

Public Opinion and Trade Policy: Democratic Responsiveness in the Global Economy

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What is the role of public opinion in trade politics? Previous research either assumes, without having solid opinion evidence, that societies are very supportive of free trade, or argues that voters have a limited role in trade policy making because they are overshadowed by powerful interest groups. In this dissertation, I bridge the gap between the mass behavior and the political economy of trade. I argue that we should stop asserting citizens' preferences and explain why some policy makers differ in their responses to citizens' trade attitudes. Sometimes aggregate opinion leans towards free trade; at other times it leans more toward protectionism. This is not the result of trade winners and losers changing their minds but of poorly-informed bystanders' assessment of trade. These people, who have no direct stakes in trade, use a neo-mercantilist shortcut to make sense of openness. Moreover, societies refrain from anti-trade sentiment when there is a generous social safety net. Policy makers then decide whether to accommodate those views instead of just following their own preferences or business lobbying. I argue that policy makers are more willing to be responsive when trade is a structurally-determined salient issue and when strong party leaders control campaigns and legislative behavior. But the crucial ability to respond to public opinion hinges on the administrative dimension of trade politics: responsiveness is greater with more visible policy instruments and when the policy-making process is concentrated in a few agencies that facilitate policy reform. To test these arguments, I draw on quantitative and qualitative evidence from 18 Latin American presidential democracies since 1990, developing a time series index of public support for free trade based on the aggregation, processing, and weighting of

observational survey data. The hypotheses are confirmed using panel econometric models with data on governments' choices on preferential trade agreements, import tariff rates, and non-tariff barriers. I further examine disaggregated opinion and trade policy data and test the causal mechanisms with case studies of high (Argentina), moderate (Colombia), and low (Peru) responsiveness to public opinion.

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Preface

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1.0 Introduction

A specter haunts customs houses around the world, the specter of protectionism. Enthusiasm for free trade is evaporating. The rejection of international trade treaties and low import restrictions, previously confined to displaced workers in places like the former manufacturing powerhouses of the Mon Valley in Pennsylvania and Sunderland in North East England, has filtered into mainstream party platforms. It has been embraced by housewives, school teachers, and others with no direct stakes in trade (Colantone and Stanig 2019; Hays, Lim, and Spoon 2019; Norris and Inglehart 2019). On the eve of the 2017 G20 Summit in Hamburg, the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) issued a joint statement that would have been unimaginable twenty years ago, begging policy makers in the most advanced economies not to adopt trade restrictions (IMF, WB, and WTO 2017). Since then, the United States and China, the largest world economies, have launched a ferocious trade war fought with new high import tariff rates. The European Parliament, for its part, has refused to ratify the free trade agreement with the South American Common Market (Mercosur) citing concerns with how Brazil manages fires in the Amazon.

For scholars of developing countries, this should not be entirely surprising. For some time, citizens across Latin America have protested and mobilized against the free trade agenda. Protectionist sentiment has translated into policy on some occasions. In 1997, Argentine voters' support for free trade was falling (Latinobarometer 1997). The government of Carlos Menem, who earlier in the decade had reversed course from his Peronist Party's strategy of closed borders to embrace neoliberal reforms, reacted by requesting the Mercosur's partners to increase the common external tariff while initiating a wave of anti-dumping investigations against Europe, China, and

Brazil. By 2001, the Argentine National Trade Commission had approved 80 percent of anti-dumping requests made since 1998 (World Trade Organization 2007a). However, this sort of strong linkage between voters' views and trade policy does not always materialize. Around the same time, polls showed that Peruvians were pessimistic about the benefits of free trade (Latinobarometer 1996). The government of Alberto Fujimori, who had pushed the country into competitive authoritarianism, did not change tracks with its open borders policy. When Peru successfully transitioned to democracy, a similar pattern repeated. By 2004, public support for free trade, and especially international treaties, had descended below 45 percent, with rising numbers of undecided respondents (CIMA 2004; Latinobarometer 2004). President Alejandro Toledo ignored that sentiment and moved forward with the negotiations to conclude a free trade agreement with the United States. Four years later, President Alan García proceed with a similar deal with China, a deal that was not popular among Peruvians (LAPOP 2008) and that ultimately harmed import-competing producers as well as exporting firms in third markets (Mercado, Pierola, and Sanchez-Navarro 2019).

What is the role of public opinion in trade politics? This dissertation proposes a new approach to democratic representation and the role of voters in policy making affecting international trade integration. Bringing *macro* politics back into the eminently *micro*-level political economy of trade, I argue that public opinion matters for trade politics in democratic regimes. Sometimes aggregate opinion leans towards free trade, other times it leans more toward protectionism, and this has policy consequences in democratic regimes. I argue that policy makers respond to public opinion by choosing policies that ease restrictions on trade when free trade is more popular and by choosing policies that increase restrictions when free trade is less popular. This is policy responsiveness, the type of dynamic representation that occurs in democratic

regimes when policy makers change public policies in the direction of shifts in the aggregate level of public (instead of elite or group-specific) support for that public policy (Stimson, Mackuen, and Erikson 1995; Erikson, Mackuen, and Stimson 2002).¹ Under the right conditions, trade policy will move in the direction of aggregate social views in the same way as is known to happen in other public policy areas, such as fiscal policy (Soroka and Wlezien 2010), crime (Canes-Wrone and Shotts 2004), individual rights (Lax and Phillips 2009), international migration (Butler, Naurin, and Ohberg 2017; Hagemann, Hobolt, and Wratil 2017), and defense (Tomz, Weeks, and Yarhi-Milo 2020).

I do not ignore international commitments or specific societal groups. Governments face competing demands and constraints when choosing between trade policy outputs and thus the political economy of trade has emphasized what specific societal groups want and do. Special interest groups lobby policy makers to obtain selective benefits from the regulation of international commerce (Alt and Gilligan 1994; Rodrik 1995). Import-competing producers demand protection against foreign competition. Exporting firms seek state subsidies to reduce their production costs and international reciprocal deals to sell more abroad. Labor unions want to protect jobs and wages against layoffs from offshoring and outsourcing and the rising premium for high-skilled individuals (Owen 2015). Moreover, national governments face the pressures of globalization. There are bilateral, regional, and multilateral international rules on goods, services, investment, standards, and government procurement, and dispute settling mechanisms that transfer state sovereignty (J. Goldstein 2017). Financial markets can react negatively by moving capital away from countries where they see anti-business government behavior (Campello 2015).

¹ Public opinion (I also refer to it as aggregate opinion, aggregate sentiment, and public sentiment) is understood as the average opinion of citizens in a given time and place and is different from group-specific opinion (e.g. the unemployed; high income voters) and elite opinion (e.g. government officials; media commentators).

Rather, I wish to address the elephant of electoral nationwide politics: democratic representation requires representatives to be generally in line with what voters want and adjust policy if it has lagged too much or drifted too far away from the position of the citizenry. Failing to do is expected to bring electoral punishment (Stimson, Mackuen, and Erikson 1995; Stokes 2001; Erikson, Mackuen, and Stimson 2002; Achen and Bartels 2016). Despite competing demands from interest groups and the pressures from globalization, lawmakers and political appointees depend on votes to survive and those votes may be based on evaluations about policy outputs. This should be the case even with economic policies that are the result of multi-causal processes, may be complex to analyze, and create varying welfare consequences (Sattler, Freeman, and Brandt 2008).

My theory predicts that there will be trade policy responsiveness when public officials are *willing* and *able* to follow public opinion, even when it may go against international rules and deep-pocketed domestic interests. The economic structure and democratic institutions shape *willingness* to be responsive. First, policy makers pay more attention and react favorably to voters' attitudes when trade is more salient. This occurs when trade figures preeminently in the lives of many people. When trade affects just a few people, governments are less predisposed to follow aggregate sentiment. Second, responsiveness increases in democracies with strong party leaders who have an electoral necessity to appeal to the broader electorate. For example, in presidential systems with direct elections, the chief executive has incentives to respond to the median voter. Legislators may also have incentives to appeal to the national electorate, but that depends on the electoral rules that dictate how candidates are nominated, campaign, and get elected.

The ability to respond to public opinion depends on the visibility of public policies and the institutional setup of the policy-making process. First, I recognize that in contemporary trade

politics, the bulk of the job is in hands of non-elected policy makers in the public administration. Responsiveness is greater when the policy-making process is concentrated. Concentration reduces the coordination issues that arise when several agencies intervene, and it shields the process from the recurrent access of special interest groups, removing obstacles that can delay changes to the policy status quo. Moreover, I build on the theory of optimal obfuscation (Magee, Block, and Young 1989; Kono 2006) and argue that trade policy responsiveness is greater when the trade policy instrument involved is more visible for society. When national government leaders make public negotiations to reach an international trade treaty, such as Colombia's Free Trade Agreement with the United States, the media covers the episode widely and the public increases its attention about the consequences of free trade for themselves and the country. National governments have to tread carefully, because going against public opinion can cost them dearly, at polls at home as well as reputationally on the world stage. By contrast, responsiveness is lower when it concerns more opaque trade policy instruments that are less visible for society, such as non-tariff barriers like sanitary restrictions that stop containers with vegetables at the border and anti-dumping measures against Vietnamese-made T-shirts.

This introductory chapter serves four purposes. In the first section I show why understanding the true role of voters in trade politics is relevant for the study of globalization and democratic representation. The second section introduces the cases of this study: Latin American democracies. I explain why it is important to focus on these developing countries and show significant variation in trade flows and trade policy outputs across the region. Third, I present my conditional theory of trade policy responsiveness. I identify how political institutions and the economic structure shape politicians' *willingness* to follow voters' attitudes and how the setup of the public administration conditions the *ability* to respond to aggregate sentiment. This section

also rejects the notion that public sentiment on trade should be taken as given and instead offers an argument about how the different dimensions of trade globalization and the varying contours of the welfare state stimulate popular support for free trade. The fourth section presents the outline and empirical strategy, including a unique empirical contribution of this study: a new time series index of public support for free trade.

1.1 The Puzzle

How do voters participate in their democratic societies' management of trade integration into the global economy? To answer that question, we first need to know what the masses think of trade. Existing studies examine the variation and sources of fixed individual trade preferences within a society, but they do not allow us to understand whether and why free trade is popular in the aggregate. Since the publication of Scheve and Slaughter's seminal article "What determines individual trade-policy preferences?" in 2001, there has been a boom in works in political science investigating trade preferences using survey data.² Scholars have exploited the surge in high-quality polls that ask people about their views on trade around the world. Those studies argue that material self-interest determines individuals' support for or against free trade very much in the same way that the pocketbook affects economic voting at the individual level. As I discuss in Chapter Two, the exact source of the economic interest changes according to the theory of international trade that scholars rely on: factor endowments, specific economic sectors, consumers' income, the routine intensity of occupations, firms' productivity levels, and skill endowments (for

² The article has 885 citations in Google scholar as of September 2020.

reviews, see McLaren (2016), Oatley (2017), Owen and Walter (2017), and Naoi (2020)). Studies also reveal that individuals process information differently and their attitudes are shaped by school socialization, cultural and ideological dispositions, and the weight they give to the wellbeing of others (for reviews, see Guisinger (2017) and Naoi (2020)). Given all we know about individual trade preferences, the “so what” question that emerges is: Does public opinion affect trade policy?

Existing scholarship on trade politics either assumes that the electorate *should* matter and gets what it wants or instead argues that voters’ preferences have a very limited role in trade policy making. The first view claims that the masses of citizens should be represented in policy because that is what democratic representation should be about. Neoclassical economists expect workers and consumers to benefit from more job opportunities, higher incomes, and cheaper and more varied goods generated by the aggregate productivity and welfare gains of trade (Melitz and Trefler 2012; Goldberg and Pavcnik 2016; Feenstra 2018). Political scientists argue that, if so many voters are expected to benefit from trade, first they should like it, and second, their democratic representatives should remove trade barriers to please the electorate (Milner and Kubota 2005; Kono 2008; Milner and Mukherjee 2009). This position fails to move from the normative world to the reality of citizens’ changing (and sometimes apparently incoherent) beliefs and attitudes on trade and the multiple public policies that simultaneously regulate cross-border commerce. Such a view neglects citizens’ frequent distrust of free trade, the fact that popular support for free trade is fragile, or as Blinder puts it, “a mile wide but an inch deep” (Blinder 2019, 121). Some scholars tried to remedy this by using snapshots of public opinion (Baker 2009; Kono 2008). But mass opinion on trade is not static. Aggregate sentiment is not stable pro free trade. When we recognize that, the popular backlash against globalization that took hold of some rich countries since the

2008 global financial crisis (Colantone and Stanig 2019; Hays, Lim, and Spoon 2019) is less surprising.

The second common view argues that voters do not know and do not care much about trade (Guisinger 2009; 2017), and even if they do, public opinion is too diffuse and cannot compete with the powerful organization and money chests of business lobbies with vested interests in trade policy outputs (Bearce and Velasco-Guachalla 2020; Betz 2020). Import-competing firms and the business associations that represent them offer politicians financial contributions in return for policies that raise the domestic price of the good they produce (Grossman and Helpman 1994; Gawande and Bandyopadhyay 2000). Exporting firms and the clubs that represent them also offer contributions, but seeking to lower restrictions at home so as to obtain greater market access for their products abroad in reciprocal trade relations (I. S. Kim and Osgood 2019). The firms that solve their collective action problems enjoy more resources, time, and knowledge to lobby effectively for the policies they want (Olson 1965). In this view, there is little space for disoriented and unorganized masses to matter. Undisputedly, political economists are right in examining how interest groups with factor-, sector-, or even occupation-specific interests lobby the state to obtain policy benefits. However, as I discuss in Chapter Three, that view disregards the fact that policy makers who care about their political careers need to respond to voters' collective opinion, not just rhetorically in public statements, but also in public policy. If exporting firms have the information, organization, and material means to lobby for economic rents from trade policy, why do we see in some instances that governments do not give them what they want?

In the past, others have proposed that voters matter in trade politics, but they have not examined whether changes in observed public opinion on trade translate into changes in trade policy. In a classic critique of the dominant paradigms of political economy, Verdier argued that

“leaving voters out of the study of democracy is like leaving soldiers out of the study of war” (Verdier 1994, xvii). Verdier’s proposed solution was to focus on how voters decide who makes trade policy decisions and how those decisions are made depending on how concerned and divided voters are about trade relative to other public policy issues.³ If trade is an issue of great importance in society, politicians should seek to represent voters’ preferences on trade; but if trade is of little importance to voters, business owners should wield more influence (Verdier 1994, 10).

Verdier (1994) also challenged the thesis that state officials are autonomous from society and that they merely implement economic doctrine. Certainly, public officials can have their own ideas about what is good for the country and how to reach it (J. Goldstein 1988). Moreover, legislators and executives may follow party doctrines with different trade policy prescriptions. For instance, there is evidence from Europe that programmatic parties follow opposing trade policy recommendations in their electoral manifestos based on the factor endowment (e.g. labor, capital) of their main constituency (Milner and Judkins 2004; Camyar 2012). But that does not mean that when voters elect a leftist party, trade policy is going to become more protectionist. Anecdotal evidence from the Socialists in Chile, Ollanta Humala in Peru, and Andrés Manuel López Obrador in México tell us otherwise. It looks like there is something else going on between voters and politicians beyond pure economic doctrine or pure leaders’ ideas. The point is whether public officials respond to public opinion between elections.

³ Verdier (1994) did not examine public opinion on trade; he instead used secondary sources to assert what a majority of voters wanted at different moments in France, Great Britain, and the United States in the nineteenth century and the first half of the twentieth century.

Understanding the proper role of voters in trade politics is especially important in our globalized world. International institutions reduce the transaction costs of cooperation between states, providing information, resolving disputes, and promoting intertemporal commitments (Keohane 1984). The international trade institutions of the postwar era, epitomized in the General Agreement on Trade and Tariffs (GATT) and a series of multilateral trade rounds, fostered inter-state cooperation, first between rich nations, and then with the rest of the world (J. L. Goldstein, Rivers, and Tomz 2007; J. Goldstein 2017). In addition, cooperation at the regional and bilateral level has thrived with the proliferation of preferential trade agreements (Mansfield and Milner 2012). The establishment of the World Trade Organization (WTO) after the Uruguay Round further advanced the adjudication of international trade disputes (J. Goldstein 2017). Despite the deepening of globalization, national governments retain substantial room to maneuver in policies that affect the cross-border integration of goods, services, and factors of production (Garrett 1998; Rudra 2008; Hays 2009; Hellwig 2014; Campello 2015). For one thing, treaties include important exceptions, such as escape clauses that provide flexibility in the face of an adverse context (Rosendorff 2005). For example, WTO rules on temporary trade remedies allow governments to impose extra import tariffs on products that have an unusual low international price or that have been created with state subsidies. Likewise, WTO tariff ceilings can leave large policy space for national public officials to tweak tariff schedules without triggering an inter-state dispute.

1.2 Trade and Trade Policy in Latin America

This study examines the role of public opinion in trade politics in Latin America since 1990 to date. I measure public opinion on trade and estimate how changes in that aggregate sentiment

affect what national governments actually do on trade policy (rather than what they say) in 18 democracies across the region.⁴ Latin America constitutes an interesting laboratory for several reasons. First, all countries in this region are capital scarce economies with low, moderate, and upper-moderate levels of income per capita that classify as developing and emerging economies in the eyes of the rest of the world. There is variation in terms of relative development between these developing and emerging economies, but overall, they constitute a hierarchical variety of capitalism, with diversified business groups, foreign investment, low skills, and segmented labor markets (Schneider 2013). That allow us to address the implications of international trade theories where capital is the scarce factor, a situation very different from that in the United States analyzed by most academic studies. For years, there has been a call for more research on the political economy of international trade policy outside the United States (Harrison and Rodriguez-Clare 2010). And it is equally valuable to study the mass politics of trade in different contexts, especially given the unusual large size of the US economy, the extraordinarily low and stable inflation rate, and the relative low level of trade flows as a share of the country's total output (Guisinger 2017; Bearce and Velasco-Guachalla 2020).

Second, Latin American societies share culture and institutions that facilitate the study of policy responsiveness while holding constant important confounders of democratic representation. For example, these countries have experienced a common colonial history and the influence of Iberian heritage and continental legal traditions. Moreover, for most of the past thirty years, countries have experienced democratic regimes with an extended franchise, relatively free and fair

⁴ The countries included are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

elections, and protection of civil liberties (Mainwaring and Perez-Liñán 2013). More importantly, the countries in this geographically delimited world zone have adopted majoritarian presidential systems (i.e., chiefs of government are elected by the people and are not responsible to the legislature) and proportional electoral systems for the legislature, a combination that is different from the United States (majoritarian legislative system and indirect presidential election) and Europe (parliamentarism). The presidency is endowed with strong constitutional powers, but legislatures remain important, especially when the president's party does not have a majority of seats in Congress (Schneider 2013; Crisp, Olivella, and Rosas 2020).

Importantly, Latin American countries exhibit wide variation in trade policy choices that allows us to estimate the sources of those changes. The trade liberalization reforms of the early 1990s are widely documented. In a context of economic crisis, with heavy debt burdens, fiscal deficits, and ramping inflation, one government after the other adopted measures to liberalize trade and financial transactions, shrink the size of the state, and deregulate most aspects of economic life.⁵ Advised by multilateral financial institutions and technocrats, governments abandoned the postwar-era import substitution industrialization (ISI) strategy and followed comprehensive trade liberalization.⁶ It included unilaterally decreasing import tariff rates, cutting subsidies to domestic firms, eliminating import quotas, revoking restrictions to export, and reducing items subject to duties and pre-import licenses (Edwards 1995; Rodrik 1994; Mesquita Moreira and Stein 2019). Also, the old idea of regional integration evolved into trade liberalization projects like Mercosur.

⁵ One important exception examined later in the dissertation is Colombia, which did not experience an economic crisis but liberalized trade in 1990.

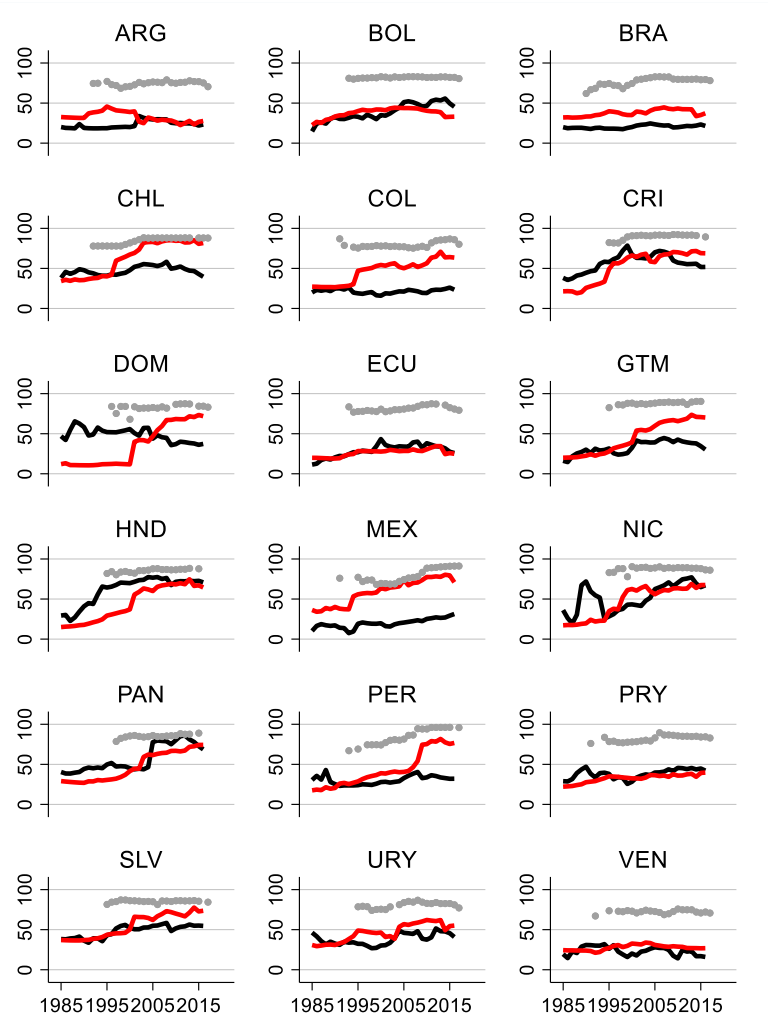
⁶ In exchange for new loans, troubled states had to agree to conditions in the form of performance criteria, prior actions, and structural benchmarks (Wei and Zhiwei 2010; Kaplan 2013; Campello 2015).

An extreme version came to be associated with the free trade agenda promoted by the United States, including a hemisphere-wide Free Trade Area of the Americas (Samford 2010; Tussie 2011). Countries locked in the changes by joining the WTO, binding tariff rates, and accepting changes to national regulations to comply with a long list of trade disciplines (Tussie 2011). The Inter-American Development Bank (IDB) claims that liberalization was “particularly groundbreaking because trade had historically been the object of heavy criticism and skepticism from the region’s most influential economists and politicians” (Mesquita Moreira and Stein 2019, 1).

What is less known is how trade policy evolved in the region in later years after the initial “rush to free trade.” There has been little convergence on free trade and the participation in global value chains has been very uneven (Bown et al. 2017; Mesquita Moreira and Stein 2019). Trade flows can be captured as in Figure 1.1 with the De Facto Trade Globalization Index created by the KOF Swiss Institute. Higher values of the index (displayed in black) represent greater trade openness.⁷ National trade flows depend on global trade flows, international commodity prices, technology development, and the exchange rate, besides national trade policies. Central American countries grew significantly in trade openness since 1995. Chile and Mexico exhibited moderate growth in openness. The two giants of the Southern Cone (Argentina and Brazil) have remained laggards in trade openness, but so did Colombia and Peru, two countries that took significant legal and regulatory steps to liberalize trade.

⁷ The index consists of a weighted estimate of the all imports and exports of goods as a share of the Gross Domestic Product (GDP), the sum of all trade in services transactions as a share of GDP, and an indicator of trade partner diversity based on the (inverted) average of the Herfindahl-Hirschman trading market concentration index for exports and imports of goods.

Figure 1.1: Catch-All Indicators of Trade Flows and Trade Policy



Note: Black line is the De Facto Trade Globalization Index of the KOF Institute. Red line is the De Jure (Policy) Trade Globalization Index of the KOF Institute. Grey dots are scores in the Trade Freedom Index of the Heritage Foundation. Higher values of each of these indices indicate more free trade.

Most countries in the region are dependent on a few commodities and export destinations in a context of high economic volatility. In the late 1990s, the Asian, Russian, and Turkish financial crises posed major challenges for emerging economies as national currencies and international reserves stocks deteriorated. Furthermore, the global rise of China as a leading exporter of labor-intensive and increasingly more capital-intensive manufactured goods and an avid buyer of raw materials has fully impacted the economic opportunities and challenges that Latin American

countries faced in recent years. In the 2000s, export-led growth in China and its accession to the WTO created a commodity boom that increased demand of raw materials such as oil, copper, soyabeans, fishmeal, and meat. Chinese demand continues to date, but the rate of growth has declined significantly since 2014.

There is large variation in trade policy outputs, too. Latin American countries did not converge around free trade policy, as is increasingly being recognized (Bown and Crowley 2016; Mesquita Moreira and Stein 2019). The red curve and the grey dots in Figure 1.1 help to visualize this fact. The first marker corresponds to the *de jure* index of trade globalization by the KOF Institute.⁸ The second marker corresponds to the Trade Freedom index of the Heritage Foundation.⁹ Both indicators suggest that countries have frequently chosen protectionist policies.

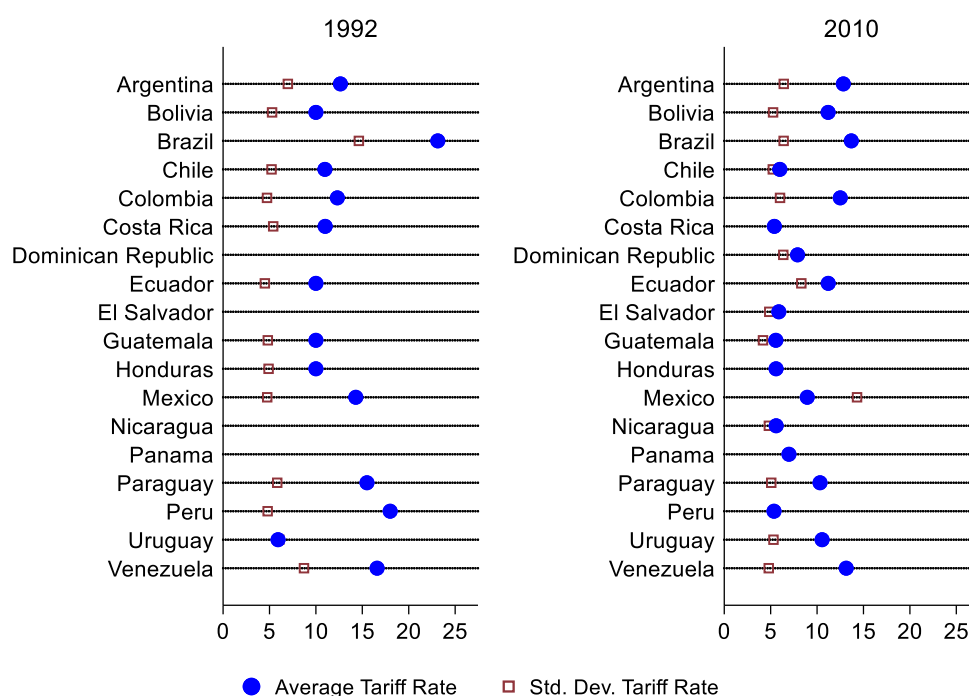
However, catch-all measures like these hide the variability of instruments and decisions that governments adopt in the field of international commerce, especially given the differentials in complexity and visibility across policy tools. We can learn more from disaggregating trade policies and studying them independently. In Figure 1.2 we see that in 2010, several but not all countries had an average Most Favored Nation (i.e., nondiscriminatory among trading partners) import tariff rate significantly lower than they had in the early 1990s, such as Chile, Costa Rica, and Peru. Some states also decreased the number of price, quantity, and quality Non-Tariff Barriers (NTBs). However, there are countries that reduced their import tariffs but increased the use of NTBs, such as Mexico. Furthermore, average import tariff rates remained unchanged for almost two decades,

⁸ The index gauges information on the unweighted mean of import tariff rates, the prevalence of NTBs and compliance costs, the share of revenue from taxes on international trade, and the number of free trade agreements.

⁹ The index uses the average and the upper and lower bounds of import tariff rates with a penalty for the use of NTBs.

such as in Argentina, Bolivia, and Colombia, and even some had higher average rates in 2010 than they did in 1992 (Ecuador and Uruguay). By 2018, Argentina, Bolivia, Brazil, and Ecuador had average tariff rates higher than they did in 1992 (Mesquita Moreira and Stein 2019, 183).

Figure 1.2: Import Tariff Rates: General Level and Deviation



Source: Author's own estimation using data from the World Bank's World Development Indicators and Betz (2017). Note: MFN tariff rates are calculated at the Harmonized System's 4-digit level. Standard deviations of tariff rates are net of industry-specific effects (e.g., controlling for the fact that agricultural products and electronics are generally higher everywhere) using the method presented by Betz (2017).

Finally, countries have also differed in how they make use of the most important innovation in the trade policy toolbox of recent years: the PTA. Table 1.1 presents information on the number of PTAs signed by each Latin American country as well as their main extra-regional partners. We can see that some countries (e.g., Chile, Peru) reached a high stock of treaties in line with their low MFN tariffs, although frequently resort to NTBs. Other countries seem to have a relative high

number of PTAs by regional standards, like the Mercosur countries, but that masks the fact that many of those deals are with regional partners. Instead, other countries that have a low total of agreements, cover almost all of their trade flows under preferential rules, including with the United States and the European Union. Notably, only three countries have established a PTA with China. These are Chile, Costa Rica, and Peru, whose governments have clearly embraced trade policy liberalization regardless of the ruling party and, as I will show in the case of Peru, public opinion.

Table 1.1: Preferential Trade Agreements, 1990-2017

	PTAs	Customs Union	United States	European Union	China
Argentina	15	Mercosur			
Bolivia	3	Comunidad Andina			
Brazil	15	Mercosur			
Chile	30		Yes	Yes	Yes
Colombia	20	Comunidad Andina	Yes	Yes	
Costa Rica	13		Yes	Yes	Yes
Dominican Rep.	4		Yes	Yes	
Ecuador	5	Comunidad Andina			
El Salvador	8		Yes	Yes	
Guatemala	11		Yes	Yes	
Honduras	10		Yes	Yes	
Mexico	19		Yes	Yes	
Nicaragua	7		Yes	Yes	
Panama	13		Yes	Yes	
Paraguay	15	Mercosur			
Peru	22	Comunidad Andina	Yes	Yes	Yes
Uruguay	15	Mercosur			
Venezuela	8	Mercosur			

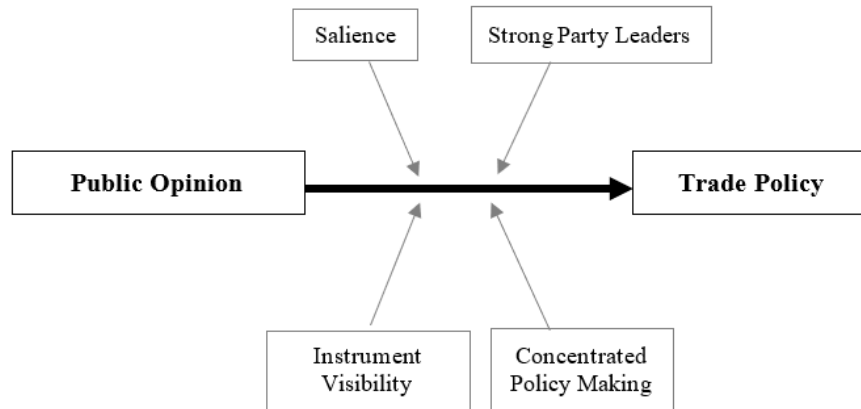
Source: Author's own elaboration based on Organization of American States (2020).

1.3 The Argument

Voters matter for trade politics. The issue before us is not why Peru has so many free trade agreements and applies low import tariff rates while Argentina grants so much protection to its import-competing producers. Instead, I am interested in explaining why policy makers in some countries are better than their counterparts elsewhere at accommodating public opinion when they make trade policy choices. The core argument is that public sentiment can be reflected in the orientation of trade policy outputs. When many voters support free trade, policy makers should remove trade restrictions. When many voters worry or disapprove of free trade, policy makers should establish trade restrictions. However, that does not mean that trade policy outputs are congruent or perfectly proportionate with mass preferences. Governments face competing demands from firms, business associations, workers unions, foreign states, and international organizations. Policy makers may also hold personal ideas and party doctrines on how best to manage international trade integration. And there is a status-quo bias in policy making, from governments' revenue constraints and the prevalence of budgetary incrementalism to limited space on the political agenda (Caughey and Warshaw 2018).

Acknowledging the limits to perfect responsiveness, I develop a conditional theory of trade policy responsiveness. My theory predicts that there will be trade policy responsiveness when public officials are *willing* and *able* to follow public opinion. A diagram of the theory is shown in Figure 1.2 below. The thick arrow represents the causal relationship from public opinion to trade policy. The small arrows above represent the economic and political factors that shape willingness to respond. The small arrows below represent the public policy dimensions that affect ability to respond. I explain each factor below.

Figure 1.3: The Conditional Theory of Trade Policy Responsiveness



Government officials need political incentives to accommodate public opinion for dynamic representation to occur. Politicians do not want to be replaced by rivals if they do not respond to shifts in voters' demands between elections (Stimson, Mackuen, and Erikson 1995; Erikson, Mackuen, and Stimson 2002). What are the sources of that willingness to respond? The incentives that democratic rulers face to adjust policy in response to public opinion differ across countries and over time (Powlick and Katz 1998; Crisp, Olivella, and Rosas 2020). First, policy responsiveness should be greater on highly salient issues that draw attention from the media and voters and pose a direct threat of electoral punishment (Schattschneider 1960; Page and Shapiro 1983). I argue that commercial policy choices will move in accordance with public opinion when the structure of the economy is such that many voters experience the effects of trade flows and increase their knowledge about the alternatives to manage trade integration.¹⁰ Experimental survey evidence confirms that individuals perceive trade to be more salient when their own stakes from commercial flows are high (T. W. Taylor 2015). When many people have high stakes in trade, it

¹⁰ Verdier (1994) hinted at this factor but did not separate salience from public opinion.

should be more prominent in the public debate, not only during electoral campaigns but also in between elections. When few members of society directly experience international trade, public opinion should have a lesser impact.

Second, I argue that trade policy responsiveness is higher where political institutions give public officials more incentives to appeal to the broader electorate. Political institutions determine which actors get to participate in the decision, how they are appointed or elected, and how their interactions translate into policy outputs. Political scientists have found that countries with particular electoral rules are associated with different types of trade policy outputs (Rogowski 1987; McGillivray 1997; Nielson 2003; Hankla 2009; Kono 2009; Rickard 2010; Mukherjee 2016). I bridge the gap between this supply side of trade politics and what society demands examining how the presence of political institutions moderate the dynamic relationship between public sentiment and governments' trade decisions. For example, in presidential systems with direct elections, the chief executive has incentives to follow public opinion. But presidential systems organize the membership, functions, and powers of legislatures differently. The electoral system to elect legislators creates incentives for the latter to appeal to the broad electorate and thus follow public opinion. Electoral institutions that give more control over platform, strategy, and legislative behavior to party leaders, instead of to individual candidates and legislators, motivate those party leaders to change trade policy in the direction of changes in aggregate societal opinion.

The theory's original contribution is to focus not only on willingness, but also on the ability of governments to respond to public opinion. I argue that trade policy responsiveness is greater when the setup of the administrative policy-making process within the executive branch is more concentrated. The executive branch has a prominent role in trade policy making but there are multiple ways to organize the public administration that implements trade policy. The

concentration vs. fragmentation of the policy-making process refers to the number of institutional veto players within the executive branch whose agreement is necessary to change the policy status quo (Tsebelis 2002; Ehrlich 2007). Those veto players are the different cabinet-level and sub-cabinet-level state agencies that participate in trade policy making. The prevalence of many actors jeopardizes coordination and generates opportunities for lobbying by special interest groups. As a result, changes to the status quo are blocked or delayed. Therefore, when the trade policy-making process is concentrated, the result is that high public support for free trade leads to more free trade policy changes and low public support for free trade leads to more trade restrictions.

