicitly incorporate demands from below with growth strategies based on an export-led model of development. More specifically, the thesis makes the following claims regarding the political economy of extractive resources in Brazil and Chile. Firstly, from a historical institutionalist perspective, states are said to accumulate capacities in managing the economy but that process is neither an outcome of rational calculations of politicians nor a neat process of institutional change. Political development is a structured process and institutions governing resources emerge from historical conflicts and constellations (Thelen 1999: 382). Put simply, the success and failures of elites to implement neoliberal reforms are contingent on several factors, such as the impact of material and discursive aspects of globalisation to policy-making, the sector-specific feature of extractive industries, and the organisational capacity of labour (Hay & Marsh 2000; Shafer 1994; Schamis 1999). Whilst we find a general trend of market opening and retention of state enterprises in Brazil and Chile, their experiences of military dictatorship and democratisation deviate significantly – especially the role of labour unions in democratic transition – signifying the distinctive ways of dealing with the 'labour' question. Notwithstanding the historical specificity of the cases, my claim is that the differences in outcomes of neoliberal restructuring rests on the degree of state cohesion, organisational capacity of unions, and the relevance of state enterprises towards national development strategies in an increasingly complex, globalised world order. Inevitably, reforms to legitimise private capital participation imply a redistribution of power.

Secondly, the research casts doubts on the validity of post-neoliberalism as a bifurcating heuristic category to understand resource politics of the 'New Left' in contemporary Latin America. We need to move beyond the stark distinctions between neoliberal and post-neoliberal paradigms of development. At face value, Brazil and Chile posit different models of governance – the former associated with *developmentalist statism* and the latter with *neoliberalism* – but the findings suggest that the changes in policy orientation are embedded in broader patterns of political continuity. I offer a nuanced view of state agency in the global political economy, which posits resource management as hybrid strategies constituting neo-developmentalism (*neodesarollismo, neostructuralismo* in Chile, or in Brazil *novo desenvolvimentismo*). However, rather than an opposing category to neoliberalism, neo-developmentalism is at best a cluster of ideas that attempt to explicitly incorporate social equality to growth strategies based on export-led model of development. The combination of state activism and market-friendly policies is evidently shown in the governance of natural resources. Whilst competitiveness imperatives drive elites to adopt laws legitimising private participation, states are also given more resources to rethink about state-society bargain in the context of an export bonanza. Equally, labour issues are depoliticised and a technocratic approach to governance has been embedded by neoliberal models of political economy. It is far from surprising that labour reforms have failed to address labour flexibility and expansion of labour rights without significant pressures from below. Notwithstanding these challenges of social inclusion, the cases show solid evidence of neo-developmental strategies though how far this can be sustained remains an open question.

Thirdly, I challenge what Terry Lynn Karl (1997) calls the 'paradox of plenty', where economically, resources are understood to generate negative effects to growth and economic diversification, and politically, to undermine attempts at strengthening state capacities (Auty 1993; Ross 1999, 2012). Shafer (1994) argues that the characteristics of leading sectors in developing countries shape policy preferences of business firms who also press demands towards the state as well as the institutional capacity and autonomy of the state itself. Using HI perspective, I argue that political elites in Brazil and Chile have developed differentiated capacities to engage with the global economy, and have therefore, successfully crafted state strategies to address the challenge of the resource curse. The combination of neoliberal and pro-state intervention reforms have resulted into development policies alleviating the resource sector from price fluctuations and external shocks. For example, changes in taxation and royalty policies went hand in hand with the adoption of stabilisation funds, sovereignty wealth funds, and specific allocation of rents for social development. At the same time, the Central Bank and Ministry of Finance are the key decision-making bodies in managing mineral revenues, which exemplify the technocratic legacy of neoliberalism.

Finally, insights from critical political economy perspectives complement historical analysis by placing domestic institutional changes into the changing international context as a result of the export bonanza and the rise of emerging powers. The argument reflects Peter Evans' (1995) *Embedded Autonomy*, in which state crafting in the natural resources sector lies mainly in the successful construction of 'developmental coalitions' between states, firms, and organised labour. In spite of market opening, states are not monolithic entities stripped off any capacity to resist economic imperatives. By paying attention to goals and motivations of actors in reforming states and markets, I posit a counter argument to the economic convergence hypothesis (Phillips 1998, 2004; Soederberg 2010; Taylor 2010). Neoliberalism is neither an inevitable process derived from the inexorable logic of globalisation nor a political project that reduces the complex reconstitution of state power. Instead, one can view the politics of institutional reforms as a gradual process of adaptation from pressures of change ultimately conditioned by structural context and strategic actions of agency. More broadly, the case studies support Joel Migdal's (2009: 177, 192) stress on the vast differences in each state's practices in engaging with the public, pointing to new research emphasising the single *image* and multiple *practices* found within sets of states.

In a nutshell, market-opening reforms in Brazil and Chile are part of the broader political project associated with neoliberalism to depoliticise governance, reconfigure the role of labour unions in economic management, and restructure state enterprises to advance competitiveness and modernisation of the industry. However, the picture is far more complex and messy than these political economies being neoliberal. As the cases detail, governing coalitions in post-dictatorial Brazil and Chile have implemented economic reforms that reflect strategies of increasing state control in regulating commodity production alongside market mechanisms to push public enterprises towards international competition. The research challenges the dominant view of looking at post-neoliberalism as intrinsically against neoliberalism. In short, post-neoliberal resource governance can be characterised as a phase of development shaped by political legacies, contingency in action, and changing global contexts.

1.2 Consequences of neoliberalism in resource sectors

The starting point is that extractive resources have historically been subjected to foreign intervention by states and firms, and have remained one of the most internationalised sectors in Latin America. Throughout the twentieth century, traditional mining countries like Bolivia, Ecuador, Peru and Chile have politicised mining sectors because of foreign control over mineral resources, which typically generated nationalist sentiments and labour conflicts. Similarly, foreign participation in mining activities is reflected in the rise of a truly globalised commodity chain linking states, workers, and private capital in an intricate network of demand and supply. However, what has remained contentious is the degree to which resource-rich states should give up their control over natural resources and what type of interventions are appropriate in the era of global market integration. Whilst extractive industries still require states to be efficient, for example through institutional capacities to administer taxation, contracts and licenses, what is contested is the *productive* or *entrepreneurial* role of state. In cases where participation of SOEs is enshrined in constitutions, as in Brazil and Chile, neoliberal reforms have changed the balance between public and private extraction. Finding what are acceptable terms between state and private capital is difficult. Nevertheless, the key to understanding the logic of neoliberalism is to refer back to the general theoretical assumption of the *intrinsically productive* nature of private capital. In the advent of neoliberalism, state enterprises have been judged using efficiency standards of the private sector despite the well known fact that unlike private companies, SOEs must achieve both commercial and non-commercial goals. This perceived rational belief in private accumulation strategies is the driving force behind the success and/or failure of state capitalism to be re-embedded in light of the failure of neoliberalism to deliver stable growth. I investigate the consequences of neoliberalism in natural resource sectors in three thematic areas – regulatory institutional frameworks, corporate governance, and labour management.

1.2.1 Regulatory institutional frameworks

The neoliberal reforms introduced in the 1980s were aimed at extracting and processing natural resources both through state-led and private-oriented means of commodity production, with the aim of making Brazilian and Chilean exports more competitive. There exist similarities and differences in the model of extraction between the two cases. On the one hand, the Chilean economy was – and remains – dependent on copper mining; however, the country has successfully transformed itself towards becoming the leading exporter of copper that provides roughly 35 percent of global supply. Evidently, the copper mining sector has experienced considerable change in terms of state governance throughout the twentieth century but the market-oriented policies embraced by the military dictatorship between 1973 and 1989 have profoundly shaped the post-dictatorial political economy of Chile. Above all, emphasis has been placed on private sector participation alongside state production through the state enterprise, *Corporación Nacional del Cobre de Chile* (CODELCO). On the other hand, the success of the Brazilian petroleum industry is based not on the possession of massive amounts of proven oil reserves but in the development of deep sea drilling technology and the steady expansion of oil refining and processing. The state-controlled enterprise, *Petróleo Brasileiro* (PETROBRAS), has become a major player in the global oil industry by way of establishing a culture of innovation among the labour force and adopting an internationalisation strategy to exploit overseas markets. What underpins this strategy is the monopoly of PETROBRAS in the Brazilian oil market for fifty years. The discovery of new oil reserves in 2007 should be viewed as an outcome of the strong alliance between the Brazilian state and PETROBRAS in developing the oil industry. In short, the developmentalist ideology did not fade away in the petroleum sector. More generally, political legacies have shaped state governance in Brazil and Chile, including the persistence of state control in strategic extractive industries, which were not reversed by neoliberalism.

In the literature, the consequences of neoliberalism in resource extraction are as follows: (1) the adoption of a taxation regime characterised by low taxes but also shift towards a wider tax base that eventually moves beyond resource sector; (2) a guarantee for firms of their rights to lease and develop mineral blocs without state interference through a tight concession grants contract; and (3) some credible indication of state commitments to reduce if not completely reverse the effects of nationalisation of resources, all in the name of competitiveness in the globalised extractive industry (Rendfew 2011; Sánchez et. al. 2001; WIR 2007). Equally, private capital is conceived as a source of economic dynamism through foreign direct investments (FDI), technological/knowledge transfer, and sophisticated techniques in managing environmental and social costs (Eden 1991). The findings of the thesis suggest that economic reforms towards market opening do not necessarily lead to such outcomes. In theory, the goals of neoliberalism were to slim down the scope of state activities in the economy and to strengthen state capacities in overseeing effective taxation and delivery of technical support for private firms.[2] However, in practice, states are constantly struggling to manage dual roles: first, opening the market of natural resources for private participation in response to pressures of competitiveness; and second, responding to popular demands of retaining the politicised/public role of SOEs and appeasing labour to prevent costly strikes and work stoppage. Finding what are acceptable terms of reform is difficult because state attempts at naturalising the market generate mobilisation from below as defensive strategy of labour and other social movements. As natural resource geography and anthropological literatures document very well, governing natural resources – whether we speak of water, land, mineral, or oil wealth – entails complex articulations of citizenship, territory and the nation (McCormick 2009, 2007; Perreault 2008b, 2006; Perreault & Valdivia 2010; Sawyer 2004; Valdivia 2008). My argument challenges the apolitical and technocratic view of resource management and suggests a power-orientated analysis of reforms by linking the discursive justifications of policy elites towards actual policy outcomes.

Nevertheless, it is certainly the case that neoliberalism is a watershed politically, socially, and economically in terms of how states have structured conflicts between capital and labour. Mining reforms have embedded policy practices that make latent opportunities to contest the commodification of nature. For example, mining management reflects the depoliticised and technical solutions proffered by technocrats and *technopols* in highly contentious issues, such as restructuring SOEs, appointing members of the Board, and managing labour unrest, all in the name of economic stability and growth. Teichman (2001: 199) argues that the striking result of neoliberalism is the access of owners/executives of very powerful conglomerates – *grupos*

[2] This implies capable and strong bureaucratic agencies providing clear rules and transparent processes in contract bidding, in acquiring environmental and social licenses to operate, and in facilitating inspections in mines and oilrigs. Ironically, mineral extraction, to be successful, requires a very efficient state that can deliver public goods for the private sector to invest in mining.

económicos – in policy-making, which is indicative of how elites internalised the narrative of the private sector as the new driving forces of competitiveness in Latin America. In these circumstances, business groups are given access to the highest echelons of state power because of an ideological commitment of state elites on the productive and growth-oriented nature of private capital whilst also perceiving public firms as essentially wasteful and inefficient.

1.2.2 Restructuring SOEs in resource sectors

A second key contribution of this research is explaining how state enterprises achieved competitiveness during the two decades of economic restructuring. Whilst the creation of state enterprises marked the radical shift in favour of state control in the resource sectors, neoliberal democracy in Brazil and Chile has produced significant changes in capital-labour relations in ways that reflect the legitimacy of private capital and the lack of confidence in state intervention. Democratisation opened the formal institutional channels and informal means for organised business to gain access to the state (Panizza 2009; Teichman 2001). In Brazil and Chile (see Chapters 6 and 8), its key consequence is the *ideational diffusion* of business standards, international practices, and actual changes in corporate governance that mirror the operations of the private sector. In other words, state enterprises were being judged using the logic of global competitiveness, which subsequently induced changes in organisational norms and management practices within the firm. This includes changing the rules in appointing board of directors, the powers of the President of the company vis-à-vis the board, and the representation of labour in decision-making. Nevertheless, neoliberalism failed to alter the ownership structure of PETROBRAS and CODELCO and decision-making powers have remained in the hands of the state. Equally, the management of labour conflicts have remained subject to government intervention. The reforms in corporate governance and labour management are thus shaped by the state, which exemplifies the historically constituted institutional capacities of the state to exercise political control.

However, we should not exaggerate the observable general pattern of state enterprise restructuring. Although a common recipe of corporate governance reforms did emerge in the 1990s, Brazil and Chile, along with other developing countries, have experienced variegated outcomes in the process of adopting changes in state enterprise management. They also have discrete sets of competitive strategies, which vary in success. In Brazil, PETROBRAS was a political and technocratic consequence of nationalism, which explains the persistence of state control in the oil industry and the existence of public and private shareholders in the company rather than 100 percent state ownership. Since PETROBRAS had to achieve both its commercial interests and its public goals, the ownership structure permitted the company to strategically expand operations outside the Brazilian territory. Upon market opening in 1997, PETROBRAS' technological expertise in deep sea drilling combined with its highly skilled labour force have allowed the company to evolve into a vertically integrated energy firm capable of extending its scope and reach outside the domestic market. The 'return of the state' in Brazil was only possible because of a highly efficient and sufficiently competitive state-controlled energy firm. In Chile, CODELCO was the outcome of bitter political conflicts between pro-foreign capital and leftist forces that was only resolved through the nationalisation of copper mining in 1971. Its highly politicised origins explain the difficulties of opening state ownership to private investors. CODELCO has no internationalisation strategy because the best quality of copper ores in the world is still located in the Chilean mines. Naturally, its competitive strategy is confined to investment decisions aimed at expanding operations in Chile and developing technology to extract minerals via underground mining. Its major problems stem from its lack of flexibility to access capital for financing these projects – the unintended consequence of keeping private investors out of CODELCO's capital shares.

Finally, in both cases, state enterprises have not been shielded from the political motives of the state. Although modern corporations are characterised by the separation of ownership and company management, state enterprises are still subject to routine interventions of the state. Under the new law passed in 2010 in Brazil, PETROBRAS is automatically given 30 percent minimum participation share in all exploration and development activities in the pre-salt reservoir. This move is politically driven since it was perceived as the appropriate step to increase the stake of the government in extractive activities. In Chile, CODELCO can be called for legislative enquiries in National Congress *if necessary*. It implies that all company decisions are scrutinised publicly through the media or congressional hearings. To sum up, neoliberalism does not simply depoliticise governance to achieve economic imperatives. Although CODELCO and PETROBAS are technocratic and competent on their own, their autonomy to make economic decisions to compete internationally was never completely isolated from political pressures.

1.2.3 Managing labour demands

The final contribution of this research is to analyse how labour management is practised by states and state enterprises in their attempts to modernise extractive industries. Using the twin lenses of political economy and historical institutionalism, I examine the specific claims of labour unions vis-à-vis the ruling government in Brazil and Chile and the extent to which labour mobilisation contributes to the reconstitution of natural resource governance. Within the international and comparative political economy literature (Cook 2007; Mosley 2010), collective labour rights are crucial in production costs through the linkages between unions and bargaining on the one hand, and wage and non-wage benefits, on the other. Therefore, the extent to which, and the ways in which, private capital and state enterprises are managing labour is crucial in the reconstitution of governance models. As markets become increasingly globalised, the mode of entry of private capital in sectors influences the conditions upon which workers organise themselves in defence of labour demands (Mosley 2010). The core yet complex question is whether trade unions have gained more or less power in the face of intense neoliberal restructuring, and their role in shaping the more blurted period of 'post-neoliberalism'. Most research on Latin American post-neoliberalism focus on the role of civil society in remaking social contracts between the state and public during moments of crises, facilitated by the rise of new actors, such as organisations of unemployed workers, more independent trade unions, social movements, and organised local communities who have challenged marketised notions of social citizenship (Grugel & Riggirozzi 2012, 2009; Panizza 2009; Silva 2009). However, this literature – largely concerned with identity politics, collective mobilisation, and their impacts on neoliberal reforms – has missed the role of labour unions (especially in natural resource sectors) in shaping national debates. In this thesis, I bring back the politics of managing capital-labour conflicts taking into account the complex internationalisation of extractive industries and the multitudes of attempts by state managers at controlling labour activism. Although historically the position of organised labour is recognised as consequential for national politics (Bergquist 1986; Collier & Collier 2002; Garréton 2003), the power of labour is highly differentiated across sectors, and as Mosley (2010) argues, is shaped by the manner in which transnational firms organise their transaction and operations.[3] In short, economic globalisation has altered existing political institutions that structure the tripartite relations between states, firms and workers.

In the wider context of global restructuring, changes in labour reforms combined with technocratic approaches to mining governance have weakened unions' capacity to influence collective bargaining agreements as well as in representing genuine economic demands of workers (Burdick et. al. 2009; Colburn 2002). Nevertheless the labour rights agenda in extractive industries did not completely disappear during and after neoliberal restructuring in Brazil and Chile. Instead, the success of labour in shaping resource governance through unions and bargaining is, to a significant

[3] Labour unions have unparalleled capacity for collective action which no other social or political actor possess. Their role in capitalist production in the context of rapid economic and political modernisation in Latin America provides them a potent source for collective grievance and sustained political mobilisation. The location of organised workers in spatially concentrated production, especially their strategic positions in export sectors, provides labour unions the unusual capacity to disrupt economic and political systems (Collier & Collier 2002: 40-42).

extent, structured by differentiated capacities of union organising, political legacies of demobilisation, and state acquiescence to the labour agenda (Burgess & Levitsky 2003; Cook 2007; Hunter 2010; Levitsky 2003). Whilst greater labour flexibility has become part of the business model of managing globalised sectors, the protection of collective rights in low and middle-income countries has been difficult. On the one hand, 'directly owned multinational production generate pressures for protection of collective labour rights" (Mosley 2010: 12) by way of standardising practices across regions, bringing in 'best practices', and investing resources for long term production. On the other hand, arms-length production relationships where multinational companies transfer the transactions to the market (instead of the firm) through subcontracting and offshore activities, cost considerations especially in labour-intensive industries decrease the incentives to offer labour protection (Mosley 2003, 2005, 2010). However, downward pressures of competition to state enterprises and foreign firms are filtered by domestic politics and institutional contexts, which overall shape outcomes of the bargain between states, firms, and trade unions. I want to focus on the fate of unions in highly internationalised sectors. Moreover, as Cook (2007: 2-3) puts it, labour laws are not just about adjustments to the global market but also span the arenas of rights and citizenship. They directly affect recognised human rights of associations and the representative organisations of workers – the unions – and the contestation around making democracy more inclusive and adhere to social justice claims.

In Brazil and Chile, we find distinctive regimes of labour incorporation, though both are reconstituted along the lines of the global competitiveness agenda. The diversity in national contexts means that struggles for labour rights vary between public and private companies and between unionised and subcontracted workers. Equally, state responses to the globalisation of resource extraction are different, and oftentimes, do not cohere with the demands of labour unions. On the one hand, state managers follow the logic of competitiveness to respond most effectively to demands of efficiency underpinned by the internationalisation of commodity production. On the other hand, political elites manage popular demands through an expanded agenda of labour rights – e.g. in Chile where workers' rights were dramatically watered down in governance agenda for years – or through greater state intervention in social policy – e.g. in Brazil by directly linking resource wealth and social development. What unites both cases is that states are under intense pressure to ameliorate the costs of neoliberal restructuring. Through a detailed empirical examination of how labour unions participated in key national debates in political economy (and not just in resource governance per se), I argue that we are now witnessing the resurgence of 'repoliticised' economic governance, characterised by more contentious political actions of organised workers in defence of greater state involvement in the political economy of strategic industries. This, of course, occurs in the context of high commodity prices and therefore greater bargaining power for unions to make their demands appeal for public acquiescence. Although traditional labour movements across the region are in decline (Haarstad 2009a, 2009b; Oxhorn 1998), it is still difficult for political elites to ignore the social clamour for a 'return of the state'. If we place resource sector union demands in the regional context, then evidently labour unions have been one of the strongest backers of the post-neoliberal agenda. In circumstances where they have bargaining power, for example in strategic industries in Brazil and Chile, the contestation of export-led growth is principally led by mining unions.

1.3 Structure of the thesis

Chapter 2 discusses the research methodology of the thesis. I explain the selection of Brazil and Chile as a paired comparison as well as the analysis of two different resource sectors. Here, I argue that my thesis seeks to elucidate the ways in which general conditions applicable to countries with resource endowments are dealt with in particular ways by states. As such, my cases studies are also not mirror images of each other. That is, they do not show a similar process taking place in two different contexts. The chapter also recognises the shortcomings and limitations of the PhD thesis, as well as the challenges in doing extensive fieldwork research in a political economy topic.

In Chapter 3, I present the theoretical framework on how to examine the political economy of natural resources. The chapter develops a framework that synthesises two perspectives drawn from comparative politics and international political economy. On the one hand, I use HI approach to explain the degree of institutional change within broader patterns of continuity using concepts like incremental change, critical juncture, and ideational aspects of institutional transformation. On the other hand, I draw upon critical political economy perspectives as a way of understanding the changing role of states in development and how states manage capital-labour conflicts in a globalising world economy.

In Chapter 4, I examine the politicised nature of resource management in Brazil and Chile placed within the broader context of Latin America's export-led growth model based on primary commodities. As opposed to a strictly economistic view on natural resources as 'normal' commodities mediated by laws of supply and demand, economic decisions were constituted by competing articulations of the role of the state and foreign capital in resource governance. Equally, pressures to foster stable labour relations in an industry characterised by tensions and labour conflicts meant contradictory forms of governance. To sum up, the contested role of the state is reflected in the difficulties in striking a balance between addressing both the volatility of international markets and domestic demands for nationalisation of natural resources.

Chapter 5 focuses on copper governance in Chile under the Left and Centre governing coalition *La Concertación por la Democracia* (henceforth *Concertación*). In this chapter, I examine the political economy of continuity and changes in mining policy between 1990 and 2011. It is argued that Chilean copper politics is, at best, constituted by a governance model consisting of depoliticisation of economic management and centralisation of decision-making towards technocratic elites. Nevertheless, the strategic position of mining in the Chilean economy necessarily makes its governance highly politicised, which is best exemplified by the tension between the strong presence of a state enterprise and an overtly pro-business attitude of state agencies. By examining contemporary policy themes, namely private property rights, royalty distribution and taxation, and its linkages with broader economic management, I clarify the boundaries between public and private authority as well as the difficulties in strengthening state participation in the economy. I challenge the sweeping claims on Chile as an overtly neoliberal state by way of analysing the significance of the recent reforms on taxation and labour regulation in generating a new discourse based on stronger state involvement in the economy. These incremental steps towards a stronger, more politicised state constitutes neo-structuralist policy paradigm under Concertación governments.

Chapter 6 examines capital-labour relations in the copper industry, particularly the attempts at modernising CODELCO without privatisation of the state enterprise. It challenges the orthodox view of Chile as a *simple* case of self-reinforcing path dependence towards neoliberalism. Whilst the implementation of economic restructuring in the state enterprise suggests the hegemony of neoliberalism, conflicting interests and power relations mould political outcomes that do not necessarily conform to neoliberal ideas. The argument is that CODELCO as a state enterprise performs a buffer role between state and private capital, which is the driving force behind the politicised reforms on its competitive strategies. The chapter traces the reasons behind the difficulty of introducing private assets in CODELCO's ownership structure, which influences the limits of the reform agenda related to the modernisation of the company – namely in grafting competitiveness policy and labour management. In the second part, it examines labour conflicts and the differing patterns of capital-labour relations in Chile. The world of labour is complex, and nothing best captures the contradictions of managing labour than the variegated patterns of labour conflicts in public and private mining sectors.

I present the second case study – petroleum governance in Brazil – in Chapter 7. Unlike the tumultuous history of asserting state control over copper vis-à-vis foreign capital, petroleum in Brazil has been associated with national development, and therefore, its ownership and control has been – and remains – in the hands of a centralised state since 1930. In this context, perhaps it is not surprising that neoliberal reforms have failed in fully privatising the petroleum industry and in reducing the market power of PETROBRAS. Policy discourses did emerge around the logic of private sector participation and institutional change brought about the partial exposure of PETROBRAS to foreign competition through the *market opening* reform agenda. What transpired in the 1990s was the process of breaking the state monopoly across the petroleum and natural gas commodity chains. Whilst the centralised state adopted political discourses of international competitiveness, the necessity to attract FDI, and technocratic governance, the reforms were, at best, partial and incomplete in terms of implementation. Nevertheless, there is marked continuity in petroleum policy between the reformist government of Fernando Henrique Cardoso and Lula Ignacio da Silva in his first term. However, favourable structural conditions – PETROBRAS achieving self-sufficiency status in oil consumption, a new era of growth under the Workers' Party (PT) government, and expansion of consumption feeding into more sustainable growth – have allowed for the Left government to enact certain strategic actions, and 'govern on the Left' (Levitsky & Roberts 2011: 10). Both under Lula da Silva's second term (2006-2010) and Dilma Rousseff (2011-present), the Brazilian government found a balance between market incentives and state regulation in the petroleum industry. In this context, we can speak of neo-developmentalism (*novo desenvolvimentismo*) – characterised by the renewal of an activist state that directly makes reference to social equality and growth – as a competitive strategy for resource-rich states. Neoliberalism should therefore be understood as something of an interlude between old and new developmentalism that has enabled the Brazilian state to pursue active policies to support public enterprises and recognise the competitive effects of private capital in making the petroleum industry more globally competitive.

Chapter 8 brings us back to corporate governance and labour relations in the Brazilian petroleum sector. In contrast to the effect of neoliberalism to CODELCO, economic restructuring in the petroleum industry led to the reconstitution of a stronger PETROBRAS in the oil sector. Its competitive strategy throughout the 1990s was geared towards further internationalisation of its economic activities, backed up by the Brazilian state through direct and indirect forms of support. However, as explained in Chapter 7, the return of the state has heightened the politicisation of petroleum. There exist greater pressures to manage PETROBRAS as an international company, taking the state enterprise further away from the state. The narrative of global competitiveness has allowed the company to manage commercial decisions and labour conflicts without excessive interference from the Brazilian state. Neoliberal reforms placed PETROBRAS management in a dilemma of performing both public and profit-oriented roles on equal footing. This problem was accentuated by the difficulty of managing labour interests and stable economic governance under Fernando Cardoso. The chapter explores these tensions by focussing on episodes of mobilisation of petroleum workers in the 1990s and the return of politicisation following the discovery of new oil reserves. The findings suggest that, unlike in Chile, where the private sector operates in a 'free market', the dominant role of PETROBRAS as a market player means that political demands are negotiated between the state and labour (via PETROBRAS) and not between private capital and workers. The main challenge for organised workers, then, is to claim autonomy in relation to a corporatist state whilst adjusting to the internationalisation of PETROBRAS.

In the concluding chapter, I return to the theoretical debates on resource governance, institutional change, and global political economy of development to illustrate how the case studies answered the research questions posed in this introduction. In Chapter 9, I offer insights about the future of post-neoliberal governance in Latin America through the Brazilian and Chilean experiences of natural resource management. More broadly, I argue that historical institutionalist lenses fit well with critical political economy perspectives to explain state transformation, changing balance of power between public and private authority, and the increasing difficult of managing labour in the context of globalisation of commodity production.

Chapter 2
RESEARCH METHODOLOGY

In this thesis, I employ a comparative case study research design to examine changes and continuities in the transformation of states and of natural resource governance. It applies ‘contextualised comparisons’ (Locke & Thelen 1995), which seek for paired comparisons of different issue areas within the two case studies. On the one hand, the thesis disconfirms the argument of *convergence* towards neoliberalism through a concrete empirical investigation of capitalist diversity within a specific cluster of states, those endowed with natural resources. Brazil and Chile are exemplary of politicised capitalism, where states take a predominantly active role in pursuing growth strategies via natural resource exploitation. On the other hand, the thesis is also exploratory in conceptual terms as it maps out the constitutive elements of *neo-developmentalist* policy paradigm (as well as its continuities and changes with neoliberalism). It contributes to the emerging literature seeking to explain the sets of policy reforms specific to natural resources that states apply to address economic growth *and* resource dependency. Neither is my thesis exhaustive nor does it generalise across the Southern Cone or developing countries. Through the cases of Brazil and Chile, my thesis analyses how the general conditions applicable to countries with resource endowments are dealt with in particular ways by states. As such, my cases studies are also not mirror images of each other. That is, they do not show a similar process taking place in two different contexts. Instead, I detail how (state) agency is exercised in *different* ways – paying attention to the role of history, political legacies, and the changing structures of opportunities – in order to demonstrate the quite varied strategies of economic governance of resource-rich states. In the proceeding sections, I elaborate on the key methodological issues that I faced during the research process, including discussions on ontology, epistemology, the overall research design and the choice of specific methods.

2.1 Ontological and epistemological considerations

In this thesis, I do not aim to test hypotheses or develop causal relationships between variables. Instead of grand theoretical designs which decontextualise politics in the name of parsimony and deductive research, my goal is rather limited. I wish to analyse political life by focussing on the contingent relations between explanatory elements, which implies recognising the role of political time and ideational factors as part of unfolding social processes.

In rejecting conventional positivist methodologies, it is worth clarifying that knowledge production is inherently subjective (indeed political) but that we can still construct theoretical propositions (rather than theory as a coherent paradigm). As Robert Cox argues (1981), theory – and by extension social scientific knowledge – is created for someone, for something, and serves some purpose. It postulates that the social world is constitutive of material and ideational factors, to which the researcher mediates by way of interpretation of social facts in developing an argument or narrative. Nevertheless I remain sceptical that the findings can travel beyond the case studies. Theoretical constructs are a method of simplification to understand the complexity of social reality. We can attempt to move from individualising comparison towards generalisation (Tilly 1984) through for example asking 'the same or at least similar questions of very different contexts thus allowing for divergent answers' (Bendix 1978: 15 in Tilly 1984: 68). But we should avoid standardising schemes and recognise the importance of individual historical narratives. In analysing development strategies, I note three key assumptions: (a) that national elites devise individual strategies although ideational diffusion and the spread of free market beliefs have considerably influenced policy-making; (b) within each state previous institutional history and patterns of conflicts place some constraints in grafting solutions to problems; and finally, (c) institutional transformations do not necessarily equate to changes in structures of power, or of relations of production, but rather the evolution of politico-economic institutions should be viewed as shifts in contemporary beliefs and ideas vis-à-vis the relative strength of the dominant paradigm. The mode of inquiry of comparative historical research fits comfortably with my research strategy.

More importantly, contingencies of history go a long way in explaining disparate pathways of. As social science methodologies remind us, general patterns take particular forms. In Orihuela's (2011: 20) study on the evolution of green states in Chile and Peru, he argues that despite institutional convergence, pre-existing institutional legacies and the particularities of case-specific contexts give different quality to social phenomena spreading across economies, polities, and societies. More broadly, Ellen Immergut (1998: 19) makes plain the position of new institutionalism: causality is *contextual*, to which complex configurations of factors are causally significant but are difficult, if not impossible, to be broken down into causally independent variables. The same combination of factors may not necessarily produce the same results if repeated at a later point in time.[4] The case of neo-developmental states in Brazil and Chile are the same. Its form and reach depend on (national) processes of state-building, differing international contexts upon which states are situated, civic institutions, and distinctive political styles of governing labour relations. These factors likewise interact with political economy structures and cultural legacies, which in combination shape trajectories of economic development. These contextual variables explain, to a significant degree, why Chile has taken a more marketised variant of neo-developmental strategy whilst Brazil has retained several elements of state intervention in economic governance. Although similar structures and conditions may exist, as well as convergence towards (neoliberal) policy agendas, state structures and the triangular social relations between states, markets and labour unions co-vary across cases in the region.

[4] But equally, human actors have the capacity to learn from history, and we do so to avoid mistakes of the past, such that the same levels of unemployment and inflation comparable to the thirties would yield to fascist movements again (Immergut 1998: 19).

2.2 Research strategy

I am interested in the study of the changes in state structures, the interaction between material-institutional contexts and ideational policy frames, and the changing patterns of state-labour relations in strategic sectors. As such, the research follows a comparative historical approach developed in comparative politics and historical institutionalism schools in understanding how history, politics and contingency shape developmental outcomes (Brady and Collier 2004; Katznelson 2009; Mahoney and Rueschemeyer 2003; Pierson 2004). However, I do not strictly follow the conventional tools utilised by comparative politics. I do not deny the fact that there is selection bias in the case studies (Geddes 1990, 2003; King, Keohane & Verba 1994). Since the political world is shaped largely by contingency, exogenous shocks, and international contexts, political choices cannot be derived from a single explanatory variable. Some studies have utilised this approach, and has inspired my work, including Peter Hall's (1989) *The Political Power of Economic Ideas*, Theda Skocpol's (1979) *States and Social Revolutions*, and Barrington Moore's (1966) *Social Origins of Dictatorship and Democracy*. As these writings exemplify, pairing exclusively in terms of 'most similar' or 'most dissimilar' cases fails to offer adequate explanations in understanding the modern world. Case studies can bring key insights on political struggles (and power relations) between actors over time, unpack the weight of structural constraints vis-à-vis the capacity of agency, and it can shed light in understanding how internal legacies have lasting effects to present and future political choices. In the specific cases under investigation, Brazil and Chile are considered as cases of stable institutional configurations marked by respect for private participation and presence of state enterprises to manage extractive industries. Formal policies aimed at accepting neoliberalism converged upon the transition to political democracies. Upon the election of the Left, political elites have sought to balance public and private modes of resource extraction. Neoliberalism had a single recipe but quite varied applications, and the adoption of particular reforms was determined by the interactions among states, markets and politics. On their own, each country case shows why the weight of the initial conditions is insufficient to explain political development, since changing contexts and agency choices are equally fundamental. Case studies offer detailed accounts of the particular, and this fine-grain attention to given processes can help develop arguments to make broader theoretical propositions of more general patterns. In the words of José Orihuela, 'mono-causal explanations or absolute universality claims too much for social sciences' (Orihuela 2011: 27).

As sociologist Charles Tilly (1984: 12-13) insists, undertaking the systematic study of big structures and large places and people must be *historical* in limiting their scope to a period bounded by the playing out of certain well-defined processes, and it should recognise that *time matters*, that *when* and things happen within a sequence affects *how* they happen, and that every structure or process constitutes a series of choice points (emphasis in original). The revival of writing on 'huge comparisons' of 'large processes' In his own work, Tilly argues that the development of capitalism and the formation of powerful, connected national states dominated all other social processes and shaped all social structures. Methodologically, systematic enquiry on large processes applies *individualising comparisons* as a starting point. It highlights the contrasts existing between different human situations and social structures and it also underscores the inescapable artificiality of conceptual distinctions (Tilly 1984: 66). In other words, comparative historical approaches move seamlessly between empirical evidence and Weberian 'ideal types' to reveal the relationship of variables.

2.3 Comparative research design

The problem of (institutional) change rests on the difficulty of comparing two different cases. In political science, most especially, research designs have been formulated using John Stuart Mill's principles of 'most similar' and 'most different' cases (George & Bennett 2005; Lichbach & Zucherman 2009). The approach assumes that two countries appear to be comparable by way of reducing properties of institutions into paired variables, measurable through indices. Rather than finding a singular variable to explain complex processes of political change, and especially in developing country contexts where the research process is less straightforward, my thesis explores how states respond *differently* to the general conditions, namely the changes taking place at the global levels – an export bonanza driven by China, the increasing concentration of wealth in the hands of multinational players including emerging market SOEs, and the dominance of neoliberalism as a competitive strategy (Brautigam 2009; Jenkins 2012; Goldstein 2007; Moran 2010; Nem Singh & Bourgouin forthcoming). In short, I am interested to explore the diversity of state strategies of managing the export bonanza, and the distinctive ways in which market reforms were embraced by national elites to adjust to the global economy.

In this context, there are four main justifications for the comparison of Brazil and Chile. Firstly, both are natural resource-rich states endowed with strategic resources, which have proceeded in managing the sectors through a combination of market mechanisms and state intervention in the last three decades. On the one hand, Chile's export economy depends on copper earnings since the 1929 Great Depression, which was a critical juncture that decisively shifted its economy from nitrate to copper mining for its major export commodity. On the other hand, although Brazil has a plethora of natural resources, the oil industry stands out as exceptionally important in achieving industrialisation – the main economic goal of the Brazilian state since 1930 – because the sector is intricately woven in other productive sectors, such as transport, petrochemicals, heavy capital goods, and manufacturing. Since Vargas' era, it was deemed crucial for Brazil to achieve energy security by way of being self sufficient in its energy needs if the country wants to reclaim its rightful place in the world economy. In the context of neoliberal globalisation, both countries have managed their resource sectors by combining policies in favour of private capital participation and strategic state intervention in the sectors. Whilst Brazilian elites have applied a more (neo) developmentalist approach, Chile has persistently struggled to reform the neoliberal legacy but has been equally successful in introducing reforms to increase the stake of the Chilean state in mining management. The comparison thus exemplifies how states react differently to quite similar economic conditions as instantiated by the changes in the global political economy. Although neoliberalism was incompletely applied in both countries, the specific interactions between the state, state enterprises, private capitalists, and labour unions are in fact conditioned by political legacies, historical conflicts, and extent of autonomy of state enterprises to devise their respective competitive strategies.

Secondly, the comparison looks at how structural characteristics of their respective extractive industries, oil in Brazil and copper in Chile, affect the political choices of national governments. Whilst Brazil and Chile are resource-endowed states, the types of resources matter in structuring agential actions. In Chile, its economic size, the strong presence of multinational firms at the global level, and the tension between the presence of a state enterprise and private firms in the copper industry have convinced political elites to deploy the competitiveness argument, which was accepted by the mining unions and big business. As Chapter 6 shows, corporate reforms and labour management practices in CODELCO were driven by the belief on the efficient and productive nature of the private sector. Neoliberal reforms are thus more difficult to reverse in Chile. However, in Brazil, its economic strength, the history of state intervention, and the fact that the global oil industry remains highly oligopolistic and restrictive to foreign capital provided the justification for the Brazilian state to introduce quite easily new forms of control in the oil industry alongside policies inviting foreign private firms in the sector. From Lula da Silva's perspective, the fact that 77 percent of the global oil industry remains exclusively accessible to national oil champions is sufficient grounds to limit the activities of foreign companies in the newly discovered oil reserves. These divergent state strategies of managing resources point to the distinctive ways states interpret their positions in the international system as well as the *perceptions* as regards how to best exploit resources for national economic goals.

Thirdly, the comparison brings together two cases where political parties and institutionalised formal rules are crucial in policy-making processes, which is quite distinctive in Latin American politics (Castañeda 2006; Castañeda &

Morales 2008). Scholarly works on comparative politics in Latin America, especially from rational choice perspectives, have pointed out the increasing importance of party politics, political leadership, and executive-legislative relations in national political processes as a result of region-wide democratisation (Ames 1995; Geddes 1994; Helms 2012; Morgenstern & Nacif 2002). My work complements this growing literature by focussing on Brazil and Chile – specifically the coalition of left and centre parties in the post-dictatorship era – and the ways governing coalitions negotiate economic reforms with organised labour unions in strategic sectors. My work thus responds to the critique of rational choice institutionalism to historical institutionalism regarding the lack of microfoundations of politics in the latter. By specifying how national policy agendas of Left governments were articulated and the contentious process between state elites and other actors in policy debates, I demonstrate how institutionally contextualised motivations are linked to the nature of policy outcomes. For example, I show how the passage of royalty taxes in Chile and the successful changes in the types of contracts for foreign capitalists in Brazil are based on the power of interpretive agents (or in Schmidt's (2010) term 'sentient' agents) to enunciate communicative discourses to produce institutional transformation. However, I recognise that the relationship between intensions and outcomes are hardly straightforward. The problem of identifying change (explanadum/outcome) as casually related to actor intentions and ideas (explanans/causal variable) lies on the mechanisms that link these factors. Motivations can be apparent or concealed, which posits a challenge in identifying causal mechanisms; intermediate steps are devised by actors to achieve the desired outcomes (Portes 2010). Nevertheless, my empirical research shows evidence of agency expressing ideas and discourses within 'bounded institutional' contexts thus allowing me to identify change taking place albeit in gradual terms.

Finally, my thesis compares, to a far lesser extent, the different roles of labour unions in the political economy of reforms in Brazil and Chile. This is a key contribution to the literature on post-neoliberalism in so far as explicating *who* are the carriers of endogenous institutional change. As mentioned in the introduction, labour unions are one of the key supporters of the post-neoliberal agenda in Latin America. In Brazil and Chile, the role of unions is rather complex and is conditioned by their reconstituted relationship with labour parties and state enterprise managers. In Chile, we see a stratification of the mining union movement as a consequence of neoliberal restructuring in public and private mines. However, the recent episodes of contentious mobilisations against thwarted privatisation under the Right government show the historically accumulated strength of collective action based on class politics in Chile. In Brazil, there appears considerably less detail regarding the contentious mobilisation of petroleum workers but they are nevertheless key in the passage of the new petroleum laws under Lula da Silva (who himself was a trade union leader since the 1970s). One key justification here rests on the nature of the labour movement in Brazil. Unlike in Chile where trade unions have been fragmented and organised into distinctive confederations, the political legacy of Getúlio Vargas in Brazil is the prevalence of single category representation organised in a hierarchical fashion. This implies that local petroleum unions at the local levels (e.g. SINDIPETRO in different oil-producing municipalities) are affiliated with the regional confederation (FUP at the state/regional levels), who are consequently affiliated with the national confederation (e.g. CUT). In effect, there is far less competition among unions, which is reflected in the fairly cohesive position of petroleum unions on different political issues. This also explains the discrepancy in the number of interviews with union leaders between Brazil and Chile. In Chile, I conducted interviews with union leaders in state-owned CODELCO, private copper companies, private gold companies, and leaders at the levels of confederation of mining workers. In addition to this, I conducted interviews with other social groups – indigenous community leader and environmental activists – who have been critical of the Chilean mining policy. However, in Brazil, I only spoke with representatives from the unions in one of the oil-producing municipalities (SINDIPETRO NF), one in Rio de Janeiro (FUP), and one representative of the PT party in Brasilia. The representative in national confederation of workers, CUT, pointed me to directly conduct interviews with the oil union leadership. Across the interviews in Brazil, however, there have been consistent answers reflecting the greater cohesiveness and solidarity between unions and left parties. In the final section, I discuss the specific research methods I applied in my research.

2.4 Research methods

There are mainly two key research techniques applied in my fieldwork. Firstly, I used semi-structured interviews to gain insights from a wide array of actors involved in policy debates. Appendix 1 provides a list of interviewees in Brazil and Chile. These were mostly collected in two research trips, during which I stayed for five months in Chile (July 10 –November 20, 2009) and another five months in Brazil (April 06 –August 27, 2010). I carried out all the interviews in English, Spanish and Portuguese, although the transcriptions were done by myself and native speaking translators. The total number of interviews, usually between 30 minutes and 1 hour-30 minutes, was 66. Although I attempted to achieve a balanced number between the two cases, it was substantially more difficult to get interviews in Brazil than in Chile. Additionally, the number of interviews also reflects the highly structured nature of politics in Brazil as opposed to Chile. Whilst there are far more unions to interview in Chile (and the interviews show the conflictual viewpoints of actors as well), the highly organised structure of business groups and labour movement in Brazil effectively means that there is less gain in doing more interviews of the same category of actors. So for example, I only conducted one interview with the organisation of private oil companies, IBP, but they had three representatives in the different business areas responding to my questions. Since PETROBRAS is the dominant actor in the oil industry, I focussed my energy on acquiring interviews with the unions in PETROBRAS, namely FUP and SINDIPETRO who represent the oil workers. Finally, one major hurdle in Brazil was to get an interview with the current directors of PETROBRAS. Whilst eventually there had been interviews with past officials and current external consultants for the state company, PETROBRAS itself was very difficult to acquire interviews. It would have been helpful to speak with the senior management especially those involved in investment strategy and internationalisation policy of the company, but this requires having extensive personal contacts with the government or within the industry. Nevertheless, I was very fortunate to have conducted a significant number of interviews with members of the executive board and mid-level management of the regulatory agency, ANP, as well as with the Deputy Secretary in the Oil Sector of the Ministry of Mines and Energy (MME). From my perspective, they are the most insightful interviews in understanding the justifications of introducing neoliberal reforms (ANP) and the policy changes introduced by Lula da Silva (MME). Combined together, these interviews offer a credible narrative as regards the motivations/intentions of state agencies in altering the rules as well as the consequences of the new laws in 2010 with respect to autonomy of ANP, PETROBRAS, and the perceived new roles of MME and the new state enterprise PETROSAL.

The assumption I make when using interviews for data analysis is that key informants are bearers of knowledge who have access and influence to decision-making structures. It is through the reconstruction of competing narratives among different state and non-state actors that we can see interpretive agents *at work*. As Joel Migdal (1994, 2001) argues, whilst there is a coherent image of a state, it is the multiple, often contradictory actions of bureaucrats and officials at various parts of the state that we can explain how change happens. Because ideas and institutions are sticky, change in the real world only happens when we connect norms, values, and everyday practices to the ideas and discourses of agents. In short, institutional change takes place when ideational change does appear. So we need to observe the justifications of different actors motivating their actions and places these ideas into the wider institutional and structural contexts.

Hence interviews are windows of opportunities for the researcher to see the interactions between the cognitive frameworks of agents and the wider institutional contexts constraining political action. Whilst state bureaucrats justify their policy actions on the basis of some organisationally embedded ideas, we can observe how outcomes reflect these ideas that are recognisably constrained by the wider institutional contexts upon which actors act. Conversely, we expect certain norms, beliefs, and cognitive frameworks when conversing with business groups and labour unions. This is largely a result of the lived experiences of agents, which shape their perceptions, worldviews, and positions in political life. The interview process is thus like a conversation that requires flexibility to capture the essence of the two-way social interaction between the researcher and the bearer of knowledge (Kvale & Brinkmann 2009). In contrast to the rigidity of structured interviews with pre-set questions and intellectual parameters, semi-structured interviews generate insights by giving the interviewee the chance to explore some themes that researchers often miss out during the preparation stage. Equally, this skews the balance of power between the researcher and the interviewee. Whilst in structured interviews the researcher is privileged as the interpreter of knowledge with the power of setting agendas on what is deemed important, the flexibility in semi-structured interviews allows the 'subject to speak up'. What appears to be a minute point is in fact important when conducting interviews across a spectrum of political actors. Whilst unions privilege questions on labour rights and collective negotiations, and therefore offer insights regarding their role as challengers of the state, business groups and state officials tacitly define what they see as important issues in governance. Thus, copper policy in Chile is narrowly defined by elites and business groups as achieving stable growth via tax and political stability (see Chapter 5) whilst unions and indigenous groups express their resistance against what is perceived as highly exclusionary politics (Nem Singh 2010). From the perspective of unions and social groups, copper governance is also about participation and what they consider as the role of the state in mining management differs quite clearly from the regulators and private sector. This flexibility in the interview process opens up opportunities for researchers to explore theoretically rich terrains of knowledge rather than following *a priori* standards of elite interviewing. This subjectivity in the object of inquiry is inevitably part of the research process, which case study designs address by way of triangulation of methods (Kvale 1996; Yin 2003, 2008).

The second key research technique applied during fieldwork is extensive archival and documentary analysis of various government papers, policy positions, annual reports of private and state-owned companies, interviews with unions and other actors via newspapers and websites, and use of secondary sources produced in Brazil and Chile. For example, I examined government documents and newspaper articles to verify the arguments and insights acquired from the interviews with actors. During fieldwork, I collated the following: national legislations; presidential decrees, letters and speeches to Congress; formal statements of unions and business groups; and annual reports of state enterprises. In order to do this, I had to go to the library archives in the National Congress in Chile and Brazil, various library facilities of government agencies and business associations (especially in Brazil where documents in Portuguese are not available online), acquired brochures and position papers of unions upon doing the interviews. In the fieldwork process, I visited selected regions of particular relevance to the research, particularly in Brasilia (Brazil), Antofagasta, Calama, and Copiapo (Chile) whilst being based in Rio de Janeiro and Santiago de Chile.

Crucially, the procurement of secondary materials written by Chileans and Brazilians is an important part of the fieldwork. I recognise the unequal power relations within academia and the dangers of excessive reliance on social scientific knowledge produced in the English-speaking world. I have thus tried to correct this by conducting longer periods of fieldwork research in Brazil and Chile as well as becoming more sensitive to local knowledge. As a student from the developing world, I recognise the imbalance between scholars from the centre and the periphery. One significant method of redressing this is to give credit to where it is due: by taking locally produced literature with respect and citing them as equally valuable as those produced in the Anglo-Saxon world. No research is inherently objective and value-free. In addition, the longevity of the field research in Latin America is motivated by my view that institutions, ideas and interests are culturally contextualised. We cannot divorce theory from praxis, and the ways in which a scholar's theoretical lenses shape the view of reality. Without a minimum understanding of culture and history, it is difficult to understand why institutions and political systems produce divergent consequences.

2.5 Challenges in the field

Whilst most researchers would like to think that the process of data collection and data analysis are straightforward, in reality they are hardly so. During the fieldwork, I have encountered several problems that may have compromised my ability to acquire the information I hoped for. Firstly, my language skills could have been improved further to enhance access to secondary literature. Since I had to learn both Spanish and Portuguese simultaneously in 2008-2009, it was inevitably difficult to gain proficiency in both languages prior to the field research. My native language, Filipino, was very helpful in learning Spanish at a conversational/intermediate level within five months in 2009. This considerably facilitated my Portuguese when I moved to Brazil in 2010. In order to ensure the accuracy of my translations and data analysis, I have sought help from native speakers to translate, transcribe, and read my work. There were also available documents in English utilised to validate the acquired materials and interviews. Secondly, as mentioned beforehand, access to key informant interviewees were far more difficult in Brazil than in Chile. Although I intended to conduct around 40 interviews in Brazil, in the end I only managed to get 22 interviews as a result of the hierarchical structure of organised social groups as well as the restrictive access to PETROBRAS. In hindsight, I could have increased the interviews with unions by reframing the questions to specify the demands and contexts of workers in every sector of the oil industry. For example, it may have been possible to get interviews with workers and union leaders in the refineries and distribution areas although this would have to be done via CUT and FUP as well. As a way of triangulating my analysis, I have tried to extensively use secondary literature written by area studies scholars, especially by Brazilian and Chilean scholars, as well as different primary documents written in Spanish and Portuguese. Nevertheless, I hold full responsibility for any shortcomings and mistakes in the thesis.

Chapter 3
THEORETICAL FRAMEWORK ON RESOURCE POLITICS

After decades of neoliberal restructuring, it is a puzzle why some developing countries like Brazil and Chile have state enterprises in extractive industries. To explain this, I explore the political economy of natural resources during the high tide of neoliberalism in the context of Left governments. Whilst there exists a broad swath of research analysing different models of resource management, most have focussed on the changing roles of foreign capital in shaping economic development, role of technology in transforming state strategies of global trade and production, or a broad-brush analysis of power of transnational actors (Bridge 2004a, 2004b, 2008; Bunker 1985; Bunker & Ciccantell 2005; Jenkins 1987). Although this lacuna is gradually being filled in by critical geography's excellent work on the 'neoliberalisation of nature' and 'geographies of activism', there fall short and do not theoretically integrate structure, contingency and politics.[5] In short, they place insufficient emphasis on the state in relation to structures of (global or national) power in shedding light how the global neoliberal order permits specific development projects in some contexts and not in others. Crucially, labour unions were regarded as having *less* agential power to contest neoliberalism despite the traditional view of organised labour as the primary actor reflecting collective action in twentieth century Latin America.[6] With a few exceptions (e.g. Gudynas 2010, 2011a, 2011b), there is scarcely any coherent

[5] For this literature, see Bebbington 2012; Bebbington & Humphreys-Bebbington 2011, 2010; Bebbington et. al. 2008; Bebbington et. al. 2008; Bridge 2004a, 2004b, 2008; Bury 2005; Castree 2007a, 2007b; Castree & Braun 2001, among many others.

[6] This, of course, excludes research looking at labour unions and outcomes of labour reforms. However, they do not pay enough attention to resource sector unions because of the social division existing between these 'labour aristocrats' and working classes. For an overview, see Burdick et. al. 2009; Cook 2007; Roberts 1998. However, Haarstad (2009a, 2009b) makes an excellent contribution to the debate on the repoliticisation of labour issues in extractive industries by way of examining the disarticulation of labour issues and the extent to which neoliberal reforms have disenfranchised labour.

intellectual project exploring the linkages between natural resources, state politics, and contestation of labour unions that accounts for the rapidly changing political economy of development.

The task of this chapter is to review what has been written thus far regarding natural resource governance as a *political* model. That state-society relations and state-labour relations were reconstituted under neoliberalism is widely acknowledged. Yet the extent to which changes in state-society relations have been shaped by resource sectors remains understudied. This is quite unusual given that primary commodities have historically shaped political economy.

The chapter consists of three main sections. In Section 3.1, I provide an overview of the debates around the politics of natural resources and how conventional approaches fail to capture the different forms of state adaptation to neoliberalism in governing resources. In Section 3.2 and 3.3, I present my alternative theoretical framework to understand contemporary political economy of extractivism: *historical institutionalism* (HI), which emphasises incremental changes, critical junctures and ideational processes as a way of explaining institutional transformation; and *critical international political economy* (IPE), which draws strongly on strategic choices of agency – in states and labour unions – within structured contexts as explanations of the consequences of neoliberal reforms in Brazil and Chile. Finally, Section 1.4 discusses the complementarities between HI and critical IPE as a framework to explain changing continuities in resource governance.

3.1 What we know about resource governance

Natural resources produce *rents*, defined as the difference between the costs of extraction and the return from land, labour and capital; or in the context of resource wealth, rents are 'super-normal (oligopoly or monopoly) profits'. The growing scarcity of resources due to the scale and intensity of resource use and material mobilisation in the twentieth century (Dauvergne 2008; McNeill 2000) has produced an inter-disciplinary dialogue within and beyond social sciences to analyse how nature is utilised, governed, and commodified by societies. A variety of social and political aspects have been discussed extensively across disciplines, for example: the consequences of intensifying extractive-based growth strategies in spatial terms (Bebbington 2010; Bebbington et. al. 2008; Bebbington & Humphreys-Bebbington 2011);[7] the (re)constitution of collective identities based around opposition to commodification of land use and resource extraction (McCormick 2007, 2009; Perreault 2008a, 2008b; Sawyer 2004; Wolford 2010); and the depoliticised debates around 'good governance' of resources in key policy areas like taxation, revenue management, and environmental and social mitigation (Gunvald Nilsen 2008; Hinojosa et. al. 2010; Humphreys et. al. 2007; World Bank 2006; WIR 2007). The literature is vast. My PhD thesis is located within debates on the political economy of neoliberalism, the developmental roles of states, and in conceptualising citizenship through the lens of labour rights. I necessarily focus on the literature on resource extraction, state capacity, and neoliberal modalities of governing nature. With this massive caveat, the recent literature on resource politics can be divided roughly according to two main perspectives: (a) state politics focussing on the resource curse, rentier states, and depoliticised good governance; and (b) more systemic approaches looking at how changes in production and consumption affect global production chains.

3.1.1 Governance-centred approaches to resource politics

The resource curse, in strictly economic terms, is often used loosely to describe the negative effects of the *Dutch Disease*. It refers to the appreciation of real exchange rates caused by the sharp rise in exports and

[7] Specifically, this is the ESRC project led by Tony Bebbington (RES-051-27-0191) at the School of Environment and Development, University of Manchester entitled "Conflicts over the countryside: civil society and the political ecology of rural development in the Andean region". Please see the following link for further details: http://www.sed.manchester.ac.uk/research/andes/.

the tendency of a booming resource sector to draw capital and labour away from a country's manufacturing and agricultural sectors, thereby, raising their production costs (Ross 2001b: 305). Similarly, institutional endowments are the key to the success of an exports-oriented growth strategy – the likely hypothesis used to explain the disparate paths of resource-abundant and resource-scarce states as well as the so-called exceptionalism of some resource-rich states like Australia, Botswana, Canada, Chile, Malaysia, and Norway (Acemoglu et. al. 2003; Mehlum et. al. 2006; Sachs & Warner 1997, 2001). Whilst econometric studies are able to establish correlations between natural wealth and institutional quality, for example Mehlum et. al.'s (2006) distinction between producer-friendly and grabber-friendly institutions to theoretically abstract rent-seeking and production, unfortunately, these studies do not explain well why some countries succeed in a less deterministic fashion. In fact, the resource curse thesis is being challenged not so much for its methodology but for the way high powered economic theories are enacted, practised, and legitimised as a device to structure relations of power and how theorising collides with and adjusts to already existing politico-economic and socio-cultural conditions (e.g. Weszkalnys 2011). Nevertheless, the importance of the resource curse as a reference point in debates on governing extractive resources must be recognised. Political studies have begun to discuss the resource curse from institutionalist and political economy perspectives, and it is this debate that I focus on the rest of the chapter.

The literature on natural wealth exploitation gravitated around the notion of what Terry Lynn Karl (1997) calls the 'paradox of plenty' – a debate dominated by economists and political scientists interested at the economic and political consequences of resource dependency. The resource curse literature examines the political choices of elites that lock in development strategies towards a cycle of resource dependency, which then negatively affects the quality of political institutions, the capacity of the state to exert state autonomy from rent-seeking groups, and the prospects of minimising conflicts in contexts of civil wars and secessionism (Karl 1997; Hammond 2009; Ross 2001a, 2006, 2012; Smith 2004; Uldefer 2007). In particular, the central issue in Latin American political economy is the ways export led growth strategies have failed to improve state capacities to effectively collect more revenues and diversify the tax base (and economy more generally) in order to diminish reliance on resources.

One way of understanding state capacity and resource dependency is via the lens of taxation. In Latin America, resource rich states have had few incentives to develop robust, capable tax administration systems as a result of the ease of extracting resource revenues. Because oil and mineral rents are drawn from foreign capital rather than general taxation, political elites generate income without necessarily seeking for the support and cooperation of citizens. Historically, regional elites exerted political autonomy at the expense of hollowing out the centralised state. This process of state building lacks one key feature of institutional development: the creation of a social contract between the state and society that historically comes through contractual taxation systems (Brautigam et. al. 2008; Levi 1988; Tilly 1992). Whilst this argument is now contested on empirical and theoretical grounds,[8] it remains the case that institutional capacity to tax is necessary, especially in contexts of resource-dependent economies where alternative sources of taxation have failed to develop (Jones Luong & Weinthal 2010; Smith 2007). Evidently, reforms towards strengthening state capacity become more difficult to achieve when states are left to deal with sudden downturns in international commodity prices. An export bonanza also poses a major challenge – politicians and bureaucrats tend to inject revenues in the domestic economy bringing forth inflationary pressures. Terry Karl refers to this political behaviour as the 'politics without limits' mentality, which in Venezuela resulted into the breakdown of prudent macroeconomic

[8] Rentierism does not necessarily obstruct accountability because: (a) some regimes – Saudi Arabia being the exemplary case –are able to buy off dissent and generate more rents; (b) the links between taxation and representation in European history have far less support for rentier state theory than is often supposed; (c) citizens may still want to hold their rulers accountable even without being taxed; and (d) the rentier state theory may find less support outside of the Middle East context due to the existence of rentier democracies (Herb 1999, 2003, 2005; Hertog 2010a, 2010b; Waterbury 1994, 1997).

management.[9] As an explanatory framework, these studies explore the collusion between states and big business, the role of external actors in perpetuating authoritarian regimes in resource dependent states (e.g. United States, donor agencies), and the ways resources support factions in countries plagued by civil strife (Karl 1997; Ross 1999, 2001b, 2001c, 2006; Smith 2004, 2007; Uldefer 2007).

The discovery of minerals and petroleum requires simultaneous state reforms to manage the sudden influx of revenues and to strategically use resource rents for economic growth. Asset immobility and geographical concentration of resources allow for the development of extractive sectors without necessary linking extraction to production of intermediate goods (Dunning 2008: 6; Gallo 2008; Hammond 2009). Some take a more pessimistic view on this, claiming that extraction occurs within uneven global economy and where the niche of peripheral states in the international division of labour lies in serving primary commodities for the global economy – Harvey (2003) brands this as capital 'accumulation by dispossession'. With respect to the question of citizenship (and quality of democracy), mining politics tend to be highly technocratic and rent distribution is confined among elites. Although democratic states are subjected to pressures for transparency and accountability, the way in which economic reforms are designed and implemented have followed an authoritarian style of decision-making. For example, mining resources are associated with centralisation of power at the expense of democratic accountability, deterioration of public institutions, and uneven capabilities to tax different sectors (Dunning 2008; Gallo 2008; Karl 1997; Mejía Acosta & de Renzio 2008; Ross 2012).

In explaining the strengths and limitations of contemporary growth strategies of resource-rich states, questions of timing and sequencing of reforms matter. Contingency and politics also mean that human agency is

[9] In some instances, political elites deliberately use resource rents in consolidating authoritarian regimes, a survival strategy of states in resisting calls for democratisation and attempts to curtail corruption and rent-seeking. See Ross 1999, 2001c.

consequential to the political economy of market reforms. In this context, governance-centred approaches fall short as a result of structural determinism; contrary to econometric studies on resource curse (Sachs & Warner 1997, 2001), there exists no linear causality between resource abundance and institutional development. The same can be said about political studies on the resource curse – best captured by the *rentier* state hypothesis. Firstly, advocates of the rentier state theory only explain the durability of authoritarianism as a result of oil wealth in Africa and the Middle East (Beblawi 1990; Beblawi & Luciani 1987). The theory does not travel beyond these regions, especially in Latin America where resource rich states like Chile, Mexico and Venezuela have experienced sustained periods of democratic rule (Dunning 2008; Hammond 2009).[10] Outside Latin America, Indonesia and Malaysia stand out as cases of economies with initial dependency on petroleum but moved towards economic diversification. Escaping the resource curse is possible given specific historical conditions that allow elites to break away from resource dependency (through economic reforms); power relations among rent seeking groups change over time leading to authoritarian breakdown and creation of nominal democracies (Abidin 2001; Rosser 2007).[11] Secondly, the overemphasis on the role of oil rents as key to the stability of authoritarianism is inadequate in grasping the implications of current political changes in the world today, such as the wave of democratic transition in the Arab region in 2010, the adaptation of Gulf monarchies – including Saudi Arabia – to the global economy through

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[10] Whilst oil-rich Mexico and Venezuela have more problematic histories of democracy compared to Brazil and Chile, oil has played a crucial role in maintaining political stability and nominal democratic rule. In both countries, complete political breakdown was avoided through the specific institutional mechanisms in place to redistribute oil rents. The durability of the political system that shielded the elites from incentives to embrace reforms was, ironically, the same reason for the cyclical political crises in Mexico and the collapse of liberal democracy in Venezuela (González 2008; Karl 1990, 1997). Nevertheless, these cases show that oil and democracy are not necessarily incompatible.

[11] Rosser (2007: 40) argues that two major factors have paved way for Indonesia to escape the resource curse: (a) the political victory of counter-revolutionary social forces over radical populist and communist social forces during the 1960s that created pressures for immediate industrialisation; and (b) the decision of Japan to move its capital from the United States to Southeast Asia benefited Indonesia enormously as it provided the resources to diversify export markets. In addition, other factors disrupted the consolidation of Indonesia towards oil dependency during state formation, such as Dutch colonialism, Japanese occupation, and bombardments of oil refineries.

complex state reforms, and the shift towards the Left in Latin America whose platforms make explicit references to growth and equality – all of which indicate the limitations of rentier state theory in analysing the political economy of natural resources and democratisation (Grugel & Nem Singh Forthcoming; Hertog 2010a, 2010b). Finally, the iterative application of rentier state theory outside the Middle East has encountered methodological critiques. The weakness of this approach stems from the empirical scope and research ambition of rentier politics, wherein scholars sought to correlate oil boom in the 1970s and the persistence of authoritarianism in the Middle East. There are two lines of critiques here. On the one hand, new research on rent-seeking and coalition politics (Brownlee 2007; Slater 2010, Smith 2007) have argued that whilst 'the global oil market does create a single set of political constraints common to all exporting countries' (Smith 2007: 196), some political leaders in oil-rich states invested in developing complex political institutions and not in repression. Following the tradition of Karl (1997) and Migdal (2001, 2009), the disparate paths of state-building among oil-rich states can be explained through timing and sequencing of state reforms. A second criticism emerges from the literature on post-neoliberalism in Latin America. Regional governments have sought to challenge neoliberal mining reforms by way of directly subsidising anti-poverty and social policies and changing the institutional frameworks in favour of state intervention in the minerals sectors. With democracy being the 'only game in town', Left governments are subjected not only to pressures of redistribution but also to maintain more transparency and democratic accountability (Grugel & Riggirozzi 2012; Panizza 2009). Put simply, the challenge of resource governance rests not only in the technocratic management of the sector but also how broader strategies of political inclusion are able to deliver economic growth and welfare provision. The notion of citizenship and quality of democracy – themes that resource curse literature did not engage with – are now recognised as important. Whilst rentier state theory was useful in the past to explain authoritarian stability in the Middle East, its analytical purchase is very limited as it fails to grapple with the changing realities of the world. The theory is insufficient to explain why some oil-rich countries have achieved nominal democratic regimes (or embarking on political liberalisation reforms). It also dismisses the increasing complexity of rent-seeking and coalition politics, especially in the context of global market integration, in which resource-rich states are introducing domestic reforms in light of the radically different challenges imposed by globalisation (Herb 2005; Hertog 2010a, 2010b).

In this context, one cannot insulate domestic politics from the effects of global interdependence. A fundamental difference between the post-war and the post-Cold War era is the indispensible role of global governance institutions in shaping domestic political and economic choices. There exists a rich literature on how international financial institutions and private authority regimes influence the governance agenda (see Section 1.3). In light of the commodity boom, global initiatives by international organisations (most notably the World Bank) and civil society organisations (e.g. Transparency International and Revenue Watch) have began to work with national governments in the management of their natural resources. One prominent example is the Extractive Industries Transparency Initiative (EITI), which really is about developing international standards of what constitutes good governance of resources. Other initiatives include those linking climate change, deforestation, and resource exploitation to questions of sustainable development. These governance efforts have been criticised for being too technocratic, depoliticised, and highly insensitive to the realities of the developing world. According to Nem Singh & Bourgouin (forthcoming), the global architecture of resource management can be characterised as an array of norms, standards and procedures that articulate a linear interpretation of governing nature, which is devoid of understanding of the tensions between what ought to be done and what is currently practised in mining activities. Above all, the economic reforms in the sector since 1980s have prioritised in enhancing the legitimacy of private sector participation, which in the context of weaker governments, have led to the dissolution of state autonomy in making accountable decisions. As regards revenue management, World Bank's solution of 'saving money for the rainy day' glosses over the need for governments to respond to poverty legacies of the past, all of which are outcomes of neoliberal reforms.

Contrary to recommendations from the World Bank on fiscal tightening even in times of plenty, Left governments in Latin America have sought to link resource wealth and social development in addressing growth and social inequality. Social redistribution, by way of financing anti-poverty and social policies, has returned in the growth agenda. For the first time since the debt crisis of 1982, export-dependent countries experienced large surplus in trade, fiscal accounts, and overall economic growth as a result of high prices of agricultural, mineral, and petroleum prices. And whilst neoliberal reforms have institutionalised lower taxes (and less rents) for states, as Hinojosa et. al. (2008: 15) argue, a low tax regime to attract foreign investment does not in any way preclude possibilities of enhancing welfare outcomes: states choose to mobilise revenues from mining, or any other sector, in the manner that best maximises social investments, or they can opt to finance social services and social security institutions through different means – for example, by inviting private sector to run parallel insurance, to completely shift the burden of social protection from public to private risk management, or to retain strong state presence. The Chilean case is exemplary. A comprehensive welfare system has developed within the neoliberal mining and social policy legacies of the dictatorship, which includes a low tax base for the copper sector (Nem Singh 2010). At the core of the debate on extractivism and social policy is the extent to which elites are predisposed to policy latitude and political spaces to deploy fiscal resources in addressing social inequality. Poverty reduction strategies, especially when financed by export taxes or royalties, are both political and technical questions on how to best maximise scarce resources in an environment antithetical to state-managed models of social inclusion (Barrientos & Hinojosa 2009; Hujo 2012).

Overall, whilst some insights of governance-centred approaches are valuable, advocates of this perspective cannot conceive of resources as a tool for social development. In response, systemic approaches to resource extraction problematise the underlying relations of power between states and markets. At the heart of the global political economy is the increasing complexity of raw materials processing, in which technological innovation and trade strategies of dominant states drive the expansion of economies of scale and simultaneously shape the global division of labour – an emphasis on the systemic nature of production networks embedding states and ordinary people in a hierarchy of spatial relations (Bunker 1985; Bunker & Ciccantell 2005; Ciccantell & Smith 2005). Equally important, natural resources are inherently produced within complex systems of production, marketing, and consumption in which states are penetrated by firms, intermediary actors, and workers (Bridge 2008; Coe et. al. 2008; Cumbers et. al. 2008; Topik et. al. 2007; Topik & Samper 2007). These complementary views on macro-level processes – what I call 'systemic' approaches to natural resources – analyse states as rational actors located in a web of global production network, a theme that I discuss more extensively in the next section.

3.1.2 Systemic approaches to resource governance

A more familiar approach to resource extraction takes a long term view of globalisation as a historical process of change that inserted Latin America in the global economy through colonisation and consolidation of exports-led growth in the liberal era; some extend the globalisation of commodity production as an outcome of competing trade strategies of dominant states in their quest to undermine the challenges of matter and space (Arrighi 2000; Bunker & Ciccantell 2005; Cardoso & Faletto 1979; Galeano 1973). The interaction between society and nature takes place through the social creation and use of technologies that underpin the elaboration of national strategies of trade dominance. In turn, development strategies integrated local economies into a global international economy through raw materials processing. World system theories (WST) of resource extraction have long recognised the limitations imposed by socio-material features of resources. Nevertheless the quest for overcoming the laws of nature through expanding economies of scale, searching for rare resources located in particular sites of extraction, and developing superior technology than what existed beforehand has all guided the rise and fall of core states in the world order.[12] The analytical focus is the reproduction of global inequality in production and terms of trade at the expense of peripheral economies, which Marxist-inspired theories aimed to remedy through a pragmatic strategy of import substitution industrialisation. By drawing upon the interaction of matter, space and technology in spatial terms at a given political time, globalisation can be conceived as the process of forging interdependence between (and integration of) the local and the global, the concrete and the abstract, and the social and the environmental. Similarly, resource geographers emphasised the importance of space, place, and context in understanding the new geographies of resource extraction and social conflicts (Bebbington 2012; Bebbington et. al. 2008; Bridge 2002, 2004b, 2008).

Although often accused of being overly deterministic, WST and new historical materialism do not see the state declining in the era of globalisation. Whilst the most recent stage of globalisation diminishes the capacity and autonomy of the state in the periphery, the state remains the locus of power – and consequently states act as intermediary between (other) states and among firms – that mould the ways local economy is integrated into global markets. Its main strength rests on the historical approach of raw materials extraction by articulating the politics of growth and inequality through the lens of competition for securing raw materials and processing resources into high value commodities for consumption. Therefore, beyond Marx, their discussion of land, labour and capital cut across the three realms

[12] Bunker & Ciccantell's new historical materialism (2005: 22-23) analyses how global powers become dominant by looking at how the laws of nature are subjected to economies of scale: (a) universally applicable physical and mathematical laws of space, time, inertia, gravity, and energy; (b) material processes manifesting these laws, such as geological formations, hydrological cycles, and interactions of different chemicals and minerals under different pressures and temperatures; and (c) the resulting technological developments that arise from the limits imposed by nature. The first two realms structure the potentials of technological innovations by setting the ceiling for the continuous expansion of economies of scales. This drives societies to seek new technologies that expand the space to overcome the limits of scale, which eventually become the narrative of the social, organisational, and economic history of human civilisation.

of reality – they reconfigure the interactions between society and nature through distinctive historical moments of capital accumulation.

However, its major weakness rests on explaining regimes of accumulation based on production. By not paying attention to the changes in other parts of the commodity chain, WSTs lack analytical rigour as regards why some extractive states succeed to compete in the global economy. The rise of a multi-polar world order, characterised by emerging powers seeking more influence in global governance, has further challenged the validity of WSTs. Whilst imperialism and colonial conquests were shaped by trade strategies on raw materials extraction, economic growth in emerging markets, especially Russia, Brazil, Indonesia and South Africa, are underpinned by the existence of vital resources allowing for their unprecedented dominance in the age of resource scarcity. For example, the most prominent grouping, BRICS, has developed historically some national champions which are vital in securing vital resources such as mining, steel, and petroleum (Goldstein 2007; Goldstein & Pusterla 2010; Pedersen 2008). By simplifying state strategies of resource extraction as unitary responses to demands of foreign capital, WSTs fail to explain varying responses to globalisation not only by states themselves through new competitive and regulatory functions but also by private firms which increasingly organise through cooperative arrangements (Cutler et. al. 1999a, 1999b; Bruce Hall & Biersteker 2002). The latter trend challenges state-centric notions of legitimacy and reformulate authority in global governance. WSTs, with their concern on structures of global order, confer little agency to states in the periphery; overall, this skews contemporary understandings of state power in the neoliberal world order. For example, several resource abundant late industrialising states – Brazil, Chile, India, and Malaysia – have retained their SOEs as powerful economic actors with *political* roles as buffer between the state and private capital. Differential economic and state capacities result to particular engagement of states and SOEs with the global international economy.

The global commodity chains (GCCs) approach diverges from WSTs by examining economic processes in the commodity chain from the production of tradable goods (supply chain) towards the export for consumption (demand chain) with clearly identifiable steps – processing, transporting and marketing (Bridge 2008; Coe et. al. 2008; Topik et. al. 2007: 14-15).[13] GCCs focus on complex interactions between states and firms by spatially locating actor rationalities in a chain of production and consumption activities. In comparison to WSTs, GCCs take seriously the power of private actors in shaping regulatory roles of states by differentiating the relational aspects of public and private power across the commodity chain. Whilst processing and transporting focus on the supply side, marketing pays closer attention to the demand side. The advocates of GCC approach are interested to know if crops and mineral exports are dictators of production and if the same product is produced under distinctive labour structures, ownership rights, and processing regimes. Instead of accepting policy choices as given, GCCs trace state responses to the multitude of pressures exerted by private actors in the chain. The local economy is a focal starting point in their analysis of changes in the global production networks. Market power is analysed in terms of the capacity of firms to produce goods as well as the ways in which policies are formulated to boost the competitive advantages of states. In this way, GCCs make a distinction between mere raw materials exporter and those states with greater market share (and control) in production. For GCCs, it is not enough to hold deposits of oil and minerals and then extract resources, or possess massive sizes of land to produce agriculture exports. State actors must craft policies that are economically rational and devise development strategies aimed at gaining control in the race for technological advancement to move up in the globalised value chains. In other words, GCCs do not see the world economy as a static economic order but rather emphasise possibilities for states to achieve economic mobility and political power within the global capitalist system.

[13] Different names refer to this approach, they refer to global production network (GPN), global chain value (GCV), or global commodity chain (GCC) approach.

To further distinguish WSTs and GCCs, we can use coffee as an example of the analytical distinctions between the two approaches. On the one hand, WSTs typically focus on the exploitative relations of production in the local economy and dependent relationships between raw material producers and consuming states (Bunker 1985; Bunker & Ciccantell 2005). On the other hand, GCCs explain the varying strategies of producer states like Brazil and Costa Rica in the global market and how their competitive advantage in coffee production is in fact shaped by the changes on the demand side. Both countries are considered as new world producers which exercised market power and supplanted MNCs in capturing the world market. A variety of factors within the production network are used by GCCs: technological innovation in production; the boost in demand brought about by the steady rise of the United States as an economic power; and the changing social construction of coffee from a bourgeoisie luxury good towards a working class drink. In particular, Americans embraced coffee drinking, and with their purchasing power, the status of coffee was transformed from being a luxury good towards an affordable commodity for working classes. The United States gained economic domination after the Second World War; by 1960 US was importing 60 percent of world coffee. But these external changes have been complemented by state policies in supply and demand side. On the supply side, whilst Brazil succeeded in becoming a price-maker due to its ability to respond to the global expansion of coffee consumption, Costa Rica found its niche through technological innovation emphasising quality rather than quantity of production. On the demand side, the tax-free import policy in the US as well as the introduction of blenders and roasters has altered the quantity and quality of coffee. Indeed, the increasing complexity of consumption in the commodity chain has affected state policies of producers and the coffee industry at large (Topik & Samper 2007: 124).

As with other systemic explanations, GCCs gloss over the conflicts around the construction of state strategies to respond to globalisation in exchange of a global view/scope of commodity production. Concerned with economic processes, the 'political' aspect of governance is lost in the analysis. Since GCCs trace flows of goods from production in the local economy to the consumption, pervasive economism assumes states and businesses as rational, unitary actors organising themselves with *a priori* interests. Whilst not completely dismissing labour, their treatment of workers is at best a depoliticised view where labour *power* constitutes the production chain. Although newer research now recognise the importance of labour in production processes and social justice demands (Bair 2009; Kuruvilla & Verma 2006; Riisgard & Hammer 2011; Selwyn 2011), the discussion remains labour not as complex and non-homogenous agency but as singular rational actor attempting to shape commodity chain governance. Political studies have always challenged this by arguing that governance is highly political, undoubtedly complex, and outcomes are less structurally determined. Although GCCs offer a critical and complex account of the commodification of nature by society, my focus on human agency and political action as explanations to the uneven introduction of neoliberalism – the reconstitution of state autonomy and of labour politics – makes this rich theoretical framework less appealing.

Finally, both systemic approaches treat labour as analytically separate from the state's role in managing production processes. In the globalised international economy, the 'labour question' is not simply about how labour laws reflect demands of competitiveness and highly skilled human resources. Labour issues also raise questions about workplace representation, citizenship rights, and democracy. How do ordinary people organise for their collective interests and how do they seek to influence political outcomes? The politics of labour, essentially, seeks to unravel the extent to which existing political arrangements are legitimated in response to demands from below. Echoing the criticism against systemic approaches, political economy misses the political and social life *on the ground* – how workers organise, how legitimacy is acquired and contested, and how power struggles are resolved through bargaining and conflict – all of which can only be understood through a detailed process tracing of history, structure and contingency in state-market-labour relations.

To sum up, whilst systemic and governance-centred explanations offer a broad perspective on governance, they are insufficient thus far in problematising *the political* aspects of state reforms. Whilst complex macroeconomic processes undoubtedly transform natural resources, both approaches remain ambivalent to questions of state agency and the extent governance is depoliticised. In so doing, although they recognise the structuring effects of resources, they fail to explain why some resource-rich states are capable of transforming resource wealth into productive wealth, and they do not explore how neoliberalism serves as a critical juncture for state-society and state-market relations. Tellingly, the relations of power among states as well as between states and other actors are reduced into rational calculations based on pre-defined economic motives. This clearly ignores the ways institutions shape power configurations and the importance of history and legacies in constraining strategic actions of different actors. In the next section, I argue why a synthesis of HI and critical IPE perspectives offer the analytical tools to understand the politics of neoliberal resource governance.

3.1.3 Structure, agency, and politics: Towards a new analytical framework?

Most analyses of state projects and developmentalism in the era of neoliberalism have revolved around traditional policy areas like social welfare, industrial strategies, and broad-brush macroeconomic policies. What is missing, especially in the Latin American context, is a critical take on the changing power configurations between states, markets, and organised labour in one of the leading sectors of the economy: commodity exports. As neoliberal reforms swept the developing world, scholars assumed a form of convergence towards free market orthodoxy. The explanation varies in focus. Some emphasise the limitations of developmentalist ideology followed by the social embedding of neoliberalism whilst others look at coalition politics and elite pacts as the determinants of reform outcomes. Moreover, the convergence hypothesis asserted rather than proved that a single recipe of market opening leads to homogeneity in economic organisation and production (Cerny 1997, 2010). It was, in short, assumed that natural resource sectors followed linear pathways of addressing competitiveness and growth. And as conventional explanations demonstrated, resource exports were viewed as negatively contributing to economic growth and general social welfare. An anti-resource bias in the literature was predominant until after the return of high prices in 2002.

In answering the question 'how do we explain divergent pathways of extraction and the return of the state in resource management?', we need to turn to a political rather than an economic or geographical perspective on resource governance. Whilst neoliberalism has undoubtedly transformed the resource sectors, the fact is that we now see an increasingly strong preference for state-led management models rather than leaving economic decisions in the invisible hands of the free market. The commodity boom since 2002, fuelled by growing resource scarcity and the rise of China, is the new international context which underpins the diverse array of strategic development policies of resource-rich states (Beeson et. al 2011; Jenkins 2011; Jenkins & Peters 2009; Pirages & Cousins 2005; WIR 2007). Tellingly, our theoretical lenses in analysing natural resources and its contribution to economic growth and democracy have been conditioned by the real world transformation of the global economy. The contents of state-led management differ between the 1970s and 2000s, and elites are more conscious of the environmental and social consequences of extractivism.