Finally, I build on the theory of optimal obfuscation (Magee, Block, and Young 1989; Kono 2006) and argue that trade policy responsiveness is greater when the trade policy instrument involved is more visible for society. The effects of some trade policies on welfare are easy to explain to voters, but there are others whose effects are more complex (Magee, Block, and Young 1989; Verdier 1994; Kono 2006). Election-motivated policy makers “seek the most informational bang for their buck, which means attacking policies whose costs can be explained quickly, easily, and cheaply” (Kono 2006, 370). Tariffs are taxes, whose effects are straightforward: a 30 percent import tariff rate raises the price of an imported good subject to the duty by 30 percent. By contrast, non-tariff barriers (NTBs) encompass price, quantity, and quality control measures. How these measures work is highly complex. Customs procedures to clear imports do not make headlines in the evening news or in the campaign trail. Moreover, governments now resort to preferential trade agreements (PTAs) to lock in commitments to maintain trade restrictions low between partners. While these treaties have increasingly included more chapters on different types of disciplines, PTAs as a package remain a very visible trade policy that capture people’s minds and frequently trigger strong pro- and anti-deal attitudes. This theory thus allows for the fact that policy makers

make decisions on separate trade policies in multiple and opposite directions. In sum, trade policy responsiveness will be greatest with the most visible trade policies, such as PTAs, and lowest with the least visible trade policies, such as NTBs.

Before concluding this section, I address the immediate question that emerges from the claim that public opinion shapes trade policy: Where does public opinion on trade come from? First, I argue that aggregate mass opinion hinges on what ordinary people with no direct stakes on trade, whom I call the bystanders, believe about trade. The literature predicts which individuals like free trade because they directly win from it and which dislike trade because they directly oppose it. That is insufficient to understand why aggregate opinion moves without changes in structural factors that lead winners and losers to support or oppose free trade. Rather, the popularity of free trade depends on bystanders. To assess trade, they follow a neo-mercantilist reasoning which builds from the fact that trade openness has two components: imports and exports. Selling more exports abroad is portrayed by the media and the elite as a good thing because it creates jobs and signals national strength. By contrast, the neo-mercantilist view thinks that buying many imported goods from abroad is a bad thing because it threatens jobs, is unfair and unsafe, and makes the nation look weak. A boost of exports increases aggregate support for free trade, and import shocks decrease aggregate support for free trade.

My second argument is that not all surges in imports and sustained high levels of imports will trigger a protectionist backlash. Proponents of the embedded liberalism compact argue that government-provided social protection can compensate the losers from trade integration. I add that social protection can dissuade bystanders from joining the anti-free trade coalition. Therefore, countries with a more generous welfare net should maintain relatively stable public opinion on trade in the face of an import shock.

1.4 The Empirical Strategy

1.4.1 Measuring Public Opinion on Trade

If the survival of free trade rests on the strength of popular support for it, we must ask, how popular is free trade? The study of the dynamic relationship between public opinion and trade policy thus requires a prior step: to identify (instead of assuming) what public opinion on trade looks like over time. This simple question has escaped a clear answer in multi-country studies given that polls provide different pieces of evidence based on place, time, question wording, and answer options. We need data on as many survey items as possible that can be interpreted as stemming from an underlying public support for free trade. To address this issue, I created an original time series index of public support for free trade for the 18 Latin American countries from circa 1990 to 2017. The index was created based on the identification, collection, cleaning, and aggregation of existing observational data of thousands of responses to 25 survey questions on trade asked in Spanish, English, and/or Portuguese repeatedly over time (Chapter Two presents the detailed procedure). The public opinion data were combined using factor analysis, weighting each question's ratio of change by the degree to which it correlates with the quantity of interest, into a single opinion series by modeling their common variance. The index, estimated following the dyad ratios method (Stimson 1991; 2018), constitutes the most reliable instrument to date to assess the popularity of free trade across a large number of economies for three decades.¹¹ The

¹¹ Public opinion on a public policy issue like trade is a measure of absolute preference for that policy issue (Caughey and Warshaw 2018), not an indicator of preference for change in respect to the level of policy currently being provided by government (Stimson, Mackuen, and Erikson 1995; Erikson, Mackuen, and Stimson 2002).

results discussed in Chapter Two show that free trade is less popular, and that sentiment is more unstable, than previously thought.

1.4.2 Estimating Responsiveness: Quantitative Evidence

I use econometric models to study responsiveness to public opinion on panel data for 18 Latin American democracies in the 1995-2017 period. The index of public support for free trade is the major *independent* variable. I measure the moderators that affect willingness and ability to respond to voters with the following: the share of employment in tradable sectors, the personal vote index, and the number of agencies that participate in trade decisions. The first and the last indicators are novel for the study of trade policy. To test the hypothesis on the visibility of trade policy, I use three dependent variables: the number of signed preferential trade agreements (most visible), the mean non-discriminatory import tariff rate, and the number of non-tariff import barriers initiated (least visible). I use a variety of panel econometric models (random effects, fixed effects, autodistributive lagged, and error correction models and provide visual support to understand each result. The statistical evidence suggests that governments sign more PTAs and lower tariff rates when average support for free trade is higher. By contrast, there is no evidence that high popular support for free trade directly leads to a decrease in non-tariff barriers. Moreover, the results indicate that electoral systems where party leaders have more control and the concentration of policy making in a few public agencies increase the responsiveness to shifts in aggregate sentiment on trade.

1.4.3 Case Studies: Qualitative Evidence

Cross-country studies cannot verify whether the causal mechanisms are present or whether they operate as expected. I am interested not only in whether one variable affects another, but also how such a causal relationship arises (Imai et al. 2011). Therefore, the research design is complemented with three country case studies: Argentina, Colombia, and Peru. The case studies are more than a mere illustration. They serve to verify the mechanism that is truly operating and show how it produces the outcome (Fearon and Laitin 2008; Goertz 2017). The case studies are based on my fieldwork conducted in 2018, 2019, and 2020, in Buenos Aires, Lima, and Bogotá, respectively. I interviewed former and current legislators and senior public officials in charge of trade policy making, from Ministers of Finance and of Foreign Relations, to Secretaries and Deputy Ministers of Trade, to international trade negotiators and other expert officials. I asked them about their jobs and their views on the influence of voters, electoral pressures, and special interest groups, as well as their views on inter-branch and inter-agency relations. I also interviewed executive leaders of national business associations¹² and local public opinion analysts, economic historians, and other scholars.

Case selection is based on the method of difference: one case (Argentina) has high responsiveness, another has low responsiveness (Peru), and a third one has intermediate responsiveness (Colombia). The cases share important traits, none of which explains the difference in the frequency and degree in which public officials follow voters' revealed attitudes on trade.

¹² The *Unión Industrial Argentina*, the *Asociación Nacional de Empresarios de Colombia*, the *Confederación Nacional de Instituciones Empresariales Privadas* and the *Cámara de Comercio de Lima* in Peru.

The three are emerging economies in South America,¹³ scarce domestic capital, large informal sectors, trade integration based in comparative advantage in the primary sector, and high dependence on international commodity prices.¹⁴ Institutionally, the three countries have presidential systems and allow presidential and legislative reelection.¹⁵ Colombia has been a stable competitive regime for many decades. Argentina recurrently experienced regime change, with breakdowns of democracy by means of military coups, but it has been a democracy since 1983. Peru transitioned from military dictatorship to democracy in 1980 but it suffered from democratic erosion with a self-coup in 1992. Full democratization was achieved again in 2001.¹⁶

As the positive responsiveness case, Argentina has high trade salience (a large labor force in import-competing industries in large metropolitan districts), strong party leaders, and concentrated policy making in a few political appointees. Colombia and Peru each misses one or more of these attributes. In Peru, few workers are employed in the mines and non-traditional agricultural lands. And few workers are employed in import-competing manufacturing industries. Moreover, the whole political system is unstable and political parties have very weak linkages with citizens. In Colombia, the electoral system rewards individual candidates over parties in legislative elections and the trade policy-making process is very fragmented.

¹³ Argentina remains the richest in income per capita terms adjusted for purchasing power (US\$ 22,000), followed by Colombia (US\$ 14,700) and Peru (US\$ 12,900).

¹⁴ Top exports are soybeans, wheat, and livestock in Argentina; oil, gold, and coffee in Colombia; and gold, copper, and fishmeal in Peru.

¹⁵ It was banned in Peru in 2018.

¹⁶ Also, Argentina is a federal country while Colombia and Peru are unitary republics, but there is substantial political decentralization.

1.4.4 Outline

The dissertation continues in Chapter Two with the introduction of the index of public support for free trade. I describe the available evidence of how societies collectively lean towards free trade over time and then present a theory to explain changes in that aggregate opinion. The chapter contains the statistical analysis to estimate how export, imports, and social protection shape public support for free trade, controlling for other factors that could affect shifts in opinion, such as economic growth, inflation, and unemployment. I use a variety of panel econometric models: random effects, fixed effects, autodistributive lagged, and error correction models. First, I find that higher exports significantly increase popular support for free trade. Second, higher imports in general depress public support. Third, opinion became more protectionist in societies more exposed to the import shock from China. While Latin American economies have been able to boost their exports of foodstuff, oil, and minerals to the Asian giant, they have also seen an exponential growth of cheap manufactured imports (Bown et al. 2017; Mesquita Moreira and Stein 2019). Finally, I show that higher government transfers of cash to the unemployed, the poor, the elderly, i.e. the vulnerable elements of society, contribute to solidify popular approval of trade integration. Increases in import volumes increase support for unrestricted commerce at higher levels of public spending in social protection per capita.

Chapter Three presents the conditional theory of trade policy responsiveness, including hypotheses for how responsiveness is affected by the economic salience of trade, the electoral institutions and incentives of national policy makers, the concentration of the trade policy-making process, and the visibility of the policy instrument involved. Chapter Three also presents the statistical analysis linking changes in the index of public support for free trade to trade policy outputs. The results confirm i) that direct responsiveness is greater with PTAs, moderate with tariff

rates, and nonexistent with NTBs, ii) that conditional responsiveness is diminished in democracies where individual candidates have more leeway than party leaders, iii) that having many institutional veto players weakens the link between aggregate opinion and trade policy, and iv) weak evidence that responsiveness to public opinion depends on having more workers employed in tradable sectors. This chapter also discusses differences in support for free trade between groups of voters.

Chapter Four consists of a case study of Argentina from 1990 to 2017, based on my fieldwork conducted in 2018. The case study describes major trade policy changes encompassing eight presidential administrations (Carlos Menem I, Carlos Menem II, Fernando de la Rúa, Néstor Kirchner, Cristina Kirchner I, Cristina Kirchner II, and the first part of Mauricio Macri) and reviews survey data from different sources on Argentine voters' attitudes toward trade over time (used as input for the index presented in Chapter Two). This chapter then explains how the economic structure, the electoral system, and the organization and working of the public administration foster and enable a high level of trade policy responsiveness.

Chapter Five is a case study of Colombia from 1990 to 2018, describing major trade policy changes across seven presidential administrations (César Gaviria, Ernesto Samper, Andrés Pastrana, Álvaro Uribe I, Álvaro Uribe II, Juan Manuel Santos I, and Juan Manuel Santos II). The chapter also includes detailed information from different surveys on public opinion on trade for the different subperiods. The chapter concludes with an analysis of the economic structure, the political system, and the organization and working of the public administration. Using interviewed elite responses during fieldwork, I identify two major sources of low trade policy responsiveness: a highly fragmented policy-making process with many veto-wielding technocrats participating in

trade policy decisions and the presence of electoral rules that promote individual candidates over parties in legislative elections.

Chapter 6 is a case study of Peru between 1990 and 2018. The chapter provides information on the evolution of public opinion on trade and trade policy changes during the first years of Fujimori's government, the subsequent fall into competitive authoritarianism for the rest of the decade, and the four presidential administrations in the contemporary period since democratization in 2001. With the insights from interviews conducted in my fieldwork in 2019, the chapter examines why responsiveness has been so hard in this country, showing how trade policy (especially PTAs and tariff rates) has moved to more liberalization, closer to the preferences of technocrats and large exporting firms, despite public sentiment unenthusiastic for free trade.

Finally, Chapter Seven presents a conclusion that summarizes the major contributions of the study, addresses theoretically the issue of elites shaping public opinion, and proposes extensions from this research.

2.0 When Do Societies Support Free Trade?

If public opinion matters in trade politics, we must first address two questions. How popular is free trade in society? And when do societies support free trade? Existing studies examine individual survey responses and make predictions about which persons have preferences for or against free trade, assuming these remain constant over time. People who lose from international competition have a self-interest in protection while those who win prefer free trade (J. B. Jensen, Quinn, and Weymouth 2017; J. Frieden 2019; Margalit 2019). However, we do not know much about the aggregate (in contrast to the individual) level of support for unrestricted commerce over time.

To remedy this gap, this chapter directs attention to people who do not hold a pocketbook interest in trade openness. Many people are not directly exposed to trade and only have intuitions and imperfect knowledge of how commerce affects their lives, those of their families, communities, and nations (Ardanaz, Murillo, and Pinto 2013; Mansfield and Mutz 2009; 2013; Guisinger 2017). These ordinary “bystanders” rely on a neo-mercantilist shortcut according to which selling more exports abroad appears as a better outcome than buying more imported goods from foreigners. For the masses, high exporting performance reflects a strong economic standing and increases national pride (Guisinger 2017; Bearce and Moya 2020; Silver, Schumacher, and Mordecair 2020). On the contrary, high import volumes, while a possible source of lower consumer prices (Baker 2009; cf. Betz and Pond 2019), trigger threats of higher unemployment and feelings of unfairness, all amplified by negative press coverage (Mayda and Rodrik 2005; Guisinger 2017; Colantone and Stanig 2019; Bearce and Moya 2020). This could be especially the case with the surge in Chinese imports, that dislocate important local sources of living across

Western states (Autor, Dorn, and Hanson 2013). Given that bystanders are sensitive to these images, a boost of exports should increase aggregate support for free trade while import shocks should generate a more protectionist aggregate sentiment.

However, high import flows should not necessarily lead to a protectionist backlash. The second argument developed in this chapter is that import penetration should not depress public support for free trade when there is a generous safety net in place. For many decades, scholars and practitioners claimed that governments could fend off criticism of free trade if they provided generous social protection to contain the losers of globalization. According to this formula, known as embedded liberalism, governments committed to free trade are willing to increase government spending in active and passive labor markets to cushion the transition of workers from industries impacted by import penetration to other sectors (Ruggie 1982; Rodrik 1998; Hays 2009).

The notion of embedded liberalism, however, was developed with regard to wealthy, open economies such as those in Western Europe. The concept does not travel easily to countries that developed generous social protection regimes under closed economies (Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo 2007; Wibbels and Ahlquist 2011). In several developing countries, governments increased public spending on welfare benefits to support domestic consumers of goods produced by firms directly benefited from very high trade policy barriers (Wibbels and Ahlquist 2011). That arrangement disappeared with the transition of closed economies to globalization. Since the 1980s, the removal of controls to capital flows and trade barriers has reduced spending on social protection, although not in health and education (Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo 2007; Rudra 2008). The extent to which social protection can stop the protectionist backlash and substitute for trade protection remains a matter of empirical test.

Public support for free trade cannot be taken for granted, and yet it has been almost impossible to test these ideas. The inattention to temporal variation and the focus on variables that predict individual preferences obfuscate the efforts to measure and explain voters' opinion on trade (Oatley 2017; Naoi 2020). In this chapter, I present a new index of public support for free trade for each of 18 Latin American countries that relies on a massive volume of observational survey data. I collected all available mass survey data from questions in nationally representative polls about evaluations of and attitudes toward international trade in general as well as trade policies, with questions made at least more than once between 1990 and 2017. I computed the percentage of people who gave answers supportive of the removal of trade restrictions for each of the 25 unique survey items about trade asked two or more times at any time in the indicated period, amounting to a total of 536 aggregate survey marginals. I then used the scaling dyad ratios method (Stimson 1991; 2018) to control for survey and time effects in the unbalanced panels to create the new continuous index of (latent) popular support for free trade for 444 country-year observations.

I document important trends in aggregate opinion on trade across countries and over time. In the full panel, “only” 54 percent of the public favors trade openness, with a standard deviation of almost 10 percentage points. The evidence shows that there are societies with stable, low enthusiasm for commercial freedom (e.g. Argentina) and others with stable, high levels of support (e.g. Chile). There are countries such as Ecuador and Venezuela that experience a high level of instability in their macro opinion on trade. But in every case, there is movement. Since 1996, when all countries in the sample have at least one observation, the average change reflected in the index is of more than a quarter of a percentage point in a given country-year. Some societies seem to move together in the same direction at certain points in time, as was the case during and immediately after the global financial crisis of the past decade. Other nations experience their own

ebbs and flows. Interestingly, there is no homogenous trend in all countries. While at the end of the series the average regional public approval of free trade is seven points higher than it was twenty years before, there is no clear evidence of convergence in support for unrestricted integration.

2.1 Previous Research on the Mass Politics of Trade

The overwhelming focus of existing research on the mass politics of trade is not on the level and stability of public support for free trade but on the sources of relatively fixed individual trade preferences. Observational studies using individual responses to polls find support for the thesis that material self-interest determines individuals' support for or against free trade in line with models of economic voting according to which the pocketbook determines individual electoral behavior. The exact source of the economic interest changes according to the theory of international trade that scholars rely on. Tests of the Heckscher-Ohlin-Stolper-Samuelson model of factor endowments show that higher personal income and higher level of education increases support for free trade in rich countries because individuals who "own" the abundant factor increase their income with unrestricted trade (Scheve and Slaughter 2001; Mayda and Rodrik 2005). By contrast, studies that assume low capital mobility confirm the expectations of the Ricardo-Viner model: individuals in import-competing industries oppose trade liberalization and individuals in exporting industries support openness (Hiscox 2001; Hays 2009). A major factor we cannot omit is that workers will not necessarily receive the same benefits that accrue to their employers that lobby; intra-sector solidarity between employers and employees works better when institutions force the former to share profits with the latter (Dean 2016). Other explorations in egoistic

preferences emphasize skill endowments in imperfect labor markets (Walter 2017) and the routine intensity of occupations (Owen and Johnston 2017).

Survey experiments embedded in opinion polls, moreover, reveal that factors other than personal economic hardship explain individual trade preferences. Recent research underscores the importance of how individuals receive and process information (Ardanaz, Murillo, and Pinto 2013; Guisinger 2017; Mesquita Moreira and Stein 2019), their school socialization (Hainmueller and Hiscox 2006), union membership (S. E. Kim and Margalit 2017), cultural and ideological dispositions (Margalit 2012; N. M. Jensen and Shin 2014; Rathbun 2016), and the weight people give to the wellbeing of neighbors, co-ethnics, and co-nationals (Mansfield and Mutz 2009; 2013; Guisinger 2017). Recent literature reviews report a very prolific and yet inconclusive landscape of explanations for individual trade preferences (Oatley 2017; Naoi 2020).

Previous studies are not very useful to explain aggregate support for free trade over time. In other words, the literature is ill-suited to predict the rise and fall of the “neoliberal consensus” at the mass level at the turn of the century (Seligson 1999; Armijo and Faucher 2002; Baker 2003) and the emergence of the “backlash against globalization” that we witness today (Colantone and Stanig 2019; J. Frieden 2019; Margalit 2019; Naoi 2020).

There are several problems. First, these studies explain variation across individuals in a society rather than across societies. The estimated effect of one survey respondent’s pocketbook on her trade preferences has little external validity to explain the average attitudes of the electorate on the same issue.¹⁷ To measure and explain public support for free trade over time and across

¹⁷ Further, the discussion of validity extends to the types of participants in embedded survey experiments commonly used in the US-based literature (e.g., college students, a pre-paid Internet users) (see, Guisinger 2017; Naoi 2020).

societies we must consider both the representativeness of the poll to include different groups of individuals and the central tendency of answers across respondents. Second, existing studies fail to account for the time that passes for the effects of exposure to trade openness to materialize on investment decisions, the labor market, and consumption patterns. The skill endowment of the labor force as well as the distribution of employment across industries are two central variables derived from the standard international trade theories to explain individual preferences. However, both factors change rather slowly. As McLaren (2016, 120) puts it, in “two years the material interest of voters surely had not changed drastically; mobility costs or skill endowments had not undergone a radical overhaul.” So how are we to rely just on, for example, a static indicator of skill endowment to explain longitudinal variation in aggregate opinion?

Third, existing studies of individual trade preferences usually are based in one-time shots, i.e. use responses collected at one point in time that aim to retrieve the source of trade preferences without consideration of changing political and economic conditions (Naoi 2020). This problem is not caused by negligence but data availability. Until recently, single-country and multi-country opinion surveys have rarely asked the same questions in different points in time. Thus major studies of the mass politics of trade, such as Baker’s (2009) on Latin America, used few survey data points from one or two questions from one or two pollsters for a small number of countries covering less than a decade and with high sparsity of annual coverage (and typically dropping the “do not know” response category). Perhaps these reasons explain why models based on factor and skill endowments that predict high support for liberal trade in the developing world cannot explain episodes of reduction in support in such economies (Rodríguez Chatruc et al. 2019). This issue may be better addressed with insights from the comparative and American literatures on mass political behavior that link changes in public opinion to public policies (Wlezien 1995; Soroka and

Wlezien 2010) and the national economy (Stevenson 2001; Erikson, Mackuen, and Stimson 2002; Wlezien and Soroka 2019). Such studies, however, have their own shortcomings as they might exacerbate endogeneity in any causal claim between trade policy and public opinion on trade as well as fail to capture the varying effects of the national economy on aggregate attitudes toward trade.¹⁸

Finally, the majority of studies rely on opinion polls from developed economies with stable, high levels of trade openness (Margalit 2019; Naoi 2020). There is scant evidence on whether existing theories derived from affluent and open economies help us understand trade opinion in the developing world. For example, in Tunisia, a recently democratized Muslim country with high trade flows, survey respondents follow their economic self-interest rather than socio-cultural identities when evaluating trade (Jamal and Milner 2019). But across Latin American countries, both skills, economic beliefs, and ideology are found to explain individual trade preferences (Magaloni and Romero 2008; Rodríguez Chatruc et al. 2019). The sources of economic self-interest may work differently across levels of development, too. In previously closed developing economies that adopt trade liberalization, citizens could evaluate trade less for its impact on employment and more for what it delivers in terms of cheaper, higher quality, and varied consumer goods (Baker 2003; 2009). However, there is no systematic evidence that consumers’ “obsession with prices” (Baker 2009, 15) is reflected in trade policy outputs; in fact, imported consumer

¹⁸ For instance, economic growth may boost support for openness among people who can buy imported goods but can depress it among individuals facing foreign competition necessary to satisfy the increased demand for goods (see, Owen and Quinn (2016) and Mansfield, Mutz, and Brackbill (2019)).

products are levied at higher duty rates than other products (Betz and Pond 2019; Bearce and Moya 2020).

Ultimately, the national context comes to the forefront in another important way. The conventional wisdom according to which the losers of trade mute their opposition when they receive state compensation is based on the empirical regularities of the rich world in the postwar era (Ruggie 1982; Rodrik 1998; Hays 2009). The open economies with generous safety nets of the affluent West are very different from those found in the Global South (Rodrik 1998; Rudra 2008; Rudra and Tobin 2017). Globalization is thought to put downward pressures on welfare regimes in fiscally scarce and financially dependent economies so that there are fewer resources with which to compensate the losers of cross-border competition (Segura-Ubiergo 2007; Rudra 2008). However, while the empirical link from trade openness to public spending on social protection has been thoroughly studied across the developing world (Avelino, Brown, and Hunter 2005; Rudra 2008; Nooruddin and Rudra 2014; Rudra and Tobin 2017), there is still no evidence that government compensation helps to sustain public support for free trade in such countries. Absent such test our general understanding of the mass politics of trade will remain obscure.

2.2 Explaining Public Support for Free Trade

This chapter presents a new theory of public support and opposition to international trade. The first leg of the argument starts with the fact that public support for free trade is not constant over time. To make sense of changes in aggregate trade sentiment, I focus on the real and perceived effects of the two components of trade openness: imports and exports. While each trade component affects the interests and preferences of people who win from more integration and those who lose

from more competition, there are many people who have no direct stake on trade, whom I call bystanders. The relatively stable pocketbook interests of winners and losers from international trade alone cannot explain why aggregate opinion changes. By contrast, bystanders have feeble opinions on trade, so they sometimes join the free trade camp and other times they join the protectionist coalition. Bystanders use a neo-mercantilist shortcut, according to which selling more exports abroad is relatively better than buying a lot of imported goods from foreigners.

The second leg of the argument is that huge increases in or sustained high levels of imports should not always drive the public away from free trade. Government provision of welfare benefits can compensate the negative effects of trade and create broad support for trade. Average opinion should be less protectionist when the state compensates people from the risks of globalization. The interesting point is that this is less of a conscious pact but the long-term consequence of the intimate link between social protection and trade protection in previously closed developing countries. The theory thus addresses the changing role of the state in the economy in developing countries.

2.2.1 Imports, Exports, and Public Opinion

Aggregate trade sentiment is more than the number of people who win from trade (and thus support free trade) minus the people who lose from it (and thus oppose it). A naïve account of aggregate opinion on trade would claim that societies with many members who win from international trade should exhibit higher levels of support for free trade than societies with many members who lose from it. This plausible explanation correctly assumes that trade generates not only national welfare gains from aggregate productivity and access to goods (Melitz and Trefler 2012; Goldberg and Pavcnik 2016; Feenstra 2018) but within-country welfare disparities, too. If

commerce merely enlarged total output and allowed for cheaper goods to satisfy households needs, openness should be always popular everywhere. Trade generates welfare disparities, creating winners and losers who support and oppose free trade, respectively (J. B. Jensen, Quinn, and Weymouth 2017; J. Frieden 2019; Margalit 2019). Those who have a direct benefit or disadvantage from trade have a rational self-interest for or against it. Different international trade theories from economics identify the likely winners and losers, but the larger point is that the winners, e.g. abundant factor owners or individuals employed in firms that export, have a (stable) self-interest in free trade and support it. The losers, e.g. scarce factor owners or those exposed to high import penetration, offshoring, and outsourcing, have a self-interest in protection so they will express opposition (Owen and Quinn 2016).

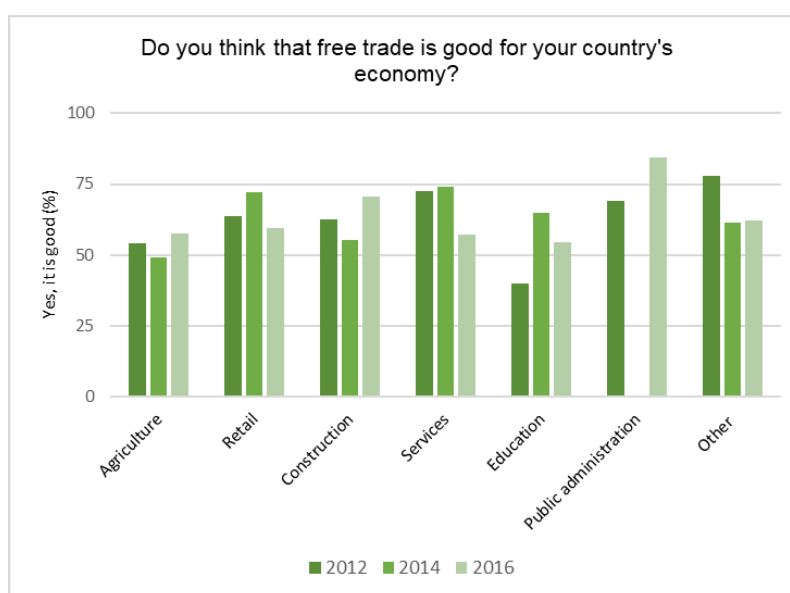
Aggregate trade sentiment is also comprised by those who have no clear stake on trade. I argue that what moves aggregate opinion on trade is the combination of the relatively stable positions for and against commerce from the direct winners and losers, plus the fluctuating mood of the citizens in between them, whom I call bystanders. Bystanders do not derive their income from tradable sectors or occupations and their closest experience with trade is as consumers of tradable consumer goods.¹⁹

Bystanders are crucial to understand changes in overall public support for free trade because they have feeble, changing attitudes on trade, whereas trade winners and trade losers have relatively stable opinions. The available survey data provides preliminary support for this assertion. Consider Mexican voters, for example. Every two years, the Mexican private university

¹⁹ Bystanders may be producers of non-tradable goods (or services) for domestic individuals who work in tradable sectors.

CIDE conducts a high-quality survey of citizens' attitudes on trade and other foreign policy issues. This survey includes a question on the industry in which respondents are employed allowing to get at the attitudes of different segments of society affected unevenly by trade and eventually test the Ricardo-Viner theory of specific factors. In Figure 2.1, we see that respondents who are employed in tradable sectors, such as agriculture, have very similar opinions about the effects of free trade on the national economy over three survey waves. By contrast, the percentage of respondents who work in services, retail, and other non-tradable sectors who agree with the statement that free trade is good for the country varies significantly over time.²⁰

Figure 2.1: Stability of Support for Free Trade by Economic Sector



Note: Author's own elaboration based on survey data for Mexico from CIDE's *Las Américas y el Mundo* project, various years.

²⁰ The results of support for free trade by sector of employment are replicated in other countries where the same *Las Américas y el Mundo* survey project was fielded, such as Brazil, Colombia, and Perú, but there are just two waves available in each of those countries.

Why do bystanders change their attitudes toward trade? Bystanders rely on economic narratives based on sociotropic concerns, stereotypes, and elite cues rather than micro-signals (e.g. trade-affected wage levels) to evaluate how trade openness affects their lives and those of whom they care about. The connection from trade openness to mass attitudes does not require that “all voters possess a sophisticated understanding of the distributional implications of trade” (J. B. Jensen, Quinn, and Weymouth 2017, 428). Research shows that voters follow sociotropic concerns about the benefits to others into their evaluations of government performance and public policies (Kinder and Kiewiet 1981; Lewis-Beck and Stegmaier 2000; Healy and Malhotra 2013). Some observational and experimental evidence in the United States confirms that the perceived benefits of trade to the nation, the community, and the ethnic group are as, or more, important than personal interests in shaping trade preferences (Mansfield and Mutz 2009; 2013; Guisinger 2017). There is mounting evidence that trade competition has real negative impacts on local labor markets, putting downward pressure on wages and leading to layoffs in districts with manufacturing industries (Autor, Dorn, and Hanson 2013). Those local changes have produced important changes in residents’ perceptions about the advantages and disadvantages of globalization, even in residents who did not work in import-competing firms (Silver, Schumacher, and Mordecair 2020).

Bystanders follow economic narratives. Only very few people know and care where their coffee mugs, kitchen tables, canned peas, or the paper for their books were made. Those who know are typically those with a direct stake on producing that stuff. But bystanders do not know the origins of their appliances, auto-parts, and sport shoes. People not directly affected by trade “hold diffuse prior beliefs over trade policy, and hence are more likely to update their opinion on trade’s desirability when exposed to frames that emphasize its effects on prices and employment” (Ardanaz, Murillo, and Pinto 2013, 413). Bystanders learn the benefits and costs from open

commerce indirectly, from family, colleagues, or opinion leaders, whether journalists, interest groups spokespersons, or public officials. The content of the messages about trade varies across family members, news channels, and working spaces.

In a world of imperfect information and competing elite messages, rationally ignorant bystanders find it appealing to use a neo-mercantilist shortcut according to which selling more exports abroad is relatively better than buying a lot of imported goods from foreigners. The neo-mercantilist shortcut derives from the fact that trade involves two flows: imports of goods (and similarly, the outsourcing of services) and exports of goods (and the inflow of foreign services). Most scholars consider trade flows combined when examining trade preferences, but much more can be gained by disaggregating the flows into imports and exports (Hays 2009; Kleinberg and Fordham 2010).²¹ The picture that emerges is one of trade having mixed effects on attitudes. Recent studies show that higher imports lead to higher aggregate support for a greater role of the government in the economy (Owen and Quinn 2016) as well as to fewer votes for the incumbent party in national elections (J. B. Jensen, Quinn, and Weymouth 2017), with exactly the reverse effects for increases in exports. Even if we assume that the distribution of the labor force across economic sectors remains stable, changes in exports and imports at the aggregate level may alter average public sentiment on trade because of bystanders with feeble opinions.

The neo-mercantilist shortcut is simple and effective. It defies mainstream economic theory that predicts aggregate gains from trade but is simple enough to attract many people as evidenced

²¹ Each of these trade flows changes over time due to exogenous factors, such as shifts in global demand, commodity prices, and the policies of foreign governments, as well as public policies implemented by the home government, from policing crime to spending in public infrastructure to commercial regulations.

by its re-emergence in elite discourse and in mass polls in recent years (Blinder 2019). It is rooted in ordinary people's economic ignorance (Rho and Tomz 2017) and their need for security and certainty (Johnston 2013). According to the neo-mercantilist view, robust export volumes are a positive outcome in itself. High exports signal greater competitiveness. Politicians across the aisle boast about them (Guisinger 2017; Bearce and Moya 2020). Exports are seen as a proxy for good economic performance, represent opportunities for new jobs, and become a source of advantage in world markets (Lee and Osgood 2019; Silver, Schumacher, and Mordecair 2020). Ask a Peruvian about the display of Pisco and quinoa products in a grocery store abroad, and you will get an emotional response about the high quality of their food and beverages. Argentines you meet in a bar or take a taxi bring proud stories about being the world's grain mill (*granero del mundo*) and selling tubular steel (*los tubos de Techint*) to the *yanquis* (Argentine for *gringo*).

Certainly, someone could make the reservation that higher exports may be counterproductive for society when they increase the domestic price of households' food basket. In the postwar era, for instance, Argentine exports were wage goods, "the very foods and fibers which constitute 80% of the family budgets of wage-earning Argentines" (Merkx 1969, 107). However, since the 1980s the profile of exporting goods has changed dramatically there and in other parts of the region, with the rise of exports of soybeans (that feed livestock, not humans), petroleum, gold, cut flowers, or organic asparagus that weight lightly in household consumption in the economies of origin (Mesquita Moreira and Stein 2019).²² While Argentines and Brazilians still boast about their beefs, the premium cuts that are exported to New York, Paris, and Dubai are not the same that are consumed domestically, except for the small fraction of wealthy people.

²² In the statistical analysis below, I control for changes in domestic consumer prices.

Imported goods, by contrast, are seen as threats to employment, specific industries, and the general economy. This is terrifying not only for those who directly lose from import competition but also for people who are not directly affected by such changes. There is mounting micro-level evidence that people form preferences about trade in terms of employment, not prices (Rodríguez Chatruc et al. 2019; Bearce and Moya 2020). The latest survey evidence across Latin American countries from the Latinobarometer project shows that individuals think about trade more in terms of employment and wages rather than product prices. In 2018, 58 percent of Latin American respondents believed that trade produced higher employment, while only 33 percent believed it produced lower prices. The results are very similar for previous years in which the question was asked. The general pattern from the pooled data replicates in individual countries, from societies that tend to be skeptic of free trade, such as Argentina (more jobs: 44 percent; lower prices: 24 percent), to societies where trade is highly popular, such as Guatemala (more jobs: 53 percent; lower prices: 33 percent) and Panama (more jobs: 60 percent; lower prices: 21 percent). Chile is the only of the 18 countries where the Latinobarometer survey was conducted that had a larger number of respondents saying that trade produces lower prices compared to those who said it created more jobs. Moreover, statistical analyses of the micro-level Latinobarometer data report that beliefs about the impact of trade on job opportunities are the single largest predictor of individual preferences on trade, an effect estimated with higher confidence and larger magnitude than other predictors like skills, household income, or age (Rodríguez Chatruc et al. 2019).²³

²³ I do not provide a theory of why individuals downplay the benefits of cheaper foreign-made goods. An interesting inquiry for future work is to test whether real wages allow to purchase foreign imports and access a greater variety of consumption goods.

One reason why bystanders accept the narrative that imports are bad is that the media and politicians disproportionately focus on the negative effects of trade, usually on employment opportunities, wage levels, and labor conditions (Guisinger 2017; Facchini, Frattini, and Signorotto 2020). Exposure to media creates policy and political awareness among voters (Pérez-Liñán 2002). The negative coverage on trade is even larger when the press is less free from government interference (S. E. Kim 2018) or when social networks amplify those messages, often transforming the content and the framing in disinformation campaigns. Elites communicate the downsides of import competition more loudly, more clearly, and more frequently than the benefits (Guisinger 2017, 174). The adverse coverage leads to sociotropic evaluations of trade in which imports generate anxiety about the national economy and damage the national pride (Mayda and Rodrik 2005; Colantone and Stanig 2019; Hays, Lim, and Spoon 2019). Here again, the survey data from recent Latinobarometer polls show that negative frames that emphasize the threat of job losses from increased trade integration substantially reduce the probability of supporting free trade and of believing that trade increases job opportunities (Rodríguez Chatruc et al. 2019). In the same polls, positive frames that emphasize the potential for lower prices fail to significantly alter the probability of supporting free trade and only marginally affect the probability of expressing a belief that trade produces lower product prices.

Third, foreign imports could be negatively interpreted through notions of fairness, as if foreigners were taking more of their “fair share” of benefits from commercial exchange through “unfair” behaviors (Ehrlich 2018; Brutger and Rathbun 2019). Relatedly, imports can also produce nostalgia about some “golden past” in which domestic economic agents were previously protected from the vagaries of globalization (Norris and Inglehart 2019). Recent evidence from focus group studies report that participants in who disapprove of globalization express feelings of alienation

and loss, denouncing that globalization breaks down the national community and changes what it means to be part of the nation-state (Hays, Lim, and Spoon 2019). Moreover, trade is explicitly framed by those participants as a zero-sum game in which what matters is one's own country benefiting at the expense of other states (Silver, Schumacher, and Mordecair 2020). Finally, rising imports can trigger consumer safety concerns according to which foreign products are substandard in quality and dangerous to our families (Betz and Pond 2019).²⁴

The takeaway is that, while material winners prefer freer trade and losers oppose it, the level of public support at the national level hinges on how bystanders value trade. Bystanders have feeble opinions on trade, so they sometimes join the free trade camp and other times they join the protectionist coalition. The effects (real or imagined) of each type of trade flow on individual and community wellbeing widely understood create focal points for bystanders to assess commerce. Bystanders value trade openness positively when the country exports a lot and negatively when the country experiences an import shock. Put differently, bystanders enter the free trade coalition when export performance is good and exit it when imports grow significantly. Protectionist sentiment emerges when the losers from trade succeed in mobilizing and dominating the public agenda to stop economic integration (J. Frieden 2019). Activists, such as labor union leaders and business lobbies, frame and distribute negative messages on trade (Guisinger 2017; Colantone and Stanig 2019). Amplified by the traditional media and increasingly digital social media, negative messages resonate to bystanders (Guisinger 2017; J. Frieden 2019; Facchini, Frattini, and Signorotto 2020). If bystanders feel compelled by such images and become (albeit temporarily)

²⁴ Moreover, the stable low levels of inflation in most countries around the world make it harder for individuals to link foreign trade to low product prices (Bearce and Moya 2020).

closer to the protectionist cause, aggregate public support for free trade will likely decrease. Accordingly, Hypothesis 2.1 is that *public support for free trade should be higher in the face of high exports and lower in the face of high imports*. Empirically, we should see that increasing exports boost public support for free trade while high import penetration depresses it.

2.2.2 Social Protection and Public Opinion

High imports lead to declining support for free trade but these declines can be mitigated by social protection. Scholars and public officials find government-provided compensation to be an effective means to resist public opposition to openness. In the second half of the twentieth century, an implicit arrangement emerged in advanced capitalist societies in which governments provided a safety net in exchange for acquiesce with the internationalization of their economies (Ruggie 1982; Rodrik 1998). This compromise became known as the embedded liberalism compact: welfare state policies aimed to “cushion citizens from the vagaries of the international economy in return for public support for openness” (Hays 2009, 11). Even if the level of imports is very high or there are important import surges, compensation in the form of welfare benefits softens opposition to trade among losers who evaluate it in terms of material self-interest and, I add, dissuades bystanders from joining the protectionist coalition.

The literature provides empirical support for its micro-level logic in advanced economies. Survey respondents employed in industries which stand to lose from foreign competition increase their preferences for welfare spending (Walter 2010; Owen and Quinn 2016). Observational and experimental evidence shows that individuals likely to lose from globalization but who are compensated with public safety nets are less likely to favor protectionist policies (Hays, Ehrlich, and Peinhardt 2005; Margalit 2011; Ehrlich and Hearn 2014; Ha, Lee, and Amri 2014).

Compensation usually includes active labor market policies that increase people's chances of finding new jobs (e.g. training) as well as passive labor policies that provide support to those already unemployed (e.g. insurance). There is also district-level evidence that trade-specific social protection, such as the US Trade Adjustment Assistance program, can act as a substitute to trade policy barriers. Districts that heavily rely on trade adjustment assistance are less likely to have firms that request anti-dumping measures, controlling for exposure to import competition (S. E. Kim and Pelc 2020). In sum, popular support for free trade should not decrease if governments provide social security to cushion the displacement from international competition.

However, there are two important reasons to question whether embedded liberalism works in other contexts. First, in the twentieth century several governments in developing countries purportedly developed and enlarged welfare regimes under very closed economies (Segura-Ubiergo 2007; Wibbels and Ahlquist 2011). This is particularly the case of Latin American welfare regimes. The origins of the welfare state there traces back to the interwar era. It was a top-down project in which governments "introduced social legislation as a mechanism to control increasingly mobilized labor movements and urban middle classes" (Segura-Ubiergo 2007, 260). The creation of welfare benefits aimed at making key social groups loyal to the state authority. The early social security regimes in places like Argentina, Chile, and Uruguay had some elements of prewar European-style corporatism, such as labor relations governed by collective contracts negotiated by unions, but not others such as cooperative (instead of adversarial) business-union relations (Hays 2009), which led to the failure of coordinated economy-wide wage restraint (Segura-Ubiergo 2007).

Importantly, the early provision of social protection in Latin America was not to compensate social groups from international trade competition. On the contrary, the governments

that closed their countries' economies from trade to pursuit import-substitution industrialization (ISI) policies (which included trade barriers) were the same that increased public spending in a net of social protection tools, such as contributory insurance benefits for workers, families, and the retired. The goal was to subsidize domestic consumers of final goods produced by the domestic firms directly benefited by high commercial policy barriers (Wibbels and Ahlquist 2011, 132). This contradicts the foundations of the embedded liberalism compact, developed for open economies. There is no clear empirical evidence on how that unique social protection, trade protection pair affected public opinion on trade. What we know is that the arrangement disappeared with the transition from a closed economy to integration into world markets with the swiftly adoption of liberalization (Segura-Ubiergo 2007; Rudra 2008).

This leads us to the second challenge: whether the welfare systems developed under ISI serve as compensation to support trade in the contemporary era of globalization. With deeper integration, market forces push governments to cut wages and reduce taxes in a race to the bottom to attract mobile capital (Adsera and Boix 2002; Rudra 2008). Globalization creates pressures for governments to “cater to domestic and international capital interests by cutting wages and benefits ... nations that harbor public policies that raise production costs or inhibit sound macroeconomic fundamentals risk lower profit margins and capital flight” (Rudra 2008, 2). Developing countries appear especially vulnerable to these downward pressures on the provision of social security because their states are fiscally as well as financially constrained (Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo 2007; Rudra 2008; Campello 2015; Bastiaens and Rudra 2018). Developing countries are threatened by the greater race to the bottom among countries with similar factor endowments in a world in which China “is defining the new bottom” (Rudra 2008, 3). Analyzing the late 1990s and early 2000s, Baker (2009, 261) notes that the gains from consumption should

be very high for the people of Latin America to embrace globalization “in lieu of significant compensation from their limited welfare states.” It will not be surprising if the lack of safety nets generates vocal opposition to openness (K. M. Roberts 2008; Kay and Evans 2018).

Overall, social protection should cushion the costs of free trade and redistribute its benefits for losers and bystanders, discouraging the public’s preference for trade protection. The negative campaign from the losers’ camp should be less effective when the welfare benefits are relatively generous. Bystanders could think more about consumption and less about the other-regarding effects of commerce. However, if globalization affects both public opinion *and* social spending, results will be biased against finding a cushioning effect. Fortunately, the empirical evidence suggests that social spending is not just exogenously imposed by global investors and multilateral financial institutions, but rather chosen by national governments (Bergh, Mirkina, and Nilsson 2020). Even though the improved terms of trade fueled by the demand of raw materials by China in the early 2000s resulted in greater government revenue collection, there was no convergence in welfare policy and outcomes across Latin America (Garay 2016; Holland and Schneider 2017). Several governments established income cash transfer programs aimed at the poor and informal workers, but differences in benefit coverage and fiscal effort remained large (Kurtz and Brooks 2008; Garay 2016). Moreover, active and passive labor market policies are still small and ill-funded across the region (Mesquita Moreira and Stein 2019). Governments in poor countries have followed their counterparts in rich nations in failing to provide adequate compensation to the losers of globalization (J. Frieden 2019). In sum, Hypothesis 2.2 argues that *public support for free trade should increase when governments compensate for imports with greater social protection.*

2.3 An Index of Public Support for Free Trade

This chapter presents an original time series index of public support for free trade for 18 Latin American countries in the 1990-2017 period. Public opinion on a policy is a latent dimension that we cannot directly observe. Nonetheless, it can be constructed from observable answers to survey items. Until now, scholars of the mass politics of trade have studied data from one survey at a time. But not one survey datum is enough. We need data on as many survey items as possible that can be interpreted as stemming from an underlying public support for free trade.

I collected aggregate survey data from 25 survey questions related to trade by screening all available polls in Spanish, English, and/or Portuguese that used a nationally representative sample of the adult population, contained at least one item (question) related to trade since 1990, and where asked more than once.²⁵ Selection was determined by two decisions. First, I reviewed the digital repositories of all multi-country survey projects which cover at least one Latin American country, obtaining results from, among others, the Latinobarometer, the Latin American Public Opinion Project (LAPOP), Gallup International, Pew Global Attitudes, and the Americas and the World Series from the Centro de Investigación y Docencias Económicas. Second, I reviewed all country-specific polls conducted by private firms, academic institutions, and government agencies in any Latin American country ever included in the digital repositories of the Roper Center for Public Opinion Research and the Polling the Nations databases. In some cases, the organization that requested, funded, and published the poll hired local firms to create the sampling and conduct

²⁵ In a few cases in which the national adult population was unavailable, I selected polls based on samples from large urban adult populations.

the fieldwork. For instance, the United States Information Agency, a Cold War-era government agency in charge of monitoring anti-American sentiment around the world, hired the Instituto Brasileiro de Opinião Pública e Estatística Ltda. (IBOPE) in Brazil while choosing Consultoría Interdisciplinaria en Desarrollo S.A. (CID) in Central American countries; such items were classified as belonging to the major institution (e.g., the USIA). The result is that the selected surveys are part of large cross-national research projects that are not susceptible of manipulation in the questions they ask by incumbent governments or opposition parties.²⁶

The second step was to collect and code the survey marginals from each trade-related question asked in the polls. The marginals are “the descriptive result of individual surveys, the percentage choosing the various possible responses to survey items” (Stimson 1991, 37). That involved grouping over people who gave the same answer to a specific question.²⁷ An important challenge was that polls did not always use the same words to elicit an opinion on trade, either due to idiosyncratic factors or the pollster trying to get at different dimensions of a concept of interest. I followed the scholarly wisdom about trade and trade policy to carefully identify all items related to attitudes toward international trade, excluding overlaps with other economic outcomes or policies. Therefore, I did not include survey items such as opinion on regulation of foreign investment or evaluations of regional integration initiatives when it was not clear it referred to trade integration. Items were selected if they were intended to generate answers on agreement to

²⁶ The surveys collected from the Office of the President of Mexico (see, Appendix A Table 1) are for the late 1980s and early 1990s and thus do not cover the period on which I conduct the statistical analysis.

²⁷ Some of the oldest polls were not digitalized, requiring hand-coding from printed and scanned tabulations and annotated questionnaires.

the issue.²⁸ To standardize answers, I collapsed them into three categories: “Agree with free trade,” “Disagree with free trade,” and “Do Not Know (or Neither).” For example, the Latinobarometer question on the expected benefits of regional trading blocs had five answer categories: “My country will benefit a lot,” “My country will benefit somewhat,” “My country will only benefit little,” “My country will not benefit at all,” and “Do Not Know.” In my classification, the first two options were grouped as “Agree with free trade,” the third and four options were coded as “Disagree with free trade,” and the last option was assigned to “Do Not Know (or Neither).” Similarly, for items using numerical scales such as 1-7 Likert scales (with the highest value being highest agreement), I grouped values 5 through 7 as “Agree with free trade,” values 1-3 as “Disagree with free trade,” and the middle point as “Do Not Know.”

The resulting measure of aggregate public support for free trade, obtained from each survey question, is captured by Equation 2.1 below:

$$Public\ Support\ for\ Free\ Trade = 100 * \left(\frac{Agree}{Agree + Disagree + Do\ Not\ Know} \right)$$

The index takes into account how many people give “Do Not Know” responses to trade questions. Failing to do so would inflate and bias the level of aggregate support for free trade. Scholars who investigate individual trade preferences based on observational survey data tend to drop the “Do Not Know” responses when they construct their dependent variables (Mayda and Rodrik 2005; Owen and Johnston 2017). To study aggregate opinion on public policies, however,

²⁸ Also, items on “the most important problem facing the nation” that had “trade” as an answer option were not included because no meaningful group of respondents selected “trade” alone as their most important problem. Instead, respondents selected the “state of the economy,” “the cost of living,” and “unemployment” as their main economic concerns.

we must consider all responses. Not everyone is able to express an opinion on specific policy issues. Comparing those who express support for an issue to those who express opposition to that issue leaves behind several people who do not have enough information and are unable to make up their minds about the issue. That would lead to potentially misleading conclusions about the level of support for an issue such as international trade (Kleinberg and Fordham 2018).

For instance, in 1996 the Latinobarometer project conducted an opinion study using a sample of 1200 respondents in Argentina, including the question “Do you agree that your country can buy goods and services from any other country and that any other country can sell goods and services?” with five response categories, one of which was “Do Not Know.” If we merely consider the 733 respondents who selected the “Very much agree” and “Somewhat agree” as a share of the 924 respondents who gave an either positive or negative, the estimated level of public support for that year would be 79.3 percent, a remarkably high figure. If, by contrast, we consider the positive responses over all responses collected, which includes both the 733 positive responses, the 191 negative responses, and the 276 “Do Not Know” responses, we see that the level of aggregate support is realistically lower at 61 percent. In this study, I consistently take into account the “Do Not Know” responses in the denominator of the index. (Figure 2 in Appendix A provides a visual comparison of the responses in support of free trade and the Do Not Know responses collected from the answers listed in Table 2 in the Appendix). Finally, this is not exclusively a concern in developing countries; there is observational and experimental survey evidence from the United States that confirms that many US voters frequently choose “do not know” responses on trade-related questions (Kleinberg and Fordham 2018).

Overall, I collected 536 survey marginals from 25 survey items asked at least twice over the years, measuring the percentage of respondents who agree with, or express support for, free

trade. Those percentages encapsulate the opinions of thousands of Latin Americans surveyed in the 18 countries. In the Appendix A, I list the sources (Table 1) and the full wording of each survey question included in the dataset (Table 2).

How do we go from survey marginals from questions fielded with time gaps to a continuous cross-country, time-series indicator of mass trade opinion? Naïve approaches that take a simple or even a moving average of the observed percentages from the raw surveys are problematic due to high sensitivity to data availability in any given year (Crisp, Olivella, and Rosas 2020, 48). Moreover, question wording and the answer menus vary across polls and countries and within them over time. Therefore, I turn to the research in American political behavior, which has studied macro partisanship, public opinion on specific policies, and presidential approval over time. I rely on the “dyad ratios” method (Stimson 1991; 2018), increasingly applied in comparative settings (Carlin et al. 2018). This method uses the information on changes over time within series of repeated questions of same wording and answer options to estimate changes in the latent public opinion. Focusing on survey items that appear in more than one period, the algorithm computes the relative changes in the percent of respondents who answer in the same way within such panel. If a question is asked in a survey in years $t+i$ and $t+j$, the method calculates the ratio of the proportion of respondents who agree to the question administered in year $t+i$ to the proportion of the agree responses in year $t+j$. Given that we do not have a full set of cases for each survey question to estimate their mean and compare across them, we can exploit the fact that ratios have a known expected value of 1. The approach applies both backward and forward recursion, which uses the final point of the time series (and the beginning, conversely) to estimate values for each item and time point. This methodological strategy then combines numerous disparate opinion series using factor analysis, weighting each item’s ratio of change by the degree to which it

correlates with the quantity of interest, into a single, unidimensional opinion series by modeling their common variance while controlling for tendencies specific to each data source. The algorithm then smooths the estimates over time using an exponential function, which yields a complete time series between the first and the last dates for which there are observable data.²⁹

I applied the dyad ratios method to my dataset of raw survey marginals using a program in R, obtaining standardized estimates of (latent) popular support for free trade for each country-year since the first survey item appears in each country series.³⁰ Opinion data for most countries became available around 1995/1996, after the Uruguay Multilateral Round of trade negotiations was finalized and the World Trade Organization was formally established. Six countries (Brazil, Chile, Colombia, Mexico, Uruguay, and Venezuela) have data going back to 1990 that allow for estimation of support for free trade in the context of unilateral trade liberalization. Table 3 in the Appendix A summarizes how many observations were used to calculate the level of support for free trade in each country, together with a measure of how much of that outcome is accounted for with the original data. To validate the new indicator, Figure 1 in the Appendix A plots the relationship between observed survey marginals and the estimated index.

²⁹ The smoothing minimizes high “zig-zag” fluctuations. The smoothing model is $y_t = \alpha x_t + (1 - \alpha)x_{t-1}$, where y is the smoothed version of the indicator x . The algorithm privileges an estimation “based upon the prior knowledge that nature is smoother than empirical estimates of it,” that are determined with sampling error (Stimson 2018, 206).

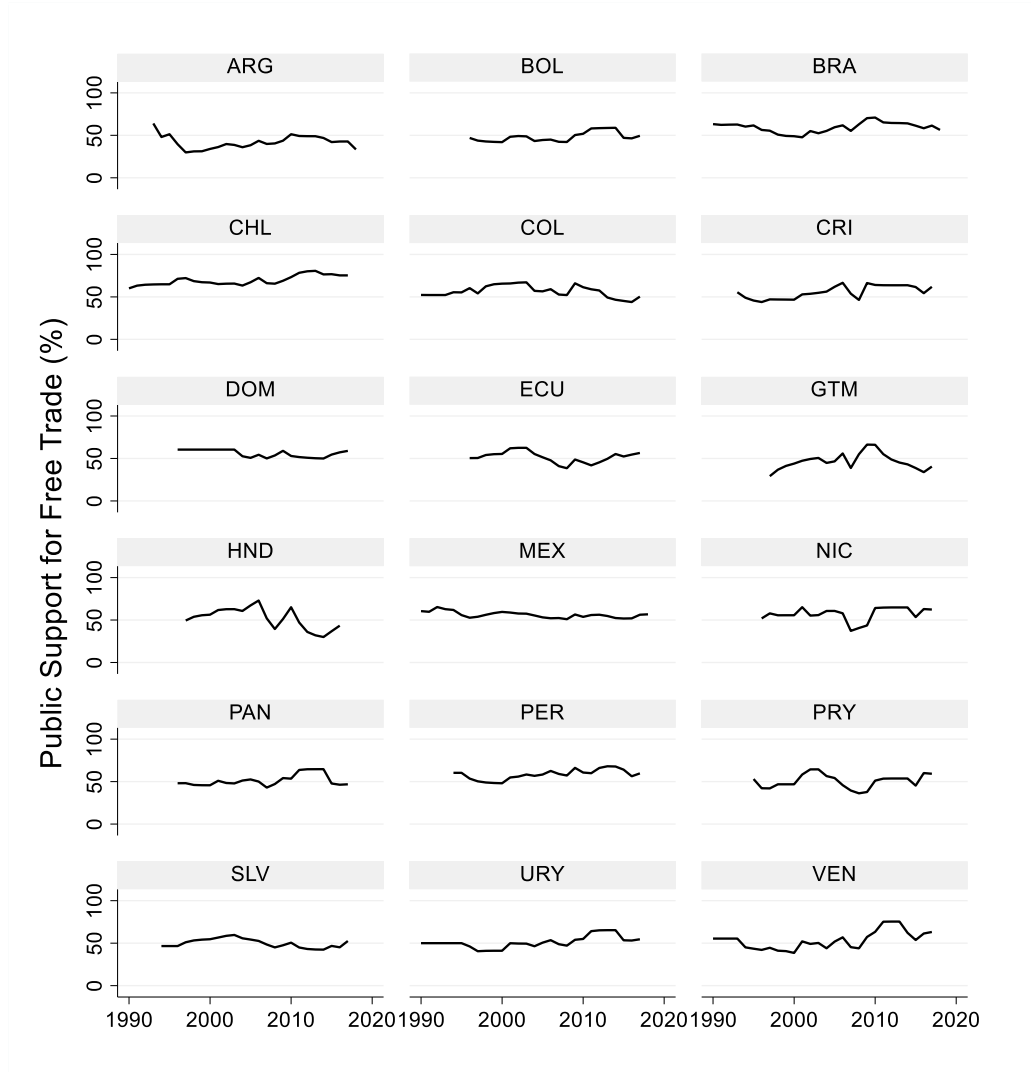
³⁰ The resulting coverage varies between 22 and 28 country-year observations.

2.3.1 Cross-Country and Longitudinal Variation in Public Opinion

Figure 2.2 plots the time series index of public support for free trade for each of 18 Latin American countries in the period 1990-2017.³¹ There are a few common patterns. In the second half of the 1990s, public support for free trade was on average around 50 percent, a lower value than in later periods. The first half of the decade exhibited somewhat higher levels of support for free trade but bear in mind that less than half of the sample had data for that early period. Aggregate support for free trade went up during the economic bonanza of the first half of the 2000s. That was a period in which Latin American economies increased commercial ties with Asia, especially China, and enjoyed improvements in terms of trade. Eventually, optimism with open commerce came to a stop during the global financial crisis of 2008, which led to capital flight to safety, financial instability, lower investment, and an immediate albeit temporary collapse in world trade flows. Public sentiment quickly became more pro free trade in the aftermath of the Great Recession, reaching even higher levels of support for openness. A new downturn appeared by the end of the series, correlated with sluggish economic growth in many parts of the continent and lower demand for exports of raw materials to China.

³¹ In Appendix A Figure 2, I compare the index of public support for free trade to the estimate of percentage of respondents who gave “Do Not Know” responses in a given country-year based on raw Do Not Know marginals from the same survey items used to create the index of support (I used the dyad ratios methods described above to fill in temporal gaps).

Figure 2.2: Public Support for Free Trade, 18 Latin American Countries



Source: Author's calculation. Higher values represent more pro free trade aggregate sentiment.

Turning to the cross-sectional variation, we can see that Argentina stands on the low end of popular agreement with openness. The country average of latent popular support in this middle-income is the lowest in the region at 42 percent for the full time series. Other countries with low means are Bolivia (48.2%), El Salvador (50.1%), and Paraguay (50.7%). By contrast, Chile stands out with the highest level of support for liberalized trade in Latin America (70.6%). Chile is followed by Brazil (58.8%), Peru (57.6%), Colombia (57.2%), Nicaragua (57.1%), the Dominican

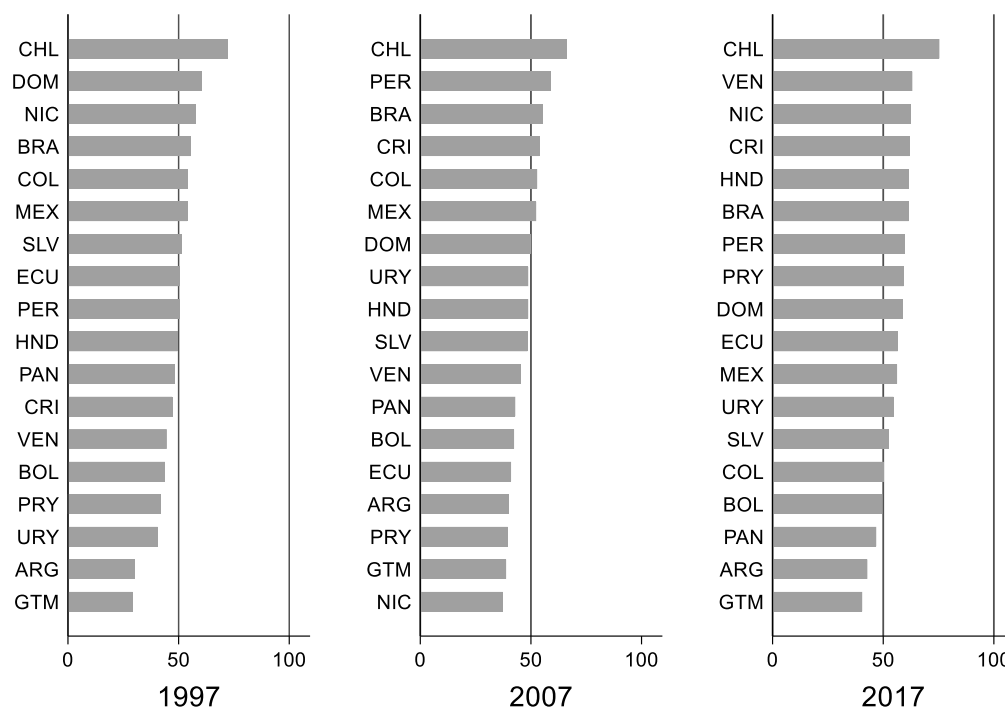
Republic (56.8%), Costa Rica (56.4%), and Mexico (56.3%). In the middle, we find Uruguay (51.2%), Panama (51.4%), Ecuador (51.7%) and Venezuela (53.9%). If we restrict the comparison to the years with the best data coverage (2004-2017), the overall picture remains, but with some interesting nuances. In this shorter period, the two largest economies in the region changed course: Brazil stood out with a higher level of support at 62.6 percent and Mexico came closer to the low-end at 52 percent. Other countries experienced higher figures than in the past, especially Peru (60.3%). Overall, these figures caution against overly optimistic accounts about how popular free trade is (e.g., Baker 2009). Those conclusions were based on cross-sectional evidence using few survey data points from limited sources with high sparsity of temporal coverage for a small number of countries (and typically dropping the “do not know” response category).

It is clear from the time series that public opinion on trade is not constant. Interestingly, there are some countries where opinion moves little and others in which opinion experiences large differences. The longest ranges between the minimum and maximum values of within-country support for free commerce correspond to Costa Rica, Ecuador, and Venezuela. Some countries experienced their largest drops in average opinion in the late 1990s, such as Brazil and Peru. Other countries experienced their largest drops in average opinion around the 2008 financial crisis, such as Chile, Costa Rica, and Panama, although each of these countries quickly recovered and surpassed their pre-crisis levels of support. Importantly, though, we should notice that public support for free trade is always moving and we will not find any two consecutive years in which mass attitudes remain unchanged.

Figure 2.3 illustrates how some societies are more sticky in their judgments of international trade and others are found at different places depending on the year. For instance, Chile is the highest ranked country in each of the three mini-plots of Figure in terms of its estimated value of

macro agreement with trade. Conversely, Argentina and Guatemala, are always found at the bottom, between the 15-17 and the 17-18 positions, respectively. In other chapters, I discuss the evolution of public opinion as well as trade policy responsiveness in three case studies. Two of those countries, Colombia and Peru, exhibit interesting changes in macro trade opinion. In fact, Figure 2 shows that while latent support in Colombia was stable at the top fifth place in the region in 1997 and 2007, it fell to the 15th position in 2017. Peru, by contrast, was in the middle of the series in both 1997 and 2017 while experienced high support in 2007 when it reached the second largest value in the region.

Figure 2.3: Rankings of Public Support for Free Trade in Three Periods



Source: Author's own elaboration. Higher values represent more pro free trade aggregate sentiment.

2.4 Econometric Analysis

2.4.1 Research Design

2.4.1.1 Methods

I use panel econometric methods to study the determinants of public support for free trade with pooled country-year data for 18 Latin American countries in the 1995-2017 period. Panel data, or long time-series, cross-section (TSCS) data, allow us to study differences between units as well as within units, producing useful generalizations of causal processes across both time and space. Using Ordinary Least Squares regression would violate the assumptions of independence and no-autocorrelation.³² Panel econometric methods let us deal with the problem of how to control, in an observational study, for factors that cannot be observed and may cause spurious correlations.

I use three major approaches to estimate the effects of exports, imports, and social protection on public opinion on trade. First, I use random effects linear regression in which the error term decomposes in two parts that arise from independent random processes; assuming they are normally distributed, we can estimate their variance.³³ To account for nonindependence, standard errors are clustered by country. However, behind random effects rests the heroic

³² Unmeasured factors that affect the observation over time are merged into the error term and will likely be related to one another at different periods. Unit effects induce problems in the error term because they may be related to the observed independent variables.

³³ The random effects model is more efficient than the fixed effects model because it incorporates only one additional parameter to the estimation - the variance of U_i (σ_u) - instead of the N-1 new parameters required in the latter.

assumption that the error components are unrelated to the observed independent variables (Bell and Jones 2015). Therefore, I also estimate fixed effects linear regressions to rule out time-invariant omitted variable bias. To account for nonindependence, standard errors are clustered by country. I report the fixed effects empirical model for Hypothesis 2.1 in Equation 2.2:

$$Public\ Support_{it} = \beta_1 Imports_{it-1} + \beta_2 Exports_{it-1} + \beta_3 Social\ Protection_{it-1} + \beta_4 Controls_{it-1} + \psi_i + e_{it}$$

I report the empirical model for Hypothesis 2.2 in Equation 2.3:

$$Public\ Support_{it} = \beta_1 Imports_{it-1} + \beta_2 Social\ Protection_{it-1} + \beta_3 Imports * Social\ Protection_{it-1} + \beta_4 Exports_{it-1} + \beta_5 Controls_{it-1} + \psi_i + e_{it}$$

In addition, serial correlation is a serious issue with panel data, so I also estimate dynamic models that incorporate the one-period lagged value of the dependent variable (Hays 2009) and calculate panel corrected standard errors (PCSE) with a first order autoregression parameter (N. Beck and Katz 1995).³⁴

Finally, given the nature of the dependent variable and the structure of the data with significant cross-country and some temporal variation, I estimate error correction models, flexible time series models that may be applied to both integrated and stationary data (De Boef and Keele 2008). For each independent variable there are two parameter estimates, β_1 for the differenced variable and β_2 for the lagged level of the variable. The β_1 parameter provides an estimate of the initial change in the dependent variable produced in the short term, i.e., the effect occurs wholly at a specific point in time. The model reports the rate at which the outcome returns to equilibrium after changes in the independent variables, controlling for the outcome's past behavior. The β_2 and

³⁴ Using a dynamic model with fixed effects may not provide the most consistent and efficient estimates with panel data (Nickell 1981). This is less of a problem when T is relatively large to N as in this sample (Angrist and Pischke 2009).

the α_1 parameters provide information to estimate the error correction component of the model, i.e., the long-term impact of the independent variable that is distributed in each period over a time span. The total long-term impact of a change in the independent variable on the outcome is computed by dividing β_2 by α_1 (De Boef and Keele 2008).

I report the empirical model for Hypothesis 2.1 in Equation 2.4:

$$\begin{aligned} \Delta Public\ Support_{it} = & \alpha_0 + \alpha_1 Public\ Support_{it-1} + \beta_1 Imports_{it-1} + \beta_2 \Delta Imports_i + \\ & \beta_3 Exports_{it-1} + \beta_4 \Delta Exports_i + \beta_5 Social\ Protection_{it-1} + \\ & \beta_6 \Delta Social\ Protection_i + \beta_7 Controls_{it-1} + \beta_8 \Delta Controls_i + e_{it} \end{aligned}$$

The empirical model for Hypothesis 2.2 is found in Equation 2.5:

$$\begin{aligned} \Delta Public\ Support_{it} = & \alpha_0 + \alpha_1 Public\ Support_{it-1} + \beta_1 Imports_{it-1} + \beta_2 \Delta Imports_i + \\ & \beta_3 Social\ Protection_{it-1} + \beta_4 \Delta Social\ Protection_i + \beta_5 Imports * Social\ Protection_{it-1} + \\ & \beta_6 \Delta Imports * Social\ Protection_i + \beta_7 Exports_{it-1} + \beta_8 \Delta Exports_i + \beta_9 Controls_{it-1} + \\ & \beta_{10} \Delta Controls_i + e_{it} \end{aligned}$$

2.4.1.2 Independent and Control Variables

First, I use the value of imports of goods as a share of GDP and the value of exports of goods as a share of GDP as two separate independent variables because using a measure of total trade flows misses the richness of the contrasting effects that imports and exports have on people's welfare and attitudes (Owen and Quinn 2016; J. B. Jensen, Quinn, and Weymouth 2017). I use data from the World Development Indicators (World Bank 2019). Second, I include Social Protection, which is measured with an indicator of total government spending in social protection policies in per capita terms. These expenditures include unemployment insurance, income transfers such as conditional cash transfers, and public pensions from the central government, decentralized agencies, and social security funds. Official figures are provided by the national governments to

the United Nations Economic Commission for Latin America and the Caribbean, expressed in local currency, and are then converted to constant prices in US dollars of 2010 per capita (CEPAL 2020).

To control for other factors identified in the literature to affect trade attitudes, I incorporate economic performance and economic structure variables. The state of the national economy can affect public support for international economic integration. Poor growth and recessions may make people more anxious about processes they cannot control and thus oppose free trade (Mansfield, Mutz, and Brackbill 2019). However, in contexts of poor economic performance, open trade policies may be seen less based on their intrinsic merits and more as a source of collective insurance in which foreign partners can provide support to the country (Sattler and Urpelainen 2012). I measure growth with the year-to-year percent change of GDP with data from the World Development Indicators (World Bank 2019). Further, public opinion on trade may be shaped by the behavior of the exchange rate. Changes in purchasing power and the effects of the currency on trade flows may explain shifts in mass attitudes. I thus include an indicator of real exchange rate appreciation of the national currency in relation to the US dollar (World Bank 2020). I also account for inflation (with the consumer price index) and the national unemployment rate, measured as the number of people who are jobless and have attempted to find employment and those among the economically active population who are seeking work for the first time, using data from CEPAL (2020).

I control for economic development and the accumulation of capital with the log of GDP per person, based on the purchasing power parity (PPP version) of the GDP expressed in constant 2010 US dollars, with data from the World Development Indicators (World Bank 2019). Finally, the degree of labor mobility is estimated with the absolute two-year change in the sum of the shares

of the workforce employed across 14 economic sectors over the total employed population, as classified by the ILO using the criteria established by the United Nations Statistics Division.

2.4.2 Results

The statistical results provide support for the hypothesis that bystanders' neo-mercantilist shortcut determines the average collective sentiment on free trade. Table 2.1, Model 1 presents the results from the random effects regressions. A point increase in the value of exports generates an increase in 0.33 percentage points in public support for free trade, significant at the 99 percent confidence level. The coefficient for the value of imports is not statistically significant. Model 2 presents the results of the fixed effects regression. The estimated coefficients and standard errors are almost identical to those in the previous model. Higher exports increase aggregate support for free trade. An increase in one standard deviation in exports (from 30 to 43 percent of GDP) produces an instant upward movement in support for free trade of 5 percentage points, all else equal. Recall that the average level of support for the entire region is 54 percent. Model 3 includes the lagged dependent variable. The coefficient for exports remains positive and significant. Finally, the error correction models (columns 4 and 5) improve the estimation of the relationship between the two components of trade flows and public opinion. We see that the results for lagged export values remain positive and significant while the coefficient for export values differenced are positive and highly significant. Moreover, the estimation with error correction models reveals a negative and significant short-term effect of import value on public support. This suggests that an increase in the share of imports over GDP generates lower support for free trade.