In unpacking the gaps in the resource curse and neoliberalism literature, we must distinguish natural resources as a specific type of capital that generates wealth quite differently compared to manufacturing, industrial production, and even finance. As Section 3.1.1 discussed, resource wealth is subject to international shocks and commodity price fluctuations. The income derived from resource extraction is uncertain and windfall profits are unreliable sources of domestic financing for the state (Humphreys et. al. 2007). Equally, ownership structures of resources sector are fairly stable and market power and competition within the industry change very slowly. This explains partially why major mining and oil-producing states have retained state enterprises out of the privatisation agenda as a way of maximising rents and keeping state control over these so-called strategic industries (Hertog 2010a, 2010b; Vivoda 2009). In Latin America specifically, windfall profits have given political elites the opportunity to assert state autonomy away from rent-seeking groups and allowed for the regional governments to devise finance welfare policies despite the prevailing doctrine of fiscal conservatism internationally (Grugel & Riggirozzi 2012; Hogenboom 2012).

The success of some resource-rich states to use resources for growth and to advance state-controlled forms of economic liberalisation can be explained through a framework that accounts for the simultaneous changes in domestic political arrangements and global political economy. In theoretically and empirically exploring *change*, I utilise the twin lenses of HI and critical IPE perspectives. Historical institutionalism probes into the dilemmas of actors in making political choices under contexts of structural constraints by way of focussing on power, conflicts, and path dependence. In other words, institutional change in governing resources is mediated by political legacies, contexts, and contingent actions. This brings us to the paradox of institutional development: institutions are forged to create stability through institutional reproduction but contingency (especially during critical junctures) leads to the breakdown if not the gradual replacement of stable, recurring political arrangements. In addition, political economy perspectives are attentive to the international conditions, the arrays of social forces and the interdependent relationships among actors in the global economy. Dominant paradigms of development are not theoretical abstractions but consequences of history and experiences of states and non-state actors. The hegemony of neoliberalism should not be taken as a given. Instead, it is a product of the accumulation of intellectual and pragmatic thinking about development, growth and politics. As Chapters 5-8 detail later, neoliberalism is not an inevitable process but rather contested. The next two sections explore the theoretical tools to examine the politics of natural resources in Brazil and Chile – historical institutionalist and critical IPE perspectives.

3.2 Historical institutionalism as a framework of institutional change

In an attempt to 'bring the state back' into mainstream political science, some authors (see Evans et. al. 1985) argued for the need to contextualise politics institutionally. That is to say, scholars should pay closer attention to the conditions that structure the ensemble of state institutions, which in turn affects political behaviour. In so doing, the neo-institutionalism literature has brought forth a corrective to the dominant behaviouralist and agency-centred approaches in the 1970s and 1980s. An institutional contextualisation of politics necessarily shifts the focal point of political analysis from the influences and behaviour affecting the state towards the variegated capacities of institutions of states and the diverse patterns of interactions between political elites and social groups. The main variants of neo-institutionalism – rationalist, historical, sociological, and discursive – share interest in unravelling the explanatory power of institutions as the driving force behind political behaviour. In contrast to old institutionalism, neo-institutionalism expands the definition of what can be considered as institution and then draws from the different aspects of institutions to explore patterns of change and continuities. A broader definition of institutions is necessary – one that include formal organisations and informal rules, norms and procedures. The most widely accepted definition is by Peter Hall, in which he refers to institutions as "formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (Hall 1986: 19). As opposed to formal organisations, Immergut (1998) argues that the defining features of neo-institutionalism include context, conflict and history.

How do institutions understood as 'sets of regularised practices with a rule-like quality' (Hall 2010: 204) structure the behaviour of actors and political dynamics after institutional creation? Consequentially, what is the relationship between the evolution and transformation of policy paradigms, on the one hand, and institutional change – the development of the state itself – on the other?[14] Whilst the first generation of neo-institutionalist literature concentrates on how and why institutions emerge, the second-order question is when and how institutions change. Moving beyond the structure–agency debate, the second movement of institutionalist analysis has sought to find overlaps among different neo-institutionalist approaches, that would eventually lead to theoretical cross-fertilisation, rapprochement, and integration (Campbell & Pedersen 2001b: 249). Such attempts have been done in studies in comparative politics looking at dynamics of change in policy learning, party politics, and economic governance (Blyth 2001, 2009; Campbell 2001a; Hay 2001; Hunter 2010; Smith 2007). Despite the analytical payoff in using institutionalism to explain policy shifts in Latin America, there is still a lacuna in explicating patterns of economic governance from the perspective of institutional theory and political economy. This apparent gap is even more evident in theorising post-neoliberalism in Latin America and the wider developing world.

The starting point is to differentiate what the three main schools of thought deem as mechanisms of institutional change: Rational choice approaches view institutions as incentive structures that reduce the uncertainties resulting from the multiplicity of (fixed) individual preferences (North 1990; Ostrom 1990; Shepsle 2006; Weingast 1996, 2002); sociological institutionalism takes norms, cognitive frames and meaning systems as guiding human action according to a 'logic of appropriateness' (Powell & DiMaggio 1991; Scott 1991, 2001); and finally, historical institutionalism examines institutional development as outcomes of concrete historical struggles among actors, assigning equal weight on the intended and unintended consequences of political actions (Immergut 1998; Mahoney &

[14] Hay (2001) makes a distinction between policy change and institutional change, in which the former is a necessary but insufficient condition for the latter. Policy is an expression of an authoritative body, the state in this context, and institutions span to a constellation of formal organisations, procedures, norms, practices and patterns of interactions. For example, state-labour relations is considered an institution in the sense that it exhibits regularised, iterative patterns of managing conflicts (Collier & Collier 2002; Cook 2007).

Thelen 2010).[15] Their shared research question is to explicate institutional change despite the inherent stickiness of institutions. However, beyond the common phrase that 'institutions matter', the approaches take disparate paths in analysing ideas, institutions, and interests. They all differ in their treatment of endogenous and exogenous sources of change, which is consequential for explanations regarding mechanisms that permit change in political life.

More specifically, my thesis is interested in explaining paradigm changes, or the difficulties of moving beyond (neoliberal) modalities of economic governance. By empirically tracing the ways in which neoliberalism was challenged by neo-developmentalist ideas in Brazil and Chile, I offer an explanatory framework capable of explicating the contested nature of neoliberal reforms, the limitations imposed by historical legacies and inherited political systems to reform agendas, and the ways new ideas become dominant (or gain legitimation) in the public spheres. In essence, historical institutionalism that closely accounts for ideas *and* institutions seeks to unravel the role of political time – i.e. uneven temporality and contingency – in illuminating gradual shifts from existing paradigms of development. This adds to the growing literature on the role of history, contingency and ideational factors in shaping power relations, and consequently affects institutional evolution in political systems (e.g. Bell 2011, 2012a, 2012b; Berman 2011; Schmidt 2012).

In this context, my work emphasises *institutional continuities with changes* rather than abrupt, dramatic changes in political systems. From this perspective, I argue that we cannot explain the persistence, if not resilience, of governance regimes without sufficient attention to the role of state

[15] There is an emerging fourth strand of neo-institutionalism, discursive institutionalism (Schmidt 2002, 2006, 2008, 2010), which is known very differently across the social sciences depending on scholars' degree of commitment to the explanatory power of ideas and discourses. For example, some coin this as the ideational turn (Blyth 2002, 2009), ideational institutionalism (Hay 2001), discursive institutionalism (Campbell & Pedersen 2001a), or constructivist institutionalism (Hay 2006). For a broader overview of the debate, see Bell 2011, 2012a, 2012b; Béland & Cox 2011; Schmidt 2010, 2012.

capacity, policy legacies, and ideational diffusion of neo-developmentalism. As we probe further into the empirical world, for example, how to account for the heterodox nature of policy alternatives from the free market orthodoxy in Latin America as well as the apparent consolidation of austerity politics in post-crisis Europe and United States despite the overwhelming failures of neoliberalism (Crouch 2011; Harvey 2010; Peck 2010), the only theoretical way of explicating change is by understanding constraints and how political agency is exercised albeit in incremental fashion. In Schmidt's (2010) terms, how do constructs of meanings enable action, which in turn produce institutional change? My thesis accounts for changes in governance regimes by giving analytical premium to questions of context, history, and legitimation of economic narratives to justify state responses to globalisation. Although there is significant disagreement between historical institutionalism and discursive institutionalism over the role of ideas as a source of institutional change (see Bell 2011, 2012b; Schmidt 2010, 2012), I do not engage in this debate but instead take both ideas and institutions as constitutive explanation for change.

My choice of deploying historical institutionalist explanations is further justified by the limitations of rational choice institutionalism, particularly its universalistic ambitions as well as its excessive emphasis on electoral rules and parliamentary politics, in analysing Latin American politics (Weyland 2002b).[16] In its attempt to offer parsimony and elegance, rational choice institutionalism neglects the autonomy of the state (especially the executive) to exercise control over policy-making and its emphasis on formal rules render the approach incapable of elucidating crisis politics (Weyland 2002b: 64-65, 73).[17] Whilst self-interest and strategic calculations undeniably are key

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[16] Rational choice institutionalism began to fill important gaps in the literature, for example through rigorous analysis of formal rules, electoral designs, and congressional manoeuvrings – topics which gained relevance in light of democratisation.

[17] Some examples of rational choice institutionalism include Ames 1995; Geddes 1994; Morgenstern & Nacif 2002. Interestingly, Berrio et. al. (2011) map out different policies of hydrocarbons nationalisation in Latin America using a carefully formulated rational choice framework.

aspects of politics, they do not in themselves account for the complexity of politics, such as the role of informal rules and practices, historical circumstances, and cultural factors. Comparative politics scholars have begun to embrace cross-fertilisation, for example the shift in Wendy Hunter's work from purely rational choice to explain the role of military in policy-making towards a synthesis of rational choice and historical institutionalism to explore the rise of the Workers' Party in Brazil (Hunter 1997, 2010; see also Ames 2001; Lichbach & Zuckerman 2009). Others have fully applied historical institutionalist lenses in Latin American politics (Brooks 2009; Collier & Collier 2002). In this thesis, within new institutionalism I intend to explore more systematically the role of ideas in enabling change and continuity, as shaped by the wider structural contexts, path dependent historical processes, and institutional dynamics.

At its broadest, historical institutionalism is interested in how political struggles are mediated and shaped by permanent structures and institutional settings in which these conflicts take place. This approach consists of (a) explaining the role of political conflicts and power struggles in shaping possibilities and limitations of institutional change; (b) drawing linkages between material and ideational sources of institutional change; and (c) focussing on critical junctures and incremental pathways of policy change to explore state transformation (Campbell 2001; Hall 1989, 1993; Hay 2001, 2011; Thelen 1999). Instead of states as monolithic or rational actors, the state is conceived as a structural context upon which actors situate themselves and as agency in its own right with the capacity of shaping different pathways of political outcomes (Mahoney & Thelen 2010; Thelen & Steinmo 1992). The state cannot be reduced to an aggregate of individual interests of state actors, the vector sum of political forces, or the condensed expression of the logic of economic necessity (Evans 1995: 18). Unlike rational choice approaches that view institutions as constraints to agents' strategic calculations, political actors contest and frame policy ideas into concrete proposals that are negotiated by competing interests within structured, power-laden political contexts.

The HI perspective best explains the delineation between the origins and development of institutional structures and processes over time, with its emphasis on sequencing of development, timing of events, and phases of political change. Temporality, which underlies institutional formation and change, offers insights into the complex and uneven process of state transformation and political change. Whilst institutional formation during critical junctures is crucial in shaping path dependency, institutional evolution over time suggests the less trivial nature of state transformation, which is sensitive to the unintended consequences of strategic actions. A dynamic view of state transformation underpinned by 'punctuated evolution' rather than punctuated equilibrium has the potential to unravel the discontinuous conception of political time in which periods of comparatively modest institutional change are interrupted by more rapid and intense moments of transformations (Hay 2001, 2002: 161-163).

From a historical institutionalist perspective, institutions represent compromises or relatively durable though still contested settlements based on specific coalitional dynamics, they are always vulnerable to shifts. Hence, change and stability are inextricably linked. On the one hand, stability is not a static situation, but instead it requires on-going mobilisation of material resources and (ideational) political support with the aim of resolving ambiguities in rules (Mahoney & Thelen 2010: 8-10). Different coalitions are mobilised by *competing* interpretations of one and the same rule – hence we find struggles over meaning, application and enforcement. This emphasis on *compliance* to the rules based on active agency constantly interpreting rules is the main driver of change. It allows me to identify the properties of institutions deemed more permeable for change. Subsequently, change is conceived as *distributional* instruments laden with power implications rather than a function of exogenous factors (Hall 1986, 2010; Mahoney & Thelen 2010). Structural contexts, which can is distinctive from institutions as wider political, economic and social contexts operating in a strategically selective manner, influence how specific institutions operate (Bell 2011: 898). Hence, we can think about structural changes (or continuities) as the context upon which actors within institutions enact and interpret rules to initiate gradual changes over time.

This emphasis on gradual route towards change by way of analysing resource (and ideational) mobilisation is increasingly accepted as the way forward in institutional analysis. According to rational choice perspectives, the sets of rules and expectations have variegated consequences to different actors, thereby, making institutions subjected to resource allocation and distribution problems (see Knight 1992; Moe 2006). However, their explanations of stability as the Pareto-equilibrium for actors and change as exogenously driven by punctuated disequilibria still fall short in recognising the uneven temporalities of change and the inherently conflictual and power-driven nature of institutional transformation. This tendency retains a *creational bias* and an over emphasis upon factors explicating institutional formation rather than the evolution. This critique, of course, goes the same for some advocates of historical institutionalism who find difficulty in moving beyond explications of institutional rigidity, inertia and stasis rather than change (Bell 2011; Hay 2001: 195). Incremental forms of institutional change are thus reflected in the changing interpretations of rules and expectations – an emphasis on agency, contingency, and ideational sources of state transformation. This does not deny the existence of dramatic changes, such as in revolutions and democratisation, but we need a theory that can account for 'normal politics' rather than these exceptional circumstances in history.

In this context, an emergent literature taking ideas and ideational changes more seriously has become fashionable in political analysis. With historical institutionalism's methodological emphasis on process-tracing, certain affinities exist among scholars looking at relationships between context and conduct, the ideational and material, and the discursive and the political. In this vein, some scholars working in the margins of historical institutionalism have been interested on the evolution of ideas *and* institutional arrangements. They draw upon ideational sources of institutional change, such as cognitive/psychological aspects, crisis narratives, logics of communicative action, and 'orders of social learning' as explanations of paradigm shifts (see Bell 2011, 2012a, 2012b; Blyth 2002; Hall 1989, 1993; Hay 2001, 2004a, 2004b; Schmidt 2008, 2010; Weyland 2002a, 2008). Political outcomes are driven by iterative yet cumulative changes drawn from a set of ideational and material sources that permit (or otherwise) alternative options in moments of decision-making. These are the building blocks of institutional change, in which choices are mediated by 'structured contingency'. Put simply, choices are structured over time as historical interactions construct the different choices of elites at a particular moment, which are then reflected by the narrowing and expanding range of policy options in different circumstances (Karl 1997: 6-12). The next two sections explain how institutions evolve: through incremental change in rules, regulations and expectations and through diffusion of policy ideas within state-market-labour complexes.

3.2.1 From path dependence to incremental routes of change

The HI's strong feature of *institutional stickiness*, marked by path dependent lock-in effects with the resultant emphasis on exogenous shocks to explain change, has been widely criticised (Hay & Wincott 1998). However, the underlying historical mechanisms – critical junctures and path dependence – have remained critical in explaining dramatic changes in political life. Whilst this specific version of HI allows me to explore the extent to which neoliberalism was a critical juncture in Brazil and Chile, it does not permit any analysis of gradual counter-neoliberal shifts in resource governance. The earlier HI literature has emphasised structural constraints to the state as facilitating political continuity, in which institutional transformation is viewed in terms of sudden bursts of events followed by stasis. Bearing clear influence is the idea that 'political development is a structured process and institutions emerge from historical conflicts and constellations' (Thelen 1999: 382). But whilst sufficient attention has been given to inertia and rigidity, there is growing recognition of the uneven temporality and its consequences to the transformation of the state. In other words, institutional change can be viewed in terms of the intended or unintended consequence of strategic action (intuitive or instrumental) that is filtered by institutional environments favouring certain actors, strategies, and perceptions (Hay & Wincott 1998: 955).

In this context, delineating between institutional origin and institutional adaption is necessary to unpack the structure and contingency of politics that shape institutional outcomes. Most historical institutionalist literature characterise institutional evolution by identifying the relatively long periods of path dependent institutional stability and reproduction which are punctuated by critical phases of institutional flux – 'critical junctures' – during which more dramatic change become possible. Critical junctures constitute the starting points for many path dependent processes. These periods of contingency are moments in history during which constraints on actions are lifted or eased, and therefore, the structural influences affecting political action are relaxed allowing for human agency to exercise far greater weight over institutional constraints (Capoccia & Kelemen 2007; Mahoney & Thelen 2010).

The notion of critical juncture clearly goes beyond HI school and has its origins from economics, which attempts to explore self-reinforcing processes and feedback mechanisms that paved the way for initial conditions deemed as inefficient to become embedded and reproduced in stable institutional equilibria (see David 1985; North 1990). Within neo-institutionalist literature, the rational choice school embraced the concept of relative sequencing and policy feedback to deductively seek for patterns of continuity and change. As Peter Hall (2010: 205) puts it, institutional change occurs when shocks exogenous to the system of institutions alter the context; when *ceteris* is no longer *paribus*, thereby, making the delineation between periods of institutional stability and disequilibria. [18] The emphasis on uneven

[18] Take note of the noticeable intellectual shift of Peter Hall in the last two decades. His path-breaking analysis of the political economies of neoliberal reforms in Britain and France has been seminal to historical institutionalism with strong emphasis on the ideational aspects of institutional change (Hall 1986, 1989, 1992, 1993). However, his recent works reflect closer affinities to rational choice institutionalism with his synthesis of micro-

temporality and its intended and unintended consequences allows researchers to identify social mechanisms that underpin social and political processes. Within the framework of path dependence, scholars consider two types of sequences which can bring forth institutional change. On the one hand, *self-reinforcing sequences* are associated with the formation and long-term reproduction of given institutional patterns via 'increasing returns' and 'positive feedback mechanisms' during which the probability of further steps along the same path increases with each move down that path. To put it in a different way, the costs of exit – to switch to another plausible alternative – increases because continuing the same path has relative benefits as opposed to changing political action (Farrell & Newman 2010; Pierson 2000, 2004). On the other hand, *reactive sequences* are chains of temporally ordered and causally connected events, wherein each event within the sequence is in part a reaction to temporally antecedent events (Mahoney 2000). Whereas the former is characterised by reinforcing processes, reactive sequences are marked by backlash processes that transform and sometimes reverse early events. The series of reactions and counterreactions make a powerful framework that stress contingency in political choices and conflictual nature of actor interests.

Evidently, timing and sequencing of actor choices are more crucial in designing new institutional arrangements, such that settings in which Event A precedes Event B will produce a different outcome when the ordering is reversed. Those who have initial advantages over others can have more capacity to shape political outcomes as it becomes reinforced over time through institutional arrangements. Deriving from a power-laden analysis of institutional transformation, the degree of opposition by other actors against existing institutional arrangements affects the turn of events and the overall political outcome (Mahoney & Thelen 2010; Pierson 2004). As many works on historical sociology demonstrate, temporality, order and sequencing offer explanatory powers linking large-scale events to outcomes in political

foundations of change and role of firms in stable institutional settings with historical institutionalism (Hall 2010; Hall & Soskice 2001, 2003; Hall & Taylor 1998).

systems, such as democratisation, industrialisation and state-building (Ertman 1996; Moore 1966; Skocpol 1994; Tilly 1975, 1984). Similarly, political changes in Latin America have been explicated through the lenses of structural constraints and critical junctures, for example in labour incorporation, the role of civil society in democratic transitions, and the impact of democratization to the success of consolidating neoliberal reforms (Collier & Collier 2002; González 2008; Cook 2007).

However, advocates of critical junctures as explanation of political change face several methodological problems. For one, critical junctures only matter when political actors take advantage of them through strategic action. Actors become agents during *veto points* of the political systems, or moments of institutional vulnerability that provide 'strategic openings' for social and economic groups to mobilise and shape the political outcome (Immergut 1992). Political institutions – e.g. electoral rules, constitutional arrangements and structure of government – leave in some settings independent, sometimes unintended, consequences to political development. Political opportunities for change need to be exploited by actors by way of perceiving the dominant paradigm as untenable, and therefore, requiring decisive interventions through a new set of goals and mechanisms in response to the shortcomings of existing paradigm and institutions.

But how scholars identify the critical juncture is still contested in political analysis; very few works have demonstrated accurately path dependent processes during which certain historical periods comprise the critical moments of institutional transformation (see Cook 2007; Collier & Collier 2002; Skocpol 1979). Though critical junctures may be conspicuously identifiable in some cases, oftentimes these ostensible moments are difficult for scholars to point out. For example, Colin Hay (2001: 193) argues that paradigm change may not occur within an institutional context when 'crisis narratives' are not associated with perceived institutional and state crisis, if crises simply exhibit elements of contradictions, failures, ruptures or catastrophes. Policy development involves an iterative yet cumulative process within the context of an ascendant paradigm, in which the alterations in the trajectory of institutional evolution are invariably associated with paradigm shifts during periods of (perceived) crisis. To sum up, path dependence literature thus far have successfully interrogated critical inquiries on what structural constraints and contextual factors in the formation and reproduction of institutional patterns – and implicitly treat change as exogenous shocks or sudden bursts followed by stasis – but never really dealt with the question of endogenous institutional change.

In these circumstances, the response of historical institutionalism is to examine institutional evolution in terms of gradual and incremental change that take place in uneven temporalities and power-laden conflicts among actors. In comparison to the earlier literature, scholars advocating for incremental change emphasises the evolutionary, dynamic processes of policy change and the development of the state itself. Instead of abrupt bursts of transformation followed by long periods of stasis, institutional stickiness oftentimes persist, making apparent the need for interpretive agents to actively seek loopholes in existing arrangements to enact change. One seminal piece in this area is Mahoney & Thelen (2010: 14-32) who elaborate a framework illustrating different modes of gradual institutional change. They challenge orthodox assumptions about *compliance* of actors as an *a priori* trait of institutions, which is underlined by the argument that institutions are created to subject actors to establish regularised patterns of behaviour through compliance with rules, procedures, and normative claims of institutions. In contrast to the 'sticky' versions of HI, this more flexible HI accommodates constructivist accounts (Bell 2011, 2012a) by conferring interpretive agents the ability to act within their wider structural and institutional contexts. If political institutions have power-distributional elements, actors must maintain, create, or forge new rules to establish compliance of 'losers' in existing institutional arrangements. In this theoretical approach, political conflict is at the core of institutional transformation, in which old and new rules are contested and redefined by winners and losers. As Table 3.1 demonstrates, we can think about incremental change in four ways: (a) *displacement*, which refers to the complete replacement of existing rules with new ones, and this entails radical shifts in institutional context either abruptly or in slow moving way; (b) *layering*, which occurs when new rules are established alongside old ones and this fundamentally alters the structuring effect of old institutional arrangements to actor behaviour; (c) *drift*, which is present when rules remain formally the same but their impact changes as a result of shifts in external conditions; and (d) *conversion*, which transpires when rules remain formally the same are interpreted and enacted in new ways (Mahoney & Thelen 2010: 14-16; Streeck & Thelen 2005; Thelen 2003). These patterns of institutional change, which encapsulate dramatic and incremental forms of institutional transformation, are conditioned by how 'winners' and 'losers' interpret and apply the rules within constrained contexts.

Table 3.1 Modes of incremental change

	Displacement	Layering	Drift	Conversion
Removal of old rules	Yes	No	No	No
Neglect of old rules	-	No	Yes	No
Changed impact/enactment of old rules	-	No	Yes	Yes
Introduction of new rules	Yes	Yes	No	No

Source: Mahoney & Thelen 2010: 16.

Institutional displacement takes place in situations where weaker actors have reconfigured power relations successfully, in which institutions can be wholly replaced by new ones as a reflection of the interests of winning coalitions. However, actors within winning coalitions also negotiate to enact change. This signifies the array of interests among actors despite a shared goal. For example, Pinochet succeeded in establishing a dictatorship with himself at the centre of power and other military generals on the side. His government sought for a new social engineering project – neoliberalism – that would reverse all economic policies under Salvador Allende. When Pinochet attempted to denationalise copper mining through privatisation, the military defended to retain CODELCO as a 100 percent state owned enterprise because the company symbolised national patriotism and was a source of patronage for the armed forces. As a compromise, private sector expanded its space in the economic spheres through a series of market opening reforms whilst CODELCO was left in the hands of the military (Vergara 2008; Vergara 1985). The advance of market institutions pits against the old statist system inherited from Salvador Allende. As more actors defect in favour of the new marketised system, the new rules slowly erode support for the old system and eventually take over the institutional setting.

For institutional layering to take place, victories do not need to be clearly defined, thereby, keeping the old rules intact. If strong veto players have more control over resources to protect old institutions, opposing actors can push for new rules alongside old ones in their attempts to reconfigure power relations. This occurs when subordinate groups mobilise resources and political support but they are not strong enough to displace existing political arrangements. Some economic ideas have become normalised to the extent that they form the core sets of institutional practices, a notable example of which is the independence of Central Bank and Ministry of Finance in setting fiscal and monetary targets as a public good (Bell 2005; Burnham 1999; Hay 2004b). If one examines the explicitly post-neoliberal states in Latin America, most Left-led governments have given the above-mentioned state agencies wider policy latitude alongside expansion of the state in the socio-economic spheres (Levitsky & Roberts 2011; Tussie 2009). Actors do not take advantage of the gap between rules and enforcement. Instead, they create new rules as a way of reconfiguring relations of power between actors.

A second set of institutional change happens if actors exploit the gap between rules and enforcement (institutional drift and conversion) by actively applying divergent interpretations of one and the same rule. The ambiguity of rules – a permanent feature of institutional life – allows for political skirmishing and contestation from subordinate groups. In cases of institutional drift, rules remain the same but the very inaction of actors because of neglect or incapacity to act produces change. Thus, despite the similar and stable rules, there are diverse outcomes as a result of differing interpretations (narrow/broad) and enforcement (strict/lax) of those rules. On the other hand, institutional conversion takes place when rules remain formally the same but are enacted (and thus interpreted) in new ways. The gap between the design and enforcement is produced by actors who actively exploit the inherent ambiguities of the institutions (Mahoney & Thelen 2010:

17). By redeploying the rules in myriads of ways, institutions are converted as new goals, purposes and objectives are instantiated by actors within institutions. In this context, conversion takes place when actors seize the space in the interpretation and implementation of existing rules. An exemplary case for this is the reinterpretation of the labour laws in Brazil. At the onset, Getúlio Vargas (1930-1945) established the Labour Code aimed at controlling a potentially disruptive labour movement through the creation of obligatory union taxes (*imposto sindical*) and single union representation (Collier & Collier 2002). For decades, unions sought to become autonomous from the state by attempting to free themselves from the shackles of the authoritarian corporatist system that was inherited by the military dictatorship. However, as neoliberal reforms were introduced in the 1990s, the union leadership began to defend these same rules in securing financing for union activities in the context of austerity and spending cuts. By actively reinterpreting these rules, the labour code was transformed from being mechanisms of authoritarian control towards defensive methods for unions in the face of neoliberalism (Cook 2007; Hall 2009).

There are two caveats in this typology. Firstly, these are ideal types of institutional change which are more difficult to identify in the real world because political life is messier and more complex. In reference to Latin America, formal rules – the main emphasis on mainstream HI and RC accounts – do not necessarily determine political change (Weyland 2002). The line drawn between winners and losers as well as between intentions and outcomes are less clear, and logically, various types of institutional change take place simultaneously. Mahoney & Thelen (2010: 13) recognise that rules are not just designed but they also have to be applied and enforced by actors other than the designers, and therefore open up space for change through rule implementation and enforcement. However, state capacity and administrative capability are given relatively less attention, which is really one of the reasons for the widening gulf between an intellectually coherent paradigm and actual practice of reforms in the real world. Secondly, institutions are *ontologically prior* to actors, which imply that agency is exercised within institutional contexts, and are, therefore, mutually constitutive (Bell 2005, 2011). Agents rarely act in a rules-free environment, which implies that the dialectics between rules and ideas take place in existing structural and institutional contexts. Institutions have sufficient flexibility and agential space for interpretive agents to apply discretion and gradually effect change. By focussing on how political contexts and configurations of power relations interact with ideas, we can identify the endogenous properties of institutions that permit change. The next section thus examines how ideas are diffused beyond institutional settings and how particular economic ideas become dominant by reifying, legitimating, and linking them to actual policy practices. In so doing, I bridge the literature examining the co-constitution of ideas and institutions as motors of change.

3.2.2 Ideational aspects of institutional change

It is widely recognised that discourses and ideas have constituting causal effects on political change, especially when intense moments of contradictions and ruptures in policy making produce transformation of the state (Campbell 2001; Gofas & Hay 2010; Hall 1989, 1993; Hay 2001, 2004, 2011). Shifts in policy paradigms are linked but independent to the development of the state itself. I am thus interested on how new ideas (e.g. neo-developmentalism) become embedded in institutional contexts, which eventually displace dominant ideas in growth models. In other words, how can we explain the rise and fall of development paradigms? Most analyses of policy change and growth paradigms start with the Kuhnian differentiation between periods of 'normal' and 'exceptional' science/policy-making. Actors learn from past policy choices so that the consequences of old ideas become embedded with attempts at crafting new strategies of adjusting to the global economy – a process often associated with social learning (Hall 1993). The real world is full of contradictions and inconsistencies; actors constantly adjust their beliefs and expectations as a way of ensuring coherence in paradigms and policy practices. Ostensibly, policy interventions as responses to external pressures are not homogenous but are distinguishable according to 'orders of social learning'. Hall (1993: 278) identifies three levels of policy intervention, namely interventions in the overarching goals, in the techniques used to attain these goals, and in specific policy instruments available to decision makers. The levels of policy learning inform actors of what is doable, possible, and limited in making political choices. The change in policy paradigms are generated depending on the degree of change undertaken by the state, and in parallel, the extent institutions are receptive to ideas of change (Blyth 2003; Hall 1989, 1993).

In this vein, institutional evolution is a function of political time – the process of iterative yet cumulative change – wherein the contradictions, ruptures, and tensions between opposing ideas of doing politics are necessary but insufficient conditions of institutional change (Campbell 2001; Hay 2001, 2004b). Material resources, external environment, and structural constraints are shaping what are conceivable adjustment strategies for political elites. The techniques and policy instruments available within an existing paradigm cannot produce institutional transformation mainly because persistent contradictions are only highlighting the problems in existing institutional arrangements, clearly without offering a 'supply of alternative ideas'. This has significant consequences on how scholars conceptualise institutional change. In the first place, actors must *perceive* an institutional crisis to recognise the *need* to find alternative solutions to resolve existing problems of economic paradigms. Because ideas are sticky and institutions are resistant to change, emergent alternative paradigms – which require ideational change prior to institutional transformation – take time before displacing existing political arrangements. Within political economy research, the durability of neoliberalism stems from its initial capacity of redressing stagflation and in weakening rent-seeking of organised social groups, most notably labour. Although the legitimacy of monetarism was a result of its success as a crisis management strategy, the iterative process of constructing narratives has strengthened, if not sustained, the dominance of neoliberal policies. This is evidently the case in developed and developing countries by way of applying managerial and technocratic approaches to economic governance. In policy practice, neoliberal reforms have been substantiated through denationalisation of state-controlled markets, deregulation of service provision, and flexibility in labour markets (Burnham 1999, 2001; Campbell & Pedersen 2001b).

One powerful effect of recognising the causal effects of ideational factors is the extent to which discourses of globalisation – mainly competitiveness and private sector standards of efficiency – have been used by national elites to justify their policy preferences (Hay & Marsh 2000). Some scholars (Hay 2004b; Weiss 1998: Chapter 6) have shown empirically that globalisation is not 'global' but depending on the construction of narratives by governing elites, globalisation can be seen as a subject-less force that creates imperatives for marketised governance to be adopted. The importance of ideas is most astutely reflected if one examines neoliberalism as a dominant paradigm that informs not just states but also publics about how to frame issues and solve problems. Within development politics literature, this involves thinking of neoliberalism from the point it was conceived – the material, political, and institutional factors that forged the Washington Consensus – until the time it was implemented and recalibrated in response to political resistance to the free market logic. The notion of political time, evolution of the state, and consequences of economic ideas can best explain the construction and unravelling of neoliberalism as a paradigm of growth and economic development in Latin America – the birthplace of free market experimentation.

The difficulty of moving beyond neoliberalism rests on the fact that policy ideas worked effectively through the combination of external imposition, elite consensus, and implicit societal consensus around the need for a new strategy of development (Grugel 2009; Panizza 2009; Teichman 2001). In Gramscian terms, neoliberalism was constituted through a combination of consent and coercion forged through class politics and power alliances. One way neoliberalism appeals to the public is in terms of the differing conceptions of market reforms. Whilst Latin Americans respond positively to globalisation when asked about consumer welfare, inflation and regional integration, they generally have negative views about neoliberalism if asked about privatisation and state retrenchment (Baker 2003, 2009). This indicates, indeed, the importance of cognitive frameworks in defining what are within the realm of possibilities for policy elites as well as the ways ideas are appropriating claims in 'selling neoliberal reforms' to society.

Within this context, ideational approaches can complement the widely acknowledged weakness of historical institutionalism: its difficulty in explaining formation of actors' motivations and interests; its overemphasis on institutional rigidity, inertia and stasis rather than (incremental) change and evolution; and its treatment of institutions as structural constraints rather than as endogenous sources of transformation (Hall & Taylor 1998; Hay 2001; Hay & Wincott 1998). But equally, historical institutionalism offers the analytical tools to explain continuities and changes between neoliberalism and emerging alternative paradigms under late capitalism. The framework involves the careful application of path dependence and incremental change as analytical levers to complement ideas as drivers of institutional change. In other words, institutional design is not destiny. Instead, a persuasive discourse to promote the acceptance of policies can take place, which gradually displace existing rules, in this case neoliberal mining policy, as the dominant 'game in town'. Like Stephen Bell (2011), I follow an agency-centred, 'resource-based' approach looking at how agents use rules, institutional sources of authority, expertise or other institutional resources to effect change. Overall, the new institutionalist approach interrogates and opens up the often acknowledged yet rarely unexplored question on the coherence of neoliberalism as a cluster of ideas and as a distinctive set of policy practices. In so doing, it makes apparent the contested nature of market opening reforms and the variegated consequences of neoliberalism in commodity production. To analyse the particular consequences of neoliberalism to emerging governance models, critical political economy perspectives are applied in this thesis.

3.3 Critical International Political Economy (IPE) perspectives

Although domestic politics, to a significant extent, determines paradigms of development, the context of globalisation alters the material and ideational factors influencing state strategies of development. Part of the story is that the international system, the embedded structure of power, and the continuing legitimation of hegemonic economic ideas both open opportunities and constraints to political choices in the Global South. In this context, I advocate for the selective use of critical IPE perspectives in exploring states, resource management, and the politics of development in Brazil and Chile. This broad category of IPE perspective, however, needs refining and contextualisation as it equally fails to capture the diversity of experiences of states and ordinary people. The tendency of scholars to neglect domestic politics in favour of systemic view of the global economy signally fails to explain how national elites aspire and negotiate their competitive strategies in domestic spheres of decision-making. Without any reference to institutional evolution – and this is squarely about conflicts between public and private authorities – critical political economy can lose sight of the meaningful changes taking place within broader patterns of institutional continuity.

3.3.1 Deconstructing the hegemony of neoliberalism

Broadly speaking, critical political economy scholars apply historical materialism in explaining the confluence of political and social forces in the attempts of state managers to consolidate, legitimise and maintain a neoliberal paradigm of growth. Neo-Gramscians focus on the role of social relations and of social forces in the construction of a neoliberal order, in which concrete social struggles are embedded in state power and capitalist mode of production (Cox 1981; Gill & Law 1989: 476). The hegemony of neoliberalism as an ideology is constituted by the interaction between material capabilities, ideas and institutions, maintained through social orders that define those elites who can exert influence in defining the architecture of governance, the 'rule-makers', and those who craft strategies based on prevailing structures, the 'rule-takers'. However, the global order is continually in flux because the architecture of rules are subjected to negotiation and contestation between those who hold power and those who do not. This, inevitably, requires the constant reproduction of specific relations of power by way of deploying a relatively coherent, collective image of world order that is legitimate in the eyes of the rule takers (Cox 1981). The ascendant paradigm of neoliberalism, therefore, is a global project not so much because of how it was initially conceived but because of the reifying, legitimating process of framing, reframing, and deploying various policy techniques and instruments to assert the developmental role of private authorities and external actors.

Nothing best captures the deconstruction of neoliberalism as a grand narrative than the historical experience of Latin America. In the heyday of neoliberal reforms, the twin crisis of debt management and macroeconomic instability brought forth the unrelenting search for new ideas as a crisis management strategy. The demise of inward-looking strategies of growth for developing countries was a gradual process that involved the loss of faith of political elites to the state as the engine of development and the subsequent rise of supply side economics as the only way of addressing the economic crises plaguing many pockets of the developing world. Neoliberalism is the combination of, on the one hand, the proliferation of ideology that emanated from Washington with roots to 19th century *laissez-faire*, and on the other hand, of pragmatic politics that dismantled the statist logic of development through a coalition of radical market reformers.

Equally, neo-Gramscian framework allows not only for the problematisation of the attempts to internationalise state power, particularly of the American state, but also emphasises the social forces at work to resist neoliberalism (Cox 1999; O'Brien et. al. 2000). Whilst neoliberalism and its logic of no alternative have indeed become global, it is being contested in arenas of formal decision making and simultaneously in the streets by organised and spontaneous civil society actors. The articulation of the failure of neoliberal democracies across the region, and indeed in the Global South, has been a source of discourses for counter-hegemonic ideas (O'Brien et. al. 2000;

Robinson 2008). If hegemony is built on coercion and consent, then, the rejection of neoliberal ideas is as important as policy choices of state elites.

Trade union politics, especially in enclave economies, is the terrain of resistance against elite projects of cooptation. Organised workers politicised labour conflicts, wherein their organisational capacity provided the weapon to challenge the oligarchical and exclusionary nature of Latin American democracies. What is particularly striking is the depoliticisation of varying articulations of citizenship, rights, and democracy. Under military dictatorships, most unions were demobilised and labour reforms were targeted towards weakening collective labour rights (Cook 2007; Drake 1996). In this context, critical IPE perspectives offer complementary arguments regarding the consequences of neoliberalism to state restructuring and labour mobilisation. I explore this in the next two sections.

3.3.2 Reconstituting state power under neoliberalism

What remains unexplored is the extent to which state power is transformed by transnational flows of capital, discourses of global competitiveness, and actual institutional changes to re-regulate markets in favour of greater private capital participation. Consequently, have neoliberal reforms hollowed out developing states in terms of their capacity to respond to pressures of competitiveness? This is a theoretical and empirical question. Some scholars argue, quite sweepingly, that the decline of post-war national welfare states have paved the way for growth strategies aimed at strengthening its competitive advantage (Cerny 1995, 1997, 2008, 2010). Some evidences deployed include the rise of mobile capital, technological innovation, and state-sponsored regional projects towards liberalisation, which constitute reconfigurations of state power (Ohmae 1990, 1995; Sachs & Warner 1995). As a matter of policy proposition, Sachs & Warner (1995: 4) argue that strong reformers outperform weak reformers both in terms of decline of GDP between 1990 and 1994 as well as earlier resumptions of economic growth. Other scholars emphasise the breakdown of state-led corporatism in favour of regulating capital and mediating market opening at the expense of labour acquiescence to reforms (Jessop 2002; Muñoz Goma 1996; Veggeland 2009). From this perspective, the internalisation of neoliberalism rests on the punitive discipline of financial markets; pressures for homogenisation and economic efficiency erode traditions of state intervention. Cerny (1997: 267-268) argues that variations of institutional arrangements reflect 'different modes of managing a complex transition in which the political and economic distinctions... are blurred and possibilities for alternative equilibria are fluid'.

This convincing thesis was applied in various regional and institutional settings to trace the normalising tendency of economic rationality, the mismatch between global competitiveness and state-led policies on wealth creation, and the seemingly inevitable convergence towards marketised governance (Cerny & Evans 2004; Evans 2010; Kirby 2009; Kirby & Murphy 2010; Lunt 2010; Radcliffe 2010; Soederberg 2010; Taylor 2010). However, the totalising claims of competition state hypothesis are untenable if one accounts for the distinct institutional and organisational logics of states as well as the persistence of *dirigisme* and *developmentalism* in several industrialising countries, most notably East and Southeast Asian tigers, Brazil, Mexico, India, and China (Evans 1995; Phillips 1998, 2005; Schneider 2000; Weiss 1998, 2003). There exist significant deviations among states in terms of their strategy of adaptation to the global political economy. Crucially, resource-rich states face a distinctive set of pressures as a result of mineral wealth and their institutions must possess endogenous properties to sufficiently manage both the pressures of liberalisation and the resource curse (Migdal 2009; Slater 2010; Smith 2007). And far from what the theory presupposes, Chile – the earliest experiment of monetarism, is full of contradictions and tensions, wherein modes of depoliticisation of economic management and repoliticisation of contentious policy issues are intertwined in policy-making (Nem Singh 2010; Taylor 2010). This critique also finds evidence in welfare states that undertook economic restructuring only to fail in fully dismantling state social provision (Hall 1989; Pierson 1994). To sum up, there are neither singular nor linear pathways of achieving economic reforms. As critical geographers rightly point out, neoliberalism takes multiple forms and substance across regions and states, and is conditioned by the extent state-society relations have been reorganised by attempts at naturalising the market (Kurtz & Brooks 2008; Radcliffe 2005).

The final controversy explores the hollowing of the state under conditions of neoliberalism. Whilst globalisation may be transforming political and economic relations between states and private authorities, institutional change does not necessarily produce policy convergence towards market-oriented governance (Mosley 2005; Weiss 1999, 2003, 2005; Weiss & Hobson 1995; Woo-Cumings 1999). Some states historically accumulate capability to manage pressures from above and develop effective strategies of adaptation to the globalised political economy. Whilst there is no such a thing as capability across *all* policy sectors, states develop strengths in certain policy competencies as a way of achieving state effectiveness. Transformative state capacity requires a bureaucratic apparatus capable of coordinating change in response to pressures of convergence towards market-oriented governance. Although this has been widely documented in East Asia (Amsden 1989; Johnson 1982; Wade 1990), Latin American states are presumed incapable of balancing private interests and strategic developmental goals. Weiss (1998) demonstrates the success of developmental states as a result of the compatibility between state goals and the bureaucracy.[19] Across Latin America, the lack of an effective state apparatus has been attributed, in various degrees and extent, to the strength of political classes to direct state-building away from redistributive politics, the inability of organised labour to challenge power structures, and the absence of a conducive external environment to facilitate policy autonomy (Collier & Collier 2002; Evans 1995, 1979; Haggard 1990; Schneider 1999,

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[19] In contrast, Johnson (1982) argues that the impressive level of coordination and competition among bureaucratic agencies in Japan enabled the national leaders to promote its coherent agenda. Whilst the state maintains autonomy and coherence, it still requires a state that remains connected to society. Hence, embedded autonomy is the critical balance between isolating the state from social pressures and maintaining its linkages with society. Evans (1995) compares the variation of state involvement in Brazil, Korea and India to show that the varying relationships of the state with economic groups are critical to successfully control excessive protectionist policies and in influencing the state agenda to support business interests.

2004a). Whilst the literature on state capacity can offer a corrective to the misapplication of global competitiveness as a globalising logic in developing world contexts, doing so requires some nuanced analysis especially if used within the particular case of resource sectors.

The first corrective is to take a dynamic view of institutional capacity. If indeed state capacity is historically accumulated over time, the extent we can gauge policy autonomy in the international system is difficult to identify. One way of capturing this is to place the analysis of institutional reforms within the context of the dyadic responses of business and organised labour. State effectiveness is undoubtedly based on the capacity of state elites to negotiate complex policy reforms through constructive engagement with business associations and labour unions. This highly politicised task must be institutionally contextualised, which implies understanding the structural constraints imposed on actors in their political choices and strategic action. The second corrective is to explore sector-specific requirements of what constitutes effective governance of natural resources. As mentioned earlier, the literature on the resource curse and commodity chains have fallen short in taking into account the ways structure, politics and contingency have shaped political interventions and state reforms. However, those taking political economy perspectives have in equal measure assumed the hollowing of state capacities as a result of globalisation of production and finance. In empirically tracing state capacity, the thesis identifies policy reforms that have addressed ways of preventing the resource curse effects *and* growth strategies in commodity production. In the final section, I explore the ways states manage state enterprises and forge political pacts between big business and labour unions as a way of addressing the challenges of resource-based strategies of development.

3.3.3 Reforming the resource sector

One core idea of the thesis is that the resource sector has never been analysed as a strategic sector that can potentially contribute to economic growth and political inclusion. Whilst the resource curse has had conceptual stretching despite its limited analytical purchase in many developing regions, contemporary resource governance is implicitly depoliticised, highly technocratic, and adopts 'best practices' rather than critically exploring relations of power, conflicts, and tensions in market opening reforms of extractive industries. To this extent, the contribution of critical political economy is to bring in business and labour where political time, institutional contexts, and structural constraints from the international and domestic are given weight in political analysis.

In the 1990s, scholars began to acknowledge the superficial dichotomy between states and markets. Critical IPE examines the consequences of the increasing importance of market actors – and here a distinction must be made between multinational enterprises and domestic capital – in reconstituting state power and modes of neoliberal governance (Eden 1991; Strange 1991). Susan Strange (1996, 1997) suggests scholars to view politics and economics as well as the international and the domestic as inextricably linked to each other. In International Relations, the role of international business has blurred the public/private divide as MNCs acquire authority in their codes of conducts and make certain business practices acceptable for society (Cutler. et. al 1999a; Dunning 1998). The acquisition of political authority, and consequently carving a more politicised role for big business, is recognised as causally affecting firm behaviour in global markets and legitimacy in domestic economic spaces. This, inevitably, implies thinking of private capital differently. Rather than conceptualising firms as atomistic, competitive actors in the marketplace driven solely by homogenous, rational calculus of profit maximisation (Cutler et. al. 1999b: 333), businesses organise themselves through private or public-private arrangements that structure their own behaviour as well as state and social actors. In turn, this may constitute *private* authority over time by gaining legitimacy, which may be reinforcing or undermining state policies in managing globalisation. Central to this process are the traits of MNCs, such as expert knowledge, technology, and capital, which developing states and SOEs do not possess. In this context, cooperation between TNCs on a global scale is possible despite competition, making economic relationships more complex than trade, particularly in sectors experiencing dramatic liberalisation, for example telecommunications, financial services, and the minerals sector. In some cases, state responsibilities have been voluntarily abrogated for market actors to fill in, thereby, giving firms the power traditionally reserved to states.[20] Ruling themselves has consequences to authority, legitimacy, and power relations in the globalised economy.

There are variations in the relative importance of state and private authority across different economic areas (Cutler et. al. 1999: 342-343). The state (a) can be more involved, such as in intellectual property rights and trade politics; (b) become secondary to private self-regulation, as in knowledge-based oligopolies and debt rating; (c) or is present but with less importance, like in standards setting in telecommunications and IT industries and in negotiating compensations between MNCs and affected mining communities. The distribution of authority in governance between state and market actors is partly due to the competitive advantage of actors in reducing transaction costs and improving efficiency. Sometimes firms have more capability to create institutions to regulate markets due to their knowledge. In other situations, the state exercises its traditional political (monopoly of violence) and economic (creating legal frameworks) powers. In contexts of collusions, leading firms organise themselves to control supply of goods in global markets, though as the oil cartel OPEC demonstrates, states can exert the same influence given certain conditions. States and firms are co-constitutive forces being reshaped by neoliberal globalisation. The determinants of state responses to global competitiveness are not the laws of supply and demand but the intersection of power relations, material and organisational resources, and ideational beliefs.

[20] Cooperation, as defined by Keohane (1984) and extended by Cutler et. al. (1999: 334), as requiring active adjustment of behaviour to reach mutual goals as well as the sense obligation that extends cooperation into the future and gives it the mantle of authority.

As resource sectors vividly demonstrate, private sector organises themselves domestically and internationally to be able to maximise the benefits of structurally-oligopolistic markets at the same time they share responsibilities with host states crafting the rules of the game. What constitutes effective resource management is contested and highly politicised. As states endeavour to achieve regulatory and entrepreneurial roles in the economy, managing claims of firms and unions is consequentially a difficult enterprise. The logic of the free market has subjected state-owned companies to restructure according to the rules of global competitiveness. This is reflected in asset selling of states, the adoption of a language of reform, and the embrace of labour flexibility in markets. As Chapters 6 and 8 demonstrate, ideational diffusion of global neoliberalism to domestic politics meant reframing the role of state enterprises in a (neoliberal) world order as well as placing labour unions in its place – one where their voices become less vocal in management decisions. Oligopolistic structures of resource sectors mean that principal companies can maintain the core business functions whilst subsidiary firms (subcontractors) below the complex commodity chain offer necessary services, including labour, for commodity production.

To sum up, critical political economy offers the analytical tools to understand the conditions of neoliberalism which structure the behaviour of big business and organisational responses of natural resource-based unions. Equally, it also opens up the question of *state transformation* in the context of globalised markets, state retrenchment, and changing contours of public/private authorities. The final section brings together historical institutionalist and critical political economy strands of research to analyse resource politics in Latin America.

3.4 Combining historical institutionalism and critical political economy

The synthesis between critical political economy and neo-institutionalist literature offers novel ways of understanding institutional transformation in analysing political economies of extractive industries in Brazil and Chile. There are three ways in which I draw these two theoretical perspectives together. Firstly, the historical institutionalist strands analyse the interactions between political legacies, institutional contexts and ideational factors to explain changes towards greater state intervention in the economy without necessarily displacing neoliberalism *in toto*. By recognising the incremental route of transforming the rules of the game, I show how different patterns of neo-developmentalism emerges based on the specific configurations of power and conflicts between actors. Put differently, the exercise of political agency – especially by state actors – to challenge neoliberalism in Brazil and Chile takes place in the context of immense structural constraints at the national and global levels. Secondly, the critical political economy approach complements HI by explaining how specific ideas of *competitiveness* and *logic of private sector efficiency* become part of the new institutional context under the neoliberal world order. This also permits an analysis of the limits of institutional complexities in shaping the responses of state enterprises and labour unions. By implication, it signifies the need to proffer agency to state managers and labour unions in contesting, indeed in reconfiguring, the relations of power and economic production in the strategic industries. Conversely, they influence the process of state transformation. In mapping out the interactions between states, private sector, state enterprises, and organised labour, we can understand the increasingly complex nature of political economies in the era of late capitalism. This implies that development strategies of middle-income countries reliant on natural resources, encapsulated by the idea of *neo-developmentalism*, is in fact a hybrid strategy combining market incentives and state regulation. Finally, the combination of the two perspectives allows me to analyse state strategies in managing globalisation within the global-national nexus. It allows me to identify how neoliberal reforms have been embraced and legitimated in national policy debates, and have been deployed subsequently to justify narratives of (national) development. The scope of neoliberal policies determines the degree of ascendancy of neo-developmentalism in Brazil and Chile. Consequently, neo-developmentalist strategies are as diverse as neoliberal policies. In the next chapter, I examine the historical development of copper mining and petroleum industries in Chile and Brazil respectively. It traces the centrality of natural resources in the consolidation of export-led growth models of development in Latin America.

Chapter 4
RESOURCE POLITICS IN BRAZIL AND CHILE

To trace how neoliberalism has reshaped resource governance and the relations of power between states, markets, and labour unions, the starting point is to explore the extent to which statist models of resource management were constituted, embedded and unravelled in Latin American political economy. In comparison to finance and production, natural resources have played an exceptionally important role in regional and national political economies. In political debates, the key question for actors was the extent to which states can sustain export economies in the context of volatile international markets. This debate on resource governance, however, was made complex by the control of foreign capital of key exports of Latin America. The unions in resource sectors shaped public perceptions by advocating for nationalisation of resources. Indeed, the consolidation of a governance model seeking for a stronger, more capable state in managing resources is rooted on intense collective mobilisation based on class politics (Bergquist 1986; Shafer 1994).

In this chapter, I offer a nuanced account of the rise and fall of state intervention in extractive industries in Brazil and Chile. One insight is the conflictual relations between state elites, foreign capital and labour movement in managing resources, which is reflected in the articulation and uneven adoption of state-led development. I argue that natural resource governance throughout the twentieth century was shaped by the contradictions of the nature of commodity exports and attempts at autonomous direction of growth strategy. There were centralising and decentralising tendencies which permitted the rise of import substitution industrialisation (ISI) as a strategy to counter export dependence – elite cohesion, favourable international order, and 'ideological supply' – in which political conflicts were the main driving engine of institutional and economic transformation. In this context, the chapter sets out the initial conditions, structural constraints, and international order that have subsequently helped in formulating neoliberalism as the new political project. The argument will progress in three stages. In the first part, Section 4.1, I offer a historical overview of resource politics in Latin America. Section 4.2 explores the political economy of natural resources in Chile tracing as far back as the nitrate export economy towards copper. Section 4.3 introduces the Brazilian case study, examining the role of natural resources in terms of national security, industrial development, and state attempts at exalting political autonomy. I examine the construction of *desenvolvimentismo* (developmentalism) as a guiding state ideology for economic management, as reflected in the oil industry. Finally, in Section 4.4, I bring together both cases and explain the analytical strategy in analysing the political economy of natural resources in contemporary globalisation.

4.1 Political economy of natural resources in Latin America

Latin America's integration to the world economy took place through the exports of primary commodities. Three major factors influenced the consolidation of export-led growth model in the region. Firstly, the choices of elites were shaped by the 'commodity lottery' or the distribution of resources based on natural endowments, geographical and geological limitations, and demand characteristics based on the changing global economy. Some commodities faced greater competition (e.g. sugar) and others had monopoly or greater share of global markets (e.g. metal minerals). The evolution of commodities from luxury to basic consumption likewise affected the sustainability of commodity production. Secondly, commodity specialisation was a conscious political decision depending on the smooth functioning of mechanisms of export led growth, namely capital, labour and the state. Finally, what was invariably crucial as the principal determinant of success or failure was the policy-economic environment. This was conditioned by consistency in economic policy, state administrative capacity, and ability of elites to contain labour unrest (Bulmer-Thomas 1994; Topik et. al. 2007).

Broadly speaking, one can put a timeline of the liberal era – 1880s-1930 – and the subsequent response of states, namely ISI strategy, which was punctuated by neoliberalism after 1982. The failure of export-led growth model was a result of the tensions between production for the internal market and the global economy, a history of elite bias in states, difficulties in developing national economic capacity, and the strong presence of foreign capital in the most important sectors of regional economies (Cardoso & Faletto 1979; Furtado 1970; Jenkins 1984). Without exception, economic performance until the late 1920s remained heavily dependent on the fortunes of the export sector. One diagnosis of the situation was that commodities markets were exposed to international shocks – exemplified by the Great Depression – which necessitated policies towards structural change, industrialisation, and diversification of the non-export economy (Cardoso & Faletto 1979; Tandeter 2006).[21] The succeeding decade to the Great Depression unleashed a fundamental change in intellectual thinking and strategy of recovery from the crisis. This was underpinned by the emergent protectionism across United States and Europe, which were Latin America's primary export destinations. With the Second World War further restricting international trade, the region experienced modest growth in volumes of export. As such, the post-war years were critical in making a choice: either state elites opt for inward-looking industrialisation to reduce vulnerability from flux in external economic conditions, or promote export-oriented growth that could combine export intensification and export diversification.

The states that had begun to build industrial bases – Argentina, Brazil, Chile, Colombia, Mexico and Uruguay – decisively embarked on import substitution because of the capacity of ISI model to generate rapid growth in output and employment in manufacturing. This Keynesian strategy required heavy investments on manufacturing, which was effectively translated as

[21] The prices of primary commodities fell dramatically, in which the unit value of exports dropped by 50 percent and those with modest plunge in prices such as banana and oil were sectors dominated by foreign capital. Import prices also went down as a result of free falling world demand and this brought forth a sharp decline in export volumes across the region (Bulmer-Thomas 1994: 196-199).

protection for domestic producers from international competition through tariff rates and state financing. However, domestic private firms lacked access to additional finance for large-scale investments and technological capacity to mount sophisticated industrial enterprises (Bulmer-Thomas 1994: 277-288). This strategy had the obstacle in the way of moving beyond the 'easy' phase of industrialisation – production of nondurable consumer goods – towards implementing changes in the industrial structure to produce consumer durables and heavy capital-based products. In effect, the limitations of ISI were rooted on the combined lack of technological skills of domestic capitalists and the burden of financing industrial projects to the national state.

In the case of Brazil, Peter Evans (1979) described the economic strategy as the 'triple alliance' between state, multinational capital, and domestic economic elites. The military government began to appropriate legislations that created the conditions for foreign capital to enter domestic markets. The MNCs, mainly dominated by American firms at that time, possessed the technology, marketing strategy, management skills, and access to finance, to develop the intermediate and capital goods-sectors. The government policy was grafted in the hope that the necessary transfer of skills and technology could take place in partnership with foreign capital. However, clear conflicts in goals between national governments and MNCs persisted because the more profitable sectors rested in consumer production which required little technological transfer, and in other cases, foreign investment materialised in terms of overtaking established domestic firms (Biersteker 1978; Jenkins 1984, 1987).

In this context, the absence of sufficient domestic investment necessitated the creation of state enterprises that occupied the 'empty spaces' of the economy. These are basic and infrastructure industries characterised by high risks, large scale of operations, and are of strategic importance to the state for accruing rents (Trebat 1983). The economic logic behind this move was to build competitive industries as a way of overcoming structural heterogeneity and the political argument was that these products are too sensitive to national sentiments to be controlled by foreign companies. Key industries deemed strategic, such as petroleum, metal minerals, steel, telecommunications and electricity, were then transferred in the hands of the state. In Brazil, for example, PETROBRAS was created after intense national debates around the strategic value of oil both as an industry on its own and as a complementary to manufacturing and industrial sectors. This transpired in differing success rates across the region. Bulmer-Thomas (1994: 283) argues that those with larger markets – Argentina, Brazil and Mexico – had been more successful in experimenting on state-led development compared to smaller ones like Chile and Colombia.

ISI shielded manufacturing industries from international competition but its economic outcomes were far from optimal. The high barriers to entry in oligopolistic market structures in combination with distortion in factor prices and lack of competition yielded to inefficiency and unsustainable production. With the internal market unable to support domestic firms due to escalating input costs, the competitiveness of Latin American products stifled. Inherent in the model was the systematic neglect to the inflationary effects of unfettered protectionism. To sum up, Bielschowsky (2009: 185) diagnoses the constraints on structural change in Latin American political economies:

> Systemic competitiveness was low, productive and export specialisation focused on goods of low levels of knowledge intensity, with little international dynamism, few domestic productive linkages, and insufficient capacity to generate externalities... International engagement tends to be unfavourable, balance of payments problems recurrent, and growth both limited and unstable.

In this context, the inability to penetrate world markets for manufactured goods meant strengthening the importance of primary commodities for exports. Equally, this prevented governments to switch their strategy towards simultaneous export intensification and export diversification. A key obstacle was that the new environment of import substitution had an anti-export bias, which made diversification more difficult and export earnings concentrated in traditional products. This lack of dynamism of export earnings alongside failing production of competitive goods was a formidable combination for balance of payment problems. The modest gains by the import substitution model during boom years were reversed by the stabilisation programmes to curb inflation. Most of all, political elites failed to tackle the problem of social inequality and anti-rural bias of the development model.

4.1.1 State capacity and industrial development

State capacity has been presumed to indicate institutional strength to coordinate complex policy reforms, specifically the establishment of bureaucratic technocrats to guide import substitution. However, a broader definition of state capacity is necessary to take into account the differential capacities of states specific to extractive industries. State capacity can be defined as a slow-moving process of accumulating institutional cohesiveness in which the most relevant actors accept the validity of both codified rules and practices and informal practices. We can, ultimately, attribute capacity to complex political settlements aimed at strengthening political and economic institutions.[22] In Latin America, the problem of import substitution rests not so much on its economic logic but on the lack of institutional capacity to manage the economy. Political elites failed to implement difficult reforms to overhaul the distribution of rents, restructure the tax system, and achieve some degree of state accountability in decision-making. In the resource curse literature, state reforms typically involve revenue management, property rights, and complex linkages between taxes, trade policy, and commodity production. In Venezuela, for example, whilst the (petro) state developed certain skills such as monitoring, regulating, and promoting the mining

[22] Kurtz (2009) further argues that state-building - the effective creation of bureaucracy in the face of wars - requires not simply the centralisation of authority but also the successful negotiation between rural agricultural elites and urban-centred elites or authorities at the centre. By threatening the collective survival of elites itself, a process of political incorporation occurs either in the form of oligarchy or imposition of absolutist bureaucratic settings. The effect is to force elites to organise their interests within state institutions and/or harmonise the interests between the central state and the powerful regional/local elites. Where agrarian relations and elite politics are unfavourable, state building is difficult to succeed.

industry, it failed to build extensive, penetrating, and coherent bureaucracies, as reflected in the low level of taxation in oil countries compared to its neighbours (Karl 1997:61). State capacity is critical in governing economic change by way of adapting to external shocks. Institutional capacity, in this context, refers to the ability of policy-making authorities to pursue domestic adjustment strategies in cooperation with organised economic groups to upgrade or transform the industrial economy (Weiss 1998: 5).

The historical accumulation of state capacity is the fundamental difference between East Asian and Latin American states. In particular, East Asia had succeeded in using export-led growth through manufacturing as a competitive strategy in the global economy.[23] Chile stands out in Latin America as an exception. The state possessed effective control over policies on public investments, which was also supported by a distinctive institution, the *Contraloría*, which was in charge of auditing public accounts, ruling on the legality of executive decrees, and issuing advisory opinions on the constitutionality of proposed legislations. Section 4.2 provides detail as regards the accumulation of state capacity and embedding of party politics in Chile. Equally, in Brazil, the military backed revolution of Getúlio Vargas (1930-1945) had successfully centralised power for the federal government away from traditional oligarchs in regional states. Section 4.3 details the Vargas era as a dramatic reorientation of state role and watershed moment for developmentalist ideology to become dominant for nearly 70 years. Put differently, I am certainly looking at two distinctive case studies where the patterns of state capacity building, state-society bargaining, and labour incorporation differed quite significantly compared to the rest of the region.

[23] A combination of structure and agency best explains the East Asian Miracle. The following key factors are crucial to consider: (a) the ability of political elites to impose land reform that redistributed income and land; (b) the supportive international environment that made protectionism conducive for growth, namely the easy access of Asian imports to the growing US market; and (c) policy dynamism of East and Southeast Asian states characterised by their switch from easy phases of import substitution towards exports oriented growth in manufacturing. See Amsden 1989; Johnson 1982; Wade 1990; Weiss 1998, 2003.

Section 4.2 discusses this argument through a concise economic history of Chilean resource politics.

4.2 Political economy of natural resources in Chile

Chilean political historians often give emphasis to the role of party politics, relatively successful state building, and the salience of natural resources (Salazar & Pinto 1999). Its two key export sectors – nitrate and copper – were fundamental in shaping political conflicts, in which the nature of commodity production, international order and ideological tensions defined the political choices of elites. Chile's political system developed a very wide spectrum of ideologically oriented, mass based political parties marked by a long tradition of democratic pluralism. The creation of a viable export economy after independence sustained the relatively stable political system in Chile, in which silver, copper and wheat were the main sources of state revenue. What sustained the emergent elite democracy after independence was the political pacts between the dominant class of exporters and importers in Central Chile, who were divided in several respects but were united behind the maintenance of a liberal political economy (Bergquist 1986; Collier 1993). In the years immediately following the War of the Pacific (1879-1883), Chilean agriculture flourished as a pastoral economy especially sheep-raising in the South. However, the impetus for agricultural innovation had reached its limitations due to fierce international competition, periodic outbreak of plant blights, and vagaries of climate.

Copper mining had mixed outcomes due to the exhaustion of high-grade copper ores, and it reached a point where expensive capital for investment was needed from the domestic copper producers. But facing the choice between a booming nitrate economy and seemingly depleted copper mines, it was easy for Chilean capitalists to place their money in a sector with higher dividends and lower risks. However, in 1904 William Braden revolutionised copper mining by introducing the flotation process in El Teniente – the technology that aided the American copper industry to prosper. He established the American Braden Copper Company. The mine was too costly so Braden sold his rights to the Guggenheim family in 1908. The family further expanded their activities in the Chilean copper sector by investing in the newly acquired lands in Chuquicamata in Atacama Desert. It took five years and an investment of US$100 million before Chuquicamata began to profit. The Guggenheims transferred El Teniente and Chuquicamata to another American firm, Kennecott Copper Company. Braden sold his mining rights in Potrerillos located in Northeast of Copiapo to Andes Copper Mining Company, a subsidiary of Anaconda Copper Company. Between 1916 and 1927, the American firm developed what was to be the third large-scale copper mine in Chile. Through the massive investments of American companies, these mines – known as *Gran Minería* – transformed Chilean mining into a large-scale copper mining industry with its production increasing by 300 percent and its share in the world market leaping from 4.3 to 10 percent (Collier & Slater 2004: 157-161). In addition to the reliance of the copper sector on modern technology rather than labour, it recovered completely thanks to the steadily increasing demand for copper in the First World War. Between 1914 and 1918, copper production tripled whilst exports more than doubled, as exemplified by wartime sales which jumped by 400 percent in four years. Following the logic of Bunker & Ciccantell (2005), the drive for technology and desire for territorial expansion of private capital had overcome the difficulties imposed by the natural environment. Indeed, as early as 1917 copper exports constituted as high as 19 percent of national economic production (Collier & Slater 2004: 161). However, it must be pointed out that Chile received very little from copper mining until the Washington Agreement in 1951 gave the country 20 percent control of copper production (CODELCO 2010: 26-27).

The development of a more complex economy, encompassing agriculture, nitrate and mining industries, required the construction of a strong, effective state. Upon winning the war against Bolivia and Peru, Chile took over the nitrate fields, or *oficinas*, in the North and its fairly developed taxation system allowed for the gradual expansion of the reach and scope of the state whilst maintaining an open export-oriented economy.[24] The Chilean state and the upper classes of the Central Valley exercised direct control in the political sphere, and through its firm hand over the peasants in the countryside, the political classes managed to employ clientelistic tactics to retain elite and state cohesiveness (Collier & Collier 2002: 104, 169-195). The issues on Chilean control over nitrate enclave and the disposition of the Chilean government over the revenues had the concrete effect of breaking elite consensus, which precipitated the bloody civil war of 1891. Nevertheless the rise and fall of nitrate between 1880 and 1930 fundamentally altered pattern of Chilean economic development. Class conflicts, especially the persistent tensions between the state, foreign capital, and nitrate workers, undoubtedly shaped copper politics of the twentieth century.

4.2.1 The nitrate economy of Chile

The successful annexation of Northern Chile after the War of the Pacific represents a critical juncture in terms of building state capacity and consolidating a foreign capital-dominated nitrate economy. The rise of a Marxist labour movement, which forced the political classes to respond to the 'social' question via labour incorporation, was also shaped by the fortunes of the nitrate export economy. There were three key characteristics that had profound influence over the development of Chilean economy even after its collapse. First, nitrate was a speculative commodity and the health of the industry depended not only from domestic output but also on the economic fortunes of its main consumers – Germany, France, United States and Belgium. For example, the Allied Powers created a central purchasing agency, the Nitrate of Soda Executive, which eliminated competition among Allied countries and forced Chile to lower the prices of nitrate. Equally,

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[24] One indicator of state capacity was the ability of the Chilean state to administer taxation in the nitrate fields and use export taxes to finance not just the war but also the development of state infrastructures (Gallo 2008; Kurtz 2009).

technological innovation undercut the labour-intensive nitrate production in Chile. The discovery of chemical fertilisers such as the British sulfate of ammonium followed by the new ways of processing fertilisers in Germany poured tons of synthetic nitrates into the European market. Most importantly, the permanent collapse of the nitrate economy was almost forthcoming as a consequence of the difficulties faced by United States and Europe in the Great Depression. Nevertheless, nitrate production stimulated the growth of foreign trade, expansion of state spending, and supported national production of light and durable consumer goods. However, the scope of foreign ownership undercut severely the possibilities of directly contributing to capitalist accumulation in Chile (Bergquist 1986). The Chilean state maintained an export-oriented model that was reversed after the collapse of the nitrate economy.

Second, export taxes on nitrate and iodine (a by product of nitrate processing) served as direct revenues for the state, which placed the burden of managing production to the state. The acquisition of nitrate fields after the War of the Pacific did not result into nationalisation. As Table 4.1 illustrates, British capitalists and merchant houses, which had financed the transport and commercialisation of Peruvian-owned nitrate and guano, had been given privileged position even after the annexation. The Chilean state refused to nationalise nitrate because it was cheaper and more efficient to maintain a system wherein foreign owners operated the fields and the state accrued revenues. In 1895, British capital controlled 60 percent of nitrate exports though the Chilean nitrate producers appreciated their control up to 60 percent in 1918 (Collier & Slater 2004: 161). The country's finances remained precariously dependent on the money generated by export taxes. The collapse of nitrate prices in 1914 was felt not just by the Chilean *salitreros* but also the state itself, which in the end temporarily forced Chile to restructure its tax policies. The government adopted a series of reforms: reduction of public salaries by 10 percent; imposition of taxes on alcohol, tobacco, gifts, estates and stock transfers; and the overhaul of Customs Code that increased levies on imports and imposed special surcharges (Collier & Slater 2004: 169). Equally, in the attempt of Congress to exert its power during a period of crisis, it authorised the taxation of income, capital investments, and property. Such capacity to enact reforms in very difficult circumstances point to the historically accumulated institutional capability of the Chilean state (Blakemore 1974; Gallo 2008).

Table 4.1 Ownership of the nitrate economy

	1878	1895	1926
Britain	12	60	41
Chile	22	13	42
Germany	7	8	-
Peru	52	8	1
Others	7	11	16

Source: Bergquist 1986: 35.

Finally, nitrate production indirectly affected workers' mobilisation. The location of nitrate production, the structure of ownership in the industry, the demography of the labour force, the nature of the work process, and the working conditions in oficinas and northern port towns all had effects to the opportunities and challenges for ordinary workers (Bergquist 1986: 37). The emergent autonomous working class culture of *salitre* workers was conditioned by the unique environment and nature of nitrate production. Nitrate capitalists recruited actively in Southern Chile during periods of economic expansion and dismissed workers and closed operations during cyclical downturns. The very high levels of labour turnover meant people had to move into multiple types of jobs. In depressing times, this had led to a massive exodus of workers. Given the relative lack of employment opportunities in agriculture and mining and relatively high wages in the North, nitrate workers simply waited for the next economic upswing. Nitrate workers collectively expressed the harsh reality of dependence on cyclical work and the limited independence of geographical mobility of the work they chose in the North. The establishment of political and social institutions was aimed at countering public and private repression in key export economies. As Bergquist (1986: 47) explicates, given the importance of the export sector to national economic health, worker organisation – with their potential to reduce capital accumulation and paralyse production in the most dynamic sector – had to be prevented. With stiff competition among nitrate capitalists, workers consisting mainly of single men were able to move around for better working conditions. Equally, mutual aid societies were formed in nitrate *pampas* to enrich their lives and buffer the harsh conditions of living in the North. These implied a new set of cultural values and attitudes distinct from other sectors of the Chilean working classes – one that justified rejecting unsatisfactory conditions and defying authorities quite successfully. The cultural and social activities, initiated by transport workers and found support in the nitrate industry, constituted the working class institution called *mancomunal*. These were incipient autonomous levers at the disposal of workers for organisation and socialisation, which challenged not just the liberal values of the Church but also the cultural monopoly of the Chilean ruling classes (Cruzat A 1981; González Miranda 2002).

The cultural autonomy of nitrate workers had affinities with the anti-capitalist logic drawn from anarchists and socialist ideals. In the infamous 1907 workers' strike in the oficinas (nitrate fields) that ended in a bloody massacre, they demanded the abolition of capitalists' control over workers, mainly the script system, a better exchange rate for the *fichas*,[25] better safety devices as well as free night school, and most crucially, workers wanted immunity for those engaged in collective action (Bergquist 1986; González Miranda 2002). This, above all, implied recognising the legal, public nature of working class institutions. Whilst clear divisions existed between how to achieve workers' liberation between anarchists and socialists, what became evident was the failure of direct action and the necessity to engage in party politics, and in so doing, legitimise the state and its political apparatus. Workers' unions developed a distinctive class identity in contrast to the dominant liberal ideals of the ruling classes. Founded in 1909 by a conservative lawyer, the *Federación de Obreros de Chile* (FOCH) gained political support from the nitrate workers in the North. By the 1920s the socialists, whose power base was centred on nitrate workers in the North,

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[25] In an effort to maintain workers due to 'labour shortage', nitrate factory owners devised ingenious credit and payment schemes and sometimes required deposits to retain workers by making it costly to move. Workers were paid only once a month, and between payment days they were given a form of scrip, or fichas, which can be used to purchase food, clothing, tools, and others in company stores (Bergquist 1986: 38).

successfully consolidated a workers' movement, which embraced transport workers, urban workers, students, teachers, and white-collar workers. The FOCH began to take an explicitly socialist stance, inspired by the Russian Revolution, which was eventually linked to the leftist parties in the 1930s. This was so successful that for the first time the Chilean political classes had to make concessions and seek alternative means of controlling labour. In 1924, in the brink of a political crisis, Arturo Alessandri sought the military to enact the Labour Code and create tribunals with the power to decide over conflicts of workers and between employers and employees (see Collier & Collier 2002: 172-195).

To sum up, Chile's insertion in the world economy was underpinned by primary commodities, which were controlled by British and American capitalists. By 1913, nitrate and copper accounted for 78.3 percent of Chile's exports (Bulmer-Thomas 1994: 59). Capital in Chile, *ipso facto*, was foreign and therefore its economic fortunes depended on volatile global markets. The nadir of the nitrate economy was punctuated by a global decline in demands for natural resources proceeded by intense state protectionism as a way of recovering from the devastating human effects of the Great Depression. As explained previously, copper mining was revolutionised by foreign capital whilst regional salitre elites in the North were taking advantage of very lucrative, labour-intensive production of nitrate and its derivatives. Drawing from HI perspective, the fundamental shift from nitrate to copper, to a significant extent, was an outcome of the combination of structural constraints – the volatile conditions of the world economy and the limited possibilities for diversification of primary commodities – and the strategic response of actors – the introduction of technological innovation by American capital in copper mining and the reconstitution of elite concessions that shifted labour management from repression to labour incorporation. In short, the historical configuration of structure and agency explains the critical juncture – the 1929 Great Crash – that brought the demise of the nitrate export economy. In the next section, I discuss the political economy of Chilean copper between 1930 and 1973.

4.2.2 Copper politics and state-led development

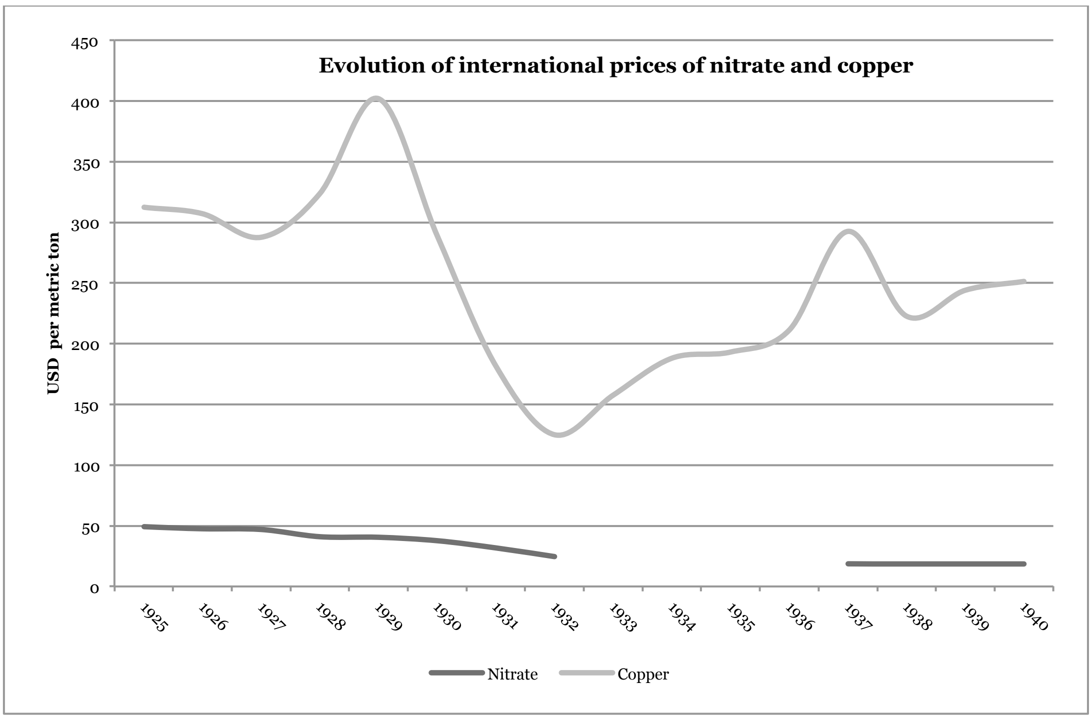
The transition to copper was facilitated by the demise of the nitrate export economy. When Arturo Alessandri failed to gain political support from an obstructive Congress, it triggered dissatisfaction from all sides, whether the military, the labour movement, or his allies. The deadlock in power was broken by the armed forces, eventually installing General Carlos Ibañez as president. As a believer of economic nationalism, he sought to implement a large-scale programme of public works funded by the last years of the nitrate boom, ranging from roads, drain, bridges, barracks, prisons, airfield, port facilities, and railways. Equally, Ibañez strengthened the state by creating the new *Contraloría General* in 1927 whose primary purpose was to become a watchdog of fiscal spending and bureaucratic behaviour. He founded two development banks – *Caja de Crédito Agrario* (Agrarian Credit Bank) and *Caja de Crédito Minero* (Mining Credit Bank). Whilst the former offered access to capital through low interest loans and inexpensive fertiliser, seeds, and livestock for farmers with limited collateral, the latter provided funds for small-scale mining operations to boost Chilean domestic capability to extract minerals. The price to pay for this ambitious modernisation project was very high. By 1930 Chile owed American, British and Swiss banks a total of £62 million (Collier & Slater 2004: 216-220).

In the end, General Ibañez's downfall was plotted not by political forces but the market itself. Chile's economic fortunes dramatically changed after the US stock market crash of 1929.[26] As Figure 4.1 shows, copper and nitrate prices went on a free fall. Unemployment, already affected by technological

[26] In the context of falling prices and new technological developments in making synthetic nitrate, the Guggenheim family (who introduced refrigeration technique to speed up the extraction of nitrate) argued that the state needed to remove the levy in nitrate production to compete in the world economy. With the government view of nitrate as a source of revenue and employment, Ibañez struck a deal with the Guggenheims and formed the Compañia de Salitre de Chile (COSACH) – half state-owned, half corporation – which had the monopoly over refining and processing of the commodity. In exchange of the abandonment of the export taxes, the Chilean government was to receive US$80 million over a four-year period and the firm had to retain 80% Chilean workforce. This was evidently inadequate as a preventative measure in a highly dependent export economy (Collier & Slater 2004: 216-220).

change, rose precipitously causing a massive exodus of workers from the North towards the Central Valley and South. Between 1925 and 1932, the labour force in the nitrate economy plummeted from 60,800 down to 8,500 workers (Collier & Slater 2004: 218). The arduous return to party politics came afterwards during which Alessandri was re-elected for the second time, although Ibañez's political career was certainly not yet over. Though not fully developed, Chilean political parties had already been consolidated. Several attempts by the executive and military at centralising power did not weaken the party system; Congress remained a fundamental arena of policy-making. The political crisis of the 1920s was marked by the attempts of Chilean political classes to incorporate labour in mass democracy, wherein the goal was to create a legalised and institutionalised labour movement that was at the same time depoliticised, controlled and penetrated by the state. The Chilean state constantly used repression and coercion to suppress workers' protests whenever the legal tactics to control labour were deemed as failing (Collier & Collier 2002; DeShazo 1983). At this point, a clear delineation existed between the left, right, and centrist forces, which reflected the tradition of class mobilisation and institutionalised pactmaking in the preceding three decades.

Figure 4.1 International prices of key exports in Chile, 1925-1940



Source: Braun-Llona et. al. 2000 (Adapted), 132.
Note: There were no available data in 1933-1936.