Table 2.1: Exports, Imports, and Public Support for Free Trade

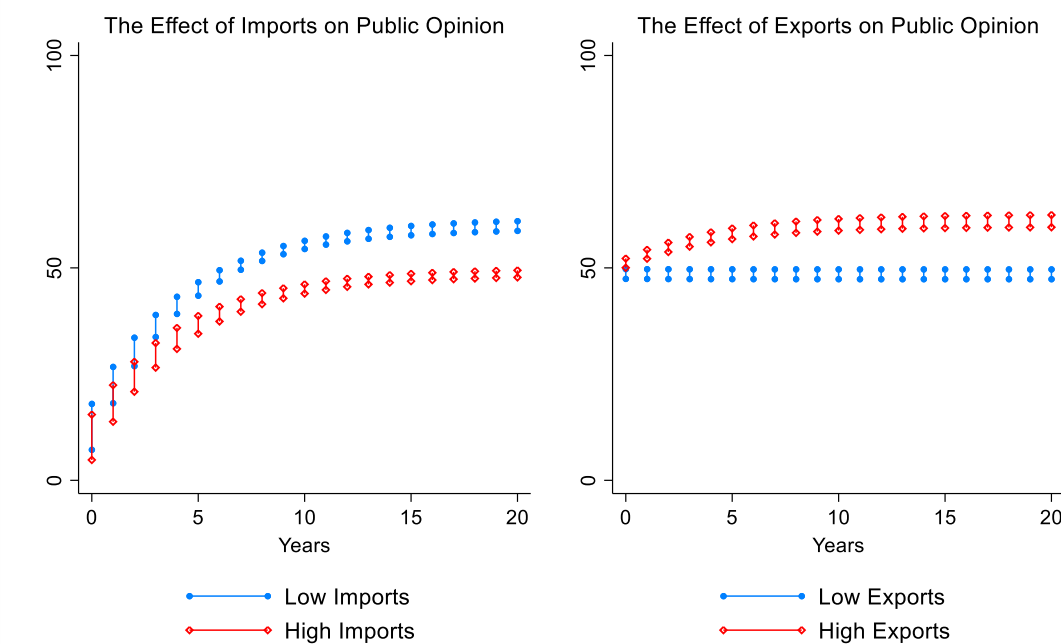
	(1) Random Effects	(2) Fixed Effects	(3) Fixed Effects	(4) Error Correction	(5) Error Correction
Imports $t-1$	-0.138 (0.129)	-0.140 (0.161)	-0.081 (0.064)	-0.074 (0.046)	-0.154* (0.091)
Imports Δ				-0.170** (0.085)	-0.180* (0.099)
Exports $t-1$	0.331*** (0.113)	0.347** (0.138)	0.175** (0.070)	0.114*** (0.044)	0.316*** (0.099)
Exports Δ				0.314*** (0.099)	0.366*** (0.111)
Social Protection $t-1$	11.529** (4.952)	15.011** (6.266)	11.259*** (2.767)	2.111 (1.648)	12.787*** (3.321)
Social Protection Δ				-6.959 (5.171)	0.877 (5.966)
Unemployment $t-1$	0.038 (0.378)	0.183 (0.414)	0.219** (0.094)	-0.059 (0.057)	0.303** (0.124)
Unemployment Δ				0.124 (0.173)	0.247 (0.191)
Inflation $t-1$	-0.061 (0.069)	-0.062 (0.062)	-0.043 (0.048)	-0.110*** (0.030)	-0.129** (0.061)
Inflation Δ				-0.164*** (0.048)	-0.156** (0.061)
GDP growth $t-1$	-0.013 (0.101)	-0.003 (0.103)	-0.030 (0.106)	0.032 (0.187)	-0.041 (0.227)
GDP growth Δ				-0.046 (0.173)	-0.075 (0.188)
Exchange rate $t-1$	-0.018** (0.007)	-0.012 (0.015)	-0.019** (0.009)	-0.007*** (0.003)	0.001 (0.012)
Exchange rate Δ				0.015*** (0.006)	0.019** (0.008)
GDP per capita $t-1$	1.854 (3.346)	2.047 (4.211)	7.632** (3.266)	0.522 (0.838)	9.182** (3.905)
GDP per capita Δ				-6.624 (17.530)	-6.452 (18.197)
Labor mobility $t-1$	-0.053 (0.178)	-0.024 (0.182)	-0.103 (0.084)	-0.230** (0.097)	-0.174 (0.131)
Labor mobility Δ				-0.155 (0.101)	-0.117 (0.111)
Public Support $t-1$			0.562*** (0.044)	-0.283*** (0.034)	-0.413*** (0.048)
Time trend			-0.377* (0.196)	-0.079 (0.103)	-0.528** (0.211)
Constant	27.947 (30.659)				
Observations	327	327	325	309	309
R ²	0.154	0.116	0.863	0.230	0.307
rho	0.405				

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1 to 3 is index of public support for free trade (see Chapter Two). Dependent variable in Models 4 and 5 is change in index of public support for free trade. A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Variables with Δ indicate one-year change. Model 1 is Random Effects regression with robust clustered standard errors. Model 2 is Fixed Effects regression with robust clustered standard errors. Model 3 is AR(1) Prais-Winsten Fixed Effects regression with panel corrected standard errors. Model 4 is Error Correction Model with panel corrected

standard errors. Model 5 is Error Correction Model with Fixed Effects and panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Panel analysis further allows us to estimate long term relationships after the short-term impact on the outcome that is provided with the regression coefficients. I plot in Figure 2.4 the long term separate effects of increases in the values of exports and imports on public support for free trade using the simulation method of Williams and Whitten (2012) in which the outcome is predicted over a number of time intervals in a user-determined scenario. The left panel shows the predicted attitudes toward free trade when the volume of imports is one standard deviation above the sample mean (red diamonds) and when imports are one standard deviation below its average (blue circles), holding constant all covariates. The plot indicates that the effect of the level of imports on opinion is statistically significant after four periods, after which high imports depress public support for free trade for almost ten percentage points compared to low import flows in two hypothetical societies that are the same in all other regards. Conversely, the right panel in Figure 2.4 shows how high exports increase aggregate pro-free trade sentiment. The red diamonds represent the predicted attitudes when the value of exports as a share of GDP is one standard deviation above the mean. The blue circles represent attitudes when exports are one standard deviation below. The difference in attitudes is immediate and significant, with high exports leading to higher public agreement with free trade.

Figure 2.4: Long Term Simulated Effects of Trade Openness on Public Opinion



Note: Left panel: Forecasting the effects of low imports (blue) and high imports (red) on public opinion on trade. Right panel: Forecasting the effects of low exports (blue) and high exports (red) on public opinion on trade. Produced using estimates from Model 1, Table 2.1 and the simulation method of Williams and Whitten (2012). Vertical bars represent 95% confidence intervals.

In the Appendix A to Chapter Two, I show that the relationship is robust to alternative measurements of trade flows. In Appendix A Table 4, I provide evidence that using the three-year average of export values (instead of the one-year lag or the one-year change) does not affect the positive and significant effect on public support for free trade. Models 1, 2, and 3 all corroborate that better export performance shifts aggregate sentiment toward pro-free trade views. The estimated coefficients for the three-year average of import values, however, is not statistically significant in those models. In Table 5, I report findings from several panel specifications using the absolute value of imports and exports in billion dollars instead of as a share of GDP. The estimate for absolute exports is positive and significant and the estimates for absolute imports is negative and significant, holding all other control variables constant. Finally, in Table 6 I use an

indicator of trade balance (exports-imports) as a share of GDP. The estimates for trade balance are not statistically different from zero in the fixed effects regression but they are significant and in the expected positive direction in the error correction model (column 3). There is evidence of both a short-term and a long-term impact of trade flows surplus (i.e., more exports than imports) on public support for free trade. Aggregate sentiment supports free trade when the total balance is favorable to exports compared to imports.

The next major finding is that the welfare state shapes collective perceptions on trade. In all models in Tables 2.1, Appendix A 4, Appendix A 5, and Appendix A 6, the coefficient for the level of public spending on social protection per capita is positive, large, and statistically significant. This indicates that there is a direct effect of the welfare state on public sentiment, controlling for trade flows and economic controls. Greater public spending on social protection increases the popularity of unrestricted commerce. Using the estimates from the fixed effects regression in Table 2.1, we can calculate that a one standard deviation in the level of social protection spending (from 300 to 600 dollars per capita) is associated with an increase of 4.5 percentage points in public support for free trade, all else equal. In the error correction models, by contrast, the differenced amount of spending on social protection is not statistically significant.

Hypothesis 2.2 predicts that the negative impact of imports on aggregate opinion could be reverted if there is a more generous welfare net to contain those left behind by international competition. To test this proposition, I present evidence in Table 2.2 of the interaction between the level (and differenced) of spending on social protection and import values as a share of GDP. The results from the interactive models 1, 2, and 3 in Table 2.2 provide support for Hypothesis 2.2. The positive coefficients, which oscillate between 0.41 and 0.67, indicate that the effect of imports on public support for free trade is positive at higher levels of public spending in social protection, all

else equal. The relationship emerges in the short-term as can be seen by the statistical significance in all three models.

Table 2.2: Social Protection, Trade Exposure, and Public Support for Free Trade

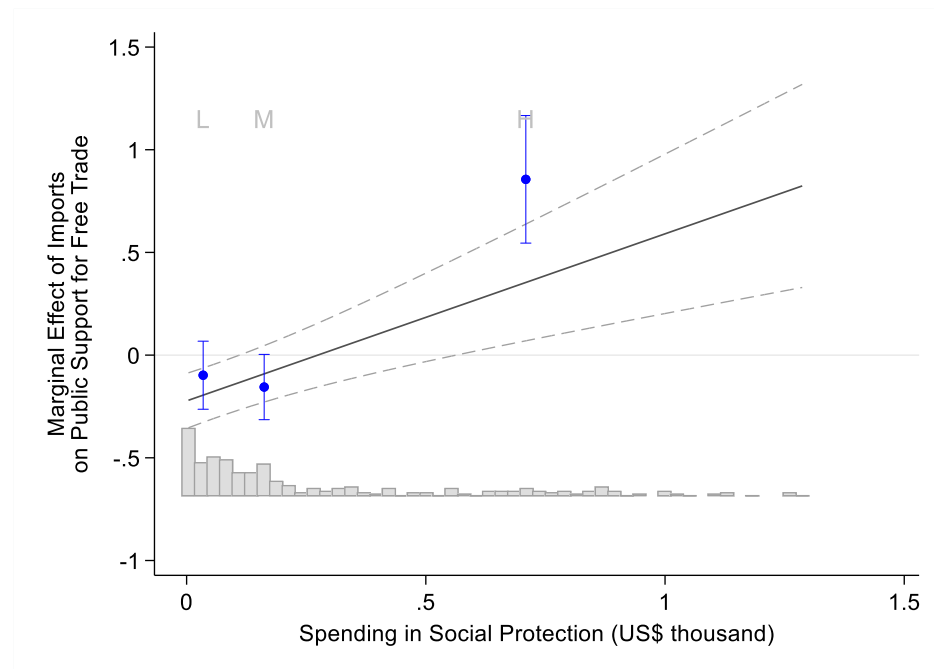
	(1) Fixed Effects	(2) Error Correction	(3) Error Correction
Imports _{t-1}	-0.119* (0.061)	-0.103** (0.051)	-0.185** (0.089)
Imports Δ		-0.158** (0.080)	-0.175* (0.102)
Social Protection _{t-1}	4.440 (3.517)	-3.186 (2.506)	4.209 (4.359)
Imports*Social Protection _{t-1}	0.554** (0.221)	0.405*** (0.135)	0.674*** (0.254)
Social Protection Δ		-6.915 (5.146)	0.024 (5.685)
Imports*Social Protection Δ		0.433 (2.047)	2.599 (2.352)
Exports _{t-1}	0.183*** (0.069)	0.104** (0.045)	0.327*** (0.097)
Exports Δ		0.303*** (0.102)	0.361*** (0.115)
Unemployment _{t-1}	0.212** (0.089)	-0.024 (0.054)	0.320** (0.130)
Unemployment Δ		0.164 (0.184)	0.262 (0.191)
Inflation _{t-1}	-0.047 (0.049)	-0.095*** (0.033)	-0.108* (0.062)
Inflation Δ		-0.146*** (0.048)	-0.131** (0.062)
GDP growth _{t-1}	-0.055 (0.107)	0.049 (0.186)	-0.067 (0.235)
GDP growth Δ		-0.015 (0.173)	-0.071 (0.195)
Exchange rate _{t-1}	-0.019* (0.010)	-0.008*** (0.002)	0.001 (0.012)
Exchange rate Δ		0.015** (0.006)	0.019** (0.008)
GDP per capita _{t-1}	4.671 (3.162)	-0.869 (1.034)	5.601 (3.608)
GDP per capita Δ		-9.459 (18.583)	-7.426 (19.258)
Labor mobility _{t-1}	-0.122 (0.085)	-0.260*** (0.092)	-0.205 (0.134)
Labor mobility Δ		-0.163* (0.097)	-0.133 (0.111)
Time trend	-0.271 (0.192)	-0.018 (0.114)	-0.400* (0.209)
Public Support _{t-1}	0.564*** (0.045)	-0.298*** (0.035)	-0.409*** (0.049)

Observations	325	309	309
R ²	0.860	0.241	0.314

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Model 1 is index of public support for free trade (see Chapter Two). Dependent variable in Models 2 and 3 is change in index of public support for free trade. A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Variables with Δ indicate one-year change. Model 1 is AR(1) Prais-Winsten Fixed Effects regression with panel corrected standard errors. Model 2 is Error Correction Model with panel corrected standard errors. Model 3 is Error Correction Model with Fixed Effects and panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

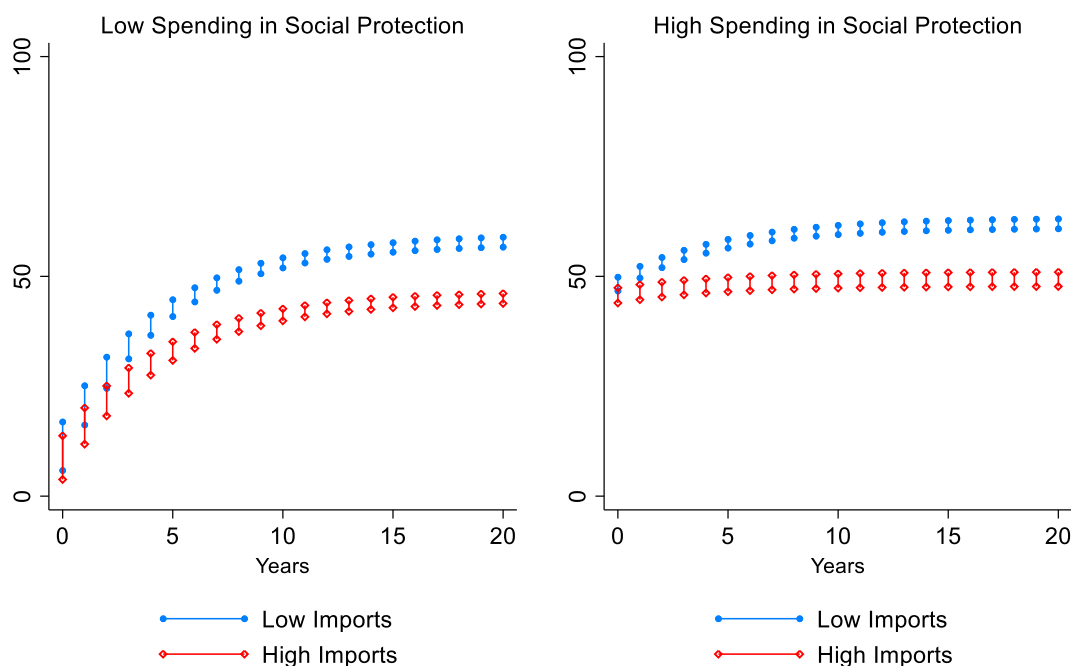
To get a better idea of how this works, Figure 2.5 plots the average marginal effects of imports as a share of GDP on the index of public support for free trade conditional on the level of public welfare. The positive slope indicates that the marginal effect is positive as government spending on welfare benefits goes up. The plot also estimates the average marginal effects for three segments of the distribution of spending on social protection using the method by Hainmueller, Mummolo, and Xu (2019).

Figure 2.5: The Effect of Trade on Opinion Conditional on Compensation



Note: The black line represents conditional marginal effects of the level of imports (as a share of GDP) on the index of public support for free trade conditional on spending on social protection per capita. Dashed gray lines represent 95% confidence intervals. Effects computed using the method of Hainmueller, Mummolo, and Xu (2019) based on Model 1, Table 2.2. The vertical bars in gray at the bottom indicate the distribution of the moderator variable. L, M, and H indicate the quarters of the distribution of spending on social protection.

Figure 2.6: Long Term Simulation of Opinion Conditional on Compensation



Note: Left panel: Forecasting the effects of low imports (blue) and high imports (red) on public opinion on trade when the central government spends US\$100 in social protection. Right panel: Forecasting the effects of low imports (blue) and high imports (red) on public opinion on trade when the central government spends US\$500 in social protection. Produced using estimates from Model 1, Table 2.2 and the simulation method of Williams and Whitten (2012). Vertical bars represent 95% confidence intervals.

Next, in Figure 2.6 I simulate the long-term effect of the conditional relationship of imports and welfare benefits on public opinion. The left panel shows the effect of import volumes on public opinion when the government spends little in social protection whereas the right panel shows the effect of import volumes when the government spends a lot in social protection. The red diamonds represent predicted values of aggregate trade attitudes when imports are one standard deviation above their mean. The blue circles represent attitudes when imports are one standard deviation below their mean. In both images, high import penetration is associated with lower support for free trade and low imports generate greater support. The important point, nonetheless, is that public spending in social protection counterbalances the negative effect of imports. For example, public

support for free trade in a country where imports are 48 percent of GDP and the government transfers \$100 per capita in social protection (that is similar to Paraguay in 2008-2010 or El Salvador in 2011-2014) is predicted to be between 32 and 37 percentage points, holding all else equal, including exports.. Public support for free trade in a country with the same level of import penetration as a share of GDP but where the government spends \$500 per capita in social protection would be between 48 and 52 percentage points. The closest to a real case would be Costa Rica since 2010.

How robust are these findings? First, Appendix A Table 4 reports results that the interaction is positive and significant when using the three-year average of imports.³⁵ Second, the results are robust to temporal breaks. Both trade openness and public spending in welfare have undergone changes since the early rush to open up the economies of Latin America due to global trends in trade flows, commodity prices, and the business cycle. I thus check for temporal breaks, estimating the interaction between imports and spending in social protection for different subperiods between 1995 and 2017. The results are shown in Appendix A Table 7, where I add years sequentially. In the earlier period, the interactive effect between imports and social protection on public opinion on trade was not statistically significant. That may provide support for the skeptics that argued that globalization was eroding the welfare net in ways that challenged any possible compensation to the losers from international competition (Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo 2007). However, bear in mind that very little can be generalized from the small N in the models for the early years. The positive and statistically significant coefficient for the interaction appears

³⁵ I do not report interactions between social protection and trade balance because the latter is an aggregate measure that masks the fact that social protection compensates for imports, not for net flows.

from 2008 onwards, suggesting that the moderating effect of social protection on the relationship between imports and public opinion starts to show up in the subperiod with greatest economic prosperity in the region.³⁶

2.4.2.1 The China Shock in Latin America

How does the economic rise of China shape public opinion on trade? Recent research postulates that trade with China has disrupted public support for free trade in rich countries (Autor, Dorn, and Hanson 2013; Colantone and Stanig 2019; J. Frieden 2019; Hays, Lim, and Spoon 2019). Massive imports of manufactured goods in the past twenty years, triggered by industrialization and productivity growth in China, constitute an exogenous shock for recipient economies, with deleterious consequences for firms that were not able to adapt to the competition, prompting large job layoffs and wage reductions. The negative shock has been harder in districts with heavy presence of manufacturing plants (Autor, Dorn, and Hanson 2013). The governments of rich countries have not improved the provision of social protection to displaced workers. Scholars conclude that such failure explains a significant part of the protectionist backlash across rich countries in the West (Colantone and Stanig 2019; Frieden 2019; Hays, Lim, and Spoon 2019).

Is there a “China shock” in Latin America? The Inter-American Development Bank (IDB) recently said that “the China shock shattered the region’s hopes of being competitive on labor-intensive manufacturing, a specialization that could have sparked an East Asian style boom to the job market” (Mesquita Moreira and Stein 2019, 105). If this is so, what are the consequences in terms of mass attitudes on trade? To provide even a tentative answer, one should first consider that

³⁶ I further report the estimates of each country fixed effect in Appendix A Table 8.

there are not one but several China trade shocks (Donno and Rudra 2019). With its exponential growth in productivity and the ascension to the WTO in 2001, China exhibited a remarkable exporting performance of manufactures and a huge appetite for energy, metals, and foodstuff. These trends generate both negative and positive distributional effects within China's trading partners (Feenstra and Sasahara 2018).

Across Latin America, the losers have been low-productivity firms in labor-intensive industries disrupted by cheap manufactured imports from China. In addition, there are some high-productivity firms in labor-intensive sectors that lose from China's rise, such as the maquilas in Central America and Mexico, displaced by Chinese exports to important third markets (e.g. the United States). There are several winners, too. Landowners and agricultural producers benefited from demand for soybeans, coffee, and meat. Multinational corporations benefited with exports of oil and mining. Also, participation in global value chains has led some Latin American dynamic firms to export inputs to China that are then re-imported as final products. Finally, bystanders may benefit from greater access to cheaper consumption goods, from clothing to smartphones.

In Table 2.3 I provide the first test of a Chinese import shock in mass attitudes in Latin America. Instead of using total imports values and total export values, I now incorporate the volume of imported goods from China in terms of millions of dollars using data from the United Nations COMTRADE International Trade Statistics Database. I report the results in six columns, one for each type of panel model as in Tables 2.1 and 2.2. The first three models test the direct effect of Chinese imports on public opinion. The other models test the conditional effect of Chinese imports on the spending on social protection. Except for the first (random effects) model, I obtain negative and statistically significant coefficients for Chinese imports. This suggests that the more the competition from China, the lower the level of aggregate agreement with free trade. Further,

the random effects (Model 4) and error correction model (Model 6) report a statistically significant positive coefficient. This indicates that the effect of Chinese imports on public opinion is positive when there is more provision of social protection. Unfortunately, there are not enough consistent, time series export data from each Latin American country to China to directly measure the effect of exports to China on public support for free trade.

Table 2.3: The China Shock and Public Opinion in Latin America

	(1)	(2)	(3)	(4)	(5)	(6)
	Random Effects	Fixed Effects	Error Correction	Random Effects	Fixed Effects	Error Correction
Chinese Imports $t-1$	-0.000 (0.000)	-0.001* (0.000)	-0.001** (0.000)	-0.000*** (0.000)	-0.000* (0.000)	-0.001*** (0.000)
Chinese Imports Δ			0.000 (0.000)			0.000*** (0.000)
Social Protection $t-1$	7.437 (5.304)	10.946*** (3.673)	12.194*** (3.767)	2.895 (5.476)	10.264** (4.286)	9.909** (4.183)
Social Protection Δ			0.333 (5.440)			-0.084 (5.569)
Chinese Imports*Social Protection $t-1$				0.001*** (0.000)	0.000 (0.000)	0.001** (0.000)
Chinese Imports*Social Protection Δ						-0.008* (0.005)
Unemployment $t-1$	0.077 (0.331)	0.281*** (0.100)	0.447*** (0.118)	0.113 (0.333)	0.283*** (0.102)	0.453*** (0.117)
Unemployment Δ			0.364** (0.159)			0.370** (0.165)
Inflation $t-1$	-0.003 (0.056)	-0.005 (0.041)	-0.040 (0.049)	-0.007 (0.058)	-0.005 (0.041)	-0.035 (0.047)
Inflation Δ			-0.074 (0.045)			-0.069 (0.044)
GDP growth $t-1$	0.053 (0.097)	0.019 (0.107)	-0.005 (0.188)	0.062 (0.099)	0.019 (0.108)	0.024 (0.191)
GDP growth Δ			-0.115 (0.155)			-0.083 (0.159)
Exchange rate $t-1$	-0.019*** (0.003)	-0.023*** (0.008)	-0.014 (0.010)	-0.018*** (0.004)	-0.023*** (0.008)	-0.013 (0.010)
Exchange rate Δ			0.009 (0.007)			0.010 (0.007)
GDP per capita $t-1$	5.187 (3.448)	5.328 (3.756)	3.749 (4.001)	6.112* (3.466)	5.358 (3.736)	3.845 (3.979)
GDP per capita Δ			-1.788 (15.706)			-4.264 (16.270)
Labor mobility $t-1$	-0.016 (0.172)	-0.120 (0.085)	-0.196* (0.100)	-0.067 (0.174)	-0.126 (0.084)	-0.224** (0.102)
Labor mobility Δ			-0.036 (0.093)			-0.055 (0.094)
Public Support $t-1$		0.564*** (0.048)	-0.439*** (0.049)		0.562*** (0.048)	-0.444*** (0.049)
Time trend		-0.170 (0.216)	-0.112 (0.229)		-0.166 (0.217)	-0.094 (0.232)
Observations	319	317	300	319	317	300
R ²	0.088	0.888	0.305	0.081	0.890	0.307
rho	.377			.410		

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1, 2, 4 and 5 is index of public support for free trade (see Chapter Two). Dependent variable in Models 3 and 6 is change in index of public support for free trade. A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Variables with Δ indicate one-year change. Models 1 and 4 are Random Effects regressions with robust clustered standard errors. Models 2 and 5 are AR(1) Prais-Winsten Fixed Effects regressions with panel corrected standard errors. Models 3 and 6 are Error Correction regressions with Fixed Effects and panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

2.5 Conclusion

How popular is free trade? What explains mass attitudes on international commerce across countries and over time? This chapter brings some answers based on new evidence. Until now, existing research was interested in testing economic theories of trade to predict trade policy preferences between individuals. Those studies were based on snapshots (analyzing answers to one survey at a time) from rich countries. That is unsatisfying because we want to understand patterns of public opinion on trade, which is at a higher level of aggregation than revealed individual preferences. Politicians care about the masses, not the individual. Therefore, I created a new index of support for free trade that can measure public opinion over time, creating comparable time series across 18 countries in Latin America. The index feeds from dozens of thousands of individual answers to survey questions related to trade. Special attention to aggregation and time series makes this index a good tool to approach the latent popularity of open commerce across societies and within them in the long period from the early 1990s to date.

I advanced two arguments to explain public support for free trade. First, the general popularity of unrestricted trade is determined not just by the pocketbook preferences of winners and losers from international competition but from what ordinary people with no direct stake on trade believe. This latter group of people, the bystanders, have little knowledge about the material consequences of trade except for their experiences as consumers and what they read and watch in the media and the public debate. To evaluate trade, bystanders follow a neo-mercantilist reasoning: Selling more exports abroad is positive for themselves, their acquaintances, and even the nation, while buying a lot of imported goods appears as a jobs killer, unfair business. The results of the statistical analysis for the panel of 18 Latin American countries show that high exports increase public support for free trade, even controlling for growth, inflation, and the exchange rate.

Moreover, I show that importing more goods from China, the quintessential source of labor-intensive manufactures, is associated with lower support for unrestricted trade in Latin America.

Second, I argued that social protection compensates for the negative effect of imports on aggregate trade sentiment. The evidence from Latin America highlights an odd alliance between “neoliberalism” and the welfare state in recent decades. Except for Costa Rica, social protection in Latin America was not a consequence of trade openness. Countries that were open to trade for much of the twentieth century failed to construct welfare systems because commerce did not lead to industrial concentration and strong unionization and any social demands fall on deaf ears in the absence of democracy (Segura-Ubiergo 2007, 263). Social security, by contrast, was developed by those governments that pursued ISI. This is not the typical embedded liberalism which predicts compensation in the context of open economies.

The larger point is that regardless of where and how welfare regimes emerged in Latin America, they play a compensatory function once in place and when the liberalization of trade takes place. There are countries that were closed and had social protection in place when they opened to trade in the 1990s (e.g., Argentina, Chile, Uruguay). There are other countries that were closed and opened their economies but did not make an effort to increase social protection (e.g., Guatemala, Honduras, Ecuador, Peru).³⁷ A sharp increase in imports is less likely to reduce public support for free trade in the first group while the same shock should increase protectionist sentiment in the second group. The data supports this prediction, even accounting for the downward pressures on welfare that come about with globalization (Kaufman and Segura-Ubiergo

³⁷ Others, like El Salvador and Panama, were opened from before and yet failed to develop a welfare regime over time.

2001; Rudra 2008). Whatever is left of those welfare systems after ISI ended, serves a compensatory role that keeps public opinion on trade from deviating too much.

All this begs the question of whether, and under what conditions, public opinion change affects trade policy outcomes. That is the issue I turn to in Chapter 3.

3.0 Trade Policy Responsiveness: A Theory and A Test

Voters' voices, however loose and noisy, matter when policy makers make international trade policy decisions. This study argues that governments respond to public opinion by choosing policies that ease restrictions on trade when free trade is more popular and by choosing policies that increase restrictions when free trade is less popular. In theory, democratic representation ensures a close connection between citizens' demands and their representatives' policy decisions (Dahl 1971). Public opinion is reflected in public policies because voters vote out one partisan team and replace it with another that is closer to its preferences (Achen and Bartels 2016) and when policy makers rationally anticipate the negative electoral returns of ignoring public opinion and adjust policy between elections (Stimson, Mackuen, and Erikson 1995; Erikson, Mackuen, and Stimson 2002). I am especially interested in the second type of policy responsiveness, treating elected officials as delegates who try to behave in line with voters' opinion during their time in public office (Mansbridge 2003; Butler and Nickerson 2011). The comparative behavior literature provides evidence that governments frequently respond to shifts in public opinion by adjusting public policies, from crime laws to spending on public schools (Canes-Wrone and Shotts 2004; Soroka and Wlezien 2005; Brooks and Manza 2006; Kang and Powell 2010; A. Roberts and Kim 2011; Soroka and Wlezien 2015; Caughey and Warshaw 2018).

However, trade politics presents hurdles for responding to public opinion. The masses face information, collective action, and resource constraints to shape trade policy. Researchers studying the United States have shown that American citizens are ill informed about international trade, have incoherent preferences about it, and do not consider this issue when casting their vote (Bearce and Velasco-Guachalla 2020; Guisinger 2009). Moreover, public opinion is the aggregation of the

attitudes of individual voters scattered across society. In contrast to special interest groups that defend the interest of one firm, sector, or social class and that have to overcome collective action problems between members within their group, the general public is dispersed, and its members do not have the same narrow interest. Lastly, voters do not have the deep pockets of special interest groups such as the American Enterprise Institute, the *Sociedad Rural Argentina*, or the *Federação das Indústrias do Estado de São Paulo* (Brazil). It is unsurprising then that scholars have dismissed voters' "preferences as of little importance" in shaping trade policy (Guisinger 2017, 5). The view that emerges in studies of the political economy of trade is that of a battlefield in which special interest groups compete to win influence over policy makers (Goodhart 2015; Guisinger 2017; McLaren 2016; Mesquita Moreira and Stein 2019).

Policy makers are not pure ideologues or mere business delegates, they try to follow popular mandates, even when they make decisions on international trade policy, because responding to voters is the democratic compromise that ensures their political survival. My conditional theory of trade policy responsiveness states that, under the appropriate conditions, policy makers respond to public opinion on trade, and trade policy choices reflect that aggregate sentiment. The first hurdle to clear to find responsiveness is to stop assuming what voters want with regards to trade and let them speak for themselves. This is what I do in Chapter Two, measuring aggregate opinion on trade over time. The second set of obstacles deal with the economic, institutional, and administrative constraints that shape policy makers' willingness and ability to respond to voters when making trade policy choices. This chapter identifies four factors that motivate and enable trade policy responsiveness.

First, responsiveness should be affected by the pocketbook salience of trade, which depends on the economic structure of society. Trade policy responsiveness should be higher in

places where trade is a salient issue. Salience increases the incentives to make policy responsive to society (Verdier 1994). Trade is salient when the stakes from trade flows are high for many voters (T. W. Taylor 2015). When voters are exposed to trade, they have more to lose or win from changes to the status quo, are better informed about trade, care more about decisions around it, and may have important resources to organize and mobilize around it. This can be measured by the share of the labor force employed in tradable sectors and occupations (Hays 2009). Trade policy responsiveness should increase when many voters obtain their income from tradable industries or occupations, whether exporting, import-competing, or integrated in international value chains. When salience is low, by contrast, voter preferences have a more limited role on trade policy making and public officials are more likely to be influenced by organized producers.

Second, responsiveness depends on the type of policy makers who make decisions on trade. Democracies are not all alike. Not all institutional configurations are equally adept at delivering representation (Crisp, Olivella, and Rosas 2020, 4). One dimension is whether policy makers care for the broader electorate or for smaller groups of voters. Some democracies have strong party leaders who cater to the broader electorate to secure the reputation of their political brands while other democracies grant individual candidates and lawmakers greater leeway to build narrow coalitions as they see fit. Electoral institutions determine how the preferences of different groups are aggregated and weighed in the policy-making process; thus, they affect which interests elected officials cater to. Electoral systems that give party leaders control over candidate nominations, such as proportional representation formulas with closed lists, increase legislative discipline and appeals to broad constituencies (Grossman and Helpman 2005; Naoi 2015; Wagner and Plouffe 2019). Such rules should increase policy responsiveness in accordance with the changing aggregate trade sentiment. By contrast, electoral rules that create incentives to cultivate a personal

vote generate representatives who evade voters' monitoring and are freer to collude with special interests (Ames 1995; Carey and Shugart 1995).

Third, responsiveness depends on how many institutional players participate in the policy-making process. Trade policy responsiveness should be lower when there is a greater fragmentation of the trade administration. While legislatures intervene to ratify international trade agreements and sometimes to alter tariff rates, executives decide on most commercial policy choices such as licenses, quotas, and international negotiations. The organization of the cabinet and the bureaucracy that aide the executive, the rules that regulate agencies that implement policies, and the way they make decisions play a strong role in trade policy making. Institutional veto players can restrict political leaders' room to adjust trade policy (Mansfield, Milner, and Rosendorff 2002; Mansfield, Milner, and Pevehouse 2007; Henisz and Mansfield 2006). The participation of many actors with different constituencies, rules, and procedures makes changes to the status quo harder to pass (Tsebelis 2002). Further, administrative fragmentation creates routine and multiple access points for special interests to lobby and impact trade policy (Ehrlich 2007).

Finally, responsiveness depends on the visibility of the type of policy instrument involved. Commercial policies that are more visible should exhibit a higher degree of responsiveness to public opinion. The visibility depends on the complexity on the policy instruments, which determines how easy is for voters to learn about them. The complexity inherent to certain policy instruments generates opportunities for policy makers to shirk when it is hard to explain the consequences for voters' welfare. Thus public officials often resort to optimal obfuscation (Magee, Block, and Young 1989; Kono 2006), using hard to detect and understand non-tariff barriers to grant protection to special interest groups. On the contrary, less complex trade policy instruments, such as tariffs and international treaties on trade, are more visible for voters. Responsiveness

should be greater in those cases when not adjusting policy to public opinion may result in being kicked out of office.

This chapter tests the conditional theory of trade policy responsiveness using the new index of public support for free trade developed in Chapter Two and data for different trade policies in 18 Latin American democracies. The statistical analyses rely on pooled time-series, cross-sectional models that estimate responsiveness using changes in various trade policies that regulate imports and preferential access to the domestic market (rather than on export promotion): preferential trade agreements (PTAs), the average level of import tariff rates and non-tariff import barriers (NTBs).

3.1 Social Demands for Trade Policy: Incomplete Answers

If mass public opinion matters for trade policy, we should observe that politicians adopt pro-trade policies when public sentiment is, on average, pro-trade, and protectionist policies when sentiment tilts toward protectionism. That is the generalization we can draw from the seminal political economy model of Mayer (1984), who argued that, if policy decisions are made by majority rule, the policy chosen should be closer to the ideal preference of the median voter. Nonetheless, the literature has failed to provide a real test of that linkage. Just two published articles that use the same data from 1996 offer evidence that voters' aggregate attitudes toward international trade are correlated with the average level of import tariff rates in a small pool of advanced and transition countries (Mayda and Rodrik 2005; Kono 2008). A Pearson correlation coefficient based on a few hundred answers to one question on the World Values Survey and to another in the International Social Survey Program hardly constitutes the solid evidence that we need to claim that governments adjust trade policy to public sentiment.

One problem that arises is that scholars often *assume* voters' trade policy preferences disregarding actual public opinion on trade. Some authors infer support for free trade based on the state of the macroeconomy, e.g. in one important work a low rate of unemployment represents broader support for free trade (Chaudoin 2014). Most scholars use international trade theories to predict individual trade policy preferences. We discussed these models in Chapter Two. Their predictions have not been matched with conclusive evidence (Oatley 2017; Naoi 2020). To examine whether there is responsiveness, scholars cannot continue to assume preferences. We must scale up from one-time individual answers to aggregate and dynamic measures of trade sentiment.

A second reason why public opinion is not expected to matter is that studies of individual trade policy preferences conclude that voters are too disinformed and inattentive about trade. This view is influenced by studies from the United States where voters have not usually mentioned international commerce as an important issue and have been poorly informed about how their legislators vote on trade bills (Guisinger 2009; Guisinger and Saunders 2017). After decades of progress in public opinion research, the interwar era isolationist voices appear vindicated in Guisinger's findings: the average citizen "lives in a world which he cannot see, does not understand, and is unable to direct" (Lippmann 1925, 14). However, there are reasons to believe this is limited to Americans, who live in an unusually large domestic market closer to the image of a closed economy typical of economic models, and who have experienced stubbornly low levels of inflation, making it harder for them to see what is really driving product prices down (Bearce and Moya 2020).³⁸

³⁸ This is important because governments in smaller economies use trade policy to stabilize domestic prices.

Scholars have also claimed that voters are too dispersed and disorganized to make coherent and consequential trade policy demands. The theory of collective action tells us that narrow and concentrated interests groups with fewer members are better able to overcome free-rider problems and to organize effectively to pressure the government (Olson 1965). By contrast, public opinion does not constitute such narrow and concentrated interests groups. It is diffused across society (Mesquita Moreira and Stein 2019). Scholars thus paint interest groups as the true change makers in trade policy (Bearce and Velasco-Guachalla 2020; Betz 2020). Interest groups, of course, do not all obtain what they want. As Schattschneider stated, “selectivity is the basis of pressure politics... a few can exert great influence because they are organized and because they are alert and have access to information, know what they want, and have power” (1963, 287). Firms and business associations offer politicians campaign or lobby gifts in return for trade measures that raise the domestic price of the good they produce (Grossman and Helpman 1994). Bear in mind, though, that special interest groups can benefit either from rents on their outputs or from no restrictions on their inputs (Verdier 1994, 11). This means that some groups pressure to lift restrictions on inputs and products that provide them with a special benefit, thus advocating for trade liberalization (I. S. Kim and Osgood 2019).