Copper politics must be placed within the broader context of Chile's industrial impulse between 1930 and 1970 to explicate the reasons behind its enduring dependency on copper mining. Taxes on American copper firms were first imposed by Alessandri, which helped in the recovery of Chile from the Great Depression. By 1939, taxes stood at 33 percent – a move that increased earnings from 5 million pesos in 1938 to 25 million pesos in 1942. Unsurprisingly, national debates revolved around the taxation of copper mining, particularly because the taxpayers were foreigners and the government did not wrestle with local economic elites. During the interwar years, the United States increased its purchase of copper and nitrate. A new agreement on the US purchase of copper at a fixed price of 12 cents per pound was struck between the American and Chilean governments. Nevertheless, the question of copper nationalisation had been raised by some leaders (e.g. *nacista* Jorge González von Marees), as early as 1940 – a political slogan that was to gain momentum in the later years. By the 1940s and 1950s, copper had fully replaced nitrate as Chile's principal export. Once again, its export economy was tied to a primary commodity subjected to the harsh, volatile flux of international prices and world demand. However, there exist two fundamental differences between nitrate and copper. First, although Chile's economic fortunes still relied on foreign capital, copper was now under American capitalists' hands. Second, unlike the labour-intensive production of nitrate, modern production of copper mining reduced the labour force, for example the mechanisation dropped employment from 18,390 in 1940 down to 12,548 in 1960 (Collier & Slater 2004: 269). With urbanisation rapidly taking place and the countryside not offering any possibilities for employment, the solution was state-led industrialisation.

In terms of state building, key state agencies were established to promote industrialisation. Under the short-lived *Popular Frente* government (1938-1941), despite the hatred of the Liberals and Conservatives, Pedro Aguirre Cerda narrowly passed a legislative agenda that created a new development agency, *Corporación de Fomente* (CORFO), to oversee the reconstruction process of ravaged communities after an earthquake hit the South in 1939. Its longer-term role expanded towards securing Chile's energy needs and financing industrialisation through public infrastructure projects. It was also under Aguirre Cerda that the Marxist parties were finally integrated in the political system, which galvanised coalition building in Chilean democracy. Nevertheless, these were not substantial achievements. The reforms rewarded the middle classes through job employment in the burgeoning bureaucracy and granted them disproportionate share of social security compared to the needy. His greatest achievement is perhaps the institutionalisation of the Radical party as a formidable political force in Chile, evidently reflected in the successive election of left and centre parties between 1938 and 1952.

The main legacy of centrist forces had to be the establishment of CORFO. The state agency was the engine of import substitution industrialisation in Chile by establishing state enterprises in key industries and financing private initiatives in manufacturing. In securing its energy needs, *Empresa Nacional de Electricidad* or ENDESA (National Electricity Enterprise) was established to generate low cost power and to develop hydroelectric plants. By 1965, the company succeeded in providing electricity across the national territory. In developing the discovered petroleum reserves in Magallanes, CORFO funded the creation of *Empresa Nacional de Petróleo* or ENAP (National Petroleum Enterprise) to which its core function was to coordinate the development of the oil industry and build a refinery in Con Con. Finally, Chile sought to develop an industrial complex through the establishment of national steel – *Compañia de Acero del Pacífico* or CAP (Pacific Steel Company) – which began its production in 1950. With respect to manufacturing, CORFO lent money to produce home appliances, copper tubes, alloys, and brass fixtures, as well as to other companies involved in wire, electrical goods, motors, radios, and automobile tires. As Collier & Slater (2004: 271) noted, CORFO did not ignore the countryside, as evidently shown in the establishment of Mechanised Agriculture Equipment Service (SEAM) – the company importing and then renting tractors to small-scale farmers. What must be underlined, however, was that the expanding reach of the state in economic management was made possible through close alignment with the United States and the increasing fiscal importance of copper revenues (see Table 4.2).

Table 4.2 The Chilean economy

	Export Revenues[1]	Import Expenditures[2]	Foreign Investment[3]
1938	329	240	-
1945	406	187	847
1952	547	430	1,025

Source: Drake 1993: 119.
Notes:
1. Figures in US$ million.
2. Figures in US$ million.
3. Figures in US$ million. Take note that nearly 70 percent of foreign investment was from the United States.

At its initial phase, CORFO succeeded in creating employment in the manufacturing sector as exemplified by the jump from 16.9 percent in 1940 to 19.1 percent in 1952. Production of new factories increasingly relied on local raw materials. However, by the early 1950s, the industrial base was over concentrated in furniture, food, clothing, textiles and footwear, which were produced at inefficient rates. They were more expensive than imported products from the United States or Latin America. Between 1953 and 1956, annual industrial growth fell by 60 percent as compared with the previous three-year period and never recovered the level of 1953 thereafter (Collier & Slater 2004: 276). With lacklustre economic growth rates, and a crisis in Chilean copper, the Radical government in power responded by expanding the public sector. Gabriel González Videla (1946-1952) realised that foreign borrowing and copper taxes were insufficient to pay for the costly industrialisation project, even so the continuously expanding operations of the state. Chile was caught up in a cycle of government deficits with inevitable inflationary consequences whilst economic growth had slackened off.

The country became dependent on copper and American capital. Whilst the US government mounted strong pressures to retain control over the Northern mines, the Chilean state failed consistently to strike a bargain with the workers and foreign capital. With the consequences of inflation still battering the Chilean public, pressures to reform the tax system became imminent. Its two main sources – import taxes and exported copper revenues – were however subject to very high taxes already. For example, in 1954, Los Andes Company (Anaconda) paid 92.2 percent of its profit to the government whilst Kennecott paid 79.7 percent. Not only were they unwilling to pay more, the companies also hesitated to modernise the mines – this was one of the contributing factors to Chile's decline in international share and a source of tension in mining camps between workers and producers. Alongside domestic political-economic changes, the African copper mines also began to compete in the world market. The Second World War brought forth an expansion of copper production across the globe, particularly the Copper Belt in Africa in the post-war period (Collier & Slater 2004; Vergara 2008).

In this context, the election of Carlos Ibañez for the second time (1952-1958) was a reaction to the shortcomings of the Radical government. Ibañez issued *El Nuevo Trato* (New Treaty) through Decreto Ley 11.828, which defined the relationship between the Chilean state and foreign copper companies between 1955 and 1964. In this treaty, a new tax on large-scale mining was imposed which consisted of 50 percent tax based on profit and 25 percent adjustable according to investment and production. It also eliminated exchange rate regulations and government control over pricing and marketing. Ibañez created the Department of Copper under the control of the Ministry of Mining (created itself only in 1953), which had the duty of making studies on copper policies, international prices, and mechanisms for foreign companies to outsource their supplies locally (Vergara 2008: 94). As Moran (1977) explains, the department trained a new generation of professional bureaucrats who played a critical role in the *Chileanización* (1964-1970) and nationalisation (1971) of copper. In sum, the Nuevo Trato was an attempt to solve the limitations of import substitution and industrialisation by increasing state revenues and private investment. At a time when copper production and investment were declining, the American copper companies were mounting sustained pressures to the state to create a more favourable environment as well as to eliminate state control of price and commercialisation (Vergara 2008: 95).

Ibañez attempted to address domestic taxation knowing full well that copper revenues could not sustain the reforms; this too had failed to materialise. The costs of living jumped by 50 percent in 1953, the year after by 58 percent, and in 1955 by 88 percent. The GNP likewise plummeted by 8 percent (Collier & Slater 2004: 278). As a defensive strategy, workers waged sustained protests as unemployment figures doubled. This was evidently strong in the copper mines in the North. Copper workers demanded their right to maintain and protect their standard of living, the recognition of the unique characteristics of large-scale copper mining, and a share of benefits from the new copper prosperity (Vergara 2008: 100). Such activism of the newly founded *Confederación de Trabajadores del Cobre* or CTC (Copper Workers Confederation) organised in 1951 was a stark contrast to the conciliatory position of the Chilean government with foreign capital. The radicalism of copper unions reflected the political nature of the labour movement at a national scale. Their rejection of the Nuevo Trato was an articulation of their demands to revise existing copper legislation, a readjustment of the salary to close the gap between blue-collar and white-collar workers, and a new legislation to manage the copper sector.

As a compromise, Ibañez enacted the Statute of Copper Workers – a labour deal that recognised the distinctive and influential position of copper workers and consequently reframed labour relations in the copper industry. It shortened the bargaining period, strengthened power of local unions by ensuring cooperation between permanent and professional unions, and reinforced the role of the state in mediating labour conflicts. In labour negotiations, the state guaranteed the participation of the Minister of Labour and Mining in the special arbitration board alongside the legalisation of CTC as the official union – it served as a bridge between local unions and national authorities across the three large mines (Chuquicamata, El Teniente, and Portrerillos). The Chilean state viewed the deal as a means of decreasing conflict in the copper mines and incorporating the organised working class into a controlled system of labour relations.

In the time Jorge Alessandri (1958-1964) was in power, the question of nationalisation of copper became more prominent. Labour tensions continued to escalate in the copper mines. Alessandri sought to retain the political alliance of the state with foreign capital. Copper politics and labour relations were shaped, to a significant degree, by foreign ownership in the mining industry. In the context of escalating nationalism and labour tensions, Anaconda brought Chile its fourth largest mine – El Salvador – in its effort to modernise operations as a competitive strategy in the world economy. The company introduced two aspects of corporate restructuring. With respect to productivity, Anaconda sought to improve production processes through cost reduction by way of building new facilities and introducing technology in several phases of the operations. With respect to the rationalisation of the administration of mining camps, Anaconda replaced or introduced new machines alongside increase in subcontracting as a response to the changing labour structure of the world economy. Ultimately, intermediate companies emerged to provide contract workers and services (Vergara 2008: 138-140). Whilst these changes had been assessed to have negative consequences for workers (Barrera 1973; Petras 1969), one positive outcome was the installation of copper refinery facility in Potrerillos that had given Chile higher earnings.[27] In addition, there were increased hiring of Chilean professionals in replacement of foreign staff, clearly showing signs of domestic capacity in production processes. In the end, Alessandri had a hands-off approach in the copper nationalisation debate, which had to be dealt with the Christian Democratic Party under Eduardo Frei Sr. (1964-1970).

[27] The price for refined copper was higher than that of unrefined which affected state revenues and balance of payments. Equally, it was more costly for Chile to process unrefined copper to the United States and then send to Europe (Vergara 2008: 142).

In this tumultuous context of escalating tensions in the copper mines and countryside, the question of agrarian reform and copper nationalisation became very politicised. The three American companies – Kennecott, Phelps Dodge and Anaconda – owned and produced most of Chile's copper. Their ownership of Gran Minería – now expanded to four mines: El Salvador, El Teniente, Andina, and Chuquicamata – shaped worker dissatisfaction as well as national mood towards foreign capital. Frei Sr. was elected under a social reform agenda, which did not necessarily win the hearts of the labour movement, particularly the copper workers. Lacking a tradition within the union movement, Frei Sr. had sought to gain political support from the non- or less organised sectors of society leading to popular mobilisation of the urban poor, women and peasants. Indeed, his last three years were marked by wage and stabilisation programmes alongside *mano dura* (hard hand) policy against labour and popular sectors (Vergara 2008: 146).

Nevertheless, Frei Sr. approved DL 16.425, or the *Chileanización del Cobre* (Chileanisation of copper), in January 1966 promising copper companies that copper policies would remain stable for the following twenty years. Negotiations took place in order for the state to acquire 51 percent of control in large-scale copper mines, with a promise of improved living conditions in copper mines, better health and safety measures, and increased state participation in copper production. This outcome was brought about by intensifying pressuress from below, especially organised mining unions, to alter the framework of resource management. However, Chileanisation did not resolve escalating labour conflicts and social polarisation that were characteristic of the late 1960s. In copper mines, the intensity and length of labour conflicts – e.g. solidarity and industry wide strikes – ignored legal frameworks. The CTC protested against the law and demanded an improvement in workers' legal and economic status. Similar to their demands in negotiating Nuevo Trato between 1951 and 1955, CTC sought for the nationalisation of copper as the only solution to foreign dependency. Frei portrayed the workers as unreasonably demanding higher wages beyond the capacity of the country and industry. At the national level, the Left and national union *Central Única de Trabajadores de Chile* (CUT) strongly supported the demands of copper workers and opposed the copper agreements.[28] In sum, the limitations of the national economy, the shortcomings of copper policy, and the rapidly escalating tensions between foreign capital and labour unions prevented the creation of stable labour relations – all of which contributed to the nationalisation of copper.

With escalating tensions as the backdrop, Salvador Allende and his government coalition, *Unidad Popular* or UP (Popular Unity), was elected with a radical proposal of income redistribution, reallocation of public investment, and the reorganisation of the national economy. The construction of a new economy was centred on the nationalisation of natural resources. In 11 July 1971, for the first time, a cross-party agreement was reached transferring 100 percent state ownership of Gran Minería without any form of compensation to foreign companies.[29] Vergara (2008: 157-158) argues that this was a product of the historical battle to decrease the control of multinational capital in Chile, wherein the state depended almost completely from copper mining for its economic fortunes. For copper workers, nationalisation was the realisation of their long-standing demand for political autonomy, rooted in the lived experiences of workers and policies of segregation imposed by US management in the copper mines. The nationalisation required restructuring the copper economy both in terms of corporate governance (and how it fit in the state) and of labour management (particularly the role, involvement and participation of workers). With respect to the organisation of production, the creation of CODELCO and *Empresa Nacional de Minería* or ENAMI (National Mining Enterprise) meant the state would directly participate in the economy through the

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[28] Central Única de Trabajadores de Chile (CUT) functioned from 1953 to 1973 but the national union was dissolved after the fall of Allende. The union was re-founded as Central Unitaria de Trabajadores de Chile (CUT) in September 1988 as representative of labour in the opposition movement against the Pinochet dictatorship. CUT was legally recognised after the transition via Ley N° 19.049. As a result, CUT sat in tripartite negotiations to discuss labour issues, including minimum wage, with the Concertación government and big business.

[29] Nationalisation without compensation was a break from the past policies of negotiation between the state and multinational capital. As such, American companies specifically Kennecott launched a serious campaign to damage the reputation of Chilean copper (Vergara 2008: 158).

Ministry of Mines' decision-making powers. As regards labour management, workers were given the right to participate in the Board of Directors, General Workers' Assembly, and in several production councils. A massive training program was necessary to effectively integrate workers within the administrative structure of the state companies. This also meant giving the 'worker' an autonomous entity as opposed to unions. The success of the programme had been debated, specifically the extent to which participation brought about economic benefits rather than productivity in the copper mines (see Barrera 1981; Petras 1972; Zapata 1975). Nevertheless nationalisation was the pinnacle of class conflicts in Chile, wherein the dominance of foreign capital in the export economy was consequential for the exacerbation of conflicts in an ideologically divided society.

The nationalisation as a central policy of development generated contradictory responses from all sides. Allende's political alliance with labour unions did not prevent the explosion of conflicts that eventually transformed into a legitimacy crisis and a crisis of democracy itself. The long strike in El Teniente between April-June 1973 had been conceived as key to his downfall. Labour conflicts were a result of wage policies, internal political strife, and a traditional pattern of conflicts in an industry marked by high rates of absenteeism, labour turnover and illegal work stoppages (Vergara 2008: 171). The copper mines became the political battlefield which the opposition utilised to challenge the legitimacy of the UP government. These took place within the broader failure of Allende's economic strategy of providing employment through nationalised enterprises and public sector works.

Unlike in other epochs, the periodic failure of centrist parties to accommodate the radicalisation of the left came to a critical point during the Allende government, which led to the breakdown of the party system itself. With the support of the Right parties and the US government, the military launched a bloody coup d'etat in 11 September 1973 which not only ended the socialist experiment but also broke the tradition of party politics.[30] As Collier & Slater (2004: 359) describes it, *El Once* or 'the eleventh', represented the worst political breakdown in Chilean history. General Augusto Pinochet Ugarte (1973-1989) held the record for length of tenure among Chilean leaders since 1540. He consolidated his power base and took over as dictator. Under his 17-year rule, a new development model unravelled in Chile – one that would embed depoliticised, technocratic governance in economic management. The historical institutionalist emphasis on political conflicts and critical juncture best explains the eventual breakdown of Chilean democracy and the rise of a reactionary policy against Allende's socialist project. The military government's neoliberal project was the embodiment of a new political economy – a critical juncture that would set the pace of path dependent (neoliberal) economic governance in post-dictatorial Chile.

4.2.3 Neoliberalism under the military dictatorship

Pinochet drew his economic strategy from a group of conservative economists educated in the University of Chicago who experimented on monetarism and unrestrained laissez faire economics. The 'Chicago Boys', who moved in the state planning agency ODEPLAN, aimed to reverse all of Allende's economic policies, particularly the nationalisation of key industries, universal welfare systems, and excessive protectionism through tariffs and quantitative restrictions. The neoliberal programme privatised more than 400 state-owned, state-controlled, or intervened companies since 1974 whilst those firms considered as 'strategic' were left under state hands with the military men running the state enterprises. This, unsurprisingly, included the

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[30] In particular, Valenzuela (1978) argues that the key to the coup is the failure of centrist forces to incorporate themselves in the Allende government: the deliberate sabotage of the Right and Centre of Popular Unidad government's economic programmes, the breakdown of the coalition between the Christian Democrats and Government in Congress, increased polarisation in a context of intensified popular mobilisation (a result of Frei's social programmes), and the constitutional crisis due to the failure of the Christian Democrats to compromise that led to the crisis of democracy. For other references, see Garretón 2003; Taylor 2006.

mining state enterprises CODELCO and ENAMI. Kurtz (2001) explains that the Chilean state reoriented economic production by withdrawing the state from direct management, for instance, by allowing the collapse of existing industries like textile and traditional agriculture and aligning Chile's investment policy towards natural resources with which it has comparative advantages. The state played a neutral role as regulator implementing the law to let the market forces decide on production and maintained 'liberal neutrality' in its import and export regimes.

In 01 April 1976 through DL 1.349 and DL 1.350, the state consolidated the administration of copper production by creating a unified CODELCO operating across four mines. In historical institutionalist terms, mining policy reflected *institutional layering,* in which old rules were maintained alongside new ones in an attempt to effect political behaviour. Pinochet kept CODELCO under state hands as a way of managing tensions and conflicts within the military regime. In particular, the nationalist faction viewed the privatisation of copper as a form of betrayal to the country due to the long-standing association of patrimony and identity with copper. With their relative importance in the balance of power, Pinochet did not expropriate Gran Minería back to foreign hands. Equally, Pinochet appropriated a law transferring 10 percent of CODELCO's profits automatically to the armed forces' budget with the explicit goal of modernising the armed forces.

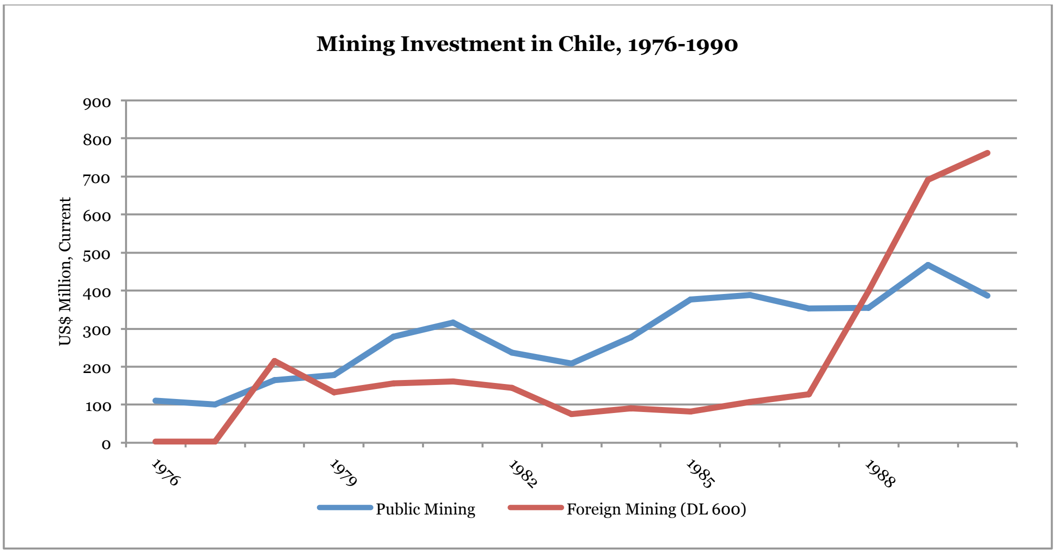
Alongside CODELCO, new laws were created to attract foreign investment in the Chilean mines. Pinochet changed the tax regime to bring back investor confidence in the mining sector. This strategy involved two key reforms. With respect to taxation, the Foreign Investment Statute (DL 600) was issued, promising generous tax rebates to foreign capital by way of deducting 15 percent of their corporate taxes (at 35 percent rate) and adjusting for the depreciation of imports defined as 'investments' in the mining sector. The second component institutionalised private property in natural resource. The Mining Code of 1982 recognises equal rights of foreigners and Chilean miners to acquire property in Chile, effectively signalling the individual's absolute right to own mining concessions. For business elites, the process was an opportunity for Chileans (mainly national economic elites) to take advantage of the new laws in mining (Carlos Guajardo 2009, Interview with the author). On a final note, consistent with the neoliberal logic of depoliticisation, the Mining Code sets out clear rules on the process of acquiring mining concessions and licence to operate, in which the judiciary and not the executive holds the decision-making power to grant concessions.

Equally, the labour question had to be addressed by the dictatorship. As a result of labour radicalism, Pinochet decisively delegitimised and fragmented the trade union movement through repression, demobilisation, and a change in labour relations. Between 1979 and 1982, Minister José Piñera instituted a series of labour legislations called *Plan Laboral*. The core consequences of this pro-business labour code include the creation of state controls over collective rights, delimiting collective bargaining to wages, and depriving workers of the right to strike and access information from employers. What was to be described later as 'modern capital-labour relations' was in fact a stable labour management scheme, in which conflicts were resolved between employers and workers with minimal state intervention. This situation demonstrates, quite ironically, immense state capacity to put labour in its place (Biglaiser 2003; Teichman 2001).

Despite the near collapse of the Chilean economy in the 1982 crisis and the eruption of union-led social protests between 1983 and 1984, the Chilean state remained strong in diffusing opposition. What legitimated the repression and demobilisation was, in fact, the miraculous recovery of the Chilean economy. In specific reference to the copper sector, CODELCO survived in spite of the clear lack of state interest from investing capital for exploration projects. However, as Figure 4.2 details, private capital began to play its role as the new engine of growth. With a generous taxation regime and a highly repressive managerial state to contain labour unrest, public mining divested whilst foreign capital gradually increased its investment in the mining industry. In 1976, public investment was at 111 US$ million and foreign capital contributed merely 2 US$ million. Upon the return of democracy in 1990, investment in CODELCO and ENAMI stagnated to 386

US$ million whilst foreign investment soared as high as 762 US$ million. Worth mentioning is the investment made by Minera Escondida, operated by BHP Billiton, in 1989, which today is considered as the second biggest mining firm in Chile after CODELCO.

Figure 4.2 Public and private mining investment under Pinochet government



Source: COCHILCO Annual Statistics 2009 (Adapted), Table 30.

In this context, Francisco González (2008) argues that the 'institutionalisation of the authoritarian regime' is crucial in explaining the high degree of control exerted by the dictatorship in the transition process. Nevertheless, democratization in Chile is certainly the victory of demands from below and new articulations of political rights in defiance to the ruling military. With the economy back on track in 1985 and the plebiscite coming shortly, political parties reconstituted themselves with a strategy of defeating the dictatorship on its own terms (Garréton, 2003). Political mobilisation against the military regime showed its first signs in the world of labour among the mining union leaders whose lives were in constant threat from the military. When the workers began to assume a greater role in the movement to challenge Pinochet, political parties received the support needed to engage with the military regime in the process of transition. Pinochet was defeated in his bid for another seven years in office and Concertación won the presidential elections with the centrist leader Patricio Aylwin taking power in

1990. With democratisation came the promise of rebuilding the trust between the state and labour unions, which broke down after the dictatorship. There is extensive literature that deals with the uniqueness of Chile's smooth transition to democracy. On the one hand, Pinochet successfully embedded the neoliberal model to give the Right parties and business class *de facto* veto power and the intentional changes in strategic actions of the Chilean left to guarantee social peace (González 2008; Vergara 1985). On the other hand, the political system is marked by the return of main parties as key actors, technocratic governance, and political exclusion of the popular sectors in the economic model (Angell 2006; Paley 2001; Silva 2009, 2004, 1999). The political legacies of neoliberal economics, as Chapters 5 and 6 argue, have lasting effects that lock in political choices towards marketised democracy. Hence, institutional change away from the free market model has only been possible through an incremental pathway, in which the political legacies of the dictatorship and the power of neoliberal narratives have been difficult (though not impossible) to overcome.

4.3 The politics of natural resource governance in Brazil

Whilst Brazil's vast natural resources are well documented, its importance has been relatively understated by scholars. Perhaps this is rooted in the relatively successful industrial strategy of Brazil compared to other Latin American countries, or maybe resources have always been seen as less politicised (though this is counter intuitive if one looks at historical record). Nevertheless the analysis of the state and resource management – particularly of Brazil's contemporary political economy – remains lacklustre (however, see Nem Singh & Massi Forthcoming; Triner 2007, 2011; Wolford 2010). Through the lens of critical political economy and historical institutionalism, I trace the emergent political role of petroleum within the context of import substitution industrialisation – a crucial backdrop in the return of oil politics at the turn of the millennium. This complements quite well the historical account of Chilean political economy of nitrate and copper mining.

4.3.1 Cycles of resource extraction under exports-led growth model

Without a doubt, Brazil's export economy was built through cycles of extracting and producing primary commodities for the world economy. The Portuguese colonisation was marked by the exploitation of *pau-brasil* (redwood) along the coast in the first half of the sixteenth century. At this time, minerals were the main export of Latin American colonies, which at the beginning was not found in Brazil. By the late sixteenth century, sugar production began in the country's northeast as a way of defending the colony. More complex production began to develop thanks to the need for transportation and food in the sugar industry, which also paved way for the growth of the cattle industry. Throughout the seventeenth century, the Brazilian colony held monopoly over sugar production, which had resulted to chronic dependence on this single commodity for about 150 years (Machado & Figueiroa, 2001: 9). However, rising competition from Central America and the Caribbean caused sugar prices to fall, and consequently the decline of the sugar industry in Brazil – a process that painfully led to prolonged economic stagnation. The colonial economy was revived by the discovery of alluvial deposits of gold and diamonds in the southeast and south regions in the early eighteenth century, which brought about a period of local economic boom and prosperity for the Portuguese crown. The growth pole formed by the gold- and diamond-producing regions was to have considerable effect in the development of the Brazilian economy. Large-scale mining operations meant the necessity for workers, which led to migration *en masse* to the mining regions at a far greater scale than in the past. The São Francisco River linked the northeast sugar plantations, vast gold in the mining regions, and the cattle industry in Southern Brazil (Furtado 1970: 16). Nevertheless, despite contributing to the expansion of the borders and further development of agriculture and cattle production, gold mining did not establish the foundations for economic expansion particularly because Portugal restricted the establishment of manufacturing in the colony. As gold mining waned, Brazil once again experienced prolonged stagnation and regression until the late eighteenth century. Economic dynamism was revived only after cotton producers began to export to Great Britain as a result of the disruptions caused by the American War of Independence (Bulmer-Thomas 1994; Hudson 1997; Kohli 2004: 131).

After acquiring independence, Brazil had to wrestle with the dual challenge of economic and political development. The combination of centralising and decentralising political forces – the conflict between a homogenous political elite with mercantilist traditions and land-owning groups with financial resources in regional territories – ultimately constrained the development of the state, specifically its bureaucracy (Carvalho 1996).[31] During this time, coffee production had begun to play a salient role in Brazil's insertion in the world economy. Whilst production initially concentrated in the mountainous regions of the state of Rio de Janeiro, the emerging domestic political classes who benefited during the mining boom sought to expand the economies of scale – with the support of the state –throughout Rio de Janeiro and subsequently Sao Paulo (Hudson 1997; Machado & Figueiroa 2001: 10). By the early twentieth century, Brazil's coffee exports provided four-fifths of the total supply in the world market. This meant that any fluctuation in the Brazilian crop significantly impacted coffee prices. Circumstances in harvest, such as a forecast of bumper crop or frost, had consequences, which then subjected coffee under the regulation of stocks. Under the First Republic (1890-1930), the country's balance of trade was favourable and there was no decade in which the median annual trade surplus was less than 15 percent of imports. The exchange of trade took place in the ports which could easily be taxed by the federal government (Evans 1979: 57). Nevertheless, classical dependence had its limitations. Its key shortcoming rests on the fact that agricultural commodities – mainly coffee, sugar and cocoa – constituted almost 95 percent of exports, which essentially signified the vulnerability of

[31] Carvalho (1996) notes, however, that the state exercised limited autonomy to enact certain laws, for example the abolition of slavery.

Brazil's economic fortunes to volatile international prices. However, as long as demands for coffee kept expanding, fluctuating prices could still be offset.

The import/export economy constituted unfavourable economic relations, as manifested by the lack of a local industry. Brazil faced two problems: first, income disparities which were created by a highly segmented primary export economy; and second, the concentration of profits towards the British capitalists who introduced railroads and controlled trade and Brazilian shipping. The oligarchic state composed of coffee elites had 'incidental' involvement in directing the economy. At best, it offered passive support for foreign and local economic groups by granting private capital concessions to operate public utilities. To address dependency, Brazilian coffee planters met in Taubaté, São Paulo and signed an agreement to withdraw surpluses from the market and finance production through loans negotiated from abroad. This was not entirely successful. As Furtado (1963, 1970) argues, the coffee policy backfired because of rising competition from other Latin American producing countries. The agreement likewise assumed a stronger role for the state in terms of discouraging production and rapid expansion of coffee plantation. The second point is relevant to the discussion. Throughout the rule of the monarchy (1822-1889), Brazil's political institutions were at best continuities of colonial administration with a 'weak sense of national purpose' (Kohli 2004: 133). Under the First Republic, the persistent difficulty of strengthening the federal government vis-à-vis the regional elites in key states hindered not simply the establishment of effective governance to cushion the impacts of price volatility but also in reforming state institutions (Kohli 2004; Guimarães 2003: Chapter 3).[32] In these circumstances, two attempted *coup d'état* in 1922 and 1924 were launched against the oligarchic democracy, and this signalled the dissatisfaction of the military to the failing state. The opposition discourse that mobilised various sectors of society was

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[32] The system was characterised as coronelism, in which the governors of states maintain political control by giving local land owners, the coroneís, access to public posts and arms in exchange of electoral support. This pattern would be sustained in periods of electoral democracies in Brazil (Hagopian 1994, 1996).

advocating for a strong state in direct contravention to the liberal export economy model based on primary commodities. In the highly contested election of 1930, the pattern of alliances between political forces was finally broken when the military supported Getúlio Vargas from Rio Grande do Sul as leader of the provisional government.

4.3.2 Political continuity between Estado Novo and Military Government

The liberal exports-based model around coffee and primary commodities was unravelling for several reasons, namely disintegrating elite cohesion, emerging challenge from a new economic elite based on industrial production, and inadequate response to the Great Depression (Kohli 2004; Guimarães 2003). Vargas conceived of his 'revolution' as legitimated by society writ large who saw himself as a 'candidate of a country in protest rather than a candidate of a segment of dissident oligarchies' (Faoro 1998: 692). With the backing of the military, he felt more capable of pushing reforms beyond what the oligarchs envisaged. The Vargas government is the foundation of Brazil's modern state – *Estado Novo* (New State) – the critical juncture that brought forth a clean break from the past oligarchic democracy.

The emergence of a new state took place in the backdrop of favourable economic and political conditions. Firstly, the state elite filled in the political vacuum left by the weakened agrarian elites and industrial bourgeoisie in the aftermath of the Great Depression. Equally, social pressures from below – mainly labour and urban middle classes – sought for a new political arrangement that accommodated societal demands. Secondly, strengthening state autonomy was favoured by the characteristics of national political culture and the ideology of political elites. The Great Depression was a positive structuring condition for statist developmentalism particularly among peripheral states, wherein an indigenously inspired, populist-flavoured, autonomous direction to development was seen as the new antidote to the vicissitudes of a narrowly redistributive, exports-led growth model. Finally, natural resources were conceived by Vargas and the military as a key pillar of national security, which meant dispossessing ownership of the private sector in mining and reserving ultimate sub-soil rights to the federal government. Mining policy received renewed attention where the thrust was to shift subsoil rights from surface owners to the state (Triner 2011).[33] The 1934 Constitution, Article 119, §4, explicitly states the "progressive nationalisation of mines, mineral veins and waterfalls or other sources of hydroelectric energy deemed basic or essential for national economic or military defence of the country".[34] This meant transferring the power to the federal government to authorise private companies to search for and develop mineral resources although oil distribution remained in private hands (Randall 1993: 9). This was followed by the nationalisation of petroleum in 1937. General Horta Barbosa sought to resolve Brazil's lack of petroleum and created the *Conselho Nacional do Petróleo* or CNP (National Petroleum Council) in 1938.[35] Despite the lack of capital and technological capacity of local entrepreneurs to explore oil blocks, nationalist restrictions to any foreign exploration of petroleum development in the country were still put in place (Guimarães 2003: Chapter 4; Wirth 1970). Most importantly, the military was satisfied with the close linkages between national security and the need to make steel and petroleum locally available for industrialisation by way of nationalising the petroleum industry and confining the ownership of refineries to Brazilian nationals.

Between 1938 and 1945 Vargas concentrated his efforts at building institutional capacity, economic expertise, and political autonomy from traditional elites. In 1938 he expanded state functions by creating specialised agencies to foster groups of highly trained professionals and technocrats.

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33 See Constituição da Republica dos Estados Unidos do Brasil, Article 72, 1891. The Old Republic Constitution of 1891 changed mining rights, which then passed from the Federal government (or from the Imperial crown) to landowners. The Constitution further allowed foreigners the right to mine in Brazilian soil.

34 See Constituição da Republica dos Estados Unidos do Brasil, Article 119, §4, 1934.

35 Incidentally, the CNP was inspired by Argentina's state-owned oil company (YPF), though Barbosa thought petroleum was better suited to be a state enterprise that was not to be entrusted to anyone, including the Brazilian industrialists (Smith 1976, Wirth 1970).

This was aimed at controlling sectors and increasing the coordination and regulation of the economy. For example, Vargas funded the National Coffee Council to conduct studies on marketing and production of coffee to bring back the prices at competitive levels. He raised the tariff levels, devalued exchange rates, and sought for controls in imports as a way of supporting industrialisation programme. By the end of the 1930s, available financing for industrial investments increased alongside the creation of *Carteira de Crédito Agrícola e Industrial do Banco do Brasil* or CREAI (Bureau of Agrarian and Industrial Credit of the Bank of Brazil). Vargas centralised power towards the Federal Government and curbed the economic, political, and military autonomy of regional states. This policy entailed, above all, the creation of state enterprises, or at least the opening of the debate to establish them, in steel, mining, and petroleum. With economic and security interests intertwined in lieu of the outbreak of the Second World War, the state sought to create a national steel industry complemented by a self-sufficient oil sector. In response, he commissioned and created the *Companhia Siderúrgica Nacional* (CSN) located in Volta Redonda in 1946 to foster the 'big steel industry'. To complement steel production, the *Companhia Vale do Rio Doce* (CVRD) was created in 1942 in Minas Gerais, during which the company immediately became responsible for 80 percent of Brazilian iron ore exports. His strategy was to create 'policy spaces' between state regulatory agencies and economic groups to be able to discuss and lobby their interests, thereby, institutionalising access of private capital to economic decision-making (Fonseca 1989; Guimarães 2003: 94-105; Wirth 1970).[36]

[36] As Guimarães (2003: 98) points out, many of these organisations were aimed at regulating and intervening in the economy. These included the Ministerio do Trabalho, Indústria e Comércio (Ministry of Labour, Industry and Trade - 1931), The Conselho Nacional do Petróleo (National Petroleum Council - 1938), the Conselho de Águas e Energia Elétrica (Council of Water and Electrical Energy - 1938), the Conselho Nacional de Minas e Metalurgia (National Council of Mining and Metallurgy – 1940), Comissão Executiva do Plano Siderúrgico Nacional (Executive Commission of the National Steel Plan – 1940), the Comissão Executiva Têxtil (Textile Executive Commission – 1942) and the Comissão de Mobilização Econômica (Commission of Economic Mobilisation - 1943).

Equally, the strong state was reflected in the establishment of corporatist patterns of political inclusion as a way of controlling the militancy of organised labour. Corporatism in Latin America was conceived by state elites as a viable solution to the challenges mounted against narrow democratic regimes without resorting to state repression (Cardoso & Faletto 1979: 32; Skidmore 1973: 37). The potential threat from the popular classes prior to industrialisation necessitated a strategy that would incorporate, demobilise and depoliticise organised labour. Aimed at curtailing the autonomy of the labour movement, state crafting involved restrictions such as recognising one trade union per sector, creating regulatory organs and agencies linked to the Ministry of Labour, and financing the unions through taxes (*imposto sindical*). In exchange, Vargas created a pension system incorporating workers, fixing the working hours to eight hours, and structuring the organisation of business associations (Collier & Collier 2002; Schneider 2004a). In short, Vargas' dictatorship was a critical juncture both in terms of reorienting the state in economic management, private representation in policy-making, and crafting mechanisms of political inclusion.

By the time democracy was reinstalled in 1946, petroleum had become a central issue intricately woven to the question of endogenous national industrialisation. In April 1947 the military was involved in deciphering whether foreign participation in oil development was consistent to national security or not. On the one hand, General Juarez Távora advocated for the participation of foreign companies to secure Brazil's energy needs, in which concessions were seen as a way of funding oil exploration led by the government. On the other hand, Barbosa argued for state monopoly on national security grounds. Although the military was deeply divided as regards the oil issue, there could be no doubt that Horta's position had won significant sections of the military. The nationalist position consolidated the military which had been finding its way to return to politics shortly after the Estado Novo was replaced by democratic politics. It was viewed that if the campaign won, it would provide the military with something to control and give extra political resource to strengthen its position towards moving in the centre of political decision-making. An interesting alliance that was formed in this campaign, which was historically famous as *O Petróleo é Nosso* (The Petroleum is Ours) in 1947-1953, was between the military, students, the press, and the Communist Party (Philip 1982: 235-236).

Oil exploration, then, had three policy alternatives: first, through a government monopoly with no Brazilian or foreign capital participation; second, through monopoly exploration including minority shareholding participation of Brazilian and foreign capital; or third, concurrent oil development by government and private enterprise though preference was to be accorded to Brazilian firms. It was not until the fall of Eurico Gaspar Dutra (1946-1950) and the successful re-election of Vargas as president with a platform in favour of state-led industrialisation that the debate would be resolved.[37] Under Dutra, the SALTE Plan brought about the expansion of Mataripe refinery, construction of Cubatão refinery, the expansion of two more private refineries, and the creation of oil tankers – National Tanker Fleet or FRONAPE – under the administration of CNP (Randall 1993). In finding the resolution for the oil question, Vargas needed to manoeuvre between the ESG,[38] his own left wing supporters, and the civilians which made the debate more ideological rather than economic. In the end, he sought for a technocratic solution to the oil question. He set up a commission composed of technocrats and headed by Rómulo de Almeida to come up with a proposal. The model reflected the nationalisation project in steelworks – i.e. Volta Redonda project – in which a government holding company rather than state monopoly with broad powers of discretion to seek foreign financing and technology to support oil development. His proposed bill in

[37] By the end of 1945, Dutra came to power with an explicitly liberal creed as a reaction to Vargas dictatorship. He faced several economic problems: deficiencies in energy and transport, low productivity of the economy, regional and sectoral imbalances, and disarticulation of the financial system. Politically, the return of democracy constrained state building because clientelism persisted, particularly the power of Congress to allocate state budget –a major source of politicians' patronage. Without a clear industrialisation plan, Dutra struggled with Congress and despite economic growth; problems on infrastructure investment and sectoral coordination remained at the end of his government (Guimarães 2003: 125-129).

[38] The Escola Superior de Guerra or ESG (Superior School of War) was an influential institution responsible for defining national security and in educating the military.

Congress proposed the creation of 51 percent government-owned holding company – later to be called PETROBRAS – for oil development and refining in which private capital could play a large role in subsidiaries and associated enterprises. PETROBRAS would be financed by the transfer of existing state property, by selling 49 percent of the shares to private sector, and by a set of earmarked taxes on certain luxury goods. The proposal took into account the expensive costs of building capital of the state company and the lack of private interest to invest in the oil sector. Apart from this, a publicly-owned trading company would be freed from congressional approval should it decide to conduct overseas oil exploration (Philip 1982: 237-241; Randall 1993:9-11).

However, the Petróleo é Nosso Campaign evidently rejected the proposal who wanted a tighter solution to prevent 'backdoor dealing' with foreign companies – a typical situation in oil producing states. The technocratic solution was not palatable politically. Instead, they advocated for nationalist restrictions to foreign capital in petroleum exploration in the country. In the end, Decreto Lei 2.004 was instituted in October 1953, which accorded the state absolute monopoly over oil exploration and refining through PETROBRAS. In April 1954, PETROBRAS inherited government oil holding and assets which until then was managed by CNP, valued at US$ 165 million and included two refineries in Mataripe (Bahia) and Cubatão (São Paolo), a certain amount of drilling equipment, and a tanker fleet (Evans 1979: 90-92; Randall 1993: 9-12). However, PETROBRAS' ownership structure was divided between the domestic private shareholders (49 percent) and the federal government (51 percent), which was enshrined in the constitution.

The real significance of the oil debate was political. For one, the PETROBRAS campaign was forged through an impossible alliance between the military and Communist Party, which was later to unravel as a result of the pro-US position of the Brazilian army. In this context, the real winner of the oil debate was the military, which had asserted its control over petroleum, mining and steelworks by defining them as key pillars of national security. Secondly, one can think of this period as the 'slow-moving process' (Pierson

2004) of entrenching the different means by which the state was incorporating business and labour in the industrialisation plan. Under Vargas, he established *Comissão de Desenvolvimento Industrial* or CDI (Commission of Industrial Development) in which its goal was to increase the interactions and coordination in economic policy-making between business and public agencies. Vargas also established *O Banco Nacional do Desenvolvimento* or BNDE (Brazilian Economic Development Bank) in 1952 which was an investment bank autonomously managed with its own resources, administrative structure, and internal statute; its role was to finance long term loans for the allocation of investments and a central agent for coordination of economic management (Sikkink 1993).[39] This contributes to the argument around the gradual reconstitution of institutional capacity of the Brazilian state to manage complex processes of economic policy-making – clearly a political legacy of Getúlio Vargas (Guimarães 2005; Schneider 1999; Sikkink 1991). Beyond setting up the oil industry itself, the Vargas presidency is undoubtedly the most important historical moment in Brazilian state-making, whether in terms of labour incorporation or the creation of the old developmentalist state.

The succession of João Café Filho (1954-1955) and Juscelino Kubitschek (1956-1961) marked the intense politicisation of PETROBRAS management. Its successful profitability in the first eight years certainly cannot be regarded simply as earnings from operations but was largely an outcome of supportive public policies. To ease financial uncertainties, the government increased domestic prices. Between 1955 and 1959, 39.4 percent of PETROBRAS funds came from tax exemptions and earmarked sources of revenue. In 1959 over 40 percent of its profits stemmed from direct government protection of the refining sector (Philip 1982: 368-369). As Table 4.3 show, the profitability of PETROBRAS had gradually increased. Despite the resolute tactics of politicians to control PETROBRAS, profitability as a central objective of the company helped secure its autonomy from the criticisms launched by

[39] BNDE was renamed as Banco Nacional de Desenvolvimento Econômico e Social or BNDES (Brazilian National Economic and Social Development Bank).

Congress. PETROBRAS used its financial independence to assert corporate autonomy by way of emphasising human capital development through policies in training staff and hiring foreign experts. In 1954 PETROBRAS signed a contract with Creole – Jersey subsidiary in Venezuela – to provide support in its operational and technical training fields.

Table 4.3 Financing in PETROBRAS (in million *cruzeiros*)

	1955	1956	1957	1958	1959	1960
Sales income (less costs)	1,021	2,817	4,705	7,766	13,333	15,477
Reinvested profits [1]	n.a.	166	1,577	3,492	4,687	7,522
Earmarked taxes	936	1,300	2,557	3,042	4,575	6,118
Vehicle levy	446	472	416	7	11	2
Total	2,403	4,755	9,255	14,307	22,606	29,119

Source: PETROBRAS Annual Report 1960 in Philip 1982: 369.
Note:
(1) Previous year.

PETROBRAS' discretion in hiring and appointing foreign experts was exercised, yet one major controversy was when Walter Link, an employee of Jersey Standard, was appointed as consultant geologist at a sum of US$ 100,000 a year. Link was given absolute autonomy in setting up the exploration department, which he organised in geographical terms to assess the potential for oil exploration in every region of Brazil. Before the politicisation of PETROBRAS, the company had a clear goal of setting up refineries and to use some of the money to pay for the costly oil exploration in Brazil. Although PETROBRAS was given the right to enter the petrochemicals industry in 1957, the state enterprise did not go towards this direction until the 1960s. PETROBRAS was basically producing more oil but not sufficient enough to meet the growing demands of an industrialising economy. Whilst the company raised production from 2,721 barrels per day (b/d) in 1954 to 80,910 b/d in 1960, the consumption was at an astounding 263,844 b/d (Philip 1982: 372). Although difficult to publicly admit, Brazil might not really have oil after all (Smith 1976). The decision of PETROBRAS President Janari Nunes (1956-1958) to focus oil exploration in the Amazon instead of the northeast regions of Bahia and Sergipe was a cause of concern for Walter Link. In the Link Report, he stated that only in three regions in Brazil was oil found and if PETROBRAS really wanted to find more oil, it should look offshore and overseas. For another decade, foreign company interest to explore oil reserves in Brazil disappeared. Compared to Chile, Brazil, having no commercially viable oil reserves, had developed a fairly insulated oil industry. Whilst petroleum was not subjected to foreign control, its challenges were very different to Chile and necessitated a radically different commercial strategy.

Between 1960 and 1964, the firm faced two major problems. On one hand, Brazil's oil dependence had constrained the import substitution model; oil accounted for one fifth of its imports in 1954 and oil price increases had debilitating effect to economic growth. There was undoubtedly mounting pressure to find ways to sufficiently address the growing consumption demand for oil to support industrialisation; this clearly meant devising a strategy beyond the extraction and production of crude oil. On the other hand, PETROBRAS's involvement in politics was rapidly intensifying. Whilst PETROBRAS was a response to political and technocratic pressures and the appointment of its president had been confined to conservatives under Vargas and Café Filho, Kubitshek's appointment of Colonel Janari Nunes began the politicisation of the state enterprise. In the context of growing economic nationalism, corporatist mechanisms were used to control labour unrest – including in PETROBRAS – which at the time of the Cuban Revolution was becoming more difficult to maintain. But as Philip (1982: 374) argues, the political right, i.e. the military, had the veto and indirect influence all throughout the democratic period and therefore any form of control exerted against a militant labour movement was subject to the politicisation of the military. As the decisions of President Goulart (1961-1964) demonstrate, it became necessary to make political appointments in state enterprises to replace technocratic modes of leadership in order to build political coalitions. This, in turn, led to the search of PETROBRAS managers and workers for a political base outside of the organisation as a weapon in the internal conflicts that were transpiring in the state enterprise (Randall 1993: 27-29).

Economic nationalism brought forth two key tensions in the oil industry. Firstly, only two private refineries existed in Brazil, which were then subjected to government pressures by way of setting oil prices by CNP favourable to PETROBRAS. In hindsight, political intervention caused friction between PETROBRAS and the private sector. Secondly, labour unions increased their control over some operations and regional efforts to obtain investments became subjected to political rather than strict economic criterion. The question became who can control PETROBRAS rather than allow the firm to decide what was good for the firm. The departure of foreign advisers in 1961 further weakened technocratic management and appointments became political battlefields between the Left and the politicians who wanted to gain control of PETROBRAS management (Randall 1993; Smith 1976). The extreme nationalists sought for PETROBRAS to expand its core businesses to other areas. George Philip (1982: 376) succinctly summarises this point:

> It is… likely that the pressure for the expansion of PETROBRAS' activities, the move into distribution, the expropriation of two small existing private refineries and the development of exploration in the Amazon came from the organisation itself – certainly from the trade unions and their largely Communist leadership, and perhaps also from their technical staff… the pressure within PETROBRAS for diversification remained well after these political conflicts were resolved and the expansionists had a far wider constituency than the PETROBRAS unions and the radical left.

In this context, PETROBRAS became the political arena between technocrats and trade unions, which was only resolved when the military revolutionary (1964-1985) ended the chaos ensuing as a result of polarisation and reoriented the state towards a more pragmatic stance that sealed the deal to allow domestic business and foreign capital in the oil industry albeit still to a limited extent (Schmitter 1972; Stepan 1971, 1973).[40] Nevertheless one should

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[40] Such congruence between the state and capital is neither a natural nor static process. The changing conception of the military of national security and the role of Brazil in the international system was shaped largely by the international context. The 'Doctrine of National Security', as promoted by the influential ESG was particularly not quite

take into account that both technocrats and unions had the same position as regards the expansion of PETROBRAS. Hector Lima Rocha, Finance Director of PETROBRAS until 1962 and a known conservative technocrat, had suggested for the internationalisation of PETROBRAS – clearly a response to the Link Report – and the setting up of joint ventures and associated industries with foreign capital in the petrochemicals sector (Philip 1982: 376).

PETROBRAS enjoyed monopoly and autonomy under the military revolutionary. The first government under Castelo Branco eliminated labour resistance, eased foreign exchange controls, and maintained state monopoly in the oil industry. PETROBRAS continued to expand by creating PETROQUISA in 1967 and further increased its reach beginning 1969. This is by no means consensual as the military government swung between liberal and nationalist ideas on how to manage PETROBRAS. In the end, PETROQUISA constituted 51 percent government-owned and 49 percent private interests. With the need to secure access to raw materials, the firm inherited the rubber and fertilizer factories of PETROBRAS. Its expansion was facilitated by further buying PETROQUIMICA UNIAO, COPENE, COPESUL, and NORQUISA (Randall 1993: 32). Equally, there was continuity in terms of PETROBRAS' emphasis on human capital development. The Board of Directors in 1963 decided to set up the company's centre for human resource training and development, the Centre of Oil Upgrade and Studies (CENAP, known today as CENPES), which was a specialised institute that developed research and development within the oil sector. Such autonomy in managing its workforce had consequences for technological advancement and the gradual replacement of foreign specialists by Brazilian professionals.

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antithetical against giving private sector (including foreign capital) important roles into strategic industries. The ESG did not advocate for a full monopoly of oil exploration and accepted the participation of domestic and foreign capital, which reflected the peculiar beliefs of this faction in power vis-à-vis the large segment of the military (Stepan 1971: 246). From the position of conceiving the production of basic goods – e.g. steel, oil and coal – as crucial elements of national security, the military leadership altered its perspective after the Second World War towards further engagement with the Western World and participation in the international system (Guimarães 2003: 185).

The major transformation in PETROBRAS, however, took place between 1969 and 1973, when General Ernesto Geisel was appointed by General Medici as president of PETROBRAS. He accepted the position under the agreement that he would be autonomous from the Ministry of Mines and Energy. Armed with independent decision-making, he reorganised the Directorate to strengthen PETROBRAS' capacity to internally finance its expansion. In hindsight, three major factors conditioned the success of his strategy. First, the more modern and larger refineries of PETROBRAS benefited from substantial market share – one of PETROBRAS' source of profitability. Second, the world oil market was in oversupply yet a reduction in the posted price of oil was impossible. Consequently, international oil companies offered discounts on posted prices, which combined with PETROBRAS' oil import monopoly had forced import prices to go down. With the North African and Middle East entering the world oil market, Brazil was freed from its dependence on traditional suppliers like Venezuela. Third, Giesel expanded PETROBRAS' participation in downstream activities, wherein government agencies became PETROBRAS' consumers of oil derivatives. This move likewise benefited the private sector who was unhappy with the delayed payments of government agencies. PETROBRAS created its subsidiary *Distribuidora* in 1971 both on the grounds of national security and profitability in the downstream sector of the oil commodity chain. What facilitated this was the modification of DL 2.004 in 1968, which allowed PETROBRAS to set up subsidiaries that had budgets beyond the oversight of Congress and were given rights to establish partnerships with foreign and domestic oil companies. Its most important effect was to compel PETROBRAS subsidiaries to focus on costs and profit. The strategy proved so successful that PETROBRAS' final market share jumped from 10.4 percent in 1965 to 15.2 percent in 1970, 22.1 percent in 1971, and 27.5 percent in 1973 (Philip 1982: 381; Randall 1993: 31-32).

The most controversial decision during Giesel presidency in PETROBRAS was in oil exploration. By 1970 the Brazilian government was aware of its increasing dependency upon the Middle East for its oil resources. Dias Leite, then Minister of Mines and Energy, proposed that foreign investment was necessary and PETROBRAS should sign service contracts with foreign oil companies for exploration within Brazil. However, Giesel blocked the proposal and maintained oil exploration as strictly Brazilian affair. As a compromise, in 1972 PETROBRAS set up an overseas exploration subsidiary, BRASPETRO, to find oil importation into Brazil particularly in the Middle East. The creation of BRASPETRO was controversial to say the least because it implied the acceptance of the Link Report's findings: that Brazil had abandoned its objective of making Brazil self-sufficient in oil. PETROBRAS, originally set up to refine oil as a way of generating funds for achieving self-sufficiency and therefore played a central role in import substitution, now had to change its objectives in light of low oil prices. If PETROBRAS had to move downstream and diversify to marketing, petrochemicals, and overseas exploration, then it needed a new criterion and a new purpose. Profitability, then, became more important in judging its economic performance. Following the recommendation of the Link Report, PETROBRAS began its investment in the technology of offshore oil production after 1967 although this clearly required high capital that could only be financed by PETROBRAS itself rather than the government. Nevertheless BRASPETRO successfully found oil in Colombia, Iraq, and Algeria though it failed to secure supply of oil in terms of initial contracts. Under a 1972 contract with Iraq, PETROBRAS operated upon the discovered oilfields in Majnoon in 1976 and Nahr Umr-North in 1978 (Randall 1993: 33). In 1979 however Iraq abrogated the initial agreement with Brazil. BRASPETRO's losses had to be absorbed by PETROBRAS to maintain the viability of the subsidiary. Despite the financial weakness of the affiliate, BRASPETRO had acquired technical and commercial experience in its global operations which helped in formulating risk contracts. In sum, exploration within Brazil was neglected but this was ultimately a decision based on economic, technical and bureaucratic logics of the state enterprise. The expansion of PETROBRAS was encouraged by the government after its relatively long period of stable economic growth, what is referred as the 'Brazilian miracle' (1969-1974). But what underpinned the success of this commercial strategy was the political autonomy of PETROBRAS, which was inherited from Vargas and was kept intact all throughout the military government.

There were two major changes under Ernesto Geisel (1974-1978). Firstly, in terms of corporate governance, PETROBRAS had already replaced the military officers in the management by civilian technical specialists. This was clearly a step towards strengthening Brazilian administrative capacity – a key requirement for every successful interventionist state. Secondly, the developmentalist ideology further encouraged the expansion of PETROBRAS, which only halted in 1979 upon the contraction of the economy. The *Segundo Plano Nacional de Desenvolvimento* (PND II) was formulated in response to the oil shock; the government hoped to address the deficiencies of the industrial structure through the petroleum industry.[41] In 1976, PETROBRAS extended to the fertiliser industry to address shortage in domestically produced mineral fertilisers. In the same year, PETROBRAS Commercial International SA (INTERBRAS) was created in response to the rise of national oil companies in the Middle East; it was aimed at obtaining improved trade deals with oil-producing states which Brazil had been importing crude oil. PETROMÍN (later called PETROMISA) was set up in 1977 to address the need to develop market minerals (Randall 1993: 34). Ostensibly, we can see that the emerging model of growth is one based on a developmentalist state where PETROBRAS is situated at the centre of its policy programme.

As oil price hikes pressured PETROBRAS to boost domestic production, in 1976 PETROBRAS found petroleum reserves in the coasts of Rio de Janeiro and Espiritu Santo states, now known as the *Campos* basin, with an area of 100,000 square kilometres and drilled at the depth of 100 metres and more fields were found hitherto. This oil bloc now constitutes 80% of petroleum supply in Brazil and is also the location of the newly discovered *pre-salt* oil

[41] The deficiencies in Brazil's industrial structure was attributed to the fragility of the heavy industry, backward linkages provided by the other sectors and simultaneous expansion of the economy through high rates of economic growth which induced excessive imports (Guimarães 2003: 213).

reserves.[42] In addition, PETROBRAS began the production of lubricants, which were used in the automotive, industrial, aviation, railway and maritime industries. The oil industry would remain under state hands even after the end of the military dictatorship despite the bottlenecks associated with import substitution model. Hence, PETROBRAS operated across different sections of the oil industry, in particular in the upstream and downstream activities.

To sum up, the political economy of oil reflected the broader developmental state ideology, in which the state intervened in three broad areas. Firstly, public ownership was dominant in the provision of public services by taking over existing private enterprises, for example in telecommunications, electricity, water and sanitation, railways, and urban transport. This was justified along the lines of economies of scale and scope, capital market imperfections, and information asymmetries making public ownership more efficient than regulation of privately owned natural monopolies. Secondly, the state had exclusive rights for the exploitation and exploration of non-renewable natural resources, such as petroleum and iron ore, in which private, most often foreign, ownership was deemed undesirable for strategic reasons. Finally, the Brazilian governments decided to intervene directly in developing manufacturing industries in situations where private capitalists were unwilling or incapable to invest, such as in steel in 1940s, petrochemicals in 1960s, and aeronautics and electronics in 1970s (Goldstein 1999: 675; Sikkink 1991). In Evan's terms (1979), the state sought to establish a triple alliance (or *tripe*) with multinational capital and domestic firms as a way of inducing public and private investments in financing the industrialisation programme.

Taking into account the political legacies of *desenvolvimentismo*, for most Brazilians, any attack against PETROBRAS was tantamount to anti-

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[42] The discussion here is based on PETROBRAS' own account of its corporate history. It was accessed online on 26 January 2011 at http://petrobras.com.br/en/about-us/our-history/.

nationalism. The 1988 Constitution indicated strong preference for the oil monopoly and guaranteed the exclusion of foreign capital in oil exploration. The Ministry of Mines and Energy was given the power to control the energy policy – consisting of petroleum, natural gas, power, and renewable energy – and this effectively meant reserving agenda setting powers to the federal government. As the next section discusses, the economic crisis and the new rules of the game under the return of democratic politics seemed at face value a dramatic restructuring of the political economy. There was, in short, an attempt to change the nature of the state in Brazil.

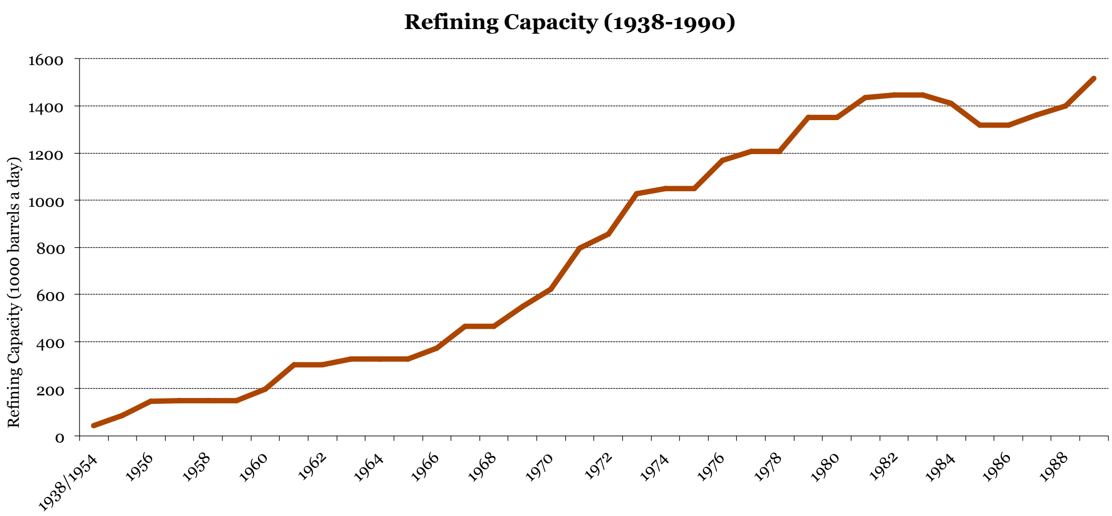
4.3.3 The prelude to market opening: Crisis and restructuring

During the 1980s, macroeconomic instability deepened whilst the contribution of SOEs to fixed capital formation declined; the latter was perceived by the civilian government as significantly contributing to the increase in government deficits. It must be pointed out that privatisation did not play a pivotal role immediately as a post-crisis strategy of macroeconomic management. However, the failure of the 1986 Cruzado Plan to address the capital transfers and fiscal imbalances was a critical factor in the more drastic macroeconomic stabilisation strategy under the 1987 Bresser Plan. This involved rebalancing relative prices and restoring the soundness of fiscal accounts, which for the first time mentioned privatisation as a crisis management strategy. However, the constitution maintained some rigidities in the management of SOEs whilst decentralising powers to the regional and local levels (Goldstein 1999: 678). In the case of petroleum, Laura Randall (1993) argues that PETROBRAS – despite the necessity to contract its business activities – is without qualifications a success story. Figures 4.3 and 4.4 demonstrate this achievement quite well: Brazil had steadily increased its crude oil production and refining capacity in the whole existence of PETROBRAS.[43] Equally, the amount of recoverable reserves since the post war years had dramatically risen, which was punctuated by the

[43] For further data on PETROBRAS' performance, please see Appendix 2.

discovery of the pre-salt reserves in 2007. This success was attributed to the specific circumstances of PETROBRAS, namely the absence of readily exploitable oil reserves in Brazil and the need to rely on technological advancement as a way of tapping the overseas market. The major problems of the state company stemmed from the politicisation of its management, which was tied to the nature of capital ownership. In March 1992, PETROBRAS announced a reorganisation amounting to a reduction of levels of hierarchy and streamlining its business activities back to oil production and processing. The move cut costs from US$ 4.2 billion to US$ 3.2 billion.

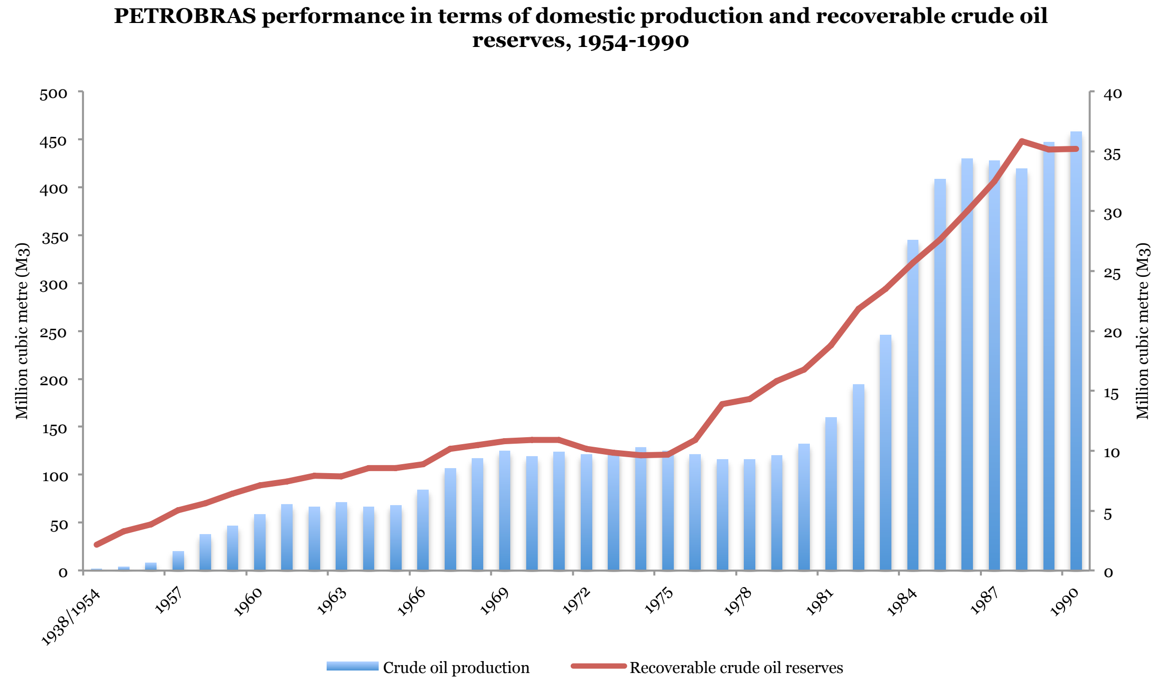
Figure 4.3 PETROBRAS performance in refining sector, 1954-1990



Source: PETROBRAS Annual Reports in Randall 1993 (Adapted), 13.

In 1991 PETROBRAS was controlled by the Ministry of Infrastructure, which guided the hiring and firing of its personnel, general audits with special reference to labour costs, and salaries of state enterprises. Labour conditions were regulated both by laws overseeing employee relations in the private sector and Federal Law 5.811 regulating the labour conditions in the oil industry. In this context, PETROBRAS was either to be privatised to guarantee the efficiency of its operations or some of its subsidiaries abolished. In April 1992 PETROBRAS President Ernesto Weber announced the company's 10-year strategic plan, which envisaged the end of the monopoly in transport, refining, and imports. The financial and commercial directors were also replaced by individuals with extensive experience with private sector and international operations – all of which were anticipating the further internationalisation of PETROBRAS through corporate restructuring. Under President Fernando Collor de Mello (1990-1992), he proposed to sell assets of PETROBRAS and leave the state enterprise with operations in oil production, distribution, fertiliser and overseas oil exploration. Congress voted to sell INTERBRAS and PETROMISA whilst PETROFERTIL and PETROQUISA were then subject to partial privatisation. However, the management and workers resisted the privatisation and negotiations had to be struck to reorganise these companies to make them competitive. In the end, PETROBRAS System consisted of PETROBRAS and its subsidiaries, BRASPETRO, PETROQUISA (subsidiaries were privatised) and PETROFERTIL (subsidiaries were privatised). PETROBRAS likewise have minority ownership of the naval repair firm *Empresa Brasileira de Reparos Navais* (RENAVE) (Randall 1993: 42-46). One must understand the reforms within the broader context of crisis and change in Brazilian political economy. Neoliberal reforms were the immediate antidote to macroeconomic instability and fiscal crisis, which were outcomes of the exhaustion of import substitution and over extension of the state. However, the extent to which the Brazilian elites have embarked on market opening reforms based on ideological motivations have recently been questioned by some scholars (Kingstone 1999; Montero 1998; Pinheiro et. al. 2004). The Brazilian chapters will pursue this argument on pragmatism by examining the limitations of gradual reforms in the petroleum sector. The final section of this chapter will justify the comparative perspective on state and natural resource politics; it will also specify the analytical themes that the proceeding chapters will develop.

Figure 4.4 PETROBRAS performance in upstream activities, 1954-1990



Source: PETROBRAS Annual Reports in Randall 1993: 13 (Adapted).

4.4 Comparative strategy in resource politics: Brazil and Chile

Theoretically, my thesis is based on the idea that scholars can gain some key insights through a comparison of strategic commodities in contemporary Brazil and Chile. Firstly, these countries have long histories of commodity production and they are deemed as successful cases of resource-based development. Brazil has achieved a diversified economic structure owing to centuries of extraction beginning from minerals, sugar, rubber, and coffee in the twentieth century, during which a dramatic shift towards import industrialisation strategy was attempted. Finding petroleum reserves in this vast territory, however, remained a political aspiration until 2007. PETROBRAS' discovery of the oil reserves beneath the salt layer (hence the name pre-salt reserves) is really politically and economically important in captivating public imaginaries. Brazil is expected to join the exclusive club of oil-exporting states with its proven reserves of at least 28.467 billion barrels. However, its success in the oil industry is not the possession of massive petroleum reserves but rather the ability of a pragmatic state to build a competitive petroleum industry by engaging in risky overseas oil exploration, refining imported crude oil, exporting oil derivatives, and simultaneously developing offshore drilling technology (Brainard & Martinez-Diaz 2009; Nem Singh & Massi Forthcoming; Randall 1993; Schneider 2009b; Ubiraci Sennes & Narciso 2009). As Section 4.3 shows, the success of creating an oil industry in Brazil is hinged on refining, processing, and adding value to imported crude oil.

On the other hand, the Chilean economy relied historically on nitrate and *guano* (bird dung) in the nineteenth century, which was replaced by copper in 1930 after the unfortunate collapse of the fertiliser market. Since then, Chile's economic fate became intertwined with the global copper economy, which meant that national politics was – and remains – concerned with finding ways to reduce its vulnerability from sudden flux in international demand, price volatility, and external shocks. For example, the contribution of copper mining registered as high as 8 percent of the GDP and 55 percent of export earnings in 2009 exhibiting almost the same levels of dependency as it was in the 1960s and 1970s (COCHILCO Annual Statistics 2009). With copper prices reaching its peak in early 2010, Chile's formidable position as top supplier with price-making powers (35 percent control of global market) puts the country comfortably in an enviable position for other mineral-producing states.

In this thesis, I argue that neoliberalism has shaped states and resource management of strategic commodities. However, national states produce differing models of natural resource governance, in which neoliberalism is embedded but not completely defining the reforms. The case studies, viewed from the lens of historical institutionalism and critical political economy perspectives, offer a corrective to the literature on resource politics and development studies that have adopted highly economistic and depoliticised perspectives on resource management. Whilst copper mining is the most important (and politicised) sector that has undergone considerable change in terms of its management, petroleum reflects not simply the historical importance of oil in the national political economy but it also symbolises the success of Brazil's strategy of blending state and market mechanisms in developing the oil industry.

Secondly, these cases posit the differing ways of state engagement with big business and organised labour in the context of neoliberal globalisation. Their contemporary governance models demonstrate the difficulty of moving away from 'market friendly' approaches to macroeconomic management. These are countries exhibiting *political continuity with changes*. However, a longer-term view focussing on political legacies, contingency, and structural constraints reveal a complex picture of Brazil and Chile. As Chapters 5 and 6 argue, there is a stark contrast between the logic of neoliberalism and its practice in the resource sector in Chile. As post-dictatorial governments embraced the logic of global competitiveness, they strategically sought to maintain the institutional framework inherited from the military dictatorship. Yet the reforms undertaken under Concertación governments were a mixture of depoliticised, technocratic copper governance and highly contentious, politicised management of CODELCO. The reforms, if anything, reject the assumption of absolute depoliticisation of economic management under neoliberalism. Furthermore, Chapters 7 and 8 show that Brazil's long tradition of state intervention in the economy meant that efforts at selling the assets of PETROBRAS were not easy to implement. At best, the petroleum industry was opened to foreign capital whilst PETROBRAS remains as the dominant economic actor across the commodity chain. In short, both case studies challenge the idea that neoliberalism produces convergence towards unfettered liberalisation of markets.

Finally, beyond the question of state transformation, the case studies offer contemporary analysis of how state enterprises have been managed under conditions of neoliberalism and democratisation. As the preceding sections showed, Brazil and Chile have built state-owned companies that played important roles in state-led development projects. However, narratives of neoliberalism depict the state as excessive, and therefore, reforms were aimed at dismantling state enterprises and depoliticising the management of workers. As the four analytical chapters elucidate, the state enterprises are deemed relatively successful international companies paving way for limited reforms after early phases of corporate restructuring. This was of course further underpinned by the commodity boom which facilitated the transfer of resource rents towards state treasuries. The findings contribute empirically and theoretically to debates about resource dependency, political autonomy of the state in a globalised economy, and emerging strategies cohering around the idea of neo-developmentalism by way of analysing the relationships among national elites, state managers, and organised workers.

4.4.1 Analytical themes in the succeeding chapters

In this chapter, I have thus far provided an extensive background on the politics of copper mining and petroleum in Chile and Brazil respectively. My main justification for examining oil and copper is simply that these are key commodities that have shaped the political economy of development strategies in these two middle-income countries. I likewise show how historical conflicts determine the political choices of elites when inviting foreign capital in the sectors deemed as strategically important to national development. The democratic and military governments throughout the twentieth century faced persistent conflicts between using resources for national income and interests of foreign capitalists to secure access to these important resources.[44] State enterprises are thus expressions of overt economic nationalism and technocratic impulse to exploit resources for economic growth. This has implications to the argument of the thesis when analysing contemporary mining reforms. Although neoliberal reforms were attempted to be the transformative force to 'free market and politics' from the shackles of the state, its actual consequences across economic sectors and groups in society are considerably uneven and complex. As this chapter

[44] However, Jenkins (1984) shows that state interests and the commercial goals of foreign companies are not always incompatible and they do not necessarily have to be mutually exclusive. Evans (1979) also demonstrates this point very well in the case of Brazil in the manufacturing sector.

shows, the resource sector has been subjected to multiple interventions by states and tensions between capital and labour persisted. My analysis of contemporary resource governance, mainly covering late 1980s until 2011, is guided by three key analytical themes – regulatory institutional frameworks, corporate governance, and labour management.

A. Regulatory institutional frameworks

I wish to examine the extent to which legacies of the military dictatorship in Brazil and Chile – statist developmentalism and neoliberalism – were embedded, renegotiated, and reconstituted in response to pressures of global competitiveness in the resource sector. On the one hand, the Chilean economy was – and remains – dependent on copper mining; its governance has changed considerably particularly after the success of Pinochet in profoundly shaping the direction of economic management. Chapters 5 and 6 will demonstrate the extent of continuity and change in CODELCO governance and degree of state intervention in the hegemonic context of neoliberalism. On the other hand, the legacy of the military government in Brazil was to successfully create an oil company that based its profitability in refining, development of offshore technology, and overseas exploration. PETROBRAS had been restructured as part of the post-crisis recovery strategy by the civilian governments. What is particularly interesting, however, is that the discovery of pre-salt reserves has made the dream of Brazil to be self-sufficient come true. In fact, Brazil is set to become a new player in the global oil industry if it succeeds in extracting and producing crude oil alongside its traditionally strong refining and distribution sectors. As Chapters 7 and 8 demonstrate, the reconstitution of state-market relations and corporate management are outcomes of a mixture of political legacies, contingent choices, and structural constraints at the global and national levels.

Within the broader global context, both states deployed discourses and reforms of establishing regulatory agencies to manage the process of breaking monopolies and introducing competition with private capital. However, the succeeding analytical chapters argue against the core presumptions of neoliberal theory, namely depoliticisation of economic management through technocratic managerial governance, demobilisation of labour, and dismantling of state ownership in resource sectors. As HI approach shows, policy reforms, and indeed the development of the state, can be explained through gradual institutional changes that have been transformed by neoliberal and developmentalist policies. In short, we are not seeing any convergence towards neoliberal political economy in Brazil and Chile.

B. Restructuring state enterprises

One way of understanding the role of the state is to delineate the actions of states and state enterprises in resource sectors. Whilst most assume they are one and the same – if one equates the withdrawal of state and the dismantling of state enterprises – in fact there appears some tensions between the state technocrats and the managers of state enterprises. Equally, in Brazil and Chile, state enterprises have successfully reformed their corporate practices by following the standards applied by private firms in their operations. In Chapters 6 and 8 specifically, I examine the different reforms in corporate governance and their consequences to the competitiveness of CODELCO and PETROBRAS as well as their ways of managing labour. In so doing, SOEs reflect the entrepreneurial roles of states and at the same time they develop autonomous decision-making powers as a competitive strategy. They also have differing relationships with foreign and domestic capital, which in both cases meant forging joint ventures in order to learn from the experiences of private sector. What underlines the restructuring process, however, is the institutional contextualisation of the reforms. In sum, the analytical chapters explain what are the successes and failures of the individual SOEs in transforming the extractive industries into competitive markets and in contributing to the overall economic development of Brazil and Chile.

C. Managing labour demands

The final analytical theme is the extent to which unions have been integrated in corporate management. I examine how states manage demands from labour in strategic sectors, and what kind of responses political elites offer by way of compensating these demands. Unlike the workers in manufacturing and industrial sectors, the petroleum and mining workers of Brazil and Chile are considered as labour aristocrats who have played some role in national politics. Indeed, their outstanding salaries and benefits even raise questions whether they really belong to the same social classes as the poorer organised workers in the urban centres. The focus of my thesis as regards labour is the process of labour incorporation and rights-claiming in the context of labour flexibility and globalised open markets. If CODELCO and PETROBRAS have been internationalising their operations (CODELCO is less successful on this front), the main question is how far these state enterprises have succeeded in guaranteeing stable labour relations. Crucially, whether it still makes sense to talk about unions (instead of just workers) is an equally valid question. In Chapters 6 and 8, I explore how corporate governance reforms have taken into account labour unions in their quest to modernise the state enterprises into leading, competitive firms in copper mining and petroleum industries.

4.5 Conclusions

In this chapter, I offered an extensive historical overview of the political economy of natural resources in Brazil and Chile. I argued that natural resource governance throughout the twentieth century was shaped by the contradictions of the nature of commodity exports and attempts at autonomous direction of growth strategy. There were centralising and decentralising tendencies which permitted the rise of import substitution industrialisation (ISI) as a strategy to counter export dependence – elite cohesion, favourable international order, and 'ideological supply' – in which political conflicts were the main driving engine of institutional and economic transformation. Equally, the success of inward looking development strategy had significant consequences to the latter years of reforms in Brazil and Chile. Whilst Chile's social and political polarisation led to a seventeen year military dictatorship that imposed neoliberalism (although more contested by copper workers), in Brazil the state adopted quite pragmatically a mixture of state-led and market-led mechanisms to make PETROBRAS achieve its goal of profitability. On the one hand, this points to the importance of political legacies and historical conflicts in shaping future agential choices. On the other hand, critical political economy perspectives show that the rise of neoliberalism as a global hegemonic project is in fact institutionally contextualised and has its roots in the domestic sphere. In Chile most spectacularly, the military government viewed market reforms as a social reengineering project to reverse the socialist legacies of Allende as well as a method of silencing the labour movement. In Brazil, however, neoliberalism emerged as an alternative crisis management strategy to the increasingly defunct old developmentalist model. In both cases, elites introduced neoliberalism as a critical juncture to reorganises markets and politics in extractive industries although this was highly contested and driven by class conflicts. I likewise introduced three key analytical themes – regulatory institutional framework, corporate restructuring of state enterprises, and labour management – which the succeeding four chapters will interrogate. In the succeeding four chapters, I analyse the management of strategic natural resources under what Eduardo Gudynas (2010) calls the era of 'new extractivism' or the intensive and extensive exploitation of natural resources under Left governments in Latin America. This new context of resource extraction differs from the old modes of resource exploitation in three major ways: firstly, there exists far more state regulation and in some cases direct participation of the state in economic management; secondly, governments have established more direct linkages between commodity production and social developmental and finally, competitiveness and global market integration are now embedded in the structural context (if not constraint) of growth strategies of developing states (Gudynas 2010, 2011a, 2011b). Within this broader regional context of the turn to the Left, I begin my analysis of Chilean copper politics between 1990 and 2011 in Chapter 5. The chapter focuses on how neoliberal reforms were sustained alongside marginal changes to regulate the copper industry as a domestic adjustment strategy of Concertación governments against the backdrop of the seemingly inexorable hegemony of neoliberalism. I explore how far neoliberalism has been embedded in Chile, and whether we can talk about a steering state rather than a neoliberal state in managing conflicts and tensions between states, markets, and labour in its strategic industry.

Chapter 5
POLITICS OF COPPER MINING IN CHILE, 1990-2011

Whilst many Latin American political economies began to adopt neoliberal reforms between 1980s and 1990s, Chile was exceptional primarily for the staggering pace and scope of economic liberalisation in production, finance and social welfare provision under General Pinochet (1973-1989). Chile's economic governance under Concertación government (1990-2009) has often been characterised as neoliberal, and this model is underpinned by a historically capable state delivering coherent structural reforms and consensual politics which has mitigated social conflicts through piecemeal compensatory reforms in various socioeconomic areas (Alexander 2009; Taylor 2006). In this context, the chapter offers a more nuanced account of Chilean state governance by analysing recent economic reforms in the most strategic industry – copper mining – and the extent to which the neoliberal narrative of private sector-driven growth has been reified and maintained by Concertación government. Whilst Chile's neoliberal model was embraced by the governing left and centre coalition in the early days of the transition, significant reforms were advanced to repoliticise mining governance in Concertación's second decade of rule. This is exemplified in highly contentious debates to impose a new mining royalty in 2006 and to re-regulate labour practices in the context of subcontracting. Although by no means do these reforms indicate dramatic paradigm change, nevertheless political elites have consciously engineered growth strategies that respond to the challenge of global competitiveness. This, inevitably, questions the extent to which one can claim Chile as unabashedly neoliberal.

The chapter contributes to the disparate literatures on resource governance and political economy of neoliberalism by explicating the scope and phases of economic restructuring in the resource sector. It interrogates the place of resource extraction in national development strategies specifically the global, national, and sector-specific constraints in moving beyond privatisation of natural resources as Chile's main growth strategy. The argument is as follows. The export-led growth model under Concertación government reflects institutional continuity of Pinochet's neoliberal mining governance, which privileges private (foreign) capital as the driving forces of economic growth and advocates for a minimalist role for the state in economic governance. However, neoliberalism as a political project has undergone different phases of change, in which the initial consensus around marketised governance began to unravel through incremental endeavours at increasing the regulatory powers of the Chilean state. Nevertheless the reforms towards greater state control over copper industry have been very difficult to sustain as a result of long standing political legacies of the dictatorship, structural constraints of the global economy, and the relative strength of the neoliberal narrative in persuading both national elites and the public to maintain the private sector-led growth model. In this context, attempts at reforming the state through *neo-structuralism* as a competitive strategy have been limited (Kirby 2009; Leiva 2008).

The chapter offers a narrative of the ideational construction, implementation, and recalibration of neoliberalism in the resource sector. Mining governance has undoubtedly been re-politicised through the introduction of contentious reforms in revenue management and labour relations. Taken together with Chapter 6, which examines CODELCO's corporate restructuring and labour management, I show the simultaneous processes of deregulation and reregulation in the resource sector, which imply that perhaps neoliberalism and developmentalism are phases of capitalist modernisation, in which Chile's competitive strategies are responses to exogenous pressures from the global economy. The chapter proceeds as follows. In Section 5.1, I analyse the reasons behind Concertación government's decision to embrace institutional continuity in the first decade, and the emerging tensions in the second decade leading to the new wave of reforms to increase state intervention in the economy. In particular, I examine the shifting discourses in mining management and the institutional environment upon which narratives of policy change have been filtered under Concertación governments. Section 5.2 then explores the motivations and outcomes of introducing the reforms in the mining sector, particularly in revenue management in the context of a commodity boom and in capital-labour relations in the context of labour flexibilisation. Finally, in Section 5.3, I move forward the discussion by examining the significance of these reforms for competitive strategies, and more broadly, to debates on post-neoliberalism.

5.1 Embracing continuity under Concertación government, 1990-1999

The compromised transition to democracy was shaped by the political and economic rules of the dictatorship writ large, which meant that structural constraints for a new development model had domestic rather than international origins. In delineating the difference between Pinochet and Concertación policies in copper mining, the starting point is to define primarily what kinds of political and economic institutions have survived in the post-dictatorial years. This constitutes the basis of my argument on institutional layering and self-reinforcing processes of path dependent reforms. Economically, the role of the state in development has not fundamentally changed. Broadly speaking, Pinochet's rules in mining management were embraced by Concertación, in which private property rights were held sacred, foreign investment seen as the new engine of growth, and big business acquiescence conceived as necessary to manage social tensions. Firstly, the 1974 Foreign Investment Statute (DL 600) sets out the rights and responsibilities of foreign investors through a special foreign contract. DL 600 offers generous tax rebates by allowing foreign firms to deduct 15 percent in their corporate taxes (at 35 percent rate) to adjust for the depreciation of imports declared by companies as investments. The Concertación's strong commitment to continuity is exemplified by the inability (or unwillingness) to repeal DL 600 even after a royalty tax law was put into effect in 2006, which means that negotiating a higher rate of royalty fees in the future has become politically infeasible.[45]

Secondly, the 1983 Mining Code and DL 18.097 institutionalised private property rights in natural resources by according equal rights for Chilean and foreign firms to apply for licences to exploit, develop, and produce in mining. Whilst the Chilean state remains the ultimate owner of sub-soil rights with the right to revoke mining concessions,[46] this was not exercised in practice. The rationale behind this rests on a fear that excessive and unjustified state interference can send the wrong signal to investors, which constitutes a breach of Chilean commitment to tax and political stability – something Chilean professionals widely perceive as the source of its success in the mining industry.[47] However, we should also take note that the 1983 Mining Code is part of a series of laws known as *leyes organicas*, or organic laws, which are special legislations issued by Pinochet requiring a quorum of four-sevenths (4/7) of the acting members of Congress in order to be enacted, modified, or even discussed.[48] Under Concertación government, this was almost impossible to achieve because of the 'binomial system' – an electoral mechanism that has made it difficult for the creation of legislative majorities and gave the Right several veto points, including an outright majority in the Senate (González 2008: 109-110, 152-156). In some ways, formal rules enshrined in the 1980 Constitution remained unchanged after the political transition, which effectively serve as key constraints to any paradigm shifts. However, I disagree with rational choice institutionalism's view of formal

[45] As will be discussed later, the tax clauses in DL 600 would be the basis of the new royalty law, particularly the option to stay within the DL 600 fixed taxation scheme or progressively apply a new variable tax rate. See Guajardo 2008, 2012; Libertad y Desarollo 2002, 2004, 2005; Riesco 2005, 2008 for the technical and political discussions of the royalty law.

[46] The 1983 Mining Code Article 4 states: "Should the State consider it necessary to retain the exclusive right to explore or to exploit substances subject to concessions, it shall act through companies and enterprises in which it holds an interest and said companies shall create or acquire corresponding concessions, provided they are empowered to act, under constitutional provisions, in said manner".

[47] Author interviews with Juan Carlos Guajardo, Executive Director, CESCO, October 2009; Carlos Gajardo Roberts, Sociedad Nacional de Minería (SONAMI), 14 September 2009.

[48] For a detailed explanation, see http://www.law.edu/ComparativeLaw/Chile/.

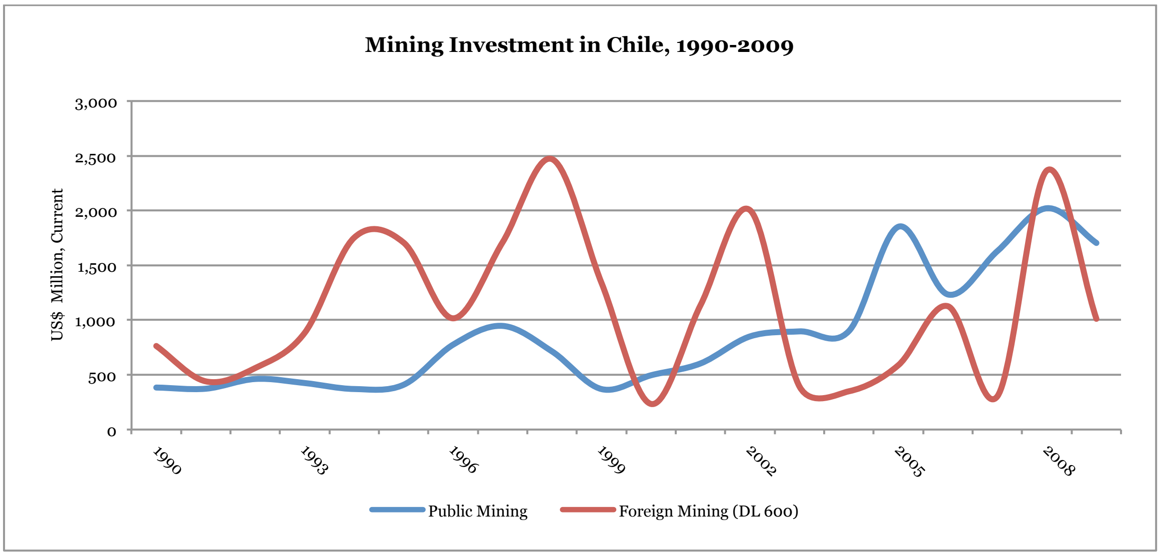
institutions as the constraint itself (see Weyland 2002). Instead, institutions – both formal and informal rules of gaining access to the state – are historically and materially 'emergent', that is, they were outcomes of concrete political struggles which continues from the past to the present (Bell 2011). All throughout twenty years in power, Concertación government effectively legitimised the role of private sector in Chile's national development strategy by their lack of political will and capacity to alter DL 600 and Mining Code.

Finally, the state has maintained its dual and rather contradictory roles as *regulator* and *producer* in the mining industry. For example, the specific state agency *Comision Chileno del Cobre or* COCHILCO (National Chilean Commission) has the political mandate spanning both public and private sectors. On one hand, COCHILCO audits the state enterprise CODELCO to make sure it is subjected to private sector standards of efficiency and transparency, hence, performing a clear role as direct participant in the economy. On the other hand, COCHILCO is responsible for the issuance of foreign contracts and checks all licenses to operate of mining firms to ensure compliance with Chilean laws. COCHILCO likewise has an oversight function in determining copper prices at which profits and sales of private firms are calculated for tax purposes. Whilst one can surmise a political role for the state agency, COCHILCO has clearly taken a highly technical position in defining its functions, and this has important consequences in public debates. For example, the organisation conducts key studies in the mining sector, and subsequently its position serves as signalling point for further government actions. In the height of the royalty debate in 2004, for example, COCHILCO's decision to dismiss contentious claims of critical organisations such as CENDA and ARCIS regarding tax evasion and other business practices of mining companies in Chile – specifically Minera Escondida – has had ramifications in the brewing debate in Congress on whether to impose additional taxes to capture ground rent in non-renewable sectors (Riesco 2005). Overall, these rules have shaped state-market relations and at the same time they have served as structural constraints for CODELCO to become competitive given its complete reliance on state financing for investment and technological upgrading.

These rules were supported by big business in Chile, who emerged as the clear winners of neoliberal restructuring under Pinochet and, therefore, has sought to maintain the status quo. From big business' perspective, continuity in economic rules reproduced Concertación's credible commitment for stability in the tax system, on property rights, and depoliticisation by way of giving more power to the judiciary.[49] By not introducing new legislations on mining, the centre-led Concertación government cemented its commitment to neoliberalism in the 1990s. This strategy was legitimated by the overwhelming influx of foreign investment in the mining sector – an indicator of success of Concertación's mining policy – at least at the beginning of the decade. As Figure 5.1 shows, DL 600 brought in 762 US$ million in 1990 (as opposed to public investment in CODELCO and ENAMI of 386 US$ million). By 1999, private investment jumped up to 1,337 US$ million whilst public mining was at 369 US$ million. However, what is evident, and is ironically underplayed in political and academic debates, is that CODELCO suffered from underinvestment from the Chilean state. Given the lack of access to financial capital to invest on expansion projects, the ideological commitment of Concertación to maintain marketised resource governance has severely affected the competitiveness of CODELCO. However, under Michelle Bachelet, public mining has accumulated and successfully surpassed foreign investment during the commodity boom (see Figure 5.1). In 2009, public investment is at 1,704 US$ million and private mining via DL 600 is at 1,011 US$ million (COCHILCO 2010).

[49] Author interviews with Javier Cox, Secretary General, Consejo Minero, October 2009; Carlos Gajardo Roberts, SONAMI, September 2009.

Figure 5.1 Comparison of public and private mining investment



Source: COCHILCO Annual Statistics 2010 (Adapted), Table 30.

Evidently, the external environment played a vital role for foreign firms in decisively favouring Chile on their investment strategy – low copper prices during the 1990s. As Figure 5.2 shows, the decade of complex reforms was also a period of low copper prices – and according to then CODELCO President Juan Villarzú (2005) – a critical moment for the state enterprise during which CODELCO was perceived as uncompetitive and required drastic reorientation. The narrative of the efficacy of private sector won important support across the political spectrum, and in this context, Concertación government deepened the privatisation of natural resources, or at least this was the view from the labour unions.[50] At the international level, Chile was increasingly viewed as the success story of neoliberal exports-led growth. Combined with a credible promise of tax and political stability, its open arms policy to foreign capital was seen as the way to achieve high growth in the era of globalisation. For example, several studies sponsored by international institutions on taxation in mineral-rich states hail Chile's mining industry as a success story of resource-based development, particularly its strategy of taxing the mining sector the same as all other companies to avoid special pleads and lobbying by big business to the state

[50] Author interviews with labour unions, Antofagasta, November 2009.

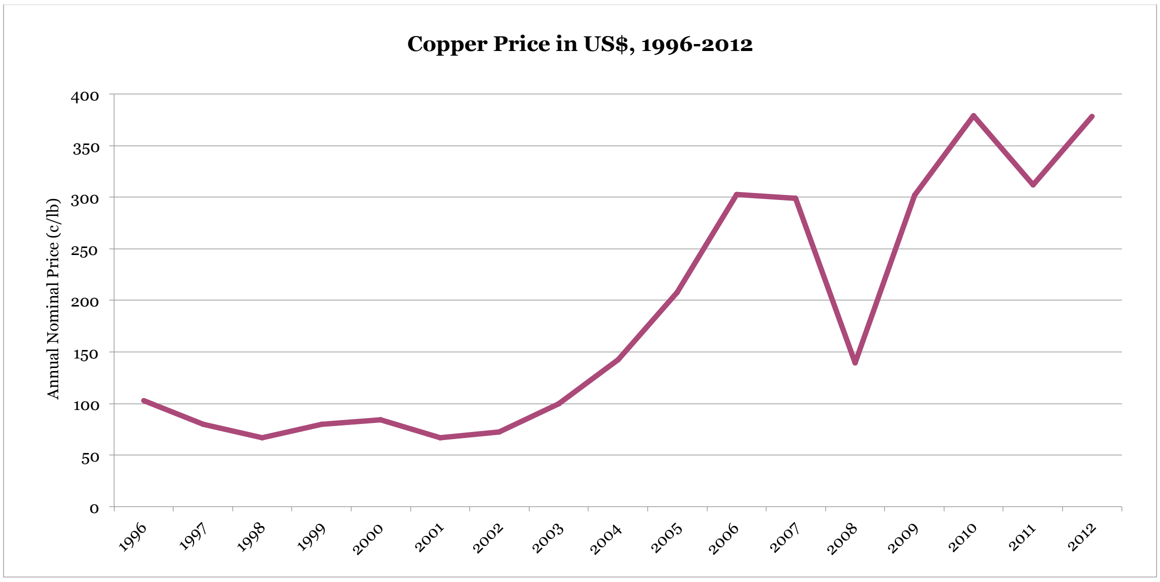
(ICMM 2009: 48; IIED 2002: 180; Otto et. al. 2006). As a 'best practice' for revenue management, Chile's stabilisation fund is applauded as a counter-cyclical measure to manage fiscal expenditure during an export bonanza.[51] Finally, most studies highlight the fact that Chile like some other countries – e.g. Mexico, Sweden, and Zimbabwe – has not put in place any royalty fees to pay for 'resource use'. A widely held view is that resource-rich states have no leverage during bust period and Chile's economic strategy was deemed the appropriate path in attracting foreign capital. Ironically, Chile is considered as a 'world class mine', which refers to countries with exceptionally high quality mines that fall in the upper decile of discounted value for all mines of a specific deposit type (Otto et. al. 2006: 117). Because not all mining countries can export high-grade ore minerals, it goes without saying that international mining companies will flock in the country regardless of an imposition of special taxes on mining. And several countries do take advantage of this situation by imposing royalty taxes, with Australia, Canada, and United States as leading examples of cases in which separate royalty agreements are negotiated with private firms to take into account the environmental and social costs of natural resource use. As such, economic imperatives predominantly shaped the trajectory of mining policy throughout the 1990s, and this was shown by the rejection of royalty bill in the mid-1990s for fear of a mass exodus of capital, if not for government's apprehension of generating conflict with private mining companies (Riesco 2008: 7-10, 2005: 26-28).

Most importantly, the Chilean government deployed the neoliberal discourse in specific reference to its capacity to influence copper prices in the global market. Despite the fact that Chilean copper constitutes around 34 percent of world copper production throughout 1990s and 2000s, COCHILCO has consistently argued that it is not a price maker, and therefore, could not reverse low copper prices (Riesco 2005: 13). Despite the capacity of CODELCO to end the crisis of overproduction by contracting the global

[51] Section 5.2 offers an extensive discussion on the role of stabilisation funds as a counter-cyclical policy to boom and bust in commodity prices.

copper supply, COCHILCO was adamant not to interfere in the markets. It was not until CODELCO and Minera Escondida jointly decided to severely limit production as a way of 'defending copper prices' that the bottlenecks began to ease. It was, in fact, an ideological decision not to interfere in the economy for fear of a backlash, indeed punishment, by markets against any form of state intervention.

Figure 5.2 Evolution of copper prices



Source: COCHILCO Online Statistics 2012.[52]

In Coxian terms, hegemony emerges from the combination of coercion and cooptation. To acquire consensus in support of an economic paradigm, the focal point is the construction of narratives and embedding of discourses within institutional frameworks. Chile's dependence on copper for export and the traumatic conflict with foreign capital until 1973 shaped quite clearly the policy imperatives and pathways of reforms in the copper sector under the democratic governments. Neoliberalism in the 1990s was embraced in two distinctive ways. At the institutional level, political continuity of rules in economic governance was perceived as the only competitive strategy available for export-dependent states like Chile. At the ideational level, policy

[52] The data is accessible at http://www.cochilco.cl/english/productos/grafico_ingreso.asp?tipo_metal=1. Author accessed data online on 21 May 2012.

elites have embraced the neoliberal narrative to guide their economic decisions. The combination of unfavourable economic environment for exports and growing success of the free market strategy through open regionalism have led Concertación elites – particularly the centrist forces – to fully embrace the 'rationality of markets' (Grugel 1999). Tellingly, narratives of exports-led growth and open regionalism as the appropriate national development strategies during 1990s have had endogenous and exogenous political support (Fernández Jilberto 1996; Grugel & Hout 1999; Phillips 2004). It cohered around the idea of a strengthened state facilitating the smooth functioning of markets, thereby, leaving market failures to be corrected by the law of supply and demand rather than the state. The Head of Foreign Investment Committee in COCHILCO succinctly makes this point clear in the mining sector:

> There is an argument around why the state did not do the mining itself. I think there are two reasons. One, the state simply had no money to do it, to invest. If the government invests in mining, you cannot invest in education, healthcare and other things. On the other hand, the role of the state in Chile is to regulate, promote and take care of the poorest section of society, and not to do the business by themselves. The role in Chile... is *subsidiary*. By definition, the country made this definition. The state is not going to conduct business where the private sector can do it.[53]

Politically, Pinochet's 17-year dictatorship had not led to the disintegration of the strong party system in Chile. In fact, the political transition to democracy was to a significant extent managed through party politics as centrist and left forces reconstituted their pacts in challenging the military government's hold to power. As mining union leader Agustin de la Torre describes it, intense social protests led by labour unions against the dictatorship between 1981 and 1983 gave way for smooth transition among the political classes by extending labour support for the renovated Left and Centre parties and

53 Author interviews with Marco Fluckiger, Head of Foreign Investment Department, Comisión Chileno del Cobre (COCHILCO), October 2009.

accepting the plebiscite as the mode of democratic transition.[54] In many ways, the return of party politics is indicative of the strength of Chile's democratic tradition of grassroots collective organising along party lines. However, it also reflects the very conservative nature of consensus building among elites and the extent of elite control over popular sectors as a result of the compromised democratic transition (Alexander 2009; Barton 2002; Heiss & Navia 2007; Oxhorn 1996). Above all, political constraints were imposed on Chile's new democracy through constitutional rigidities, for example by giving Right parties automatic majority to veto any reforms in military affairs and immunity from prosecution of the armed forces in post-transition politics. The 10 percent automatic transfer of CODELCO profits prior to taxation for the modernisation of the armed forces was also retained all throughout the Concertación days. These political legacies to protect the military and right parties under the coalition of left and centre parties constitute what are referred as 'authoritarian enclaves' in the political system (Garréton 2003). Most importantly, Chile's left parties have made a conscious decision to move towards the centre by transforming into professionalised catchall parties (Handlin & Collier 2011). To maintain credibility in governing, Concertación deployed technocratic approaches in economic management (P Silva 2009). And in appealing to mass voters, left parties have deliberately distanced themselves from social movements and gradually weakened their historically strong linkages with labour unions (and Chapter 6 offers evidence here). The emphasis on compromise and consensus watered down policy reform agendas in 1990s, to which scholars have time and again referred Chile as tutelary democracy or *estado de compromiso* (compromising state) (Barton 2002; González 2008; Heiss & Navia 2007). What is perhaps striking is not simply the continuity in the institutional features of economic management but rather the ideational constructions and policy practices of Concertación governments in governing resources. To conclude briefly, economic continuity was partly due to structural constraints of the global copper market but it was also because

[54] Author interviews with Augustin Segundo Latorre Risso, Labour Union Leader, XSTRATA, Member Federación Minera de Chile (FMC), 4 November 2009.

political elites quite successfully sold the market reforms as the only logical way of responding to exogenous constraints in the global economy. Whilst institutional context matters, ideological discourses pertaining to neoliberal economics have had material consequences by constraining elites to formulate alternative ideas of managing the copper industry.

5.1.1 Contradictions between neoliberal discourses and practices

To assume that Chile is an intrinsically neoliberal state defies the well-documented empirical work on the highly politicised, if contested, economic reforms both under the military and democratic governments. The hegemony of neoliberalism was always contested in Chile. Before proceeding to discuss institutional reforms in mineral management that constitute these challenges to neoliberalism, it is worth bearing in mind that there exist stark contradictions to the basic propositions of neoliberalism that have been practised in Chile. I specifically raise four tensions within Chile's neoliberal model, which are considerably important sources of change and continuity.

Firstly, even under the dictatorship Chile failed to achieve absolute depoliticisation in copper politics. As Chapter 4 showed, copper nationalisation was a political decision made across the political spectrum as a way of addressing the long-term vulnerability of Chile from the debilitating effects of the flux in commodity prices. Pinochet's market-based development is in sharp contradiction to statist governance, and therefore, the rationale for CODELCO's existence as a state enterprise was fully political rather than economic. Upon its creation, it was devised cunningly as the *milsch* ('milking cow') of the state by giving those in the top echelons of the military the key decision-making powers over CODELCO's corporate management and using its profits to pay for the modernisation of the armed forces. In historical institutionalist terms, the framework guiding state's productive functions in the economy has changed through *institutional conversion* – 'the redeployment of old institutions to new purposes' (Streeck & Thelen 2005:

31) – wherein the state enterprise initially created under the statist logic was now utilised to maintain, if not expand, the privatisation of mining. Whilst Pinochet was privatising almost all state enterprises in the economy, he retained state control over mineral extraction and simultaneously altered its logic of existence. Above all, the persistence of state ownership – an intrinsically political act – goes against the grain of neoliberal economics.

Secondly, the neo-structuralist state of Concertación failed to eradicate the vestiges of the dictatorship in the management of resource revenues. This was embodied in *Ley Reserva del Cobre*, which automatically gives the armed forces automatic 10 percent of CODELCO's profits for arms purchases and its modernisation program. What is striking is that only in October 2009 did Congress decide to take up the issue of reforming the law, which until recently has yet to be passed into law. This was clearly political. One simply needs to remember that President Aylwin's major challenge was to strike a delicate balance between civilian and military elites in policy making. In some instances, the military flexed its muscles by sending troops in the streets of Santiago whenever there were political debates in Congress to repeal the constitutionally-enshrined protection accorded to the military by the dictatorship (González 2008). In the post-dictatorial years, the military continues to be a key veto player for any change in the institutional framework that may affect their corporate interests. As right parties represent their interests in Congress, Concertación parties have faced difficulties in dismantling the old system of patronage built under Pinochet. This once again points to the historical institutionalist arguments of political legacies and stable power relations between actors that slow down the process of institutional change.

Economically, Pinochet's legacy to maintain the power of big business stayed in the course of post-dictatorial politics, if not becoming more entrenched in the democratic political game. The wider access of organised private interests in state policy-making, most notably *grupos económicos*, and in mining, the *Consejo Minero* (Mining Council) and *Sociedad Nacional de Minería* (SONAMI), has been far more institutionalised under Concertación's governance style.[55] One stark example of this relationship between the state and big business is the approval of National Service Customs Resolution No. 2757, which established that it is compulsory to certify the weight and quality of all copper concentrates leaving national ports, and a range of maximum acceptable variations was established regarding the content levels present in concentrate upon arrival at destination.[56] The resolution was the result of a joint effort by the Ministerio de Minería (Ministry of Mining), the National Customs Service, the Internal Revenue Service and COCHILCO, with the technical collaboration of Consejo Minero (Ministry of Mining et al. 2002 in Lagos & Lima 2005: 51). Crucially, the interests of the mining business community were protected under Concertación by according a cloak of legitimacy to the discourses of economic efficiency and productivity. The key, of course, is that the neoliberal paradigm makes apparent what is possible (and impossible) in terms of policy choices for the left-centre coalition. By embracing directly the logic of productivism, progressive forces in the coalition were caught within the power structure as Renovated Socialists in Concertación negotiated a political settlement with the Christian Democrats and with the Right in Congress as a whole. The power-centred, distributional explanations of historical institutionalism (HI) shed light to this dilemma for Concertación parties: that their strategic interests need not be defined according to rational calculus of a priori sets of preferences. Instead, the governing coalition had a more long-term interest of establishing political stability and consensual decision-making to avoid the repeat of the breakdown of Chilean democracy in 1973. Because the Right holds the stronger veto, Concertación played by the rules of the game established by

[55] Consejo Minero represents the interests of big mining firms; its membership includes the foreign companies operating in La Gran Mineria, and CODELCO is part of the council. CODELCO's interest clearly runs against other firms since the former aims to produce for the state whilst the latter is simply for profit. This was demonstrated in the royalty debate where CODELCO threatened to withdraw in the Council due to conflicts of interests. SONAMI is the national grouping of miners in Chile; the organisation goes back as far as 1883 and has therefore long been engaged in policy consultations.

[56] If the levels in an operation fall outside of this range, the National Customs Service adjusts the figures regarding the contents actually present in the concentrate and reports this to the Internal Revenue Service (IRS) (in Chilean, SII), which takes the relevant action to correct and fine the violating party.

Pinochet, in which mining reforms were only possible through incremental routes of change.

Finally, and related to the point about party politics, the perceived necessity for pact making with more centre and right forces has, thus far, generated internal disputes between the Socialists and Christian Democrats, eventually weakening the coalition's parliamentary control and feeding into the decision of minor parties (Radical Social Democracy and Party for Democracy) to run independently in municipal elections (Vacs 2010: 216). And despite losing in the 2009 presidential elections, the strife between the major left and centre parties remains wide and seemingly irresolvable as the Socialist Party publicly declared the possibility of reuniting with the more radical communist parties in Chile in response to the continuing unpopularity of mainstream parties in the light of the 2011 student protests – a situation with a potentially disruptive effect to the future of Concertación coalition.[57] In these circumstances, the decisive move towards the centre of the renovated Left to accommodate business interests and to incorporate private capitalists in the state apparatus has threatened the consensus and has spiralled into what seems to be a crisis of the coalition. Some point to the weakening of ideological delineations between political parties, which has paved the way for convergence towards neoliberal policies in Chile and the rest of Latin America (Dávila & Fuentes 2002; Stokes 2001).

But even if the main normative framework that guides economic decision-making has been shaped by neoliberalism, it is misleading to say that no changes occurred under the neostructuralist state. There have been important steps undertaken by Concertación, such as the implementation of a new special royalty tax in mining, the strengthening of financial regulations over copper profits via sovereignty wealth funds, and the re-regulation of the working conditions across sectors through Subcontracting Law in 2007.

57 For an overview of the implications of the student movement to the wider Chilean party system and contemporary political configurations, see newspaper archives detailing the debates in light of the 2011 protests, e.g. El Mercurio 2011, 2012; Ramírez 2013.

However, as the next section details, innovative strategies to 'bring back' the state have clear limitations. The taxation debate raised a fundamental issue regarding the extent markets trump state regulations by seeking consensus to establish a special royalty tax for mining in a period of remarkably high prices. Equally, the logic of competitiveness makes apparent the difficulty for the state to step in once again to re-regulate the lax institutional framework on labour relations. The Chilean state and indeed the public have deemed private sector demands as legitimate – that an increase in tax rates would undermine Chilean competitiveness in the world market and that third party contracting is a legitimate business practice. Fundamentally, neo-structuralism remains committed to economic development that is inclusive, with emphases on building export capacity of smaller firms, broader social protection mechanisms especially for the poor, and recognition of social cohesion and citizenship rights as fundamental to achieve growth with equity (Álvarez 2004; Bielschowsky 2009; Calderón 2008; Infante & Sunkel 2009). In the next section, I explore the institutional innovations under difficult circumstances fought by Concertación governments under Ricardo Lagos (2001-2005) and Michelle Bachelet (2006-2009).

5.2 Institutional change in broader patterns of continuity, 2001-2009

The practice of depoliticisation, which has been embedded historically under Pinochet's neoliberal economics and political demobilisation, has placed more emphasis on growth strategies and less on politicised issues in mining policy. For key policy-makers in COCHILCO, CODELCO, and Ministry of Finance and Mining, what constitute mining policy are strictly those which foster stable macroeconomic conditions for investment, ways in which CODELCO investment projects can be financed, promotion of export capacities especially by private sector, and 'sound management' of the state enterprise.[58] More critical and politicised issues have been left outside of institutional channels in mining governance or were watered down upon arriving in National Congress. Nevertheless unlike the exclusionary politics during the dictatorship, representative democracy has altered the rules and policy environment that bear upon the policy ideas and practices of Concertación elites. The main difference is the ability of *Cepalista* technocrats and those outside of the party and state apparatus to repoliticise copper policy debates by introducing new proposals to manage mining beyond the strict neoliberal paradigm. To empirically demonstrate this, two key legislations were passed under the third and fourth presidencies of Concertación: the Royalty Law in 2005, which imposed a special tax in mining to pay for innovation and social development in Chile; and the Subcontracting Law in 2007 that re-regulated labour relations in contexts of flexible labour markets. By analysing these two legislations, I depart from arguments on excessive continuity and stability of Chilean political economy under Concertación. If hegemony is constituted through the use of coercion and consent (Cox 1981), then the dissatisfaction – if not cautious rejection – of Chilean technocrats and labour unions of neoliberal ideas as the foundation of its growth strategy indicates the gradual breakdown of this consensus on competitiveness over social development. Indeed, policy choices were made under Lagos and Bachelet with the explicit attempt to ameliorate market excesses so as to 'make mining contribute for Chile's development'.[59]

5.2.1 Institutional change in taxation

The move to increase taxation in Chile's mining sector was a major revision in the neoliberal mining framework. As early as mid-1990s, *Cepalista* economists like Ricardo Ffrench Davis proposed the idea of a royalty tax but

[58] Author interviews with Marco Fluckiger, COCHILCO, October 2009; Gustavo Lagos, Consultant, November 2009; Nicolas Majluf, CODELCO, October 2009.

[59] The quote is from the Superintendente of Antofagasta in 2001. See the discussion on royalty tax later.

this was immediately rejected. The discourses of global competitiveness and comparative advantage were powerful arguments to dissuade Frei Jr.'s government to make any changes in the inherited neoliberal model. Policy reform to assert greater state involvement in the economy was not within the realm of possibilities for the centre-led Concertación government. But what strengthened the pro-business discourse in Chile was the unfavourable external environment, namely low commodity prices between 1980s and 2002. With no alternative 'institutional supply' for policy change, the debate did not even take off and the agenda faltered for another five years.[60] It was not until the *Superintendente* of Antofagasta publicly argued that 'mining can and should contribute more in Chile's development' in 2001 that the issue would be revived. In 19 June 2001, a new legislation was introduced, *Ley de Evasión y Elusión* (Ley Nº 19.738), to address different forms of business practices to avoid paying taxes in Chile. One principal change was to amend the laws to give more powers to tax agencies to seek ways on penalising both legal (tax avoidance) and illegal (tax evasion) forms of skirting around tax payments. This was, in hindsight, a precursor of the larger debate on changing the taxation regime that was to transpire in the following years.

In a major gathering of mining elites and state agencies, *Expomin* in April 2002, the Ministry of Mining expressed quite clearly its position regarding the different ways for the mining industry to contribute more substantively to Chile's economy. It proposed to strengthen the 'Cluster' and create a Sustainability Fund to address questions of research, innovation, and sustainability of the Chilean growth model. This was taking place in the context of an increasingly politicised climate, during which business practices of mining firms on tax payments have attracted significant attention (Forum on Royalty, Cluster and Innovation 2005; Punto Minero 2005: 6-7). What became the tipping point, however, was the controversial case of Exxon's attempted sale of its subsidiary *Disputada de Las* Condes to Anglo American

[60] Author interview with Ricardo Ffrench Davis, Concertación technocrat & Independent Consultant, August 2009.

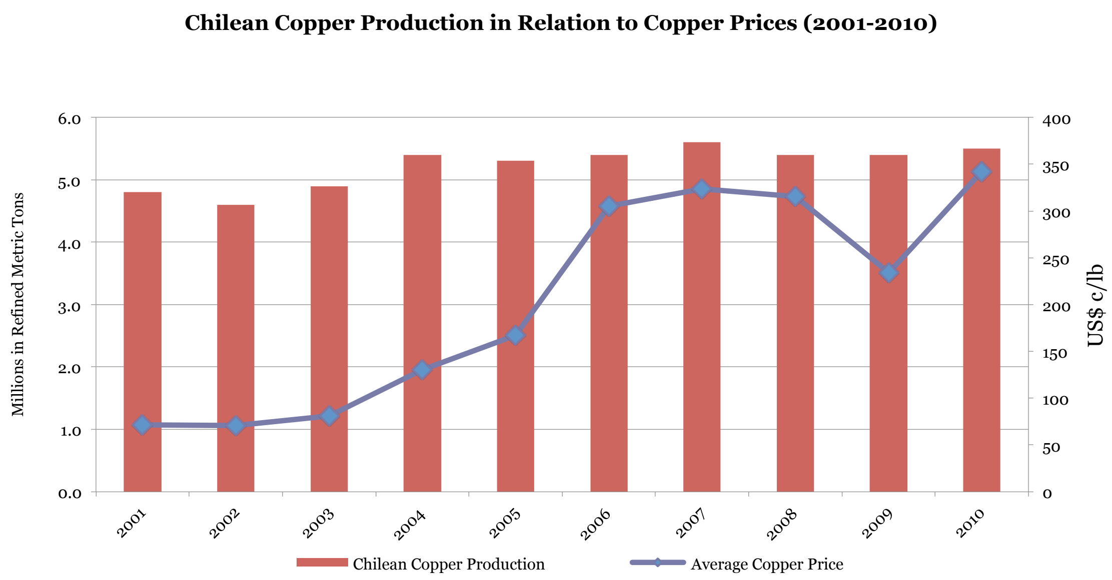
outside of Chile in order to avoid paying capital taxes. This sparked intense political discussions on the effectiveness of the taxation regime vis-à-vis the scope of freedom of (mining) companies operating in Chile (Riesco 2005; Punto Minero 2005). This resuscitated, above all, the question of how far private mining has contributed to Chile's economic development. Parliamentarians across the political spectrum began to openly discuss the idea of applying royalty taxes for the exploitation of non-renewable resources. The Lagos government through the study sponsored by the Ministry of Mining finally affirmed its position to push for a new legislative project to introduce taxes specifically in the mining industry. The Senate decided to establish a special commission to study taxation in Gran Minería. Between the mid-2003 and early 2004, Finance Minister Nicolás Eyzaguirre raised the issue of mining firms to voluntarily give up some of the benefits established in DL 600 (Punto Minero 2005: 7).

In this context, it was then not surprising when Ricardo Lagos announced the royalty legislative project in Expomin in 19 April 2004, which was aimed at establishing royalty charges in metal and non-metal mining activities with the end goal of financing initiatives to expand technological and innovation capacity of the country. Finally, in 5 July 2004, the new legislative agenda was introduced creating an Ad Valorem mining royalty and establishing the *Fondo de Innovación para la Competitividad*. Whilst the proposal generated some support, for example from Santiago Mayor Joaquín Lavín, in the end it boiled down to a numbers game in Congress. In 21 July 2004, the vote split was 61 in favour and 41 against the bill. Despite the majority vote, the required four-sevenths vote in Congress to pass the law was not achieved. In response, Lagos used his special presidential powers (so-called *facultad presidencial*) to insist on the urgency of the legislative agenda, and therefore, compelling Congress to retake the initiative. The senate, with an opposition majority thanks to the 1980 constitutional clauses, essentially rejected the presidential initiative to take up the royalty bill in 10 August 2004 (Punto Minero 2005: 7). This vividly demonstrates the effects of Pinochet's binomial system, wherein inter-coalitional conflicts, though not occurring quite often, remains to be in the upper hand of the right coalition. The institutional rigidities inherited from the dictatorship were left unreformed in the first decade of democracy, which has become an effective constraint to Concertación's economic agenda.

Despite losing the political battle, President Ricardo Lagos announced he would insist on passing the legislation to enhance the contribution of the mining sector to Chilean development. In 14 December 2004, after intense negotiations with parliamentarians, Lagos reintroduced a new royalty bill, now called *Royalty II* or the Specific Tax on Mining (*Impuesto Específico a la Minería*), immediately after the municipal elections. Finally, in 2005, the Cámara de Diputados passed the new proposal with an overwhelming majority – 86 in favour and 14 against the bill – which was then taken up by Senate for voting. In the end, it was approved by the senators with 28 votes in favour of Royalty II, 5 against it, and 6 abstentions (Senate Press 2005). The revisions in the law, detailed below, addressed the reservations of the opposition, such as giving mining firms under DL 600 the freedom to choose which tax rates they want to follow after the legislative changes. What must be noted, however, was that the public campaign in favour of the royalty law was particularly huge to the extent that SONAMI director Alfredo Ovalle argued that President Lagos' decision to use his presidential powers to reintroduce a second bill was politically motivated, especially in the context of an election that had just transpired (Senate Press 2004). Overall, the core issues in discussed in the Senate included the necessity to guarantee resources to support other regions in an effective way, the protection of small and medium mining firms, the importance of re-evaluating taxation in iron and non-metal mining, the need to close loopholes in the tax system, the concerns of right senators from UDI to advance a system of mining patents to ensure competitiveness, and finally, the decision on the percentage of royalty fees to be distributed in the mining regions (Senate Press 2005). Whilst the politics of reforming taxation and royalty fees exemplify the specific nature of coalition bargaining and the political economy of mineral management in resource-rich states, it should be emphasised that the structural conditions which were the foundations of the neoliberal mining model were gradually eroding, thereby, paving the way for new political discourses to emerge. As

Figure 5.3 shows, global markets for copper have substantially changed as prices soared. The sustained demand for primary commodities by China has facilitated a public discourse *affirming* the royalty tax law and allowing the Chilean state to further increase its profit intake from large-scale mining. In short, the changing global context has ended the discourse of austerity, fiscal conservatism, and the need for the publics to sacrifice. Chile was, in short, entering a period of growth and a 'time of plenty'.

Figure 5.3 Copper production-price relations under 'Left-led' Concertación



Source: SERNAGEOMIN 2010.

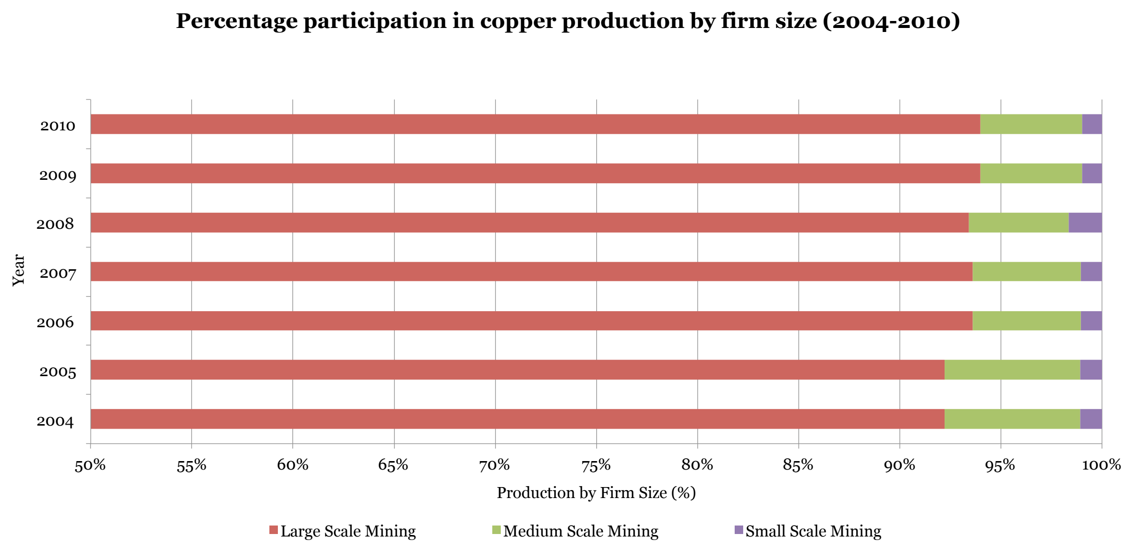
The passage of the law in 2005 is crucial for two reasons. Firstly, Concertación's success in passing the legislation disproves the long-held view about Chile's staunchly neoliberal style of economic management, wherein national elites have constructed and sustained a growth strategy based on low taxes as a way of boosting competitiveness and attracting investment projects. From the perspective of big business and Right parties, an increase in tax rates – especially a specific tax law just for mining – can hamper Chile's competitiveness as decisions of long term, expensive private investment are based on cost calculations. Figure 5.4 exemplifies the historical dependence of Chile on large-scale mineral extraction for its financial stability, in which the direct impacts on any changes in taxation law are likely to affect their profits. As mentioned above, there was a clear emphasis on protecting small and medium mining companies, and therefore, the additional tax struck large-scale mining (foreign) firms operating in Chile. For Concertación economists, royalty taxes are counter measures against the flux in commodity prices, external shocks, and investment strategy to reduce Chile's century-old dependence on a single commodity. Cepalista Ricardo Ffrench Davis (2009) recounted the intense debate in Congress:

> Canada and Australia have had royalty taxes, yet the Canadian and Australian firms in Chile did not have to pay any royalty, why not? That was quite a strong argument. The firms argued that "if you tax me or put royalty, I will go away." But where do you go? Will you go back to Canada or Australia? The old mines? These are rich mines, we can charge. And we can charge more than we are charging because they are very profitable in Chile. And that is the role of the law, to collect for the royal, the royal is the society.

After the initial rejection of Royalty I proposal, what was achieved is a slightly less optimal outcome for the state but nonetheless a watershed in taxation of the mining industry. Royalty II Law stipulates that mining firms with annual sales more than 50,000 metric tons of fine copper are subjected to a maximum of 5 percent. Those firms with sales of equal or below 50,000 metric tons but more than 12,000 metric tons are taxed at a variable rate from 0.5 to 4.5 percent. All firms producing equal or less than 12,000 metric tons are in equal measure exempted from the additional taxation. As Figure 5.4 shows, the law directly impacts on the profits of the group of mining elites (also known as GMT-10). This also reflects the historical trend in Latin America of states taxing foreign capital rather than the more resistant domestic business class. The Chilean government gradually modified the law, which later have made three major modifications: (a) requiring taxes to be paid in Chile in the case of sales of foreign companies which directly or indirectly control more than 10 percent of Chilean companies;[61] (b) elimination of accelerated depreciation for the purposes of additional taxation; and (c) royalty taxes. The passage of the royalty law, however, created incompatibility between the statutory goals and existing business practices. The Specific Tax on Mining (or IEM) subjects mining companies producing more than 12,000 metric tons to a minimum of 0.5 percent tax rate (large-scale companies pay the maximum fee of 5 percent). To offer tax predictability, Pinochet's Foreign Investment Law (DL 600) protects companies through tax invariability for 10 years as the project starts and 20 years for mining or industrial projects requiring capital equal to or greater than US$ 50 million. The law recognises the binding nature of contracts, and therefore, the legislature offered companies some financial incentives to change the invariability regime in exchange of moving towards the new tax system. Mining companies can become subjected to IEM from January 2006 with certain guarantees, for example, by lowering the tax rate for large-scale companies to 4 percent until 2017 instead of 5 percent as stipulated in the law (Mir 2010). Some firms have retained their privileges under DL 600 by specifying clauses for operators to avoid the additional taxes. These include firms whose annual sales have been equal or less than 8,000 annual tax units, those who have signed up previously foreign investment contracts, and those who see more onerous the specific tax already paid by the law of tax income.

[61] This was a specific response to the controversy on corporate malpractices of mining firms to avoid tax payments in sales in 2001.

Figure 5.4 Production share of mining companies in Chile, 2004-2010



Source: SERNAGEOMIN 2010 (Adapted).[62]

Because of this specific clause exempting companies by deducting further 8 percent of the operational costs, the Internal Revenue Service can contest copper prices that have been used to calculate the annual sales of companies. COCHILCO, the watchdog of the state in the mining industry, has the ultimate right to determine referent copper prices to make sure that firms do not sell fine copper at undervalued prices for the sake of tax evasion.[63] Nevertheless the legislation is indicative of the view that Chile's neoliberal model could only succeed by promoting the mining sector through an export-intensive, low tax rate strategy. More broadly, international attention has increasingly viewed the positive role that mineral rents can contribute to social development by way of financing social policy without losing sight of the resource curse (Hinojosa et. al. 2010; Hujo & McClanahan 2009; Rosser 2009). We are therefore seeing new policy practices that go beyond the

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62 SERNAGEOMIN Statistics. Accessed online on 03 February 2011 at http://www.sernageomin.cl/index.php?option=com_content&task=view&id=201&Itemid=276.

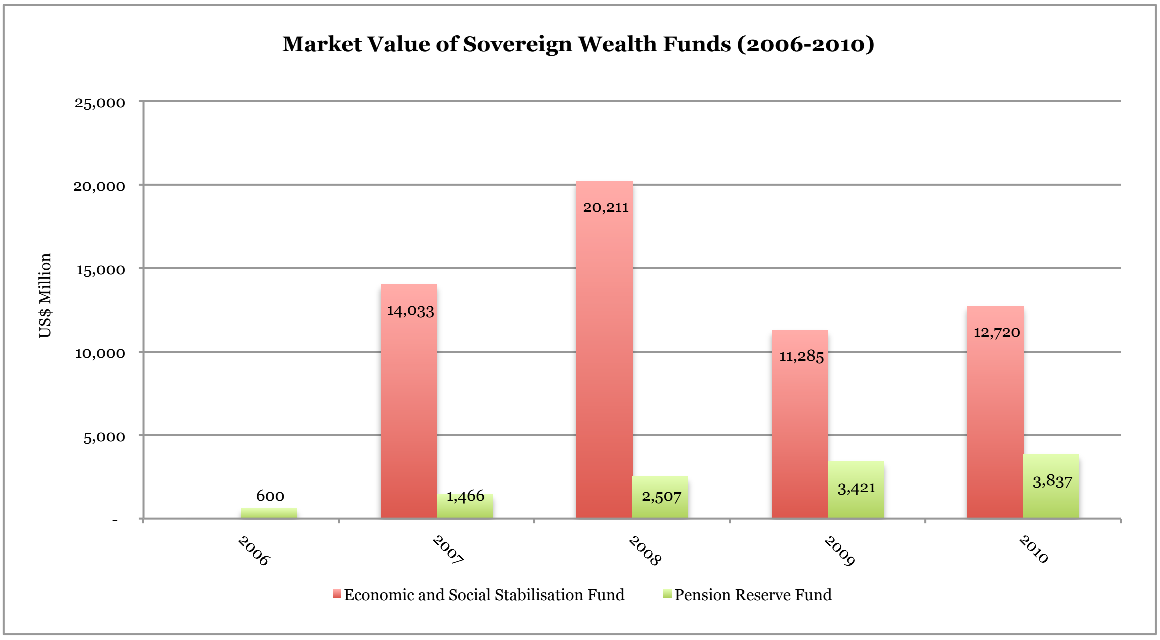
63 Specifically, COCHILCO is the special agency in charge of supervising and inspecting full and correct compliance with laws, regulations and norms regarding procedures that are specifically applicable to the mining sector and to the relevant companies in public and private sectors (Lagos & Lima 2005: 50).

prescriptions of neoliberal resource management, as espoused by the World Bank and resource curse experts.

The second component of any effective resource governance model is the management of resource rents. In Chile, this is done in two ways. Firstly, a separate law was created to establish the copper stabilisation fund through the *Ley de Fiscal Reserva* or Law on Fiscal Responsibility. Whilst this is not entirely new as Chile had a stabilisation fund in the 1960s, the new law sets out formal procedures and clear division of labour between the Ministry of Finance and the Treasury. Secondly, a percentage of the funds of the royalty fees will go directly to the *Fondo de Innovación para la Competitividad* in order to redistribute resource wealth both to mining and non-mining regions of Chile. Under the Ley de Fiscal Reserva created in 2005, the Ministry of Finance has divided sovereign wealth funds into two schemes, namely the *Fondo de Reserva de Pensiones* or PRF (Pension Reserve Fund) and *Fondo de Estabilización Ecónomica* or FEES (Economic and Social Stabilisation Fund). The FEES has more market value because it inherited the funds from the Copper Stabilisation Fund also managed by the Ministry of Finance before 2005. What I want to point out is that the Law on Fiscal Responsibility creates the link between the fiscal powers and resource management functions of these financial institutions by according both agencies direct control over decision-making in sovereign wealth fund management. Following a typically Chilean practice in policy-making, the Ministry of Finance issued Supreme Decree No. 621 to establish a Finance Committee (FC) in charge of advising the Finance Minister on the analysis and design of the investment strategy of the PRF and FEES. As expected, FC is an external body consisting of professional experts with vast experience in economic and financial matters (Ministerio de Hacienda 2010: 19-23). Although this may indicate a strong tendency to consolidate the neoliberal ideology predominant in the ministry, this was not a concession at all for Concertación economists because they view the extensive role of highly trained bureaucrats as a crucial element of ‘efficient’ technocratic governance. This would have been the political compromise in any case to persuade the Right and business groups to accept changes in taxation. As

Concertación economist Ffrench Davis argues, it is better to have had this money than nothing at all.[64] As Figure 5.5 shows, the global commodity boom has allowed the Chilean state to accumulate substantial reserves which can be used in times of price downturns or unexpected events. The market value of FRP and FEES in 2009 reached a total of US$ 14,706 million. Put simply, its logic is to collect and save taxes through sovereign wealth funds during periods of high commodity prices to accumulate enough reserves to cushion the effects of low copper prices.[65]

Figure 5.5 Copper revenues as SWFs in Chile, 2006-2010



Source: Ministerio de Hacienda 2010 (Adapted), 9.

In recognising the vulnerability of Chile's mining-based economy, the royalty law aims to directly link copper profits and public-private initiatives to enhance national competitiveness. As stipulated in the law, part of the accrued royalty taxes are reserved towards financing the National Innovation Fund, wherein 25 percent of the fund is distributed across all regions in Chile

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64 Author interview with Ricardo Ffrench Davis, August 2009.

65 This is, in fact, stated directly in Ley de Responsibilidad Fiscal. Several research on resource revenue management in Chile likewise support this view regarding the prudent exercise of fiscal powers, for example, ICMM 2009; IIED 2002; Otto et. al. 2006; Ruiz-Dana 2007.

and the remaining 75 percent are utilised to develop research and development through a competition of the best innovation projects in mining and beyond. This is quite an exceptional and sophisticated method of resource allocation of natural resource taxes that is comparable to the highly centralised innovation systems of countries like Sweden and United Kingdom. Above all, this innovation system requires a complex set of institutions and highly coordinated responses across state agencies in various policy sectors. In other words, the institutional framework requires strengthening the bureaucratic capacity of the Chilean state to avoid possible duplication of responsibilities and hierarchical relationships among ministries and specialised agencies. Although World Bank's assessment of the innovation system in Chile is far from perfect, especially with respect to the fragmented institutional architecture of innovation policy and need for greater coordination among different agencies (CNIC 2010), national innovation and competition policy in Chile is swiftly moving forward towards further centralisation and better coordination. In the most recent report, its strategy involves emphasising the role of local economic capacity to enhance economic growth, the consolidation and coordination of a policy network, and the greater (informal) role of CNIC as a policy advisor to overlook the direction of Chilean policy towards competitiveness and economic productivity across different sectors of the economy.

The novelty of the law is to emphasise the need for inter-sectoral linkages rather than concentrating all state efforts at ruthlessly taxing the mining sector. In this sense, the Chilean strategy to global competitiveness goes beyond entrenching dependency on copper exports. Across all parties, there is recognition of the challenges to diversify the export base to other natural resources (a path similar to Brazil) and to build human capital as a way of enhancing overall worker productivity and economic efficiency. For example, debates in Senate have revolved around determining how much should go to mining regions – Antofagasta and Copiapo – and how other non-mining regions can utilise copper funds to develop new ideas (Senate Press 2009a, 2010). The vote in Congress to create the National Innovation Fund – 26 in favour and 3 against it – was clearly indicative of the consensus around the need for economic diversification, which copper rents can (and should) facilitate. The new financial resources that the Chilean state acquires through the royalty taxes are supplementing the deficiencies of copper policy by Pinochet and first two Concertación governments, which have been described as essentially *rentista* (rentist) in character. Upon distributing 35 percent among regions and 65 percent at the national level, the Senate emphasised the need to utilise the new financial instruments as a way of creating alternative economic activities in mining regions (Senate Press 2009b; *Boletin N° 3.588-08* 2009). Whilst at the national level the discourse of competitiveness prevails, for Senator Isabel Allende, representative of Atacama, the question is one of compensation and more appropriate redistribution of the bundle of 'environmental goods and bads' associated with mineral extraction:

> The Atacama region, contributing its great quantity of resources and for [economic] change, bears the enormous social problems, environmental liabilities, contamination and very little social investment. Therefore, we raise the issue to the Ministry [of Mining] that part of the new Specific Tax should be bound for the mining regions to compensate for the environmental ills of mining.[66]

The Concertación government, on their second decade of rule, recognised the difficulties of export diversification particularly because rising copper prices can lock in resource-rich states to focus the economy on commodities as a growth strategy. Equally, they also delinked social policies and revenue management by managing copper rents in a highly institutionalised regulatory framework – a move that goes against the trend in Latin America (see Grugel & Riggirozzi 2012; Hogenboom 2012). Nevertheless the management of resources, though technocratic and highly institutionalised in Chile, has been heavily politicised. The royalty debate and the underlying political arguments to justify its passage clearly exemplify the invariably political nature of managing resources. But perhaps what best exemplifies

[66] Senate Press (2010) 'Comisión de Minería Estimó que Parte de los Recursos del Aumento del Royalty debe ir a Regiones Mineras', June 4.

the supremacy of politics over economics is the ways in which the state attempted to manage labour conflicts by grafting a new subcontracting law – a move to silence once again the powerful mining unions in Chile.

5.2.2 State responses to labour flexibility

The left-led Concertación governments have performed excellently in addressing poverty reduction and expanding opportunities for the poor without challenging the consensus around market orthodoxy. In terms of people living in poverty, Chile ranks as the second best performer with 20.2 percent in 2002 and remarkably further decreasing to 13.7 percent in 2008; its poverty rate went down from 13.7 percent in 2006 to 11.5 percent in 2009 (ECLAC 2010a). However, the state failed to address social inequality, in which ordinary people across the economy have been exposed to profoundly varied working conditions and social benefits. In this context, the widening gulf between mining workers and other working classes as well as between those with permanent and temporary contracts have affected the capacity of workers to claim rights under conditions of neoliberalism. Although I shall discuss in extensive detail the contemporary role of mining unions in the copper industry in the next chapter, it is important to take note of the state responses to global economic restructuring in extractive industries and labour relations. As shown in Chapter 4.2.1 and 4.2.2, the Chilean labour movement had developed in a highly repressive environment wherein labour incorporation was motivated by state attempts at maintaining social peace and depoliticising the movement. If there is one clear policy of continuity between Pinochet and Concertación, it is certainly in labour policy in which any serious discussions to reverse the pro-business labour code were left out of the political agenda in the first decade of democratic rule. By attempting to push Chilean exports to become globally competitive, for example through free trade arrangements and diversification of agricultural exports, the labour question was once again swept under the carpet. The Concertación efforts focussed on two core changes: restoration of traditional labour rights eliminated by the dictatorship and modernisation of labour relations. The

Chilean state has had to manage the fragile relationships with trade unions which were undermined under the dictatorship, one that strikes a balance between employers' demands for maximum flexibility in the labour market – contracts, rules in hiring and firing, working hours – and the attempts of workers and unions to recuperate their economic gains prior to the dictatorship. Concertación's decision of economic continuity with marginal changes from neoliberalism is reflected in the shortcomings of the labour reforms in the twenty years of democratic rule (Cook 2007; Frank 2004; 2002; Vergara 2008: 190-193; Winn 2004).

The specific features of the copper industry have shaped the contemporary organisational structure and mobilisational capacity of the labour movement. On one hand, the mining sector does not generate mass employment even during periods of rapid expansion in production due to the technological requirements of modernisation of copper mines. On the other hand, Pinochet sought to win the support of Chilean copper workers because of their long history of militancy and the disastrous effects of long strikes for the Chilean economy (Vergara 2008). Together with high wages, generous social benefits, and relatively coherent political identity in mining communities, there is a widely held (and sometimes misinterpreted) image of miners as a labour aristocracy in Chile. This imagery is very powerful and emotionally captivating in a country that relied on the red metal for its salary, hence the phrase *el sueldo de Chile*. Nevertheless, neoliberal labour relations have affected the working conditions, employment security, and overall class identity of Chilean workers, which clearly includes the miners of the North. But what kept the coherence of their political identity really had more to do with the specific lifestyle in the Northern mines. Just like the nitrate workers, copper miners enjoy better wages and social benefits; they are in equal measure exposed to the harsh realities of risky living conditions in the copper mines. Whilst it is very easy to have a negative view of copper workers as being aristocratic, the fact remains that they deliver the radical critique to Pinochet's neoliberal model and Concertación's neostructuralist policies. Whilst CUT and sectoral workers have always had a more militant position than miners, it is certainly the case that copper workers command the electoral votes and have more decisive influence over the broader fate of the labour movement in Chile (Nem Singh 2012).

In these circumstances, the mobilisation of private mining workers in 2006 against Minera Escondida, Chile's largest private mining firm and second copper exporter in the world, was consequential to national political debates. In post-dictatorial Chile, the responsibility falls within the Ministry of Labour and its inspecting body *Dirección del Trabajo* to guarantee the compliance of both principal and subcontracting companies as regards working conditions, salaries, and working hours of non-permanent workers. The dynamics in the mining industry does not fully represent the bigger picture in Chile since business practices in seasonal agriculture, services, and retail sectors are worse (Silva 2007; Villarroel Bloomfield 2007; Winn 2004). However, they give us an idea of the extent to which neoliberal ideas have been entrenched among state agencies and big business in order to manage tensions and labour conflicts. Whilst labour is and should be part of copper policy simply because production processes cannot take place without the workers, it is a struggle to think labour relations as part of mining policy. For example, the Ministry of Mining and COCHILCO have no specialists on labour relations and human capital development despite the fact that this is the most important industry in Chile. One is easily persuaded to think that the politicisation of labour issues occurs (and should be left) in the judiciary and labour ministry. This may be true in other national contexts. However, the historical significance of labour incorporation and the workers' construction of an autonomous political identity in opposition to the liberal ideas of political classes in Chile (see Chapter 4.2.) reflect the contentious politics of industrial relations. The Concertación governments' depoliticisation of labour issues are continuities of historically constituted practices of managing labour conflicts across mining, service, and production sectors under Pinochet's neoliberal authoritarianism (Nem Singh 2012; Winn 2004). As Chapter 4.2.3 details, Pinochet neutralised labour conflicts through outright repression followed by the institutionalisation of Plan Laboral. What Concertación inherited was a system of labour relations, wherein collective rights were restricted, controlled, and determined by the state and employers. The political transition may have been smooth but the task of rebuilding political relations between parties and unions was formidable. Concertación faced the difficult situation of reinstalling collective labour rights and better individual working conditions in a neoliberal policy environment. Labour reforms were almost avoided by the Aylwin and Frei Jr. governments because any radical package can reignite conflicts between employers and employees, and break consensual politics that was so carefully grafted by the political classes in neoliberal democracy. Despite the series of tripartite negotiations between the government, big business, and national union CUT, labour reforms were never settled until 2001 when Ricardo Lagos initiated a full labour reform agenda in Congress (Cook 2007; Frank 2002, 2004; Winn 2004). I would therefore claim that labour politics, being inherently politicised, was treated as an issue outside of what constitutes copper policy.

Subcontracting is practised extensively though not exclusively in the mining sector and it is a trend that occurs worldwide rather than in Chile alone (Silva 2007; Villarroel Bloomfield 2007). It is worth noting, however, that Chilean companies' use of third party contracts increased from 43 percent in 1999 to 50.5 percent in 2005 – a seven point jump in a short span of time (Ministerio del Trabajo 2006: 7). Part of the discourse of global competitiveness is a flexible labour market that can respond to the changing demands of firms in a highly globalised value chains. The role of the state has been reduced to regulatory functions in which conflicts between employers and employees are mediated at the enterprise level with governments stepping out of its traditional corporatist role (Murillo et. al. 2011; Standing 1997; Weller 2009). Whilst this was not really fully functional in Latin America and unions were representative of a small sector of urban workers, it was nonetheless the means by which workers were incorporated in models of political inclusion. From this perspective, large-scale mining requires cost adjustments by keeping a small number of highly skilled, better paid labour force, which can allow private capitalists to manage their businesses in concentrating in mineral extraction whilst acquiring goods and services for other related tasks from third party companies. For example, it is standard practice to exclude industrial cleaning, maintenance of mining camps, and transportation in the 'core business' practice of firms. This reflects the business model adapted by multinational corporations operating at a global scale, including large-scale mining companies in Chile.[67] However, the debate is the degree of outsourcing and the levels of accountability of hiring firms. It is useful to make a distinction between the contractor and subcontractor. Contractors directly negotiate and sign agreements with the principal company, and in this case, the parent firm has access to information about their goods, services, and perhaps even labour practices. Subcontractors, on the other hand, are hired by the contractors and therefore have no direct working relationship with the principal firm. This is where the problem of subcontracting lies in Chile. Because large firms have no control over the regulatory standards and business practices of smaller companies, accountability to workers' rights and minimum standards of welfare provisions are lost. The law, as discussed below, attempts to clarify the lines of responsibility among hiring firms. As Chapter 4 already demonstrated, labour conflicts are at the heart of the Chilean state's social reengineering project and therefore the resolution of subcontracting in copper mining – its main industry – affects the plight of workers across the economy.

Whilst working conditions and situation of subcontracting differ across sectors and between public and private mining, the similar outcome is that workers have had to suffer the consequences of multiple layers of service contracting and making collective action through unionisation difficult to achieve. Those with the capacity to mobilise and organise strikes – mainly mining unions – challenged the dominance of this economic logic in managing capital-labour relations with some degree of success. As Chapter 6 will demonstrate, and as supported by Chilean academic research, this is not a uniform process: distinctive positions of workers within the commodity chains and the degree of accountability if firms are decisive factors that structure the ability of mining unions to become politically salient actors

[67] Author interviews with Javier Cox, Consejo Minero, October 2009; Juan Saldivia, Independent Consultant, August 2009.

(Leiva Gómez 2009; Pérez & Villalobos 2010). In short, the power of copper workers to collectively strike, organise, or participate in national debates are conditioned by the broader changes in the global economy and the response of states in terms of protecting union rights, or the lack of it.

Taking the case of CODELCO, one can surmise the difficult situation for the state to respond to the issue. Whilst its goal is to make sure CODELCO achieves productivity and efficiency in its business operations, the state is also pressured to respond to social demands for worker protection in situations of excessive flexibility. CODELCO's modernisation plan under Concertación involves accepting third party outsourcing as a legitimate business strategy to enable the firm to become more competitive though this is far more complex as Chapter 6 will elucidate. As Table 5.1 shows, CODELCO's subcontracting grew over the years. Those without permanent contracts constitute more than double of the total workforce in the company. According to consultants and mining experts, the trend is indicative of the difficulties in company management and competitive pressures faced by CODELCO vis-à-vis the private sector. Because subcontracted workers are paid cheaper with less individual plans for social and family benefits, CODELCO could keep on hiring workers on an ad hoc basis whilst maintaining a core set of permanent workers. For example, there are 41,241 contracted and 19,347 permanent workers in 2010, which is in fact an improvement from 2007 after the implementation of the Subcontracting Law (43,289 contracted workforce and 18,211 permanent workers) (CODELCO 2010). If neo-structuralism argues for change, labour politics is certainly not part of the reform project. The organisational structure of mining today is one where a principal company performs core tasks with chains of contracted firms to offer services. Labour flexibilisation, inevitably, constitutes one of the defining features of Chile's resource governance model.

Table 5.1 Permanent and subcontracted workforce in CODELCO

	1995	1998	2001	2004	2007	2010
Company Personnel[1]	19,753	18,258	17,166	16,778	18,211	19,347
Operating Contractors[2]	8,913	9,206	13,773	19,929	26,210	23,138
Investment Contractors[3]	4,720	6,307	5,346	8,683	17,079	18,103

Source: CODELCO Annual Reports

Notes:
All figures are calculated as of December 31st of every year.

(1) Company personnel are defined as those included in the company payroll.
(2) Operating contractors represent the personnel used by subcontractors support normal operations for example mining work.
(3) Investment contractors are personnel employed by subcontractors as part of new investments, for example investments to develop underground mining in Chuquicamata and many others.

One can easily imagine that subcontracting would be a focal rallying point of union solidarity that has divided Chile's weakened labour movement (see Chapter 6), in fact there are divided opinions regarding how to handle the issue. For national union CUT, the permanent unions in CODELCO, the *Federación de los Trabajadores del Cobre* or FTC (Copper Workers' Federation), have not expressed their full support of the demands of subcontracted workers' unions. Indeed, there is simply no interest for FTC to wholeheartedly join other workers in solidarity.[68] This brings us back to the central issue of workers' political identity: subcontracting, which constitutes labour flexibilisation under neoliberalism, has not only broken down the traditional relationship between the principal company and the worker, it has also produced fragmentation, tensions, and conflicts between unions and workers who are at different positions in the structure of production (Nem Singh 2012).

Additionally, big business has sought to further flexibilise the labour market to enhance the efficiency of business operations. Subcontracting makes sense because "companies buy goods and services from third parties, and labour is the primary responsibility of contracting firms".[69] This is especially even more complicated in the case of CODELCO because the firm is state-owned and political interference from the state influences its labour management practices. Equally, the labour question in CODELCO is probably representative of the broader tensions between economic continuity and promotion of labour rights. Although CODELCO gives voice to the workers through their veto power in the governing board of directors, the company

[68] Author interview with Lariza Palma, CUT, October 2009.

[69] Author interview with Javier Cox, Consejo Minero, 2009.

faces a constant dilemma of addressing subcontracted workers – who have received support from other unions like CUT and private sector mining.[70] Whilst permanent unions have a direct voice in CODELCO, there appear no institutional channels for subcontracted workers. However, the real political battle took place when mining workers in Minera Escondida decided to reject the company's offer in the collective bargaining in 2006. The strike had significant consequences in that unions won a generous offer in the next collective bargaining in 2009, which includes 5 percent increase in salary, a bonus, and health and education plans for workers' families. In response, Concertación introduced a bill turned into a law in 2007, which regulates the standards being followed by third party companies when being hired. According to DL 20.123, principal companies are expected to follow standards that would pressure subcontracting firms to comply with labour standards set on subcontracting law. In the words of former Labour Minister Ovaldo Andrade, the new law aims to protect the worker of their rights and minimum benefits and its immediate effect will directly benefit "more than one million and a half workers who are under a subcontracting regime".[71]

Whilst the law does not prohibit subcontracting as a legitimate practice, the subcontracting law establishes clear conditions that bear upon the principal and contracting firms to merit the employee to sue their employers in court. To put it simply, the principal firm can be held accountable in two ways. Firstly, there can be situations where an employee can use *subsidiary liability* to obtain labour justice. This is exercised when the parent company is compelled to respond when the subcontracting firm or contractor is appropriately found to fail in complying with the labour and social obligations towards their workers. The employee must sue the contractor, or the appropriate subcontractor, and in the instance they fail to respond, the employee can directly sue the principal company. Secondly, the employee can

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70 CODELCO's Board of Directors consists of ministers, professionals, and two representatives from unions and engineers' association.

71 For a general overview, see http://www.dt.gob.cl/1601/w3-article-93827.html. Accessed 15 February 2012.

use *joint liability* in situations when the parent firm cannot access its right to information (as in when the levels of subcontracting are at third, fourth or even fifth levels). In this situation, the parent company meets jointly with the contractor or subcontractor, as appropriate, to discuss their labour and social security obligations to the workers. To enforce joint liability, the worker must file suit against their direct employer and against all those who can answer their grievances and rights.

One can imagine the difficulty of passing the law and the intensity of negotiation in Congress. What is evident is that national union CUT played a significant role in bringing together the different sectors to discuss the common problems regarding this business practice. Though unions differ in their history, interests, and mobilisational capacity, we are reminded that organised labour's indispensible role in capitalist production has, historically speaking, remained their only defence from attempts at depoliticising, demobilising, and sometimes fragmenting the workers' movement (Collier & Collier 2002: 41). Concertación government adopted Pinochet's labour code, struggled to make peace with unions, and strengthened worker protection at the expense of collective rights (Leiva Gómez 2009; Ugarte Cataldo 2006; Winn 2004). The subcontracting law is vital yet a reactionary policy towards excessive labour flexibilisation. Its core feature really is finding ways to reduce costs for businesses to operate by pacifying an uneasy working class.

5.3 Neostructuralism as a competitive strategy

In this final section, I examine the implications of institutional continuities and changes in thinking about national development strategies of resource-rich states in the global economy. The so-called neo-structuralist state coheres around the rise of a policy paradigm aimed at engaging with the global economy through the logic of international competitiveness (Kirby 2010; Leiva 2008, 2006; Taylor 2010). In the Chilean case, one can surmise that the overarching principle of the exports-led growth model is *productivism*, or the discourse of global competitiveness and private sector notions of efficiency.[72] Ultimately, neoliberal ideas have won the political playing field in Chile's democratic polity, although as I argued all throughout, neoliberal reforms were designed and recalibrated within the specific national context. There are attempts at conforming to the neoliberal idea of depoliticisation and technocratic governance. But there have been moves to address not just the costs of economic restructuring but also to strengthen the capacity of the Chilean state to ameliorate the effects of resource dependency in the context of economic liberalisation. As such, there is something new in the Chilean model – it attempts to address both the problem of economic growth and sustainability of the export-led model. Overall, the productivist discourse abandons the traditional statist developmentalist elements of managing production and gives priority to entrepreneurial initiatives as the driving force of economic growth. This is exemplified in economic projects enhancing 'public-private partnerships', for example, the 'clusters' concept where state-financed private sector projects are seen as the more efficient way to use fiscal policy towards economic growth. The state role was defined by creating the *Consejo Nacional de Innovación para la Competitividad* or CNIC (National Council of Innovation for Competitiveness) to enhance public-private initiatives through direct access to state funds of private firms. In the recent evaluation report on Chile's national innovation strategy, it was noted that:

> Returning to high levels of economic growth is a critical policy concern for Chile. Since 1998, growth rates have been only half of the seven point one percent (7.1%) achieved from 1984–97... Despite a favourable environment and significant investment, *Chile has not succeeded in diversifying its economy or becoming an innovation driven competitor*. Its competitiveness has stagnated recently. *Improving business innovation in private sector firms* in the short and medium term is a central challenge. Policy options exist that could provide a significant stimulus to business innovation. *Major government investments in innovative capacity* through such agencies as CORFO, CONICYT, and through the tertiary education sector have yielded some progress, but *are hampered by significant coordination failures*

[72] See Appendix 3 for a detailed summary.

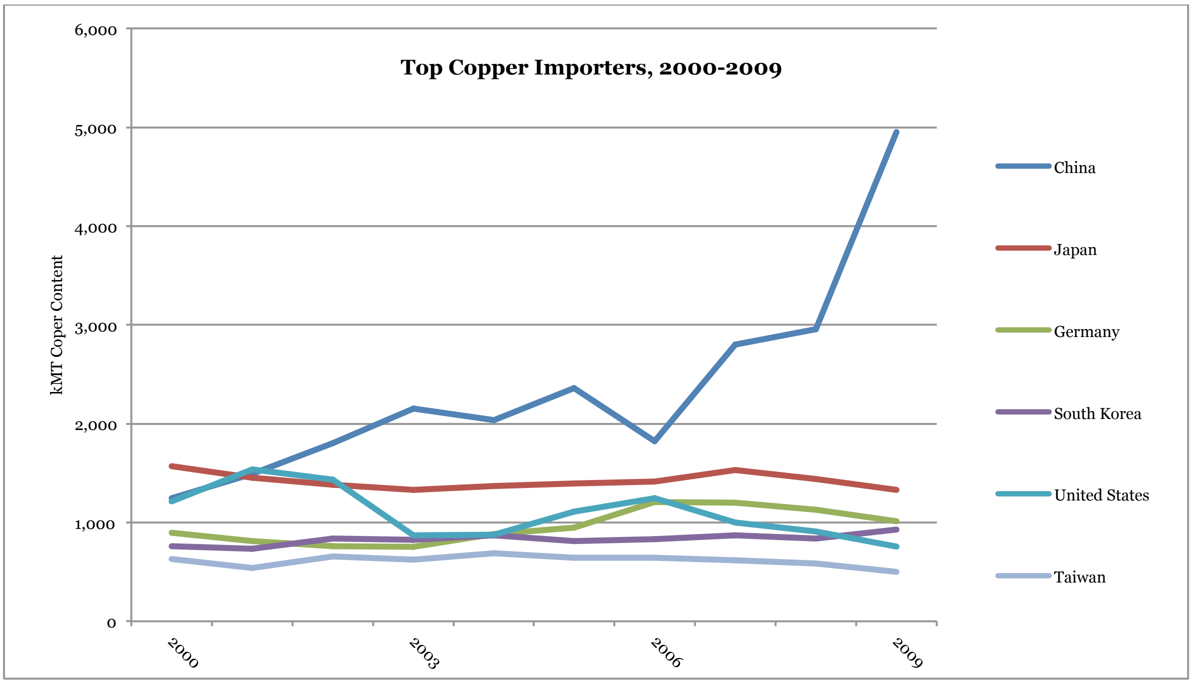
> *and weaknesses in institutional capacity* (CNIC 2010: 3, Emphasis in original text).

Innovation policy is particularly critical in wealth accumulation due to its direct relationship with expanding the export profile of Chile. Taking into account the state capacity debate, state effectiveness can be understood as a mixture of strategies. The state keeps control of the strategic industry through CODELCO but simultaneously promotes private sector-driven initiatives of technological innovation. Weiss (1998) calls this the transformative capacity of the state where governing elites are able to manage the process of economic change via state-business alliances. Whilst in East Asian states this materialised in the form of supportive industrial policy, such as export subsidies, credit allocations, and effective tax support, Chile's post-neoliberal political economy is characterised by a synergy between public agencies and private firms but where the latter takes a leading role. The state acts as the financier of private initiatives due to the overwhelming belief on the productivity and efficiency of the private sector to deliver economic wealth. Yet one can just think of several reasons why this is not true. For example, private capitalists possess the same predatory and rent-seeking behaviour as state agency. One simply needs to think of the different ways big business captured the state during privatisation – and this includes Chile in the list (Teichman 2001). In addition, the creation of a 'free market' to enhance competition and avoid market failure simply does not hold true because the state has typically stepped in when markets fail. The financial crisis in UK, US and Europe is nothing but a glaring example. Finally, private sector has a tendency, indeed a desire, to monopolise markets to achieve price-making powers – all of which reveal the internal tensions within neoliberal theory (Chang 2002, 2011).

The institutional reconfiguration of Chilean mining policy informs my analysis of the bigger picture. The competitive strategy of Concertación government was really oriented towards internationalising the economy through a foreign investment-led mining environment with new policies aimed at capturing more copper revenues and directly subsidising private initiatives. And as shown in Section 3.2.1, the state has begun to support small and medium enterprises with the view that developing domestic capacity of private sector can be financed through resource rents. Nevertheless, in the assessment report of the Ministry of Mining (2000: 13), mining policy has privileged international insertion in the global economy which strengthened Chile's presence not only as the biggest copper producer in the world but also to enhance its ties with other countries in developing the metal mining market by enhancing competitiveness, advocating for sustainabiility, and expanding commercial exchange and international cooperation. What this implies, in reality, is to bind Chile in a series of trade agreements and international treaties particularly with APEC, NAFTA, and Mercosur. With the untrammelled demand for copper by China and India, the commodity price boom that began in 2002 further accelerated Chile's dependency in copper at the expense of agriculture and productive sectors (Barton 2009a, 2009b). Such orientation in foreign trade relations is underpinned by the belief on Chile's small internal market as incapable of adapting to globalisation via policies of self-sufficiency. Policy elites have constructed the myth of Chilean vulnerability if it does not open its copper market to Chinese FDI. Today there is significant Chinese presence in the new copper mines in the North either through direct investment of Chinese SOEs or through joint ventures.

Notwithstanding copper mining as a successful resource extractive industry in the developing world, Chile has locked itself in a natural resource-based economy. The Chilean exports – copper, gold, molybdenum, wine, salmon, cash crops, export fruits, forestry – remain to be primary commodities whose privatised governance generates uneven economic development and environmental degradation. That Chile remains to be one of the most unequal societies in Latin America is not a coincidence to its governance model: the role of the state has been to promote private interests alongside diminished regulatory capacity in monitoring environmental externalities and mitigating the consequences of resource exploitation. In addition, Chilean trade relations with China – the new actor shaping the political economy of Latin America – has focused on copper mining and Chinese SOEs directly exploring new mining projects writ large (Barton 2009a, 2009b, 2006). Figure 5.6 shows a detailed comparison of the key importing countries of copper, and clearly Asia Pacific is the new market destination for metal mining. China's share of global copper imports jumped from 11.4 percent in 2000 to 36 percent in 2009 whilst the United States' global share dropped from 11.1 percent in 2000 to 5.1 percent in 2009. And although Japan's share declined from 14.4 percent in 2000 to 9.7 percent, it remains to be the second largest importer followed by Germany and South Korea (COCHILCO 2010). In many ways, the figures legitimise the strategic shift of Chile's trade policy to focus on bilateral relations with its key market destinations rather than building regional ties in Latin America.

Figure 5.6 Global copper importers, 2000-2009



Source: COCHILCO Annual Statistics 2010 (Adapted), Table 92.

In this context, the royalty law should be interpreted as a way of regulating the excesses of the market, not so much to curtail the voluntary conduct of private capital but simply to run the market smoothly. Managing resource rents, therefore, involves competitive strategies that respond both to *political* and *economic* imperatives. In the political realm, the royalty law originated from the series of publications arguing that big mining firms have exploited the taxation system through DL 600, in which "private capital took over 70 percent of Chilean nationalised copper minerals without paying any taxes at all, even worse they had accumulated billions in tax credits" (Riesco 2005). In what became a technical debate that caught international attention through UNRISD's *Pay Your Taxes* Debate, Riesco (2008, 2005) argued that big mining firms – specifically Minera Escondida – have been undervaluing copper prices, overpricing refining services paid, and underestimating the value of by-products contained in the concentrates being shipped by mining firms. However, some argued the CENDA publications as methodologically unsound and simplistically ideological (Lagos & Lima 2005: 61-63).[73] The establishment of royalty taxes emerged from public scrutiny of the gulf between the idealised and actual business practices of private mining firms, which signifies a challenge to the apolitical view of mineral management.

The economic logic of the royalty taxes played on the idea of institutionalising the stabilisation fund to decrease Chilean economy's vulnerability from international fluctuations and external shocks. The fund was directly aimed at resolving the 'resource curse' effects, which include the appreciation of currency that weakens the competitiveness of manufacturing and industrial sectors (also known as Dutch Disease), the difficulty in designing long-term budget plans as a result of volatile international commodity prices, and the need to avoid pro-cyclical policies which lead to overheated economies, increased deficits, and unsustainable fiscal positions (Bagattini 2011; Ross 1999). Additionally, rent-seeking behaviour of politicians and organised interest groups weaken the institutional capacity of the state to reform and manage effectively the windfall of revenues in the state treasuries, which overall creates unequal access to the fruits of natural resources for society (Karl 1997; Ross 2001a, 2001b). The copper stabilisation fund corrects these two problems directly. With respect to the

[73] See the Pay Your Taxes Debate in UNRISD for the exchange between Chilean experts regarding the details of the mining rents debate, available online at http://www.unrisd.org/80256B3C005BCCF9/(httpPublications)/D0911BEE223DF74EC12570AC0032E4E2?OpenDocument. This was followed through by another series of exchange on mineral rents and social development between Manuel Riesco and Juan Carlos Guajardo. See Guajardo 2008; Riesco 2008.

imbalance in the budget, the 'sterilisation' of revenues by saving profits during high prices compels the state to work within the limits of its budget. This approach works as if savings do not exist at all. By making access to resource rents difficult, such as by limiting access to the Ministry of Finance and requiring bureaucratic approval for the release of funds, budget accounts are kept at fiscally sound levels. During bust periods, the Ministry can inject financial resources in the economy to cushion the effect of low prices, thereby protecting the economy from possible recession as a result of price and export downturn. In the Chilean case, the strict guidelines and institutionalised process of managing the sovereign wealth funds make a strong case for a highly disciplined state. The law is a testament of the capacity of states to use resource rents responsibly and therefore reject the 'politics without limits' mentality observed by Karl (1997) and Ross (1999, 2001b) in mining and oil-based economies.