This last point is crucial in today’s globalized economy. The international institutions of the postwar era, epitomized in the GATT and the WTO, fostered inter-state trade cooperation (J. L. Goldstein, Rivers, and Tomz 2007; J. Goldstein 2017). In addition, cooperation at the regional and bilateral level has thrived with the proliferation of PTAs (Mansfield and Milner 2012). Individual firms that lobby for more free trade have exploited the reciprocal nature of international rules to advance their interests. The newest theories of international trade propose that firms located in the same industry differ markedly in the extent to which they export, import, or invest

abroad (Melitz and Trefler 2012). The most recent empirical evidence shows that a few, very large, and highly productive firms account for almost all trade in any given industry and that those firms are the strongest advocates for free trade, systematically taking free trade positions in public and lobbying governments to reduce restrictions (I. S. Kim and Osgood 2019).

Lastly, policy makers may hold their own views on how to best manage the integration of their country's economy to the global economy and thus trade policy may reflect their ideas. The assumption, which is correct, is that trade policy decisions are made by public officials, not by citizen referendum (Mesquita Moreira and Stein 2019), notwithstanding the interesting exception of the 2007 plebiscite on the US-Central American Free Trade Agreement in which Costa Rican citizens casted a direct vote on trade (see, Hicks, Milner, and Tingley 2014). Even in that case, it was the national government that negotiated and signed the agreement, and then political parties campaigned for and against it. The argument is that policy makers bring their own ideas about policy issues. Public officials usually develop ideas about trade policy (J. Goldstein 1988). Doctrines about trade have been prominent in the foundation of nations and their modern paths of economic and foreign policy (Coatsworth and Williamson 2004; Irwin 2017; Helleiner and Rosales 2017).

In democracies, the election of policy-driven politicians may give rise to a different version of responsiveness than the one advanced in this study. According to Achen and Bartels (2016), voters elect candidates of one partisan type over another, so public policy may change in the direction of public sentiment after an election because of this partisan selection. This has been usually tested with cross-sectional roll-call data, but it fails to pass the test of temporal variation

(Caughey and Warshaw 2018).³⁹ Policy makers may want to respond to voters, but they are also bound to respond to their parties (Butler, Naurin, and Ohberg 2017). Milner and Judkins (2004) report that right-wing parties consistently take more free trade stances in their electoral platforms than leftist forces, at least in postwar Europe. The same seems to be true in terms of trade-related bills and the partisan composition of the US Congress: Democrats are on average less supportive than Republicans of bills that lower barriers to imported goods (Destler 1992), especially when they involve labor abundant countries (Conconi et al. 2020). However, US legislators sometimes vote on trade-related bills against their party to save their political careers, taking anti-free trade stances when they come from districts more exposed to import shocks (Feigenbaum and Hall 2015) and to offshoring of activities (Owen 2017).

Do partisan ideas determine what trade policies officials adopt elsewhere? Major economic liberalization reforms in the early 1990s were pushed by technocrats and politicians who embraced neoliberal ideas (see, *inter alia*, Nelson 1990; Edwards 1995; Weyland 2006). It is not clear, however, that the rise of leaders ideologically opposed to market reforms translates into commercial policy changes (Baker and Greene 2011). For example, the elections of Ollanta Humala in Peru and Andrés Manuel López Obrador in México, two candidates that vehemently campaigned against free trade, had not produced a change of course to protectionism once elected/Conversely, center-right governments have increased tariff rates and imposed new non-tariff barriers when they deemed necessary, as in Argentina in the late 1990s and early 2000s.

³⁹ Caughey and Warshaw (2018) argue that partisan selection is minor not because party control has no policy effects, but because mass preferences explain little of the variation in party fortunes.

Undoubtedly, trade policy is shaped by special interests and incumbents' ideas, within the constraints of a highly institutionalized international trade regime. Groups that have the resources, time, and knowledge to be informed about policy alternatives will surely try to move trade policy closer to their preferences. However, large numbers of people can offset the lack of information or intensity. As Bailey (2001, 48) argues, "an intense, informed group with 200 people will not necessarily have more influence than a less intense, uninformed group of 10,000 people." Moreover, rival political actors can activate and provide information to society if an incumbent fails to respond to them because they are captured by special interest groups or just because they believe their desired course of action is better. The main point is that governments face multiple sets of demands.⁴⁰ There are times when what the opinion polls report are not the same as what the most powerful domestic producers lobby public officials to do. Catering to mass sentiment should be really worth it for policy makers to choose paths that contradict financial pressure (Betz 2020). The most proper question is then, under what conditions should we expect trade policy to change to better reflect public opinion.

3.2 A Conditional Theory of Trade Policy Responsiveness

Under the appropriate conditions, policy makers respond to public opinion by choosing policies that ease restrictions on trade when free trade is more popular and by choosing policies

⁴⁰ Government officials may need to adjust trade policy in reference to other policies such as taxation and the exchange rate (Rodrik 1995; Copelovitch and Pevehouse 2013; Bastiaens and Rudra 2018). This is controlled for in the statistical analysis.

that increase restrictions when free trade is less popular. This is policy responsiveness by adaptation, the dynamic component of democratic representation by which changes in mass preferences lead to changes in public policy (Stimson, Mackuen, and Erikson 1995; Erikson, Mackuen, and Stimson 2002). This is not the same as congruence, when citizens and politicians are (statically) proximate in space in terms of policy preferences. Responsiveness is dynamic, it is movement from the ebb and flow of public opinion to changes in public policies (Canes-Wrone 2015; Crisp, Olivella, and Rosas 2020). Responsiveness does not mean that the change in policy output is fully proportionate to the size of the change in mass preferences. Nor does it mean that it is the optimal policy-wise outcome for society; just that it is preferable, from a democratic representation standpoint, to be responsive to the masses than the alternative of responding to special interest groups, or to no one at all (Dahl 1971). John Stuart Mill said that disagreement between public opinion and government decisions undermines the legitimacy of the latter because citizens do not know if their representatives are following their own judgments, are indebted to special interests, or just lack wisdom (Stokes 2001, 179).

Democratic theory since James Madison posits that citizens are capable “not only of recognizing good qualities in candidates but also of knowing at the end of the term whether a given representative merits reelection” (Stokes 2001, 165). Policy makers who have drifted too much from public opinion should be punished when election comes (Stimson, Mackuen, and Erikson 1995). To avoid that electoral punishment, representatives rationally anticipate and adjust policy to voter preferences in between elections. This is possible because politicians monitor public sentiment on different public issues (Powlick 1991). Legislators and their staffers come in direct contact with constituents and learn the street’s mood from them. Executives frequently

commission polls to research firms and some have created specialized units within the public administration that serve as centralized collection and analysis points on citizens' opinion.⁴¹

The conditional theory of trade policy responsiveness identifies a series of conditions that enable trade policy to represent public opinion despite the barriers to full convergence as discussed above. The incentives that democratic rulers face to adjust policy in response to public opinion differ across countries and over time (Powlick and Katz 1998; Crisp, Olivella, and Rosas 2020). I argue that, when it comes to trade policy, the willingness to respond comes from the incentives offered by electoral institutions and the economic structure while the ability to respond comes from the visibility of the policy instrument and the concentration of the trade policy-making process. The hypotheses are displayed in Table 3.1.

⁴¹ Some are formal, separate units within government such as Argentina's Citizens' Opinion Special Unit within the President's *Jefatura de Gabinete de Ministros* or Germany's Federal Press Office (*Bundespresseamt*). The United States even has an Office of Opinion Research at the Department of State to follow public opinion in other countries.

Table 3.1: Trade Policy Responsiveness: Hypotheses, Mechanisms, and Implications

	Moderator	Mechanism	Operationalization	Observable implication <i>Higher public support for free trade should...</i>	
H3.1	Salience	Economic relevance.	Labor force in tradable sectors.	decrease restrictions	as salience increases.
H3.2	Electoral System	Strong party leaders.	Personal vote index.	decrease restrictions	under party-centric rules.
H3.3	Policy Making	Fragmentation blocks change and facilitates lobbying.	Number of trade agencies involved.	decrease restrictions	with fewer agencies.
H3.4	Visibility	Complexity of policy instrument.	Instrument involved (tariffs, NTBs, PTAs).	decrease restrictions	as visibility increases.

3.2.1 Salience

The public has its greatest impact on highly salient issues (Lax and Phillips 2009; Caughey and Warshaw 2018). Field experiments show that representatives have more incentives to respond to public opinion when they receive information about what voters think and want (Butler and Nickerson 2011). The salience of an issue increases information on public opinion on that issue. Situations with high information about what policy makers do and the outcomes of their policy choices pose a threat of electoral punishment for officials who are unresponsive to voters. For less salient policies, by contrast, it is easier for officeholders to shirk voter preferences undetected and

less likely that voters will care even if shirking is detected (Lax and Phillips 2009). If that happens, narrow, well-organized interests may dominate the policy-making process.

We could argue that trade policy responsiveness is shaped by the extent to which society is materially affected by trade. Hypothesis 3.1 states that *trade policy responsiveness should be greater when trade is more salient*. I focus on the pocketbook or material salience of trade in the national economy. Verdier (1994) argues that voters shape trade politics when trade is salient, which he identifies as a situation when many voters care and are divided about the issue. However, that makes it difficult to distinguish public opinion on trade from the salience of trade. Other scholars argue that trade deficits and the deep international trade agreements increase the salience of trade so that policy makers pay more attention to it (McKibben and Taylor 2020). However, using trade outcomes or trade policy outputs as an indicator of the salience of trade is not suitable when trade policy is the dependent variable.

Politicians should change trade policy in accordance with popular preferences on trade when many voters obtain their income in a tradable economic sector. The distribution of the labor force across the economic structure shapes politicians' incentives to respond. There is experimental evidence that trade policies become salient when individuals expect the trade policy to have significant effects on their welfare (T. W. Taylor 2015). Therefore, when people work in tradable sectors, they are knowledgeable of the distributional implications of the status quo and alternative policies for their own livelihood and those around them. Some sectors produce goods and services that are intended to be sold in another country.⁴²

⁴² The tradable sector can comprise either primary, secondary, or tertiary activities, depending on where lies the economy's relative comparative advantage and its latent advantage (Harrison and Rodriguez-Clare 2010).

The effects of trade on wages and job opportunities may be large enough for voters to not ignore them and also to be more vocal in demanding what they think is best for them. Voters employed in import-competing sectors should be wary of free trade and prefer to curtail imports, as they assign greater value to their job security than to cheaper prices in the grocery store. Voters employed in exporting sectors should support free trade because it increases the return to their sector and thus increases their wages, with which they can buy more and better goods. People who benefit from fewer restrictions to export should not just support unrestricted exports; they should also support the removal of import protection.⁴³ Voters employed in sectors that import inputs should also be supportive of fewer restrictions. When many people have stakes in trade, it should be more prominent in the public debate, not only during electoral campaigns but also in between elections. Rational anticipation about the effects of changing a policy that many voters care about should compel governments to pay attention to these voters' opinion and respond accordingly. In contrast, workers employed in sectors that produce nontradable goods or services, such as nurses, government employees, and Main Street store clerks, do not derive their livelihood from trade. They may hold an opinion on trade, probably as consumers or followers of a partisan doctrine, but the incentive for politicians to respond to the opinion of these individuals is going to be small.

Finally, voters employed in tradable sectors and occupations may be better disposed to obtain the resources that facilitate the organization and mobilization of their demands. Workers can use collective action tools derived from labor unionization and participation in political parties.

⁴³ Hays (2009, 41) report survey evidence from ten rich OECD countries that individuals who work in industries with a positive balance of exports are more likely to oppose government limits on imports.

First, labor unions fight for workers' rights and they also provide information, systematically shaping workers' preferences (Ahlquist, Clayton, and Levi 2014). Labor unions may have a significant amount of power, either because membership is compulsory, or because workers select into those unions because they see the benefits of joining (Iversen 2005; Segura-Ubiergo 2007). Second, political entrepreneurs have incentives to represent and provide information to voters whose income is clearly linked to integration into world markets. In Latin America, the pattern of trade protection of the early postwar era was the result of coalitions of unions and political parties (Wibbels and Ahlquist 2011).

3.2.1.1 Measuring Salience with Country Panel Data

Measuring material salience is not without hurdles, especially when we need to aggregate information at a high level such as the country level. At best we are dealing with an average level of a factor that proxies for salience. One way to proceed would be to consider the level of trade openness in the economy, i.e. the total value of imports and exports with reference to the country's total output. The United States, for instance, is usually portrayed not as an open economy but one with huge domestic market and a low coefficient of trade flows as a share of GDP, which may lead many Americans to think locally and feel alien to the global economy (Guisinger 2017; Bearce and Moya 2020). In Latin America, Argentina and Brazil have had stubbornly low levels of trade openness, often below 25 percent of GDP. By contrast, the trade openness coefficients are much higher in small, open economies such as Honduras, Panama, and Paraguay, in which total trade is larger than 100 percent of GDP. However, such an indicator does not tell us anything about how people experience trade openness. Perhaps there is an open economy in which very few people derive their income from the tradable sector. Moreover, there is a key methodological problem:

trade openness is affected by trade policy choices, with more protectionist policies more likely leading to a more closed economy.⁴⁴

To avoid these problems, I follow Hays (2009) and measure the pocketbook salience of trade with an indicator of the size of the labor force employed in tradable sectors as a share of total employment in the economy. I obtain country-year data on the employment shares of each of 14 economic sectors from the International Labor Organization (ILO) about. The ILO uses an abbreviated version of the International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4, by the United Nations Department of Economic and Social Affairs. The classification of sectors is as follows: Agriculture, Forestry, and Fishing; Mining and Quarrying; Manufacturing; Utilities; Construction; Retail and Wholesale commerce; Transportation and Storage; Accommodation and food services (Hospitality); Financial services and Insurance; Business administration and support service; Public Administration; Human health and Social work; Education; and Other services.⁴⁵ Figures 3.1 and 3.2 report the distribution of the labor shares for each country for the initial and end points in the panel.

⁴⁴ Trade policy is not the only determinant of trade openness, especially when using as an indicator the value of trade flows by GDP, as changes in the national macroeconomy affect the size of total output and international commodity prices affect the value of imports and exports.

⁴⁵ The measurement is not flawless. It is based on official statistics provided by national governments, which follow different sampling methods to estimate the distribution of the labor force. This may be problematic. Argentina tracks the labor force with a periodic household survey that only surveys urban metropolitan areas, leaving out the countryside (thus, employment in agriculture is severely undercounted).

Figure 3.1: Share of Employment by Economic Sector, 1995

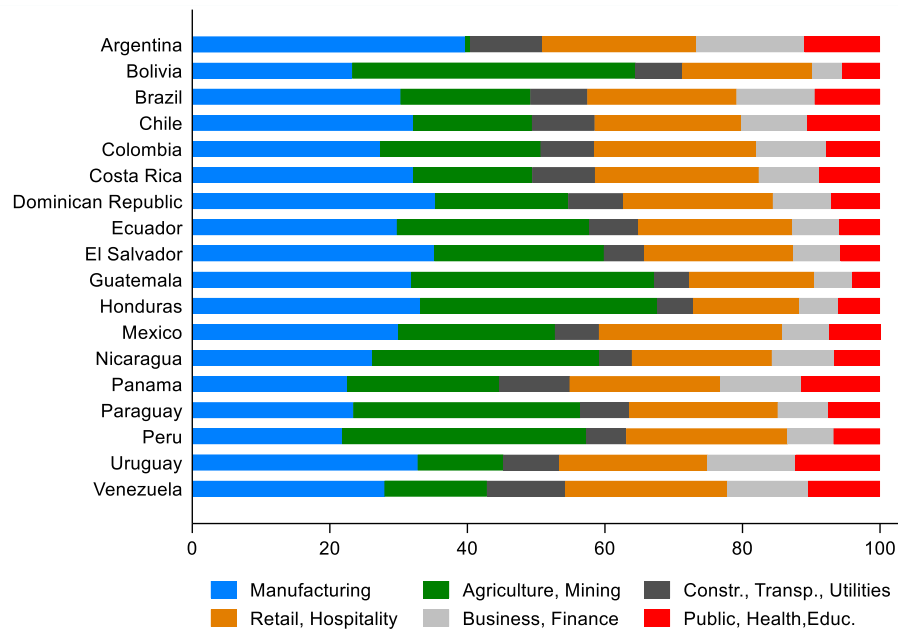
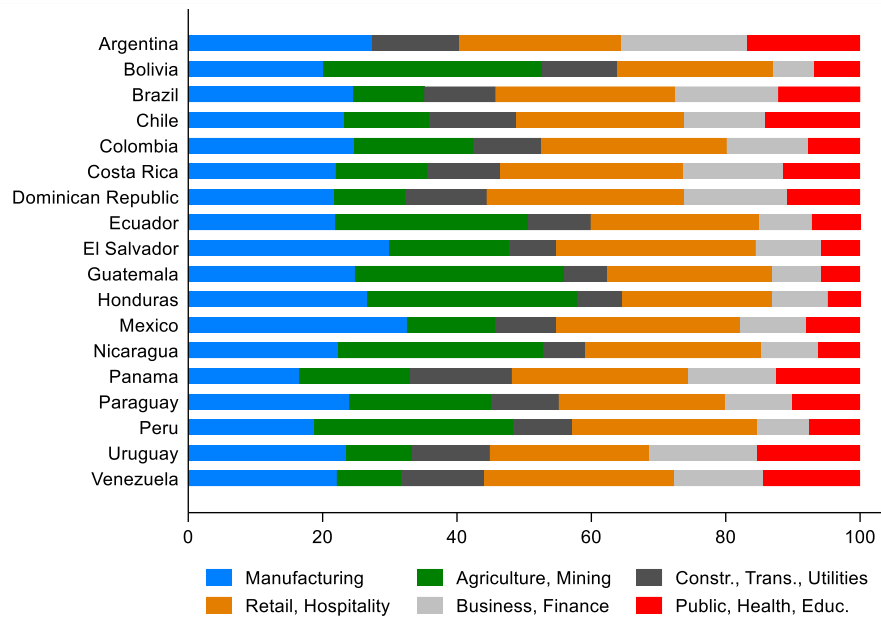


Figure 3.2: Share of Employment by Economic Sector, 2017



Trade salience is measured with the share of the labor force employed in the Agriculture, Forestry, and Fishing, Mining and Quarrying, and Manufacturing sectors. Of course, not all firms or productive units (some are family farms) in each of these three ISIC economic sectors trade with the rest of the world. But this is the best available cross-national data for these countries on a structurally-determined factor that shapes people's exposure to trade. Agriculture, Forestry, and Fishing (includes cattle ranching as well) may be fully for export, such as soybeans in Argentina, logging in Brazil or fishmeal in Peru; for domestic consumption but facing import competition, such as dairy products pretty much everywhere; or for domestic consumption with no foreign competition, may be due to natural barriers, such as potatoes in Bolivia. Mining and Quarrying includes metal mining and energy production, such as oil and gas; these are all very tradable commodities. Manufacturing firms could export, produce final products that compete with imported goods, or use foreign inputs in cross-border value chains. There are also few and small manufacturing firms that produce goods that are not traded and do not rely on foreign inputs.

This way of measuring material salience should reduce spurious correlation with public support for free trade. Mass opinion on trade is affected by import flows. These economic shocks can affect the structure of the labor force in the long term. If imports of manufacturing goods lead uncompetitive domestic producers out of the market, jobs in the manufacturing sector will likely shrink. If the import shock is localized in manufacturing but not in other sectors, the relative share of employment in manufacturing will decrease. Yet, the consequences of trade integration may be felt in other sectors as well, so the structure of the workforce may change little. Also, the evidence shows that in most cases import surges come at the same time that export booms, given the increase in purchasing power and domestic demand brought about by good exporting performance

(Mesquita Moreira and Stein 2019). Greater volumes of imports may also represent the rise of intra-industry trade, so competitive firms that engage in both types of flows may need not reduce payrolls. Finally, the coverage period for the econometric analysis begins in 1995, several years after the big restructuring of the Latin American economies. The late 1980s and early 1990s saw large reductions of workers in the manufacturing sector developed under ISI, not necessarily due to international trade but to macroeconomic turbulences and cuts in state subsidies following the debt and inflation crises.⁴⁶

3.2.2 How Party Leaders and Electoral Rules Shape Responsiveness

The second factor that increases policy makers' willingness to respond to public opinion is the presence of strong party leaders who appeal to the broader electorate. Electoral systems regulate who can run for public office, how votes are counted, who is declared a winner, and how seats are allocated in collective bodies. Voters delegate policy choices to political representatives, but "how well their policy preferences get represented and whether they manage to throw the rascals out hinge on the rules for election" (Persson and Tabellini 2003, 6). Democracies exhibit a large variety of electoral systems both for the legislature and for the executive (Bormann and Golder 2013). Electoral rules affect citizens - public official congruence because they shape the composition of legislatures and governments. Electoral rules also have an effect on responsiveness

⁴⁶ In 1995, all 18 economies in the sample had more than 40 percent of the workforce employed in manufacturing, mining, and agriculture, forestry, and fishing. In the last year of the panel (2017), ten countries still had more than 40 percent employed in those sectors, and only four had twenty percent or less.

because they create incentives for public officials to follow public opinion and behave in ways that guarantee their political survival (Golder and Ferland 2018; Crisp, Olivella, and Rosas 2020).

Until now, scholars have relied on electoral institutions to predict specific trade policies based on the effects that rules have on politicians' linkages to interest groups. Persson and Tabellini (2003) argue that proportional representation (PR) lead to "general welfare" policies (they identify free trade as such) while majoritarian systems lead to targeted benefits. Rogowski (1987) argues that majoritarian systems promote the influence of special interest groups in the legislature and thus predicts higher levels of protection there in contrast to PR systems. In winner-takes-all systems legislators favor the interests of their district-specific constituencies, giving disproportionate weight to producers' lobbies in their districts when choosing trade policies (Grossman and Helpman 2005). There is cross-country evidence that PR formulas are associated with less restrictive trade policies (Evans 2009; Rickard 2010).⁴⁷

Studies of the effects of electoral formulas on trade policies build on the debate over the different visions of democracy. The proportional vision is said to facilitate the continuous response to changes in citizens' preferences between elections. By contrast, the majoritarian vision of democracy is said to compel politicians to implement the policies on which they campaigned, being responsive only when a new election takes place (Huber and Powell 1994; Powell 2000). Proportional systems ensure government representation of the citizenry's most preferred policy position, measured with the position of the median citizen, which minimizes the sum of absolute

⁴⁷ Rogowski later argued that majoritarian rules promote free trade because they lead politicians to cater to consumers vis-à-vis districts-specific producers groups because a loss of votes translates into more seats lost (Rogowski and Kayser 2002). Unsurprisingly, the evidence is "somewhat maddeningly inconclusive" (Oatley 2017, 706)

distances (Golder and Ferland 2018). Proportional democracies tend to elect at least one party that represents the position of the median voter given that voters in such systems are free to behave sincerely and vote for their desired electoral choice.

How do electoral rules affect trade policy responsiveness? I argue that trade policy responsiveness is higher when policy makers have motives to care for the broader electorate. The idea is not that party leaders lead legislators to vote for free trade as a “general welfare” policy, as much of the literature does (Grossman and Helpman 2005; Hatfield and Hauk 2014; Wagner and Plouffe 2019). Rather, strong party leaders matter because they focus on the broader electorate rather on narrow constituencies to win elections and play a key role in controlling intraparty discipline to deliver what voters want. Strong party leaders, as those found from Spain to Argentina, care about the party’s overall reputation and cultivating overall support for their party brand. These politicians block the emergence of factions within legislative parties. Strong party leaders use partisan and institutional tools such as legislative committee positions, personnel appointments, and control over parties’ campaign funds to secure that members of the same party vote in unity as one bloc in the national legislature (Calvo 2014; Morgenstern 2004; Naoi 2015). Pushed by leaders, voting together as a bloc reduces the odds of forming alliances across parties while making legislators of one party collectively identifiable to voters as being responsible for policy decisions. Strong party leaders work hard to increase this identifiability, making it possible for voters to tell which group of politicians controls policy decisions and hence hold them accountable for poor government performance (Morgenstern 2004). For these reasons, I argue that in systems with strong party leaders, public officials in the executive and the legislature are better

suited to react to the shifts in public opinion and they can claim credit for better accommodating aggregate sentiment.⁴⁸

This type of policy maker emerges in polities where electoral institutions promote strong party leaders. Some electoral rules privilege party leaders over candidates. Rules that discourage a personal vote tilt the power balance to party leaders vis-à-vis individual politicians. By contrast, institutions that create incentives to cultivate a personal reputation encourage individual legislators to seek out opportunities to personally claim credit for policies that benefit only their districts (Ames 1995; Carey and Shugart 1995). The combination of PR formulas with large district magnitude and closed and blocked candidate lists motivate parties to maximize the votes necessary to win elections by catering to diffuse groups, effectively competing for votes in large areas of the country to maximize the number of legislative seats (Rickard 2018, 41).

Accordingly, Hypothesis 3.2 states that *trade policy should follow public opinion when there are strong party leaders*.

3.2.2.1 Electoral Systems in Latin America

Despite having presidential systems, Latin American countries vary in how they elect legislators. Table 3.2 presents information for some key factors that determine how members of the lower house of Congress, or the single house in unicameral legislative bodies, have been elected since the third wave of democratization. The first variable of interest is the electoral rule family. I use data and definitions from Bormann and Golder (2013). In the proportional

⁴⁸ This does not prevent party leaders to follow their own ideas or party doctrines when making policy. The point is that party leadership positions in democratic regimes rely on securing the survival of the party through effective vote maximization.

representation (PR) family, parties present lists of candidates to be selected in districts with more than one seat to allocate, and parties receive seats in proportion to their overall share of the votes. In contemporary Latin America, there are no countries where legislators are merely elected in first past the post systems requiring a simple plurality in districts with just one seat available. There are, however, several cases of mixed systems that combine properties from the majoritarian family with PR. An independent mixed electoral system, such as the mixed parallel system, is one in which the majoritarian and proportional components of the electoral system are implemented independently of one another, typically requiring the use of majoritarian and PR formulas in two separate electoral tiers (superposition system). A dependent mixed electoral system, called Mixed Member Proportional system, is one in which the application of PR is dependent on the distribution of seats or votes produced by the majoritarian formula. This system compensates for any disproportionality produced by the majoritarian formula at the constituency level. In most dependent mixed systems, individuals have two votes: they cast their first vote for a representative at the constituency level and their second vote for a party list in a higher electoral tier.

The second variable is the Personal Vote Index, which measures the degree of institutional incentives to cultivate a personal vote which foster intraparty competition and weaken party leaders. Carey and Shugart (1995) defined four variables affecting the degree to which electoral rules motivate cultivation of a personal vote: ballot control (when parties control the ballot, candidates have greater incentives to follow party orders and pursue its platform), vote pooling (the extent to which votes are shared among the candidate's co-partisans), types of votes (whether citizens are allowed to cast votes for parties or for candidates), and district magnitude. Combining these factors one can rank electoral systems based on personal-vote cultivation incentives. I use updated data on the Personal Vote Index available from Connell (2019).

Finally, Table 3.2 reports the average district magnitude and the electoral formula. The former is the number of legislators that can be elected in any one district, considering all the districts in the country. The latter helps to understand variation within electoral system families. I rely on the classification and data of Bormann and Golder (2013). Countries with Mixed Member Proportional systems (Bolivia, Venezuela) use the Single Member District Plurality formula in their first electoral tier, which is effectively a winner-takes-all rule because individuals cast a single vote for one candidate and the candidate with the most votes is elected even if this is not a majority. Mexico also uses the SMDP formula although its overall system is classified as Mixed Parallel. Other Mixed Parallel systems use alternative formulas, such as the Block Vote (individuals have as many votes as there are seats in a district to be filled, using as many or as few of their votes as they wish) for some years in Ecuador and the Hare quota in Panama. Pure PR systems use formulas with quotas or divisors to allocate seats.

Table 3.2: Electoral Systems in Latin America

Country	Period	Electoral Rule Family	Personal Vote Index	Electoral Formula	Average District Magnitude
Argentina	1995-2017	PR	1	D'Hondt	5.35
Bolivia	1995-1996	PR	1	Sainte-Lague	14.44
Bolivia	1997-2001	Mixed Member Proportional	6	Single Member District Plurality	1
Bolivia	2002-2004	Mixed Member Proportional	10	Single Member District Plurality	1
Bolivia	2005-2017	Mixed Member Proportional	10	Single Member District Plurality	1
Brazil	1995-2017	PR	7	Hare quota (highest average remainders)	19
Chile	1995-2015	PR	5	D'Hondt	2
Colombia	1995-2001	PR	12	Hare quota (largest remainders)	4.88
Colombia	2002-2013	PR	12	D'Hondt	4.88
Colombia	2014-2017	PR	12	D'Hondt	5.03
Costa Rica	1995-2017	PR	1	Hare quota (largest remainders)	8.14
Dominican Rep.	1996-1997	PR	1	D'Hondt	4
Dominican Rep.	1998-2001	PR	1	D'Hondt	5
Dominican Rep.	2002-2005	PR	3	D'Hondt	4.69
Dominican Rep.	2006-2009	PR	3	D'Hondt	5.56

Dominican Rep.	2010-2015	PR	3	D'Hondt	5.72
Dominican Rep.	2016-2017	PR	3	D'Hondt	5.93
Ecuador	1995	PR	1	Hare quota (largest remainders)	3.1
Ecuador	1996-1997	PR	1	Hare quota (largest remainders)	3.33
Ecuador	1998-2001	Mixed Parallel	1	Block Vote	4.76
Ecuador	2002-2006	PR	3	D'Hondt	4.5
El Salvador	1995-2017	PR	1	Hare quota (largest remainders)	4.57
Guatemala	1996-1998	PR	1	D'Hondt	2.78
Guatemala	1999-2002	PR	1	D'Hondt	3.96
Guatemala	2003-2017	PR	1	D'Hondt	5.77
Honduras	1995-1996	PR	1	Hare quota (largest remainders)	7.11
Honduras	1997-2000	PR	1	Hare quota (largest remainders)	7.39
Honduras	2001-2016	PR	1	Hare quota (largest remainders)	7.11
Mexico	2000-2017	Mixed Parallel	6	Single Member District Plurality	1
Nicaragua	1995	PR	1	Hare quota (largest remainders)	10
Nicaragua	1996-2000	PR	1	Hare quota (largest remainders)	4.37
Nicaragua	2001-2017	PR	1	Hare quota (highest average remainders)	4.12
Panama	1995-1998	Mixed Parallel	6	Hare quota (largest remainders)	1.8
Panama	1999-2003	Mixed Parallel	6	Hare quota (largest remainders)	1.77
Panama	2004-2008	Mixed Parallel	6	Hare quota (largest remainders)	1.8
Panama	2009-2017	Mixed Parallel	6	Hare quota (largest remainders)	1.77
Paraguay	1995-2017	PR	1	D'Hondt	4.44
Peru	2001-2010	PR	5	D'Hondt	4.8
Peru	2011-2017	PR	5	D'Hondt	5.2
Uruguay	1995-2017	PR	3	D'Hondt	5.21
Venezuela	1995-1997	Mixed Member Proportional	10	Single Member District Plurality	1
Venezuela	1998-2004	Mixed Member Proportional	10	Single Member District Plurality	1.22
Venezuela	2005	Mixed Member Proportional	10	Single Member District Plurality	1.26

3.2.3 How the Policy-Making Process Affects Responsiveness

The ability to respond to public opinion depends on the setup of the policy-making process. The structure of policy making creates different incentives for politicians to respond to voters' and special interests' demands. Some scholars focus on the attributes and relative power of government branches. In the United States, for example, the legislature was usually seen as a body unable to resist the rent-seeking pressures of special interest groups in legislators' electoral districts (Destler 1992).⁴⁹ During the Great Depression the legislative branch began delegation of reciprocal trade policy authority to the executive, thought to care more for aggregate welfare and support trade openness (Bailey, Goldstein, and Weingast 1997). Presidents endowed with more delegated powers are thought to be better able to insulate themselves from special interest pressures and focus on the broad electorate when making policy choices (Nielson 2003; Samford 2010). However, Hiscox (1999) points to the fact that delegation is in itself an endogenous institution: which political party controls government explains both the decision to delegate trade authority as well as the content of trade policy. This idea about constitutional limits to delegate and how they may affect trade policy choices has not been tested elsewhere.

The number of veto players is another key component of the policy-making process. Veto players are actors whose agreement is necessary to change the policy status quo (Tsebelis 2002). On the one hand, extra constraints on the executive could lead governments to make credible commitments to trade liberalization (Mansfield, Milner, and Rosendorff 2002). On the other hand,

⁴⁹ Not all presidential systems are alike, however. Some legislatures have strong committees and can question the executive, even impeach her, while others are not vested with such powers (Crisp, Olivella, and Rosas 2020).

the presence of more veto players fragments authority and makes it harder to change the status quo (Henisz and Mansfield 2006), particularly to ratify international agreements (Mansfield, Milner, and Pevehouse 2007). However, the issue with these approaches is that they are insufficient to predict trade policy responsiveness when the legislature does not intervene, such as with non-tariff barriers that are decided by the executive and bureaucratic agencies. Merely counting parties and gatekeepers in Congress is then ill suited to understand the most frequent use of commercial regulations.

Institutional veto players within the policy-making process shape which demands are represented when governments manage integration into the world economy. The institutional design of the public administration deals with the organizational structure of the cabinet and bureaucratic agencies, the distribution of functions, coordination mechanisms, and decision rules (Jordana and Ramió 2002). Presidents rely on cabinet secretaries to help them get their agenda through Congress and to implement a wide range of policies (Amorim Neto 2006; Camerlo and Martínez-Gallardo 2017). Laws, statutes, and executive rules mandate that different parts of the public administration should intervene to formulate and implement policy. Fragmentation disperses the formulation and implementation of policy among different government agencies.⁵⁰ Contrary to the political decision to delegate trade authority from Congress to the executive branch, the decision to change the structure of the cabinet and the distribution of responsibilities across agencies is not one that can be taken lightly and arbitrarily. There are important transaction costs

⁵⁰ This is not the same as the constraints on the executive usually discussed in reference to the horizontal distribution of power across branches of government. A president whose party does not hold a majority of legislative seats may nonetheless lead a concentrated administration in which few agencies intervene.

involved in changing the rules of how the public administration works and, furthermore, executive leaders must consider the political costs of doing so in terms of the power the president gives and takes to representatives from political parties and party factions, including the ruling party. While presidents often make at least one change in how they distribute administrative positions and functions, especially at the beginnings of their tenures, these are not very frequent. The evidence from the new index described below shows that no such changes are found in one country for a minimum of three to four years.

How do institutional veto players affect responsiveness? Hypothesis 3.4 argues that *trade policy responsiveness should be greater when the policy-making process is not highly fragmented*, i.e. when few executive departments and agencies intervene. Fragmentation should decrease responsiveness for two reasons. First, a system with several veto players makes changes to the policy status quo harder to pass (Tsebelis 2002). Commercial policy should be harder to change when many agencies participate because coordination among them is less likely (Jordana and Ramió 2002). Each agency has its constituency and mandate, or what the heads of those agencies think are those constituencies and mandates. Second, the participation of many veto players in policy making generally creates more opportunities for lobbying by special interest groups (Ehrlich 2007). The size and structure of the bureaucracy affects the possibility of rent-seeking behavior by public officials and private agents (Shleifer and Vishny 1993). This is especially the case in the context of pro-market reforms in countries with low state capacity and little political institutionalization (Brown, Earle, and Gehlbach 2009). Trade policy could be unresponsive to mass sentiment when producers have easy access to many public officials. Concentrated policy-making processes, with their greater clarity of responsibility and lower coordination efforts, should offer reelection-seeking politicians the means to better cater to voters, reducing information

asymmetries with bureaucrats and reducing the latter's opportunities to shirk from the public mandate. Finally, it is worth recalling that this does not predict that fragmentation will necessarily obtain trade protection, just that it will be harder to adjust policy to the wishes of the public if it disagrees with those of producers. In sum, Hypothesis 3.3 is that *trade policy should follow public opinion when the policy-making process is less fragmented*.

3.2.3.1 Trade Policy Making Fragmentation in Latin America

The fragmentation of the policy-making process is here measured with a new index of the number of cabinet-level departments and bureaucratic agencies involved in trade policy-making in a given country-year. The only existing collection of cross-national data on the design of the trade administration for countries in Latin America covers a few years in the late 1990s (Jordana and Ramió 2002). To fill in this vacuum, I collected all available information on trade legislation and organizational structure for each of the 18 countries in my sample using the WTO's Trade Policy Reports. These reports are written by the organization's Secretariat in Geneva after the country field missions conducted every four to seven years. I verified and complemented these data by consulting the online Official Gazettes (or Registers) as well as published information in government websites. The index counts the sum of every national cabinet-level department and bureaucratic agency that participates in the regulation of international trade and has some degree of decision-making capacity. The measurement incorporates no information on rates and types of ministerial recruitment and turnover. However important the latter may be to understanding coalitions under presidentialism (Camerlo and Pérez-Liñán 2015; Camerlo and Martínez-Gallardo 2017), these factors do not add more information about the level of fragmentation. Nonetheless, in the next two chapters I present other pieces of evidence about who and why is appointed at different agencies crucial to trade policy making in the case studies.