In this context, I argue that the fall of Concertación from power does not necessarily indicate any decisive shift in copper politics or public perceptions as regards their broader economic platform. The recent victory of the opposition *Coalición por el Cambio* (or Alianza) has been a product of the social reformist agenda against a perceived less innovative Concertación presidential candidate. Electoral machinery, imaginations of change, and the moderation of party differences due to the practice of consensual politics are more plausible explanations of the end of Concertación days. Though there are still ideological differences between the Right and Left in Chile (Dávila & Fuentes 2002), the expectation of change in the broader economic agenda should come with reservations. For example, the privatisation of CODELCO, fully or partially, was never taken up in the 2009 presidential debate. As a result of the need for reconstruction of major Southern cities in Chile after the destructive 8.8 magnitude earthquake in 27 February 2010, Piñera initiated the passage of a legislative amendment to increase the tax rate from five to eight percent and change the time period of invariable tax rate from 15 to 12 years. This obviously was done amidst the publicly declared opposition of the Consejo Minero and SONAMI. The recent announcement of the new modernisation plan of CODELCO in July 2011 sparked the first major strike, indicating both the breakdown of the Strategic Alliance and the power of unions to prevent a decisive move to privatise the state copper enterprise. As I hope to show in Chapter 6, the Piñera government's formidable obstacles to reform are also outcomes of the long-term legacies of corporate practices and the militancy of mining unions.

Through the lens of HI and critical IPE, I have shown the contested process of diffusing neoliberal ideas and legitimising the discourses as filtered by institutional environments. Whilst IPE scholars argue that political alliances are forged within transnational and domestic spaces (Gill & Law 1989; Robinson 2008; Sklair 2001), these are institutionally contextualised and reinterpreted by agencies. Changes in the regulatory framework are derived from compromises between actors, class configurations, and contingencies of history. These factors inform the broader competitive strategies of resource-rich states like Chile. By examining the aspects of economic continuity and attempts at challenging the neoliberal orthodoxy, I showed the interactions between ideas and institutions, particularly how state structures and institutional legacies have constrained policy elites from absorbing new ideas as alternative paradigms to allow agencies to think what are the possibilities of institutional and economic transformations (Campbell 2001; Hay 2004a, 2004b; Hay & Marsh 2000). There were explicit attempts by the Concertación coalition to construct narratives to fit demands of global competitiveness and productivism by explicitly recognising the need for growth to come before equity and the legitimisation of private sector logics of efficiency in the mining sector.

5.4 Conclusions

To sum up, the political choices in favour of political continuity in Chile is a combination of both economic fortunes of copper, the political legacies of the dictatorship, and the structural constraints of the global economy that all hinder Chile's capability to diversify its exports. The soaring commodity prices are giving Chile the chance to save more resources without increasing physical production. Its economic strategy of placing Chile within a complex web of free trade agreements to promote copper and other resource exports is currently working to its advantage. At the domestic level, this is currently sustained by the political discourse of neoliberal globalisation, which allows national elites to valorise copper mining, maintain 'sound' economic governance, and at the same time address the brewing tensions from below as reflected in the passage of taxation and subcontracting law. Without labouring the point any further, this approach to global competitiveness, as Robert Cox (1981) puts it, is a combination of consent and coercion that produces a seemingly coherent hegemonic paradigm of neoliberalism. In many ways, my distinction between neoliberal and neostructuralist policies may look superficial for some scholars. However, there have been genuine progress in several fronts and neoliberalism is not a totalising political experience that is simply about deregulation and depoliticisation. The Royalty II Law, although rejected under Aylwin and Frei Jr. in the 1990s and had to be refashioned as a tool for innovation for sustainable economic development, is at its core the same debate in the past. The taxation law is a readjustment to the complex political alliances between the state, foreign capitalists, and domestic mining groups though not as grand as the Washington Agreement in 1951 or the Nationalisation of Copper in 1971. And as in the past, the process was far from linear. For example, the media (controlled by Right parties) marginalised the position of *Cepalista* economists and radical groups at the beginning of the debate by taking a clear position as regards the perceived negative impacts of additional taxes to Chilean competitiveness and the possible harm to Chile's image as a haven of tax and political stability (see Castañeda 2004; Cerda 2004; El Mercurio 2010a, 2010b; Morandé 2004).

The empirical evidence on state governance in Chile makes strong claims against the idea that neoliberalism and post-neoliberalism are starkly contrasting political economies. Thus far, I have examined in great detail the power of neoliberal ideas and policy practices as constraints to the reorientation of the state in managing the economy. I also examined how consensual decision-making has led to conservative reforms in the realms of mining policy and labour relations. Based on this chapter, Chile is indeed a case of self-reinforcing path dependent sequencing of reforms, wherein the costs of exit and switch to a different pathway increases. In this vein, political continuities that 'lock in' political choices are partly ideological and partly a pragmatic response of the state to pressures of global competitiveness and hegemony of neoliberalism. It exhibits institutional change through gradual reforms without necessarily challenging the neoliberal framework. Concertación governments kept the rules in place by promising stable legal governance, technocratic management of copper policy, and emphasis on business initiatives in mining. Nevertheless, Chilean state governance seems to also posit a relatively successful strategy of global competitiveness.

In the succeeding chapter, I further explore aspects of neoliberal reforms by focussing on the consequences of institutional changes to the state enterprise CODELCO, to private investment, and the fate of mining unions. If neoliberal democracy reflects institutional continuity in copper policy, in which modes of technification undermine extension of political participation of those excluded in the decision making arenas, then how state enterprises are managed and how labour unions in the copper industry organise themselves in response to privatisation are as politically salient as the debates on regulatory frameworks. These themes constitute the second order questions of resource governance and neoliberalism. I shall discuss the consequences of neoliberalism to corporate autonomy and labour management. In so doing, I hope to show the variegated effects of neoliberal reforms to different actors, thereby, exemplifying the complexity of domestic adjustment strategies to neoliberal globalisation.

Chapter 6

CAPITAL-LABOUR RELATIONS IN THE CHILEAN COPPER SECTOR

CODELCO is a strategic company for Chile. Overcoming extreme poverty and transforming the country in a modern and fair society depend to a large degree on the success of its management. This very reality imposes greater demand for efficiency and competitiveness.[74]

Marcos Lima
CODELCO President, 1994-2000

CODELCO is more than just a state enterprise that produces copper on behalf of the state. As Marcos Lima himself acknowledges, the management of the state enterprise has consequences to Chile's economic fate. The firm serves as buffer between private and public interests, and its reform project has far-reaching consequences in the copper industry. The politics of restructuring state enterprises in the most strategic sector of Chile is clearly one of the most contentious, if resistant, policy agenda under Concertación governments. Under the left-centre coalition, state enterprise restructuring – particularly labour management – was shaped by the discourse of global competitiveness. These policy ideas advocate for greater autonomy for CODELCO and for increased labour flexibility as a core strategy in modernising public enterprises. On the one hand, reformists within the governing coalition emphasised the need for CODELCO to 'defend copper prices'. They also promised reforming corporate governance, investment strategy and labour policy within and outside the state company. On the

[74] 'Letter of the President'. CODELCO Annual Report 1999. Santiago de Chile: CODELCO, 10.

other hand, mining business and right parties pressured Concertación governments to maintain its political commitment to tax and political stability. This has far reaching consequences to labour management in the copper industry.

Theoretically, this chapter challenges the orthodox view of Chile as a *simple* case of self-reinforcing path dependence towards neoliberalism. In agreement with Mahoney & Thelen (2010), models of governance are not mere outcomes of actor rationality. Instead, gradual economic transformation takes place by way of contesting economic ideas, institutions, and policy practices as constitutive of models of development. Whilst the implementation of reforms suggests the hegemony of neoliberalism, conflicting interests and power relations mould political outcomes that do not necessarily conform to neoliberal ideas. Although actual reforms were implemented to modernise CODELCO through an overtly technocratic and depoliticised approach to its corporate management, reforms have not completely succeeded in achieving their goals. There are a variety of reasons for this. Firstly, political legacies left by the coup d'etat in 1973 have made any reforms in state ownership difficult to acquire a new cross-party consensus. Secondly, the fiscal impact of CODELCO implies that the state could not afford labour unrest, and therefore labour unions have used their veto powers quite effectively to prevent outright privatisation of the state enterprise. Finally, a stronger role for private capital in copper mining alongside public sector mining was a strategic compromise in the context of overwhelming dependence on a single commodity. By contextualising CODELCO's reforms within the institutional dynamics in Chile, one can surmise the difficulties faced by the state enterprise in achieving its goal as a public firm and as a private entity. In many ways, we find distinctive path dependent, self-reinforcing processes between Pinochet and Concertación governments, which prevented radical reforms in privatising CODELCO, but that this should be understood within the context of institutional conflicts to adjust neoliberalism as an organising logic of development. In this chapter, I posit that corporate governance reforms in Chile – in terms of state ownership, limited privatisation, and politicised labour management – are indicative of a hybrid model of resource governance that blends state and market mechanisms in managing political tensions and in maintaining Chile's formidable position in the global copper industry.

Whilst neoliberal reforms presuppose a specific role attributed to the state in economic management, we need to examine how this role is practised by the state in its constitutive relationship with the state company. CODELCO's experience of reforming its corporate affairs has brought forth a difficult situation, wherein its international competitiveness and political autonomy from state and labour has been compromised. The permanent friction between private capital and mining unions reveal the tensions inherent in mining management. In publicly owned mines, the breakdown of *Alianza Estrátegica* between the state and workers indicate the contradictions of state ownership and private-led mining governance. In the private mines, workers have begun to seek for greater state support in defending their collective rights. The world of labour has been transformed radically by neoliberalism although not in ways predicated by advocates of neoliberalism. The chapter is divided into three sections. Section 6.1 critically discusses the standard neoliberal narrative of corporate restructuring and the discourses of 'good governance' in mineral extraction. This is followed in Section 6.2 of a detailed analysis of CODELCO's role in the economy and attempts of state managers to reform the firm's structure of ownership, investment strategy, and internationalisation plans. In Section 6.3 I explore the changing styles of managing labour conflicts in Chilean copper mining as constitutive of state management. Finally, I conclude by analysing what some calls Chile's 'Winter of Discontent', which refers to the political storm that is smothering the presidency of Sebastian Piñera (2010-present). His attempts at reforming CODELCO has led to the rejection of Alianza Estratégica in the public mining sector and his failure to respond to the mining accident in San José mine resulted into the 31 miners suing the government and not the private mining firm for negligence. Most crucially, a series of strikes in CODELCO and Minera Escondida has paved the way for the breakdown of the pact between state and labour.

6.1 Pressuring for reforms: CODELCO and the Chilean economy

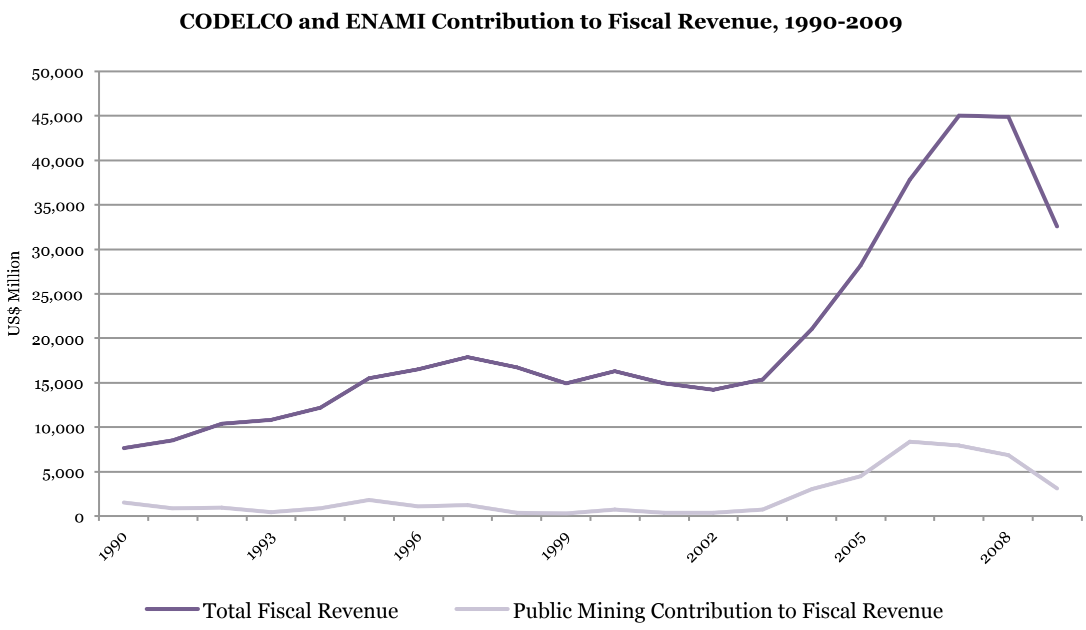
The focus on state ownership and labour management in CODELCO as a way of understanding resource politics allows me to explore how state enterprises respond to watershed reforms like neoliberal restructuring. As Nicolas Majluf himself acknowledges, the main challenge for CODELCO to succeed as an effective public enterprise for Chilean society rests on the capacity of state managers to make strategic decisions in investment and international expansion on the one hand, and to establish stable yet democratic firm-worker relations, on the other.[75] In other words, these two goals though seemingly disparate economic issues are in fact intertwined and reconstitute each other. Without sound labour relations, workers have the bargaining power to go on strike (though seldom used during the Concertación days) and CODELCO cannot produce in the mines. But state managers are in equal measure responding to demands of competitiveness and need to make difficult decisions regarding operations and investments. In turn, employment security of mining workers is contingent on commodity production. Whilst this sounds quite simplistic, in fact, this relationship between production and labour has typically been understated. But also in CODELCO, state ownership shapes the range of available choices for state managers to respond to these challenges.

It is not very difficult to explain why CODELCO was never privatised in any form. As I have shown in Chapter 4, Chile hardly benefitted from copper revenues until 1971 due to the difficult relationship between the state, foreign capital, and US government. The Washington Agreement in 1951 and Chileanización project in 1966 both failed to satisfy public outrage against the outflow of copper profits as a consequence of the direct control of American copper firms of Chile’s natural resources. In this context, the creation of CODELCO was a watershed economically and politically. By creating a state enterprise with 100 percent ownership, the Chilean state for the first time

[75] Author interview with Nicolas Majluf, CODELCO, October 2009.

had direct access to mining revenues. Although this has precipitously bound Chile's economic fate to the vicissitudes of global markets, copper revenues likewise proffered the state a new opportunity in directly using natural resources for economic development. This situation of dependency has not changed since then. As Figure 6.1 illustrates, state enterprises for large-scale mining CODELCO and small- and medium-scale mining ENAMI have contributed between 5 and 20 percent of Chile's total fiscal revenue. Chile's persistent vulnerability to external shocks and price fluctuations is also clearly reflected in this graph. During periods of high prices from 2004 to 2009, its contribution was above 15 percent peaking at 22 percent in 2006 (US$ 8,334 million out of US$ 37,830 million).

Figure 6.1 Contribution of publicly-owned mining to fiscal revenue

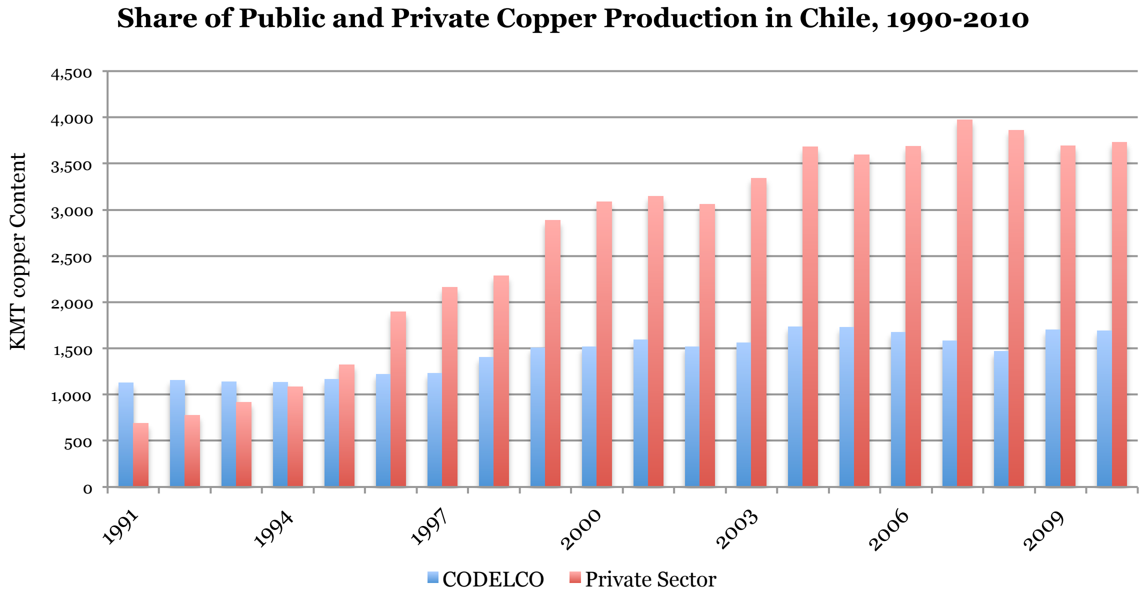


Source: COCHILCO Annual Statistics 2010 (Adapted), 76-77.

Given the long standing dependence on copper, we must understand attempts at reforming CODELCO by examining the company's performance and the surrounding discourses deployed by Concertación governments to persuade Congress and indeed both state managers and workers to formulate a compromise in the name of competitiveness. It is undoubtedly the case that Chile's economic performance has always been linked directly to CODELCO's levels of productivity, financial performance and cost effectiveness. The years of underinvestment and low copper prices combined with the politicisation of CODELCO management under the dictatorship placed severe constraints on the effectiveness of CODELCO as a state enterprise. In this context, the belief on private sector-led development is not without foundations. If one examines the share of private capital in copper production, it is clear that CODELCO has been left behind in terms of productivity. This is, of course, despite the fact that the state enterprise continued to expand its production and modernise its labour relations. As Figure 6.2 reveals, private capital has taken over Chilean copper production in aggregate terms as CODELCO's share of production drops from 60 percent in 1991 down to 30 percent in 2010 (take note of the increase in CODELCO's performance). From 1991 on, private capital has steadily increased its production; new mines have been opened for mineral exploitation and profits have soared as the commodity boom has come off in 2003. What should also be pointed out is that Minera Escondida, operated by mining giant BHP Billiton, is solely responsible for the dramatic jump in private production vis-à-vis CODELCO. Between 1991 and 2009, Escondida's share of copper production jumped from 8.9 KMT to 1,103.7 KMT or roughly 20 percent of Chile's share of production in the global copper market. This contrasts to the modest increase of the biggest copper producer in the world, CODELCO, which gradually increased its production from 1,195.3 KMT in 1991 to 1,702 KMT in 2009 (COCHILCO Annual Statistics 2010: 18-19).[76] Not only has Escondida benefitted enormously from corporate freedom to make investment decisions, the multinational firm has also directly received generous tax rebates thanks to the Foreign Investment Law – a key point that sparked the move to impose a royalty tax in mining (see Chapter 5).

[76] KMT is the unit of measurement for copper production, which is an abbreviation for thousand metric tons.

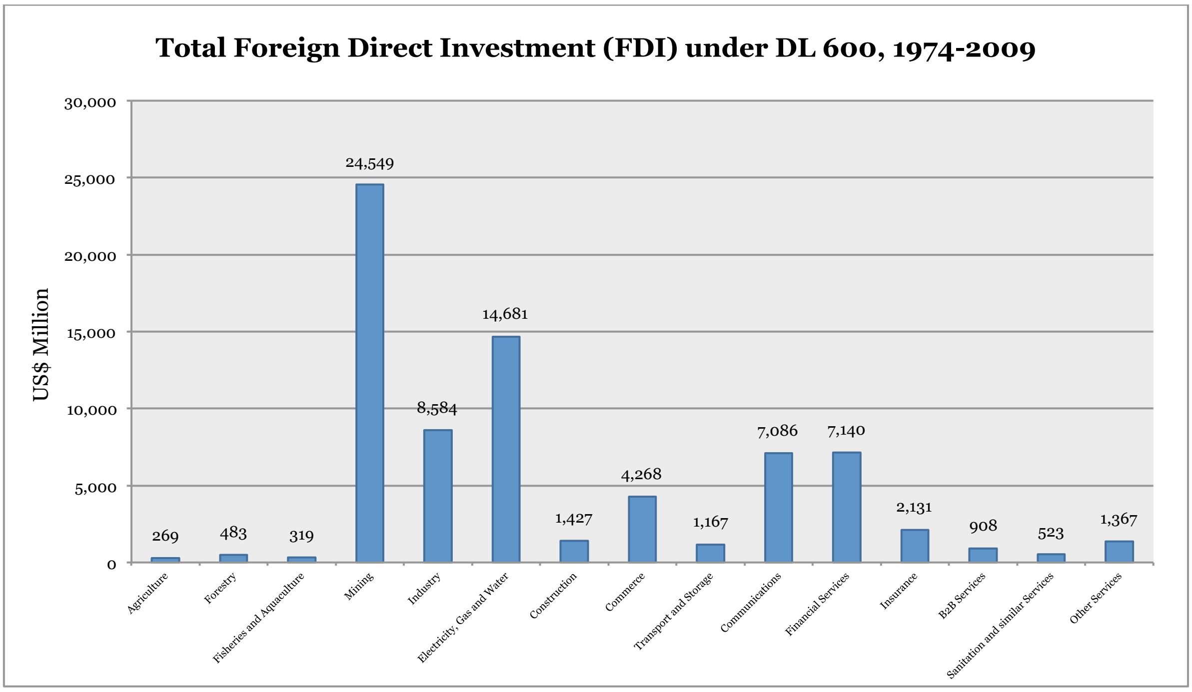
Figure 6.2 Copper production in Chile, 1990-2010



Source: COCHILCO Annual Report 2010 (Adapted), 18-19.

What is particularly striking is the ways in which Concertación governments have acknowledged and legitimated the role of private capital – most importantly foreign mining firms – as the new engine of economic development in Chile. There are two important indications of this strategy. Firstly, the yardstick to measure CODELCO's productivity is the efficiency of private sector. Using different metrics of performance in the copper industry – workforce productivity, cash cost reduction, corporate social responsibility, etc – CODELCO is compared incessantly to private enterprises. The anticipated outcome was the widely held ideological view of private firms as inherently productive whilst public enterprises were seen as wasteful and uncompetitive, especially from the Right and Centre parties within Concertación. The key evidence often deployed by Chilean technocrats to justify such argument is the concentration of foreign investment in the copper sector. Figure 4.3 demonstrates the share of mining (mainly copper) in actual foreign direct investment (FDI) under DL 600. All throughout Pinochet and Concertación years, copper mining attracted as much as US$ 24,549 million out of US$ 74,901.6 million, or 32.8 percent of total foreign investment in Chile. By venerating the role of foreign capital, Chile's neoliberal regime institutionalised its pro-investment strategy of globalisation in which mining is placed at the core of its comparative advantage.

Figure 6.3 Foreign capital in Chile, 1974-2009



Source: COCHILCO Annual Statistics 2010 (Adapted).

Secondly, by recognising the vulnerability of Chile to the price cycle that drops and lasts for years, political elites converge towards a shared view that the copper industry must undergo a very difficult adjustment phase – one that includes temporary or permanent closures, technological changes, and mergers, among other corporate strategies. These reforms were seen as necessary. In periods of negative growth, "price levels necessitate additional efforts from CODELCO that affects its future investment strategies" (CODELCO Annual Report 1998). As a result, CODELCO successfully reversed its costs since 1993 that would have registered losses for 1998.

The growth strategy is underpinned by the extent of labour unions' acquiescence towards these reforms. Under the leadership of Juan Villarzú (1994-1996), the need for cost reduction and greater efficiency was achieved through technological innovations in mineral extraction, industrial processes, and data processing.[77] Whilst he sought to cut workforce quantity, his plan was to maintain job stability and quality of life in Northern mines through the adoption of *Alianza Estrátegica* (or Strategic Alliance) in 1994 – a series of agreements between management and permanent workers. The ability of CODELCO managers to make autonomous decisions regarding its labour force exemplifies the unique situation of the copper industry in Chile. More specifically, it shows the divergent pathways of labour management between public and private mining and between the copper and productive sectors of the economy. One prominent discourse justifying Alianza Estratégica for twenty years was the outcome of the reforms in terms of workforce productivity. CODELCO's workforce productivity index is lower than private capital though its labour relations policy has always been deemed to be better equipped in dealing with labour conflicts. As Table 6.1 reveals, CODELCO did not obtain the lowest score across large-scale mining companies. As I will argue in Section 6.3, labour relations is in fact more stable in comparison to private capital and a healthier management-worker relations have existed – a striking feature given the commonly held belief by neoliberal theory regarding the inefficiency and negative consequences of politicisation in public enterprise management.

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[77] Juan Villarzú was appointed as President of CODELCO once again between 11 March 2000 and 11 March 2006.

Table 6.1 Own workforce productivity index, GMT-10 + CODELCO

Workforce Productivity Index[1]					
Baseline 2005=100					
	2005	2006	2007	2008	2009
Escondida	100	97.1	111.6	87.9	75.6
Collahuasi	100	97.1	83.0	63.4	60.9
Pelambres	100	96.5	79.0	85.5	76.6
Anglo American Chile	100	95.6	90.8	81.5	N/D
Candelaria	100	101.3	105.5	92.2	70.9
El Abra	100	102.6	75.3	64.3	56.6
Zaldívar	100	119.1	110.8	98.4	98.2
Cerro Colorado	100	120.4	100.4	93.4	N/D
Quebrada Blanca	100	100.3	97.0	88.0	107.3
GMP-10	100	98.9	97.8	82.6	N/D
CODELCO	100	93.8	87.9	78.4	88.3
GMP-10 + CODELCO[2]	100	97.1	95.6	83.8	N/D

Source: COCHILCO Annual Statistics 2010, 91.
Notes:
(1) Based on mine copper production (refined content) to own workforce average ratio. Save for Los Pelambres and Quebrada Blanca, workforce average is based on year-end payroll.
(2) Ten largest copper producers operating per FDI contracts granted under Decree-Law 600.

What I have done thus far is to problematise the coherence of the model from the perspective of corporate management. It is certainly the case that Concertación governments have used neoliberal discourses to manage tensions and social conflicts in the mining industry and beyond. There exist several contradictions regarding the ideational and actual performance of state enterprises. Nevertheless the competitiveness agenda was used as a way of pushing CODELCO to act like a private entity without recognising the distinctive history and role of state enterprises in its national political economy. Credible commitment to economic continuity has been justified through the material consequences of neoliberalism – actual FDI inflows in mining, higher production in private sector, and *perceived* better workforce productivity in private large-scale mining. Yet we still need to explicate the consequences of 'actually existing neoliberalism' in corporate restructuring and place these materially constituted policy practices within broader debates of natural resource governance. To do so, I demonstrate in Section 6.2 the very different ways and processes of compelling CODELCO to modernise its operations and manage labour relations. The twin challenge of competitiveness and labour stability has been at the core of political debates in Chilean copper industry for decades. Under Concertación governments, economic continuity significantly restrained the space for manoeuvre for greater regulation in the industry. Nevertheless, CODELCO is an interesting case of non-autonomy in which a staunchly neoliberal state maintained control in several key areas of decision-making, hence, blurring the distinction between its public and private roles.

6.2 Demystifying corporate governance in CODELCO

Whilst the public discourse has often been sceptical of CODELCO's ability to catch up with private sector, the reforms at the same time sought to avoid selling off assets at artificially depressed prices or to destroy the consensus achieved by Alianza Estrátegica. In the next two sections, I intend to show the difficulties of modernising CODELCO along the lines of a private enterprise. Whilst neoliberalism was a critical juncture with respect to opening the copper industry for capital accumulation, economic reforms failed to completely reverse the legacies of the past, mainly the prevailing view of CODELCO as a company for the Chilean society. Upon the return of democracy, the division between CODELCO's public role of producing minerals for the state and private role of competing directly against large-scale mining firms has become noticeable. Whilst the political transition was in no way tumultuous, Concertación was left with the responsibility of maintaining a delicate balance between deepening the economic model and ameliorating the social costs of neoliberal reforms. As I show in the proceeding sections, the contradictions in reforming CODELCO is best exemplified first, in terms of the persistence of state ownership under Concertación's state-managed neoliberalism, and second, with regard to CODELCO's investment and internationalisation strategy.

6.2.1 Persistence of state ownership in copper industry

Immediately after the first civilian government took power, it was clear that CODELCO would remain under state control though reforms were certainly foreseen to enhance its competitiveness. On the one hand, Concertación immediately removed the military generals in the governing Board of Directors through DN 146 which was approved in 1991. This was in line with

Concertación's technocratic governance. On the other hand, the state retained 100 percent ownership of the company with ministers sitting in the board and making *economic* decisions on behalf of the state. The outcome is to initiate reforms to make CODELCO competitive without giving up state ownership. DL 19.137 was approved in May 1992, also known as CODELCO Law, which complemented the existing copper nationalisation law. CODELCO Law stipulated the newly acquired freedom for CODELCO to sign joint ventures with third parties in exploring and developing new mines. This law has been an effective strategy in expanding its mining activities in Brazil and Ecuador as well as its international trading and commercial efforts in the international market (CODELCO Annual Report 2010).

One salient feature of the reforms is the lack of political commitment among Concertación elites to pursue the privatisation agenda despite their long grip in power. Not surprisingly, Chile's persistent state ownership is an outcome of the difficulty in grafting a new consensus on how to best enhance the competitiveness of CODELCO. For example, partial ownership of its shares was never approved in Congress although CODELCO was made accountable to both executive and legislative branches. Pinochet's neoliberal strategies have left an indelible mark in the Chilean publics. CODELCO stands as the last remaining economic organisation reflecting the long history of nationalist struggles against foreign capital since the consolidation of export dependency in 1930. As such, despite the depth and pace of privatisation in social provision, health and education (Brooks 2009; Taylor 2006), as well as the deregulation of service and labour markets (Alemán 2010; Haagh 2002; Silva 2007), state control over the copper industry has been exercised in the traditional sense of state ownership. By this, I mean that the shareholders are the Chileans and the society writ large, in which state elites – i.e. ministers – are given decisive powers in making strategic investments and overall direction of CODELCO in the governing board. In the context of financial globalisation, this is particularly striking especially for a state generally perceived as totally neoliberal. Most countries described as 'state capitalism' – those which attempt to meld the powers of the state with the powers of capitalism – exercise tight control over state enterprises through their ownership of shares. Either states take majority (51 percent and above) or minority (through 'golden shares') share of capital (The Economist 2012). The Brazilian case follows this trend of wielding state enterprises with vast decision-making powers as a competitiveness strategy, as Chapter 8 will argue. In Chile, however, the state retains full ownership of CODELCO, which has created problems regarding its autonomy in decision-making. Whilst the dominant discourse was indeed neoliberal, the state could not put itself to give up control in the state enterprise, and instead, opted for state-managed neoliberalism by simultaneously performing as regulator of markets and as direct producer through CODELCO.

There are competing interpretations regarding the consequences of state ownership for Chilean economic development. From the vantage point of business, CODELCO's incapacity to exploit rich and vast mining reserves (a result of copper nationalisation) is indication of being wasteful because the private sector is more dynamic and capable of increasing copper production, evidently shown in Figures 6.2 and 6.3.[78] This contrasts quite well with the labour unions who assess Concertación governance as one which effectively deepened neoliberalism and entrenched profound contradictions in the role of the state in economic management.[79] And quite interestingly, key Chilean officials' position is one of tactical neutrality, wherein the state is perceived as capable of performing its dual role without any problem. By embracing foreign investment as crucial element in Chile's development strategy in the era of integrated global markets, they successfully weave coherent narratives of the role of the state in economic management. Marco Fluckiger of COCHILCO describes the role of CODELCO during and after the dictatorship:

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[78] Author interview with Javier Cox, Consejo Minero, October 2009.

[79] Author interviews with Pedro Marin, President of Federación Minera de Chile (FMC), 4 November 2009; Mario Plazo, Gold Meridian, November 2009; Agustin de La Torre, XSTRATA, November 2009.

> For many years, CODELCO was milked like a cow. There was not enough interest in making CODELCO competitive against private companies. In the 1970s and 1980s the country needed all money they could get from CODELCO. The state did not invest on [the firm]; there was no money available for investment, only the minor things to keep it going. The country had no budget. Now they have enough money. That is why they called for foreign investment, and [the law] worked. [But] it is the combination of the circumstances. On one hand, they had no money, and they did not want an extremely competitive CODELCO. Having a large CODELCO means you are dependent on one company. If you make CODELCO too big, there would be no space for other firms to come and invest in Chile, what was the sense [of the law]? This fear brought Chile to diversify its exports from copper to wood, pulp, fish, salmon, wine, agriculture, etc. Being very dependent on CODELCO is bad, copper prices are cyclical. You have a few good years and many years of bust. Today Chile has attracted the big companies; there is sufficient private production. Mining has become diversified. The logic of the policy is reversed again. Now they want CODELCO to grow [and become more competitive after years of underinvestment]. [80]

The coherence in the model of governance has been applied in CODELCO by way of adhering to technocratic governance. In November 2009, CODELCO Law was passed based on the recommendations of former CODELCO President Marcos Lima to reorganise its organisational structure and corporate governance. Under DL 20.392, ministers were eliminated from the board to be replaced by independent directors who are elected in transparent and competitive processes. It also effectively subjected CODELCO to the same requirements as private firms. As Table 6.2 illustrates, this is a marked change in terms of reducing the politicisation of decision-making in CODELCO although, as Nicolas Majluf notes, this is hardly a watershed with respect to improving the performance of CODELCO.[81] For example, members of the board are now liable to their actions by making possible to file civil and criminal charges against them. The change in the terms of office by the board of director likewise breaks the link between electoral cycles and corporate management. In many ways, these reforms respond to contemporary

[80] Author interview with Marco Fluckiger, COCHILCO, October 2009.

[81] Author interview with Nicolas Majluf, CODELCO, October 2009.

challenges of competitiveness imposed by neoliberal globalisation regarding the role of states and the exercise of discretion over the management of strategic enterprises. Nevertheless, there is clear path dependence on what is achievable in reforms and what is not. Whilst the law has now formally given shareholder accountability to the Ministry of Mining and Finance, it is certainly the case that the state remains the shareholder and therefore the conflict of its role as principal and agent stays in the governance structure. This, of course, contrasts the Brazilian experience of state enterprise management whose political autonomy and the need to act as private entity have been recognised by the military government since the 1970s (see Chapter 8).

Table 6.2 Key changes in CODELCO corporate governance

	CODELCO Law Prior to Changes (1990-2009)	New Aspects of CODELCO Law/DL 20.392 (2009-present)
Board Structure	No formal shareholder role Seven directors - Mining Minister (Chair) - Finance Minister - 2 Representatives of the President of the Republic - 1 Representative of the President of the Republic (member of the Armed Forces) - 2 Union Representatives	Shareholder represented by Finance and Mining Ministers Nine directors - 4 directors selected by the Council of Senior Public Management - 3 Representatives of the President of the Republic - 2 Workers' Representatives
Term	Presidential period	4 years rotating with partial renewal of the members
Roles and Responsibilities	- Set general policies - Approval of investments above US$ 50 million - No civil nor criminal responsibilities for their actions - CODELCO is not subject to Corporations Law	- Appoints and dismisses the CEO - Approval of Three Year Business Plan, investments, and main contracts - Civil and criminal responsibilities for their actions - Faculties established in Corporations Law - Obligations set under Corporation Law

Source: Bande 2011, *CODELCO's New Corporate Governance: 18 Months After* (Adapted), 6.

Nevertheless, my core argument really is that Chile's attempt at depoliticising corporate management in CODELCO has failed. The 'neoliberal' state continues to make the important decisions in the strategic and day-to-day management of the company despite a clear conflict of interest for being both regulator and producer in the market.[82] Since the copper industry remains under state hands through 100 percent ownership of CODELCO instead of flexible assets and shareholding schemes, the state is accorded some political roles, which are difficult to avoid. For example, the President of the Republic is given particular duties and responsibilities such as appointing the board, naming the Chair of the Board, and approving and modifying the corporate by-laws. These decision-making powers are typically accorded to shareholders of the corporation; therefore, with the state as a shareholder, a conflict of interest arises between its role as principal and agent. In addition, the modernisation of CODELCO did not involve stripping off the rights and privileges of organised labour in arenas of decision-making because the union of permanent workers, *Federación de los Trabajadores del Cobre* (FTC), has managed to retain its seat in the board. The situation effectively keeps the veto power of unions in management reforms. On the one hand, this guarantees financial benefits, pensions, and employment security of the now ageing workers of CODELCO. Whilst this is generally found in some other state enterprises, what we must bear in mind is that the role of labour has always been politicised and contested publicly in Chile. The new structure of corporate governance is still viewed as an obstacle to global competitiveness and some advocate further depoliticisation by not only taking out the ministers but also the workers in the board.[83] These political conflicts in delivering reforms and adapting a globalised strategy of extraction are evidently shaping institutional transformation taking place in the industry. What we are witnessing is simultaneous *institutional displacement and layering* in an attempt to strike a compromise between conflicting interests between state managers, big business and organised labour. On one hand, CODELCO's highest decision-making body has had complete replacement of existing rules with new ones signifying radical shifts

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[82] See the summary of the Code of Corporate Governance in CODELCO at www.codelco.com/english/la_corporacion/fr_organizacion.html (accessed on April 21, 2011).

[83] Author interviews with Nicolas Majluf, October 2009; Gustavo Lagos, November 2009; and Marcos Lima, November 2009. For an overview of the reforms, see OECD 2011: 42-47.

in institutional contexts either abruptly or in slow moving way. On the other hand, political legacies and historical conflicts shape the extent of reform, such that these new rules in place are adapted alongside old ones – that is to say that labour unions have retained their veto power in the new structure of the governing board.

Whilst tempting to think of CODELCO's governing structure as the exception rather than the rule, in fact, state control over companies that play strategic roles in the economy is prevalent in neoliberal Chile – ENAMI, ENAP, and *Banco Estado*.[84] Worker representatives likewise serve on the boards of many SOEs, including the largest ones notably the four cases mentioned above. Whilst in many cases workers have the right to speak, CODELCO and *Banco Estado* accord workers some voting rights. More compellingly, the *state* view on ENAMI is that the state enterprise has a developmental role of promoting the production of copper by small mining producers by buying, processing and selling copper, thereby protecting them from the effects of boom and bust cycles in copper prices. This political logic also justifies the presence of two representatives of the National Mining Association (SONAMI) on the board with the aim of building a consensus in ENAMI to policies impacting local miners (OECD 2011: 51).

Overall, despite the speed and pace of privatisation of state enterprises, there exist thirty-two SOEs which are under the supervision of the Public Enterprise System (SEP), twenty-six of which are fully state-owned while others possess private shareholders. In four cases involving water and sewerage utilities, the state own minority shares (29-45 percent), but also owns what is called 'golden share rights', which are rights allowing the state-elected board members to veto the transfer of ownership of water rights and drinking water and sewerage concessions of these companies – a safeguard

[84] ENAMI is a minerals processor with a developmental mission of supporting small and medium enterprises. ENAP is the state firm in charge of oil exploration, refining and production of natural gas for Chile's energy security. Banco Estado is the national development bank.

created in the height of second stage reforms (privatisation) in the 1990s to ensure drinking water services will continue in all instances (OECD 2011: 36). Far from the orthodox market-conforming prescription of neoclassical economics to developing countries, the Chilean state has in fact followed pragmatic neoliberalism, as exemplified by the reform pathway of Chile's extractive industries and the broader regulatory framework on corporate governance of SOEs.

6.2.2 Competitive strategies of CODELCO

I have already argued that political legacies and the specific role of copper mining in Chilean development are the main reasons behind the persistence of state ownership. Since limited privatisation follows a more political rather than economic rationale, competitiveness has been the cognitive framework of reformists. As a corporate strategy, CODELCO managers have sought to enhance the profitability of the company through a combination of investment in existing mines, developing new technology to expand the use of copper, and internationalising their operations. The success of this approach, however, required a compromise between the managers and workers, which was encapsulated in a series of agreement called *Alianza Estratégica* (Strategic Alliance). Contrary to the widely held view that the pact is simply about moderating labour demands, it is in fact about the profitability of CODELCO.

In Table 6.4 (next section), I will discuss the agreements between the state, CODELCO, and its workers to achieve the productivity targets through Alianza Estratégica. At its core is the perceived need to speed up the process of turning investments in the mines into profits. The strategic alliance was evidently the compromise between maintaining 100 percent state ownership and modernisation of the company. Globally, traditional mechanisms of state control in ownership structure and control over decision-making have rarely been adopted as a competitive strategy. As explained earlier, state capitalism in countries like Brazil, China, India and Russia has responded to pressures exerted by economic globalisation by way of reducing political intervention through ownership of majority/minority shareholder assets rather than direct 100 percent intervention (The Economist 2012). In contrast, Chile's state ownership signifies the politicised nature of decision-making in corporate governance. It is very difficult to separate the company from the political establishment. One irony is that Brazil's internationalisation strategy has worked effectively because PETROBRAS has always exercised its political autonomy from the military government in 1960s and 1970s. In contrast, CODELCO's unique historical circumstances – that of being a state enterprise in a period of radical market reform in 1970s – the tight relationship between CODELCO and national governments has prevented the company from taking risky investments to expand its operations beyond the Chilean territories. This holds true even after Pinochet was replaced by the left-centre government in the 1990s. Alianza Estratégica was established in the context of a competitiveness crisis, in which CODELCO was perceived as losing competitiveness, credibility (as a result of politicised decisions such as the failed renegotiation of Abra mine), and growing scepticism within the company regarding the value of public management. Overall, the state enterprise was seen as a company without a vision (Villarzú 2005).

Its competitiveness agenda was tied to the political process. CODELCO remains subjected to public enquiries – in Congress and media – which makes corporate decisions (such as cutting labour costs) quite difficult to 'sell in society'. Such reforms do not necessarily favour competitiveness. One example here is the mounting public pressure for CODELCO to absorb the subcontracted workforce in 2007 in response to the perceived unfair practices, which as pointed by experts, would be counterproductive to the company's cost reduction strategy since 1994. On the one hand, private companies escaped the criticisms of excessively using third party contracting as a legitimate business practice even if roughly 70 percent of mining-related jobs are practically handed to third parties for servicing. On the other hand, CODELCO took the hit as pressures compelled the company to integrate around 5,000 workers in the face of lagging performance of the state enterprise. Whilst the decision to subcontract is subject to various economic factors, including copper prices, pressures to bring down the costs, and size of the firms (Pérez and Villalobos 2010), CODELCO's responses were more political than economic at the end of the day.

Nevertheless, CODELCO's competitive strategy can be distinctively identified as taking two pathways. On the one hand, within Chile and through the blessing of the government controlling the board of directors, CODELCO has gradually participated in many companies and joint ventures associated with the mining industry. With roughly 49 subsidiaries and workforce of 1,149 (CODELCO 2010: 64), the state enterprise has continually sought to expand business opportunities through mergers, acquisitions, and public-private partnerships in different parts of the commodity chain. This is complemented by the more limited attempts at internationalisation of CODELCO operations by way of expanding mining investments and operations in Brazil, Mexico and Ecuador. But whilst PETROBRAS sought to extend its reach into overseas markets, CODELCO has yet to establish a clear strategy to internationalise its operations. There are two reasons here. Firstly, in terms of copper reserves, Chile remains to be the best place to extract high grade ores and many other countries have only developed processing facilities, which CODELCO is equally investing on. Secondly, there are still political issues for the state enterprise, as mentioned above, which prohibit CODELCO from any ambitious exploration outside of the Chilean mines. But one primary constraint is the inability of CODELCO to have greater freedom to find ways in increasing its access to capital to make overseas operations viable.[85] Whilst an aggressive investment plan is on its way to allow the state enterprise to find financing outside of the state, it remains to be seen whether this will be a stable *state* rather than a *government* policy.[86] Nevertheless, CODELCO explicitly behaves as a private entity despite the clear constraints imposed by state ownership to its investment strategy.

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[85] Author interview with Jorge Bande, Member Board of Director, CODELCO, April 2012.

[86] The difference is that government policies reflect the policy orientation of the current political forces in power whilst state policies exhibit longevity and continuity in its policy commitment.

On the other hand, CODELCO has made clear the argument to Concertación governments on the necessity for technological innovation and research development to realise CODELCO's ambitious mining projects in order to grow and sustain itself in a fiercely competitive, resource scarce global economy (CODELCO 2012; 2010: 39-54). Thanks to years of financing investment under Concertación, the older mines in Gran Minería have now become more productive. In addition, new mining projects in copper, molybdenum and even sulphur extraction have been developed between 2001 and 2011, which vindicated the position of CODELCO to take radical steps in financing expensive projects that would have otherwise been funded under a very conservative Finance Minister and Treasury. There was a strong discourse within CODELCO on the *need* for a modernisation plan that addresses the competitive, risky, and quite costly business strategy envisaged by the company leadership.[87] Some benefits of the policy include the increase in export share over time and the development of technologically sophisticated methods in extracting copper cathodes. On a final point, one must take into account the broader politico-economic context of Chile at the turn of the millennium. The adoption of the modernisation plan was possible only because of the commodity boom which led to higher prices without an increase in actual production since 2002. The Concertación government gradually supported an aggressive plan of investment to expand the operations of CODELCO. What is evident, however, is that the success of Alianza Estratégica rests on the ability of state managers to drive the technocratic reforms within the enterprise forward through a balancing act between CODELCO, national government, and labour unions. Whilst there exist political interests in the government to gain as much profits as possible and in some cases political intervention in decision making, the economic demands of labour unions create a highly politicised climate that makes labour management far more difficult in the public sector. Although the Chilean state believes in the free market logic, the fact of the matter is that

[87] Author interviews with Marcos Lima, CODELCO, November 2009; Nicolas Majluf, CODELCO, October 2009.

the state company was politically managed. It has, in short, served as a buffer between public and private interests.

6.3 Managing labour demands in copper industry

In the first two sections, I have thus far illustrated the complex process of managing production functions in the state enterprise. In this section, I move away from managerial perspective of corporate reforms towards the politics of labour management in mining sector as evidence of contestation of resource governance models through the lenses of organised labour. The success of reforms aimed at enhancing productivity is by all means dependent on labour acquiescence, which signifies gradual institutional evolution of how the Chilean state manages labour unrest and demands from below. But before I discuss the effects of the privatised governance model in mining to actual practices of managing social tensions and labour unrest, it is important to note that the tradition of strong and independent unionism in Chile remains significant even in the context of strong elite preference for neoliberalism and its anti-union legacy. In recent surveys, labour unions have been perceived as necessary in a political system characterised as neoliberal democracy. As Table 6.3 vividly demonstrates, dominant parties across the political spectrum still consider unions as a key political actor when making policy choices to ameliorate the social costs of neoliberal restructuring. Although the centre and left parties (PPD, PDS and PDC) give more importance to the labour movement than the right parties (UDI, RN), the expectation of waning party-union relationship seems more complex than just forging coalitions between unions and parties for electoral purposes.

Table 6.3 Legitimacy of unions from political parties' perspectives

	Unions are obsolete	Unions are not obsolete	No response
UDI	24	67	9
RN	17	64	19
PDC	6	85	10
PPD	9	86	5
PS	9	84	7
Others	23	75	2

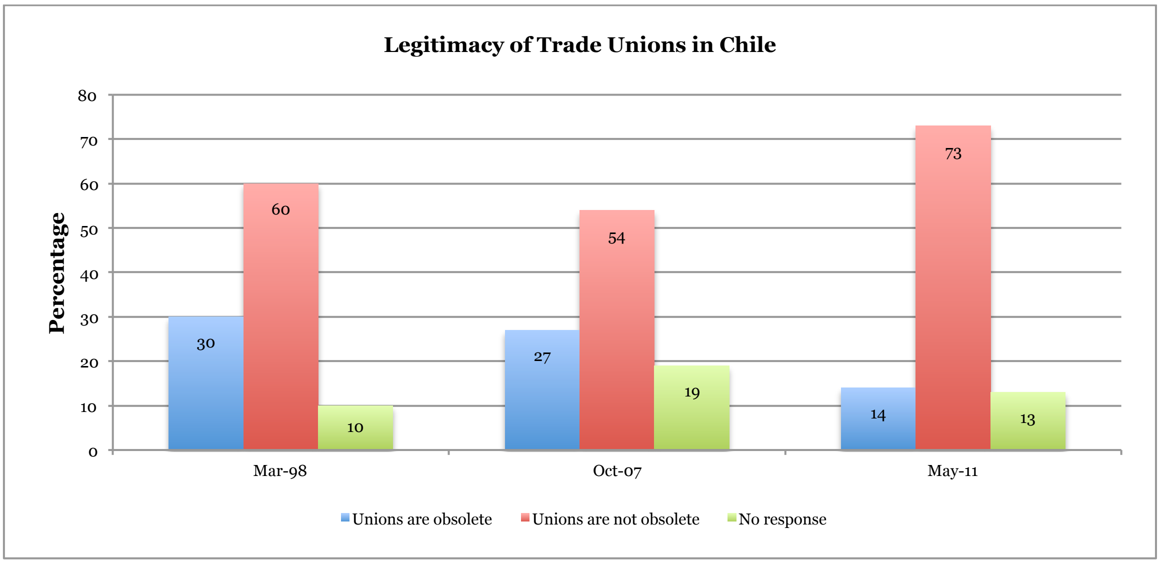
Source: Barómetro de la Política, May 2011 (Adapted), 24.

Poll Question:
There are distinct opinions about unions. Some say that unionism is an obsolete institution in defending workers' rights. Others think that unions are necessary in defending workers' rights. Which of the following positions do you think express your opinion? (1) Unions are obsolete; (2) Unions are not obsolete.

This has implications for arguments on neo-corporatism and pact-making in Latin America. Many scholars have indicated the decline of trade unions as well as the disarticulation of labour politics brought about by the shift towards contentious politics across the region (Burdick et. al. 2009; Cook 2007; Haarstad 2009a, 2009b). However, some degree of institutionalisation of democracy has taken place in Brazil, Chile and Uruguay (Levitsky & Roberts 2011). At the same time, political parties also have reconstituted their political relationships with class-based groups in striking political compromises to facilitate neoliberal orientated policies. In neoliberal Chile, dominant parties still accord unions a certain degree of autonomy (traditionally asserted by mining unions) and importance in their role as political actor in contemporary democracy. As the proceeding section explains, labour unions – particularly the highly organised miners' unions – have retained political autonomy from CODELCO and private capitalists. This suggests some similarities with Argentina, in which corporatist ties with labour unions were necessary to deliver market reforms (Murillo 2001) as well as the reconstitution of class politics through 'segmented neo-corporatism' in post-crisis political economy (Etchemendy & Collier 2007; Wylde 2011).

In contrast, the tradition of class-based mobilisation has not dissipated. This is supported by public opinion polls affirming the long-held legitimacy of unions as the fulcrum of political mobilisation in neoliberal Chile. Figure 6.4 indicates public consensus around the necessity of unions in collective bargaining to represent workers' interests. As such, this demystifies the myth behind the absolute decline of collective mobilisation around class politics as a political organisation in the context of neoliberal democracy in Chile. We should consider this in the context of increasing subcontracting, expanding informal sector and the legitimisation of labour flexibility as a way of managing capital-labour relations in Chile and across the developing world.

Figure 6.4 Public opinion on legitimacy of unions



Source: BARÓMETROS CERC, 1998/2007/2011 (Adapted), 23.

Poll Question: There are distinct opinions about unions. Some say that unionism is an obsolete institution in defending workers' rights. Others think that unions are necessary in defending workers' rights. Which of the following positions do you think express your opinion? (1) Unions are obsolete; (2) Unions are not obsolete.

On the one hand, neoliberal reforms have significantly affected copper workers as a consequence of attempts at modernising CODELCO and exposing the industry to foreign competition and multinational production. Indeed, labour flexibility became the organising logic of capital-labour relations in the mining industry, which brought forth succeeding efforts to reorganise production by way of closing mines temporarily or permanently and through mergers and joint ventures among private firms (Nem Singh 2012, 2010; Vergara 2008). On the other hand, the fate of unions was not left in the invisible hands of the market. The power of labour, which developed through decades of concrete social struggles against foreign capitalists, signifies the highly contentious process of neoliberalisation of the mining sector. Natural resource unions have launched a counter-offensive to modernisation plans principally through their bargaining power in the sites of commodity production. By using the right to strike in the heartland of Chile's economy, mining unions have not suffered the same debilitating effects as the other trade unions in production and services sectors. But more crucially, mining unions' qualified support to Concertación provided the veneer of legitimacy in electoral politics and policy-making domains. The labour pact in mining – though very fragile and contentious – is critical in explaining the success of Concertación elites in managing social tensions and moderating demands from below. As Section 6.4 will show later on, Sebastian Piñera's governance style is the opposite case as he continually faces a crisis of legitimacy and governmentality in the midst of civil society protests. In this section, I aim to discuss the similarities and differences between the corporatist style of labour management in CODELCO and the mix of coercive and corporatist approaches in private mining enterprises.

6.3.1 Alianza Estratégica as a pact between state and labour

As mentioned in Section 6.2, Alianza Estratégica was as much as a political compromise in achieving social peace as it was a technocratic solution for modernisation. In 1994, CODELCO President Juan Villarzú established Alianza Estratégica, which consisted of a series of productivity targets and compromises between CODELCO and permanent workers, as represented by FTC in response to the perceived loss of credibility of CODELCO as a state enterprise. Beyond the mining sector, the labour movement participated in tripartite negotiations with big business and state, which was spearheaded by the centrist forces in the coalition. States and workers had patently sought a compromise to bring back formal labour rights and more power for workers in collective bargaining albeit in the context of institutionalised labour flexibility in capital-labour relations. In its early days, Alianza Estratégica was a technocratic attempt at guaranteeing stable labour relations to avoid further losses in productivity in the mining industry, which was then still largely controlled by public enterprises. Whilst retaining 100 percent ownership was a political imperative for Concertación to retain popular appeal, state managers were pressured to exert reforms within the management of the company. A neo-corporatist form of relationship was necessary if Concertación elites were to succeed in pursuing its discursive commitment to free market orthodoxy in the mining sector. Effectively, modernisation implied the closure of mines, laying off workers, and further outsourcing of services to third parties.

From a business perspective, the first 10 years of Alianza Estratégica is considered successful. Based on the agreements and the results in Table 6.4, CODELCO increased its production, lowered direct cash costs, and boosted productivity by 84 percent between 1994 and 1999. During its second phase, CODELCO doubled its value and generated an increase in surplus for the Chilean state by 100 percent – from US$ 5,900 million in 1994-1999 to US$ 10,400 million in 2000-2005. In many ways, the strategic compromise between the owner – Chilean state via CODELCO – and the workers was successful. Not only was CODELCO retained as 100 percent state-owned, it has achieved labour stability without compromising competitiveness and profitability. However, Phase III of the strategic alliance had encountered serious tensions and pressures, which had affected its success. What was transpiring, then, was uneasiness between state managers and workers as a result of the profits generated by the commodity boom. Whilst in private mining this was only resolved through militant action such as the infamous strike in Minera Escondida in 2006, in CODELCO the paternalistic relationship constrained any possible illegal action that workers could take. But the tensions were nevertheless brewing as successive victories of miners in private mining to win wage increase and bonuses (to end conflicts) between 2006 and 2009 raised CODELCO workers' expectations to the management of meeting their economic demands. This was perceived by the management as unreasonable, perhaps quite expectedly, because they were more concerned with costs in production, productivity, and large-scale investments in order for CODELCO to perform economically at par with big transnational mining companies.[88] It does not help either that CODELCO is politically constrained by the state to make independent decisions regarding labour management and investment strategies.

[88] Author interview with Nicolas Majluf, CODELCO, October 2009.

Table 6.4 Alianza Estratégica under Concertación government

	Phase I (1994-1999)	Phase II (2000-2006)
Business Strategy	Modernisation of CODELCO	Common Project of State enterprise
Objectives	Recover competitiveness, profitability and credibility of CODELCO	Maximise economic value and profits (dividends) to the state
Goals and agreements	♦ Reduce real costs to at least 10 cents per pound; ♦ Increase production up to 500,000 tonnes; and ♦ Enhance productivity by 50 percent.	♦ Double the (economic) value of CODELCO; and Generate surplus for the State.
Results	♦ Reduced real costs to at least 24 cents per pound; ♦ Increased production up to 368,000 tonnes; and ♦ Enhanced productivity by 84 percent.	♦ Completed (preliminary results); Increased surplus from US$ 5,900 million in 1994-1999 to US$ 10,400 million (projected) in 2000-2005

Source: Alianza Estratégica. Fase III; Villarzú 2005 (Adapted).

Note:
See Appendix 4 for detailed discussions of the key aspects of Alianza Estratégica Phase III.

Nevertheless Alianza Estratégica is an explicit attempt of the state to reconstitute ties with labour within the state enterprise by according the miners a social status above other members of the workforce. Like the Washington Agreement in 1951, the Concertación government recognises the strategic and historical importance of copper workers and the state enterprise CODELCO in Chile's pathway of economic development. What underpins this technocratic solution is the ability of state managers and political elites to acquire workers' support by way of reducing labour unrest and conflicts. As a measure of success, the index of conflictivity waned from 3.3 between 1990 and 1993 to 1.4 between 1994 and 2005. There was also a decline in the frequency of accidents from an average of seven per 10^6 hectares in 1993 to 5 per 10^6 hectares in 2005, which signifies the improving standards of health and safety measures in large-scale mining operations (Villarzú 2005: 10-12). CODELCO's staff development and human capital training programme is also considered to be one of the best in the country. The statistics are backed up by several interviews among mining unions and state managers in CODELCO. One can easily have a sense of the existing relationship between CODELCO and its permanent workers. We can characterise state-labour relations in mining industry as neo-corporatist: *corporatist* simply because the pact does not really divert from traditional tools of cooptation used by state managers to prevent labour conflicts and social tensions, for example through higher wages, better benefit and retirement plans, and expensive bonuses to avoid strikes; *neo* because the instruments in acquiring workers' support are deployed in the neoliberal context wherein state intervention in labour conflicts is deemed obsolete or unnecessary. Equally, managing the state enterprise is counter-intuitive to the presumed logics of neoliberalism, which involves the depoliticisation of economic governance via technocratic mining management and the demobilisation of labour by disenfranchising their veto power. In CODELCO, these logics clearly do not conform to the actual practice of resource governance.

One way of consolidating neo-corporatism is through political pacts between mining unions and presidential candidates of Concertación coalition. Through social dialogue, a formal agreement serves to bind the party and unions towards common goals and strategies in the copper industry. In the FTC National Proposal (2006:), prior to the electoral victory of Michelle Bachelet, the meeting between Concertación and FTC in November 17, 2005 laid down in detail the policy programme of Bachelet backed by FTC regarding the future of CODELCO (such as investment plan, labour rights, and detailed national proposal on key management issues), social welfare and pension reforms, and the social pact for Chile's development through collective bargaining. Whilst FTC makes clear its position on various management issues, what is expressed ominously in the document is the unions' commitment to retain CODELCO as 100 percent state owned, and from thereon, compromises and agreements would have to be negotiated (FTC 2005: 9-11). If compared to the CODELCO proposal, the common thread is the emphasis on labour stability, competitiveness, and profitability with attempts at controlling negotiating labour conflicts and making collective bargaining work to avoid costly illegal strikes. This is quite exceptional in neoliberal Chile wherein collective negotiations fail as a result of power imbalances between employers and workers as well as lack of strong institutional framework to promote labour rights protection (Barrera 1998; Cook 2007; Espinosa 1996; OECD 2009; Winn 2004). But as Palacio-Valladeres (2010) notes, the weakening of labour movement after three decades of sustained decline in trade unionism makes collection action difficult but by no means impossible. Instead, union strategies combined with clientelist tactics of firms have allowed for limited recuperation of labour protection at the firm level.

Nevertheless the neo-corporatist arrangement is only applicable to the privileged workers who have acquired permanent contracts in CODELCO. As foreign mining companies deepen their involvement in local spaces of extractive activities through long-term investments, an emergent model of business management has influenced governance styles of state enterprises. This business practice, encapsulated in discourses of competitiveness and innovation, has coincided with state reforms questioning the place of state enterprises in the global economy. Transnational business firms aimed at growth and productivity were driven by technological innovation and economic imperatives to extract in new landscapes, produce and add value to goods, and transport minerals and raw materials in places previously beyond the reach of multinational business. This clearly implies finding ways to gain access to cheaper labour and to lower production costs. In some cases, perhaps less but definitely still taking place in Chile, workers' solidarity historically built in tightly knit mining communities have been broken down by the 'race to the bottom' in securing resources (Bunker & Ciccantell 2005). Notwithstanding the highly complex nature of global resource economy, neoliberal mining reforms aimed at responding to downward pressures of cost reduction and demands for labour productivity have systematically allowed for the precipitous fragmentation of workers between those with permanent contracts (called *trabajadores de planta*) and those with temporary contracts (called *trabajadores contratistas*). As subcontracting becomes a pervasive business practice in CODELCO and in private mining, new categories of workers have been formed whose main roles are to complement, if not substitute, the functions of permanent workers. But unlike the paternalistic relationship between state managers and permanent workers, contratistas' salaries, benefit plans, and general working conditions are substandard compared to permanent workers. CODELCO was exposed to globalised business practices in mining. Consequentially, the company has emulated labour management styles in private sector mining. As Table 5.1 in

Chapter 5 demonstrated, CODELCO has outsourced most of its workforce and this has been taking place despite the strong and historically militant tradition of unionism.

To sum up, the absence of any major strike in the last twenty years in CODELCO patently shows the success of state strategy in managing labour unrest and taming the militancy of organised labour in public copper industry. This was achieved through a highly politicised model of governing labour relations, which consisted of giving workers a seat in the board of directors, a 'carrot and stick' approach to labour militancy, and indirectly fragmenting labour solidarity through third party subcontracting. At the same time, by championing depoliticised and technocratic management in CODELCO, the government had escaped the arduous task of quelling potentially debilitating effects of labour resistance to the modernisation plan. Concertación elites did so by taking the politics out of economic decisions on the grounds that such choices are rational par excellence. This was also possible because of political legacies and crucial past choices, such as the decision to maintain CODELCO as 100 percent state-owned and develop paternalistic ties between state and workers. But although the Chilean state under Concertación government successfully acquired conditional labour support in electoral politics and modernisation plan, it should not be forgotten that labour has always taken a weaker position in the negotiating table with the state. Nothing better demonstrates this than the conflictual labour relations in the private sector in neoliberal Chile.

6.3.2 Conflicts in private mining

In private mining, the paternalistic relationship between state managers and permanent workers in CODELCO was never consolidated. Instead, firm-worker relations in private mining are characterised by ephemeral tranquillity and permanent friction as exemplified by the frequency of workers' strikes compared to CODELCO.[89] Collective negotiations have constantly failed to achieve social peace between the militant and highly organised miners on the one hand and profit-seeking mining firms on the other. From labour's perspective, the *patrones* (employers) have a 'mountain of faculties to negotiate whilst workers possess no means to confront them'.[90] From business' point of view, private firms follow the rules and requirements on subcontracting as established in the labour code, but they concede that the main problem really is the minimal and pro-employer nature of the law.[91] This situation reflects the broader pattern of historical conflicts between foreign firms and mining workers in Chilean mining communities, which consolidated the political identity of workers to form unions and mobilise miners and peasants against the political classes (Klubock, 1998; Petras and Zeitlin, 1967; Vergara, 2008).

The determining factors regarding labour conflicts in private mining are structural and agential. On one hand, globalisation as a structural context creates a double bind between the state and labour movement in negotiating labour conflicts. Whilst labour flexibility is engendered in the strategy of competitiveness, pressures mounted by organised unions in defence of economic demands become untenable in the neoliberal environment. In this context, the state serves as intermediary between capital and labour by way of moderating labour demands and compelling business firms to set standards on working conditions, wages and social benefits. This, inevitably, generates contradictions as states do not necessarily remain neutral in conflicts between firms and workers. In the Chilean case, this is evidently reflected in the problems with recuperating collective rights, for example in empowering workers in individual negotiations with employers or the understaffing of *Dirección del Trabajo*, which is in charge of investigating

89 Note that CODELCO workers have not rejected collective bargaining agreements with CODELCO between 1994 and 2007.

90 Author interviews with Agustin Segundo Latorre Risso, X-Strata Copper Alto Norte and FMC; Pedro Marin, FMC, November 2009.

91 Author interviews with Javier Cox, Consejo Minero, October 2009; Carlos Gajardo Roberts, SONAMI, September 2009.

labour abuses across sectors. In short, these are political legacies both of Pinochet's labour assault and structural constraints imposed by the global political economy in managing labour rights (Klubock 2004). On the other hand, conscious political choices have been made to promote private capital in mining and beyond, with an implicit assumption on the productive and efficient nature of private capital vis-à-vis public mining enterprises. Within the governing coalition, there exists a plethora of contradictory interests. Situations arose where legislators closely allied with the business sector within the block deliberately went against further reform of labour legislations. It was not only the Right-wing parties, then, which resisted labour reforms in Congress to redress labour flexibility. Whilst labour unions have no other choice but to work with labour-friendly parties within Concertación, the governing coalition have sought to expand its appeal to an increasingly depoliticised public (Silva, 2008). After twenty years of social pacts between the state, big business, and organised labour, the latter's ultimate view of the state of labour reforms had been negative. CUT National Secretary Esteban Maturana claims,

> With respect to the major pillars that built their programmes, inspired by democracy [to achieve] more social justice, greater equity (...) in these three categories, Concertación governments delivered [in] the debit, negative figures, leaving a balance in the red (Palma, 2010).

In these circumstances, perhaps it is not surprising that demands from subcontracting workers to re-regulate labour standards and working conditions took the form of intense, quite costly union strikes in Minera Escondida, the biggest private mining company in Chile and second largest copper producer after CODELCO. In 2006, FMC decided to reject the offer in collective negotiations and went on strike. Above all, attention focussed on subcontracting in private sector as an illegitimate exercise of the power of big business with the clear aim of reducing costs rather than business specialisation. Before I explain the significance of the strike, one must remember the powerful role of miners despite the absence of the state in mediating labour conflicts in post-dictatorial Chile. The mining industry stands out from other sectors for its high levels of unionisation (around

90%), thereby, justifying the term *labour aristocrats* frequently applied to mining workers in comparison to the representative confederation of poor workers, *Central Unitaria de Trabajadores de Chile* (CUT). In terms of their clout in commanding strikes, mining workers clearly have the ability to halt production and make a credible threat to both state and private firms. In this context, the mining strike of permanent workers in Escondida Mine compelled the company to offer a generous package of wages, bonuses and social benefits to avoid labour conflicts in October 2009 (Vial 2009). Yet this is not an achievement for all the workers. As expressed by Pedro Marin, the president of *Federación Minera del Chile*,[92] the division between the permanent and subcontracted workers has consequences for the uneven distribution of labour rights and worker protection schemes within sectors and between working classes:

> Collective negotiations in private mining are very hard... CODELCO has a good paternalistic administration and in the private sector things are different... the only form of advancing... [causes] with the lack of social benefits [as a result of subcontracting] is through collective negotiations. The contract we have achieved is the best in both public and private mining but not for all, Escondida has 2,253 unionised workers, it cannot advance in the same manner... It depends on the organisational capacity of unions... it has only been possible to advance our interests through tough protests... We were on a twenty-five-day strike and I led them and we won through force.[93]

The recognition of the different worlds of permanent and subcontracted workers is a crucial indicator of the widely held view on the impact of neoliberalism to labour movements across the developing world: the systematic fragmentation and atomisation of working class solidarity and the decline of labour politics as fulcrum of social mobilisation and

[92] The Mining Federation of Chile or FMC is the confederation of twenty one mining unions in private sector. One must remember that it is very unusual in Chile to find organised workers beyond the firm level, and therefore, the power of organised miners has historically remained the same. This is backed up by interviews with representatives of SONAMI and Consejo Minero who view mining workers as highly unionised, powerful labour aristocrats.

[93] Author interview with Pedro Marin, FMC, November 2009.

democratisation. Equally, the importance of this union strike in its contemporary context is worth mentioning. In the past, collective action takes place in periods of economic crisis and hyperinflation in which organised protests are defensive strategies against economic and social dislocations. Labour unrest, above all, indicates the vulnerability of states in times of political uncertainty. In the 1990s, political classes justified their refusal to change labour protection laws on the basis that it was a period of austerity, crisis, and political instability. The easy justification of elites, then, became untenable. The labour strike transpired in a 'time of plenty' when copper prices were high and growth was unprecedented in Chile. The use of subcontracting in the name of global competitiveness failed to resonate strongly amongst Chilean publics upon the changed global environment for copper. With the rise in copper prices and an exodus of new Chinese-led mining investments in Chile, we witnessed the unravelling of the consensual discourse regarding 'saving and spending', which was reflected in the ways demands from below were articulated by labour unions in political debates. Whilst mining unions are far from representative of working class politics, the new law created in 2007 has the overall effect of expanding the range of collective rights and responsibilities of business firms. Through the Subcontracting Law in 2007, there exist more stringent rules on outsourcing, and depending on the knowledge of principal companies, the worker has the right to seek redress from the principal and subcontracting firms. In addition, the successful negotiation of Minera Escondida workers in October 2009 led workers in Chuquicamata (CODELCO's biggest mining operation) to vote against CODECLO's offer. This is really the first time a strike took place in the public copper industry, hence, the breakdown of Alianza Estratégica. This would further unravel under the leadership of Sebastian Piñera. But what remains clear is the failure of the institutional framework to respond to the demands for social equity among workers. Tellingly, the world of labour is plagued with divisiveness and fragmentation and the victory of the strike is nothing but piecemeal in the grand scheme of things.

The repoliticisation of labour demands, in which mining firms have been threatened by production stoppage and mass walkouts in the mines, should be understood within the broader political context in Chile. The power of union strikes – historically remembered as key to the fall of Allende in September 1973 – has been utilised during a commodity boom when production stoppage would be far more costly than negotiating with unions through bonuses and salary increase. Since 2002, Chilean mining firms have reaped the benefits of high copper prices, in which profits skyrocketed without having to increase actual exports. This naturally generated more unreasonable demands for higher wages. In 2010, Concertación coalition lost against the coalition of right parties led by UDI and RN, called *Alianza*, as a combined result of a weakening labour movement (one of Concertación's source of electoral support), public apathy, loss of credibility of the coalition, the lack of any political alternative to remedy the parochial party system of Chile, and the initial popular appeal of Sebastian Piñera (Angell 2010).

To sum up, Section 6.3 analysed the fragile bases of labour support of Concertación government, which was partially the reason behind the contentious reform process in the mining sector as well as their eventual loss in elections. In the state enterprise, the gulf in interests between the state managers and workers (mainly subcontracted workers) paved the way for the breakdown of Alianza Estratégica. Combined with the repoliticisation of labour issues in private mining, we have witnessed the unravelling of the state-labour compact towards the end of Concertación government. Whilst economic imperatives are the driving forces behind the technocratic approach of CODELCO, the collision between private mining firms and workers was mainly a result of clashing interests. Taking into account the configuration of political relationships between political parties, CODELCO, private capital, and organised workers, it is unsurprising that pact-making and consensual politics have faltered under the Right government in power.

6.4 Conclusions

The key question to be asked about capital-labour relations in contemporary Chile is whether existing models of corporate governance and modes of controlling labour conflicts will continue to produce stable growth. The question also links back to Chapter 5, which is whether the state has any responsibility in the context of privatised models of resource governance. The difficulties of balancing economic objectives and democratic responsibilities constrain states from taking more expansive roles. The crude emphasis on growth is already taking its toll, as exemplified by the insurmountable challenge to Alianza government (2010-present) launched by labour unions and civil society actors. After less than two years in office, Piñera has faced the gravest challenges. With respect to labour mobilisation, union strikes decisively taken by permanent and subcontracted workers across the copper industry in July 2011 is the first time really that we are witnessing workers' solidarity. It is unprecedented in two ways. In CODELCO, permanent workers have conventionally acceded to management decisions in the name of Alianza Estratégica. On the 40th anniversary of the nationalisation of copper, the union leadership in CODELCO decided to reject the offer and went on strike. The 24-hour stoppage of 15,000 permanent and 30,000 subcontracted workers completely paralysed CODELCO amounting to a loss of US$41 million (El Mostrador 2011b). The planned modernisation of CODELCO, which was interpreted as steps towards the privatisation of the state enterprise, was at the core of this historic protest. Despite claims by Minister of Mines and Energy Laurence Golborne of the illegality of the strike and that the state is 'strengthening CODELCO through its investment programme', the union leadership has promised to continue fighting against any moves by the Right-wing government to privatise the firm (El Mostrador 2011a, 2011c). What is notable is that the strike was preceded by the rejection by the FTC of the renewal of Alianza Estratégica following the breakdown of collective negotiations in early 2010.

The mining strike in Minera Escondida in July 2011, according to the unions, was a difficult decision but was justified due to the inability of the mining firm to honour the agreement in October 2009. The decision to reject collective bargaining agreements is still a difficult choice in Chile. The labour law accords employers the right to fire workers on strike, contentious political actions are indicative of the stronger calls for state regulation to go beyond minimal compliance with the law. Mining unions are increasingly seeking the state to defend workplace demands and expand institutional channels to guarantee labour rights. Nothing exemplifies this trend better than the outcome of the mining accident in Chile. The global attention in the mining accident generated popular pressures directed at the president to save the 33 miners trapped underground for 70 days in the San José mine in Copiapo (El Mostrador 2010). One year after the accident, 31 out of the 33 miners sought justice by filing a lawsuit against the Chilean state (and not the mining firm) for its failure to carry out proper inspections of the mine's safety and working conditions. The Chilean government has constantly and iteratively applied minimal standards, the miners argue, which makes it hardly surprising that two further deaths were incurred in 2005 and 2007 even before this tragedy came to pass.[94] After many years of silence, workers in the private sector are now calling on the state to guarantee labour rights.

The tensions between the state and labour unions, as signified to a greater extent by the strike in CODELCO and to a lesser degree by the workers in the biggest private mining firm in Chile, are taking place in a recurring fashion. The strike demonstrates quite vividly the historically constituted organisational strength of mining workers; the relevance of the labour movement is underlined by their decision to challenge the neoliberal model and the reforms being introduced by the Right. Whether Piñera can modernise the copper sector, especially CODELCO, without resorting to complete marginalisation of unions will be very critical in terms of the future of industrial relations. Labour management will remain the most important challenge CODELCO's corporate governance. Without a sound relationship between the state enterprise and its workers, we will most probably witness persistent tensions that may escalate depending on how the Right government responds. In the private sector, the state must respond to the breakdown of labour stability and recalibrate, once again, the balance of rights and growth in order to maintain Chile's competitive position in the

[94] They are requesting a total of CLP 7.7 million or CLP 250,000 for each miner as compensation (La Nación 2011).

global political economy. Overall, the mining sector has in the last five years repoliticised debates about resource ownership, labour rights protection, and the position of the state with respect to conflicts between capital and labour. In short, the reforms in the mining industry are now bringing back the 'labour question' in contemporary Chile.

In this chapter, I have shown the complexity of corporate governance and labour reforms undertaken by CODELCO managers as well as the distinctive dynamics of capital-labour relations in the globalised mining industry. Consistent with historical institutionalist and political economy perspectives, I have argued that neoliberalism has had variegated effects to the state, CODELCO, and to the wider labour movement in Chile. This, above all, informs us of the complex processes of neoliberal reforms. Whilst standard neoliberal narratives predict the decline of public enterprises and the depoliticisation of corporate governance, what I have shown in the chapter is the opposite effect. I have demonstrated how CODELCO managers internalised the logic of competitiveness by way of adapting globalised business practices, including corporate governance reforms and adaptation of third party outsourcing, but that the state has remained dominant as an actor in the copper industry. Through CODELCO, the state has maintained what unions have historically fought in Chile: the right to own resources and generate a bigger share of resource rents that could be spent for social development. This was done, inevitably, by alluding to the discourse of globalisation. And so, whilst successive post-dictatorial Chilean governments have sustained laws to attract foreign capital and generate a degree of legitimacy for private sector, the management of CODELCO has remained highly politicised. Labour conflicts, as I have shown in Section 4.3, are also managed through varying degrees of political intervention, such as the adoption of neo-corporatist tools and sometimes the use of overt coercion in private mines (Palma 2009).[95]

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[95] Author interview with Lariza Palma, CUT, October 2009.

In the end, what I hope to have shown in both chapters is the following: (a) that Chilean mining policy is far from the standard neoliberal narrative of depoliticised, technocratic governance because of the political role of CODELCO and the historically strong power of mining unions; (b) that the corporate governance reforms in CODELCO have conformed to the 'best practices' shared among international mining companies but these are also subject to political interventions by the state; and (c) that labour conflicts have remained prevalent in post-dictatorial Chile as a result of the incompatibility between democratic ideals of labour rights protection and neoliberal concepts of labour flexibility. Whilst the Chile's resource sector adheres to some of the theoretical axioms laid down by neoliberalism, the actual praxis of policy-making and political relations between the state, parties, workers' unions, private capital and CODELCO deem it necessary to revise our expectations regarding how actors will behave. In the next chapter, I will begin the discussion on the institutional transformation of petroleum governance in Brazil to support my claims on the variegated effects of neoliberalism in states, state enterprises, and workers. This, in turn, generates insights as regards the transformation of resource management in Latin America.

Chapter 7
PETROLEUM GOVERNANCE IN BRAZIL, 1990-2011

This chapter examines the political economy of oil in Brazil. Its main argument is that economic governance in strategic resource sectors has been determined largely by political continuities with the country's statist developmentalist past. Whilst many political economy scholars have treated neoliberalism as a critical juncture that paved the way for the reconfiguration of the triangular social relations between states, firms, and organised labour (Murillo 2001; Phillips 2004), I offer a more nuanced argument regarding the role of political legacies, historical conflicts and institutional complexities as mediating the adoption of neoliberalism. In other words, we should understand the incomplete (and contradictory) nature of neoliberal reforms in the oil industry, and the subsequent return of state capitalism in Brazil, in terms of national development strategies in pragmatically responding to the changing external environment. This growth strategy coheres around the idea of neo-developmentalism, which combines market incentives and state control over the oil industry by securing greater state share of oil rents as well as directly participating in the economy through state enterprises. But whilst a stronger role for the state in economic governance has been asserted by the Left government in power (2003-2014), the enactment of strategic governance choices have been achieved in the context of favourable structural conditions. The PT government elites, in short, have *perceived* an opportunity for *incremental* institutional transformation in favour of a stronger, activist state.

Whilst Chile offers a story of self-reinforcing path dependent choices, Brazil exhibits what Mahoney (2010) calls *reactive sequences*, or the chains of temporally ordered and causally connected events generated as *backlash* reactions to antecedent political choices. Whilst neoliberal reforms have been introduced, and its main consequence was the restructuring of the oil industry writ large, nevertheless macroeconomic adjustment policies are invariably part of a longer history of state management. Put differently, the (still emerging) neo-developmentalist strategy of the PT government is an outcome of the Left's historical commitment to the construction of a developmentalist state aimed at achieving both growth and social equality, which was of course altered by the gradual embrace of competitiveness and private sector logic of efficiency. In other words, the ideological commitment of the PT that may have been directing its policy choices was in fact also reshaped by neoliberalism. So although neoliberalism as a paradigm of development has failed to achieve its promise of economic growth under Fernando Henrique Cardoso (1995-2002), it was quite difficult for PT under the first term of Lula Ignacio da Silva (2003-2006) to discard the policy paradigm completely. Instead, policy change towards a neo-developmental growth strategy can be observed under the second term of Lula da Silva (2006-2010) and Dilma Rousseff (2011-2014). The puzzle really is not so much why greater state involvement in the economy returned in the policy agenda, but why it has become sustainable as an alternative to free market orthodoxy. In this chapter, the explanation rests on how favourable structural conditions – self-sufficiency in oil, a marked period of growth, and discovery of pre-salt – have given the Left government the ideological and material resources for the articulation of a new developmental discourse.

In the Brazilian oil industry, it was not neoliberalism per se but rather the discovery of pre-salt oil reserves, which serves as critical juncture for shifts in institutional arrangements. Firstly, it opens up a new phase of development in the Brazilian petroleum industry, which has developed historically by refining and processing crude oil. The newfound oil wealth has altered the political mentality of actors, in which the old model of relying on foreign investments for economic dynamism in the oil sector was deemed obsolete. This is reflected in the change in petroleum governance, underpinned by the new regulatory framework introduced since 2010. Secondly, and in contrast to expectations of radical change, the Workers' Party (PT), now in its third term in office, has combined policies geared towards selective protectionism and autonomy for state-controlled enterprises as a development strategy. Equally, its emphasis on the role of oil wealth in social redistribution is novel compared to previous governments in power. Overall, neo-developmentalism implies a hybrid strategy of growth with a stronger role for the state in guiding the economy without necessarily disregarding the role of competitiveness and market incentives as a way of generating profitability. The chapter is structured in two main sections. In Section 7.1, I examine the rationale behind Cardoso's neoliberal reforms and its impacts in the oil industry by focussing on the introduction of foreign participation and creations of new regulatory agencies. Section 7.2 analyses changing continuities under Lula da Silva, particularly the ways in which he sought to strengthen the role of state and state enterprises under favourable external conditions.