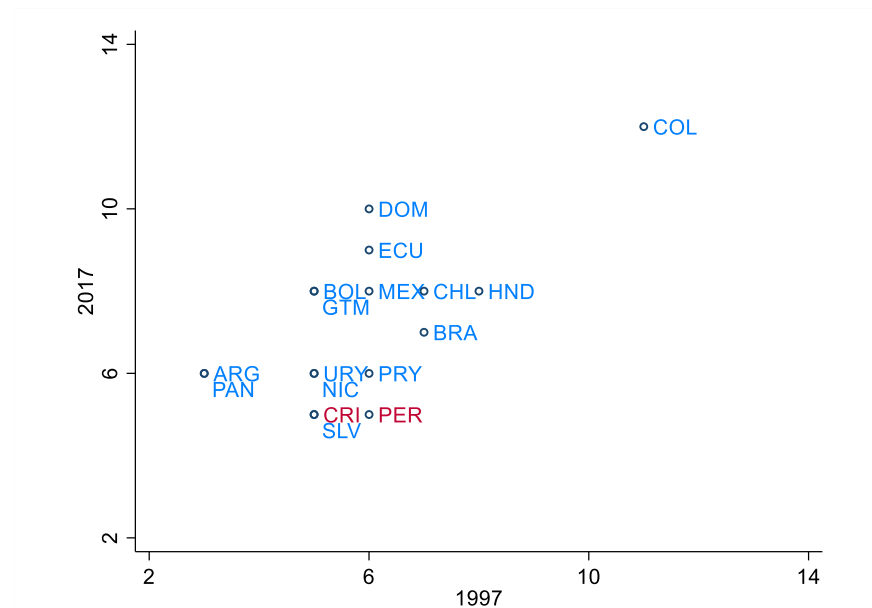
The original research yields that the cabinet departments, usually called ministries, that more often intervene are those of Foreign Affairs (equivalent to the US Department of State), Finance (equivalent to the US Department of the Treasury), and Economic Development (no clear comparison in the US government but shares some responsibilities with the Department of Commerce). Ministries of Agriculture and of Industry with responsibility over trade policy also abound. On the contrary, not many countries have a separate ministry of Trade. Only Costa Rica and Peru have had a Trade Ministry for at least ten years at any time since 1990. Importantly, cabinet ministers in Latin America are directly responsible to the president, who has unchecked authority to name and dismiss these public officials (Camerlo and Martínez-Gallardo 2017, 11).⁵¹ Below the cabinet level, the most common agency involved is the Customs authority. The index also counts as a separate agency any government organization with specific jurisdiction over temporary trade barriers compliant with the GATT/WTO. These agencies, some of which emulate the US International Trade Commission, have boards of directors appointed by the president, the legislature, or both.⁵² Furthermore, it is noteworthy that none of the agencies examined are part of what has been labeled the “institutional presidency,” the cluster of technical, administrative, and advisory organizations created by presidents as part of the executive branch but independent from the cabinet (Inacio and Llanos 2016). In this regard, there is no equivalent to the Office of the US Trade Representative embedded within the White House. The resulting indicator ranges from two

⁵¹ There are few exceptions. In Uruguay, the cabinet requires legislative approval.

⁵² Given the focus on restrictions to free trade, the index does not include agencies solely in charge of export promotion campaigns and the organization of business fairs. Nonetheless, incorporating this type of agency does not change results because every country has one. It is a constant that does not affect variation across countries or over time.

(e.g. Panama 1995) to 11 (e.g. Colombia since the early 2000s), with a median of six. Figure 3.3 report the total count of agencies involved in trade policy making for 1995 and for 2017.

Figure 3.3: The Fragmentation of the Trade Policy Administration



Note: Authors' own elaboration. Horizontal axis is number of trade agencies in the executive branch in 1997. Vertical axis is number of trade agencies in the executive branch in 2017. Countries in red are those in which the major trade agency has been a Ministry of Trade (rather than having Trade as a subunit within other cabinet agencies) for at least 10 years.

3.2.4 Visibility

Finally, I argue that the ability to respond to voters depends on the visibility of the policy instrument involved. Hypothesis 3.4 posits that *trade policy responsiveness should be greatest with the most visible trade policies and lowest with the least visible trade policies*. There are several instruments at disposal because cross-border commerce can be regulated in more than one way. For instance, policy makers can resort to unilateral trade policies, such as changing the rate of nondiscriminatory import tariffs, the content of sanitary restrictions, and the amount of state subsidies to domestic producers. Policy makers can also use bilateral measures, such as preferential

tariffs included in international treaties or voluntary export restrictions, and multilateral trade policies, such as anti-dumping measures regulated by the GATT/WTO (Naoi 2009). An important point is that differences in the complexity of trade policy instruments lead to differences in their visibility. According to the theory of optimal obfuscation, the effects of some trade policies on welfare are easy to explain to voters, but there are others whose effects are more complex (Magee, Block, and Young 1989; Verdier 1994; Kono 2006). Election-motivated officials “seek the most informational bang for their buck, which means attacking policies whose costs can be explained quickly, easily, and cheaply” (Kono 2006, 370). The negative effects of import quotas are “less detectable by rational ignorant voters than are those of tariffs, and the negative effects of tariffs are less detectable than are those of subsidies” (Verdier 1994, 8).

Changes in the general level of import tariff rates have been common in history. Their effects on welfare are not hard to grasp. Tariffs are taxes. The rate at which an imported product is taxed raises the price that citizens have to pay for it by the same rate of the duty. Producers that use imported inputs do not want to see their production costs increase. Those people easily understand that a tariff raises the price they have to pay. More importantly, citizens as consumers can understand the welfare costs of tariffs because they make consumption goods more expensive. The literature on the political economy of neoliberal reforms that included trade liberalization in Latin America in the early 1990s (cited in Chapter One) has largely focused on this type of trade policy instrument. By contrast, non-tariff barriers (NTBs) encompass a wide range of price, quantity, and quality control measures. How these measures work is highly complex. These control measures use advanced formulas and a lot of red tape hidden behind forms. Labeling requirements, phytosanitary restrictions, and customs procedures to clear imports do not make headlines in the evening news or in the campaign trail. Most bystanders have not ever heard of their existence.

Even for small and medium sized firms, it is hard to get full information on these government regulations. That facilitates that the largest firms and well-organized and well-funded business associations that lobby policy makers obtain favorable treatment from NTBs, while most of society will remain in the dark about it.

Governments increasingly resort to preferential trade agreements (PTAs) to lock in commitments to maintain trade restrictions low between partners. PTAs are very visible, because they are international treaties that cede sovereignty and have important welfare consequences behind the border. The media profusely covers the signature and ratification of PTAs. Special interest groups for and against these agreements mobilize and make public statements in the media and in the streets. In Latin America, three major trade agreements, the South American Common Market (Mercosur), the North American Free Trade Agreement between Mexico, Canada, and the United States (NAFTA) and the Free Trade Area of the Americas (FTAAs), increased everybody's attention and made waves of coverage and ink. Politicians could not remain silent about their stance on these PTAs. The launch of the Mercosur is fully discussed in Chapter Four. The signature of the Mercosur by President Carlos Menem of Argentina and the signature of the NAFTA by President Carlos Salinas de Gortari of Mexico became associated with the victory of trade liberalization over the extinct ISI model. Moreover, the structure and content of the NAFTA became the template for trade policy makers in all other countries in Latin America to negotiate similar deals among themselves and with extra-regional partners (Illescas 2019; Torres 2020). The birth and death of the FTAAs, a deal proposed by the US government that would have created a duty-free area among all countries in the hemisphere except for Cuba, was a wedge issue that pitted many politicians, business leaders, and workers against each other within countries as well as one that generated fractures between governments within the region (Estevadeordal et al. 2004).

While PTAs have increasingly included more chapters on different types of trade disciplines, increasingly the regulatory complexity of their context, these agreements are signed by national executives and ratified by national legislatures as a whole package (Díaz Clarke 2019; Matthews 2019; Urrego 2020). The media thus portrays them as packages that increase trade liberalization and the national economy's exposure to the global economy, triggering strong favorable and unfavorable attitudes. Trade policy responsiveness should be higher when it involves PTAs and lower when it involves NTBs.

3.3 Time Series, Cross Sectional Analysis

3.3.1 Research Design

3.3.1.1 Dependent Variables

I test the conditional theory of trade policy responsiveness with panel data using the sample of 18 democracies in Latin America for the period 1995-2017.⁵³ Economists are usually interested in trade outcomes, such as the value of cross-border flows, or firm behavior, such as the decision to export. Political economists, by contrast, are interested in trade policy choices, i.e. the outputs of the policy-making process. There are two broad policy types that affect trade: those that are applied at the border and those that are applied behind the border. The first group is that of trade

⁵³ This choice reduces the temporal coverage of Ecuador to 1997-2006, Peru to 2001-2017, and Venezuela to 1995-2005.

policy strictly speaking, and includes tariffs as well as non-tariff barriers, such as price-based temporary trade barriers, quantitative restrictions, quality controls, and licensing. The second type comprises foreign direct investment (FDI) regulations as well as state subsidies, taxes, and regulation of business competition (for a full review see, Bown and Crowley 2016). Regulations of trade in services are usually addressed by this second type of policy. I focus on the first category.

Trade policy operates with different degrees of visibility, which affects policy responsiveness to voters. There are trade policy dimensions that lend themselves to great exposure to the public while others are too opaque and complex, creating opportunities for optimal obfuscation. We should thus avoid the traditional use of indices that conflate these dimensions. Comparative researchers have addressed the difficulty of using comparable data on trade policy outputs by using composite measures of the degree of trade policy openness, such as those of the conservative Heritage Foundation or the Cato Institute in the United States, which blend some information on tariff levels together with non-tariff restrictions. Others have relied on experts' evaluations of the general orientation of trade policy, such as the index of economic policy reform of the IDB (Crisp, Olivella, and Rosas 2020). Instead, I recognize that governments have incentives to deviate from the public sentiment and can use a mix of policy instruments to get different results. I thus focus on separate policy choices regarding merchandise trade.

The clearest evidence of responsiveness should be found with decisions on the most visible type of trade policy instrument: preferential trade agreements (PTAs). The dependent variable is the net cumulative stock of PTAs for each country. PTAs include bilateral and multilateral free trade agreements, customs unions, partial scope agreements, and unilateral systems of preferences. These treaties establish preferential import tariff schedules as well as standards. Starting with the North American Free Trade Agreement (NAFTA) in the early 1990s, PTAs have become

increasingly more complex in content. A PTA today typically includes detailed provisions on rules of origin, FDI promotion and FDI flows regulation, double taxation and other tax issues, labor standards, environmental standards, access to government procurement, and dispute resolution mechanisms. The focus is on PTAs signed by all partners rather than the date of entry in force or the date of domestic ratification by each country because I want to capture the intent of the executive in liberalizing trade. The signing of PTAs has become highly visible. And the signing of a PTA is the culmination of a long process of international negotiations, sometimes taking several years. As with major foreign economic policy cooperation arrangements, negotiations take place not only between sovereign governments but also within countries between the executive and several domestic actors including legislators, interest groups, and voters (Putnam 1988). Data for this variable are from the WTO's Regional Trade Agreements database.

Next, I consider a classic trade policy that is one step less frequently present in the public's minds but still is very important and jumps into the agenda when special interest groups and policy makers discuss how to deal with trade deficits: import tariffs. I analyze the average of all ad-valorem Most Favored Nation (MFN) applied import tariff rates, with rates measured as percentages. Governments collect price-based duties at the border for each product that crosses it, at different rates. The MFN tariff complies with the principle of nondiscrimination among members in the General Agreement on Trade and Tariffs (GATT). This type of duty is applied at the same rate against goods imports from all other GATT members. Data are collected from government sources by the WTO and United Nations offices such as UNCTAD, made available through the World Bank's World Integrated Trade Statistics database portal (WITS). Given that countries cap part or all of their tariffs at some legal binding commitment reported to the World Trade Organization (WTO) that is usually higher than the MFN tariff they effectively apply, some

countries “exploit this flexibility to make high frequency changes within years” (Bown and Crowley 2016, 18) and may not be captured in the annual data. I use the simple average rather than weighted indexes that incorporate the level of imports because I wish to separate trade flows from trade policies. I do not use collected import duty revenue either, because it is affected by international economic factors and domestic constraints such as the level of state capacity and corruption.

Finally, I consider non-tariff barriers (NTB) to trade, the least visible type of trade policy and the one for which responsiveness should be the hardest to find. The third dependent variable is the number of NTB measures communicated to WTO members. After the conclusion of the Uruguay Multilateral Round and the establishment of the WTO, governments have increased their reliance on these NTB measures to regulate cross-border commerce in goods. NTBs include trade defense measures, namely, antidumping measures, countervailing duties, and safeguards, which have a temporary life span that are allowed and regulated by the WTO. These barriers can be used to remedy unfair trade practices abroad as well as to concede protection to special interest groups that may be affected by the reduction of tariff rates (Bown and Crowley 2016). Other NTBs include import quotas, export subsidies, and sanitary and phytosanitary measures, all of which are subject to monitoring through notification under GATT-WTO agreements. Data are from the WTO’s Integrated Trade Intelligence Portal. We cannot include data on other NTBs that are not communicated to the WTO, such as export quotas and export licenses.

3.3.1.2 Independent and Control Variables

The main independent variable is the original index of public support for free trade developed in Chapter Two. The index measures the percentage of people who agree with pro-free trade statements in nationally representative opinion surveys in a given country-year. Chapter Two

provides a full description of the data sources and estimation method to address the problem of unbalanced gaps as well as a detailed discussion of the observed patterns in public support for free trade in Latin America in the 1990-2017 period.

In the previous section of this chapter, I presented the three moderating factors that facilitate the public opinion-trade policy link and how they are measured for this analysis. Further, I account for several alternative explanations. Changes in commercial policy can be impacted by trade flows. I include the value of total merchandise exports as a share of GDP and the value of total merchandise imports as a share of GDP. Trade policy decision could also reflect changes in macroeconomic conditions as governments try to adjust trade policy to public finance needs or to accommodate demands by domestic producers affected by those economic flows (Rodrik 1994; Edwards 1995). The business cycle is controlled for with year-to-year change in GDP with data from the World Development Indicators (World Bank 2019). Even without a recession, domestic producers are deeply affected by the exchange rate (Copelovitch and Pevehouse 2013). I incorporate a measure of appreciation of the real exchange rate from the World Bank (2020). Moreover, globalization flows could decrease the degree of economic policy responsiveness if governments feel more constrained by global capital markets (Ezrow and Hellwig 2014), which could be especially gruesome in developing countries with high dependence in global capital cycles. I control for capital account openness using the Chinn and Ito (2006) index of restrictions on cross-border financial transactions surveyed by the International Monetary Fund. Finally, I account for policy makers' preferences with a dichotomous indicator of their left-right orientation. I use a modified version of the 2019 version of the Database of Political Institutions (T. Beck et al. 2001) complemented with national country sources to classify the ideological leaning of the

elected president. Finally, I account for differences in economic development with the log of GDP per capita with data from the World Development Indicators.

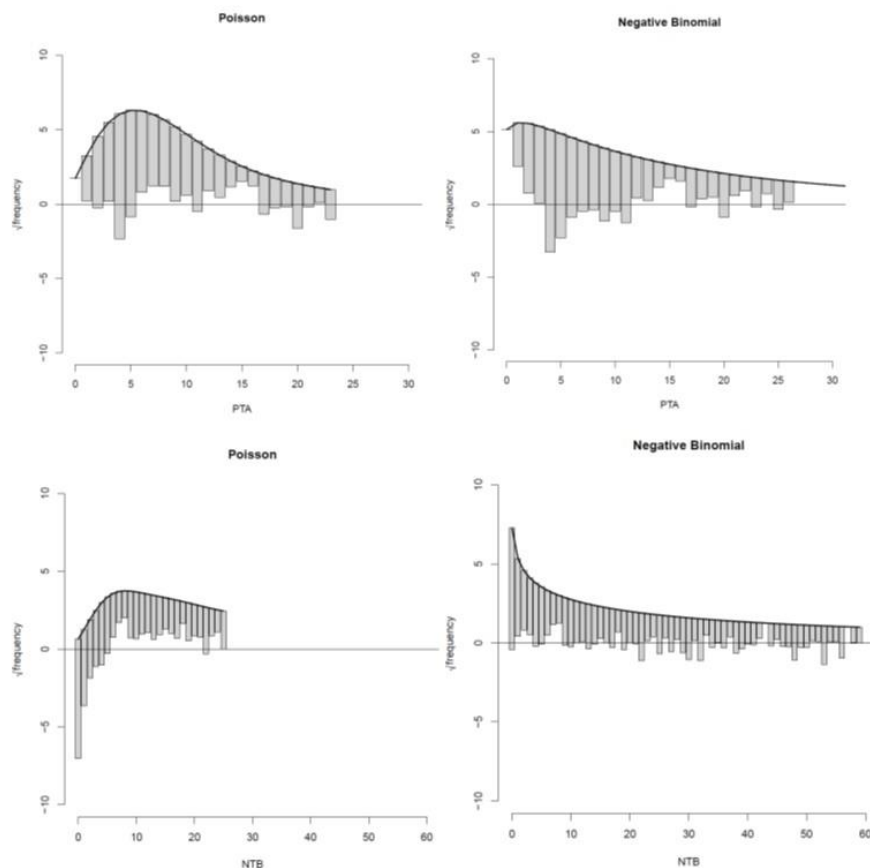
3.3.1.3 Methods

This study is designed to see if movements in trade sentiment are followed by decisions in trade policy in the same direction. In the past, responsiveness was captured with the slope for a static measure of opinion in a cross-sectional analysis (Achen 1978), simply revealing the covariation between citizens' preferences and governmental outputs at a given time. To increase confidence in the causal relationship between mass sentiment and policy, we should exploit temporal variation, too (Soroka and Wlezien 2010; Caughey and Warshaw 2018). Panel data allow us to make inferences across both time and space. Panel econometric methods let us deal with the problem of how to control for factors that cannot be observed and may be correlated with the variable of interest, such as geography, that conflates the effects of the demand side of trade politics (Rudra and Tobin 2017). In the simplest form, a positive coefficient means that an increase in public support for free trade generates a more freer commercial policy, provided that the dependent variable is measured in a way that higher values represent fewer restrictions to free exchange.

I rely on different panel econometric models based on the nature of each dependent variable. To analyze count data on signed PTAs and imposed NTBs, I rely on event count models. Applying OLS with discrete and bounded data would yield wrong predictions and suffer from heteroskedasticity as the variance of the count increases with the mean (Ward and Ahlquist 2018). Assuming that events occur independently and with a constant number of events in any particular observational window, we can model such occurrence with nonlinear models such as the Poisson regression. However, it is likely that the variance of the residuals is larger than the mean (Ward and Ahlquist 2018, 197), especially when there are an excess of zeros in the data (as with NTBs)

or if events are positively correlated (as with PTAs). To correct for overdispersion, I estimate a negative binomial regression, which uses a more flexible distribution to derive the log-likelihood. Robust standard errors are clustered by country to account for interdependence among observations. Figure 3.4 display hanging rootograms that plot expected versus actual counts for PTAs and NTBs using the two event count models. The wave-like pattern and underpredictions of zeros are evidence of overdispersion. Further, I also estimate fixed effects negative binomial regression to deal with the omitted variable bias. To simplify the interpretation of complex nonlinear regression estimates, I also provide as benchmark a linear probability model.

Figure 3.4: Rootograms to Detect Overdispersion in Count Data



Note: Plots on the left are based on Poisson regressions. Plots on the right are based on Negative Binomial regressions. The curve represents the square root of the expected frequency of the outcomes using public support for free trade and

three moderator variables discussed above, while the vertical bars are from the expected frequency to the observed frequency.

To analyze responsiveness when the instrument is the average import tariff rate, I estimate linear regressions. I first use random effects linear regression with standard errors clustered by country, useful to explore the between-unit variation and see the effect of time-invariant variables, as in Betz's (2017) study of trade policy. However, behind random effects rests the heroic assumption that the error components are unrelated to the observed independent variables (Bell and Jones 2015). Therefore, I also estimate fixed effects linear regressions to rule out time-invariant omitted variable bias both with and without the one-period lagged value of the dependent variable and a temporal trend, standard practice in international and comparative political economy (Hays 2009); in the latter case with panel corrected standard errors (PCSE) with a first order autoregression parameter (N. Beck and Katz 1995).⁵⁴ Given that Hypothesis 3.4 is unconditional while Hypotheses 3.1, 3.2, and 3.3 are interactive in nature, I follow two general empirical models. Here I report Equations 3.1 without the autodistributive component for the case of Hypothesis 3.4:

$$Tariff\ Rate_{it} = \alpha_0 + \beta_1 Public\ Opinion_{it-1} + \beta_2 Controls_{it-1} + \varphi_i + e_{it}$$

In Equation 3.2, the model tests Hypothesis 3.1 and incorporates the interaction between public opinion on trade and the salience of trade:

$$Tariff\ Rate_{it} = \alpha_0 + \beta_1 Public\ Opinion_{it-1} + \beta_2 Salience_{it-1} + B_3 Public\ Opinion * Salience_{it-1} + \beta_4 Controls_{it-1} + \varphi_i + e_{it}$$

⁵⁴ Using a dynamic model with fixed effects may not provide the most consistent and efficient estimates with panel data (Nickell 1981). This is less of a problem when T is relatively large to N as in this sample (Angrist and Pischke 2009).

Finally, I also estimate error correction models as in Chapter Two, estimating β_1 for the differenced independent variable (which provides an estimate of the initial change in the dependent variable produced in the short term) and β_2 for the lagged level of the independent variable, which allows to calculate the long-term impact of the independent variable that is distributed in each period over a time span (De Boef and Keele 2008). I report the empirical model for Hypothesis 3.1 in Equation 3.3:

$$\begin{aligned} \Delta \text{Tariff Rate}_{it} = & \alpha_0 + \alpha_1 \text{Tariff Rate}_{it-1} + \beta_1 \text{Public Opinion}_{it-1} + \beta_2 \Delta \text{Public Opinion}_i + \\ & \beta_3 \text{Salience}_{it-1} + \beta_4 \Delta \text{Salience}_i + \beta_5 \text{Public Opinion} * \text{Salience}_{it-1} + \beta_6 \Delta \text{Public Opinion} * \\ & \text{Salience}_i + \beta_7 \text{Controls}_{it-1} + \beta_8 \Delta \text{Controls}_i + e_{it} \end{aligned}$$

3.3.2 Results

Table 3.3 reports the results for preferential trade agreements regressed on public support for free trade. The major finding is that high public support for free trade leads to governments signing more PTAs, suggesting that policy makers are responsive to public opinion on trade. Models 1, 3, and 5 show the results for the unconditional relationship between public opinion and PTAs. The coefficient estimates are all positive and statistically significant. Recall that in negative binomial regressions, the coefficients retrieve the change in the $\log \lambda$ (the average number of events in the so-called exposure interval) for a change in the independent variable. The coefficient of 0.015 means that a unit increase in public support for free trade (e.g. from 50 to 51 percent) generates a cumulative count of PTAs about 1 time more frequently. The standard deviation of public support is 9.8 percentage points, so the effect could be substantial. The relationship can be visualized with a simple scatterplot as that in the top-left plot of Figure 3.5 below. This is a major finding, as PTAs have become the ultimate policy tool to liberalize trade and lock in the change.

Having more PTAs represents a strong choice by the government to lower barriers with more trading partners.

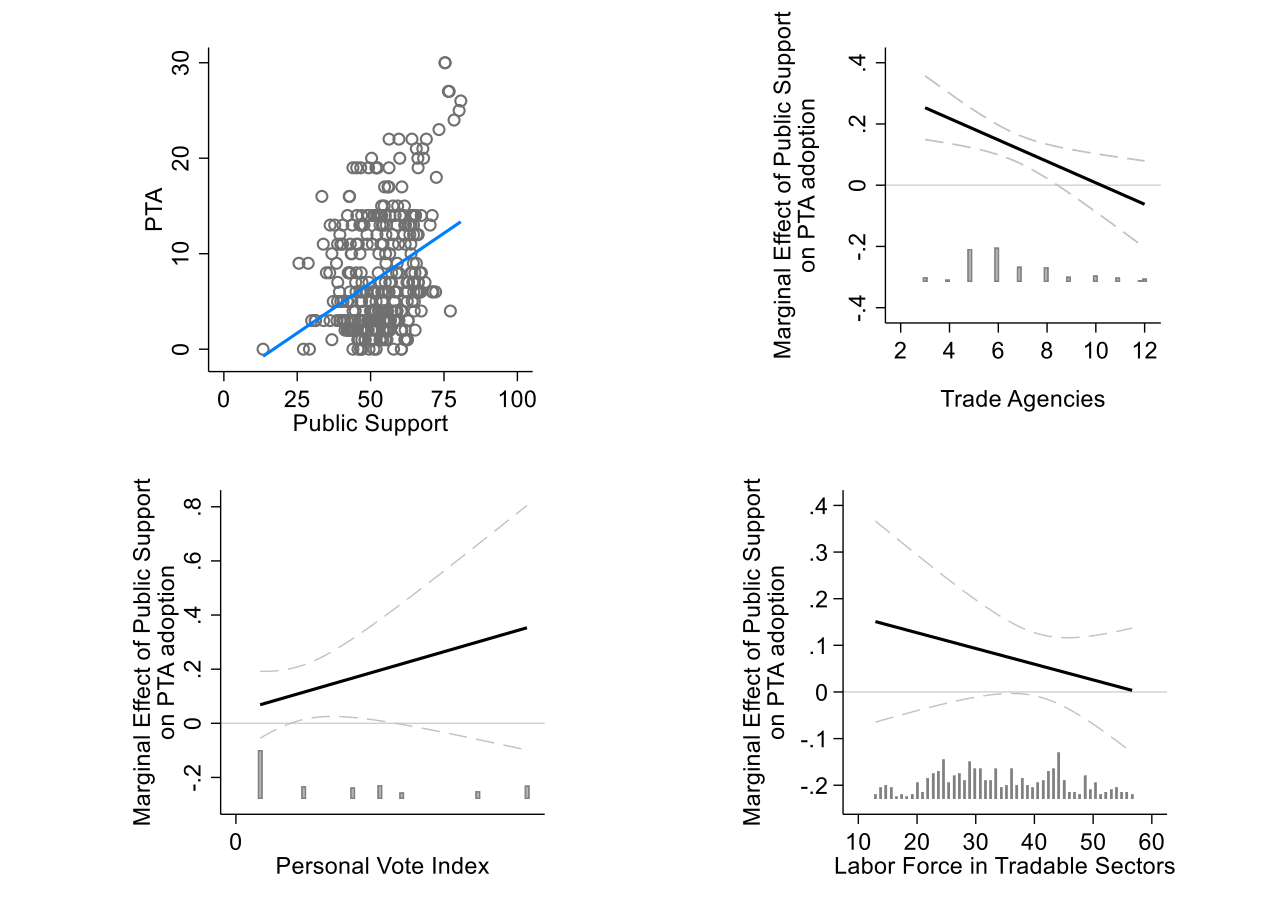
Table 3.3: Public Opinion and Preferential Trade Agreements

	(1) Linear	(2) Linear	(3) Negative Binomial	(4) Negative Binomial	(5) Negative Binomial Fixed Effects	(6) Negative Binomial Fixed Effects
Public Support _{t-1}	0.128** (0.058)	0.219* (0.106)	0.012*** (0.004)	0.013 (0.013)	0.004 (0.003)	0.023 (0.015)
Personal Vote _{t-1}		-1.591* (0.869)		-0.271*** (0.067)		-0.274*** (0.057)
Public Support*Personal Vote _{t-1}		0.025 (0.012)		0.005*** (0.001)		0.003*** (0.001)
Trade Agencies _{t-1}		1.668 (1.625)		0.314*** (0.110)		0.302*** (0.071)
Public Support*Trade Agencies _{t-1}		-0.024 (0.020)		-0.005*** (0.001)		-0.006*** (0.001)
Tradable Labor Force _{t-1}		0.490* (0.260)		0.015 (0.014)		-0.011 (0.023)
Public Support* Tradable Labor Force _{t-1}		-0.002 (0.005)		0.004*** (0.000)		0.000 (0.000)
Exports _{t-1}	0.026 (0.068)	0.041 (0.071)	0.011 (0.008)	0.009 (0.007)	0.009 (0.006)	0.007 (0.005)
Imports _{t-1}	-0.031 (0.057)	-0.038 (0.057)	-0.010 (0.008)	-0.011 (0.006)	-0.003 (0.005)	-0.002 (0.004)
GDP per capita _{t-1}	7.589*** (1.382)	14.701*** (2.031)	0.592*** (0.153)	1.371*** (0.245)	0.336 (0.481)	0.493 (0.433)
GDP growth _{t-1}	-0.033 (0.100)	-0.103 (0.078)	0.003 (0.011)	-0.004 (0.010)	0.009* (0.005)	0.008* (0.005)
Financial Openness _{t-1}	0.730 (1.933)	0.456 (1.534)	0.048 (0.171)	-0.061 (0.181)	0.211 (0.173)	0.249 (0.162)
Exchange rate _{t-1}	-0.006** (0.003)	-0.010*** (0.004)	-0.001** (0.000)	-0.001** (0.000)	0.000 (0.000)	0.000* (0.000)
Left government _{t-1}	-0.648 (0.979)	-0.074 (0.808)	-0.208* (0.116)	-0.056 (0.094)	0.068 (0.061)	0.066 (0.045)
Time trend			0.067*** (0.012)	0.050*** (0.013)	0.065*** (0.021)	0.061*** (0.019)
Constant	-68.097*** (14.330)	-152.106*** (21.244)	-137.924*** (22.516)	-93.552*** (24.403)		
ln(α)			-3.456***	-16.660	-17.515***	-18.065***
Observations	361	361	361	361	361	361
AIC			1774.461	1675.616	1479.574	1460.294
BIC			1817.390	1741.099	1518.817	1530.777
R2	0.535	0.717				

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is cumulative stock of signed Preferential Trade Agreements. A positive coefficient indicates greater odds of a higher stock of Agreements (i.e., more free trade). Models 1 and 2 are linear probability models with robust clustered standard errors. Models 3 and 4 are negative binomial regressions with robust clustered standard errors. Models 5 and 6 are negative binomial Fixed Effects regressions with robust clustered standard errors. AIC is Akaike information criterion. BIC is Bayesian information criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

To understand the relationship between public opinion and PTAs conditional on the different factors that shape willingness and ability to be responsive, I report the coefficient estimates and provide plots to visualize the interactions. The coefficient for the interaction of public opinion and trade agencies is statistically significant in both negative binomial regressions from Models 4 and 6 in Table 3.3. The direction of the interactive coefficient, as expected by the theory, providing evidence in support of Hypothesis 3.3: trade policy responsiveness is greater when the policy-making process is more concentrated (i.e., it has fewer trade agencies involved). The negative slope from the interaction means that pro free trade changes in public opinion lead to fewer PTAs as trade agencies increase. The top-right plot in Figure 3.5 helps to make this finding more clear: when there are few participating trade agencies, an increase in public support for free trade generates a higher number of signed PTAs, but this becomes increasingly negative as the number of trade agencies increases.

Figure 3.5: Estimated Effects of Public Opinion on Preferential Trade Agreements



Note (clock-wise): Top-left scatterplot of bivariate direct (unconditional) relationship (with fitted regression line in blue) between public support for free trade and cumulative number of PTAs. Top-right plot is the conditional marginal effects of public support for free trade on number of PTAs conditional on number of trade agencies with 95% confidence intervals. Bottom-right plot is the conditional marginal effects of public support on number of PTAs conditional on labor force in tradable sectors with 95% confidence intervals. Bottom-left plot is the conditional marginal effects of public support on PTAs conditional on personal vote index (higher values, more candidate-centric) with 95% confidence intervals. All conditional marginal effects estimated from linear regression models with clustered robust standard errors as in Column 2, Table 3.3 (with one interactive term at a time).

Second, the interactive coefficient for public opinion on trade and the personal vote index is statistically significant across Models 4 and 6, but it is not in the expected direction by the theory. The coefficient is positive, suggesting that higher public support for free trade leads to an increase in the count of PTAs at higher values of the personal vote index, i.e. when electoral rules for the legislature promote individuals candidates. A look at the actual data suggests that Colombia comports with this result. A pro-free trade electorate in the last years of the Andrés Pastrana

administration and the first years of Alvaro Uribe's tenure preceded the rise in PTAs in the coming years. When I remove this case, the relationship is not statistically significant. Moreover, the interaction is not significant when the marginal effect of opinion on PTAs is estimated for each value along the index of personal vote. This is seen with the large confidence intervals in the bottom-left plot in Figure 3.5.

Third, there is very weak evidence that the effect of higher public support for free trade on the rate of PTA adoption depends on values of our proxy for material salience, labor force in tradable sectors. The interactive coefficient in the negative binomial regression (Model 4) is positive and statistically significant, but it is not indistinguishable from zero when adding fixed effects (Model 6). Moreover, the sign and significance of the interactive term reverses when one removes the other interactive terms (i.e., with the moderators trade agencies and personal vote index) from the model, as illustrated by the negative and insignificant conditional marginal effects of bottom-right plot in Figure 3.5.

Next, I consider whether there is responsiveness with import tariff rates. Table 3.4 reports random effects, fixed effects, and error correction results for the average level of non-discriminatory import tariff rates regressed on public support for free trade. There is confirmatory evidence of an unconditional, direct effect of the level of public support on changes in the tariff rate from the error correction model in column 3. The coefficient is negative and statistically significant at the 95 percent confidence level. This means that higher levels of support for free trade generate decreases in the average tariff rate. However, the unconditional relationship is not robust to other specifications like the random (Model 1) or fixed effects autodistributive lagged (Model 2) regressions.

There is evidence in support for the conditional Hypothesis 3.2. The positive and statistically significant interactive coefficient for Personal Vote across Models 4 and 5 suggests that a higher level of public support for free trade is associated with less free trade outputs (higher tariff rates) under electoral systems with higher incentives to cultivate a personal vote, the opposite of party-centric systems. That interaction coefficient is not significant in the error correction model. As we can see in the bottom-left plot in Figure 3.6, it is clear that candidate-centric electoral systems are not responsive but the evidence is not very supportive (see red marker in plot) for the idea that party-centric are more responsive to public opinion when making decisions on import tariffs, or at least the average level across all types of product categories as examined here.

The fragmentation of the trade policy-making process makes it more difficult to respond to voters. Hypothesis 3.3 is supported with the results from the error correction model in column 6 of Table 3.4. The coefficient for the interaction between changes in public support for free trade and the differenced value of trade agencies is positive and statistically significant at the 95 percent confidence level. This means that an increase in public support for free trade generates an increase in import tariff rates (i.e. less free trade output) as the differenced count of participating agencies goes up. More veto players break the expected connection between public opinion and trade policy choice. The result is best depicted in the top-right plot in Figure 3.6. The positive slope represents the marginal effects of opinion on the average tariff rates as the count of trade agencies increases. Having three executive agencies in charge of making decisions on trade policy significantly produce lower import tariff rates if the public feels more pro free trade compared to a similar situation but with a state where eight agencies intervene. Finally, there is no evidence that the size of the labor force employed in tradable sectors moderates the relationship between aggregate

opinion and average import tariffs. The interactive coefficient is indistinguishable from zero in both Models 4, 5, and 6 and there is no supporting visual evidence in Figure 3.6, either.