7.1 Political legacies of neoliberalism in petroleum sector

The nationalisation of petroleum, steel and mining was fundamental to the old developmentalist model, in which a strong state directly participated in the national economy as a consequence of an incapable, unwilling private sector (Trebat 1983; Triner 2011). The oil industry was considered vital for industrialisation. PETROBRAS emerged as a technocratic-political solution to balance the need for foreign investment and national protectionism of resources. General Horta Barbosa made clear in 1938 that refining imported crude oil was the only way to secure Brazil's growing energy consumption and to eventually finance investments in the Exploration & Production (E&P) sector. However, PETROBRAS faced multiple challenges in achieving this goal: the expanding energy requirements of producing heavy capital goods, the need to integrate transport, shipping and railroad systems to policy of energy consumption, and the development of petrochemicals sector that can both support productive industries and develop the oil industry through crude oil production (Randall 1993). Whilst such tasks were complex and indeed technical, PETROBRAS' role in Brazilian political economy is intrinsically political. As a state enterprise necessary for industrial development, PETROBRAS was given greater political autonomy from the state. As existing onshore reserves declined, PETROBRAS intensified its exploration activities in offshore continental shelf leading to the discovery of Guaricema field in 1968, the Northeast fields, and then Campos Basin in 1974. Whilst the government sought to secure Brazil's energy needs as a result of high oil prices and balance of payments problems caused by the 1973 oil crisis, international oil companies were focussed at developing research in onshore activities leaving PETROBRAS with no choice but to invest on deep water drilling technology during the late 1970s and early 1980s (Dantas & Bell 2009; Furtado 1995). PETROBRAS' expansion thus came together with Brazil's state-led model of development, which meant that the exhaustion of this economic strategy also affected the performance of the state enterprise.

To understand more clearly the effects of market opening, we need to first take into account the sector-specific characteristics and the particularities of the Brazilian oil industry. Unlike Mexico or Venezuela, Brazil had no oil reserves for exports during the twentieth century, therefore, the volatility of oil prices had a different effect for its economy as a rapidly growing oil consumer. With no prospective oil reserves inland (as stipulated in the Link Report), PETROBRAS was forced to compete internationally by tapping foreign oil reserves through BRASPETRO and refining imported crude oil. This policy worked quite effectively in meeting domestic consumption but was not sufficient to achieve its long-term goal of securing domestic oil reserves within the Brazilian territory. PETROBRAS sought to expand market control in energy-related sectors by way of operating as a highly specialised, vertically integrated energy firm with activities spanning oil, natural gas, and energy sectors in Brazil and overseas. Within the petroleum industry, PETROBRAS sought to diversify its operations from refining and processing imported crude oil towards exploration and production, which was underpinned by an aggressive investment policy in the E&P sector (see Chapter 8). The petroleum commodity chain involves three major areas: oil exploration, development, and production, also known as *upstream*; in refining, transportation, and marketing, also known as *mid-stream*; and in petrochemical, oil product distribution, and natural gas, energy, and biofuels segments, also known as *downstream*. As such, neoliberal reforms were geared towards the participation of foreign capital in upstream activities, primarily because the midstream and downstream sectors had already been exposed to private capital.

The return of democracy went hand in hand with the unravelling of the developmental state. In the petroleum industry, the retreat of the state was felt by PETROBRAS as its reach and scope of activities dramatically eclipsed, which was reflected in the reorganisation of the public company. This, above all, meant selling some of the non-performing subsidiaries of PETROBRAS ranging from fertiliser, mining, and international trading whilst simultaneously refocusing its activities back to oil production, refining, and exports of petrochemicals. In 1992, PETROBRAS announced the planned company restructuring under Fernando Collor de Melo (1990-1992), during which operating costs were reduced from US$ 4.2 billion to US$ 3.2 billion by decentralising administrative tasks, offering incentive programs for retirement to reduce the labour force, and selecting subsidiaries to extinguish or privatise (Randall 1993: 41-46). The National Congress decisively voted to eliminate INTERBRAS and PETROMISA as well as to privatise the subsidiary companies controlled by PETROQUISA, all of which were justified as poorly performing subsidiaries of the state enterprise.[96] However, there

[96] After the coup d'etat in 1964, PETROBRAS began to expand its activities across the hydrocarbons commodity chain through the creation of subsidiaries: (a) in petrochemicals, PETROQUISA took over PETROBRAS' rubber factory and fertiliser factory in 1967 and bought COPENE, COPESUL, and NORQUIS; (b) in distribution, PETROBRAS expanded its activities by establishing its subsidiary PETROBRAS BR in 1971 though it did not have monopoly in this part of the chain because international oil companies whom PETROBRAS worked with in overseas exploration demanded competition; (c) government's doubts that sufficient oil can be found in Brazil led to the creation of BRASPETRO in 1972 for overseas exploration to join consortiums abroad in Colombia, Iraq, and Algeria tough it focussed its activities in the United States, United Kingdom, Norway, Angola, Libya, Colombia, Ecuador and Argentina beginning 1988; (d) PETROBRÁS also moved towards acquiring improved trade deals with nations which it purchased huge quantity of crude oil by creating INTERBRÁS in 1976; (e) eventually, PETROQUISA's specialisation in petrochemical development led to the creation of PETROFERTIL in March 1976 to make fertilizers based on phosphates – a result of the exorbitantly priced imported fertilizers and disinterest from private entrepreneurs to establish a fertilizer industry; and (f) finally, mining company PETROMISA was created in 1977 to take advantage of PETROBRAS' knowledge of Brazilian geology. Although no further subsidiaries were created thereafter, PETROBRAS was involved in other oil-related activities such as alcohol production (Randall 1993: 29-36). Therefore, the expansion of the oil industry is in essence the history of PETROBRÁS.

was neither a consensus to fully privatise PETROBRAS nor to open the oil market to foreign capitalists, not yet during this time at least. Whilst Collor de Melo successfully implemented the restructuring of PETROBRAS, it was nevertheless a contentious process. Labour unions occupied factories to protest privatisation of various subsidiaries. Facts about the complex privatisation process of PETROQUISA were also contested, in which inefficiencies and bottlenecks for productivity were blamed not so much on PETROBRAS' performance per se but in the ways the petrochemical industry was organised. As Randall (1993: 44) shows in detail, the absence of economies of scale, the lack of critical mass to generate research for the development of the oil industry, and duplication of administrative expense all made it difficult to achieve competitiveness and efficiency in production. By April 1991, the PETROBRAS system was composed of the consolidated PETROBRAS holding, BRASPETRO, PETROBRAS BR, PETROQUISA, and PETROFERTIL (smaller firms within the latter two subsidiaries were privatised). Collor's plans were halted by his impeachment in Congress that effectively removed him and replaced by Itamar Franco (1992-1994).

However, the initial changes under the short-lived Collor de Melo government were the beginning of a more systematic attempt to challenge the developmentalist orientation of the Brazilian state. Cardoso who was Finance Minister under Itamar Franco at that time designed the 1994 Real Plan to stabilise the economy through a dual strategy of maintaining inflation and controlling wages. With the success in bringing down inflation, Cardoso secured the presidency and reoriented his policy towards the privatisation of state enterprises, including steel, petroleum, and mining, as a central plank of economic recovery plan. Whilst a common recipe was envisaged, the actual application of resource sector privatisation was conducted at varying degrees and scope, such that majority ownership of state enterprises were transferred to private capital in the mining and steel sectors whilst the state retained 51 percent voting capital in PETROBRAS.[97] Nevertheless, Cardoso's market

[97] The distinction between privatisation of state assets and market opening of the industry should be carefully made. Timing and pacing had to do with the successful privatisation

opening policy seemed unstoppable despite the relatively good performance of state enterprises and the outright challenge posed by the Workers' Party in Congress (Hunter 2010).[98] But the years prior to the enactment of the new petroleum law was highly contentious. Oil workers defended the state enterprise system against privatisation, which at face value was conceived as the only way to save PETROBRAS from complete collapse. In particular, the *Federação Única dos Petroleiros* (FUP), the largest and most organised labour union affiliated with the national-based *Central Única dos Trabalhadores* (CUT), mobilised to retain state ownership of NITROFERTIL, which was eventually incorporated in the PETROBRAS system as *Fábrica de Fertilizantes Nitrogenados* (FAFEN) (FUP 2010). As Chapter 6 details, anti-privatisation strikes and social protests were consistently called by petroleum workers with support from CUT and other rural workers. The peak of this tension between the reformist government and combative unions was the 1995 strike in which Cardoso called for military troops to enforce law and order in the streets (FUP 2011).

Market opening reforms occurred in two phases. At the onset, Congress initially ratified Constitutional Ammendment No. 5, which broke the monopoly of PETROBRAS across the hydrocarbon commodity chain. This was then followed by the 1997 Petroleum Law (Lei 9.478) approved in 6 August 1997, which established the concessions regime to allow private firms to compete freely with PETROBRAS. The privatisation of mining was highly contested, including a legal battle regarding the sales of CVRD, which have generated mixed reactions from the public. Another wave of reforms targeting PETROBRAS would have been received less positively. However, an alternative explanation lies on the differences between mining and petroleum industries in Brazil. Whilst PETROBRAS developed the necessary

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programme in mining and steel. However, the potential for profits in the oil industry as well as the technological achievements of PETROBRAS effectively shielded the company from complete privatisation (see Nem Singh & Massi forthcoming).

[98] For a balanced critique on privatisation and the strategic direction of the PND during 1990s, see the following newspaper articles: Damasceno 1995; Folha de Sao Paulo 2003; Landau 1995.

technological advancement in offshore drilling to move up in the global value chains as a competitive player, CVRD was not able to develop the same competitive advantage in the mining industry. As such, from the government's viewpoint, CVRD had less capacity to develop internationally through state support than PETROBRAS.[99] Although PETROBRAS remained under state control, the industry was opened to private competition, specifically to foreign participation. The chapter now focuses on the process of transforming the industry by way of establishing a concession grants model and re-forming the state through new regulatory organisations.

7.1.1 Changing the market structure of the Brazilian oil industry

The Petroleum Law, Cardoso's most important piece of legislation with regard to petroleum governance, had two important effects in the oil industry. Firstly, it radically changed the structure of *risk sharing* between private capital and the Brazilian state. As Table 7.1 shows, there are different forms upon which states can regulate the oil industry, specifically the very lucrative yet highly risky exploration and production (E&P) sector. The various models of risk sharing reflect partially the willingness of the host state to allow foreign capital to invest (and be rewarded) in the oil sector, and partially the choice of contract model determines the range of incentives and risks available for the state. Cardoso's neoliberal orientation sought for lower risks in oil exploration and development but the cost of which was very limited reward for the state. Whilst the high sunk costs of exploration are shouldered by private capital, they equally reap greater benefits in situations where oil reserves are to be found. This model offers very minimal rent for the state – mainly through corporate taxes and royalty fees – but it reduces the risk for the state to invest in situations of *high uncertainty*. From the Cardoso government's perspective, the high risks (and costs) involved in oil

[99] Author interview with Deputy Secretary Nogueira da Costa Jr., Secretariat of Geology, Mining and Mineral Processing, Ministry of Mines and Energy, September 2011. It was conducted by Eliza Massi in the context of the co-authored piece (Nem Singh & Massi forthcoming).

exploration at a time of austerity, stagnant growth, and high levels of fiscal constraints required a more active private sector. Like in Chile, there was an astoundingly strong belief on the productive nature of private capital, particularly foreign oil firms, in generating economic dynamism in the petroleum sector. The view on the growth-inducing effects of foreign capital challenges the historically strong role of the state in directing the oil sector and the industrialisation programme more generally. And despite decades of resistance against foreign ownership, Cardoso successfully gained significant support in Congress to continue with his pursuit of introducing greater space for oil firms to operate in Brazil. This was of course a general trend in Brazilian political economy. As observed in the telecommunications and electricity sectors, a combination of ownership change, liberalisation, and better regulatory designs were viewed to potentially contribute to large efficiency gains. Privatisation then changed the market structure by introducing competition in a market characterised by high degrees of protection and the exercise of market power of state-owned enterprises (Goldstein 1999: 694).

Table 7.1 Risks and rewards in different E&P models

Contract Type	Oil Company	State	Description
Concession	All risk and high reward	No risk and low reward	Oil company holds exclusive rights to explore, develop, sell and export oil and minerals extracted from a specified area within a fixed period of time. The successful bidder takes all the risks of exploring and developing oil fields.
Production-sharing	All risk and low reward	No risk and high reward	Ownership of natural resources rests on the state but permits foreign corporations to manage and operate the development of oil fields. Foreign capital takes the risks of developing oil fields and the model typically works when a national state-owned and/or private company join the consortium as interest holders. Often the state has the cost of its initial contribution carried by the other companies, which would be repaid from the state's future profits. Intense negotiations between the sharing of costs and capital exist here. Contracts play a critical role here because the legal system is the only guarantee that the state will not renounce its previous commitment. It is also in this system that the state is at its most conflictual role because it acts both as profit maximiser and as enforcer of the rule of law.
Pure Service Contract	No risk and low reward	All risk and high reward	Under this contractual arrangement, the oil company is engaged by the regulatory authority or state owned company as state representative to conduct petroleum exploration for a fee or a share of production. It can either be pure service contract or risk service contract. The oil company neither has any exploration or production title nor ownership of petroleum produced at any stage of the commodity chain.
Joint Venture	Share in risk and reward	Share in risk and reward	By definition, it refers to an arrangement where two or more parties wish to pursue a joint undertaking of oil exploration and development. However, there is a long list of issues that need to resolved before any joint venture can be negotiated, especially as regards risk, costs, potential liabilities (e.g. in cases of accidents or environmental damage). The state is directly responsible in resource extraction.

Sources: Lima 2009a, 2009b; Radon 2005 (Adapted).

Secondly, the Petroleum Law, in equal measure, confronts the conventional view among policy elites in Brazil regarding the competitiveness of PETROBRAS, and state enterprises *en toto*, in sustaining a growth model based on state-led development. In congressional debates, PT as opposition vehemently challenged the Cardoso government regarding the privatisation of state enterprises between 1995 and 1997 (Hunter 2010). The initial restructuring of the PETROBRAS system (1990-1994) painted a very different image of state enterprises – one that seemingly showed SOEs as inefficient and uncompetitive after years of state protectionism. The post-ISI fatigue and the rise of neoliberalism provided the structural context upon which the discourse of no alternative to privatisation was embedded. The *Programa Nacional de Desestatização* (PND) approved under Collor de Melo and subsequently intensified during the Franco government was aimed at redefining the role of the federal government, reducing the scope of public sector, and strengthening the market for local capitalists. The BNDES which had oversight over the privatisation process completely restructured the petrochemical sector by selling off 27 state enterprises at a total value of US$ 3.7 billion including transfer dividends of US$ 1 billion between 1992 and 1996 (Montenegro 2003).[100] As Table 7.2 details, privatisation of state assets as a way of securing fiscal stability had the net effect of generating short term income for the Cardoso government but at the expense of damaging the prospect of long term industrial strategies to recover from the crisis.

Table 7.2 Sales from privatisation in petrochemical sector, 1992-1996

Year	Amount (in US$ million)
1992	1,330.3
1993-1994	551.8
1995	604.04
1996	212.9
TOTAL	**2,699.04**

Source: BNDES data (adapted) from Montenegro 2003.

[100] The petrochemical sector is part of the downstream activities of the PETROBRAS system. No reforms were introduced in this sector except the company reorganisation and the sector was not directly affected by the Petroleum Law, which focused on generating more investment in the upstream activities.

Nevertheless the financial and economic performance of state enterprises, particularly of PETROBRAS and CVRD, were far from how they were depicted (Nem Singh & Massi forthcoming). As I will demonstrate in Chapter 8, PETROBRAS was far from inefficient compared to other state enterprises, and this was primarily driven by technological advancement in offshore technology and its culture of innovation. In these circumstances, Cardoso's law has changed the terms of bargaining between the state, state enterprise, and private capital, although in a rather limited way, or at least not to the extent that initial optimists of reforms had envisaged. For instance, the Brazilian state had retained subsoil rights in order to maintain permanent control over its natural resources regardless of the availability of oil reserves and this was tied to the long held principle of oil as key to industrialisation.[101] Equally, the extent private capitalists were willing and capable of generating economic dynamism in the oil industry remained questionable especially after 1997. Beyond the market risks common across sectors, there are specific risks in the petroleum industry which do not guarantee private investments. In economic terms, the exploration risks resulting from the possible absence of economically viable resources despite massive capital inflows in research and exploration make the Brazilian market far less attractive compared to countries with proven oil reserves (Postali 2002a: 226). Since long-term investments do not materialise quickly enough for private capital to profit, the investment risk in Brazil was very high as a result of fears that any changes in government or policy can endanger the oil contracts with previous governments. Finally, the law may have had limited impact to PETROBRAS and the goal of weakening the state enterprise to attract foreign investments was unachievable. As I will show in Chapter 8, PETROBRAS' internationalisation strategy by operating in overseas markets has not been affected by the change in the institutional framework. Most importantly, the royalty fees are rather limited and incomparable to oil-producing states

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[101] For a detailed discussion of subsoil rights – or the ownership of the state of its resources – as a fundamental indicator of state capacity to obstruct the ability of capital, both foreign and domestic, to access the subsoil in the Venezuela in comparative context, see Hellinger 2012, 2008, 2006.

making the reforms less far reaching in scope compared to reforms in public services.

We should note that the concessions grant model was replicated in the mining sector, with far greater effects to the industry in terms of state withdrawal due to the privatisation of CVRD (Lima 2010; Nem Singh & Massi forthcoming). Although tempting to claim that this was a highly ideological decision, privatisation of state enterprises in Brazil has been partly political and partly pragmatic to respond to short-term macro-economic problems arising from the disarray of national fiscal accounts and endogenous pressures generated by domestic politics (Pinheiro 2002). Almeida & Moya (1997) describe market reforms in Brazil as negotiations among veto players, in which different configurations of power are formed among actors at various stages of decision-making, namely at the moment legislative projects on privatisation are debated and during the implementation stage (see also Almeida 1996). In a rather more positive take, Alfredo Montero (1998) argues that neither the hegemonic dominance of neoliberalism nor the profoundly politicised process in policy-making have been the reason for privatisation in Brazil. Instead, he insists on privatization of steel as a deliberate strategy to implement a recalibrated industrial policy that recognises the fundamental changes in the external environment bearing upon the developmental state. This was, above all, a form of recognition of the limited development space for the state, which was the driving force behind the new political alliances with domestic business and labour unions in order to satisfy state interests in restructuring public steel firms. Put somewhat differently, during the post-stabilisation period (post-1995), the nature of policy-making in Brazil has increasingly become less coherent and was in fact fragmented and largely incomplete as a result of divergent interests between state and business elites (Kingstone 1999; Pinheiro et. al. 2004; Schneider 2009b, 2004). It was inherently difficult to gain consensus, and therefore although the reformist coalition in favour of privatisation existed, it was rather reactionary as a response to the changing (exogenous) context rather than a programmatic policy that served as a critical juncture in state-market and state-society relations.

7.1.2 Re-forming the developmental state

The breakdown of state monopoly necessarily involved two inter-related policy changes with respect to the recalibrated role of the state. Firstly, the state had to project credibility in its reform and it did so by way of establishing an independent regulatory agency. Secondly, the Brazilian state wanted to maintain some form of control over the industry, which was reflected in its attempt to create a council of ministers in charge of linking petroleum and other related sectors – mining, steel and renewable resources – to coordinate 'energy matrix' as a way of asserting some form of direction in energy governance.

As part of the privatisation programme, the Petroleum Law established the *Agência Nacional do Petróleo* (National Petroleum Agency or ANP), which was created as an independent agency to regulate the bidding process of contracts for oil exploration, implement environmental rules and social licenses, and raise labour practices on health and safety at international standards. It was, in short, a technocratic agency aimed at facilitating the entry of foreign capital in oil production (rather than as financial investors) whilst providing domestic capitalists equal opportunities to invest in the E&P sector. However, the task is rather complex, and equally very political, as it requires weakening market control in the oil industry and influence of PETROBRAS over state planning – both of which were central to PETROBRAS' powers as a state enterprise thanks to state monopoly in the domestic market (Randall 1993; Trebat 1983).[102] For big business, ANP was initially conceived as guarantor for private sector on the commitment of the fledging Brazilian government to deliver substantive reforms to make the investment environment attractive for Brazilian and foreign oil firms.[103] In

[102] Author interview with a Former Senior Officer, ANP, August 2010.

[103] Author interviews with Three Senior Officers, Instituto Brasileiro de Petróleo, Gás, e Biocombustíveis (IBP), August 2010.

this context, the emerging consensus between the government and private sector was that the state should retreat from directly intervening in the market by way of reducing drastically the influence of PETROBRAS in political decision-making. One concrete way of curbing its excessive powers was to create an oil regulatory agency that would manage the transition from single firm monopoly towards a highly competitive market. The first ANP director, David Zylberstajn, justified the reforms in the following manner:

> We had reforms [in the oil sector] because of the need for investment from other oil companies… The constitutional amendment stipulated that the Union retains its ownership of the reserves but that the sector must be opened for operators… We had to break the monopoly of PETROBRAS, create strategies to make the [oil] market more competitive, and instil a culture of independent regulation… Our greatest achievement as a regulator is to bring in new companies, consolidate a sector with new players, and develop expertise and independence of people outside of PETROBRAS.[104]

Technocratic governance was envisaged by the Cardoso government through an impartial agency capable of overseeing the auction and licensing processes, in which PETROBRAS would not be given special treatment. One widely recognised fact was that PETROBRAS commanded political support within the state apparatus as a result of its strong role in human capital formation. Practically, everyone working in the petroleum sector was trained by PETROBRAS. ANP then sought to develop its own technical team in order to reduce the loyalty of PETROBRAS-trained staff to the company and create a new culture of independent regulation by educating them through the ANP system. Through agreements with 36 universities, ANP successfully contributed in training labour – geologists, engineers, lawyers, and economists – to conduct research in the oil, gas, and biofuel sectors. Between 2006 and 2008, the *concurso* trained 800 technocrats to become regulators whilst around 4,000 students benefited from the research funding directed at universities (ANP Annual Report 2011). The regulatory body grafted its own

[104] Author interview with David Zylberstajn, Former Executive Director, ANP, July 2010.

postgraduate training schemes, systems of public procurement and regulations in energy sector – all aimed at consolidating technical capacity as a way to assert its organisational autonomy from the state and from PETROBRAS.[105]

But as Andrea Goldstein (1999: 679) puts it, "the challenge of privatisation is the design of a new 'compact' to regulate the interactions between markets, states, and politics". On one hand, there exist varying patterns of state divesture which are consequential to national policy-making. Tripartite negotiations with unions and state managers are levers at the disposal of elites for resolving conflicts generated by the separation of ownership and control as well as in cushioning the impacts of market opening and competition regulations.[106] On the other hand, the state has invariably not faded away in delivering the reforms. For example, Margaret Thatcher's privatisation retained special voting rights called *golden shares* in previously state owned companies whilst Chile sought to keep CODELCO firmly under public ownership. Market reforms require, above all, a strong state to contain social tensions and political relationships to deliver the restructuring programme across all phases. But in Brazil state ownership had coincided practically with monopoly power and concentration of ownership and control in the hands of the government. It was therefore imperative for ANP to assert its autonomy as regulator from the Brazilian state as well as establish an organisational identity from that of PETROBRAS to appear credible in the eyes of the Brazilian and international investors. As neoliberal reforms purported, the rise of unelected bureaucratic agencies with technocratic credentials (Burnham 1999) was perceived as some form of insurance for business investment that government changes or shifts in policy priorities

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105 Author interviews with Victor Martin Souza, Executive Director, ANP, August 2010; Former Senior Officer, ANP, August 2010.

106 Some countries have designed privatisation as grand strategies to recast economic relations and the role of the state, for example in the United Kingdom and Chile; others have sought privatisation as a gradualist strategy to delineate incoming governments from previous administrations, such as in France; and still others have used privatisation as a macroeconomic management strategy to deal with a crisis, as in Italy and Argentina (Goldstein 1999: 679).

will not affect the overall economic climate. At the beginning of *abertura* in the petroleum sector, there existed significant expectations for a powerful, independent agency able to control excessive state intervention in an industry that was long dominated by one state enterprise. The Petroleum Law was then conceived as a critical juncture that would weaken PETROBRAS' power in the market and in the state apparatus. In many ways, the ANP was not just a technocratic agency but a highly politicised institution created to slowly erode the developmentalist ideology pervasive among the Brazilian elites. A former Director of ANP recognises the political and technical aspect of the agency:

> The oil business represents 10 percent of the GDP [and] PETROBRAS is responsible for 90% of oil production… [in] all the reserves, infrastructure of refining and processing of petroleum and gas… During the opening process, there was only one SOE which was also at the heart of the people. Twelve years have passed. The relationship between ANP and PETROBRAS has been very good; PETROBRAS understands the role of ANP. In my four years as Director, [I observed] it is not a problem anymore [and] there is respect. The biggest challenge now is about how to make ANP more and more independent as an agency… The oil industry [is] related to political power… the level of state interference differs from each place and circumstances. The best strategy to deal with this is to have more technical staff to reduce the politicisation of the job; but I understand the political nature of this situation… You cannot be independent and not give any concessions. It is part of the game. But I believe on the technical person with a sense of political skills. He will work better than a politician who is trying to acquire technical skills/understanding.[107]

This is consistent with the literature on technocratic politics (Burnham 1999; Domingues 1994; Silva 2009), in which new regulatory institutions have been established to manage resistance to market reforms by way of deploying technocratic credentials, professionalisation of knowledge, and depoliticisation of decision-making by shifting powers towards unelected institutions. However, as insights from path dependency and incrementalism show, political legacies and structural constraints shape political outcomes by

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[107] Author interview with Former Senior Officer, ANP, August 2010.

rendering certain choices more viable than others. Unlike in Chile where path dependent processes have been self-reinforcing, in Brazil the long gestation of state capitalism and the enormous role of public enterprises in industrialisation have created difficulties to construct political consensus on neoliberal economic governance. Cardoso's justification for his privatisation programme was the inability of the Brazilian government to financially support the industrialisation programme due to fiscal constraints and changing global context. SOEs were then expected to perform better by being exposed to private firms (via market opening), and if things should fail, state divestiture was a necessary solution in redressing the state's fiscal accounts. These reforms were justified (and accepted) at a time of austerity and lack of growth. I will return to the changing external environment which restructured the conditions upon which political agency was exercised in Section 7.2.

Whilst the state established ANP to facilitate market opening, the Petroleum Law likewise sought to incorporate different aspects of energy governance in Brazil. The *Conselho Nacional de Politíca Energética* (National Council for Energy Policy or CNPE) came into existence to set the agenda by way of providing proposals to the President regarding national energy policy and specific measures to address the energy needs of the federal and state governments. The CNPE draws from technical expertise of other state agencies – mainly Empresa de Pesquisa Energética or EPE and ANP – in making its proposals, including submission of legislative bills in Congress for subsidies for regions requiring federal support to finance energy consumption (Chapter 2, Article 2, 1997 DL 9.478). But whilst ANP draws its legitimacy from technocratic expertise, CNPE is undoubtedly a political entity from its very inception. The body is composed of ministers and its functioning and regulation are conducted by presidential decree rather than set in legislation, as opposed to ANP where its functions are specifically written in the Petroleum Law. CNPE is in charge of energy policy more generally, which includes the coordination of petroleum and natural gas, alcohol, coal, thermonuclear, and power, with the political mandate of guaranteeing the protection of consumers, promotion of free competition, and internationalisation of energy sector (Chapter 1, Article 1, 1997 DL 9.478). Theoretically, the state can exert some degree of control, for example, through the use of subsidies for consumption or to support the needs of industrial and manufacturing sectors. However, the establishment of CNPE coincided with Cardoso' drive for privatisation and market competition in the energy industry, in which the goals of CNPE were directed towards reducing the power of PETROBRAS and its subsidiaries in energy planning. For example, PETROBRAS had been responsible for research and development, pricing and distribution of gasoline, LPG, etc, and training professionals in the sector. But more crucially, CNPE was caught up in regulating the power sector between 1997 and 2007, wherein market opening process was more complex and competing interests (and potential for corruption) were pervasive.[108] Although CNPE was expected to coordinate different policy areas in the energy sector, petroleum received very little attention compared to the power sector. From the policymakers and PETROBRAS' viewpoints, CNPE was perceived less important in the context of the market opening process and expectations for setting the new rules of the game were pinned at ANP.[109]

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[108] The power sector was more politicised and subjected to more corruption than the petroleum sector. While all business interests have to deal with only one state company in petroleum, there is competition among domestic and foreign firms in the power sector during the sales of several state enterprises. In petroleum, the only source of corruption was the distribution of refining plants in the country because the auction in E&P was fairly transparent, and the distribution/sales of petroleum was already operating in a competitive market (though monopolised by five companies). The opposite case applies to power. The privatisation of electricity and building hydroelectric dams held entrenched interests in Congress and therefore CNPE was subjected to this political debate. This only makes sense if we take into account the power shortages in Brazil during Cardoso's second term, in which the privatisation was partially blamed for his failure to respond to the energy crisis. In the 1997 Petroleum Law, Chapter 2 Article 2 Section VI introduced through Law 10.858/2004 specifically states that CNPE is given the power "to propose the adoption of measures to guarantee that the national electricity demand is met… at all times giving due regard to strategic effects and public interest… [to] ensure optimum compatibility between tariff rate and reliability of the electrical system." Author interview with Roberto Schaeffer, Academic Consultant, UFRJ, July 2010.

[109] Author interviews with Ildo Sauer, PETROBRAS, August 2010; Roberto Schaeffer, Academic Consultant, UFRJ, July 2010; David Zylberstajn, ANP, July 2010; Former Senior Officer, ANP, August 2010.

Finally, in line with Thomas Trebat's (1983) distinction between the regulatory and entrepreneurial functions of the state, the Brazilian state has in fact retained its economic role in the oil industry by maintaining its relationship at arms-length with state enterprises. However, the fundamental change is that its role shifted from being *owner of productive capital* towards *provider of finance capital*. This was achieved chiefly by owning voting capital stocks in previously state-run enterprises, most emblematically in PETROBRAS, CVRD and CSN. In PETROBRAS, as Chapter 8 details, the Brazilian state simply retained the already existing majority shareholder ownership in the company. However, in steel and mining after full-fledged privatisation, the state retained control through golden shares. These are special voting rights that accord the majority shareholder, in this case the Brazilian state, some veto power over any significant changes in corporate governance, such as changes in the company's name and purpose, headquarters' location, liquidation, and closure or sale of major operations (Schneider 2009a, 2009b). In the case of Vale, apart from owning golden shares, the state maintains a 6.7% interest in the company (as of March 31, 2011) through BNDESPAR, which is a subsidiary of the state-owned development bank, BNDES. Vale's controlling shareholder, however, is Valespar consortium, which was organised and incorporated with the sole purpose of holding an interest in the company.[110] In short, this privately run enterprise is controlled by government pension funds whose chief executive officers are appointed by the government and sit at the company's board of directors, giving the state the capacity to exert indirect influence in the company's affairs (Nem Singh & Massi forthcoming). In CSN, a complex and messy process of privatisation took place, in which domestic business groups were given privileged in acquiring assets of this state enterprise leading to concentrated ownership or 'block holding' among state-controlled investors and *grupos econômicos* (Amman et. al. 2004; Doring & Santos forthcoming;

[110] As of March 31, 2011, the Valepar consortium held 52.7% of Vale's common shares (Vale Annual Report 2010). However, the government pension fund Previ of Banco do Brasil and FUNCEF of the Caixa Economica Federal (both state-owned financial institutions) hold the majority of the shares of Valepar ("Get to Know Vale," 22 Sep. 2011).

Montero 1998).[111] This illustrates not just how access by foreign capital was barred by the Brazilian state's gate keeping in extractive markets, it also demonstrates concentration of wealth either in the hands of the state or domestic business. This clearly challenges Peter Evan's (1979) earlier depiction of a weak domestic business class in the tripartite relationship; it likewise supports Ben Schneider's (2009a, 2009b, 2008) argument regarding the benefits accrued by grupos in the post-privatisation period. One key point to make, then, is that the Brazilian state has developed a complex relationship with capitalists, in which the dominance of the state or domestic capital is undeniable in more strategic areas of the economy.

To conclude, Cardoso progressed quite successfully in his state divestiture programme by breaking the monopoly of PETROBRAS in the E&P sector and created a new institution to regulate the bidding, licensing, and general oversight of the petroleum, natural gas, and bio-combustible sectors. Whilst there was an attempt to put in place a high-level coordinating agency directly tied to the Presidential Office, CNPE served a limited purpose after the market reforms. Most crucially, the Brazilian government has kept arms-length relationship with domestic capital by way of policing foreign access to markets and asserting its role as provider of finance capital. The next section deals with a preliminary evaluation of the Petroleum Law prior to the change of the institutional framework in December 2010.

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[111] Until 1993, CSN was controlled by Siderurgia Brasileira SA – a state-owned holding company dissolved in 1990 – and the Federal Treasury (90,8%), and by Caixa Beneficiente dos Empregados da CSN (CBS) (9,2%), the pension fund of the company's employees. A companies' consortium, led by CVRD, through Navegação Vale do Rio Doce SA (9,4%), and Vicunha Group (9,2%), but also comprising Banco Bamerindus SA[111] (9,1%) and Banco Bradesco SA (7,7%), among others, was successful in acquiring CSN for U$ 1,495.3 billion. The company acquired U$ 532.9 billion in debts, raising the total cost up to U$ 2,028.2 billion. CBS raised its participation up to 9,8% (Pereira, 2007: 14). However, the complex web of ownership structure is far from simple. For example, the newly privatised CSN became a shareholder in CVRD when it was de-nationalised in 1997. In addition, BNDES, the national development bank, was central in the process through the preparation of the bid documents as well as the provision of loans to interested national groups, given the capital mobilisation requirements. BNDES also joined as a partner in some of these business initiatives shortly after privatisation, through its subsidiary BNDESPar (Doring & Santos forthcoming).

7.1.3 Evaluating the impacts of reforms

Has Cardoso then succeeded in generating new economic dynamism in the petroleum industry? Whilst it is difficult to link the reforms and outcomes directly, there are some indicators of the positive and negative effects of the Petroleum Law. Firstly, we can assess whether market barriers for entry of private capital in the oil market were reduced to facilitate investments. The positive effect includes the apparent credibility of the reforms, which is reflected in the amount of private investments, both foreign and domestic, in the E&P sector. As the bidding rounds took place, more companies have become interested in the oil industry, hence, enhancing the competitive environment for PETROBRAS. Tellingly, the E&P sector heavily benefited from Cardoso's abertura project. This is an achievement since no private sector was willing to invest in the 1930s and 1940s, during which the state had to fill in the 'vacuous spaces' in the economy through public financing of the oil sector (Randall 1993; Trebat 1983).

During the first round of bidding in 1999, ANP auctioned a total of 27 oil blocs, where eleven companies were granted twelve blocs and six of them were new operators. This was equivalent to 54,660 square kilometres, all of which were offshore explorations. Consistent with the aim of the Petroleum Law to increase domestic capacity, there was 25 percent local content in the exploration phase and 27 percent in the production and development phase.[112] In terms of the financial rewards for the government, the state received signature bonus of US$ 181 million and a minimum investment in the first exploration phase amounting to US$ 65 million (ANP Annual Report 2011: 190).[113] As Table 7.3 shows, a total of 765 blocs were auctioned by ANP after nine rounds of bidding between 1999 and 2008 (excluding a failed bidding process in 2006). And all throughout the process, domestic content

[112] Local content refers to the requirement that certain percentage of supplies must be produced domestically.

[113] As will be explained later on, signature bonus is one of the four types of taxes to be paid by oil firms immediately upon winning oil contracts in Brazil.

increased steadily and more private companies participated in the process. To this extent, one can clearly see the market opening reform as successful in attracting private investment in the oil industry whilst maintaining some income for the federal government. And one should not underestimate this because the risky but most rewarding part of oil extraction lies in upstream activities. In many ways, ANP had achieved its goal of establishing a credible reform process in a highly protected market.

Table 7.3 Results of bidding in E&P sector under 1997 Petroleum Law

Number of rounds	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Ninth	Tenth
	1999	2000	2001	2002	2003	2004	2005	2007	2008
Auctioned blocs	27	23	53	54	908	913	1,134	271	130
Granted blocs	12	21	34	21	101	154	251	117	54
Onshore granted blocs	0	9	7	10	20	89	210	65	54
Offshore granted blocs	12	12	27	11	81	65	41	52	0
Area granted (km²)	54,660	48,074	48,629	46,266	21,951	39,657	194,651	45,614	48,030
Area granted onshore (km²)	54,660	37,847	25,289	14,669	21,254	36,811	7,735	13,419	0
Number of winning companies	11	16	22	14	6	19	30	36	17
New operators	6	6	8	5	1	1	6	11	2
Local content (exploration)	25%	42%	28%	39%	79%	86%	74%	69%	79%
Local content (development and production)	27%	48%	40%	54%	86%	89%	81%	77%	84%
Signature bonus (US$ million)	181	262	241	34	9	222	485	1,141	38
Minimum investment in the first exploration period (US$ million in three years)	65	60	51	29	121	681	829	739	259

Source: ANP Annual Report 2011, Table 5.1 (Adapted), 190.

On the negative side, the Petroleum Law did not have any substantial impacts in expanding private investment in the refining and distribution sectors. For example, 12 out of 16 national refineries operating in Brazil are owned by PETROBRAS, which is equivalent to 98.1 percent of total refining capacity of the country (ANP Annual Report 2011: 97). Equally, in the distribution sector, there are only three companies dominating in the sales of major oil derivatives, such as diesel oil, gasoline, and combustible oil – PETROBRAS BR Distribuidora, Ipiranga, and Shell (See ANP Annual Report

2011: 135-145). It is worth noting that BR dominates across all these products, as I summarise in Table 7.4. Whilst the market power of PETROBRAS in midstream and downstream activities can be interpreted as the success of PETROBRAS and a direct outcome of state monopoly, and indeed both reasons are true, one should also think that oil companies are interested only in areas of the hydrocarbons chain that guarantee high rates of returns for investment. In this case, the exploration and exploitation sector has attracted companies in terms of investment.

Table 7.4 Participation share in Brazilian distribution sector, 2010

	Diesel oil (1)	Gasoline C (2)	Combustible oil (3)
BR Distribuidora	40.63 %	29.67 %	79.64 %
Ipiranga	22.35 %	19.60 %	5.82 %
Shell	9.66 %	11.21 %	13.01 %
Cosan	5.75 %	6.70 %	0.76 %
Alesat	2.98 %	5.75 %	--(4)

Source: ANP Annual Report 2011 (Adapted), 137, 140, 145.
Notes:
(1) Total of 127 distributors
(2) Total of 140 distributors
(3) Total of 20 distributors
(4) Alesat does not have any share in combustible oil. Simeira ranks fifth with 0.12 % share.

Secondly, another measure of success is to observe the gains accrued by the state in the liberalisation of the oil and gas sectors. The Brazilian government has clearly managed to procure oil rents from market opening through royalty fees, corporate taxes, and required minimum investments in the exploration phase, all of which are stipulated in the Petroleum Law. More importantly, perhaps as a result of Brazilian elites' concern regarding the possibility of foreign firms becoming dominant without any return for the industry, the Petroleum Law sought to increase its domestic capacity by compelling oil firms to use local contents in their operations. As Table 7.3 details in the previous section, companies using local contents in operations in the exploration phase jumped from 25 percent in 1999 to 79 percent in 2008. In the production and exploitation segment, local content improved from 27 percent in 1999 to an astounding 84 percent in 2008. This can be attributed to the overwhelming presence of the state enterprise across the commodity chains. In many ways, this validates the arguments regarding the role of PETROBRAS on national industrial development.

Finally, it is inevitable to ask whether PETROBRAS became competitive *because of* the 1997 Petroleum Law or, as Ildo Sauer puts it, the state enterprise was already competitive *despite of* the reforms.[114] I will discuss this extensively in Chapter 8 when I analyse the performance of PETROBRAS and how its key competitive strategies – internationalisation of operations, technological innovation, and human capital formation – facilitated the strengthening of the company and the expansion of its operations beyond oil sector. It is difficult to say that PETROBRAS was positively affected *directly* by the market opening process. The logic of the reform was admittedly to weaken the market power of PETROBRAS in order to create 'fair competition' between PETROBRAS and private oil companies, during which ANP was conceived as a counter weight to the Brazilian state to ensure independence and transparency in the bidding process.[115] In this context, it is interesting to note that refining capacity has progressively improved since PETROBRAS began processing imported crude oil by doubling its capacity from 164,200 m^3d/o in 1974 to 332,703 m^3d/o in 2010. As Figure 7.1 reveals, refining capacity in Brazil has steadily improved – an outcome of PETROBRAS' investment in mid-stream activities. The enhanced competitiveness of PETROBRAS points to what scholars call *bolsos de eficiência* or 'pockets of efficiencies' (Evans 1979, 1995) in the Brazilian state apparatus, which refers to segments of the state exerting high levels of efficiency and competence. But equally important is the role of ideas in shaping policy paradigms.

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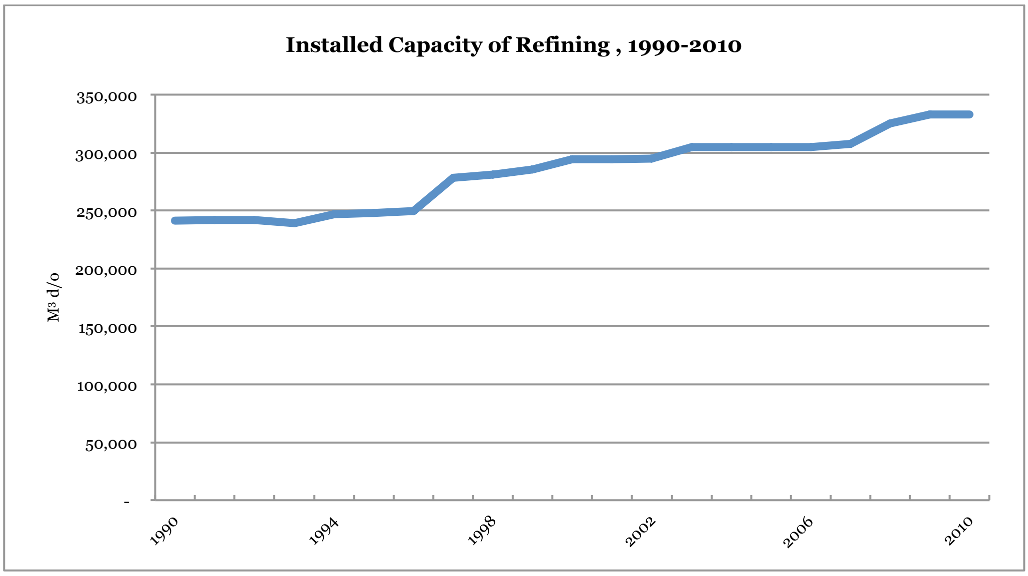
[114] Author interview with Ildo Sauer, PETROBRAS, August 2010.

[115] Author interviews with David Zylberstajn, ANP, July 2010; Former Senior Officer, ANP, August 2010; Senior Official, IBP, August 2010.

Figure 7.1 National refining capacity



Source: Empresa de Pesquisa Energética 2011, Table 1.3 (Adapted), 160.
Note: d/o refers to dias de operação (operating days)

Despite the fuzzy relationship between market reform and competitiveness, the private sector *believes* on the positive impact of the Petroleum Law by way of generating competition in contexts of high concentration of market power. As argued by Felipe Dias, the Executive Secretary of IBP – the business organisation representing mostly all domestic and foreign energy firms operating in Brazil:

> PETROBRAS remains to be a major player and almost the only producer in the oil sector but the presence of private companies has changed its behaviour, it is very clear, it will be very difficult to defend the position that it has not benefited from private sector competition. From the operation itself, the production and exploration, the [competitive] environment has pushed PETROBRAS to be more efficient, our participation has had [positive] consequences.[116]

The economistic argument behind this is that PETROBRAS' exposure to foreign companies generates a form of 'social learning' in which international experience of big oil companies in terms of research and development are transferred indirectly through joint ventures with PETROBRAS. This

[116] Author interview with Felipe Dias, Executive Secretary, IBP, August 2010.

argument, however, rests on the assumption that PETROBRAS had less opportunity to work together with other international oil firms in the past. What is evident, in fact, after several rounds of bidding was that international oil companies decided to work with PETROBRAS due to its unparalleled knowledge of the Brazilian geology – a comparative advantage that was utilised quite effectively by the state enterprise. As Table 7.5 details, by 2010 PETROBRAS remains the dominant actor in the E&P sector. International oil companies have sought for joint ventures with PETROBRAS either as majority, minority, or fifty-fifty participation share. However, we should note that participation share of private capital is quite notable in exploration activities (43.3 percent in 2010).

Table 7.5 PETROBRAS' ownership of oil concessions, 2010

	PETROBRAS as 100% Concession Owner	PETROBRAS as 50% Joint Partner	PETROBRAS as Minority Partner (1%-49%)	PETROBRAS as Majority Partner (51%-99%)	Private Capital as 100% Concession Owner
Blocks in Exploration phase	113	31	29	56	175
Percentage of the Total (404)	28.0%	7.7%	7.2%	13.9%	43.3%
Fields under Development	36	3	8	4	10
Percentage of the Total (61)	59.0%	4.9%	13.1%	6.6%	16.4%
Producing Fields	254	2	11	3	41
Percentage of the Total (311)	81.7%	0.6%	3.5%	1.0%	13.2%

Source: ANP Annual Report 2010 (Adapted), 16-27.
Note: Numbers in parenthesis represent total number of oil blocks in exploration, fields under development, and producing fields as of December 31, 2009.

So whilst we can interpret this as the market becoming more competitive and making the investment environment more conducive, one can also see this as a testament of the ability of PETROBRAS to work in conduit with the state to develop expertise and knowledge in a highly strategic sector. The Brazilian petroleum industry is often referred as 'contestable markets', in which there is a dominant player with high concentration of ownership, capital, and productive capacity in the sector but the player acts as if it operates in a competitive market (Bridgman et. al. 2008). The effect of the law, in short, was to induce exogenous pressures of competition, however, imagined competition was. Whilst in Chile the state has successfully introduced private participation in the mining industry that also threatened the very survival of CODELCO, in Brazil the state enterprise remained the key player in the petroleum sector. To briefly summarise, what I have shown thus far is that the developmental state model as applied in the petroleum industry worked out quite effectively and survived the neoliberal assault. But more crucially, market opening seemed to have strategically proven the capacity of state enterprises to compete globally, given certain conditions. Although one cannot say that the neoliberal reforms have been pragmatic, we can indeed conclude that there have been some benefits for the Brazilian state, whether intended or not. Taking into account the data I have presented here, the next section provides a detailed analysis of the new institutional framework in Brazil adopted by Lula da Silva and Dilma Rousseff.

7.2 From continuity to change: *Novo desenvolvimentismo* in Brazil

This section discusses the motivations behind the changes in the institutional framework to regulate the petroleum industry. Whilst it can be assumed that the discovery of pre-salt oil reserves in 2007 was a fundamental structuring condition, as the Chilean case showed, a stronger role for the state is not necessarily the automatic policy choice. The return of state capitalism, understood in terms of *novo desenvolvimentismo* or neo-developmentalism (Bresser-Pereira 2006; Sicsú et. al. 2007; Veiga 2006), can be explained through a focus on how political agency is exercised under favourable structural conditions by the PT government. Its starting point is the contestation of neoliberalism as a way of reconfiguring the triangular social relations between states, markets and labour. The lack of a credible political pact between the state and organised labour under Cardoso meant that unions were aggressively in opposition to his policy, which subsequently gives more leverage for the Workers' Party to graft a new corporatist framework (see Chapter 8). Whilst Cardoso succeeded in introducing new economic ideas based on competitive markets, privatisation faced immense political and labour resistance.[117] The privatisation of strategic assets in CVRD generated political controversy because the premise of the reform was the uncompetitive nature of state enterprises, which was underestimating the efficiency and market power of CVRD and PETROBRAS (see Goldstein 2010, 1999). Cardoso confronted supporters of the old developmentalist ideology, in particular the petistas in Congress (Hunter 2010; Montero 1998; Pinheiro 2002, 1994; Pinheiro et. al. 2004).

Secondly, we need to take into account the nuances between Cardoso's centre-right government and Lula's centre-left opposition turned

[117] This was also observed in economic restructuring of public service provision, for example telecommunications and electricity, as well as in strategic resource-based sectors, most notably petrochemicals, steel and mining. See Döring & Santos forthcoming; Goldstein 1999; Montero 1998; Randall 1993.

government coalition. Whilst Lula had intensified Cardoso's reforms especially in macroeconomic management, his electoral victory relied quite strongly from a discontented public, and therefore it generated higher expectations from workers, social movements, and the popular sectors (Bourne 2008; Branford et. al. 2005; Love & Baer 2009). Cardoso, on the other hand, drew his legitimacy from macroeconomic reforms which sought to bring down inflation and invite foreign participation in the economy. Lula's market reforms were underpinned by his commitment to retain Cardoso's macroeconomic framework and expansion of state involvement in addressing poverty and social inequality.[118] Nevertheless, his commitment for continuity in Cardoso's reforms was not as firmly rooted as Concertación government in Chile, which effectively implies the failure of neoliberalism to become embedded. As Kingstone (1999) argues, support for Cardoso's reformist coalition is premised upon the potential contingent benefits of economic restructuring. In the public sphere, opinion polls regarding neoliberal globalisation invariably differ among the broader populace. Whilst there was support for free trade and positive belief on effects of globalisation to consumers, reforms aimed at privatisation were very contentious and highly controversial (Baker 2009, 2003). Compared to Argentina, Chile, and Mexico (Murillo 2001; Teichman 2001), state-society bargaining was far more fragmented and less consolidated, which explains the patchy and fragmented nature of reforms.[119]

In this context, political agency is crucial as an explanation to institutional transformation of the neo-developmental state in Brazil. Whilst I will discuss the broader significance of this concept to the Brazilian political economy in Section 7.3, neo-developmentalism consists of a fusion of market incentives to generate competitiveness and new forms of regulatory powers exercised by the state in the economy. With respect to oil politics, there are three key

[118] His achievements are subject to debate. Whilst Lula certainly expanded coverage and scope of social policies, around 43 percent of public expenditure remained in pension contributions rather than policies aimed at reducing poverty and inequality. See Amann & Baer 2009.

[119] See Kingstone 1999; Pinheiro et. al. 2004; Schneider 2009a, 2009b, 2004a, 2004b.

changes which I discuss below: The introduction of production-sharing regime to manage the newly discovered pre-salt reserves; the new roles of state agencies and state enterprises; and the explicit linkage between oil wealth and social development. By examining these key changes, I argue that favourable structural conditions *and* political agency interacted to produce a reconfiguration of politico-economic relationships between states and markets. Consistent with historical institutionalist analysis, Lula's uneasiness with economic restructuring even during his first term had the effect of creating uncertain policy direction in which he followed Cardoso's broad macroeconomic strategies. In his second term, Lula's policy in oil management indicates greater confidence to challenge market orthodoxy, thereby, signifying a more concrete attempt to deal with the backlash of neoliberalism (or what Mahoney 2010 refers as *reactive sequencing*).

7.2.1 Continuity in petroleum governance between Cardoso and Lula

The shift in presidency in Brazil created a situation of uncertainty and tension in the sphere of regulation, infrastructure, and in the economy more generally. Lula da Silva, who ran for office unsuccessfully three times had finally won, and whilst his radical discourse of statism was reduced, his victory shook the confidence of market actors as exemplified by the jump of Brazil's country risk prior to his elections (Mueller & Rossi de Oliveira 2009). Upon taking power in 2003, Lula adopted a conservative set of policies marked by stringent fiscal policy to obtain budget surplus, inflation targeting, and maintenance of high interest rates (Artestis & Saad Filho 2007; Amann & Baer 2009). In the petroleum sector, Lula contemplated to discuss an alternative model – production-sharing agreement – but this was not adopted in the end. This is perhaps understandable for two reasons. Firstly, there was no significant income coming from the oil sector and the bidding process had just started. There were no incentives for the state to increase its stakes at a period where the risks in oil were perceived to be high and costs of injecting state financing for capital would yield to uncertain results. Equally, the backbone of the regulatory framework in the petroleum sector was written into law, which would have required a contentious reform proposal in National Congress in order to make sweeping changes. Secondly, it was not until 2002 that PETROBRAS had decided to drill beneath the salt layer 3,000 metres below sea level, which also meant that investments in exploration were being financed by PETROBRAS alone. Without significant oil reserves, the more profitable operations concentrated in refining and distribution sectors. In terms of costs and benefits, a reform process was too risky for a president who was yet to prove his credibility to govern a complex massive economy as Brazil.

More importantly, the immediate issue for Lula was to define the relationship between the state and its independent regulatory agencies. Privatisation set the pace in creating a series of new agencies aimed at regulating the transfer of economic activities from the public to private hands. The challenge was not exclusive in the petroleum sector between Lula da Silva and the ANP. It was also present in other national infrastructures privatised under Cardoso, such as electricity, telecommunications and service provision. The new president had difficulty understanding the importance of regulatory agencies and he used his presidential powers to impose constraints on their management by way of delays in appointments of higher officials and holding back agencies' budget entitlements. Whilst under Cardoso the appointment delays were only between 2 and 4 days in 1997-2002, the average length of vacancy in the board of directors in 2003 – Lula's first year in office – was 29 days. This was still higher than the worst case of vacancy during Cardoso's presidency, which was 26 days in 2001. In 2004, it jumped to 89 days, then went slightly down to 58 days in 2005 but skyrocketed again to 98 days in 2006 (Mueller & Rossi de Oliveira 2009: 98). In the petroleum sector, the role of the ANP was highly contested especially because the Ministry of Mines and Energy (MME) and PETROBRAS had historically made economic decisions for the whole energy sector. Although Lula gradually changed his position vis-à-vis ANP, this was a difficult process, as ANP Executive Director Victor Martins Souza expressed in plain terms:

> When Lula was elected, he saw that he could not appoint the directors because they had already been appointed. There was, in my personal assessment, a feeling that he had won the power, but he has not had the power over the [regulatory] agencies. It generated, and this is a personal evaluation, misunderstanding in the media that Lula and the PT were against the ANP. I think in reality it was a natural reaction, that is to say, "I had 50 million votes, I decisively won the election, and now I do not have anything." But over time, President Lula and the PT were recognising the importance and relevance of regulatory agencies... One of the main problems of economic infrastructure was the need for a clear and stable regulatory environment with transparent rules in place. And then I believe that there was, in his second term, a reverse process of what occurred in the first term: strengthening environmental, regulatory, and controlling agencies. PT tackled Cardoso's neoliberal policy by supporting these agencies despite PT being ideologically against it. Lula found that it was important not to weaken the agencies but rather give them more regulatory powers, and that occurred throughout [his] second term.[120]

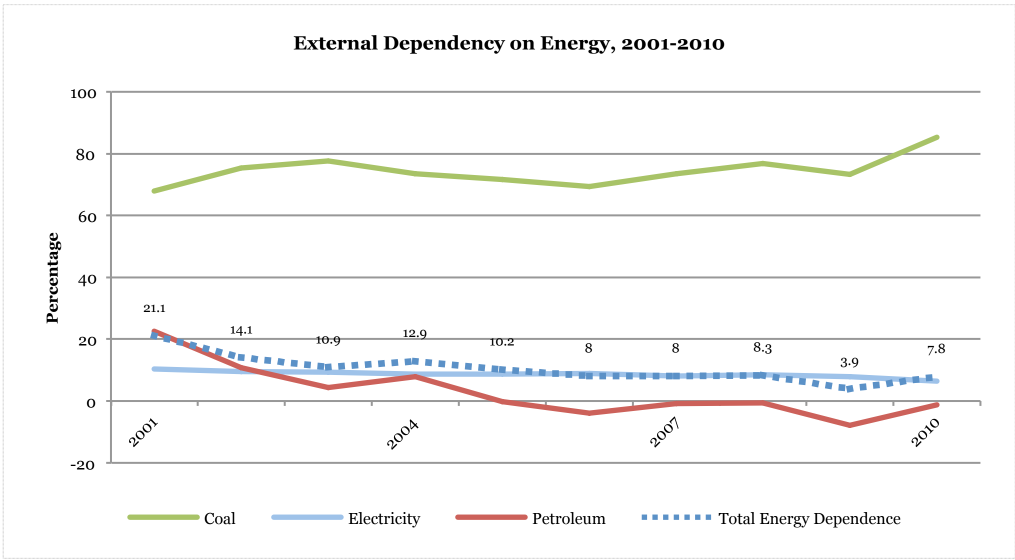
Given the discussion above, timing is the key to understand Lula's shift in policy discourse. Through the changing external conditions of Brazil, Lula's government was able to reshape the policy agenda after 2007. Firstly, thanks to PETROBRAS, Brazil achieved self-sufficiency in oil, which signifies it is no longer in a position of dependency to acquire petroleum resources externally for domestic consumption. In this 'age of resource scarcity' (Barbier 2011) and escalating requirements in securing energy for development, Brazil has managed to eliminate its external dependence in oil prior to the discovery of pre-salt reserves. Figure 7.2 shows quite clearly the success of PETROBRAS' strategy in reducing oil dependency from external sources.[121] Brazil reduced its rate of external dependence from 22.5 percent in 2001 (397 boe/day) down to -0.1 percent (-1 boe/day) in 2005. Net exports were observed from 2006 to 2010. This also corresponds to the reduction of overall external dependence, wherein its total external dependence shrank from 21.1 percent

[120] Author interview with Victor Martins Souza, ANP, August 2010.

[121] External dependence on energy is calculated as the difference between domestic energy demand (including losses in transformation, distribution and storage) and domestic production (EPE 2011: 30).

in 2001 down to 3.9 percent in 2009 then climbing back up to 7.8 percent in 2010.[122]

Figure 7.2 Brazil's rate of external dependence on energy



Source: EPE 2011, Table 1.8 (Adapted), 30.

Most crucially, institutional transformations take place during moments of critical junctures. In the context of petroleum, this occurred after PETROBRAS had declared the availability of commercially viable oil reserves beneath the salt layer near the coastline. In early 2002, PETROBRAS decided to drill oil beneath the salt layer knowing the technological challenges in reaching the reservoirs. The salt layer is about 2,000 metres thick and wells penetrate over 7,000 meters below sea level, in ultra-deep waters.[123] In 2005, the Tupi bloc showed indications of oil in the pre-salt layer and in late 2006 PETROBRAS estimated between 5 and 8 billion barrels of commercially viable oil. From early 2007 until 2011, scientific research on the wells drilled in the Campos and Espiritu Santo basins also showed oil contents. At

[122] Whilst generally this is observable in electricity, Brazil remains dependent on coal from external sources.

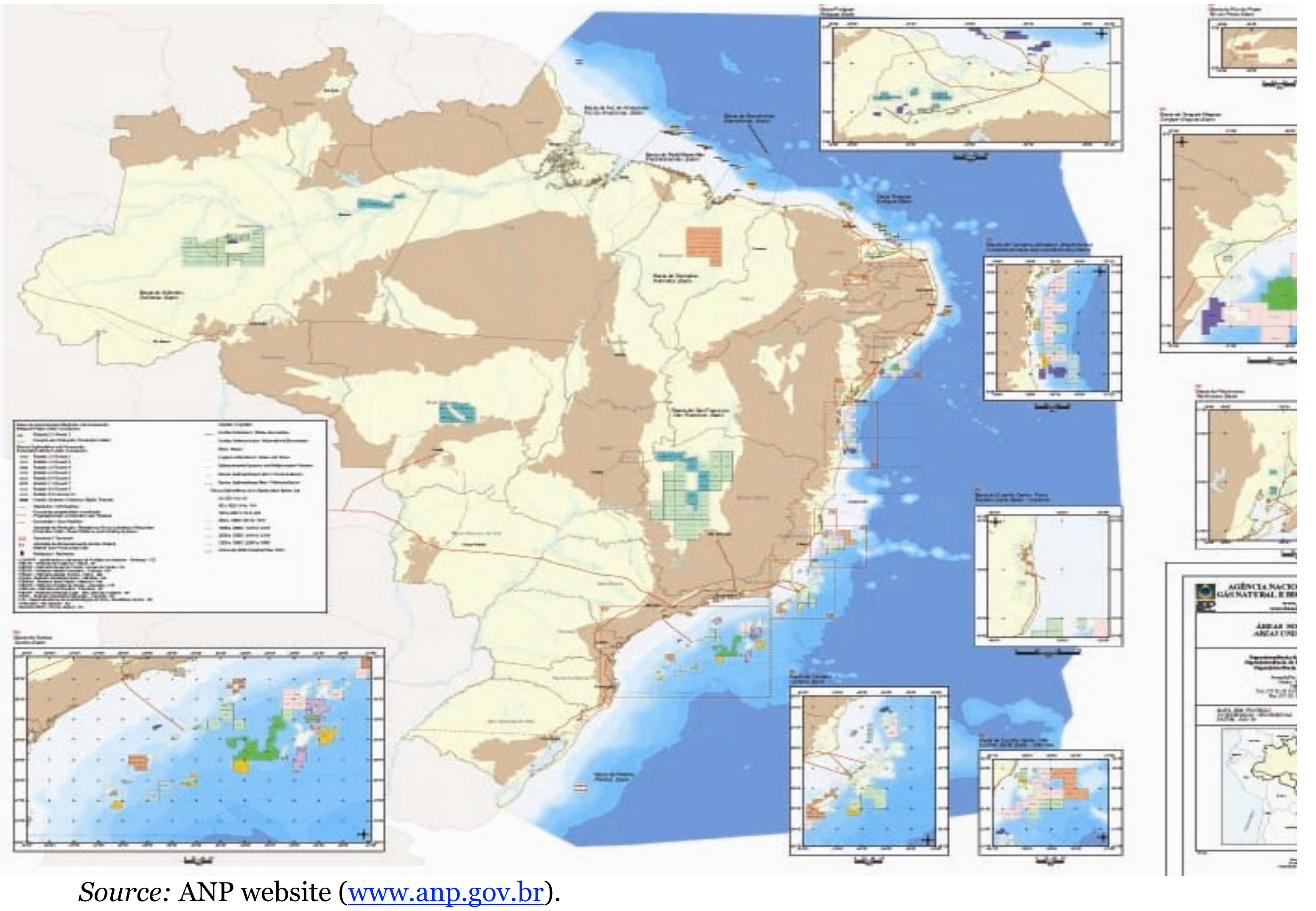
[123] Using its years of geological information including data on the nature of rocks in the salt layer, PETROBRAS sought for a new version of Basin Simulator to accurately map the site of oil extraction – a task deemed difficult due to the distortions created by the salt. Equally, a new process had been developed to deal with the greater corrosiveness and instability of the salt (PETROBRAS Annual Report 2007: 4-5).

present, the pre-salt oil reservoir is approximately 800 kilometres long by 200 kilometres wide, which runs along the southern and south-eastern coasts of Brazil from Santa Catarina to all the way to Espiritu Santo (see Figure 7.3).

Overall, Brazil was experiencing gradual but certainly dramatic economic changes: it had achieved status as net exporter of crude oil after 2006 (see Figure 7.4); it had the capacity of PETROBRAS to refine petroleum and therefore take advantage of high valued petroleum exports; and the country is not affected by any economic crisis. The market conditions are now more conducive for a change in the institutional framework to increase the stake of the state in this highly prized sector. With no need for external support from IFIs and substantial amount of foreign reserves, the state is in a stronger position to take advantage of the commodity boom. Above all, national elites have not given up its goal of securing energy needs as a way of achieving industrialization, and this is far more entrenched in the PT government's ideological predisposition. Not to labour the point further, political agency could be exercised as a result of the changing external context for Brazil. A new political discourse emerged as soon as PETROBRAS confirmed the presence of light hydrocarbons in the pre-salt reservoir.[124]

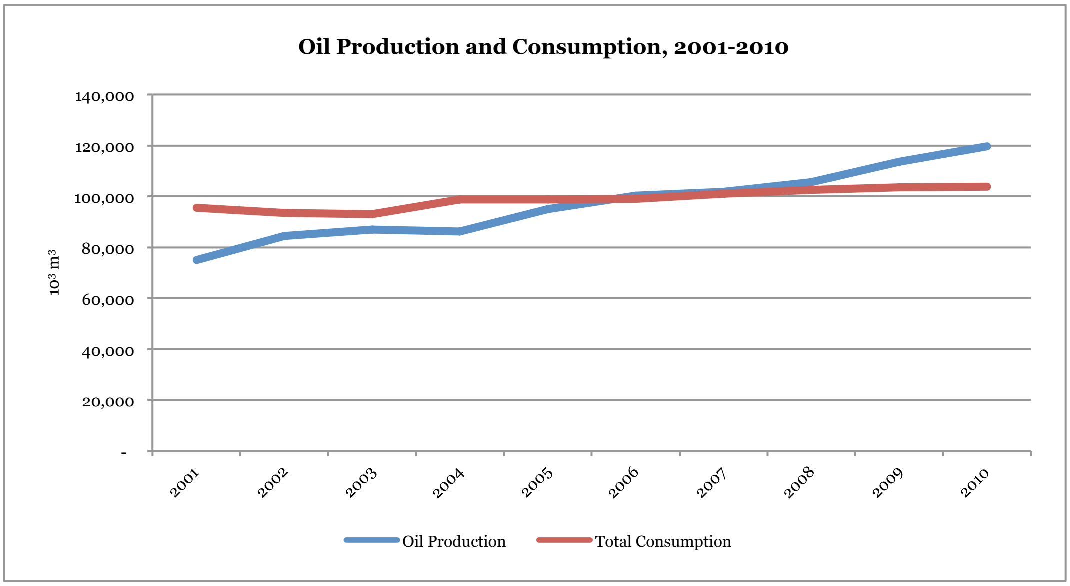
[124] Technically, light hydrocarbons refer to 30° API oil, natural gas and condensate.

Figure 7.3 Map of oil concessions in Brazil



Source: ANP website (www.anp.gov.br).

Figure 7.4 Petroleum production and consumption in Brazil



Source: EPE 2011, Table 2.2 (Adapted), 40.

7.2.2 *Novo desenvolvimentismo* in petroleum governance

We can speak about institutional change in Brazil by way of focussing on *institutional layering* some new rules alongside the old ones in order to satisfy competing interests of different political actors. Whilst Lula embraced the rules of the game promoting macroeconomic management and foreign capital participation, he has introduced new rules in light of the discovery of pre-salt reserves. In particular, there were three key changes sought by Lula da Silva and his successor Dilma Rouseff: (a) change in the regulatory framework to increase the stake of the Brazilian state; (b) to redefine the relationships between state agencies and state enterprises by creating PETROSAL and strengthening CNPE; and (c) to explicitly link fiscal and oil regulations through the national social fund.

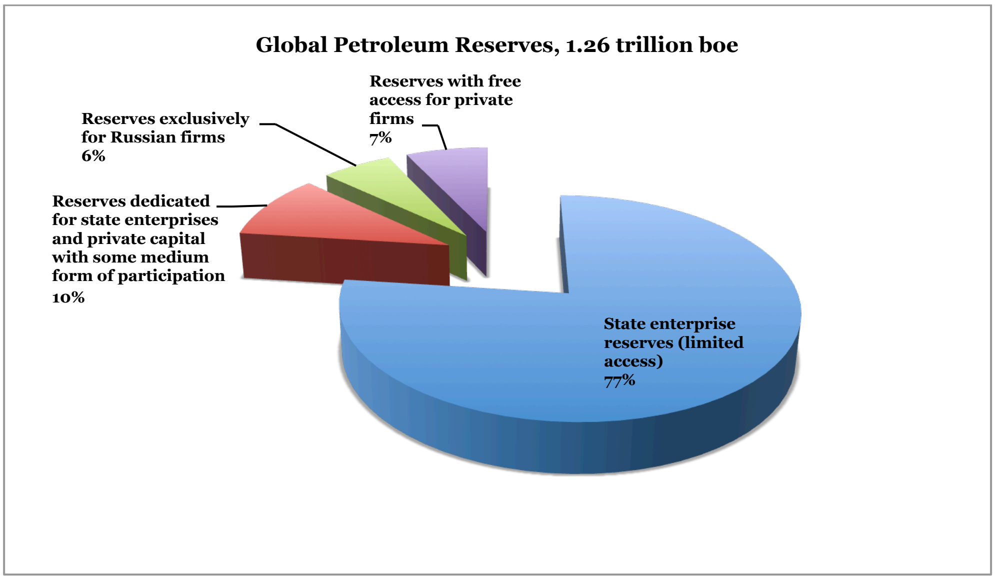
A. Institutional layering in regulatory frameworks

The pre-salt reservoir is transforming Brazil as a leading energy producer, and this condition allowed Lula's government to introduce a change in state-market relations in the oil industry. In the concessions grant model, high uncertainty and risks prevent the state from investing in oil exploration activities. It also means lower rewards for the state by way of taxation. However, the *perceived* low risks and uncertainty in exploration activities as a result of the pre-salt reserves have changed the government position regarding public investment in the oil sector. Under the production-sharing arrangement (see Table 7.1 again), the state asserts its ownership of natural resources by retaining subsoil rights whilst permitting foreign corporations to operate in the development of oil fields as service contractors. The state maintains high rewards by establishing minimum participation share of national state-owned enterprises whilst allowing private capital to work together with PETROBRAS through consortium and joint ventures. In contrast to the concession grants model, participants in the consortium do not own mineral rights and only provide services to operate on behalf of the state (Lima 2009a, 2009b; Radon 2005). The contractor and not the Federal Government take the costs and risks of exploration activities.[125]

Whilst the technocratic explanation of risks and rewards is a strong economic justification, the underpinning logic is more political. As Figure 7.5 demonstrates, in contrast to other industries including mining, petroleum is a highly restrictive sector, in which the state historically played a decisively interventionist role. Out of 1.26 trillion barrels of oil (boe) global petroleum reserves, 77 percent have very limited access and are held in reserve for state-run oil enterprises, 10 percent of reserves are accessible to state enterprises and private capital with medium access, 6 percent are exclusively kept for Russian state enterprises, and only 7 percent have free access for private capital. The private sector, which consists of the biggest international oil companies from traditionally oil-seeking countries, has had limited access to world oil reserves.

[125] The national government can, upon discretion, participate in putting investments in exploration activities, evaluation, development and production in pre-salt reservoir, in which its financing can be covered by the Special Fund established through 1997 Petroleum Law.

Figure 7.5 Access of state-controlled and private enterprises



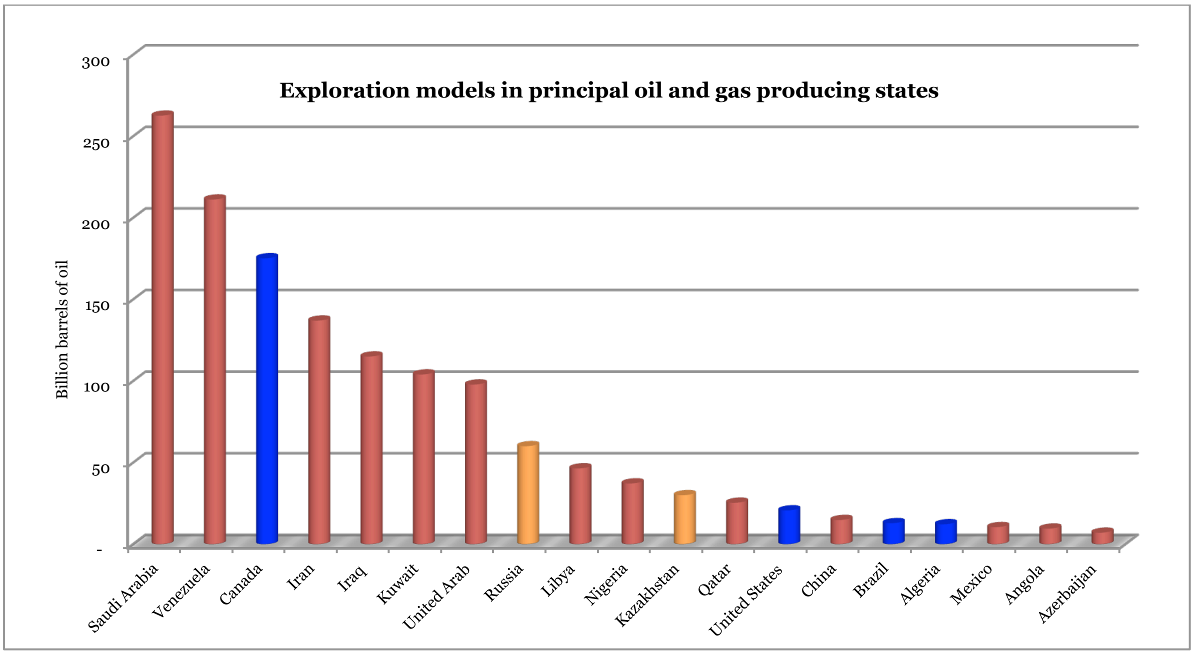
Source: PFC Energy 2009 in MME 2010 (Adapted).

The structure of the global oil industry is inherently favourable to direct state participation, which is reflected in the dominance of production-sharing arrangement, as shown in Figure 7.6, among oil-rich states. The major oil-producing economies – Saudi Arabia, Iran, Iraq, Kuwait, Venezuela, UAE, Libya, Nigeria and Qatar – have adopted either production-sharing or service contracts. The remaining two key oil exporters – Russia and Kazakhstan – have adopted pure production-sharing contracts. From the 24 major oil producing countries, 16 have production-sharing and service contracts, six have mixed regimes, and only six have concessions grant model (MME 2010: 17).[126] The choice of ownership structures in the oil industry has broader consequences for state enterprise competitiveness and the degree of state control over private capital participation in the economy (Hertog 2010a, 2010b; Jones Luong & Weinthal 2010). In Brazil, the production-sharing arrangement allows for private participation in the economy without necessarily handing the state excessive control over the oil industry since private companies are not discriminated. State power is exercised through the ability of the Ministry of Mines and Energy (MME), directly or indirectly

[126] In this survey, Brazil had a concessions grant model.

via ANP, to decide which blocs are considered 'strategic', and is therefore restricted from private explorations as opposed to 'non-strategic' blocs where the concessions grant model remains applicable.

Figure 7.6 A global view of exploration models and oil production



Source: MME 2010 (Adapted).

Notes:	Red:	Production-sharing arrangement or service contracts
	Yellow:	Pure production-sharing arrangement only
	Blue:	Concessions grant model

The state is increasing its stake by moving beyond taxation as a means of acquiring oil rents. Instead, the new law makes clear its preference for PETROBRAS as service contractor by giving the company what is called *onerous assignment*, in which the state controlled enterprise receives minimum participation share of 30 percent across exploration, development, and production activities in the upstream sector. Whilst the production-sharing arrangement invariably heightens risks and costs for the state, it likewise strengthens its ability to reap more rewards by directly participating in oil activities via PETROBRAS. It stands in contrast to other Latin American states where state intervention has mostly taken place through renegotiation of contracts and re-taxation of the minerals sector (Hogenboom 2012; Kaup 2010). More recently, Cristina Kirchner's efforts to re-nationalise the natural gas sector in Argentina by taking 51 percent ownership of previously privatised YPF from Spanish Repsol were highly contentious to the extent that threats of capital outflow were astutely declared to challenge the governmental policy shift. Even after the new entry of China, there are persistent doubts about the capacity of Latin American state to reduce their dependency in natural resources. What is evident is the greater difficulty in crowding out the private sector in the sector even in situations where there are relatively effective public enterprises although the state can still exercise a certain degree of control. The change towards production-sharing arrangement in Brazil is one example of this strategy.

B. Reorganising states and markets

Under the new law, there are two important changes in terms of the reorganisation of state and market actors. Firstly, the state created a new 100 percent state enterprise, PETROSAL SA, to represent state interests in negotiations of consortium and joint ventures. PETROBRAS is only 51 percent state-owned, which means it cannot represent the Brazilian state during negotiations with private sector to decide the percentage of participation share of different firms. Whilst ANP is a regulatory agency independent of the state, CNPE is responsible for maintaining the strategic direction of energy policy. Whilst labour unions have supported the possibility of a traditional re-nationalisation of PETROBRAS (100 percent ownership), the state enterprise has exercised leverage on the basis of profitability. PETROBRAS was – and remains – a state-controlled rather than state-owned enterprise for this reason. Therefore, a new state enterprise was established with a specific role of representing the state in negotiations with foreign and domestic capital, and naturally was not duplicating the role of PETROBRAS as a service provider. PETROSAL is expected to ensure the profitability of oil fields and blocks where government participation shares exist. To clarify misconceptions, the ANP will still exist and will continue to take a *state* rather than a *government* view. PETROSAL then takes a view of the government in power today with the goal of maximising profitability in the fields and blocks.

Secondly, the state has begun to strengthen the CNPE in order to enhance the strategic interests of the state in the oil industry. In contrast to its past role of managing privatisation of the power sector, CNPE is conceived to play a far more central role in managing energy policy, which extends beyond the oil and gas sectors. Its direct connection with the president gives the political organisation stronger voice in policy making. Because it is composed of ministers, CNPE is an inherently political entity and its policy proposals draw from other agencies, such as EPE and ANP. Its mandate is to coordinate the different sectors associated with energy, taking a long term goal of securing self-sufficiency in Brazil's energy. The council thus aims for a balanced energy policy in oil and natural gas, electricity, hydropower, and biofuels and other renewable energy. In this context, CNPE needs to take a *state* view in planning for Brazil's future energy needs. However, the new law creates some potential contradictions between the roles of ANP and Ministry of Mines and Energy. In the 1997 Petroleum Law, the power to allocate concessions grants is bestowed to ANP as a regulatory agency. Under the new law, the ministry is formally taking the responsibility of delegating contracts but has the discretion to divest this task to the ANP. There are also questions about the veto power of PETROSAL (and by extension CNPE) during negotiations of consortia, which does pose a genuine question about the freedom of companies to negotiate contracts. Whilst these are still being debated in Congress, the fact is that state interference in economic transactions have been concerns of private competitors and ANP officials alike.[127]

Although Lula had successfully campaigned in favour of regulatory changes, private competitors have contested their arguments in two ways. Firstly, government perception regarding the low levels of geological risks and uncertainties in finding oil has been challenged by IBP. These changes are motivated by political factors to increase the rewards and profits for the state rather than economic imperatives of competitiveness. Moreover, the taxation

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[127] Author interviews with Felipe Dias, IBP, August 2010; Former senior official of ANP, August 2010.

regime in Brazil is sufficiently flexible to take into account boom and bust cycles of primary commodities. Fiscal regimes can be readjusted in response to external conditions rather than altering the nature of contracts between states and private capital. From the IBP perspective, the state can maintain high levels of taxes during boom periods and reduce tax rates at price downturns. For investors, there is perhaps nothing more important than stability in taxation and sanctity of private property rights. Similarly, the Brazilian state justifies the proposed changes in the mining sector in 2011 on the basis of the need for a more flexible taxation regime.[128] The difference, of course, is that the mining industry was privatised, which in turn reduces the capacity of the state to directly influence the minerals market through state enterprises. Secondly, as Brazil is transforming its institutional framework, there are concerns regarding the transparency of the new model. It is still unclear how negotiations to acquire social licenses can be guaranteed in a transparent manner. In comparison, the bidding rounds were open and transparent, in which private lobbying or direct negotiations between firms and government have been avoided all throughout.[129] Nevertheless, these issues are more speculative than firmly grounded. The petroleum law was passed in Congress and is expected to take effect under Dilma Rousseff.

C. Linking oil wealth and social policy

One core contention in the resource curse literature is the direct subsidisation of social and anti-poverty policies through mineral rents during commodity booms. Whilst redistributive pressures generate higher expectations of export earnings, conventional academic and policy-making bodies have warned against 'populist' tendencies of governments in power.[130]

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[128] Author interview with MME Deputy Secretary Nogueira da Costa Jr., Secretariat of Geology, Mining and Mineral Processing, Ministry of Mines and Energy (MME), September, 2011.

[129] Author interview with Felipe Dias, IBP, August 2010.

[130] Mineral rents are unreliable sources of income for three main reasons: the fluctuating value of produced resources, the variation of income over time in rates of extraction, and the variability in the timing of payments of royalties (Humphreys et. al. 2007). In other

This literature argues for fiscal prudence due to uncertainty of future financing of mega-development projects and difficulty of longer term planning. Lula da Silva departed from this trend only in 2010 when the law passed specific clauses to link social spending and oil wealth policy through the creation of the so-called national social fund. Whilst there exists fierce resistance especially from Rio de Janeiro to redistribute oil wealth more evenly to non-oil producing regions, Lula's new policy heralds a potentially creative way of addressing growth and social inequality via neo-developmentalism.

To contextualise this, the fiscal regime under Cardoso and Lula until 2010 levies four kinds of taxes: signature bonus, royalty, special participation, and fees for the occupation or retention of the area (Law 9478/1997, Article 45).[131] Whilst the signature bonus is paid immediately after the contract has been signed, the royalty is a monthly fee paid in local currency upon the start up of commercial production, which corresponds to 10 percent of petroleum and gas production and can be lowered by ANP down to 5 percent in lieu of geological risk, production expectations, among other factors. As Figure 5.7 shows, rents from oil wealth have steadily increased from 939,600 BRL in 1999 to 10,936,909 BRL in 2008. Although this can be interpreted as success, the share of the Federal government only expanded in absolute terms, signifying the stark inequality of oil rents between producing and non-oil producing regions. Whilst oil producers concentrated in Rio de Janeiro have benefited at staggering rates, evaluations regarding the effects of oil rents to growth at the municipal level have been negative or neutral (Postali 2009, 2002b). In contexts of failing growth despite steady inflows of rents, the national social fund was approved as a way of leveraging the distribution of resources across the country.

words, export earnings are volatile because they are exposed to cycles of boom and bust, international shocks, and commodity futures speculation.