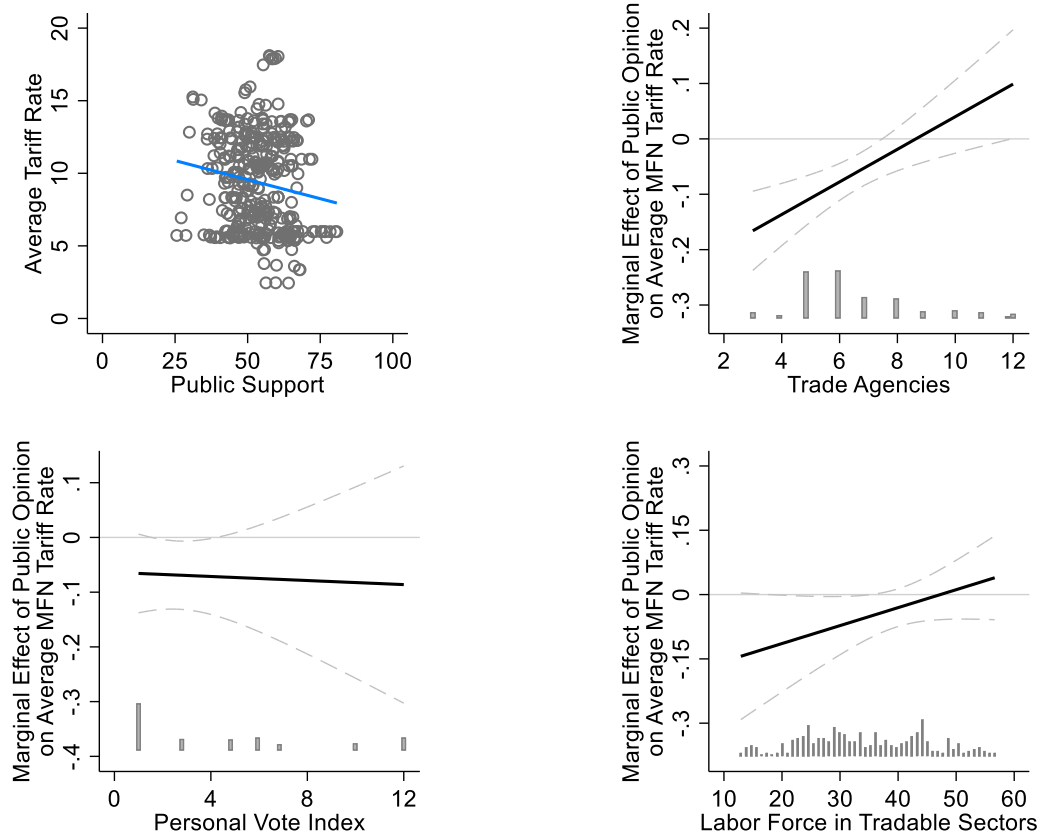
Table 3.4: Public Opinion and Import Tariff Rates

	(1)	(2)	(3)	(4)	(5)	(6)
	Random Effects	Fixed Effects	Error Correction	Random Effects	Fixed Effects	Error Correction
Public Support _{t-1}	0.008 (0.018)	0.005 (0.005)	-0.010** (0.004)	-0.061 (0.087)	0.003 (0.003)	-0.020 (0.024)
Public Support _Δ			-0.001 (0.008)			-0.006 (0.008)
Personal Vote _{t-1}				-0.350 (0.384)	-0.127 (0.129)	0.022 (0.106)
Public Support*Personal Vote _{t-1}				0.014* (0.008)	0.004** (0.002)	-0.000 (0.001)
Personal Vote _Δ						0.070 (0.163)
Public Support*Personal Vote _Δ						0.041 (0.045)
Trade Agencies _{t-1}				0.091 (0.588)	0.160 (0.149)	0.043 (0.181)
Public Support* Trade Agencies _{t-1}				-0.005 (0.015)	-0.005 (0.003)	-0.001 (0.003)
Trade Agencies _Δ						0.385** (0.179)
Public Support* Trade Agencies _Δ						0.063** (0.029)
Tradable Labor Force _{t-1}				-0.053 (0.106)	0.003 (0.033)	-0.010 (0.023)
Public Support* Tradable Labor Force _{t-1}				0.001 (0.002)	0.001 (0.000)	0.001 (0.001)
Tradable Labor Force _Δ						0.044 (0.036)
Public Support* Tradable Labor Force _Δ						-0.001 (0.007)
Exports _{t-1}	-0.290 (0.032)	-0.016* (0.009)	-0.008 (0.005)	-0.048 (0.032)	-0.019 (0.010)	-0.013 (0.006)
Exports _Δ			-0.028 (0.018)			-0.033* (0.019)
Imports _{t-1}	-0.012 (0.021)	0.024*** (0.006)	0.001 (0.005)	0.005 (0.019)	0.022*** (0.007)	0.006 (0.006)
Imports _Δ			0.057*** (0.014)			0.054*** (0.015)
GDP per capita _{t-1}	-3.071*** (1.008)	-0.0169 (0.532)	0.399*** (0.110)	-2.770* (1.464)	0.506 (0.568)	0.724*** (0.276)
GDP per capita _Δ			-2.145 (3.594)			-0.477 (3.511)
GDP growth _{t-1}	-0.020 (0.021)	-0.036*** (0.013)	-0.010 (0.041)	-0.019 (0.020)	-0.040*** (0.012)	-0.038 (0.044)
GDP growth _Δ			0.012 (0.038)			-0.004 (0.036)

Financial Openness _{t-1}	-2.078*** (0.632)	-0.673*** (0.246)	-0.757*** (0.268)	-1.968*** (0.503)	-0.725*** (0.255)	-0.844** (0.385)
Financial Openness _Δ			-0.527 (0.620)			-0.626 (0.734)
Exchange rate _{t-1}	0.005** (0.002)	0.001 (0.001)	-0.000 (0.000)	0.004** (0.002)	0.000 (0.001)	-0.001 (0.000)
Exchange rate _Δ			-0.001 (0.001)			-0.000 (0.001)
Left government _{t-1}	0.357 (0.377)	0.134* (0.105)	0.227* (0.130)	0.292 (0.366)	0.149 (0.103)	0.286** (0.137)
Left government _Δ			-0.458** (0.200)			-0.551** (0.220)
Time Trend		-0.052** (0.026)	-0.038** (0.016)		-0.060* (0.031)	-0.043*** (0.014)
MFN Tariff Rate _{t-1}		0.484*** (0.059)	-0.141*** (0.028)		0.471*** (0.054)	-0.148*** (0.028)
Constant	39.313*** (8.465)			37.742** (15.291)		
Observations	358	348	336	352	348	336
R ²	0.037	0.952	0.132	0.037	0.953	0.153
rho	.580			.650		

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1, 2, 4 and 5 is average level of ad-valorem Most Favored Nation (MFN) import tariff rate. Dependent variable in Models 3 and 6 is change in average MFN import tariff rate. A positive coefficient indicates that an increase in the independent variable generates an increase in the average level of import tariff rates (i.e., less free trade). Variables with Δ indicate one-year change. Models 1 and 4 are Random Effects regressions with robust clustered standard errors. Models 2 and 5 are AR(1) Prais-Winsten Fixed Effects regressions with panel corrected standard errors. Models 3 and 6 are Error Correction regressions with Fixed Effects and panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Figure 3.6: Estimated Effects of Public Opinion on Average Tariff Rates



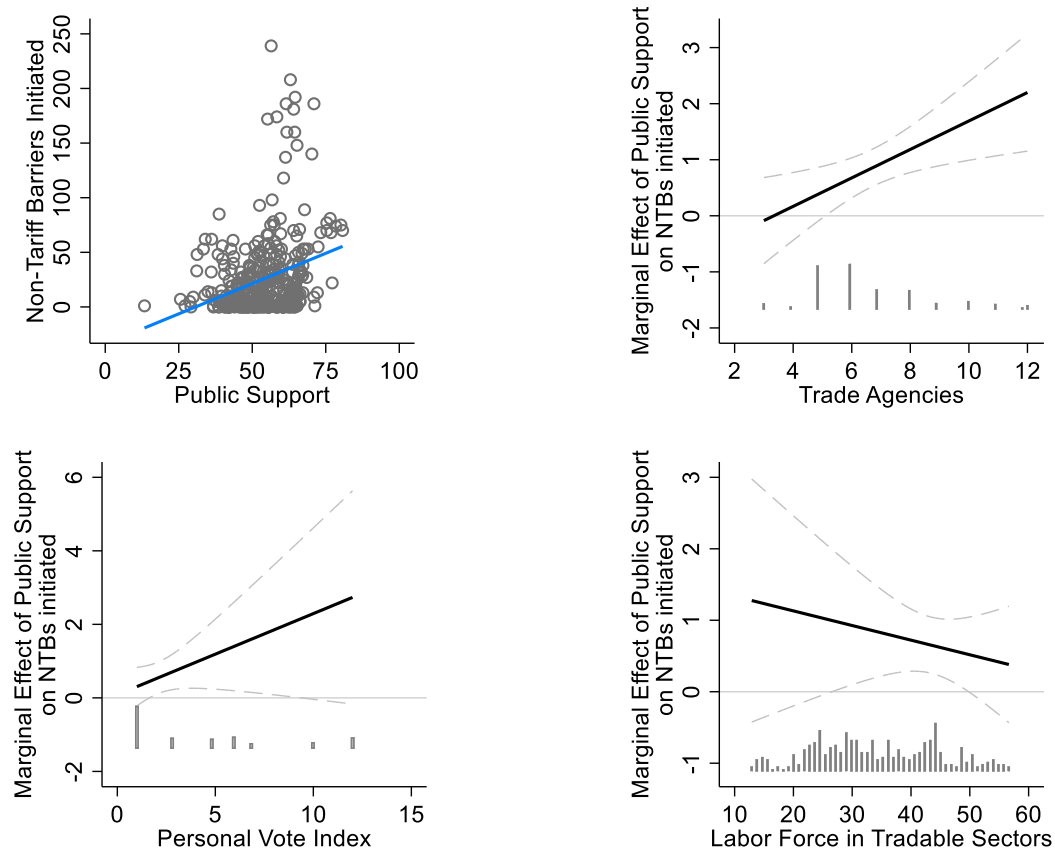
Note (clock-wise): Top-left scatterplot of bivariate direct (unconditional) relationship (with fitted regression line in blue) between public support for free trade and average Most Favored Nation import tariff rate. Top-right plot is the conditional marginal effects of public support for free trade on average Most Favored Nation import tariff rate conditional on number of trade agencies with 95% confidence intervals. Bottom-right plot is the conditional marginal effects of public support on average tariff rate conditional on labor force in tradable sectors with 95% confidence intervals. Bottom-left plot is the conditional marginal effects of public support on average tariff rate conditional on personal vote index (higher values, more candidate-centric) with 95% confidence intervals. All marginal effects computed from linear regressions with clustered robust standard errors with one interaction term at a time.

Table 3.5: Public Opinion and Non-Tariff Barriers

	(1)	(2)	(3)	(4)	(5)	(6)
	Linear	Linear	Negative Binomial	Negative Binomial	Negative Binomial Fixed Effects	Negative Binomial Fixed Effects
Public Support _{t-1}	0.968* (0.343)	-0.335 (1.338)	0.038*** (0.011)	-0.059 (0.046)	0.027*** (0.008)	-0.029 (0.048)
Personal Vote _{t-1}		-10.412 (6.143)		-0.515** (0.259)		0.086 (0.225)
Public Support*Personal Vote _{t-1}		0.220 (0.130)		0.010* (0.006)		0.000 (0.003)
Trade Agencies _{t-1}		-5.247 (8.840)		0.002 (0.232)		-0.478 (0.298)
Public Support*Trade Agencies _{t-1}		0.070 (0.100)		-0.001 (0.004)		0.010* (0.006)
Tradable Labor Force _{t-1}		0.438 (1.651)		-0.108*** (0.040)		0.007 (0.078)
Public Support* Tradable Labor Force _{t-1}		0.001 (0.030)		0.002** (0.001)		-0.000 (0.001)
Exports _{t-1}	-0.584 (0.355)	0.549 (0.363)	-0.035** (0.015)	-0.039** (0.013)	-0.041* (0.024)	-0.042 (0.030)
Imports _{t-1}	-0.151 (0.243)	-0.119 (0.25)	0.004 (0.015)	0.013 (0.013)	0.035** (0.017)	0.035* (0.020)
GDP per capita _{t-1}	17.415*** (4.790)	23.105** (12.461)	0.919*** (0.319)	0.628 (0.781)	-0.666 (0.908)	-0.580 (1.024)
GDP growth _{t-1}	-0.677 (0.500)	-0.768* (0.430)	-0.018 (0.015)	-0.015 (0.027)	-0.002 (0.020)	0.005 (0.017)
Exchange rate _{t-1}	-0.011 (0.009)	-0.019 (0.017)	-0.001 (0.000)	-0.000 (0.001)	0.005*** (0.001)	0.004*** (0.001)
Financial Openness _{t-1}	-9.308 (13.328)	-9.312 (14.594)	-0.099 (0.491)	-0.025 (0.589)	1.260** (0.486)	1.115* (0.594)
Left government _{t-1}	6.256 (9.478)	9.954 (10.183)	0.019 (0.229)	0.051 (0.240)	-0.001 (0.111)	-0.011 (0.116)
Time trend			0.004 (0.019)	0.017 (0.029)	0.058 (0.044)	0.051 (0.060)
Constant	-155.283*** (46.365)	-153.916 (124.401)	4.906 (32.483)	-33.776 (53.737)		
ln(α)			0.263* (0.119)	0.167 (0.119)	-0.348 (0.119)	-0.362 (0.119)
Observations	358	358	358	358	358	358
AIC			2881.615	2846.120	2689.276	2687.369
BIC			2924.763	2912.495	2728.519	2741.852
R ²	0.331	0.392				

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is count of Non-Tariff Barriers reported by the government to the WTO, including price, quantity, and quality import control measures. A positive coefficient indicates greater odds of a higher number of barriers (i.e., less free trade). Models 1 and 2 are linear probability models with robust clustered standard errors. Models 3 and 4 are negative binomial regressions with robust clustered standard errors. Models 5 and 5 are negative binomial Fixed Effects regressions with robust clustered standard errors. AIC is Akaike information criterion. BIC is Bayesian information criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Figure 3.7: Estimated Effects of Public Opinion on Non-Tariff Import Barriers



Note (clock-wise): Top-left scatterplot of bivariate direct (unconditional) relationship (with fitted regression line in blue) between public support for free trade and number of reported non-tariff price, quantity, and quality control barriers (NTBs). Top-right plot is the conditional marginal effects of public support for free trade on number of NTBs conditional on number of trade agencies with 95% confidence intervals. Bottom-right plot is the conditional marginal effects of public support on number of NTBs conditional on labor force in tradable sectors with 95% confidence intervals. Bottom-left plot is the conditional marginal effects of public support on NTBs conditional on personal vote index (higher values, more candidate-centric) with 95% confidence intervals. All conditional marginal effects estimated from linear regressions with clustered robust standard errors as in Column 2, Table 3.5, with one interactive term at a time.

Governments resort to optimal obfuscation to evade being responsive to voters. This is the conclusion from the positive direct (unconditional) effect of aggregate sentiment on the initiation of non-tariff barriers. In Table 3.5, both the linear (Model 1) and negative binomial (Models 2 and 3) regressions yield that higher support for free trade is followed by more NTBs, which increase trade protection to domestic producers. Hypothesis 3.4 predicts that responsiveness should be the

least likely when governments use NTBs because these are opaque and complex policy instruments, difficult to see, to communicate, and to understand. Now, the positive and statistically significant coefficients found for public opinion in Table 3.5 take the prediction one step further: governments not only fail to reduce NTBs when aggregate sentiment is more pro free trade, but they increase those import restrictions under open friendly opinion.

To avoid alienating an electorate that embraces globalization, policymakers may be using less visible restrictions to free trade to provide protection to domestic producers that demand it. We do not have observable data on actual non-tariff demands from domestic businesses across countries and over time to fully validate this account. But NTBs are, in general, little known to the average citizen. Phytosanitary restrictions and safeguard remedies, for example, are less likely to make headlines and trickle into the public debate about trade, except for those with vested interests. So, the positive coefficient for the independent effect of public support may mean that policymakers can make one trade policy choice in the direction of the public sentiment, for example signing PTAs or lowering the average import tariff rate, while moving NTBs in the opposite direction under the radar. This is best illustrated in the case of Chile since 2010, a country where the index of public support for free trade is greater than 70 percent, tariff rates are very low, the stock of PTAs is the highest, but NTBs are greater than 70 initiated restrictions per year.

There is some evidence that policy makers are even less responsive to voters when the policy making process is fragmented. The interactive coefficient between public opinion and the number of trade agencies is positive in the linear model (column 2) but statistically significant only at the 90 percent confidence level in the negative binomial regression with fixed effects (column 6). This relationship is visualized in the top-right plot in Figure 3.7 using estimates from a linear model with one interaction at a time, where the marginal effect of higher support for free trade on

NTB initiation becomes positive as the number of executive agencies that participate in the process increases.

The electoral system seems to shape responsiveness with NTBs, but the results are not very robust. Positive coefficients in Models 2, 4, and 6 (Table 3.5) suggest that there is less responsiveness when electoral systems promote individual candidates over strong party leaders, but this relationship is noisy, and the best model achieves a 90 percent confidence level. The marginal effect of opinion on NTBs is more than three times higher in an upward direction when one moves from a system with a score of three in the personal vote index (e.g., Uruguay) to a score of 10 (e.g., Bolivia), as seen in the bottom-left plot in Figure 3.7. Finally, there is no clear statistical evidence to support Hypothesis 3.1. While the bottom-right plot in Figure 3.7 using a linear regression model suggests a negative marginal effect conditional on labor force size, the negative binomial regression in column 4 retrieve a positive and significant interactive coefficient.

3.3.2.1 Robustness Checks

How sensitive are these results? I summarize here the robustness checks for the estimated relationship between public support for free trade and the three trade policy choices under study, both the unconditional effects as well as the conditional effects on the moderators from Hypotheses 3.1, 3.2, and 3.3. Full results are in the Appendix B.

The direct effect of public opinion on PTAs is robust to estimating and compensating for bias in the estimator. Appendix B Table 1 shows that higher public support for free trade lead to a higher number of free trade treaties, robust to jackknife resampling, sequentially deleting one observation from the dataset, recomputing the estimator, for the entire size for the sample. That table also shows that the direct positive effect is robust to incorporating the lagged dependent variable to the negative binomial fixed effects regression. Moreover, the last column in Appendix

B Table 1 corroborates the unexpected finding of more PTAs in response to high public support in candidate-centric systems using an alternative indicator: PR formula. Using this proxy, furthermore, does not wash out the conditional effect of opinion based on the number of trade agencies.

The relationship between public support for free trade and PTAs conditional on willingness and ability to respond are robust to the inclusion of other control factors. Appendix B Table 2 shows that the electoral system, the structurally determined degree of trade salience, and the fragmentation of the trade policy-making process exert the same effects as in Table 3.3 discussed above when accounting for the total number of institutional and partisan veto players in the political system beyond the public administration agencies on trade (using the Checks indicator from Beck et al. (2001)); the average level of trade flows openness in the region (using the De Facto Trade Globalization index from the KOF Institute); and whether the country is member to a customs union (Mercosur and Andean Community). Among these new controls, it is worth mentioning that the estimated coefficient for customs union is positive and statistically significant, a finding that suggests that countries within a customs union are more likely to sign more PTAs, all else equal. This result fits with the case of Colombia and Peru, two countries that have signed several of their own deals with other countries while both being members of the Andean Community.

Next, in Appendix B Table 3, I present results for sensitivity analysis for average tariff rates regressed on public opinion conditional on the three moderators. The results from the fixed effects and error correction models with jackknifed standard errors (Models 1 and 2) are that higher public support for free trade increases the average tariff rate (i.e., a more protectionist output) when legislators are elected in candidate-centric systems. Furthermore, the statistically significant

negative interactive coefficient in Model 3 in Table 3 demonstrate that in countries with PR formula, higher support for free trade is associated with a lower average tariff rate, a more clear evidence of Hypothesis 3.2. The results from the regressions with jackknife resampling also ratify the finding from Table 3.4 that the relationship between public opinion and tariff rates is not conditional on the share of employment in tradable sectors.

In Appendix B Table 4, I show that the relationship between public support for free trade and PTAs conditional on the personal vote index is robust to the inclusion of three additional control factors: checks on executive power; regional trade flows; and customs unions. The result for the last one is not statistically significant, surprisingly reporting that Latin American countries that belong to the two regional customs union do not exhibit different levels of non-discriminatory tariff rates (other factors such as financial openness, economic growth, and the ideology of the ruling government seem to be important drivers).

In Appendix B Table 5, I first show that using jackknifed standard errors does not alter the finding that higher support for free trade produces a higher number of NTBs (see, Models 1, 2, and 3). Then I report a non-significant estimated coefficient in Model 4 for PR formula, suggesting that responsiveness with NTBs is shaped by the rules about how individual candidates compete in elections (shown in Table 3.5) but not by whether the formula is fully proportional or not. And lastly, in Appendix B Table 6 I report results from negative binomial regressions that include the three additional control variables already discussed for the two other trade policy instruments. In this regard, the coefficient of the dummy for membership to customs union is negative and highly significant, indicating that Latin American countries that participate in Mercosur and the Andean Community use fewer NTBs, all else equal.

Finally, in this robustness section I explore the possibility that the fragmentation of the trade policy-making process is not really pre-treatment and that in fact it is a mediating (instead of moderating) factor enabling trade policy responsiveness. Presidents may manipulate the structure of their governments' cabinets and of the agencies within the executive branch, shrinking or expanding the number of agencies that have to intervene in the policy-making process, to facilitate a public policy reform (Amorim Neto 2006; Camerlo and Martínez-Gallardo 2017). That would be similar to the calculus, described by Hiscox (1999), that American politicians followed to delegate trade power from Congress to the Executive Branch once they knew the partisan preferences of each actor. However, there are important transaction costs involved in changing the rules of how the public administration works and, furthermore, executive leaders must consider the political costs of doing so in terms of the power the president gives and takes to representatives from political parties and party factions.

To examine these ideas, I use the approach to causal mediation analysis proposed by Imai et al. (2011), who decompose the average treatment effect (ATE) into an average causal mediated effect (ACME) and an average direct effect (ADE). The ATE is the total effect of the treatment (in this case, public opinion on trade) on the outcome of interest. The ACME is the portion of the treatment's effect that operates through the mediator variable. The ADE is the expected difference in the outcome under treatment and control when the mediator value is held constant, so this includes both un-mediated relationships and un-specified mediated links. In Table 7 in the Appendix B, I report the results of the mediation analysis in three groups of models, one for each trade policy instrument (PTAs, average tariff rates, and NTBs). The insignificant coefficients for trade agencies in the second stage equations and the very low coefficients for the ACME below Table 7 indicate that concentration is not a mediator between public support for free trade and

trade policy outputs. The interpretation is that if fragmentation matters, it is because it moderates the relationship between citizens' views on trade and commercial policy decisions.

3.4 Discussion

The central contribution of this study is explaining why governments choose trade policies in the direction of aggregate sentiment. That behavior is not universal; policy makers do not always respond to public opinion. But when policy makers respond in policy outputs to public opinion, whom are they really responding to? To the whole electorate or to the positions of certain groups of voters? In recent years, an important literature in American politics argues that responsiveness is unequal, with certain voter groups having disparate influence over public policy. Drawing on survey data on US voter preferences, Gilens (2005) and Bartels (2008) argue that high income and wealthy people have different views on most issues than those held by less affluent people and that these rich people's views are better represented in public policy, especially in economic policy such as taxation. This results from wealthy voters being congruent with US politicians, who are typically very wealthy even before becoming representatives, and from wealthy voters participating more in politics, especially making donations.

This line of research has been challenged on methodological and empirical grounds (for a review, see (Canes-Wrone 2015; Erikson 2015)) but it poses an interesting question to studying representation in other democracies.⁵⁵ Americans are right to be obsessed with economic

⁵⁵ There may also be racial and ethnic disparities in representation, with minority voters' views consistently unrepresented in policy making. This is a major concern in the comparative study of consensus and majoritarian

inequality breeding unequal representation. But their political system is not universal. The bipartisan divide and the winner-take-all rules to elect representatives and the Electoral College increase the role of big donors in electoral campaigns and create dependability between politicians and the corporations responsible for putting them in office. But that need not be the case in other democracies with more political parties and more proportional rules to elect legislators (and direct elections in presidential systems). Recent studies of Western OECD democracies show that fiscal policies largely reflect the preferences and interests of the middle class, despite the rise of economic inequality (Elkjaer and Iversen 2020).

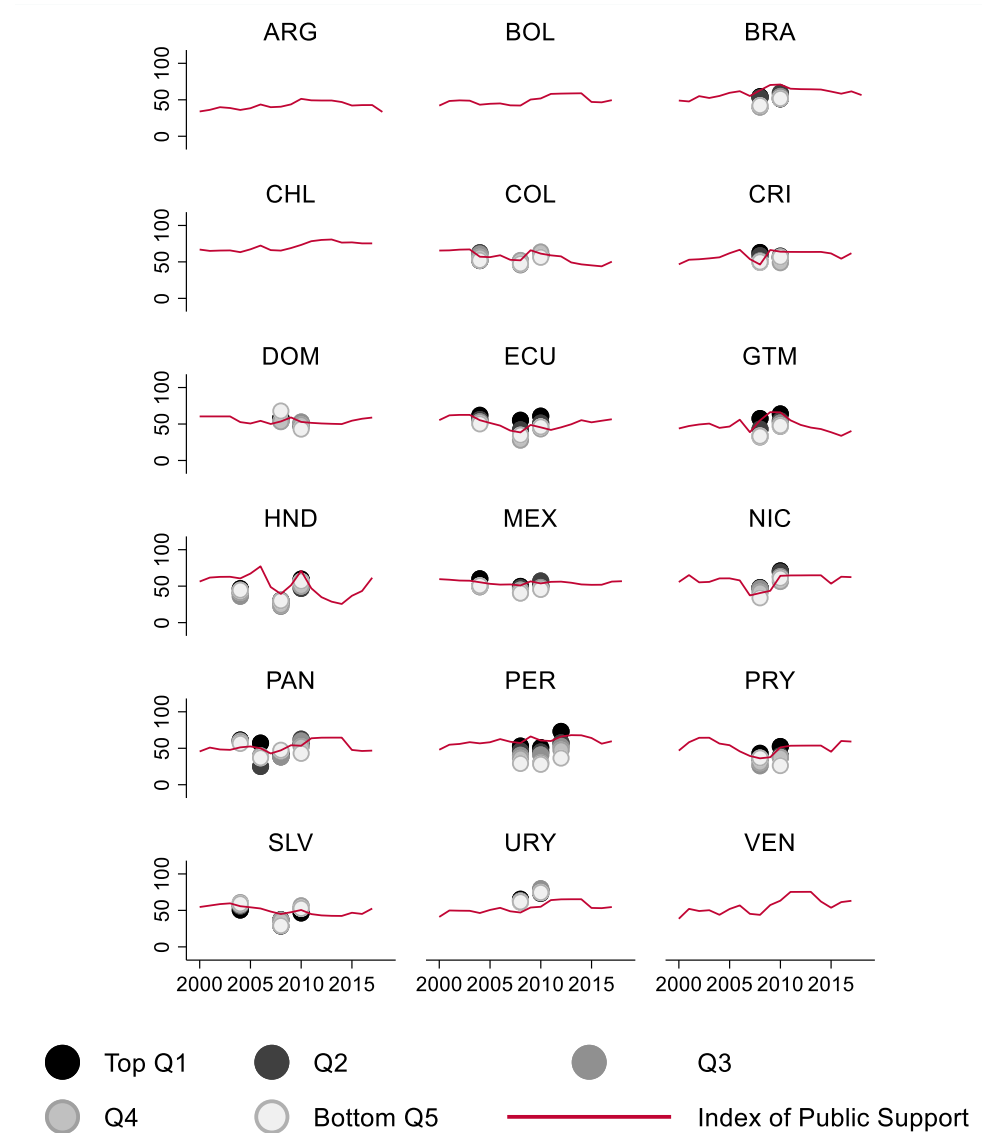
In cross-country studies of developing democracies, it is difficult to obtain comparable time series data on public opinion on trade by income, demographic, or occupation-based groups of voters. This may seem strange for scholars of advanced democracies, but this is the result of the few surveys that include questions about international trade and do so more than once, which severely restricts the primary materials to estimate longitudinal public opinion on trade. Further, most surveys used to create the index of public support for free trade in the 18 Latin American countries (developed in Chapter Two) do not offer the possibility to identify respondents' income, wealth, ethnicity, or occupation. Moreover, those that do, do not use the same scale, so it is hard to group opinion on trade with comparable thresholds. This poses a challenge to studying dynamic policy responsiveness by groups of voters across countries.

democracies (Lijphart 2012). These ethnic or racial disparities can be exacerbated when the majority of voters identify as black or brown while most government officials are white. Bueno and Dunning (2017) study the deficit of descriptive representation in Brazil, but they do not explore differences in policy preferences and policy outputs.

However, we can exploit the available cross-sectional opinion data for two or three non-consecutive years in the 2000s from one major survey research project, the LAPOP's *AmericasBarometer*, which includes questions on support for free trade agreements as well as information on respondents' household income. Figure 3.8 plots the index of public support for free trade from Chapter Two and the support for free trade agreements based on household income quintiles from the LAPOP survey studies. Group-level support for this type of PTAs is computed as the sum of answers that selected values 5 through 7 in the LAPOP Likert scale. Each circle in Figure 3.8 represents the level of support for each income quintile. The top income quintile is shown in black and lower income quintiles are shown in lighter shades of gray.

The main takeaway is that, in most countries, voters do not hold very disparate views on the desirability of free trade agreements based on their income. In Brazil, Colombia, Costa Rica, Dominican Republic, El Salvador, Honduras, Mexico, Nicaragua, and Uruguay, differences are very small and there is plenty of overlap about whether free trade agreements are good for the country's development. Divergence in opinion on trade by income only appears in Ecuador, Guatemala, Panama, Peru, and Paraguay. Respondents from high income households have consistently more pro free trade positions than the lower income groups. Even there, differences are not very large, usually below 10 percentage points among the two most extreme positions. The largest differences are in Ecuador and Peru. There are no obvious factors that explain the cross-country differences in within-case opinion divergence, and this merits a separate study. I caution the reader about generalizations based on two or three data points from one survey instrument.

Figure 3.8: Public Opinion and Opinion by Income Group

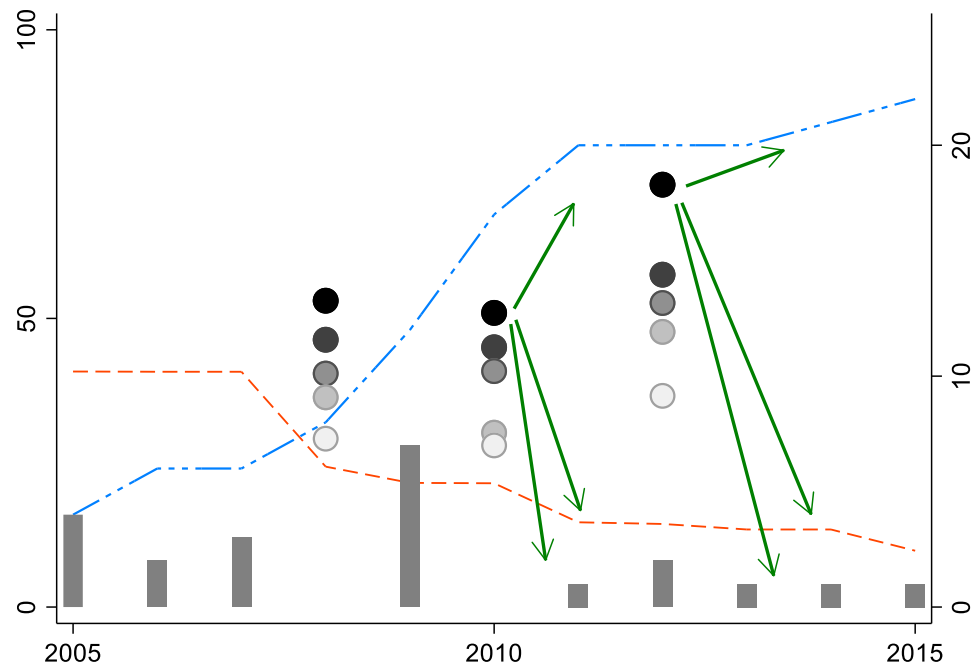


Note: Author's own elaboration based on the index of (aggregate) public support for free trade and percent of respondents who support free trade agreements by household income quintiles from LAPOP's *AmericasBarometer*. Shades of gray go from darker to lighter as income decreases. Countries with no gray markers have no available data on opinion on trade from LAPOP.

Public opinion on trade does not vary much across voters' income, but where it does, who is trade policy representing? The richest, the poorest, or those in the middle? To answer this question, we need higher-frequency and more disaggregated data which we do not have. But we can do an exploratory, non-causal analysis, plotting opinion on trade by income group against the

three trade policy outputs studied in this chapter. Figure 3.9 provides such a visualization using trade policy and public opinion data from Peru, the Latin America country with the highest differences in voters' preferences.

Figure 3.9: Income Group Opinion on Trade and Trade Policies in Peru



Note: Author's own elaboration based on data from Peru on public opinion on trade from LAPOP for three non-consecutive years. Shades of gray go from darker to lighter as household income decreases. Vertical gray columns are number of new antidumping and safeguard measures initiated. Blue line is the cumulative stock of preferential trade agreements signed. Red dashed line is average level of MFN import tariff rate. Horizontal axis: years. Left vertical axis: percent of public support for free trade. Right vertical axis: quantity of PTAs and new NTBs in a given year (and percentage scale of tariff rate). Green arrows indicate responsiveness to the richest group of voters: higher public support for free trade among voters in top quintile leads to lower restrictions on international trade.

The trade preferences of Peruvian voters in the top income quintile remained almost unchanged in their support for free trade agreements from 2008 to 2010, with short a distance with the second top income quintile, but 20 percentage points of distance in preferences with the poorest quintile. By 2012, respondents in the richest quintile had increased support for free trade agreements to a record high of 75 percent. All other income groups were at lower levels of support.

There were more than 40 percentage points of distance between the top and the quintile. The superficial evidence suggests that the Peruvian government followed the opinion of the top one percent by decreasing the average level of the non-discriminatory import tariff rate, reducing the number of antidumping and safeguards measures, and increasing the stock of signed PTAs. In Chapter Six, I present a case study of Peruvian trade politics from 1990 to 2017. My analysis shows that this political system is a case of low responsiveness to the median voter and offer an economic and institutional explanation for this poor result in terms of democratic representation. The larger point, however, remains that in most cases, the opinion of the richest, the poor, and those in the middle on free trade are not very different.

3.5 Conclusion

In our globalized world, who do governments respond to when making policy decisions to regulate commercial integration? Existing studies in the political economy of trade have emphasized domestic producers who overcome their collective action problems and lobby public officials. To a lesser degree, the ideas of policy makers also enter into the equation, with some party doctrines linked to specific trade policy agendas. Ordinary citizens, by contrast, are left out of the picture because they are poorly informed and poorly organized. If democracy requires policies to reflect the preferences of voters, trade policy seems to fail the test.

If we look carefully, not at what we imagine voters should prefer but what they actually say about trade, there are instances of trade policy responsiveness. This chapter presented quantitative evidence of government officials adjusting trade policy outputs in the direction of public support for free trade. Responsiveness on trade exists, but it is not perfect nor homogeneous.

I offered a conditional theory of trade policy responsiveness to explain that variation. To recall, the argument is that there are economic and institutional incentives that increase policy makers' willingness to effectively respond to aggregate sentiment on trade while there are policy and administration elements that affect the ability of policy makers to accommodate that opinion when regulating international commerce.

Table 3.6 provides a summary list of the hypotheses, theoretical expectations, overall results, and evidence from the econometric analysis with panel data for Latin American democracies since 1995.

Table 3.6: Expectations and Results by Hypothesis

<i>Hypothesis</i>	<i>Expectations</i>	<i>Results</i>	<i>Evidence</i>
1 (Salience)	Greater responsiveness with larger labor force in tradable sectors.	Weak.	<ul style="list-style-type: none"> • <i>No</i> evidence of responsiveness under greater salience with PTAs. • <i>No</i> evidence of responsiveness under greater salience with Tariffs. • <i>Weak</i> evidence of responsiveness under <i>greater</i> salience with NTBs.
2 (Electoral Institutions)	Greater responsiveness when politicians care for broader electorate.	Weak.	<ul style="list-style-type: none"> • Evidence of <i>more</i> responsiveness under <i>candidate</i>-centric institutions with PTAs. • Evidence of <i>less</i> responsiveness under <i>candidate</i>-centric institutions with Tariffs. • Evidence of <i>less</i> responsiveness under <i>candidate</i>-centric institutions with NTBs.
3 (Policy Making)	Greater responsiveness with more concentrated policy-making process.	Yes.	<ul style="list-style-type: none"> • <i>Strong</i> evidence of greater responsiveness under <i>fewer</i> trade agencies with PTAs. • <i>Strong</i> evidence of greater responsiveness under <i>fewer</i> trade agencies with Tariffs. • <i>Strong</i> evidence of greater responsiveness under <i>fewer</i> trade agencies with NTBs.
4 (Visibility)	Greater responsiveness with more visible instruments.	Yes.	<ul style="list-style-type: none"> • <i>Strong</i> direct responsiveness with PTAs. • <i>Moderate</i> direct responsiveness with Tariffs. • <i>Reverse</i> responsiveness with NTBs.

The most apparent result is that the visibility of trade policy instruments affects the ability of governments to respond to public opinion. There is *strong* evidence of direct (unconditional)

responsiveness to public opinion with the most visible of trade instruments: the international preferential trade agreement. Governments consistently sign more PTAs when public support is higher. There is *moderate* evidence of direct (unconditional) responsiveness to aggregate opinion with the second most visible trade instrument: the average level of import tariff rates irrespective of trading partner. The results from models that include the differenced and lagged values of public opinion show that higher opinion leads to lower average tariff rates. Lastly, there is reverse responsiveness to voters when dealing with non-tariff barriers. When voters are collectively more favorable to free trade, the estimations indicate that non-tariff barriers go up, which represent a less free trade policy, even controlling for trade flows, the business cycle, and changes in the exchange rate. Governments follow a smokescreen strategy, relying on complex control measures that grant selective protection to domestic producers. Since these are low visibility, policy makers go unpunished by voters.

Second, I found *strong* evidence for the *administrative concentration* hypothesis. Trade policy responds to public opinion when the policy-making process is more concentrated, i.e., in which fewer state agencies participate. The evidence is consistently supportive for this hypothesis across the three policy instruments: PTAs, average tariff rates, and NTBs.