[131] See Appendix 5 for details of the regulatory framework in oil revenue management.

Lula envisaged the social fund to take a central role in achieving *growth* and *equity* by subsidising projects aimed at inducing economic diversification, sustaining competitiveness in the oil industry, and paying for social programmes. It does so in two significant ways. On one hand, it retains the restrictive guidelines set in Cardoso's 1997 Petroleum Law regarding the use of royalty fees and special fund, for example, by specifically allocating resources for infrastructure building, technological innovation, and research and development aimed at mapping geological risks and planning complex energy systems. Its governance structure also follows a highly technocratic approach by creating a special committee in charge of monitoring and regulating oil funds.[132] On the other, the balance of interests between regions is reconfigured by the explicit use of the Federal government's share for national projects. There is a political logic in debating the structure of rent distribution. It is incontestable that oil-producing regions bear the environmental and social costs of extraction (Bebbington 2012; Sawyer 2004). But equally, mineral rents are disproportionately concentrated in very few regions, which warrant the financing of social and anti-poverty policies. This policy acts as a corrective to historical asymmetries in Brazil, during which cycles of extraction and capital accumulation by the centralised state successively hollowed out resource-rich regions leading to intermittent moments of social revolts (Bunker 1985; Bunker & Ciccantell 2005; Foweraker 1981). Put somewhat differently, by transferring resource rents from the periphery to core regions of Brazil, the state replicated and institutionalised wealth inequality and power discrepancy.[133]

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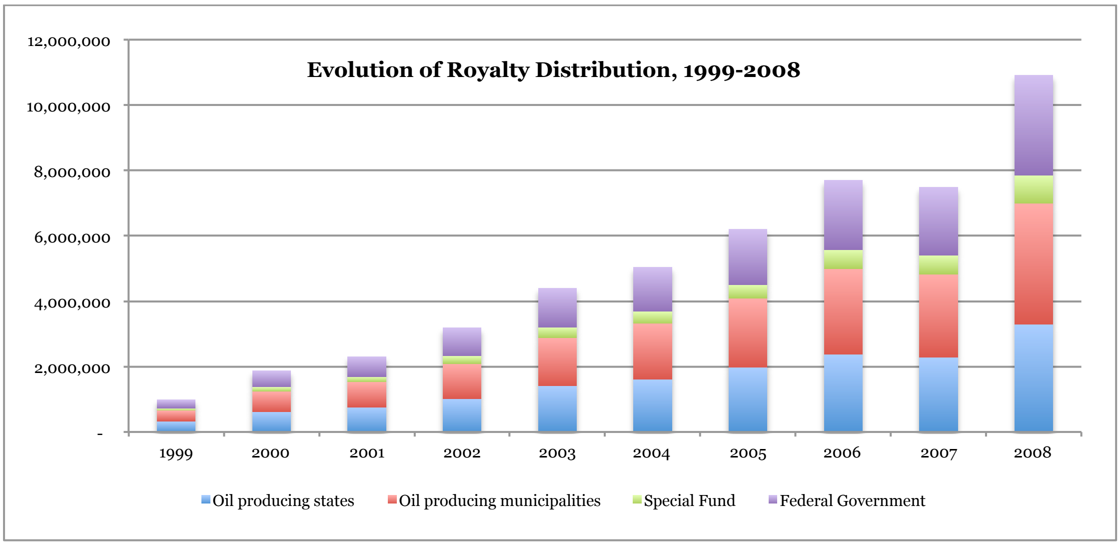
[132] These are drawn from 'successful' cases, which refer to the Norwegian model of managing the oil industry ranging from revenue management, key institutional oversight, and distribution of market power between public and private competitors, to which Brazil is not an exception (Thurber et. al. 2011; Thurber & Istad 2011; Victor et. al. 2011).

[133] Brazil has been historically ruled by regional elites alternating from Sao Paulo, Rio de Janeiro, Minas Gerais and Rio Grande do Sul. Quite understandably, some interpret the claims to retain high percentages of oil wealth in Rio de Janeiro as the exercise of power by economically and politically affluent states over other regions.

Figure 7.7 Oil wealth distribution in Brazil



Source: ANP Annual Report 2009, Table 2.15 (Adapted), 78.

Notwithstanding the on-going debate over the distribution of royalty between the Federal and state governments that is yet to be resolved in Congress, Chapters V, VI, & VII in Lula's new oil policy (Law 12.351/2010) establishes the *Fundo Social* (Social Fund or FS). The FS is linked directly to the Office of the President to allow the executive direct control over the necessary resources for regional and social development. The financing of SF comes from the following: (a) share of the value of signature bonus from production-sharing contracts; (b) portion of the royalties from the Union as stipulated under the rules and coming from production-sharing contracts; (c) revenues arising from the sales of oil, natural gas and other hydrocarbon fluids; and (d) the royalties and the special participation of areas located in the pre-salt contracted under the concession scheme as administered by the Union, among others. The prospective projects to be financed include education, culture, sports, public health, science and technology, environment, and mitigation and adaptation to climate change.

Some will judge the new law as vulnerable to corruption and rent-seeking. However, the new law clearly stipulates the strong role of the Ministry of Finance, Ministry of State Planning, Budgeting and Management, and the President of Central Bank in regulating how oil rents will be spent and saved. With striking parallel to the Norwegian and Chilean revenue models, oil wealth will be managed as financial investments abroad to avoid spending rents domestically. These ministries constitute the so-called *Comitê de Gestão Financeira do Fundo Social* (Social Fund Financial Management Committee or CGFFS).[134] The controlling agency is therefore given some policy latitude to make independent decisions as regards investment of sovereignty wealth funds. In addition, CGFFS' scope of powers is quite wide-ranging as it is able to set (a) the amount to be recovered annually by the FS, thereby, ensuring its financial sustainability; (b) the minimum expected profitability; (c) the type and level of risks which the investments can be made and the conditions for which the level of risk is minimised; (d) the minimum and maximum percentage of resources to be invested overseas and in the country; and (e) the minimum capitalisation that can be reached. The payment of the share of the funds will be authorised through a Presidential decree in consultation with the committee.

To sum up very briefly, the three main elements of the neo-developmental oil policy in Brazil attempt to restructure the relations of power between states and markets. What is striking is the renewed emphasis on the vital role of state enterprises in managing the economy. Whilst these reforms are certainly nascent, we can anticipate far reaching consequences not simply in terms of oil extraction but also in sustaining a more active role for the state. As I have hopefully shown in the chapter, the return of state capitalism in oil governance should not be seen as a critical juncture from neoliberalism. Instead, we should think of institutional evolution as phases of a longer history of state capitalism in Brazil, during which market restructuring is shaped predominantly by changing external circumstances in politics and economy.

[134] One major observation is that the management of investment policy of oil revenues resembles exactly like the copper revenue management system in Chile stipulated in the Law on Fiscal Responsibility, which also involves the major ministries in charge of the country's financial health status.

7.3 Conclusions

The main argument of the chapter is that market reforms in the oil sector have been incomplete and partial primarily because of an inherent tension between the long history of state management and the internalisation of neoliberalism. Under Cardoso and Lula, the developmentalist ideology has left political legacies, for example, the strength of state enterprises and the long-standing commitment to secure oil reserves for industrialisation. Both governments responded by combining market incentives and state capitalism to introduce dynamism and efficiency into economic sectors. But market reforms also failed to wholly dismantle the production system established throughout years of state intervention and ISI policies. Although market reforms represent a form of constrain in the state, the capacity of the Brazilian state to allocate and influence economic decisions has not withered. Instead, changing domestic and international environments characterised by the commodities boom, macroeconomic stability and stable growth, and the fact that oil and minerals are still considered strategic resources opened new opportunities for policy change during the 2000s, in which the Brazilian state is once again reasserting its role and capacity to influence national development strategies. In other words, neoliberalism in Brazil was not adopted in a blanket fashion. The state continues to exert significant influence over the economy as reflected in the return of state capitalism. The adoption of a hybrid strategy in the resources sector is achieved by melding market incentives and state capitalism.

In this chapter, I discussed elite attempts at consolidating a growth model based on the principle of neo-developmentalism. This is characterised by a stronger role for the state in oil exploration and development as well as directly linking oil wealth and social policy. Chapter 8 subsequently deals with the question of restructuring state enterprises to take advantage of the changing economic environment. Whilst the state has facilitated the politico-economic environment for growth, it is PETROBRAS and its capacity to compete with international energy firms that should be given credit for the renewed confidence on state capitalism as a model of growth for Brazil. This is the theme I explore in the next chapter.

Chapter 8

CAPITAL-LABOUR RELATIONS IN THE OIL INDUSTRY

Oil and natural gas production in Brazil has grown. Our additions to reserves have far outstripped the production rate and yet in December we set a new daily production record: 2 million barrels, a volume only achieved by eight companies worldwide.[135]

José Sergio Gabrielli de Azevedo
PETROBRAS CEO, 2005-2012

The above statement was the main heading of the PETROBRAS Annual Report in 2007. The company likewise announced the discovery of huge reserves in ultra deep waters in the Tupi area, estimated between five and eight billion barrels off the coast of the state of Rio de Janeiro. That same year, PETROBRAS showcased its success in unparalleled technological excellence, to which Gabrielli claimed that “the company and Brazil... could now join the select group of oil exporting countries” (PETROBRAS 2007: 2). In this chapter, I explore the ways in which PETROBRAS has developed its competitive strategy to become a highly efficient, vertically integrated energy firm, and the extent to which the internationalisation of state-controlled enterprises constitutes a core element of the neo-developmental ideology in Brazil. My analytical strategy is to trace historically the exercise of political autonomy of PETROBRAS and how such autonomy translated into concrete comparative advantage during the restructuring period in the 1990s and 2000s. I do this in two ways. Firstly, the chapter demystifies the assumption regarding the close relationship between states and state enterprises in the hydrocarbons sector. I show how the combinations of PETROBRAS’ ownership structure, its culture of innovation, and effects of

[135] ‘Message from the CEO’, PETROBRAS Annual Report 2007. Rio de Janeiro: PETROBRAS, 2-3.

internationalisation have facilitated the strengthening of PETROBRAS in the energy sector. Secondly, it examines labour management strategies of PETROBRAS to maintain its competitive advantage and subsequently the responses of unions in the petroleum sector. One concrete point of conflict is the incoherence, if not contradiction, between union demands and managerial interests of PETROBRAS. Whilst top-down projects of state corporatism have not really changed, and this is shown in the weakness of labour unions vis-à-vis the state and PETROBRAS, one can say that Lula da Silva has had a far more successful strategy of winning labour support. And unlike CODELCO, the challenge for PETROBRAS is not so much to regain corporate autonomy from the state or labour unions but how to use its acquired independence to maintain social peace in the work place.

This chapter is structured as follows. In Section 8.1, I analyse the role of PETROBRAS in the Brazilian economy and the extent to which we can speak of hybrid forms of managing state enterprises. It explains why PETROBRAS was already competitive prior to the market reforms in the 1990s and the consequent effects of market restructuring on the state enterprise. This is followed by Section 8.2 which explores the role of labour in resisting the privatisation of PETROBRAS and the ways in which unions and state managers have coordinated their activities to keep the energy firm efficient. Finally, in Section 8.3, I look at the immediate consequences of the new regulatory framework in PETROBRAS' activities, in lieu of the favourable position given to PETROBRAS under Lula and Dilma's new oil policy. In this section I conclude by speculating about the extent to which the neo-developmentalist model can be sustained, especially through the role of PETROBRAS in the new industrialisation strategy under Dilma Rousseff.

8.1 Explaining PETROBRAS' competitiveness and efficiency

Like state capacity or institutional resilience, efficiency and competitiveness of state enterprises are historically constituted and emerging from the combination of market incentives, political and institutional factors, and structural conditions. The starting point then is to explain why some state-owned companies become competitive whilst others lag behind. Before I analyse in detail the above mentioned variables, it is important to establish the status of PETROBRAS as an efficient state enterprise. As mentioned in Chapter 4, PETROBRAS was a technocratic-political solution to the nationalisation debate between 1947 and 1953. PETROBRAS is a state-controlled rather than state-owned company, in which the Federal Government retains 51 percent voting capital shares and therefore directly influences the firm in many ways. This ownership structure gave PETROBRAS a dual role in Brazil. On one hand, it is expected to protect public interests and the state maintains its regulatory influence over the company by exercising specific powers, such as the appointment of the President and the Board of Directors, and subsuming the personnel hiring and firing policy under the public enterprise system.[136] On the other hand, PETROBRAS is free to make independent decisions on investment, access to capital, and overseas operations especially in the E&P sector. For example, BRASPETRO was created to continue searching for new destination markets for Brazil, which is reflected in the on-going international operations of PETROBRAS in Latin America, Africa, and Asia. Since PETROBRAS is also accountable to its private shareholders, profitability is at the heart of its organisational, managerial, and investment decision-making processes. This overarching logic of efficiency and competitiveness remains true until today. In Table 8.1, I briefly offer an overview of PETROBRAS' economic performance. We can measure the overall financial performance of the firm through market capitalisation and net equity. The state company has grown steadily in terms of its market value, which has bolstered greater confidence among international and domestic investors regarding the financial management of PETROBRAS. The figures show quite clearly the positive performance of the firm. By 2010, the state enterprise is considered the third largest energy firm in the world by market capitalisation (PFC Energy in PETROBRAS 2010).

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[136] For details, see PETROBRAS Corporate Governance By Laws.

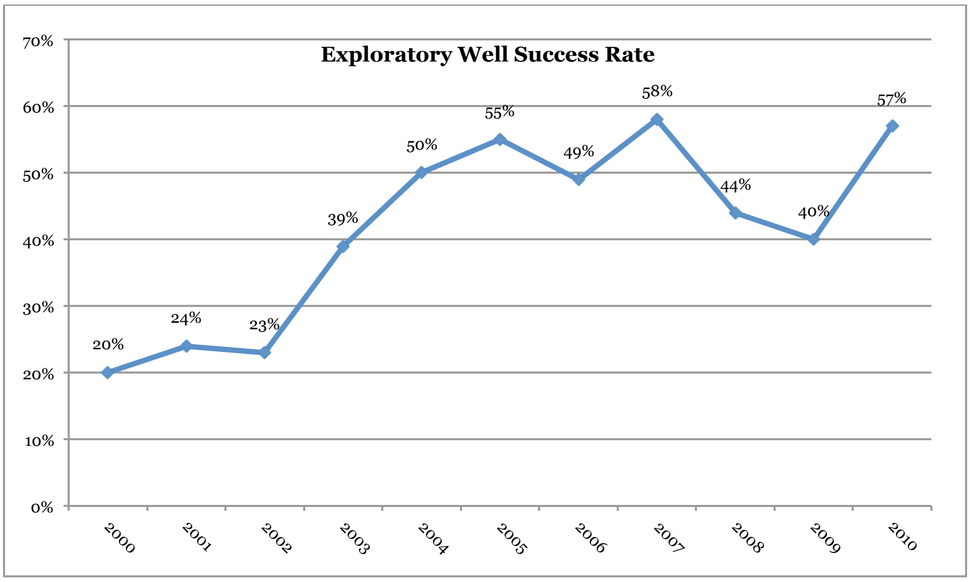
Table 8.1 PETROBRAS' financial performance

	2003	2004	2005	2006	2007	2008	2009	2010
Consolidated Net Income (R$ million)	17,795	16,887	23,725	25,919	21,512	32,988	30,051	35,189
Market Capitalisation (R$ million)	87	112	174	230	430	224	347	380
Net Equity (R$ million)	49	62	79	98	114	114	164	307

Sources: PETROBRAS Annual Reports 2010, 2007.

But whilst the above indicators are mainly for business groups and financial investors, we can also gauge PETROBRAS' performance in terms of its success rate in drilling hydrocarbons in oil wells, mainly concentrated in ultra-deep waters. As Figure 8.1 details, PETROBRAS has been drilling oil wells quite successfully since 2002, which has led oil exports in Brazil to conclude that there is indeed commercially viable oil in the pre-salt reservoir. What is particularly striking is that Brazilian oil reserves are located offshore, which has compelled PETROBRAS to invest on research and development (R&D) in finding ways to extract oil in ultra-deep waters.

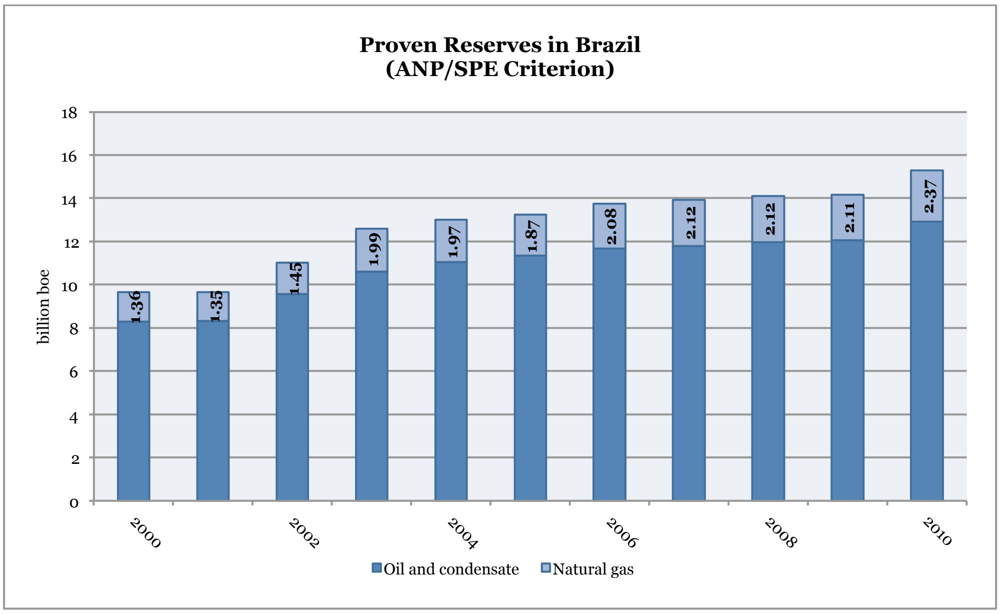
Figure 8.1 Success rate of PETROBRAS in oil exploration



Sources: PETROBRAS Annual Reports 2010, 2007 (Adapted).

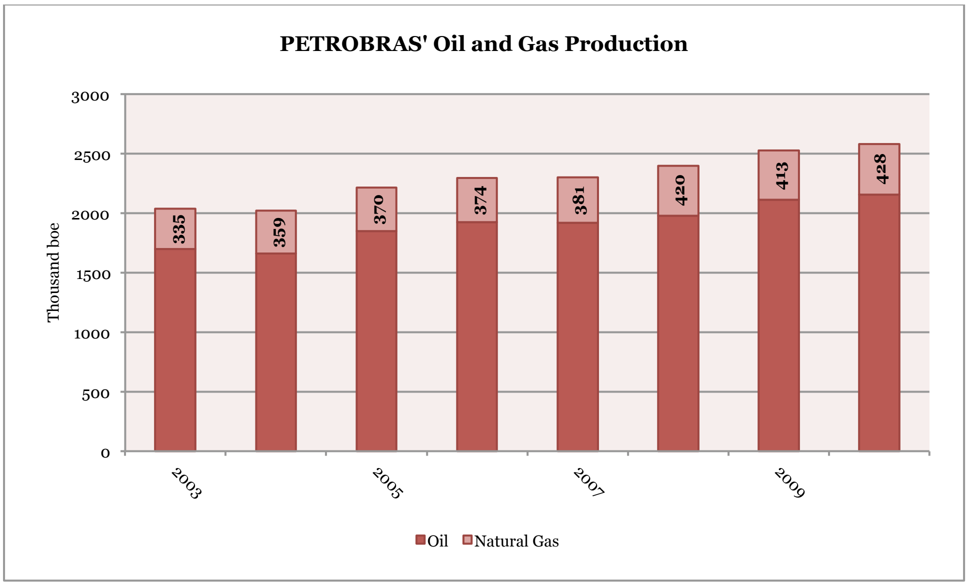
As a result, Brazil has successively found new oil reserves in the pre-salt layer in the coast of Rio de Janeiro (see Figure 7.3 again for the map of oil concessions in Brazil). The discovery of pre-salt reserves is clearly one indicator of the successful specialisation of PETROBRAS in deep sea drilling. We can also observe that the amount of proven oil, condensate and natural gas reserves in Brazil has soared from 9.65 billion barrels in 2000 to 15.283 billion barrels in 2010. The figure is 8 percent up compared to 2009. The Ministry of Mines and Energy anticipate Brazil to become an oil exporter, moving its overall position from 16th up to 8th with the pre-salt reserves. Figure 8.2 shows the proven reserves owned by PETROBRAS in Brazil between 2000 and 2010; the figures closed at 15.958 billion barrels in 2010 or 7.5 percent increase from 2009. It was primarily driven by further discoveries in the Lula and Cernambi fields in the pre-salt area. PETROBRAS' reserve replacement ratio was 229 percent, i.e. for each boe produced, the firm added 2.29 boe to its reserves (PETROBRAS 2010: 6). This is a metric of the extent oil companies can replace oil reserves being extracted for production. In the case of PETROBRAS, it means the state enterprise can recuperate the reserves and is a good indication of the longevity of its operation in the fields. Beyond finding oil and gas reserves, PETROBRAS has steadily increased its oil and natural gas production. As Figure 8.3 details, in 2003 PETROBRAS produced 2,036 thousand barrels per day (1,701 thousand barrels of oil and 335 thousand barrels of natural gas), which then jumped to 2,583 thousand barrels per day (2,155 thousand barrels of oil and 428 thousand barrels of natural gas) in 2010. Since most of the extraction activities taking place in the pre-salt area are still in the exploration and development stages, we can anticipate the figures to go up quite substantially in the next five years.

Figure 8.2 Proven reserves of PETROBRAS in Brazil, 2000-2010



Source: PETROBRAS Annual Report 2010, 2007 (Adapted).

Figure 8.3 PETROBRAS' Oil and gas production, 2003-2010



Source: PETROBRAS Annual Report 2010, 2007 (Adapted).

Finally, PETROBRAS plays a crucial role in Brazilian national development of the oil industry through its substantial contribution in research and development. Through the Petroleum Law which requires obligatory investments in R&D, PETROBRAS as the dominant player means its contribution to scientific research is far greater than the private sector. With the new law in place, we can anticipate that PETROBRAS will retain its position as innovator in the oil industry. Taking into account that oil exploration in Brazil is offshore, technological advancement is likely to take place in this research area. Whilst some companies have been investing in deep-sea engineering, for example BP, the production-sharing arrangement and minimum participation of PETROBRAS imply that technology can only be endogenously generated rather than be learned from foreign participants.

Table 8.2 Obligatory investments in R&D by concessionaires, 2001-2010

Concessionaire	Obligatory investments in R&D (mil R$)										10/09 %
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Total	127,274	263,537	323,300	403,201	508,812	616,389	616,503	860,858	638,882	743,693	16.41
PETROBRAS	127,274	263,537	323,300	392,486	506,530	613,841	610,244	853,726	633,024	735,337	16.16
Shell	-	-	-	10,715.8	2,282	-	-	-	-	-	..
Repsol	-	-	-	-	-	2,548	6,259	7,132	4,339	4,236	-2.38
Manati	-	-	-	-	-	-	-	-	1,052	2,853	171.26
Brasoil Manati	-	-	-	-	-	-	-	-	234	634	171.26
Rio das Contas	-	-	-	-	-	-	-	-	234	634	171.26

Sources: ANP/SPG in ANP Annual Report 2010 Table 19 (Adapted).

Note: Investments in Research and Development (R&D), in conformity to Chapter X of Article 8, Decree Law 9.478, of 6/8/1997.

Overall, it is undeniable that PETROBRAS has grown steadily in the last decade, which is the period when market opening reforms were implemented in the oil industry. The crucial question is whether private competitors and ANP's claims regarding the 'competitive effects' of domestic and foreign private capitalists make sense. Whilst the explanation is certainly true, it is far more complex than ideologues of market reforms would purport, as will be explained in the next section. I contextualise this argument by identifying the sources of efficiency of PETROBRAS: ownership structure, its culture of innovation, and effects of internationalisation. The focus on the specific form of state ownership and labour management style of PETROBRAS allows me to explore how state enterprises respond to watershed reforms like neoliberal restructuring. Whilst the state has been directly and indirectly important in facilitating competitiveness of state enterprises in the past, it is the changing relationship between PETROBRAS and its workers that has paved the way for efficiency, productivity, and human capital development to remain the core principles of its corporate governance strategy even at a time when the Brazilian government sought to restructure state owned enterprises.

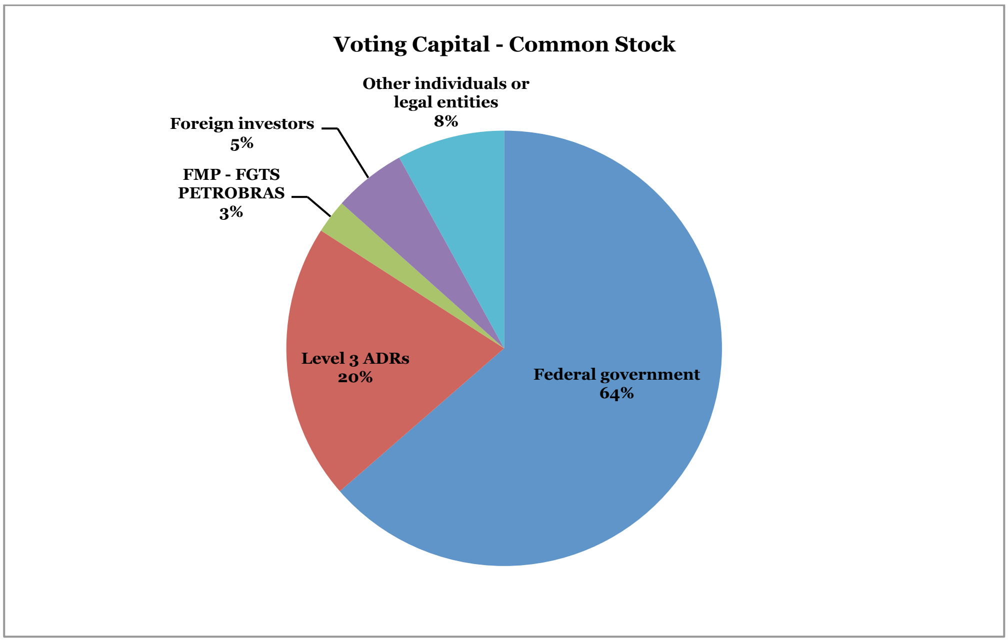
8.1.1 Ownership structure of PETROBRAS

The persistence of limited privatisation in the Brazilian oil industry was an outcome of the oil nationalization debate between 1947 and 1953, during which the outcome was a publicly listed company with 51 percent capital voting share owned by the Federal Government and 49 percent by private shareholders. In many ways, PETROBRAS exemplifies the exception rather than the rule for state enterprise ownership, wherein the state typically owns 100 percent of the capital. But as mentioned already, this particular structure has paved way for PETROBRAS to seek access to capital in non-traditional ways, for example, by investing heavily on technological innovation to find its competitive advantage vis-à-vis the big oil firms as well as by operating overseas in the 1970s. During the high tide of neoliberalism in Brazil, privatisation was central to the reforms in CVRD and this has led to the dismantling of state ownership in the mining sector. In contrast, PETROBRAS was exposed to private capital participation early on and therefore the restructuring process focussed primarily on sales of non-performing assets and re-investment in its core business – oil production.[137] Figure 6.4 provides a clear view regarding the ownership structure of PETROBRAS. The most important of which, voting capital, is clearly owned by the Federal Government through the capital shares of BNDESPAR, which is an entity controlled by the Brazilian National Development Bank (BNDES). The Brazilian government also holds around 28 percent of non-capital voting share and 48.3 percent of capital stocks. These hybrid state-owned/private enterprises might surprise political scientists, but in fact, state enterprises in emerging markets like Russia, China and India, have adopted this ownership structure. This is particularly striking in the oil and gas sectors, in which the

[137] PETROBRAS expanded its operations to other energy-related industries, including mining, fertiliser, ship building, and international trading. The company was restructured to emphasise PETROBRAS' operations in upstream, midstream and downstream activities. See Randall 1993 for a historical account.

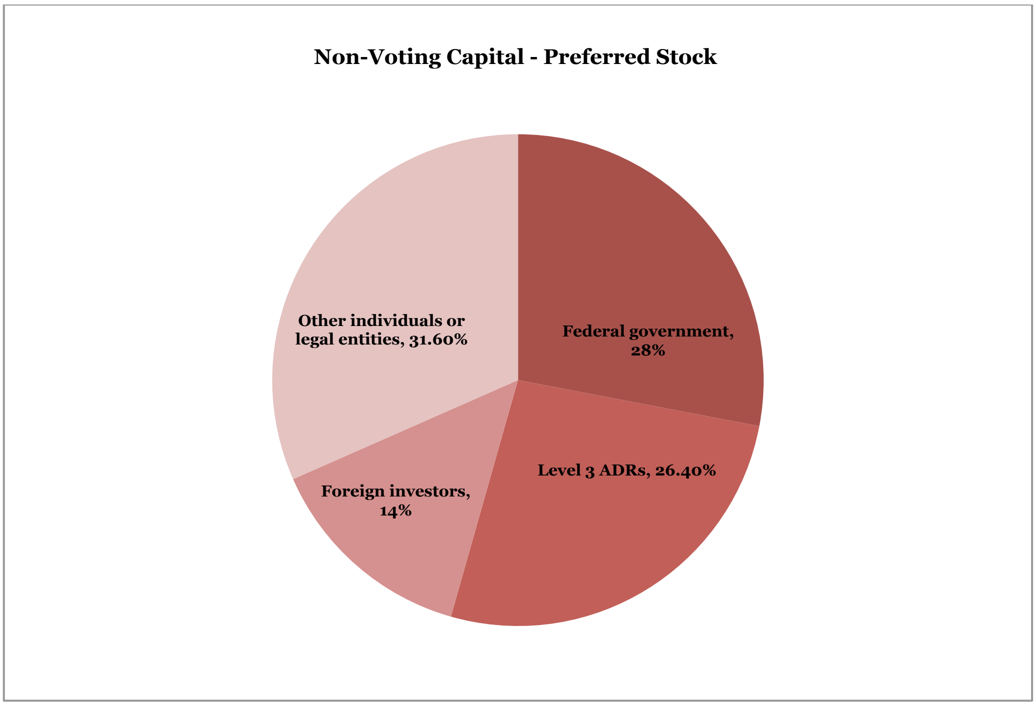
state has held more control over the industry.[138] Additionally, state-owned enterprises represent the top 10 reserve holders internationally, and out of 1,148 billion barrels of global proven oil reserves, 886 billion barrels or 77 percent are controlled by national oil companies (NOCs) with no equity participation for foreign oil companies. This excludes 69 billion barrels of oil situated in Russia, or 6 percent of global reserves, which are exclusively allocated for Russian firms both state owned and private ones (James Baker III Institute for Public Policy 2007: 1).

Figure 8.4 PETROBRAS' ownership structure at the end of 2010

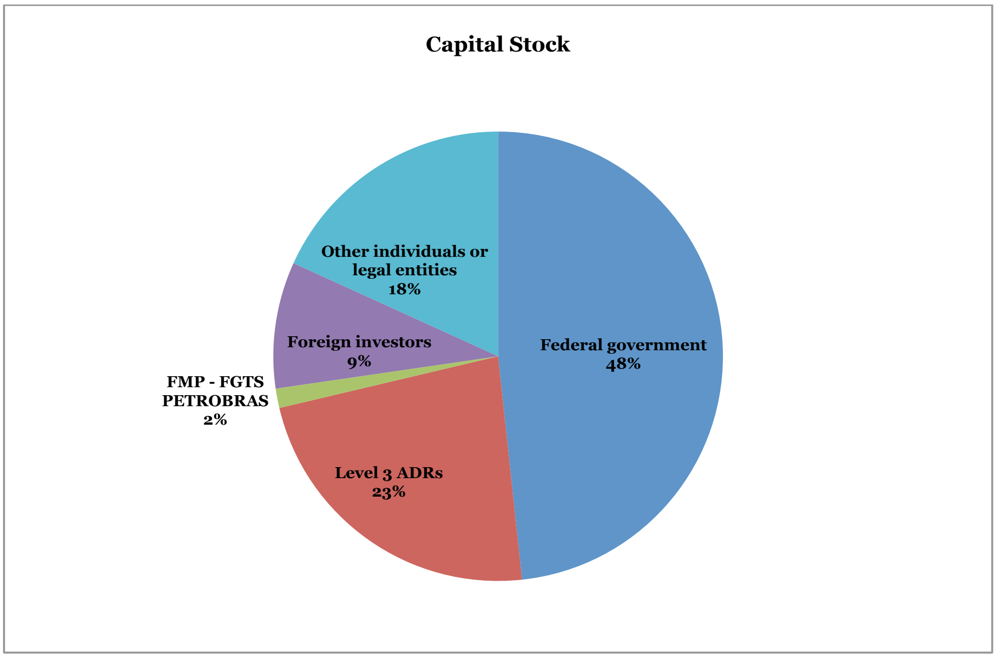


Source: PETROBRAS Annual Report 2010 (Adapted), 4.

[138] For discussions on the political and economic consequences of ownership structures in the hydrocarbons industry, see Jaffe & Soligo 2007; James Baker III Institute for Public Policy 2007; Jones Luong & Weinthal 2010; Victor et. al 2011.



Source: PETROBRAS Annual Report 2010 (Adapted), 4.



Source: PETROBRAS Annual Report 2010 (Adapted), 4.

Ownership structure is crucial for competitiveness in two ways. Firstly, the state can exercise *political* control over the company through, for example, the use of its voting powers in the Board of Directors. In certain instances, investment decisions reflect tensions between business strategy and political interests. This is best exemplified by the construction of refineries which has been subjected to political bickering in Congress.[139] The power of the state heightens in contexts of state monopoly or 'contestable markets'.[140] PETROBRAS has been rather successful in shielding its commercial interests by way of heeding to the pressures of private investors in the company. Secondly, ownership structure affects indirectly the capability of domestic firms to reconfigure their business models. Not only are hybrid state owned/privatised firms compelled to strictly monitor the business environment, they also combine operational excellence and structural flexibility to allocate resources during periods of uncertainty and restructuring (Wood & Caldas 2007). The capacity of PETROBRAS to compete is partially driven by commercial interests, but equally it reflects convergence of interests between the state and firm. Most notably, the Cardoso government scrapped its monopoly on oil-related activities, freed oil prices from state control, and opened the sector for international competition (Goldstein 2010: 101). One excellent indicator of how PETROBRAS performs its public and private roles is reflected in the requirement for foreign companies to use local contents and domestic suppliers in their activities. By locally outsourcing some of its supply, PETROBRAS can push productivity standards and outputs at par with international levels, which not only create domestic employment and income but also facilitate linkages between resource and productive sectors of the economy. Using this yardstick, PETROBRAS has performed very well by purchasing approximately US$ 28 billion per year worth of Brazilian content. Table 8.2 provides a detailed breakdown of PETROBRAS' investments, amount spent and percentage of domestic content. Across upstream, midstream and downstream activities, PETROBRAS has employed above 53 percent of Brazilian firms. This points out to possible *mechanisms* upon which industrial development can be achieved through the oil industry. It allows for innovation, local transfer of

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[139] Author interview with Roberto Schaeffer, Academic Consultant, UFRJ, July 2010.

[140] Contestable markets are situations in which a dominant player acts as if it operates in a competitive market even if it exercises market control.

knowledge, and above all, it taps the natural comparative advantage of the country.[141]

Table 8.3 PETROBRAS' capital expenditure on Brazil (US$ billions)

Business Unit	Investments in Brazil	Purchased in Brazil	Brazil Content (%)
E&P	108.2	57.8	53%
RTM and Petrochemicals	78.6	62.8	80%
Gas & Energy	17.6	14.4	82%
Distribution	2.3	2.3	100%
Biofuels	2.3	2.3	100%
Corporate	3.3	2.6	80%
Total	**212.3**	**142.2**	**67%**
	+		
	US$ 46.4 billion from Partners		

Source: PETROBRAS Business Plan 2010-2014: 11.

Finally, ownership structure is complemented by Brazil's long history of state management, during which PETROBRAS was able to expand operations in the hydrocarbons chain through technological advancement. Historically, most NOCs have concentrated their economic activities in E&P sector whilst international oil companies (IOCs) have captured the distribution markets (James Baker III Institute for Public Policy 2007). NOCs typically face the problem of vertical integration that would allow oil-rich states to capture greater market share. But in the case of PETROBRAS, the combined effects of state monopoly and foreign participation restriction facilitated economic control over the sector by the state enterprise. Upon the discovery of pre-salt reserves, PETROBRAS has managed to dominate both upstream and downstream activities. PETROBRAS has achieved the goal of many NOCs, which is to become a vertically integrated firm capable of operating across values chains. This is an outcome of a virtuous relationship between the state and state enterprise in strategically developing technology whilst restricting foreign participation in the domestic market.

[141] This point on the role of domestic content as pathway to a successful national industrial plan discussed by PT. Author interview with PT Officer, Brasilia, August 2010.

By implication, despite neoliberal reforms PETROBRAS has remained under state control but its dual responsibility to public and private investors has brought forth optimal market outcomes. State monopoly also indirectly helped PETROBRAS to become vertically integrated capable of operating across the hydrocarbons chain, which was developed by combining technological advancement and state protection of the oil industry. We thus have a paradox. On one hand, in Chile the (neoliberal) state has controlled the copper industry by way of maintaining 100 percent ownership, but CODELCO likewise encounters several constraints on competitiveness. On the other hand, in the Brazilian oil sector PETROBRAS had successfully asserted its *corporate* autonomy from the state through its ownership structure. Similarly exhibiting the features of other NOCs, PETROBRAS is “a powerful organisation within the state apparatus that addresses a number of non-commercial aspirations (e.g. employment generation and price controls) but at the same time enjoys managerial autonomy and is expected to perform commercially” (Goldstein 2010: 100).[142]

8.1.2 Culture of innovation

According to business models, one major source of competitiveness is the development of a culture of innovation over time (Claver et. al. 1998; Zien & Buckler 1997). Whilst every firm faces distinctive sets of constraints for growth, the difficulty of promoting technological advancement and developing human capital within the industry are the most pressing challenges in which the firm can immediately respond through its internal resources. But like institutions, technological capacities involve trial and error, resources, and time before they become commercially viable. PETROBRAS’ drive for technological excellence for deep-water resources

[142] Domestically, NOCs fulfil various social and economic functions that compete for capital budgets that might otherwise be allocated for commercial operations, such as reserve replacement and oil production. These noncore, non-commercial obligations have imposed costs on NOCs, and in some cases, dilute the incentive to maximise profits, hindering the NOCs’ ability to raise external capital and to compete at international standards (James Baker III Institute for Public Policy 2007: 2).

thus go far longer than the market reform period and should be understood as its response to several challenges. Firstly, as water depths increased after the discovery of the Campos Basin fields in 1974, PETROBRAS was required to find globally innovative technologies and therefore expanded its knowledge networks in its attempt to search for oil in Brazil. Unfortunately, there were no available technologies in the international market because the big companies had access to onshore reserves. The collapse of oil prices in 1986 further narrowed the range of incentives for international capital to boost expenditures in quite complex megaprojects. PETROBRAS had to mobilise its resources – taking advantage of its oil monopoly – to finance deep-sea engineering systems via its knowledge production networks involving universities, research centres, and government agencies (Dantas & Bell 2009: 830-831). And secondly, there were political pressures from the outgoing military government in early 1980s to secure oil production as a result of the growing energy demands of the economy. With no prospects of oil inland, PETROBRAS could not wait for major oil companies and international suppliers to develop the necessary technology. As the Link Report suggested, Brazil had to find prospective oil reserves offshore, thereby, facilitating a 'catch up' process in the development of deep-water technologies through the accumulation of knowledge networks (Philips 1982). The PETROBRAS system transformed from being a passive learning network (1960s-1984) towards a strategic innovation network (1997-present) that is capable of absorbing science and technology, and subsequently applying and transferring technology to partners (Dantas 2006; Dantas & Bell 2009, 2006). Taking this into account, PETROBRAS' strategy reflects emphasis on building upon its existing niche in the global oil industry – technology in deep water resources. It does so in two ways: first, investment strategy backed by a flexible corporate governance structure; and second, a rewards-based system of human capital formation through labour management.[143]

[143] Author interviews with Heitor Chagas de Oliviera, Former Human Resource Officer, PETROBRAS, July 2010; Ildo Sauer, PETROBRAS, August 2010; Roberto Schaeffer, Academic Consultant, UFRJ, July 2010.

In terms of investment strategy, PETROBRAS draws strength from its capacity to access capital for investments combined with flexibility in redirecting financial resources. To achieve growth targets, a total of US$ 224 billion investments have been raised, in which US$ 212.3 billion are allocated to projects within Brazil and US$ 11.7 billion to foreign operations, chiefly in the United States, Latin America, and West Africa. Figure 6.5 offers an overview of PETROBRAS investments as stipulated in its Business Plan 2010-2014. The lion's share of investments of US$ 118.8 billion (53 percent) will be channelled onto E&P sector; approximately US$ 33 billion is allocated for the development of the pre-salt reservoir in anticipation of production of 241,000 barrels per day. Equally, PETROBRAS is expanding its operations in mid-stream activities by increasing its refining capacity to guarantee domestic supply. The Refining, Transport, & Marketing segment will receive US$ 73.6 billion or 33 percent of total investments, which will push refining capacity to as high as 2.26 million barrels per day in 2014. Crucially, investment projects have a national content ratio of 67 percent, directing an average of US$ 28.4 billion per year towards Brazilian suppliers and creating 1.46 million direct and indirect jobs (PETROBRAS 2010: 8-11).[144] As will be explained in the next section, expected investment will allow PETROBRAS to expand aggressively in its overseas operations.

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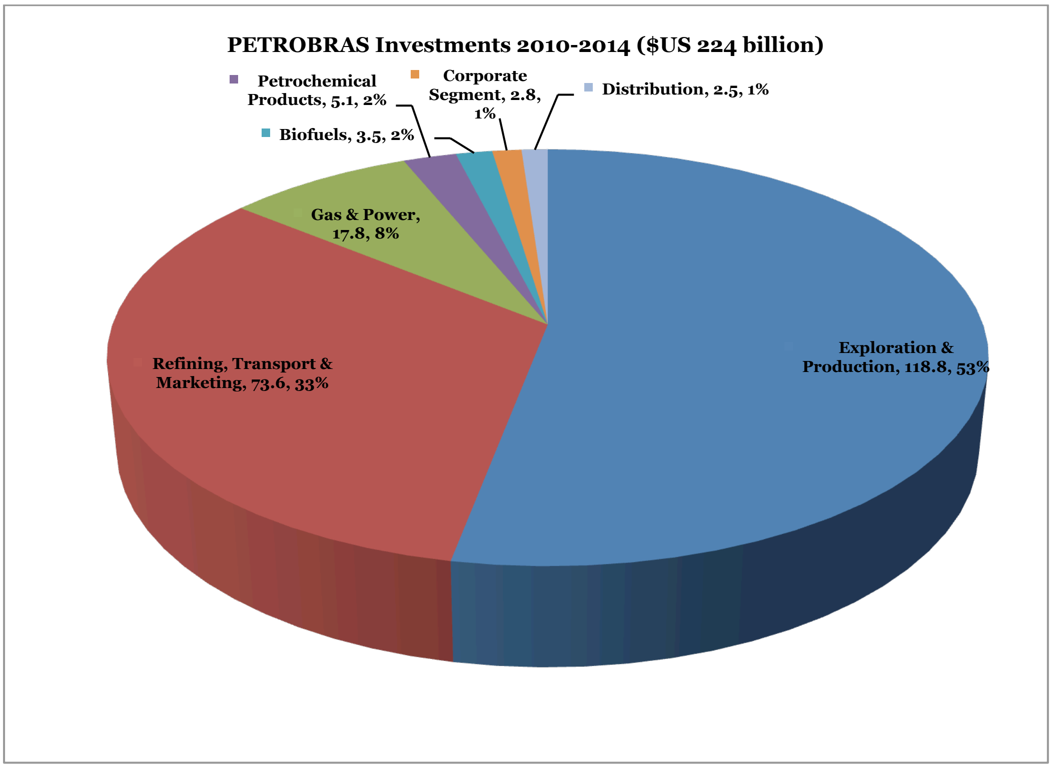
[144] In funding investments, PETROBRAS draws from corporate financing, structured financing, and financing suppliers and clients. In 2010, banks, investors and official credit agencies (Export Credit Agencies of ECAs) have recognised its credit quality, which offered bank guarantees of US$ 8.8 billion to the company (PETROBRAS 2010: 18).

Figure 8.5 PETROBRAS investments across hydrocarbons chain



Source: PETROBRAS Annual Report 2010 (Adapted), 9.

However, the ability of PETROBRAS to finance and allocate resources to maximise investments is only one part of the story. Another key aspect of its corporate management is the regulation of labour force through incentives and rewards on one hand, and training and professionalism on the other. PETROBRAS as a state controlled enterprise performs non-commercial roles, which has traditionally meant employment in the public sector. Whilst state enterprises typically suffered from productivity inefficiencies and politicisation of personnel system, PETROBRAS subsumed its hiring and firing policy within the public enterprise system without undermining its corporate autonomy (Trebat 1983). Over the years PETROBRAS has established a cadre of staff with the technical know-how of improving efficiency in its business operations.[145] This did not take place in a short period of time but was built through years of developing human capital

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[145] Author interviews with Heitor Chagas de Oliviera, PETROBRAS, July 2010; Ildo Sauer, PETROBRAS, August 2010; Roberto Schaeffer, Academic Consultant, UFRJ, July 2010.

through technical programmes for PETROBRAS workers, PETROBRAS-government partnership initiatives on education such as the National Training Scheme,[146] and financial assistance to universities and research institutions across the country to build various research profiles in the oil and gas sectors. Within the company, PETROBRAS implemented a number of programmes that could ensure financial equilibrium and sustainability of workers' pensions.[147] In Figure 8.6, I show the distribution of PETROBRAS workers among the parent company, PETROBRAS abroad, and subsidiaries. Two observations can be made from the graph. Firstly, the company has steadily increased its labour force across the board, indicating growth in the company as well as in public sector employment. Between 2003 and 2010, its total workforce jumped from 48,798 up to 80,492 employees. This is impressive growth in employment figures taking into account that mining and oil companies (especially foreign owned) tend to be disconnected with the local economy. As expected in light of the investments in the pre-salt areas, the figures reflect the expansion of E&P sector, which in 2010 reached to 23,874 workers (PETROBRAS 2010: 20). Secondly, PETROBRAS based in Brazil is the segment that has been expanding quite steadily over the last few years. This affirms the strategic role of PETROBRAS not in terms of profit generation but in supporting employment in the economy. As oil extraction requires technological excellence, the increase in public employment corresponds to rising standards of domestic content and technical expertise of the workforce. PETROBRAS is, in fact, helping develop the knowledge base of Brazil by developing the technical know-how of local workers instead of hiring foreign professionals. As Ildo Sauer concurs, PETROBRAS has not

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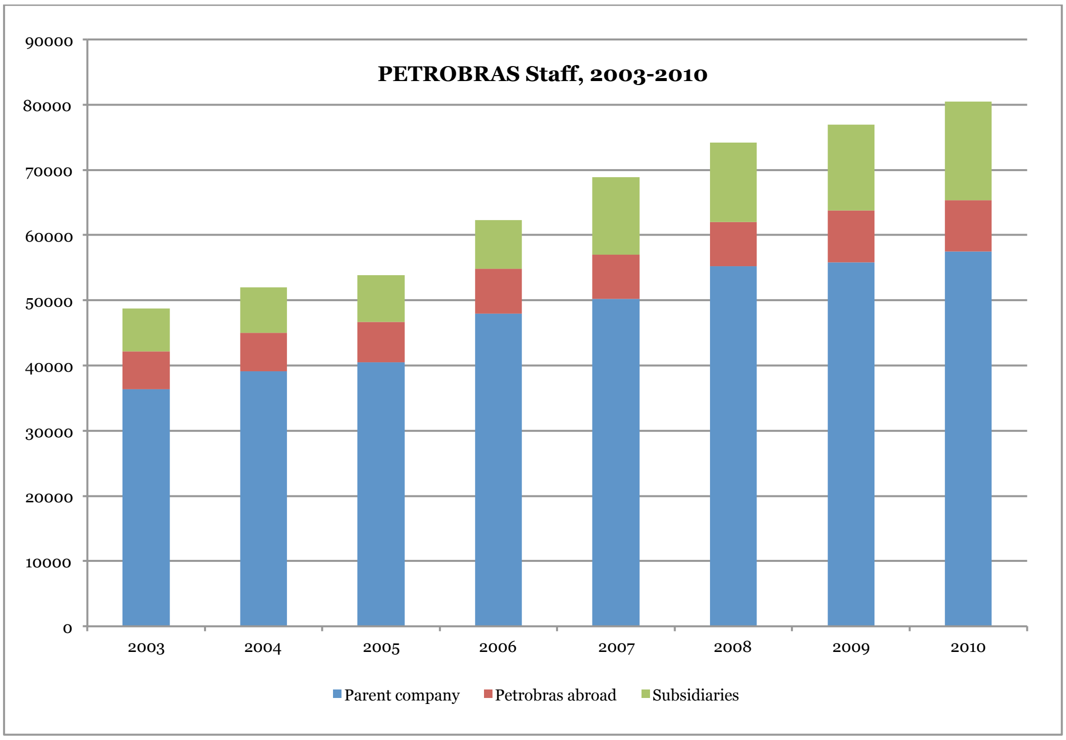
[146] This is part of the wider Program to Mobilise the Brazilian Oil and Gas Industry or PROMINP. In 2007, PETROBRAS has invested R$ 40 million in this project (PETROBRAS 2007: 70). Equally, the Ministry of Science and Technology has poured in massive investments since 2000 to finance innovation projects at the university and company levels, particularly in the oil and gas sectors. The specific agency of the ministry, Financiadora de Estudos e Projectos or FINEP, aims to promote the development of science, technology and innovation through public funding in companies, universities, technological institutes, and other public and private organisations. For details, see http://www.finep.gov.br/. Author interviews with Paulo Krahe, FINEP, August 2010; Aparecida Neves, FINEP, August 2010.

[147] In 2010, the number of participants in the PETROBRAS Pension Plan has reached 80,000 (PETROBRAS 2010).

fully resorted to subcontracting to respond to downward pressures of cost and worker productivity.[148] This is a striking difference between PETROBRAS and CODELCO in their respective employment policy in response to global competitiveness.

Figure 8.6 PETROBRAS' workforce, 2003-2010



Source: PETROBRAS Annual Report 2010, 2007 (Adapted).

In achieving its commercial goals, PETROBRAS combines its autonomy from the Brazilian government to make strategic investment decisions with its internal controls over the management of personnel. Through a balance between its public and private interests of maximising profit and developing national capacity, PETROBRAS is able to adjust in the changing market environment. But unlike CODELCO, PETROBRAS was also very successful in expanding its reach and scope of commercial activities outside of Brazil. As a result of the lack of proven oil reserves to meet domestic energy requirements, the energy firm through its specialised technology has sought

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148 Author interview with Ildo Sauer, PETROBRAS, August 2010.

to pursue operations in West Africa, Latin America, and Asia. As part of its competitive strategy, PETROBRAS has developed an internationalisation policy to take advantage of the global oil industry. I discuss this in detail in the proceeding section.

8.1.3 Internationalisation of PETROBRAS

PETROBRAS managers have made strategic decisions to expand overseas operations in response to the massive changes in the minerals and hydrocarbons sectors in 1990s and 2000s. State managers took advantage of a new market environment to learn, innovate, and compete domestically and internationally. A significant element of this strategy is the internationalisation of PETROBRAS' operations. This competitive strategy began as early as 1972 upon the creation of BRASPETRO. At a time when oil imports covered as much as 80 percent of domestic demand, the goal of PETROBRAS was to guarantee domestic oil supply through overseas operations. PETROBRAS commenced operations in Iraq, Colombia, Angola, and Gulf of Mexico in 1979, and then aggressively expanded its activities throughout 1990s (Goldstein 2010; Philips 1982; Randall 1993).

The phenomenon of internationalisation as a competitive strategy is complex, and the economics and business literature are in better position to evaluate why companies undertake this despite high sunk costs and risks associated with operations in foreign markets (Dunning 1998; Eden 1991; Pitelis & Sugden 2000).[149] But in PETROBRAS, this was driven primarily by the near absence of oil reserves onshore and the need for technological advancements in deep sea drilling in ultra-deep waters. PETROBRAS internationalisation is motivated by three goals. Firstly, it goes to markets

149 It must be noted that the literature has treated the internationalisation process as a general phenomena, and therefore, has thus far not distinguished the growing divergent experiences of OECD and emerging market firms. However, the recent literature increasingly recognises these nuances. For example see Gammeltoft et. al. 2010; Goldstein 2007; Ravi 2009; Ravi & Singh 2009. With regard to the specific case of Brazil, see Fleury & Fleury 2011; Goldstein 2010; Goldstein & Posterla 2010; Schneider 2009b.

where it can apply the technical and geo-scientific knowledge acquired in oil exploration to areas with similar characteristics and huge potential of oil reserves, such as West Africa and Gulf of Mexico. Secondly, PETROBRAS aims to open new markets, ensure growth in downstream activities, and align domestic portfolio with domestic segments. In particular, the linkage between exploration and oil development on the one hand, and refining, distribution and petrochemical sectors on the other, can only be achieved through vertical integration of its operations. Finally, PETROBRAS sought to internationalise to expand the natural gas business to complement the Brazilian market (PETROBRAS 2010: 51). Like other NOCs, PETROBRAS has successfully established global presence across the hydrocarbons chain, including the acquisition of new reserves in Latin America, Africa, Asia, and Oceania. As Table 8.3 details, PETROBRAS has strong presence and positioning in the E&P sector – the most commercially risky but with high rewards – but is also noticeable in the distribution and sales. These countries have similar geological features as Brazil, allowing PETROBRAS to apply deep sea technology. More strategically, it has set up representations in Europe, potentially opening new opportunities for Brazilian hydrocarbons derivatives to be marketed more effectively. In the refining sector, PETROBRAS now operates in Argentina, Brazil, United States, and Japan. In less than three decades, the state enterprise has been able to gradually expand operations overseas. In geographical scope, Brazil has strong presence in the hydrocarbons sector in Latin America, which signifies the existence of economic interests to further regional commercial activities in pursuit of its global strategy. If anything, the regional market is an attractive and complementary space upon which Brazil through PETROBRAS can exercise its political and economic clout.

What does this tell us about competitive strategies of NOCs more generally? Firstly, NOCs in emerging markets have been exposed far more deeply in the internationalisation process. Whilst many state enterprises thrived as a result of domestic industrial protection from the state, national oil firms sought to find their niche in the global market by advancing specific roles in the globalised value chains. For PETROBRAS, the absence of oil reserves inland had the net effect of seeking alternative strategies to meet domestic energy needs for industrialisation. Secondly, national industrial development is not necessarily antithetical to the expansion of state enterprises abroad. PETROBRAS is an exemplar of a state company engaging with public and private interests (Goldstein 2007). Whilst profitability and commercial goals drove PETROBRAS towards internationalisation, varying regulations of company management – including control over voting rights – ensure the delivery of its role as a state entity. After demonstrating the different aspects of corporate management in PETROBRAS, what we need to explain is how labour conflicts have been kept under the firm hands of the state and of PETROBRAS. As I argue in the thesis, the success of corporate governance reforms hinges primarily on the capacity of political elites and state managers to maintain forms of social control towards autonomous unions. Whilst in CODELCO neoliberal reforms have pushed conflicts between state managers and unions, the long gestation of state-controlled incorporation combined with the paternalistic patterns of PETROBRAS-labour relations have successfully facilitated the establishment of social peace in the oil industry. This is the main theme in the proceeding section.

Table 8.4 PETROBRAS' integrated expansion of international activities

Country	Activities				
	Exploration & Production	Gas & Power	Refining / Petrochemicals	Distribution / Sales	Representation
The Americas					
Argentina	√	√	√	√	
Bolivia	√	√			
Brazil	√	√	√	√	Headquarters
Chile				√	
Colombia	√			√	
Cuba	√				
Curacao				√	
Ecuador	√				
USA	√		√		√
Mexico	√				
Paraguay					
Peru	√				
Uruguay	√	√			
Venezuela	√				
Africa					
Angola	√				
Libya	√				
Namibia	√				
Nigeria	√				
Tanzania	√				
Europe					
The Netherlands				√	√
United Kingdom					√
Portugal	√				
Asia					
China					√
Singapore					√
India	√				
Iran					√
Japan			√		
Turkey	√				
Oceania					
Australia	√				
New Zealand	√				

Source: PETROBRAS Annual Report 2010: 52.

8.2 Labour conflictivity in the oil industry

In the previous section, I illustrated the complex process of managing production functions in the state enterprise. In this section, I shift from managerial perspectives of corporate reforms towards the politics of labour management in the oil industry. The success of reforming productive structures of the economy is by all means dependent on labour acquiescence. In Brazil the modernisation of the capitalist state under Getúlio Vargas (1937-1945) had the lasting effect of incorporating organised labour as a way of depoliticising and demobilising social sectors (Collier & Collier 2002;

Schmitter 1972). Historically, labour incorporation had been a successful strategy of political elites to contain social unrest in pursuit of economic development. The Brazilian workers, who paid the price of national projects of wealth creation in the developmentalist past (without exception), have been subjected to the authoritarianism of the state. Whilst there were differences between the Estado Novo and the military government, they were certainly identical in their view regarding the potentially disruptive character of organised labour, in which union protests were managed through consent and coercion. The Ministry of Labour maintained social peace through a highly restrictive union representation system and state control over funding of unions (Cook 2007; Ramalho 2007). The concrete social struggles of unions were thus defined by their desire for organisational autonomy from the state. By ensuring the existence of a state-approved confederation, monitoring the appointment of union leaders, and inability of unions to reduce their operational dependence to the state for example through imposed taxes (*imposto sindical*), political autonomy was difficult to achieve. In this context, it is appropriate to borrow Ben Schneider's (2004a) depiction of Brazil as an example of 'politicised capitalism'. Put simply, it refers to the exceptional capacity of the centralised state to exercise a high degree of political control over the organisation of interest groups. This fits quite neatly to the characterisation of Brazilian trade unionism by Collier & Collier (2002), who described state-labour relations as one where the weight of the state overwhelmingly foreshadowed the desire and capacity of workers to develop their own political identity. Whilst the general picture is indeed more complex when we move down to claims-making and union activities to assert workplace demands at the sectoral and regional levels, the starting point is to understand how political autonomy (and dependency) developed over time in the petroleum sector. The evolution of state-labour relations is, in fact, underpinned by the changing continuities of political alliances between petroleum workers, central unions, and left parties. In the following sections, I analyse the transformation of labour with respect to the institutional changes taking place in the oil industry.

8.2.1 Claiming labour autonomy prior to democratisation

The stratification of the labour movement in Brazil is associated with the relative capacity of economic sectors to contribute to development. The workers in urban areas, specifically in banking, metallurgical, and petroleum, had played quite a central role in national politics as a result of labour leaders' demands to increase the share of benefits for the workers in the process of industrialisation. Equally, the unions in key regional states have been part of political struggles for workplace demands, and to a limited extent, social citizenship rights. For example, the national confederations of workers in the metal-mining industry of São Paulo state radically articulated a discourse of democracy and worker autonomy, which fed into broader processes of transforming labour as a crucial political actor in national decision-making (Keck 1992; Matos 2009). The campaign to nationalise oil, *O Petróleo é Nosso* (Petroleum is Ours), between 1947 and 1953 was crucial in establishing unions in the refining sector. Their formation coincided with the expansion of oil operations in Brazil. Labour activism was born in the municipality of Lobato in Bahia, where oil was first discovered by General Barbosa.[150] In 1957 four years after the creation of PETROBRAS, the first union was founded in Bahia, called *Sindicato dos Trabalhadores na Indústria de Extração de Petróleo* (Union of Workers in the Petroleum Extraction Industry or STIEP). Labour activism was crucial in putting pressure for the transfer of private refineries to PETROBRAS. In Capuava, petroleum workers of *Refinaria de Petróleo União SA* held a 15-day strike in October 1963; they sought for equality in rights and benefits among workers in PETROBRAS and private refineries. As such they wanted private refining factories to be absorbed by the state. This was achieved in 1974 when Refinaria União and COPAM were integrated in the PETROBRAS system (FUP 2010). This was a period of imminent crisis in the political system,

[150] The Bahianos formed the first union of petroleum workers, which was called Associação Profissional de Trabalhadores na Indústria de Petróleo (Professional Association of Workers in the Petroleum Industry).

mainly as a result of the incapacity of the state to handle growing social tensions and excesses of populism under Vargas and his successors. In this context, social peace and rigid control over labour activism were priorities of the military government (especially General Castello Branco who was PETROBRAS President himself) and the managers in PETROBRAS. Under Vargas' Labour Code, union representation was obligatory and therefore *Departamento Nacional dos Petroleiros e Petroquímicos* (DNPP) was established in 1977.[151] On one hand, the creation of PETROBRAS and imposition of state monopoly ended labour exploitation in the private spheres, which also meant that the system of hiring and firing, personnel benefits, and advancement of human capital were all managed through the public enterprise system. The PETROBRAS system was clearly the more desirable option for workers, given the nationalist inclination of unions. On the other hand, the relationship between the military government and workers was far from harmonious. At the heart of its labour policy was the goal of pacifying, if not ensuring absolute control, over the workforce. In this context, workers were determined to break free from the 'old unionism' created by the state and sought the formation of a genuine labour movement that was representative of workers' interests. They perceived 'new unionism' as expressions of democratic rights of workers rather than the extension of the arms of the state in the public realm.

We cannot separate democratisation in Brazil with the concomitant rise of highly centralised unions with multiple political identities. In the struggle to form a new labour movement, competition between state-sponsored and independent unions was very difficult. This was marked by the historic strike in July 1983 in direct defiance to the national security law of the military government. Workers in the refining factories of Paulínia, São Paulo and Mataripe, Bahia joined the other classes of workers in the ABC region in

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[151] DNPP was one of the sectoral unions affiliated with Confederação Nacional dos Trabalhadores da Indústria (CNTI), which was largely controlled by the military government. It should be noted that Vargas' labour system was never changed significantly in either the democratic governments (1946-1963) or bureaucratic authoritarian regime (1964-1985).

protest against General João Batista Figuieredo and the unravelling of the statist developmentalist model.[152] The military invaded the refineries and interceded in union activities, which led to the dismissal of 153 workers in Paulínia and 205 in Mataripe (FUP 2010). The affiliated union of petroleum workers to CUT, *Sindicato Petroleiros* (Sindipetro-Campinas), was totally destroyed by the military government, during which their leaders like Jacó Bittar and Antônio Carlos Spris were targeted by the state along with the leaders in metallurgical sector (Lula da Silva and Jair Meneguelli) and banking (Luís Gushiken and Olívio Dutra). Opposition unions from various working classes formed *Central Única dos Trabalhadores* (CUT) in August 1983, defending the concept of new unionism on the basis of its autonomy, grassroots collective action, and internal democratic structures. At the same time, petroleum workers underwent a process of renovation that brought forth the eventual defeat of the old union leadership. Lula da Silva was one of the founding fathers of CUT, which was increasingly defining itself in contra-supposition to the old labour movement. As such, demands for the return of civilian democracy – *Já Direita* campaign seeking for direct elections of presidents – coincided with the internal restructuring of the labour movement. As Eva Dagnino (2005) puts it, social struggles in Brazil in reclaiming democratic rights came together with reorganisation of politics in adherence towards a broader notion of political and cultural autonomy. Workers' endeavours for independence reflect the basic contestation of governance models which were conceived by the state and imposed on society.

In strategic resource sectors, the turn towards neoliberal democracy presented two challenges for new unionism. Firstly, there was broad

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[152] For extensive discussions on the contemporary history of Brazilian labour movement, especially the formation of CUT and PT, see Drake 1996; Keck 1992; Ramalho 2007. For an updated discussion regarding the changing relationship between PT and labour movement, see Riethof 2004. For a broad view regarding the transformation of PT as a political actor from opposition to government, see Hunter 2010, 2008, 2007. For a general discussion of the sociology of labour and how we can understand different moments of thinking about Brazilian labour relations and industrialisation, see Santana & Braga 2009.

resistance against the acceptance of market opening reforms; unions were successful, at least at the beginning, in embedding labour protection clauses in the 1988 Constitution (Cook 2007). Nevertheless the emergent institutional forms and systems of (flexibilised) labour regulation after the transition effectively narrowed the spaces for contestation. In fact, labour unions found themselves defending the same mechanisms used by the state to control labour – namely imposto sindical and obligatory regional representation of unions – as a way of shielding workers from the deleterious effects of neoliberalism towards the capacities for labour mobilisation (Ramalho 2007). Secondly, the labour movement faced internal restructuring that slowly replaced the old union leadership. In 1987 petroleiros in Campinas, Paraná, and Minas Gerais affiliated themselves with CUT and formed *Departamento Nacional dos Petroleiros da CUT* (DNP-CUT). The recognition of CUT as a unifying political actor that placed labour back in national political arenas was fundamental in ending the legitimacy of old labour leaders who responded by creating a new labour organisation, called *Federação Nacional dos Petroleiros* (FENAPE). In 1988 in the national assembly, DNP-CUT refused to recognise FENAPE as the national representative of workers in mobilisation and collective negotiations. The question of who genuinely represents the workers is really an open one, especially because in reality no union was capable of unifying all the workers across the country. During deadlocks, and this was a period of instability and restructuring within PETROBRAS, the company held parallel negotiations with FENAPE and regional collective bargaining agreements were reached with their leaders. In a final push to dilute the power of FENAPE, the opposition petroleum workers created in June 1993 the *Federação Única Cutistas dos Petroleiros* (FCUP) during the Second National Congress of the Workers of PETROBRAS System. Antônio Carlos Spis was appointed leader by 11 formally affiliated unions. In the following year, 1994, the Third National Congress ended the existence of FENAPE and established *Federação Única dos Petroleiros* (FUP). PETROBRAS recognised the legitimacy of FUP as the legal representative of petroleum unions in collective bargaining agreements.[153] This process led to the establishment of a single national entity with a strong *cutista* identity,[154] which is able to command workers across the Brazilian petroleum industry. This effectively consolidates the fragmented labour movement in upstream, midstream and downstream activities across the public and private realms. The federation currently represents 150,000 workers, retirees and pensioners across companies in the oil industry. And in line with its long history of worker radicalism, FUP asserts its position against the history of old bureaucratic authoritarian model and in favour of a new developmentalist state capable of asserting sovereignty from international financial institutions and defending the nationalisation of petroleum.[155] It is, by far, the most successful labour organisation to have consolidated a legitimate voice among workers in the PETROBRAS system and in the private sector. To summarise briefly, the nadir of authoritarianism then coincided with the new structure of a more independent labour movement. As path dependency literature suggests, class politics was profoundly influenced by state corporatism, especially if one accounts for the extensive reach and scope of state control over the formation of the new labour movement. For example, the structure of the movement itself was a product of state incorporation, in which workers are organised according to sectors and regions and are then grouped into federations and then confederations depending on the sector. In the petroleum industry, workers form unions –SINDIPETRO – with strong presence in oil-producing municipalities and regions (Rio de Janeiro, Norte Fluminense, Santa Catarina, etc). The unions in E&P sector are then connected to workers in the petrochemicals and refining sectors through federations of petroleum workers, most notably FUP, who are then connected to the central unions

[153] These are called Federação no Acordo Coletivo de Trabalho.

[154] Cutista refers to an entity associated with the national confederation of workers, CUT.

[155] The discussion below is based on documents and discussions from FUP and Sindipetro. See http://www.fup.org.br/historia.php.

like CUT and Força Sindical.[156] Quite clearly, the historical struggles shared by CUT and FUP were fundamental in shaping emerging political alliances between leftist parties and labour unions during the high tide of neoliberal reforms in the oil industry. This is discussed in the next section.

8.2.2 Labour as opposition during neoliberal restructuring

What I have discussed thus far is the consolidation of political alliances between labour-based parties and centralised unions prior to and immediately after the democratic transition. As Chapter 7 showed, oil governance reforms were not as far reaching and as entrenched as in mining and steel sectors, and certainly incomparable to Chile when it comes to the valorisation of private sector and attempts at eliciting labour acquiescence (see Chapter 6 on labour in Chile). However, we cannot explain the outcomes of neoliberal reforms simply as constitutive of elite calculations or as exclusively deliberate strategies of the political classes to control labour. An alternative explanation rests on unions' views that market opening reforms had deleterious effects to working class politics. We can trace the changing continuities of state-labour relations by looking at phases of neoliberal reforms in Brazil. Political time is as important as the structural factors and ideational motivations to explain how far neoliberalism has been embedded in national political economies. In other words, market reforms were contested, and subsequently modified, in response to political mobilisation. This brings us back to the Coxian argument (1999, 1981) that the hegemony of neoliberalism is in fact checked by the limitations set by societal actors by way of *not giving* consent to the logic of free market.

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[156] In the petroleum industry, however, unions have affiliated themselves with FUP and CUT, which means that workers in the petroleum sector are most likely associated with CUT (and PT) and less with other competing unions. The existence of competing unions for legitimacy and representation is not uncommon in Latin America, most notably in Argentina, which is exemplar of the combined effects of fragmentation of the labour movement and elite strategy of dividing unions to achieve political (and labour) acquiescence in neoliberal reforms (Levitsky 2003a, 2003b; Levitsky & Murillo 2005; Murillo 2001).

It is reasonable to conceptualise oil governance and labour reforms into two stages. In the first phase, which I refer to as the early stages of neoliberalism, new unionism was clearly enfranchised as a result of the strength of labour mobilisation under José Sarney (1985-1989) and Collor de Melo (1990-1992). Whilst CUT and PT were able to secure labour protection clauses in the 1988 Constitution (Cook 2007) – a clear achievement for union organising, Collor de Melo sought to win labour support to acquire legitimacy for his short-lived anti-oligarchy discourse.[157] However, the labour movement did not extend support to Collor de Melo, who ran for presidency as the 'conservative right' in the political spectrum, certainly when compared to trade unionist Lula da Silva and veteran populist Lionel Brizola in 1989 (Panizza 2000). In fact, the fate of unions under Collor de Melo rested not so much on the lack of a political desire to achieve labour flexibility as on the failure of his economic strategy, Plan Collor, to achieve macroeconomic stability. He was unsuccessful in curbing inflation, ending stagnation, and stabilise the economy more generally. Without any solid political base and institutional roots, his credibility to govern unravelled as soon as a corruption scandal erupted and civil society activism gained its own momentum.

In the second phase, complex reforms were introduced in Brazil after the success of 1994 Real Plan, which gained political support as reflected in the electoral victory of Fernando Cardoso. His strategy was a combination of inflation targeting, trade liberalisation and privatisation of essential services (including state enterprises). As literature on reforms suggests (Haggard & Kaufman 1995; Kingstone 1999; Schneider 2004b), there are winners and losers in restructuring national economies. Labour unions perceived themselves as the main losers as a result of heightened fears of job insecurity, expansion of the informal sector, and the weakness of PT to defend work place demands. The state was also more willing to use coercion to put labour in its place, to which the 1995 oil workers' strike was emblematic of such

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[157] Author interview with José Maria Rangel, General Coordinator, SINDIPETRO-NF, 29 July 2010.

contentious relationship between a reformist government and a combative labour movement.

By the end of 1994, there was no agreement in collective bargaining in the oil industry, which elicited two national strikes in September and November 1995 chiefly to pressure PETROBRAS to replace the salaries lost by workers, which at that time was at 100 percent. The agreement with Itamar Franco, Ministry of Mines and Energy led by Delcídio Gomes, and PETROBRAS President Joel Rennó was a readjustment salary between 12 and 18 percent. Brazil was just coming out of a crisis and PETROBRAS had just sold off some of its assets, thereby, making these demands quite difficult to meet. The year after was a conjectural period for the consolidation of neoliberalism and the reversal of labour protection, which was underpinned by the electoral victory of Fernando Cardoso who saw himself as a reformist, vindicated publicly by his stabilisation plan. PETROBRAS managers, whose primary objective was to control wage increases at a time of austerity, had the political support from the state. Upon assuming presidency in January 1995, FUP launched a national strike together with other public sector workers in the electricity, telecommunications, postal and federal services sectors. The grand mobilisation took place on 03 May 1995, known today as the oil workers' strike, during which PETROBRAS argued it did not have the autonomy to comply with the negotiations at the sectoral level (FUP 2011). The unified movement fought in defence of state monopoly in the oil and telecommunications industries, which brought back workers' rights in public sectors at the centre of national politics. Beyond narrow demands of defending wages and working conditions of petroleum workers, the strike had in fact received expressions of solidarity from a broad range of actors. A symbolic march from the factories in the historic ABC region towards the refineries in São Paulo by PT President Lula da Silva and CUT President Vicente Paulo da Silva showed unconditional working class solidarity, during which Lula expressed his 'lamentations for the insensitivity of the [Cardoso] government' (O Estado de São Paulo 1995). At the grassroots level, nearly 4,000 metalworkers in protest entered the factories of Schuller, Indebrás, Villares, Toyota, among others, for two and a half hours to make apparent workers' support for oil workers' demands (Folha de São Paulo 1995a). The unity in the labour movement was indeed a public spectacle drawn together by the overarching principle of *petismo*, which refers to the ideological discourses of PT vis-à-vis the reformist government. Petismo seeks for more inclusive political alliances between labour parties, trade unions, and social movements as well as the defence of an activist role for the state in response to Cardoso's economic restructuring.

The response of PETROBRAS was to use intimidation, for example, by dismissing workers on strike on 11 May 1995, including FUP Coordinator Antônio Carlos Spis. The political conflict escalated to the point that Cardoso called for military troops in 24 May 1995 to occupy the refineries in Paraná, Paulínia, Mauá and São José dos Campos (Folha de São Paulo 1995b; FUP 2011). The tensions aggravated as the government refused to back down and to admit it would negotiate with oil workers, and instead, he sought to establish an image of a reformist with a firm commitment to strike down any resistance on his rational policy agenda (Folha de São Paulo 1995c). The petroleum workers decided to return to work after 31 days of paralysing production in the refineries with very little achievement except for resuming collective negotiations with PETROBRAS. The government body responsible for labour affairs, *Tribunal Superior do Trabalho* (TST), had declared the strikes as abusive and troublesome, with potential fines amounting to R$ 35.7 million, which was immediately challenged by Antônio Spis (Diário do Grande ABC 1995). According to FUP (2011), each of the twenty participating unions were fined R$ 2.1 million and a total of 70 workers were dismissed. Beyond the material and physical costs of strikes for workers, the incident reflects the broader uneven relationships between states, private actors, and organised labour in the pursuit of global competitiveness. Although the contestation of neoliberalism indicates a distinctive politics of resistance to neoliberal hegemony as articulated by workers, it also undoubtedly manifests difficulties in shifting the costs of reforms away from workers. This, as Chapter 4 details, is a historical dialectic that transpired in twentieth century Latin America between national elites' top down ideas of national development and labour movements' demands from below.

Nevertheless the contentious relationship between Cardoso and oil workers further radicalised as the debate to pass a new oil regulatory law in National Congress intensified. With the initial rejection of the bill in April 1996, Cardoso sought to weaken labour by attempting to repeal the amnesty law offered by parliamentarians to the oil workers who went on strike in May 1995. Until the end of Cardoso's government in 2002, the Law on Amnesty was debated and could only be approved upon the election of Lula da Silva in December 2003. The passage of the law partially closed the distance (and conflict) between the state and labour movement. Cardoso was unable to secure labour support for his privatisation programme, and the full-fledged privatisation of CSN and Vale by all means widened the gap between the state and workers. There were both legal battles regarding the sales of state enterprises and protest marches of workers and social movements against the neoliberal agenda. Whilst political mobilisation against neoliberalism was not as spectacular in scale and scope as in Argentina, Bolivia and Venezuela (Grugel & Riggirrozzi 2012; Panizza 2009; Silva 2009), oil workers in Brazil together with Lula's PT and CUT played a central role in challenging Cardoso's reform project. More importantly, although the petroleiros have failed to prevent the break-up of state monopoly in oil, they were nevertheless successful in defending the state's majority ownership of PETROBRAS.[158] The stark difference between Cardoso and Lula in terms of their relationship with unions was expressed by SINDIPETRO Coordinator, José Maria Rangel:

> The Lula government... made the choice of strengthening the state and maintaining PETROBRAS as a state company... I can cite a few examples: from the construction of platforms in Brazil to generate employment for Brazilians; in the increase in drilling and exploration of new areas of discovery; in the strengthening of PETROBRAS; all of which did not take place under Fernando Henrique's vision of a minimal state. PETROBRAS under Lula

[158] Author interviews with Enrique, FUP August 2010; José Maria Rangel, SINDIPETRO-NF, August 2010.

> continued to invest in the oil industry, which have been financed by public sector banks. So, in fact, there is this differentiation.

Whilst this can be easily interpreted as mere ideological positioning of oil workers vis-à-vis the reformist Cardoso government, one should not forget that national elites elsewhere in the region have had varied relationships with the labour movement. In Chile, the state used tripartite negotiations, bonuses, and moderate wage increases as a way of silencing resistance of unions – most especially copper workers – against market opening (Nem Singh 2012; Schurman 2001; Vergara 2008). In Argentina, a reconfigured state-labour pact was forged between Menem and segments of professional working classes to acquire support for neoliberal reforms (Cook 2007; Murillo 2001). In other words, despite the ideological proximity between labour movements and leftist parties, this has not frequently stimulated political alliances between actors in their concrete social struggles. Hence, the strength of labour unions in contemporary Brazil, especially in strategic sectors, has been exceptional *despite* the long history of state-led corporatism. Its newly acquired political autonomy is effective thus far in challenging state paternalism as well as in grafting alliances with labour party and social movements (Dagnino 2005; Riethof 2004). Some even argue that Brazil's labour movement (and its changing relationship with the state) can be compared to the democratisation experiences of South Africa and South Korea, wherein the labour movement has manoeuvred in a complex web of relationships as neoliberalism and developmentalism transform the state and the economy (Ramalho 2007).[159] The articulation of petismo as a coherent organising logic of political action for labour unions and the Left is, in fact, less common across the region. Ideological affinities do not necessarily translate to strategic collective action. In the next section, I examine how the return of state capitalism under Lula da Silva and Dilma Rousseff reconfigures the relationship between the state and labour.

[159] Author interview with José Ricardo Ramalho, Academic Consultant, UFRJ, August 2010.

8.2.3 The return of state capitalism: What about the oil workers?

The electoral victory of Lula da Silva generated contradictory effects with regard to the nature of bargaining between the state and the public. On one hand, Lula moderated his political discourse, primarily as a result of coalition deals with conservative forces. His economic programme was one of continuity rather than change with the Cardoso government, which generated tensions within PT and between Lula and his social movement base (Amann & Baer 2009; Arteris & Saad Filho 2007; Hunter 2010, 2008).[160] This has been a major source of tensions between the government and unions. On the other hand, Lula's victory closed the gap between the state and the labour movement, which was widened by the privatisation agenda and a strategy of confrontation under Cardoso. Lula embarked on a top-down approach of resolving conflicts, for example through a policy of wage increase, expansion of social and anti-poverty measures, and appointments of union leaders as part of his governing coalition – all of which contributed to his successful attempt to run for a second term (Burges 2009; Hall 2009; Melo 2008). Under the first PT government, what is evident is the greater space for negotiations to exercise the full extent of workers' freedom of associations (*liberdade sindical*). Trade unions sought to differentiate Lula and Cardoso by emphasising the former's attempts at inclusive politics by extending spaces for deliberative democracy to previously marginalised social groups. Lula's economic programme may have failed to remove the pathologies of neoliberalism but his political strategy was certainly successful in acquiring consent, if not political acquiescence, of trade unions. But even under Lula, state-labour relations remained contentious. Strikes are considered the final stages of negotiations, usually when differences in demands between the managers and unions are irreconcilable. There have been two strikes to date, one in 2008 for five days

[160] As Chapter 7 demonstrated, however, there are some key areas that Lula departed from Cardoso. His second term was also a break away from Cardoso, characterised by renewed emphasis on national industrial development and a stronger role for public institutions in facilitating economic growth.

and in 2009 for another five days. But unlike in Chile where negotiations have revolved excessively on wage increases and bonuses as a way of ending conflicts, oil unions also sought for health and safety as well as security in the workplace.[161] Nevertheless compared to Cardoso, barring contentious issues in collective bargaining, Lula gained more support for his oil reforms, which attempt to reinvigorate a national industrial programme with PETROBRAS and petroleum at the core of its strategy (see Morgan Stanley Research 2010; Resende 2009).

Between 2007 and 2010, the public debate on Brazilian energy policy focussed on the merits of switching from the concessions grant model towards production-sharing arrangement in light of the recent discovery of pre-salt reserves. The passage of the law in Congress, to a large extent, was brought about by the strength of public support for Lula. Among those who mobilised in defence of a stronger state in petroleum governance are the oil workers in FUP. The unions are unconditionally in support of oil monopoly and an end to Cardoso's concessions grant model. During the 1990s, opposition forces defended state enterprises and countered the privatisation agenda. As José Rangel points out, the fundamental difference between Lula and Cardoso is precisely their commitment to private participation in oil activities. Lula da Silva's lack of political will to end the 1997 Petroleum Law was one of the root causes of tensions between his government and oil workers.[162] The discovery of pre-salt reserves thus offered a key opportunity to revitalise a state-led development project, which was underpinned by an aggressive investment package starting 2007 through the *Programa de*

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[161] Author interviews with Enrique, FUP, August 2010; José Maria Rangel, SINDIPETRO-NF, August 2010. The health and safety issue becomes more contentious at a time when oil spills and accidents have been taking place across the world, for example, the Gulf of Mexico and refinery accident in Thailand. In the interviews, union leaders are quite aware of these incidents and fear that a drop in working conditions could easily lead to an accident in Brazil. They mentioned a few times the bypassing of health and security standards just to maintain oil production at cost effective rates. In addition, labour conflicts outside of petroleum, for example the recent strike in the construction sector, affect PETROBRAS indirectly because unresolved tensions between the service provider and its workers can slow down oil operations (Carvalho 2012).

[162] Author interview with José Maria Rangel, SINDIPETRO-NF, August 2010.

Acceleração do Crescimento (PAC) (see discussion in Section 8.3). It is not very difficult to imagine why unions would support the *estatização* agenda of Lula da Silva.

The second area upon which Lula and the workers agreed on was the creation of the national stabilisation fund, sovereign wealth funds, and the rational distribution of royalty taxes to generate social redistribution. At the local levels, oil rents have not necessarily produced growth in the oil-producing municipalities, which is a clear sign of the resource curse effects (Postali 2009, 2002a). In this context, SINDIPETRO and FUP have supported the government proposal to separate the expenditure policy of oil rents, which will exponentially increase in the coming years, from other aspects of economic governance. The *ideational diffusion* of 'best practices' in revenue management should not come as a surprise because Brazilian policy makers and academics have closely studied the Norwegian model of natural resource governance (see for example Lima 2009a; Sias 2008). This is not to say that depoliticised neoliberal practices of good governance are being blindly adopted by unions and government agencies. A union leader's observation on how royalties have been utilised in one of the key recipients of oil money justifies this point quite well:

> I have no doubt resources are misused… the Senate and other legislators… should think more carefully on the use of resources. It is absurd to say that oil is [only] for those who sit in the petroleum fields like Macaé. Small towns like this receive petroleum rents, but was there [genuine] development? There might have been, but there is certainly more wastage. They think petroleum is infinite… [and that] if my generation is enjoying this bounty, the rest can be damned. We [unions] think differently. The vote on the legislative project approving the stabilisation fund, the sovereign wealth fund, is the right step to correct this distortion. It is important… to start… a fair allocation of resources, then the government will be taking a significant step, not only for our generation, but also for future generations… I was in Norway in 2003 and I was impressed on how they intended to use the proceeds from petroleum. They think in today, tomorrow, the day after tomorrow, for all the generations. So, for me this would be the ideal model in which we should be trying to build in our country. But unfortunately our leaders do not think this way… When the changes on the Petroleum Law were being

> discussed, they were more concerned with discussing the royalties than our own country's sovereignty.[163]

This quote is particularly interesting for two reasons. Firstly, the literature generally assumes that oil workers make unreasonable demands. There is also repudiation for the lack of 'technical understanding' among workers regarding the complex financial, operational, and economic factors that are being considered in investment decisions. Not only do workers understand the pitfalls of rent-seeking, they likewise argue that a rational use of natural resources is the only sustainable way of achieving social development. As Chapter 5 and 6 show, this is not necessarily the case for the Chilean mining workers who argue strongly in favour of redistribution to counter the neoliberal policies of Concertación government. Secondly, resource management is not legitimised because states or global governance institutions simply promote them. Instead, high powered economic theories are articulated in policy fields but they are ultimately adapted in specific local contexts (Weszkalnys 2011). The logic of neoliberalism, applied here as good governance, oftentimes appears as common sense, and therefore, it draws legitimacy from the apparent rationality of such action for actors. This demonstrates the fuzzy boundaries between neoliberalism and post-neoliberalism in the real world. For example, unions logically support Lula's national social fund not only because of the potential to link oil wealth and social development (a neo-developmentalist component), but also because it has provisions that can prevent rent-seeking and excessive spending sprees of politicians (a neoliberal component).

To sum up briefly, I have shown the position of oil workers in the major national debates in Brazil during the break up of state monopoly under Cardoso, and subsequently, their support for the reconstitution of the developmentalist state under Lula. In the final section, I will further discuss how PETROBRAS' corporate strategy and the management of labour

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[163] Author interview with José Maria Rangel, SINDIPETRO-NF, August 2010.

demands have gradually established a new pathway of growth for Brazil based on neo-developmentalism.

8.3 PETROBRAS and Brazil's national development strategy

Lula's new oil regulatory framework, which was backed by the trade unions, is part of a broader strategy of the state towards re-industrialisation. This coheres around the idea of an activist state capable of guiding *strategically* national industrial development (Bresser-Perreira 2009, 2006, 2004). As mentioned beforehand, Lula sought to take advantage of PETROBRAS' technological advantage by facilitating the expansion of the oil industry through the pre-salt reserves. However, it can only happen if the state can inject substantial amounts of investment to generate economic dynamism. This materialised in 2007 when the Federal Government aggressively earmarked funding for infrastructure projects, with the long term view of creating jobs through Keynesian style public spending. An initial US$ 349 billion (2007-2010) was invested followed by PAC 2 with an estimated spending of US$ 526 billion between 2011 and 2014 (SECOM 2010). Public expenditure rose from 0.5 percent of the GDP in 1990s towards 5 percent of the GDP between 2007 and 2010 (Resende 2009: 32). Investment under PAC was divided into three categories: (a) logistical infrastructure, which includes the construction and expansion of highways, railways, ports, airports and waterways; (b) energy infrastructure, which includes generation and transmission of electricity, as well as the production, exploration and shipping of petroleum, natural gas and renewable fuels; and (c) social and urban infrastructure, which covers sanitation, housing, subways and urban trains (Pardelli 2010: 54-57). Besides infrastructure investments, the program includes other measures, such as tax breaks and incentives (particularly for construction and for technological development), regulatory changes, special transactions with BNDES, new regulation on small and medium-sized enterprises, minimum wages increases, and the creation of a new R$ 5 billion Infrastructure Fund — using part of workers' compulsory savings (*Fundo de Garantia por Tempo de Serviço* or FGTS). The government viewed the infrastructure package as the most effective way to allocate resources in facilitating new investment, which would subsequently focus on increasing productivity and competitiveness. The series of policies were aimed at enhancing the global competitiveness environment of Brazil by way of decreasing regulatory risks, improving the framework for private participation in infrastructure, and developing risk mitigation mechanisms (Resende 2009: 32).

The PAC 1 and PAC 2 initiatives are either public, private, or public-private partnerships. The energy infrastructure projects are concentrated in oil and gas, to which the direct beneficiary is PETROBRAS. For example, PETROBRAS has about 127 projects under the PAC initiative, wherein 16 projects were concluded, 35 projects are in operation, and 17 in green field projects. Its investment via PAC in 2009 and 2010 amounted to US$ 56 billion and after 2010 it was at a record high of US$ 343 billion (Alonso 2009: 15). As part of the expansion of the petroleum industry, as Table 8.5 shows, infrastructure projects in the oil and gas commodity chain have been geared towards exploration mainly in the pre-salt layers. In some ways, these investments prove the argument that the Brazilian state works in conduit with domestic enterprises to promote (indeed accelerate) growth through a national development plan. PAC was quite successful in terms of increasing investment share of infrastructure in percentage of GDP from 16.4 percent in 2006 jumping up to 18.4 percent in 2010. Through state investment, Brazil has created 8.9 million formal jobs between January 2007 and June 2011, which was a record on its own and quite a feat taking into account the 2008 economic crisis (see PAC website).

Table 8.5 PETROBRAS participation in PAC initiative

Sector	Investments in US$
Exploration and Production	242.2
Refineries, ethanol pipelines & ships	54.8
Gas infrastructure & gas power plants	7.0

Source: Alonso 2009 (Adapted), 19.
Notes:
(1) From second semester 2010 onwards;
(2) US$ 1 = R$ 2;
(3) Includes equipment and services.

With the oil and gas sector now constituting as high as 15 percent of the GDP and a solid industrial base, Brazil is certainly using the oil industry to promote national development strategy. One key component of this approach to growth is the use of national champions, such as PETROBRAS, in devising investments and expanding strategic sectors of the economy. In terms of investment, the state is using its financial institutions, i.e. BNDES, together with central agencies to mobilise the oil industry. This is exemplified very clearly in the Brazilian Oil & Gas National Industry Mobilization Program (PROMINP), whereas private and public operators in the oil sector (i.e. IBP and PETROBRAS) are invited in policy spaces to graft a more coherent industrial policy. Returning to the argument in Chapter 7, the role of the state is quite fundamental in the success of this strategy. In order for PETROBRAS to take a leading *public* role in the oil industry, however, the Ministry of Mines and Energy must take a steering role especially since PETROBRAS is still accountable to its private shareholders.

8.4 Conclusions

In this chapter, I have shown the complexity of corporate governance and labour reforms undertaken by PETROBRAS and the state more generally. Consistent with historical institutionalist and political economy perspectives, I have argued that neoliberalism has had a substantially different outcome in Brazil. Whilst the reforms introduced competitiveness pressures for PETROBRAS, the state enterprise was then already quite efficient. In addition, the history of state corporatism did not necessarily weaken the power of oil workers to resist market reforms. Labour conflicts, as I have shown in Section 8.2, are managed through varying degrees of political intervention, such as the adoption of corporatist tools. Finally, the neo-developmental state has indeed emerged in Brazil, and this is characterised by an aggressive investment policy aimed at expanding the oil industry in light of the pre-salt reserves. However, this was only possible because of (a) the strength of PETROBRAS as a commercially viable company and (b) the existence of an autonomous labour movement capable of negotiating with an activist state. Although the return of state capitalism is not free of tensions, and indeed contradictions exist, it is certainly the case that neoliberalism has neither weakened state enterprises nor depoliticised labour unions.

Combined with Chapter 7, I hope to have shown the following: (a) that Brazilian oil governance exhibits strong continuities with the country's long history of state management; (b) that the corporate governance reforms in PETROBRAS have conformed to the 'best practices' among international oil companies and these were developed autonomously from the state; and (c) that labour conflicts have remained prevalent in post-dictatorial Brazil although this has evolved quite significantly as a result of differing governance styles between Cardoso and Lula. In the final chapter, I bring together the case studies on Brazil and Chile and the sector-specific dynamics in mining and oil industries to discuss their theoretical relevance to debates on political economy of (neoliberal) reforms, national development strategies, and state-society relations.

Chapter 9
CONCLUSIONS

In this thesis, I explore the ways in which states use their strategic resource sectors in achieving economic development. This, inevitably, must take into account the process of economic liberalisation and global market integration, which have conditioned global and national policy agendas in the extractive industries. The challenges for national elites are two-folds. Firstly, there appears to be a negative view regarding the contribution of natural resources to economic development. Terry Karl's (1997) seminal work shows how oil wealth can lead to a protracted process of state-building and economic underdevelopment. Secondly, it is undoubtedly the case that all mining reforms in the last three decades have aimed at opening previously state-controlled sectors for private capital participation. As the findings of the thesis suggest, natural resource management requires the state to become a central actor in grafting strategies of natural resource exploitation. And whilst neoliberalism was applied across countries and sectors, the unique characteristics of copper and oil – and extractive industries more generally – invariably shape the outcomes of these reforms. This, inevitably, has implications for how scholars view economic convergence towards neoliberalism, in particular in the context of middle income resource-rich countries.

The task of this chapter is to bring together the comparative dimensions of economic restructuring in Brazil and Chile and to reflect on how national political elites wield political agency in designing reforms that produce economic growth in the resource sector. An important yet often unacknowledged aspect of resource-based development is the tension between economic liberalisation and persistence of state control in strategic sectors. My argument is that Brazil and Chile developed hybrid strategies of neo-developmentalism that cohere around a stronger role of states in managing natural resources for economic growth. But rather than showing two identical cases or mirror images of state intervention in extractive industries, the cases illustrate quite vividly the differing pathways of designing economic reforms that blend market incentives and state regulation in the sectors. As argued throughout the thesis, what accounts for these differences are political legacies, sector-specific characteristics, and the exercise of (state) agency in negotiating reforms. In order to show this argument, I apply a framework that combines historical institutionalist (HI) and critical political economy perspectives. HI emphasises the role of state structures, historical contingency, and political conflicts as explanatory variables. But the analysis of institutions, ideas, and actors' interests cannot be divorced from a political economy approach that probes into the international-domestic dynamics, the deployment of hegemonic ideas of neoliberalism and global competitiveness, and the sector-specific features of national economies. The approach offers a formidable complex account of how national development strategies based on resource exploitation can achieve sectoral competitiveness, and subsequently, economic development.

Empirically, I demonstrate this argument by examining two distinctive pathways of neo-developmentalism in Brazil and Chile. In both cases, states have embraced private participation as the new driver of growth and competitiveness in extractive industries. State enterprises were reorganised to accommodate private firms. Labour unions were targeted through reforms aimed at increasing labour flexibility. Nevertheless, state ownership persists and state enterprises retain their dominant role in the sectors. What is evident is the overwhelming state control in the oil and copper sectors despite the wave of reforms to legitimate private capital access to natural resources. To explore this general pattern of state-managed resource extraction in a neoliberal economic order, the chapter is structured in three sections. In Section 9.1, I explore the comparative dimensions of Brazil and Chile as well as oil and copper industries. I situate the cases into broader context of Latin American political economy. Secondly, at a more theoretical level, Section 9.2 demonstrates the need to combine historical institutionalism and critical political economy perspectives to answer the key questions of the PhD thesis. Finally, in Section 9.3, I offer some ways to move the debate forward with respect to neoliberalism/post-neoliberalism and the relationship between natural resources and economic development.

9.1 Comparative dimensions of the research

My thesis aims to analyse the role of states in natural resource management. The central thread is therefore about how states apply economic reforms that respond to challenges of resource dependency and economic competitiveness. The policies that enhance economic growth in the resource sector are not separate to attempts at opening the sector for private competition. At face value, natural resource exploitation in the last three decades has followed neoliberalism as a policy paradigm. Indeed, market opening policies in Brazil and Chile have increased the access of private firms to natural resources by way of giving them exploration rights and restructuring state enterprises to accommodate new actors in the sector. However, as the following sections will show, neoliberal reforms did not achieve the goals set by the reformist governments. Instead, what we have today is a complex mix of state and market incentives to organise the sector into a competitive industry. I show this argument by highlighting comparatively three specific dimensions of neoliberal reforms in Brazil and Chile: regulatory frameworks, state enterprise restructuring, and labour relations in extractive sectors. I return to the core questions in the introduction and then answer them by way of exploring the similarities and differences of the case studies, and then probe into the contribution of the thesis to the literature.

9.1.1 The politics of reforming the state

To what extent have market-opening reforms in strategic resource sectors empowered the private sector in Brazil and Chile?

It is undoubtedly the case that national elites in power between 1990s and 2000s were successful in introducing private capital participation in the economy. Mining reforms seeking private investment were conceived as the only way to recuperate the competitiveness of resource extractive sectors in Brazil and Chile. These reforms were implemented through gradual changes in the institutional framework, for example, in adopting the concessionary grant model that rewards firms taking risks in mineral extraction. Governing elites envisaged the reforms as the answer to the crisis of overproduction and bureaucratic inefficiencies of state-led development. The underlying justification was the assumption that private sector is productive and public enterprises are wasteful and highly politicised. In both cases, market reforms were attempted to introduce competition between state enterprises and private capital, usually foreign firms, in order to transfer technology, break up state monopolies, and shift the responsibility of developing the resource sector from public towards private authority. Most importantly, and in direct contrast to state intervention, economic restructuring was envisioned as depoliticised, technocratic and fairly insulated from rent-seeking groups. Neoliberalism was thus conceived as the ideology that would respond to what was then a crisis of development paradigm in the 1980s. It was, above all, perceived by its critics as an imposition from above – those working in the financial institutions based in Washington –that gave very little manoeuvres for national elites to autonomously design their own recipe of economic governance.

However, the anticipated shift from the state to the private sector in the governance model was not as smoothly implemented as the reformists had initially desired. *Firstly, timing, sequencing and the pace of reforms differed between the cases*. These factors determine how far the reforms could be implemented. Neoliberalism was adopted as early as 1974 in Chile and as late as 1997 in Brazil. They were also adapted to fit into distinctive national contexts. Chile was the first country in Latin America, perhaps in the world, to embrace neoliberal mining reforms in 1974. The military government saw the reforms as a social reengineering project to radically break from its socialist past. The decision of the Concertación government to keep in place the economic rules of the military dictatorship was critical in so far as it locked in future political choices of the governing left-centre parties. The longevity of neoliberal experimentation means that neoliberal ideas have been institutionally embedded in policy-making. Whilst initially the elites perceived the necessity to maintain the institutional framework to retain political stability, its longer term impact was to narrow the policy spaces for an alternative discourse and reduce the policy choices available in managing the copper industry and the economy writ large. At best, there was sporadic resistance from unions to contest some aspects of neoliberal mining management but ultimately the critiques were hollow in so far as pushing for a different paradigm of development. In contrast, neoliberal reforms were rendered incomplete, partial, and contested (if not negotiated) in Brazil (Almeida 1996; Monteiro 1998; Pinheiro et. al. 2004). The economic crisis in 1982 opened up a space for the civilian government in 1985 to begin the sales of state enterprises and the arduous process of market-opening. However, it was not until 1995 when the Cardoso government fully privatised mining giant CVRD that a new law on petroleum would be narrowly passed in National Congress. These reforms ended state monopoly in the oil sector but Cardoso has neither succeeded in changing the ownership structure of PETROBRAS nor in substantively giving space for market competitors to challenge the dominance of the state enterprise. Requirements on national contents and use of domestic suppliers were also introduced at the same time as market-opening reforms were instituted. This policy, which is still applicable until today, is an effective constraint for private firms in cases they find domestic supply more expensive than elsewhere. Hence, neoliberalism was not only applied by national elites themselves rather than by the World Bank and IMF,[164] but the examples of Brazil and Chile reflect a far more endogenous process of institutional adaptation, in which general principles of neoliberal economics were articulated but the specific applications across countries and sectors varied in considerable ways.

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[164] An important point here is made by Judith Teichman (2001) when she argues that policy networks consisting of international and national technocrats and funding agencies were key in engineering the reform project. This is true as far as the post-1980s reforms in Chile are concerned. However, the far-reaching reforms in the copper sector were issued in 1974 and 1983, which means that the military government stepped in to reform the copper sector without the support of the epistemic community.

More specifically, the depth and scope of neoliberalism in the oil and mineral sectors of Brazil and Chile co-vary depending on the interactions between the policy ideas of reformist governments and the political legacies of the military dictatorships. In Brazil, the long gestation of state monopoly in the oil industry and the persistent pressures of securing domestic energy needs for industrialisation – both of which go further back during the formative years of the Brazilian modern state Estado Novo – have rendered neoliberal reforms very difficult to implement in the 1980s and 1990s. Indeed, whilst Brazil has succeeded in welcoming private firms in oil exploration and development, the fact is that PETROBRAS remains the dominant actor in the oil industry. As Chapter 8 demonstrates, the state enterprise maintains its position as the major player in domestic refining and distribution sectors. In the upstream sector, PETROBRAS emerged as the winner after ten round of bidding for the resale of oil blocs in Brazil. Crucially, between 1997 and 2010, private firms have not challenged PETROBRAS. Instead, they have worked with the company through joint ventures and partnership agreements in exploring, developing and producing oil reserves. Upon the discovery of the pre-salt, the idea of a new developmentalist state floated within the PT government and was subsequently pushed in the oil industry (see Chapter 7). Furthermore, Brazil has gone farther than most extractive-based economies by directly linking social and anti-poverty policies with oil wealth as well as by renegotiating the terms of state-foreign capital relations through the adoption of the production-sharing arrangement in the pre-salt reservoir. This was only possible because of the relative efficiency of PETROBRAS as a globally competitive state enterprise. Some scholars have described Brazilian politics as one of *changing continuities* rather than dramatic breaks from the past, in which reforms are considerably negotiated rather than imposed by the executive (Almeida 1996; Nunes 1997). This is so far accurate if one looks at the oil industry and the evolution of regulatory frameworks.

In comparison, Chile's Concertación government had difficulty in fully challenging the economic rules inherited from the military dictatorship. Pinochet's neoliberalism was a genuine critical juncture in so far as heralding private capital as the new engine of growth. Politically, he was also able to secure the military and right parties with veto powers to prevent future changes in legislation. Pinochet created 'organic laws' requiring 2/3 majority votes in Congress for any change, which until today is still an arduous task given the retention of Pinochet's electoral system (González 2008). The double bind created by the political transition in 1989 was therefore sufficiently powerful to compel the centre-left coalition to design reforms gradually. The coalition proved their credibility to govern Chile by ameliorating the costs of neoliberalism through expansive social policies without challenging the core elements of the model of growth. In the mining sector, the two important laws under Pinochet remains intact – 1974 DL 600 (Foreign Investment Law) and 1983 Mining Code – and the economic reforms since 2000s are considerably minor compared to that of Brazil. Chapter 5 shows the changes in the economic policy under the left-led Concertación governments, specifically the passage of new royalty taxes in 2006 and the re-regulation of labour standards through the Subcontracting Law in 2007.

Secondly, sector-specific features of extractive industries have rendered neoliberal reforms incomplete, partial and fragmented. One metric of the reform outcome can be derived from the emergent relationship between states and foreign capital after the restructuring period. Presumably, resource sector reforms valorise the importance of foreign investment as the new source of economic dynamism. The assumption, then, is that either the state enterprise has been unsuccessful or insufficient in maintaining the competitiveness of resource sectors. Although articulated in both cases, political elites have applied the idea of foreign participation quite differently in the oil and copper industries. Both devised a discourse of legitimation for private capital in their resource sectors. But beyond political legacies, sector-specific characteristics have influenced the decision-making processes in Brazil and Chile. In mining, transnational firms mainly North American and European companies have been dominant in the market, thereby, according little developmental space for national mining companies to emerge in the developing world. There appear to be very few countries with relatively successful national state enterprises and therefore mining-based development would have been more reliant on foreign capital for economic dynamism (Nem Singh & Bourgouin Forthcoming; Lawrence Forthcoming). However, petroleum was generally considered as too strategic to be left in the hands of foreign oil companies. Unlike minerals, oil offers a pathway of growth through national industrial development. Fluctuations in oil prices also affect countries with oil endowments and those which import oil for consumption. In a high carbon economy, resource-seeking and resource-rich states have reasons to secure access over hydrocarbons. From the perspective of oil-rich countries, experimentation in favour of endogenous exploitation of oil reserves was attractive, which was achieved through the nationalisation of oil and the formation of oil cartel (OPEC). In short, oil was conceived as a weapon to rebalance the relations of power between the developed and developing countries (Parra 2004). In this context, Brazil sought to protect the oil industry from foreign interference even at a time when they could not find oil in its vast territory (Smith 1976). In the advent of the new discovery in 2007, it seems natural for the Brazilian state to reclaim ownership of oil resources, thereby, paving the way for the introduction of new legislation in 2010. Hence, the sector-specific characteristics of strategic resources matter in terms of how national elites formulate policies to accommodate foreign interests.

In many ways, Brazil and Chile have succeeded in attracting private capital in the oil and copper sectors. These middle-income, late capitalist states have sought to manage the challenge of economic liberalisation in strategic industries by adapting the discourses of neoliberalism and selectively applying some elements of the growth model. Both states have dealt with the 'foreign dependency' question in varying methods of accommodation. In Brazil, it remains contested to allow transnational firms to operate freely, and the crucial evidence here is the new petroleum law in 2010. Chile, in contrast, has actively sought foreign investment to generate national income in the copper sector.[165] These are two distinctive ways of adapting to the global political economy, which is today characterised by aggressive mergers and acquisitions and dominance of multinational enterprises (Goldstein 2007). Nevertheless, the contradiction of roles between the state as regulator of the market and as direct participant in the economy has not dissipated.

To conclude, we can observe a shift in terms of the regulatory and entrepreneurial role of states from state intervention towards a more hybrid developmental role, in which the promotion of private initiatives meld with the continuing presence of state enterprises. Consequently, states and foreign capital are reconfiguring their relationships as global market integration in resource sectors becomes inevitable. However, this does not follow the convergence hypothesis of leading towards the demise of state control and valorisation of private capital. Whilst the thesis accepts the premise that a neoliberal recipe for resource governance was conceived, it suggests, crucially, that the application of the recipe, across countries and sectors was far from uniform. In order to understand the contestation and application of neoliberalism, we must give more agency to states and state actors in development processes and, specifically, in the transformation of resource wealth into productive capital.

9.1.2 Restructuring state enterprises

To what extent have state enterprises achieved political autonomy from the state and what does this imply for resource management?

The significance of this thesis stems from the existence of relatively successful state enterprises, which have provided some degree of policy latitude for states to exercise control in strategic resource sectors. For post-

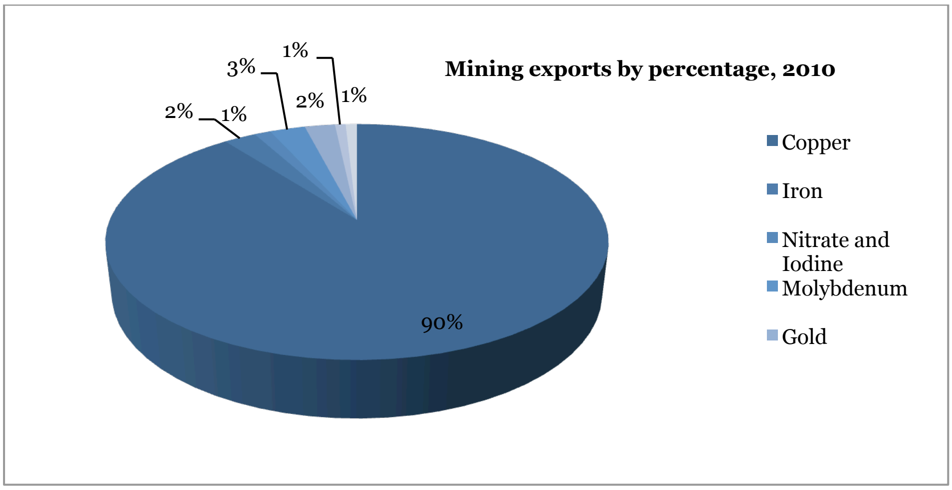
[165] In a rather convincing fashion, Concertación government argued that it can maintain its contradictory roles unproblematically, that is, the state can retain CODELCO whilst also maintain its credibility and impartiality as regulators of the market.

colonial resource-rich states, a viable pathway in transforming resource wealth into productive capital is through the direct exploitation of natural resources through the establishment of state enterprises as an alternative to foreign capital-led growth model. Broadly speaking, state companies play three important functions for their national economies. Firstly, SOEs act on behalf of public interests by delivering revenues to the state treasury or securing energy needs of the country. The profitability of state companies is vital for growth as we have seen in Brazil and Chile. CODELCO is the biggest copper producer in the world and owns the richest deposits of copper alongside significant technological breakthroughs in seeking alternative ways of utilising copper cathodes. Since the 2002 export boom, CODELCO contributed as high as 20 percent of Chile's total fiscal revenue. Between 2004 and 2009, its contribution was above 15 percent peaking at 22 percent in 2006 (US$ 8,334 million out of US$ 37,830 million) (COCHILCO Annual Report 2010). Conversely, price fluctuations in copper have historically influenced export earnings, balance of payments, and macroeconomic stability. The commercial viability of CODELCO has always been a political issue for the Chilean state. Equally, the flux in oil prices had historically affected input prices for industrial production in Brazil. PETROBRAS was given political autonomy from the federal government to pursue whatever commercial strategy was necessary to achieve the country's energy security goals. When Brazil has finally achieved self-sufficiency in 2006, PETROBRAS has become more important than ever. Its role in transforming hydrocarbons as the new key export was further underlined upon the discovery of pre-salt reserves. PETROBRAS is undoubtedly one of the best state enterprises in recent history. The firm is currently the third largest energy company in the world, and its vertical integration of operations allows the company to extend its scope and reach across all phases of the hydrocarbons commodity chain. Globally, its presence is increasingly visible in Latin America, Gulf of Mexico, and West Africa.

Secondly, both state enterprises have played an indispensable role in national development by consolidating export-driven economic growth. Unlike Venezuela and Bolivia, Brazil's oil industry was established to support national industrialisation through the expansion of the petrochemicals industry as well as the development of the refining and distribution sectors (Além & Giambiagi 2010; Randall 1993). Although Chile is dependent on a single commodity, its country-specific knowledge and technical applications in the resource extractive sector effectively expanded what appears to be a 'fixed' resource endowment in the country (Barbier 2011). In other words, Brazil and Chile are part of the few countries endowed with natural resources which have averted resource dependency and succeeded in creating competitive resource markets.

In the case of Chile, copper mining has been managed through a combination of market incentives and public ownership of minerals. CODELCO's performance, as shown in Chapter 6, is fairly comparable to that of private mining companies. In respect of export diversification, the mining industry has begun to produce other metal minerals, such as iron, molybdenum, and gold alongside recent initiatives to create national innovation in the 1990s (COCHILCO 2010; see Chapter 5). And although mining does not create the forward and backward linkages within mining regions to address resource dependency, the sheer volume of production makes the industry very important for regional economic development (Aroca 2001, 2000). Nevertheless, as Figure 9.1 shows, copper clearly remains the most dominant export at 89.5 percent of Chile's total mineral exports. Whilst there have been attempts at expanding the base of natural resource exports in Chile towards mining, export agriculture, and forestry in the 1990s, the commodity boom fuelled by Chinese demands for metal minerals have locked in the Chilean economy to copper as its primary export. This exemplifies the weakness of the national economy in terms of its capacity to produce other tradable goods apart from copper (Barton 2009a, 2009b). However, we cannot discount the fact that copper contributed enormously to national income and resource dependency has not deterred growth prospects. Considering the economic size of Chile and the firm's technological advancements in refining copper, it is largely successful not only in bringing streams of revenues but also in securing research and innovation to expand its range of economic activities. Its sheer access to high quality ores and increasing flexibility to acquire capital for financing new mining projects make CODELCO an important player in the global copper industry.

Figure 9.1 Share of Chilean mineral exports, 2010



Source: Central Bank, available in COCHILCO website.

To compare, PETROBRAS was a key player in supplying domestic fuel and energy to productive sectors, such as transport, manufacturing, and industrial sectors. Consequently, the national company was called upon by the military government in the 1970s to respond to the second oil shock. Since Brazil had insufficient oil reserves onshore, PETROBRAS was forced to invest in technological know-how to seek potential oil reserves in ultra deep waters. This eventually became PETROBRAS' niche in the global oil market.[166] Global economic uncertainty caused by the oil crises resulted to an aggressive investment strategy and expansive overseas operations that led to the development of PETROBRAS' culture of innovation. During the 1990s, privatisation was the dominant prescription across Latin America. Whilst under the military government developmentalism was conceived as the economic strategy for national industrial development, the balance between states and markets were being radically altered in favour of the latter. The consensus around PETROBRAS as a leading player was therefore questioned.

[166] Currently, its commercial strategy focuses on applying deep sea drilling technology to geographical areas with similar features as that of Brazil, for example in West Africa and Gulf of Mexico.

PETROBRAS had to undergo a restructuring process that exposed the firm to competition with foreign and domestic private capital. After years of market opening, PETROBRAS emerged as the dominant player once again, thereby, proving its capacity to compete with private firms. Subsequently, the national government under PT reinforced financial and political support to PETROBRAS through for example, capitalisation of the company and the exclusive rights to explore and develop the pre-salt reserves in 2010. Just like other national oil companies, PETROBRAS is once again favoured by the Brazilian state to tap its natural resources for the country.

Finally, an important metric for the relevance of these state enterprises is the political aspect. They are salient in terms of their historical roles as bastions of national ambitions of development. Consequently, the internal management of SOEs is consequential for national politics. With a mix of commercial and non-commercial goals, state enterprises have subject to recurring patterns of state intervention. Crucially, some contemporary managerial decisions have received substantial criticisms from the public. For example, labour relations and subcontracting in Chile have been decided not by CODELCO alone but also through public interventions in Congress and in the media. Although PETROBRAS was shielded from government interference, Chapter 8 details how labour opposition to reforms had unintended consequences of derailing technocratically conceived solutions to pressures of global competitiveness. Collective bargaining agreements – a point source of industrial conflicts – have been politicised by mining unions by pushing the issues into national political arenas. Collective mobilisation has therefore challenged the technocratic solutions offered by state managers in resolving contentious management issues.

However, we should not isolate the politics of state enterprise restructuring as an outcome of neoliberalism. State companies, by nature, are always subject to political intervention. Markets and politics are intricately woven, which cannot be separated from corporate governance. Let us take PETROBRAS – the company with marked autonomy from the state – as an example. Ostensibly, the management of state enterprises in Brazil became part of the national government's macroeconomic policy in the 1970s. The expenditure of SOEs had produced balance of payment problems and public deficits. In 1979, the Federal Government created the Secretary for the Control of Public Enterprises (SEST) directly under the command of the Presidency's Planning Secretary. Its main role was to define global expenditure budgets of state owned corporations, which at that time was expanding overseas through trading companies and via direct investments (Almeida 1996). The end result of this process was the reorganisation of the PETROBRAS system by partially selling some of its non-performing assets and integrating other subsidiaries to reduce bureaucratic bottlenecks (Randall 1993). During the 1990s and 2000s, PETROBRAS has become further isolated from the state because the nature of state control over the company has been altered. As an outcome of privatisation, the Brazilian state began to exert political influence to the state enterprises like Embraer, PETROBRAS, and Vale through the national development bank BNDES (Além & Giambiagi 2010). The role of the state thus shifted from directly producing commodities to financier of capital. Nevertheless, after the restructuring, the state remains an important veto player in key decision-making within the company, and consequently, affects the strategic industries more generally.

The general point here is that the success of competitiveness strategies is driven primarily by the extent state enterprises can exercise political autonomy from the state. The main impact of neoliberalism is to expose more thoroughly CODELCO and PETROBRAS to competition with private (foreign) capital, which was facilitated by the economic reforms aimed at market opening of extractive industries. In response, corporate governance reforms were also implemented to accommodate the changes in the external environment. For example, changes in the decision-making processes, appointments in the board of directors, and flexibility in labour practices have all been altered to compete at par with multinational firms. Nevertheless, their capital ownership structure – inherited from the military dictatorships – has been left unchanged although the reasons for doing so are nationally contextualised. In Brazil, PETROBRAS was already 49 percent owned by private shareholders and thus had commercial goals even prior to economic reforms. With the political resistance to fully privatise the oil industry under Cardoso, it has become even more difficult to hand ownership of the company to private capitalists under Lula da Silva. Upon the election of the Left, PETROBRAS has been strengthened through a complex system of direct and indirect support to the oil industry. In Chile, however, reforms to extend the assets of CODELCO to private investors were almost impossible to 'sell to the public'. No politician across the political spectrum campaigned publicly to privatise CODELCO, and this includes current Right President Sebastian Piñera. The reason, as historical institutionalism argues, is the contentious nature of political settlement between the state and the public. With the extensive market reforms in Chile, the only vestige of nationalism is CODELCO and resistance persisted all throughout the military dictatorship and democratic governments to alter its corporate governance arrangement. Hence, in both cases, the state has remained an important veto player in the restructuring process of the state enterprises regardless of the political orientation of the government in power. This argument challenges the view that neoliberalism is a monolithic logic of organising state-market relations in Latin America, wherein the withdrawal of the state led to the dominance of private firms in the economy.

Based on the discussion above, one consequential observation is the state of political autonomy of SOEs from the state. This is also not a uniform process. On the one hand, in PETROBRAS, it was fairly easy for the state managers to argue for its commercial independence from the state because of its accountability to private shareholders. On the other hand, a fierce battle persisted between Concertación reformists who want to see CODELCO as politically independent from the state and those who believe the state enterprise should remain under the direct control of the state. We thus have a paradox here. Brazil would have exhibited a case of excessive state intervention in the corporate affairs of public enterprises as a result of its long tradition of developmentalism whilst Chile is the neoliberal poster child in which public companies are exposed to metrics of private sector efficiency (and hence less state control). In reality, CODELCO has been subject to various forms of state control and public intervention, including in making investment decisions and regulating third party subcontracting, making the company less autonomous from the state. PETROBRAS, on the other hand, has been less politicised and has utilised the power of technocratic state managers to argue for its independence vis-à-vis the government. As Chapter 8 detailed, this was achieved through a culture of innovation and an internationalisation strategy that provided leverage for PETROBRAS to operate overseas. Evidently, competitiveness pressures do not necessarily lead to economic convergence. States and state enterprises in late capitalism formulate different strategies depending on specific national contexts and available resources to respond to their external economic environment.

9.1.3 Managing labour demands

What has been the role of labour unions in shaping labour relations in extractive industries in the context of global market integration?

The triangular social relations between states, markets, and labour unions signify that organised workers also play a role in the reconfiguration of power in strategic sectors. Indeed, labour has played a general role of questioning, if not challenging outright, the neoliberal orientation of the governance model. They have politicised debates on resource ownership and the role of the state. Unions likewise substantiated claims on the uniqueness of oil and copper for national development, which also makes apparent the role of resource sector unions in challenging neoliberalism. Crucially, workers in the sectors have technocratic knowledge to contest labour practices that institutionalise labour flexibility. In Chapters 6 and 8, I have demonstrated the positions of petroleum and mining workers towards a variety of national issues. For example, subcontracting has been a unifying theme for Chilean copper workers in rejecting collective agreements offered by public and private mining companies. Both permanent and subcontracted workers in the copper industry have been affected by this business practice, their decision to strike in CODELCO and Minera Escondida – the two biggest copper producers –

has implications to future attempts in securing labour peace in the mines. Equally, a new social contract is emerging between FUP, SINDIPETRO and CUT on the one hand and the Brazilian state under PT government on the other hand. Whilst under Cardoso state-labour relations were conflictual and managed through the coercive power of the state, the PT and specifically Lula were able to resolve antecedent tensions. Lula resorted to corporatist tactics, which only became possible due to his role in the union leadership. The unions backed up most of the plans to reinvigorate the strength of PETROBRAS as a state enterprise. However, they also sought for a technocratic response to the question of oil rents by supporting the law that will deposit oil profits as sovereignty wealth funds (SWFs).

A general pattern between the two cases is the labour opposition to neoliberal reforms. We can infer two reasons for this. Firstly, a core consequence of the reforms in resource sectors is the adoption of globalised models of business management, in which subcontracting and the specialisation of capital-intensive operations dictate labour practices in Brazil and Chile. Labour unions, whose role is to offer protection to workers and increase their bargaining power through collective action, are threatened by neoliberal reforms. Workers have naturally come to support a model of resource management where the public sector is more dominant than private production. Put somewhat differently, public companies tend to maintain greater accountability to the state and the workers – and can be pressured to wield to political intervention – than their private counterparts. Secondly, goals of improved competitiveness and labour protection are not easily achievable simultaneously. CODELCO has suffered in finding the balance between these goals. Successive public pressures have compelled CODELCO to absorb subcontracted workers as a result of the excessive unregulated practice of third party outsourcing. In PETROBRAS, a more balanced system has emerged between workers and the company. A generous system of wage and benefits is allocated to permanent workers, which has expanded quite recently as a result of the successful competitive strategy of the company. Hiring and firing in the company follows the public sector rules, which means that the company is indirectly contributing to public employment.

What are the sources of union power to resist neoliberal policies? Again HI and political economy insights are useful here. The means of interest aggregation in the Southern Cone has been expressed in terms of class politics (Fonseca 1999; Matos 2009; Moulian 2009; Salazar & Pinto 1999). Generally, the political classes sought labour incorporation to produce mechanisms of social control. The labour movement, particularly in enclave economies, has developed autonomous political identities that challenge some conservative traditions and were left relatively coherent as a result of the strong bonds formed in mining communities (Bergquist 1986; Collier & Collier 2002). But it is the strategic position of enclave economies that also strengthens the relative power of labour unions vis-à-vis the government and big business. Any disruption in the work place generates very high costs for production. In Chile, this was so costly that economic crises have been punctuated by mass demonstrations by mining workers in the past. In Brazil, the strong hand of the state has made it difficult to reform but petroleum workers enjoy some privileges that other workers in less productive state enterprises do not get. In this context, their resistance to neoliberal reforms during 1990s and 2000s are deemed politically salient. Labour relations invariably affect the production in resource-dependent economies, although at varying degrees and extent.

Ostensibly, the unions have been the weakest in the tripartite relationship between the state, state enterprise and workers. In the copper industry where private production is more common than public ownership of extraction, capital-labour relations is more contentious, in which episodes of contentious mobilisation sparked broader resistance among the different classes of workers. Because PETROBRAS is the dominant actor in the oil industry, industrial relations are derived from PETROBRAS-FUP relations. Unlike in Chile where the task of the movement is to recuperate collective rights and greater bargaining power in negotiations, in Brazil the unions must assert their political autonomy from the state and extend the privileges of the oil workers to other sectors. Most importantly, the workers in the oil and copper industries are the main actors who pushed for the repoliticisation of resource governance. This is characterised by more contentious political actions of organised workers in defence of greater state involvement in strategic industries. This, of course, occurs in the context of high commodity prices and therefore greater bargaining power for unions to make their demands appeal for public acquiescence. Although labour movements across Latin America are in decline (Haarstad 2009a, 2009b; Oxhorn 1998), it is more difficult for political elites to ignore the social clamour for a 'return of the state' in the post-Washington Consensus context. If we place resource sector union demands in the regional context, then evidently labour unions have been one of the strongest backers of the post-neoliberal agenda. In circumstances where they have bargaining power, for example in strategic industries in Brazil and Chile, the contestation of exports-led growth is principally led by unions.

9.2 Theoretical implications of the findings

My thesis has several theoretical implications for the study of natural resources and economic growth in late capitalism. Firstly, my research has implications for debates on neoliberalism and post-neoliberalism in the context of growing resource dependency in Latin America. The political economy literature has documented extensively the principal causes of the rise of the 'New Left' since 1998 (Grugel & Riggirozzi 2012, 2009; Levitsky & Roberts 2011; Panizza 2009; Petras & Veltmeyer 2012). Whilst the empirical detail is exceptional, the literature has remained atheoretical in drawing the broader significance of the new politics of Leftist governments to the political economy of development. My theoretical engagement with this literature is through a focussed comparison on the source of renewed economic growth in the region: the commodity boom and the emergent form of resource dependency. Recent studies looking at the linkages between export oriented strategies and national income argue that there is no stark difference between neoliberalism and post-neoliberalism especially when it comes to macro-economic policies aimed at resource extraction (Bebbington & Humphreys-Bebbington 2011; Kaup 2010). What is evident is the clash between resource nationalist imaginaries embedded in contentious social movements and the realities of long-term extractive economies (Bebbington et. al. 2008; Kohl & Farthing 2012). For them, there is nothing 'post' in extractive industries governance.

As I showed in my thesis, historical institutionalism and critical political economy offer some advantages in analysing the export bonanza and its implications for the political economy of development in Latin America. From HI perspective, I draw upon the significance of gradual and incremental routes of institutional change from neoliberal to post-neoliberal political economy models as a way of explaining the transformative capacities of states in managing resources. Unlike other research assuming neoliberalism and neo-developmentalism as binary opposites, my thesis shows that they are phases of capitalist modernisation within a continuum. Policy innovations are applied by national elites through simultaneous adaptation of market incentives and state regulation to manage the natural resource sectors. Crucially, the explanation why radical change away from neoliberalism is so difficult stems from policy legacies, historical conflicts and political uncertainty. I advance a more nuanced approach to the political economy of natural resource governance. We cannot understand economic transformations without tracing continuities and changes in resource management. In turn, HI perspectives analyse states not as a 'black box' but as constitutive of various agents who contest the rules and norms to redefine a new paradigm of economic growth.

From critical political economy perspectives, domestic institutional arrangements are situated within the global economy. Tellingly, Chinese economic growth has locked the region back into primary commodity production through its strategy of seeking natural resources via foreign investment and bilateral negotiations (Gallagher & Porzecanski 2010; Jenkins 2012, 2011; Jenkins & Dussel Peters 2009; Moran 2010). However, Latin American states have responded quite differently to the commodity boom. Brazil and Chile have implemented reforms prior to the commodity boom, most exemplary in taxation and social spending, to take advantage of the export boom. But their distinctive approaches to a global economy dominated by Chinese capital are shaped by the capacity of states to exalt policy autonomy. As a result of copper dependency, Chile has fully welcomed Chinese investment in the copper mines through bilateral agreements with China that sold copper at an invariable price rate in the next fifteen years (Barton 2009a; Jenkins 2012). Brazil, on the other hand, made access to newly discovered oil reserves even more difficult by giving preference to PETROBRAS as the primary service contractor in the pre-salt reservoir. Of course, a different case can be said if we examine manufacturing or agriculture in Brazil (e.g. Jenkins & Dussel Peters 2009). A sectoral analysis sheds light to the complexity of relationships between states and private capital.

In effect, HI and critical IPE can offer new answers regarding the question of what is 'post' in post-neoliberalism. For example, on the question of the relative commitment of the Left governments to social redistribution, comparative analysis of Brazil and Chile demonstrates the distinctive ways of implementing change in taxation policies and linking resource wealth to social development.[167] An emerging literature on the need to link resource wealth and social development more thoroughly have shown that political leadership and state agency are critical elements in realising a redistributive agenda in policy-making (Hinojosa et. al. 2010; Hujo & McClanahan 2009; Rosser 2009). A second area in the debate on 'post-neoliberalism' is the extent to which resource dependency can be averted whilst still exploiting natural resources for development. In both cases, resource abundance is

[167] In the debate on royalty taxes, the law was passed in Chile by arguing that the state must impose special taxes in the mining sector because of the degree of resource dependency of the country to copper. A substantial amount of these new taxes is earmarked for innovation and development that could finance public-private initiatives. This is patently a growth-centred argument and makes latent any redistributive component. Instead, social policies are financed indirectly through general budget allocation. In contrast, the new petroleum law in Brazil clearly stipulates the direct use of natural resource rents in research and innovation as well as social and anti-poverty policies. As a counter cyclical measure, the law has created a national social fund that would be managed by a specialised committee in charge of the investments of SWFs and pensions.

economically neutral and policy innovations on resource management can lead to stable growth over time.

Secondly, my thesis speaks to debates on neoliberal convergence (Bell 2005; Taylor 2010) and the so-called varieties of capitalism debate (Bruff & Horn 2010; Ebenau 2010; Schmidt 2009).[168] The analysis of oil and copper industries clearly support claims regarding the incomplete, fragmented and contested nature of neoliberal reforms in Latin America. The strategic importance of extractive sectors both in historical and contemporary periods means that market opening reforms have neither dismantled state enterprises nor depoliticised resource governance. Through a detailed analysis of how reforms have been contested and how the role of the state has been reconstituted, the thesis has shown the fallacy of neoliberal convergence across countries and sectors.[169] In this context, the commodity boom has fuelled public sentiments to repoliticise mineral governance and implement new policies to capture greater rents on behalf of public interest. These reforms which diverge from neoliberal doctrines affirm the national importance of point resources as well as the ability of states or social groups to mobilise popular support in favour of public ownership of resources.

This contribution is further bolstered by the discussion on state enterprise restructuring in oil and copper industries. The resource curse literature has thus far not engaged with the actual and practical operations of state enterprises in resource sectors and treats relatively successful cases of

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168 Some have extended the VoC framework and argued that Latin America posits a hierarchical market economy (HME) model, where the relations between firms and other actors are primarily based on orders and directives from those with more economic power whilst market relations and coordination are less influential mechanisms (Sánchez-Ancochea 2009; Soskice & Schneider 2009).

169 In Brazil, scholars have preferred to characterise economic reforms as changing continuities of a developmentalist state with national industrialisation as its core strategy (Bielchowsky 1988; Nunes 1997). In contrast, Taylor (2010) describes neoliberalism in Chile as one marked by power asymmetries and persistent conflicts between states, organised businesses and labour unions. My thesis confirms the accuracy of this description if one closely examines the contradictions in the management of the copper industry. The state serves as the regulator (and provider of public goods for the market) as well as an entrepreneur via the state enterprise.

resource-based development as exceptional (e.g. Malaysia, Chile, and South Africa). The closest literature probing into the role of state enterprises examines multinational capital in the context of emerging markets (Gameltoft et. al. 2010; Goldstein 2007; Ramamurti & Singh 2009). My thesis complements this literature by analysing the politics of devising competitive strategies for state enterprises, including reforms aimed at corporate governance and the internationalisation of operations. Brazil and Chile are exemplary of 'politicised capitalism', wherein economic power of state enterprises are derived from a combination of SOEs' concentration of market share, control over high grade deposits of minerals, and alliances between states and state enterprises. This, inevitably, implies the need to link more systematically the role of emerging powers and multinational capital in our explanations of policy reforms and corporate restructuring in the context of global market integration.

Finally, my research offers a political perspective on resource dependency and substantiates claims regarding institutional quality and policy failures. In environmental economics, chronic underdevelopment of many resource-rich developing countries has been explained through the resource curse hypothesis, open access exploitation hypothesis, and factor endowment hypothesis (Barbier 2011: 555-560).[170] They reflect the arguments separately made by Raúl Prebisch and Hans Singer in the 1950s, which conclude that the terms of trade of developing countries' primary-product exports relative to imports of manufacturing were falling (Prebisch 1959, 1949; Singer 1950).

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[170] Barbier (2011: 558) offers a summary here: "The resource curse thesis posits that commodity price booms do not lead to the investment of resource rents in more dynamic sectors of the economy, such as manufacturing, and instead directs investment and factor inputs towards the resource sector. The Dutch disease also affects the competitiveness of other products – agriculture and manufacturing – through exchange rate effects of the price boom. The open access exploitation hypothesis suggests that not only does extraction under open access conditions generate no resource rents to be reinvested but it also leads to over exploitation of natural capital in the long run. Finally, the factor endowment hypothesis maintains that unfavourable environmental conditions may directly inhibit the efficient generation of natural resource rents and returns from reinvesting these rents into other productive assets, as well as indirectly through a long-lasting influence on patterns of political and legal institutional development." For other references, see Auty 1993, 2001; Barbier 2003, 2005; Easterly & Levine 2003.

This literature implicitly suggests poor development performance as indirectly related to institutional factors. Douglass North (1994) goes further by arguing how economic development is institutionally determined. Similarly, recent studies have concurred that the resource curse phenomenon, including the Dutch disease and other economic impacts, does not adequately explain the complexity of economic development and underdevelopment (Auty 2001; Di John 2009; Karl 1997; Rosser 2007). Instead, we need to look at political economy factors, including the persistence of policy and institutional failures that lead to myopic decision-making and fail to control rent-seeking behaviour by resource users. Consequently, the emphasis of factor endowment hypothesis on poorly defined property rights as the cause of negative growth is an important starting point but does not go beyond describing in *static* form how institutions evolve to respond to the challenges associated with natural resource exploitation.

My thesis complements these economic analyses in two ways. Firstly, I have shown how resource endowments may shape political choices in institutional design, for example the decision of open access to foreign capital or the establishment of state enterprises in natural resource exploitation. Secondly, I have demonstrated that institutions in equal measure affect the types of regime in natural resource exploitation (rent-seeking, taxation, labour practices, and so on). But rather than treating institutions as a constraining factor that sets the rules of the game (as rational choice institutionalism does), a comparative historical approach explains how state capacity is accumulated and how policy innovations occur. Brazil and Chile are excellent examples of how different political choices of institutional configuration (persistent state ownership in resource sectors) have been shaped by markedly divergent political legacies, contingency of history, and varying positions in the international system. In other words, political conflicts and historical legacies are determinants of emergent institutional arrangements in natural resource exploitation. This leads me to the third point: resource endowment and institutional choices reinforce each other to affect the long run performance of resource-based economies (resource curse). Evidently, policy innovations occur when institutional properties deemed permeable to change are transformed to address resource dependency and economic liberalisation. My work thus engage with the body of research that attempts to link more systematically resource dependency and macro-processes of institution-building, state capacity, and democratisation (Hertog 2010a, 2010b; Jones Luong & Weinthal 2010; Slater 2010; Smith 2007, 2004). Even in Venezuela where some claim the resource curse is at play (Karl 1997), economic breakdown in the early 1990s cannot be attributed to the structural constraints of the oil economy but the misalignment between economic liberalisation and political reforms (Di John 2009). Equally, a more robust explanation is needed if we want to understand the success of resource-based growth in Brazil and Chile within the context of economic liberalisation.

9.3 Moving the debate forward

The thesis has benefited from the analysis of states and natural resource management. However, there are three key areas which will be useful for future research. Firstly, we need to systematically analyse the relationship between policies aimed at economic liberalisation and resource exploitation within a comparative historical framework. States with resource endowments face a distinctive set of challenges in transforming natural resource wealth into productive capital. They acquire institutional properties that constrain the development of effective state capacity to manage the cyclical flows of national income (Humphreys et. al. 2007; Karl 1997; Ross 2001a, 2001b, 2012). However, the process of building state capacity does not have a finite point in time but is rather punctuated by critical moments of decisive intervention. We need a more thorough understanding of how political and institutional factors, which are temporally contextualised, affect economic decisions regarding natural resource exploitation. Future research can draw from the large body of comparative historical research on large processes that problematise the image of a coherent state emerging from the European experience of state-building (Migdal 2001, 2009; Skocpol 1979; Slater 2010; Smith 2007; Tilly 1984). It accounts for the importance of taxation in economic growth but also argues that state capacity is historically accumulated that cannot be divorced with questions of political time and historical conflicts.

Secondly, we need to examine the different ways states deal with the realities of long-term extractive economies. As the literature on social movements demonstrates, extractive resources are now the new spaces of intense social and political conflicts (Bebbington 2012; Bebbington et. al. 2008; Haarstad 2012). Interestingly, countries which have averted becoming rentier states have implemented complex systems of managing surplus profits of extractive resources, for example through the creation of sovereignty wealth funds (SWFs) to channel rents into productive investments (Afonso & Gobetti 2008; Bagattini 2011). Brazil follows a path of social learning in which its revenue management policies are increasingly patterned after successful oil exporters (Lima 2009c; Sias 2008). We must go beyond pessimistic accounts of the 'resource curse' thesis, and integrate the key insights from environmental economics on resource dependency, to better explain the intersection of policies aimed at market opening and resource exploitation. These reforms are distinctive but certainly inseparable. The major challenge of growth for resource-rich states is how to find the appropriate balance between states and markets to transform resource wealth into productive wealth.

Finally, we must integrate more thoroughly insights from critical political economy, which problematise broader configurations of power in the international system. Economic reforms are ideationally diffused through policy transfers and linkages between international and domestic actors. A more complete account of the new political economy of development among resource-rich states should recognise the invariably crucial role of globalisation, market integration, and the rise of emerging powers in the analysis of policies ranging from trade, development, resource extraction, and even governance issues. But as we analyse the growing complexity of the world, we must not forget that power is unevenly distributed, and that hegemony is in fact contested rather than coherent. Neoliberalism does not have the same intellectual credibility, and certainly the current global financial crisis challenges the coherence of this political project. But the starting point in thinking about post-neoliberalism and post-Washington Consensus political economy is to recognise the diverse applications of neoliberalism. Consequently, we can find a variety of post-neoliberal projects in Latin America, and perhaps in the wider developing world, in which free market orthodoxy was challenged and reconfigured to fit into various national contexts.

9.4 Conclusions

How important are states (and state enterprises) in the management of strategic resources? I have analysed this question through the dual lenses of historical institutionalism and critical political economy perspectives. Its departing point is that development policies towards natural resources in Latin America have been shaped by neoliberalism. At face value, economic restructuring appears to be a critical juncture in the region, and in particular reference to resource-rich states, its adoption involved the opening of previously state-controlled extractive industries, corporate restructuring of state enterprises, and flexibilisation of labour relations. This constituted an apparently radical break away from state-led development. However, as the cases of Brazil and Chile show, neoliberalism was not a hegemonic paradigm that inevitably resulted to convergence towards open markets and weakened state enterprises. Far from the predictions of convergence hypothesis, sector-specific characteristics as well as historical legacies have mediated the design, implementation, and outcomes of neoliberal reforms in Brazil and Chile.

My argument has implications for debates on institutional theory and on post-neoliberalism in Latin America. The contemporary export boom in South America is, in fact, underlined by the extensive and intensive exploitation of natural resources. Indeed, the commodity boom is permitting national elites in the region to reconstitute the bargain between the state and the public. Resource management is therefore at the heart of the debate on post-neoliberalism. I hope to have moved beyond stark dichotomies between neoliberal and post-neoliberal political economies by way of analysing continuities and changes in resource management in Brazil and Chile. I have shown that economic reforms in the strategic sectors of copper and oil are phases of capitalist modernisation underpinned by a renegotiated pact between states, markets and organised labour. Whilst economic imperatives have produced a general pattern of market-opening in extractive industries, neoliberalism was mediated by various institutional and political economy variables. Distinctive national governance styles, strength of party politics, and the relative capacity of unions to express resistance have all influenced state-market relations in the post-neoliberal era. The fundamental question that remains unanswered is whether neo-developmentalist policies aimed at intensifying the role of the state in the economy as well as grafting a new politics based on inclusive growth will be sustainable in the long run.

APPENDICES

Appendix 1 List of Interviewees

Fieldwork in Chile			
ne	**Institutional Affiliation**	**Interview Date**	**Place of Interview**
ıch Davis	Department of Economics, University of Chile	August 18, 2009	Santiago de Chile, Chile
	GS3 Consultores	August 25, 2009	Santiago de Chile, Chile
	Independent researcher	September 01, 2009	Santiago de Chile, Chile
	Director, Vincular	September 10, 2009	Santiago de Chile, Chile
ıi	MCT Consultancy	September 28, 2009	Santiago de Chile, Chile
	Corporate Social Responsibility	September 11, 2009	Santiago de Chile, Chile
	IFG Consultant	September 25, 2009	Santiago de Chile, Chile
.o Roberts	Sociedad Nacional del Minería (SONAMI)	September 15, 2009	Santiago de Chile, Chile
ger Stahle	Comisión Chilena del Cobre (COCHILCO)	October 01, 2009	Santiago de Chile, Chile
lopts Araya cio Perez	COCHILCO	October 02, 2009	Santiago de Chile, Chile
	Mining Cluster, CORFO	October 05, 2009	Santiago de Chile, Chile
	Department of External Relations	October 07, 2009	Santiago de Chile, Chile
Campusano	Director, Comision Nacional del Medio Ambiental (CONAMA)	October 07, 2009	Santiago de Chile, Chile
Astorga	Corporación Chileno del Cobre (CODELCO) – Andina division	October 14, 2009	CODELCO Andina Site, Chile
as	CODELCO – Andina division	October 14, 2009	CODELCO Andina Site, Chile
es	CODELCO – Andina division	October 14, 2009	CODELCO Andina Site, Chile
	Centro Unita de Trabajadores (CUT)	October 16, 2009	Santiago de Chile, Chile
ıf	Department of Engineering, Pontificia Universidad Católica de Chile (PUC)	October 21, 2009	Santiago de Chile, Chile
	Independent researcher	October 21, 2009	Santiago de Chile, Chile
	Secretary General, Consejo Minero	October 22, 2009	Santiago de Chile, Chile
Guajardo	Executive Director, Centro de Estudios del Cobre y Minería (CESCO)	October 23, 2009	Santiago de Chile, Chile

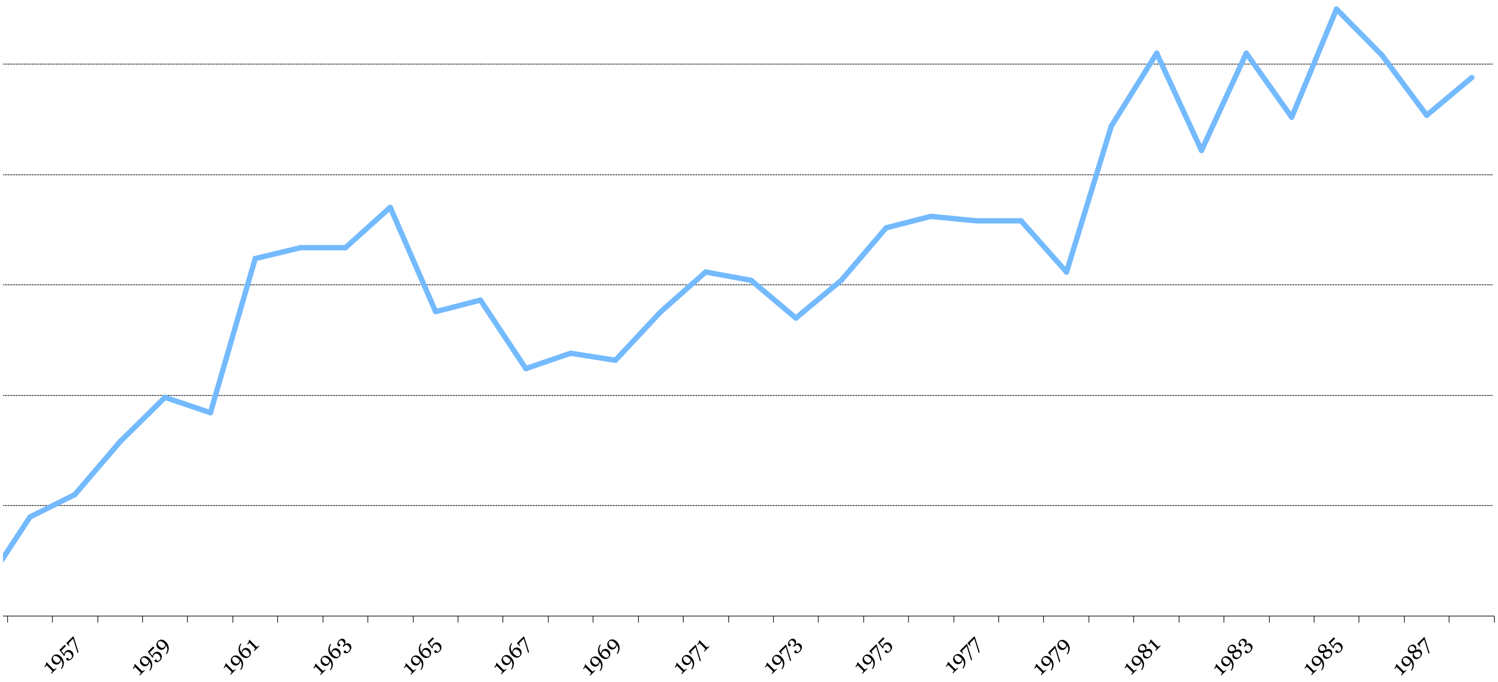
Rosanna Brantes	COCHILCO	October 26, 2009	Santiago de Chile, Chile
Luis Galdames	CODELCO – Andina division	October 27, 2009	CODELCO Andina Sit Chile
Esteban Valenzuela	Diputado, Camara de Chile	October 28, 2009	Valparaiso, Chile
Hector Cerda Ortíz	CODELCO – Andina division	October 30, 2009	CODELCO Andina Sit Chile
Carlos Chico Ramos	Corporación Chileno del Cobre (Andina division)	October 30, 2009	CODELCO Andina Sit Chile
Pedro Marin	President, Federación Minera de Chile (FMC)	November 02, 2009	Antofagasta, Chile
Jaime Gutierez Castillo	CODELCO Norte	November 03, 2009	Calama, Chile
Juan Patricio Ibanez	CODELCO Norte	November 03, 2009	Calama, Chile
Ivan Jofre	CODELCO Norte	November 03, 2009	Calama, Chile
Agustin Latorre Risso	Union Leader, Sindicato de Empresa de Trabajadores Xstrata Copper AltoNorte, and FMC Member	November 04, 2009	Antofagasta, Chile
Patricio Aroca	Professor in Economics, PUC Antofagasta	November 04, 2009	Antofagasta, Chile
Zeiso Mercado	Union Leader, Sindicato MEL and FMC Member	November 04, 2009	Antofagasta, Chile
Mario Plaza	Union Leader, Minera Meridian and FMC Member	November 04, 2009	Antofagasta, Chile
Jorge Oporto Marin	Presidente del Grupo de Acción Ecológica de Atacama (GAEDA)	November 08, 2009	Copiapo, Chile
José Escobar Serrano	CONAMA – Atacama	November 09, 2009	Copiapo, Chile
Christian Varias Lopez	Vialidad Atacama	November 09, 2009	Copiapo, Chile
Roberto Carlos Salinas	Encargado de Recursos Naturales y Defensa Territorial de la Comunidad Indígena Colla de Río Jorquera y Sus Afluentes	November 09, 2009	Copiapo, Chile
Ramon Rada	Consultant Subcontracting	November 11, 2009	Santiago de Chile, Chile
Marcos Lima	Former President, CODELCO	November 13, 2009	Santiago de Chile, Chile
Gustavo Lagos	Centro de Minería, PUC Chile / External Consultant and Former CODELCO Director	November 12, 2009	Santiago de Chile, Chile
Jonathan Barton	Institute for Urban and Regional Studies, PUC Chile	November 13, 2009	Santiago de Chile, Chile
Nancy Nicholls Lopendia	Historian	November 19, 2009	Santiago de Chile, Chile
Jorge Bande	Member, Executive Board, CODELCO	April 25, 2012	Santiago de Chile, Chile

ne	Institutional Affiliation	Interview Date	Place of Interview
Fieldwork in Brazil			
ıarães	Faculty Member and Consultant, Fundaçao Getúlio Vargas (FGV)	July 07, 2010	Rio de Janeiro, Brazil
ɔz Pinto	Institute of Economics, Universidade Federal do Rio de Janeiro (UFRJ) / Consultant on Energy	July 08, 2010	Rio de Janeiro, Brazil
s de Oliviera	PETROBRAS	July 08, 2010	Rio de Janeiro, Brazil
effer	Faculty Member, Energy Planning Program, COPPE, UFRJ	July 09, 2010	Rio de Janeiro, Brazil
imento e	Empresa de Pesquisa Energética (EPE)	July 13, 2010	Rio de Janeiro, Brazil
iviera	Institute of Economics, UFRJ	July 13, 2010	Rio de Janeiro, Brazil
;ztajn	Former Executive Secretary, Agência Nacional de Petróleo, Gás Natural e Biocombustiveis (ANP)	July 15, 2010	Rio de Janeiro, Brazil
ida Neves	Financiadora de Estudos e Projectos (FINEP)	July 16, 2010	Rio de Janeiro, Brazil
	Federaçao Única dos Petroleiros (FUP)	July 23, 2010	Rio de Janeiro, Brazil
angel	Coordinador Geral, Sindicatos dos Petroleiros no Brasil (Sindipetro) – Norte Fluminense and Coordinator, Department of Health, Safety and Environment, FUP	July 30, 2010	Macaé, Rio de Janeiro, Brazil
;o Filho	Former Executive Secretary, ANP	August 05, 2010	Rio de Janeiro, Brazil
Nora Souto	Deputy Secretary to Oil and Natural Gas, Ministério de Minas e Energia (MME)	August 10, 2010	Brasilia, Brazil
)fficer	Partido de Trabalhadores (PT)	August 10, 2010	Brasilia, Brazil
le Araujo	Coordenadora de Meio Ambiente, ANP	August 17, 2010	Rio de Janeiro, Brazil
:o Dias	Executive Secretary / Economy and Energy Policy Manager, Instituto Brasileiro de Petróleo, Gás Natural e Biocombustiveis (IBP)	August 17, 2010	Rio de Janeiro, Brazil
:o Victal	Coordinator, IBP Social Responsibility Division	August 17, 2010	Rio de Janeiro, Brazil

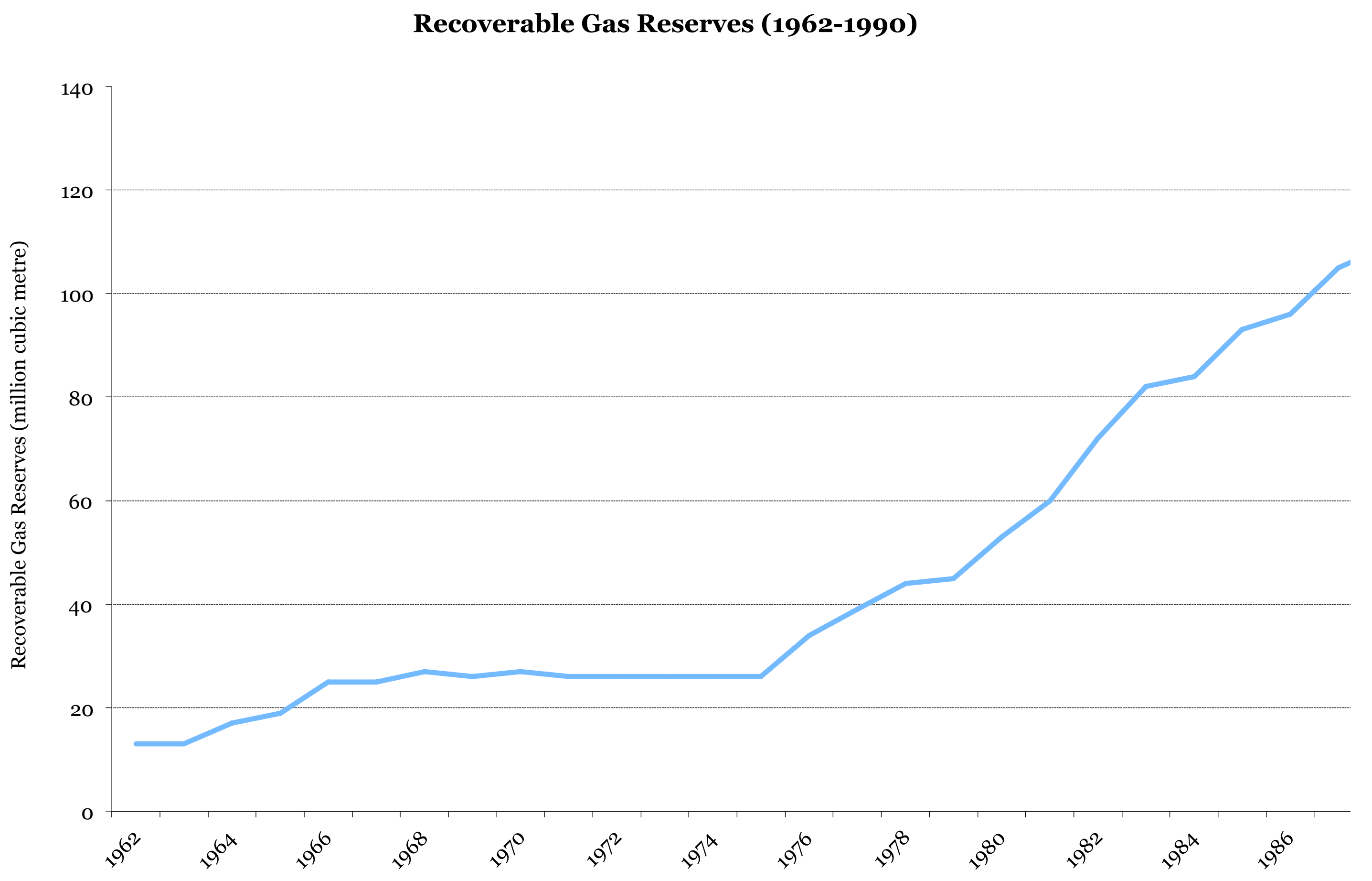
Getúlio da Silveira Leite	Exploration and Production Management Advisor, IBP	August 17, 2010	Rio de Janeiro, Brazil
José Ricardo Ramalho	Faculty Member, Department of Anthropology and Sociology, UFRJ	August 19, 2010	Rio de Janeiro, Brazil
Paulo Roberto Krahe	Officer in Charge, FINEP – *Fundo Setorial de Petróleo e Natural Gas*	August 23, 2010	Rio de Janeiro, Brazil
Victor Martins de Souza	Executive Secretary, ANP	August 25, 2010	Rio de Janeiro, Brazil
Ildo Luís Sauer	Former PETROBRAS Director	August 25, 2010	Skype interview
Carlos Nogueira da Costa Jr.	Deputy Secretary, Geology, Mining and Mineral Processing, MME	September 2011	Brasilia, Brazil (conducted by Eliza Massi)

Appendix 2 PETROBRAS' Performance as a State Enterprise

Petrobras as Share of GDP (1955-1988)



rce: Randall 1993 (Adapted), 13.



Source: Randall 1993 (Adapted), 13.

Appendix 3 Continuity and Changes in Chilean Mining Governance, 1971-2011

Key Mining Laws in Chile, 1971-2010

ng Laws	Description	Incremental Changes
onalisation Act	The law amended the Constitution to expropriate large-scale copper mining from foreign firms. It established the State as the ultimate owner of copper through sub-soil rights.	One of the key continuities between Allende and Pinochet (and maintained Concertación). In terms of institutional change, this is exemplary of *institutional conversion*, wherein old rules are enacted in new ways.
estment Statute	The law consists of three components: a definition of what constitutes foreign investment and a contract; the specific provisions on the rights and responsibilities of foreign investors, including how taxes and exemptions are calculated; and the composition and responsibilities of the Foreign Investment Committee as the sole authority in making contracts.	One of the key continuities between Pinochet and Concertación governments.
	The law was approved in 1976 to create the Chilean Copper Commission (COCHILCO), which has direct responsibility in the accounting of CODELCO and setting up rules for private investment. The special agency is responsible for the management of foreign investors' contracts via the Foreign Investment Committee.	This has remained the same.
	The law was approved in 1976 to create the *Corporación Nacional del Cobre de Chile* or CODLECO (Chilean National Copper Corporation) as a state-owned company to take over the copper mines expropriated under DL 17.450. Following this, DL 1.167 (February 1976) was established to consolidate CODELCO and the subsequent centralisation of the administration of the four mines of *La Gran Minería*.	New institutional structures were created alongside DL 1.350 to respond to major changes after the transition: DN 146, approved in 1991, reflects the new corporate structure under the democratic system; and DL 19.137, approved in 1992, allows CODELCO to sign joint ventures with third parties in exploring and developing new mines.
la del Cobre (DL /13.196)	The law, which originated in 1958 under Carlos Ibañez to transfer natural resource rents to the armed forces, was modified in 1976 to allocate 10 percent from gross receipts of CODELCO coming from copper sales abroad in addition to 10 percent of deposits of CODELCO abroad. The copper rent was used for arms purchase and the modernisation of the armed forces.	There are on-going legislation proposals initiated first by Michelle Bachelet 2006-2009) and Sebastian Piñera (2010-present) to alter the financial scheme by establishing a four-year budget and abolishing the current law.

Mining Code	Approved in 1983, the Mining Code consolidates all procedures, responsibilities, and payments in acquiring mining licenses, forming partnerships, and authorising the concessions from state to private individuals and firms. Its main implication is to establish in law the property rights regime in natural resources.	This has remained the same.
DL 20.026	The *Royalty II* legislation, approved in 2005 by Congress, alters the rules as regards tax payments in the mining sector by subjecting all firms producing more than 12,000 metric tons of fine copper to a variable tax rate of 0.5 to 5 percent.	One of the key changes under La government of Ricardo Lagos.
Ley de Responsabilidad Fiscal (DL 20.128)	The law created in 2006 to institutionalise the financial scheme in managing copper revenues through the establishment of two sovereignty wealth funds - Pension Reserve Funds (FRP) and Economic and Social Stabilisation Fund or FEES - both of which is preceded by the Copper Stabilisation Fund. The law sets out the rules and regulations as regards the funds as well as institutionalising the mechanisms in using the funds as counterbalance to the cyclical fluctuations of copper prices. Rather than directly using the funds to pay for social programmes, SWFs are used as buffer to price shocks and are managed jointly by the Central Bank and Ministry of Finance.	One of the key changes under governments of Ricardo Lagos and Michell
Ley de Subcontratación (Subcontracting Law/DL 20.123)	Established in 2007, the Subcontracting Law is applied across all sectors to manage third party contractors to follow minimum standards on labour and working conditions. Amongst many things, the law guarantees worker security, wages, and certain amount of social benefits.	Although labour reforms were implem Ricardo Lagos, the subcontracting law under the pressure of Bachelet.
Ley 20.392	This legislative project was completed in November 2009 to incorporate changes to the CODELCO Corporate Governance. One key modification was the composition of the governing Board of Directors effective in March 2010.	Under Bachelet government, the law mod regulations regarding corporate governanc DL 1350/1976 (CODELCO Chile Articles o and Ley 19.137 (provisions on cur properties). One key change is the el ministers in the board of directors to be selected professionals based on the recommendations.

Source: Author compilation of various laws and legislations.

Appendix 4 Key Aspects of Alianza Estratégica Phase III (2007-2010)

	Key Aspects of Alianza Estratégica (2007-2010)
;oals	♦ Develop all business potentials with strong emphasis on growth and competitive leadership; ♦ Ensure the development of social and human capital placing the people at the heart of CODELCO's business strategy; ♦ Compromise between sustainable development, corporate social responsibility and transparency in management; ♦ Lead innovation, technological development, and knowledge management as building blocks of competitiveness; ♦ Secure operational excellence, continuous process of improvement and high performance organisation; ♦ Lead the creation of new markets, promotion of copper consumption, and assist the development of regional clusters; and ♦ Promote the improvement in corporate governance and modernise the institutionalisation of CODELCO as a 100% state enterprise.
\greement of :ODELCO with the)wner (State)	♦ Comply with the Portfolio and Phases of Structural Project and Targets (2007-2010) including the following: mining development in Ministro Hales mine, Radomiro Tomic sulphur, shifting towards underground mining in Chuquicamata Rajo, the productive reconversion of Salvador mine, the expansion of Andina Phases I and II, the development of a new level in the Teniente mine, and the expansion of FURE; ♦ Increase the scale of production, asset optimisation, and personnel management; and ♦ Technological development in various areas.
\greement of the \dministration and he Workers	♦ Deepen the personal development of people; ♦ Promote quality of life for miners; ♦ Strengthen measures on risk prevention, work security and occupational safety; ♦ Implement a holistic staff management programme; and ♦ Improve competitiveness and labour productivity.
\greement of the)wner with :ODELCO	The state, through the government, commits to support the Alianza Estratégica Agreement, which includes: ♦ Approving the Business and Development Plan annually, which aims a total sum of US$ 8,000 million between 2007 and 2010; ♦ Supporting the CODELCO Capitalisation Programme; ♦ Fostering the improvement of CODELCO's corporate governance; and ♦ Backing the political dialogue and social concertation within the state enterprise.

Source: Alianza Estratégica. Fase III. 2007-2010 (author summary and translation).

Appendix 5 Oil Wealth Governance under 1997 Petroleum Law

Oil Revenue Management Policy in Brazil (1997-2010)	
Main Sources of Revenues	♦ Signature bonus; Royalty; Special participation fee; Fees for the occupation or retention of the area
Distribution of royalty quota value if produced onshore, in lakes, rivers or river/lake islands	♦ 52.5 % to states where production occurs; 15% to municipalities where production occurs; ♦ 7.5% to municipalities affected by the operations of landing or shipment of petroleum and natural gas according to criteria set by ANP; and ♦ 25% to the Ministry of Science and Technology for financing scientific research and technology development programmes applied to petroleum, natural gas and biofuels industry.
Distribution of royalty quota value if produced on the continental shelf	♦ 22.5% to states where production occurs; ♦ 22.5% to municipalities where production occurs; ♦ 15% to the Navy Ministry to meet the requirements of inspection and protection of the production areas; ♦ 7.5% to municipalities affected by the operations of landing and shipment of petroleum and natural gas according to the criteria set by ANP; ♦ 7.5% for the build up of a Special Fund to be distributed among all states, territories and municipalities; and ♦ to the Ministry of Science and Technology for financing scientific research and technology development programmes applied to petroleum, natural gas and biofuels industry.
Distribution of Special participation fee	(a) 40% to the Ministry of Mines and Energy (MME), 70% of the amount will be financing geology and geophysics studies and services applied to prospecting for fossil fuels, 15% for payments of the costs of planning studies for expansion of energy system, and 15% for financing studies, research projects, activities and services for basic geological studies on Brazilian territory; (b) 10% to the Ministry of Environment, Hydrous Resources, and of the Legal Amazon Region, which is aimed at the protection of the environment and recovery of the environmental damage caused by petroleum industry activities; (c) 40% to the State where the onshore production occurs or which fronts the continental shelf where production occurs; and (d) 10% to the Municipality where the onshore production occurs or which fronts the continental shelf where production occurs.

Source: DL 9.478 (1997 Petroleum Law).

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