Third, I argued that responsiveness should be greater when politicians care for the broader electorate instead of some specific group of voters. The former is more likely to happen in proportional systems with party control of nominations. I found evidence of *more* responsiveness to public opinion under *candidate-centric* institutions with PTAs; evidence of *less* responsiveness under *candidate-centric* institutions with import tariff rates; and high evidence of *less* responsiveness under *candidate-centric* institutions with NTBs. I classify this collection of results as *weak* because the result for PTAs and electoral systems contradicts the theory while the results

for the other two policies indicate what happens in candidate-centric systems, but not necessarily that the opposite always occurs in party-centric systems.

Finally, pocketbook salience does not seem to shape responsiveness. There are no optimal ways to measure salience as a pre-treatment condition, i.e. without confounding salience with public opinion. I suggested using the share of the labor force employed in sectors with a heavy presence of firms that engage or are exposed to trade, either because they export, import inputs, or compete with imports. Using such an indicator, I found no clear evidence that higher public support for free trade is followed by fewer trade restrictions when more workers are employed in agriculture, mining, and manufacturing. This is a matter that must be further explored with other indicators and research designs.

Finally, important questions remain. One issue is about the endogeneity of aggregate sentiment on trade. A naïve approach would discard this concern and just take public opinion as if exogenous. This is unsatisfactory. Therefore, in Chapter Two I developed and tested an argument about the neo-mercantilist reasoning that ordinary citizens use to evaluate trade and the existence of a welfare net to prevent a protectionist mass backlash. Yet, that does not fully resolve the possibility that policy makers may consciously influence aggregate sentiment to artificially build support to their desired choices. In the case studies presented in Chapters Four, Five, and Six I report qualitative evidence based on my fieldwork that increases our confidence in the relationships. I return to the topic of elite framing and priming in the Conclusion (Chapter Seven). The other major question that emerges is how the theorized relations, observed at a distance in statistical models with pooled panel data, actually work in the field. This is a question of mechanisms. Among other things, it deals with what policy makers themselves perceive about the public opinion- public policy link and the consequences for deviating from what voters express.

The next three chapters directly address these issues drawing on three detailed qualitative case studies: one (Argentina) where trade policy is very responsive to voters, another (Colombia) responsiveness is moderate, and the final case (Peru), where low material salience among the public and a chaotic political system benefit large exporting firms against an electorate that has been less informed and less welcoming of free trade than we would suppose from just observing trade policy outputs.

4.0 Argentina: Party Leadership, Salience, and High Responsiveness

How does trade policy responsiveness actually work? To better understand it, I analyze the mechanisms implied in the theory developed in Chapter Three with case studies. The first focus is on Argentina, a country where governments have been responsive to public opinion on trade in the past thirty years. This chapter serves two purposes: it presents detailed evidence of responsiveness to voters' sentiment during the 1989-2017 period and it explains why governments have been willing and able to be responsive in the realm of trade policy. The first goal is achieved with three original pieces of evidence: documenting changes in public opinion on trade based on real survey evidence (the inputs of the index of public support for free trade developed in Chapter Two), documenting changes in trade policy based on the analysis of legislation, official statistics, and specialized literature, and finally, providing evidence from interviews with public officials who reflected on the role of voters and public opinion on decisions on trade policy based on their experiences.⁵⁶ The second purpose of this chapter is reached by offering evidence that the economic structure makes trade a salient issue and the electoral system generates strong party leaders with incentives to appeal to the broader electorate. Further, the Argentine state makes it easier to change policy because the policy-making process is concentrated in a few political hands.

⁵⁶ I conducted IRB-approved structured interviews during fieldwork in Buenos Aires in October-November 2018. Materials and references from the elite interviews are cited in the text. In addition, I acknowledge this research is influenced by personal, unstructured dialogues with lawmakers and staffers when I was a staff member for Congressman Esteban Bullrich in the Budget and Appropriations Committee of the Argentine Chamber of Deputies (2008-2011).

Mass support for free trade in Argentina is, on average, the region's lowest. Even though society's collective support for free trade never reached high levels seen elsewhere, it has moved quite a bit over time. A majority of voters embraced neoliberal market reforms and supported trade liberalization during the first Carlos Menem government (1989-1995). Optimism about open commerce was fostered by the rejection of previous economic policies that came to be associated with the hyperinflation crisis of the late 1980s. Public support was also stimulated by the new job opportunities from deeper trade integration with Brazil and the increased access to cheaper and more varied goods from abroad, such as apparel, electronics, and cars, after decades of restricted consumer choice. Public support for free trade began a sustained fall since 1996 that continued throughout Menem's second tenure (1996-1999) and the Fernando de la Rúa administration (1999-2001), due to the combination of an import surge that deeply affected the low productivity, labor intensive manufacturing firms in the country's largest metropolitan areas, and poor export performance in the context of an overvalued exchange rate and low international commodity prices. Citizens became profoundly disappointed with all things "free" and "liberal" after the 2001-2002 economic crash and the traumatic end of the fixed exchange rate regime. It took years of economic growth led by pro-cyclical government stimulus under Néstor Kirchner (2003-2007) and the impressive growth of commodity exports for aggregate sentiment to be less protectionist. Finally, Argentines became relatively more welcoming of free trade during the two presidencies of Cristina Kirchner (2007-2011, 2011-2015), although that sentiment was shallow and below regional standards.

Table 4.1: Major Trade Policy Changes in Argentina by Sub-Period

Sub-Period	President	Trade Policy Changes
1989-1991	Menem	Unilateral reduction of tariff rates. Unilateral reduction of quantity-control NTBs.
1992-1996	Menem	Locking in liberalization with Mercosur and WTO.
1997-1999	Menem	Increase of tariff rates. Increase of price-control NTBs. No new PTAs.
1999-2001	De la Rúa	Increase in quantity- and price-control NTBs. No new PTAs.
2002-2003	Duhalde	Increase in quantity, quality, and price-control NTBs. New export taxes. No new PTAs.
2004-2007	Néstor Kirchner	Increase in quantity, quality, and price-control NTBs. Increase in PTAs.
2008-2011	Cristina Kirchner	Increase in export taxes. No new PTAs.
2011-2015	Cristina Kirchner	Increase in quantity, quality, and price-control NTBs. No new PTAs.
2016-2018	Macri	Unilateral reduction of quantity-control NTBs. Reduction of export tariff rates. New PTAs.

Note: Sub-periods are author's choice and do not necessarily match presidential tenures. Text in blue represents changes in trade policy towards more free trade. Text in red represents changes in trade policy towards less free trade. Selection and sources for this table are discussed throughout this chapter.

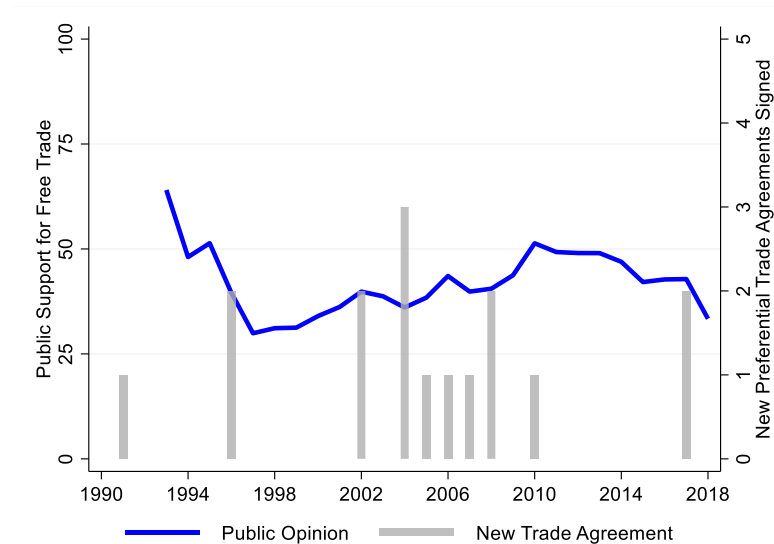
The chapter tracks the frequent commercial policy changes that took place in Argentina throughout the 1989-2017 period. To guide the reader, I provide a summary of these changes in trade policy in Table 4.1. The gradual liberalization of import restrictions of 1989-1990 was followed by more radical changes in the direction of free trade up to the reelection of Carlos Menem in 1995. Those policy adjustments included a simplified tariff structure, the removal of nearly all non-tariff barriers, the accession to the WTO, and the creation of a free trade area with Brazil, Paraguay, and Uruguay (the Mercosur). Since 1996, the rush to free trade has stagnated.

No new preferential trade agreements were signed until the mid-2000s. Temporary price-control import restrictions abounded in the 1998-2001 years. From 2002 onwards, several temporary restrictions became permanent. After a brief period of seeking trade treaties with extra-regional partners under Néstor Kirchner, new forms of protectionism, many alien to the WTO rules, were established under his successor. Further, a clear anti-export bias emerged under these two Peronist presidents: the country's leading commodities were heavily taxed to increase government revenue. The Mauricio Macri government inaugurated in later 2015 reversed some of the restrictions to imports and exports.

Importantly, several trade policy changes reviewed in this chapter were done in the same direction of shifts in aggregate support for free trade. The relationship between opinion and policy are documented in Figures 4.1, 4.2, and 4.3, which plot the temporal evolution of the estimated index of latent public support for free trade among Argentine citizens together with the evolution of three major policy instruments. Figure 4.1 shows that no PTAs were signed between the sharp fall in popular support for free trade in 1996 and the partial but temporary recoveries in public support in 2002 and 2005-2006. Figure 4.2 shows how average tariff rates have increased since 1996. When aggregate sentiment became slightly less protectionist in the mid-2000s, tariff rates decreased but never went back to their low levels of 1991. In 2007, a new depression in trade preferences was followed by an increase in mean tariff rates. The fact that public opinion on trade is little supportive of less restrictions by the end of the period helps understand why Argentina has one of the region's highest tariff rates. Finally, Figure 4.3 presents evidence of how the changes in people's minds in the mid-1990s led to the "wake up call" that authorities got "to adjust the avalanche of cheap imports," as the former chair of the National Foreign Trade Commission

(CNCE) told me in an interview (Bertoni 2018).⁵⁷ The state agency began approving many domestic firms' requests for price-control import measures, such as anti-dumping.

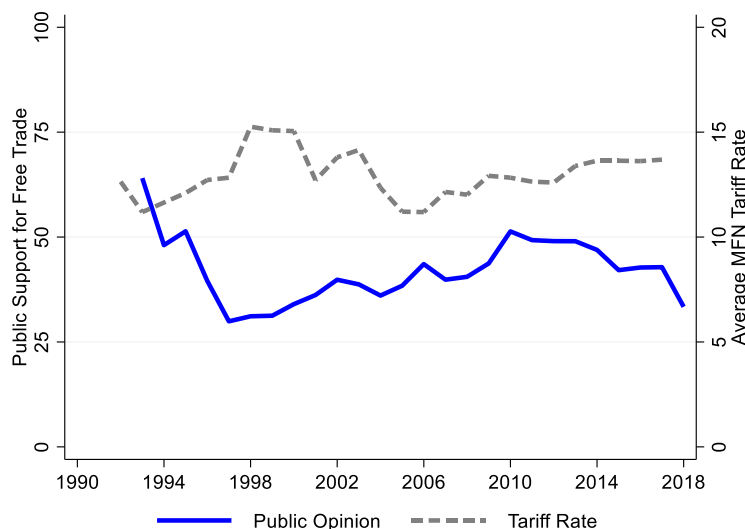
Figure 4.1: Public Opinion and Preferential Trade Agreements in Argentina



Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the number of new preferential trade agreements (PTAs) signed by the Argentine government, based on data from the Organization of American States. The height of the vertical grey lines indicates the cumulative number of new PTAs signed in a given year. Empty spaces indicate that no new PTA was signed that year. More PTAs represent more free trade.

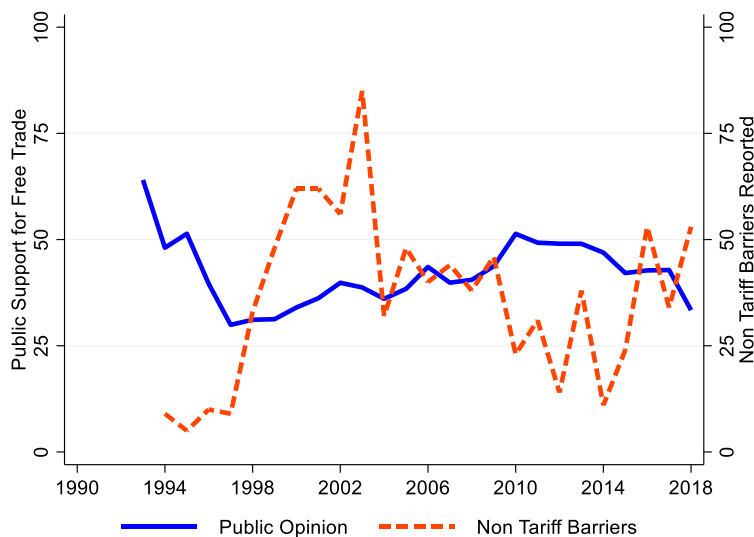
⁵⁷ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

Figure 4.2: Public Opinion and Import Tariff Rates in Argentina



Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the Argentine average *ad valorem* Most Favored Nation import tariff rate with data from the World Bank. Higher tariff rates represent less free trade.

Figure 4.3: Public Opinion and Non Tariff Barriers in Argentina



Note: Author's own elaboration based on the index of latent public support for free trade (developed in Chapter Two) and the number of price-, quantity-, and quality-control non-tariff import barriers (NTBs) established by the Argentine government in a given year, with data from the World Trade Organization. More NTBs represent less free trade.

Why do governments respond to aggregate trade sentiment? The chapter analyzes how Argentina policy makers have incentives to care about what the median voter thinks and how the

policy-making process allows officials to accommodate those views. First, trade is very salient in Argentina because many workers are employed in tradable sectors, especially in import-competing industries given the relatively large development of manufacturing in the country under the ISI model in previous decades. Trade is an issue that is present in the public discourse. Politicians, especially those in the opposition, often talk about trade in the media, in rallies, and in Congress. The powerful sector-wide and peak labor unions also have this topic on their policy agenda. Second, the constitutional and electoral rules in Argentina produce strong party leaders with incentives to pay attention and respond to voters' opinion during and in between elections. The political survival of presidents, legislators, ministers, and other national top appointed officials depends on how far they depart from the national median voter. When policy makers openly fail to respond to voters, the threat of electoral punishment is real. As discussed below, Argentine voters were more likely to punish the ruling party at the polls in the 2009 midterm legislative elections for not changing tracks and responding to public opinion on a highly visible trade issue.

Finally, the administrative policy-making process in Argentina is relatively concentrated in a few political hands. The Ministry of Finance has controlled trade policy, while in recent years that responsibility was transferred to the Ministry of Industry. The CNCE and the Foreign Affairs Ministry have secondary roles in trade policy formulation. No other institutional players intervene. The result of the combination of these factors is that Argentine policy makers give a great weight to ordinary voters in their calculations, and they are able to adjust trade policy accordingly.

The rest of this chapter is organized as follows: Section 4.1 provides a historical background of trade and trade policies prior to 1989. Section 4.2 describes the trade liberalization of the first Menem administration and the available opinion survey evidence for that period. Section 4.3. analyzes the protectionist sentiment and the protectionist trade policies of the 1997-

2001 period. Section 4.4 discusses public opinion and trade policy under the Kirchners' administrations. Section 4.5 offers an explanation for high trade policy responsiveness in Argentina, with a description of the political system and the strength of party leaders who care about the broader electorate, an analysis of employment by sector and media coverage of trade, and a review of the institutional actors that participate in the trade policy-making process.

4.1 Background

The “rise and fall” of Argentina is deeply interlinked with international trade and the coalitions, institutions, and policies that sustained or hindered it (Merkx 1969; Díaz Alejandro 1970; Brambilla, Galiani, and Porto 2018; Gerchunoff and Llach 2010; Spruk 2019; A. M. Taylor 2018). Argentina was among the ten richest countries in the world in the eve of World War I. The economic bonanza was driven by an export boom of cereals and meat that rested on four pillars: abundant fertile land, a small population, the expansion of the railways system, and the control of political power by the landowner elite. At the peak of the boom, international trade constituted close to 60% of GDP (A. M. Taylor 2018, 4). Even though the authorities explicitly promoted agricultural exports and the import of manufactures from its strategic partner, Great Britain, import tariff rates were high compared to other world regions, mainly because it was an important and easily collectible source of state revenue (Coatsworth and Williamson 2004). A first bump on the road came with the Great War, when world trade temporally collapsed, revealing signals of problems ahead. Differences among the elites led to the opening of the political system and democracy was achieved earlier than in most countries in the world at the time (Mainwaring and Perez-Liñán 2013). The big shock came with the Great Depression of 1930. Not only trade

relations came under severe stress, but political development was interrupted, too, as the armed forces overthrew the democratic government and installed the first of many military regimes to come (Merkx 1969; O'Donnell 1978)

The external shock led to the reversal of the pattern of open trade and the adoption of the import substitution industrialization (ISI) model. In the 1940s, governments redirected investment toward the substitution of imported consumption goods. When the war ended, the new economic conditions created by the provisional policies created their own political equilibrium: urban workers migrated from the countryside and from Europe demanded social and political rights (Gerchunoff and Llach 2010; Galiani and Somaini 2018). Juan D. Perón, who served as labor ministry of the outgoing military regime and was elected president in early 1946, fostered the incorporation of the masses into the political system. Perón encouraged unionization at the same time that he initiated generous social welfare policies and pushed for higher wages in a top-down corporatist strategy to control civil society (Segura-Ubiergo 2007). The welfare state was launched with the increased trade revenue based on highly beneficial terms of trade (G. Sánchez 2018).⁵⁸

Social protection for workers was developed together with trade protection for domestic producers (Wibbels and Ahlquist 2011). Peronism dramatically expanded state intervention in the foreign commerce. The state raised tariff rates for imports and exports and established import licenses and export restrictions. The authorities also implemented capital and currency controls, nationalized foreign-own companies, and subsidized the capital stock and operations of domestic-own manufacturing firms (Gerchunoff and Llach 2010; Galiani and Somaini 2018).

⁵⁸ Personal Interview, Buenos Aires, Argentina, October 24, 2018.

The ISI model was used to redistribute income from the rural sector to urban workers and industrialists (Merkx 1969; Díaz Alejandro 1970; O'Donnell 1978). Even when Peronism became outlawed by the military, the ISI policies of later administrations gave the state the most important role in managing the economy (De Pablo 2012). In 1970, for example, the Onganía dictatorship gave labor unions control of health insurance through the “obras sociales” to be financed by a mandatory payroll contribution (Etchemendy 2011, 180). The ISI contributed to the growth of capital-intensive industries, such as steel and domestic appliances. Firms developed an important lobbying capacity, which would prove fundamental to the reproduction of the policies that benefited them (G. Sánchez 2018).⁵⁹ But favoring industry over agriculture in a country with a fundamental comparative advantage in agriculture comes at a large cost (Brambilla, Galiani, and Porto 2018, 1). The anti-export bias of ISI blocked productivity growth in agriculture, the sector which generates the inflow of hard currency, and failed to promote an efficient industrialization (Galiani and Somaini 2018). The favored firms could not live without state subsidies. The latter, in turn, became burdensome on public finances. The combination of subsidies and the arms race of military rulers was financed by external government debt and monetary emission (Gerchunoff and Llach 2010). In the long term, ISI led to boom-and-bust business cycles and an unstable political equilibrium with the armed forces as the ultimate referee (O'Donnell 1978). By the mid-1970s, inflation spiraled out of control, triggering widespread protest amid a context of armed insurgency and increased state repression (Gerchunoff and Llach 2010; Mainwaring and Pérez-Liñán 2013).

⁵⁹ Personal Interview, Buenos Aires, Argentina, October 24, 2018.

The first attempt to liberalize trade policy occurred under the last military dictatorship. The Junta Militar was not homogenous in its policy preferences and it delegated economic policy making, including trade policy, to Economy Minister José Martínez de Hoz, a landowner and steel industry executive. The major trade policy change begun in November 1976, when the maximum import tariff rate was capped at 100 percent and export taxes for agricultural goods were eliminated. That led to an increase in exports in the next two years (Gerchunoff and Llach 2010, 370). The second step of the reform came in December 1979, with the establishment of a schedule of tariff rate reductions. However, the military kept almost all import quotas in place and created an industrial promotion regime to fight unemployment in politically “sensitive” districts, establishing subsidies and tax exemptions that blocked productivity gains. While Congress was closed, parties banned, and unions intervened, the industrial promotion regime was captured by domestic firms and factions of the armed forces (Mamone 2018).

The overall effect of the military’s “apertura” was sharp because it was accompanied by a tight monetary policy, the liberalization of the capital account, and the appreciation of the real exchange rate. The whole approach ended badly, with a massive trade imbalance of 4.8 billion dollars, a budget deficit of 10 percentage points over GDP, the loss of manufacturing plants and jobs, and a banking crisis (Gerchunoff and Llach 2010, 373). In 1981, General Videla and Minister Martínez de Hoz were forced to step down and were replaced by more nationalistic rulers.

After the 1982 South Atlantic War, Argentina began a transition to democracy. President Raúl Alfonsín was successful in consolidating democracy but failed to stabilize prices and public finances. As his economic team recognized, Alfonsín’s approach to economic policy was similar to that experienced in the 1960s: “pure will” and “technical expertise subjected to political priorities” (Mazzorín 2005). Trade policy was delegated to the Secretary of Trade, in charge of

“administering” prices for consumer products in collusion with business owners (Gerchunoff and Llach 2010, 413). By 1986, the average tariff rate for imported goods was 32 percent, with nearly prohibitive tariff rates for automobiles and computers, plus there was a temporary surcharge of 15 percent during the Austral price stabilization plan and export duty rates were determined at 25 percent. The Alfonsín administration ended badly, as the debt and fiscal crises gave way to full-scale hyperinflation, eroding real wages, assets, and savings. Amid street riots and food looting in urban districts (Echegaray and Elordi 2001), Alfonsín negotiated with Congress an early departure from government in mid-1989.

4.2 Deep Free Trade Reforms and Support, 1989-1996

4.2.1 Trade Policy Liberalization under Menem-Cavallo

The second attempt to liberalize trade was very different from the first. It was conducted by the government of Carlos Menem, the second president after democratization. Trade policy liberalization was pursued both with unilateral internal changes and active negotiations abroad. The reform had short-term economic benefits for the national economy, boosting both export and import growth and some productivity gains. The reform had lasting institutional effects due to the creation of a regional free trade block in the Southern Cone, membership to the World Trade Organization, the establishment of a technical agency to manage trade remedies, and the delegation of foreign trade promotion and international economic negotiations to the diplomatic corps. The reform became increasingly under stress due to macroeconomic problems in the late 1990s and the voter-elite consensus on open markets came to an end in 2001 never to recover fully again.

This process of trade liberalization was implemented by an unlikely actor: a Peronist administration, a party which in the past was the main standard bearer of the ISI model. Carlos Menem was the former governor of the small and poor province of La Rioja, and he had been imprisoned by the last military regime. Menem was elected president on May 1989 on a traditional populist platform, whose manifesto said very little about specific policies but its rhetoric resembled that of early Peronism (Stokes 2001). Some observers have suggested that Menem's decisions once in office were equivalent to a "Nixon going to China" shift (Cukierman and Tommasi 1998). As with the previous liberalization attempt, Menem's shift occurred in the context of an economic crisis, with the country besieged by hyperinflation. In addition, the economy was debilitated by the default of the external debt and a massive budget deficit rooted in dysfunctional public utilities and state-owned enterprises from hotels to steel mills to airlines companies.

As a president, Menem fully embraced market reforms, including trade liberalization. After winning the Peronist party's nomination, Menem recruited Domingo Cavallo, a Harvard-educated economist and Peronist congressman, as his advisor. As Cavallo told me in an interview, Menem "knew that times were significantly changing in global history (he was sworn in in July 1989 and the Berlin Wall fell in November)" and Cavallo "sensed an opportunity to implement important reforms quickly" (Cavallo 2020).⁶⁰ Cavallo "educated" the incoming president on economic topics and the necessity of implementing radical reforms (Cavallo and De Pablo 2001). However, Menem's first appointees to the Ministry of Economy were delegates from one of the most powerful business groups, Bunge & Born, whose mandate was to pursue a traditionally corporatist approach to tame inflation through pacts with business associations and unions. In the meantime,

⁶⁰ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

Cavallo was appointed Minister of Foreign Relations,⁶¹ and from that position he took charge of all foreign economic policies as well as he kept working on an overall stabilization and reform package to be implemented if designated Economy Minister.

4.2.1.1 Unilateral Trade Policy Changes

Trade policy liberalization started with unilateral changes in 1989 and 1990. The first Ministers of Economy under Menem, Néstor Rapanelli and Antonio Erman González, pursued a gradual reduction of tariff rates and the simplification of the tariff structure.⁶² The changes in trade policy were implemented together with a massive devaluation of 170% of the Argentine Austral. Import licenses remained in place and the government resorted to the old recipe of “administering” consumer goods prices with private firms (Echegaray and Elordi 2001). The measures implemented in the first year and a half of Menem’s presidency did not produce major changes in trade flows, which continued to have a positive balance given the currency devaluation and the loss of purchasing power of households.

In early 1991, Menem appointed Cavallo as Minister of Economy. The economic team believed that they had to “change the rules of the game,” in terms of shifting economic institutions toward a market system, and expected that in doing so they would face firms’ opposition (C. Sánchez 2005). Cavallo immediately announced the creation of the Convertibility Plan, its core

⁶¹ In Argentina, as in many other Latin American countries, the Ministry of Foreign Relations is known as the Cancillería.

⁶² Miguel Roig was Menem’s first Minister of Economy, appointed July 9, 1989, but died six days later. Rapanelli was Minister from July 18, 1989 to December 18, 1989, and González was Minister from December 19, 1989 to February 4, 1991.

being a fixed exchange rate regime. The Central Bank controlled the money supply by buying and selling US dollars at the fixed rate, while the monetary base could not exceed the Central Bank's international reserves. (Gerchunoff and Llach 2010). As with most other countries in the region at the time, the reform package covered taxation, monetary policy, financial policy, investment and private property, and economic deregulation across the board (Edwards 1995; Kaplan 2013).⁶³

Cavallo believes that he had a “popular mandate to liberalize the economy, including trade” and that he acted accordingly (Cavallo 2020).⁶⁴ He eliminated the import licenses as well as the National Grains Board and the National Meat Board, state-run trading agencies created by previous Peronist administrations.⁶⁵ Further, the Economy Minister accelerated unilateral tariff rate reductions and simplified the structure of protection, which came to be distributed in three broad groups: 0 percent tariff rate for raw materials and capital goods, 11 percent for intermediate goods, and 22 percent for manufactured goods. In addition, Argentina adopted the Harmonized Commodity Description and Coding System (HS) and introduced unified customs valuation in early 1992. The Menem administration radically shifted from the anti-export bias of the past and eliminated all export for agricultural products, except for raw hides. The government also created a “mirror” export subsidy scheme in November 1992, in which the state subsidized exporting firms

⁶³ The Menem administration actively pursued more than 40 bilateral investment promotion and protection treaties with other countries. In the 1991-1997 period, foreign direct investment inflows doubled to \$36 billion, mostly going to privatized public utilities, and the country became the world's 14 largest net recipient of FDI (World Trade Organization 1998, 17).

⁶⁴ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

⁶⁵ The official Buy National program, which protected domestic firms that sought government procurement, was eliminated in 1991.

in relation to the import duties applied, but it was discontinued one year later (World Trade Organization 1998).⁶⁶

4.2.1.2 Trade Policy Changes in the International Arena

Trade policy liberalization under Menem took an even more radical approach with its international trade decisions. Regional and multilateral trade agreements operated as lock-in devices limiting the scope for policy reversal (Bianculli 2016). In 1990, the Cancillería under Minister Cavallo envisioned a free trade agreement with Argentina's neighbor countries in the Southern Cone.⁶⁷ The plan built on the economic cooperation program created in the late 1980s by presidents Raúl Alfonsín and José Sarney of Brazil. Uruguay, Paraguay, Chile, and Bolivia were also invited to join. The latter two eventually declined to join as full members. The June 1990 talks led to the signing of the Asunción Treaty in January 1991, establishing the Mercado Común del Sur (Mercosur), a free trade and custom union regional block. The constitutive treaty of Asunción was ratified by the Argentine Congress on August 15, 1991. The treaty entered into force in December 1991. Importantly, in Argentina the provisions of ratified international agreements supersede domestic legislation and additionally, decisions adopted by the Mercosur executive

⁶⁶ There were still some non-negligible trade restrictions. Since 1993, the Ministry of Economy applied minimum specific duties on imports of textiles, clothing and footwear items originated outside of Mercosur. Moreover, the government kept different non-tariff barriers, such as technical and sanitary measures, that affected the free movement of imports of tobacco, sugar, paper, and pharmaceuticals products (World Trade Organization 1998, 23).

⁶⁷ Foreign Relations Minister Cavallo also led the process to restructure the defaulted sovereign debt. He carried out talks with US Treasury Secretary Nicholas Brady and with the Japanese government and negotiated the extended facility loan program with the IMF. In 1993, Cavallo concluded the Brady Plan of debt swap as Minister of Economy.

bodies do not require domestic legislative approval. With Mercosur, the Menem administration broke with the past and signed the first free trade agreement in the country's history (Bouzas and Gosis 2014).

Mercosur liberalized trade building upon a simple framework. The treaty had very few chapters on merchandise trade. Its main component was a schedule to eliminate all tariffs between partners and reach complete duty-free trade of goods within four years. There were no sections about trade in services in its original form. By 1994, trade liberalization of goods between Argentina, Brazil, Paraguay, and Uruguay was successfully achieved (Bianculli 2016). The new policy effectively covered 95 percent of intra-Mercosur trade, while “sensitive” sectors, namely sugar and automobiles, were supposed to be phased by 1998 (World Trade Organization 1998).

Argentina also developed a common trade policy with its Mercosur partners. The idea behind forming a customs union was to increase bargaining power in the WTO, using regional tariff rules to implement multilateral compromises and using the WTO seal to accelerate regional integration (Tussie, Casaburi, and Quiliconi 2004). The common trade policy was problematic, though, as differences erupted between the governments on the specific structure of the common external tariff program (Bouzas and Gosis 2014). In 1994, the government of Argentina, pushed by Cavallo and Guido Di Tella (his successor in the Cancillería), did not want to go forward with the customs unions, wary of the more protectionist stance of the Brazilian government displayed in its trade negotiations with Chile, Bolivia, and Perú (Cavallo 2020).⁶⁸ Menem allowed his ministers to enter into direct talks with Brazilian president-elect Fernando Henrique Cardoso, a like-minded pro-market reformist, to convince him not to pursue the customs union. Eventually,

⁶⁸ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

the “political strength of Itamaraty,” as the Brazilian Ministry of Foreign Relations is commonly known, won over with the legal argument that “the Asunción Treaty mandated to enforce the common trade policy” (Cavallo 2020).⁶⁹

The Ouro Preto Protocol signed in December 1994 established the common external tariff (CET) program, with tariff rates being modified only if all Mercosur partners consent. The phase-in of the CET consists of a gradual convergence in rates, which may mean an increase or a decrease in rates depending on country characteristics, a common list of exceptions (e.g. capital goods and informatics), and unique country exception lists (World Trade Organization 1998). To comply with the CET, Argentina had to re-introduce a 12 percent tariff for capital goods, which had been lowered to 0 percent in 1991 (Gutiérrez Girault 2018).⁷⁰ That move “blurred the rationality” behind the structure of protection envisioned by the Menem government (Cavallo and De Pablo 2001). The CET has been the object of ongoing discussions among Mercosur members as it has been observed “more in spirit than the letter” (Tussie, Casaburi, and Quiliconi 2004, 88). To avoid the CET, the neighboring countries to Mercosur’s member states decided to enter into talks to sign free trade agreements with the block as a whole. The Mercosur-Chile trade agreement came into force in October 1996, followed by the Mercosur-Bolivia trade agreement in March 1997. More than 90% of trade between the six countries became duty free in a few years.

The other major international trade policy development of the period was the participation of Argentina in the negotiations to create the WTO. The country was a member of the GATT since 1967. During the Uruguay Round (1986-1994), Argentina joined other agricultural countries in

⁶⁹ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

⁷⁰ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

the Cairns Group to advocate for the elimination of export subsidies to agricultural products and the lift of import restrictions on the import of such products by Europe and the United States.⁷¹ The Menem administration played two games with regards trade with the United States. The first game was the public opposition to US trade policies, especially the US Export Enhancement Program, in the Cairns Groups. The second game was the bilateral economic cooperation with the George H. W. Bush administration. Menem signed the 4+1 Accord between Mercosur and the US in June 1991, which created a Consulting Committee on Trade and Investment to foster economic ties between the Southern block and the first world economy and then compromised the elimination of Argentina's export subsidies programs in exchange for favorable US treatment of countervailing duties (Corigliano 2003).

In the multilateral forum, Argentina used international commitments to lock in trade liberalization at home but still bounded most import tariffs at ceiling levels substantially higher than the applied rates (World Trade Organization 1998). The Argentine Foreign Relations delegation signed the Marrakesh Agreement, which was ratified by Congress on December 15, 1994. Argentina became a full founding member of the WTO in January 1995.⁷² From the first Ministerial Meeting of the WTO held in Singapore in December 1996, Argentina has called for the full liberalization of agriculture and the elimination of agricultural subsidies in rich countries (World Trade Organization 1998, 23).

⁷¹ Other countries in the Cairns Group were Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay.

⁷² Also in 1995, the European Union withdrew the preferential status to half of Argentina's exports of aluminum, hides and leathers, and chemicals due to achieving graduation (due to income per capita growth).

4.2.2 Public Support for Liberalization

The market reform package was very popular in the early period and this popularity was exploited by pro-reform public officials to overcome interest groups pressures (Tussie, Casaburi, and Quiliconi 2004, 94). With the 1989 hyperinflation crisis, Argentine people adopted a “crisis mindset,” according to which the public felt that extreme measures had to be taken even if that required painful sacrifices to “pulverize the crisis” (Echegaray and Elordi 2001, 192). Optimism about the future and public support for the president’s job taming the economic crisis were very high in the first six months of Menem’s tenure as reflected in the Sofres-IBOPE and SOCMER polls (Echegaray and Elordi 2001, 195). One of the reasons that have been advanced by scholars for that early support for adjustment in the middle of the crisis is the aversion of impoverished citizens to further losses based on prospect theory (Weyland 1998). By 1991, the support for the economic reforms was rooted on the early price stabilization success of the Convertibility Plan (Mora y Araujo 2011). The decrease in the inflation rate consistently increased approval of Menem as president and increased support for Cavallo’s economic plan, helping to secure victory for the incumbent Peronist party in the October 1991 legislative elections (Echegaray and Elordi 2001, 204).

Public opinion on trade was generally favorable to liberalization in the early to mid-1990s, although it was lower than overall support for the economic stabilization plan. In 1993, one survey asked Argentine respondents about their evaluation of the removal of import restrictions. 40 percent agreed that unrestricted imports were positive for their country, 32 percent disagreed and

29 percent were indifferent or did not know (Romer & Asoc. 1993).⁷³ The same pollster asked a similar question one year later, in the midst of the Mexican peso crisis, but included a different wording: whether respondents agreed that the removal of import restrictions was positive for consumers to benefit from lower prices or that removal of import restrictions was negative because it could lead to a rise in unemployment. That time, only 26 percent agreed with unrestricted imports (Romer & Asoc. 1994). In that same poll, however, Argentines were asked about their opinion of free trade agreements. Of those who gave an answer (67 percent of all surveyed), 53 percent indicated their support for deepening Mercosur, 21 percent said they would like Argentina to join NAFTA, and 26 percent said they opposed all free trade agreements (Romer & Asoc. 1994). In April 1995, 56 percent of valid responses expressed their opposition to increasing export duties, one of the short-term measures imposed by the Menem administration in the aftermath of the Tequila crisis. From mid-1995 to mid-1997, public support for free trade became consistently high, as reported by the Latinobarometer project. For example, in June 1995, 68 percent agreed that free trade blocks such as Mercosur were positive for the country (Latinobarometer 1995), and one year later, 61 percent believed that increasing trade with other countries was positive for the national economy (Latinobarometer 1996).

The overall balance of the trade policy liberalization was positive until 1996. In the very short term, with the new exchange rate regime and the streamlining of the tariff structure, between 1990-1991 imports jumped from 7 billion to 12 billion dollars while exports contracted from 17 to 15 billion dollars (Gerchunoff and Llach 2010). Exports of fuel, agricultural, and manufacturing

⁷³ There are no public records of opinion surveys with questions on trade using nationally representative samples for the 1989-1992 years.

(especially, cars and chemicals) grew exponentially, boosted by an increase in the productivity rate. The ratio of total trade to GDP increased from 20 percent in 1991 to 32 percent in 1996. Between 1992 and 1996, Argentine exports to Latin America grew from 31 to 48 percent of the total exports (exports to Mercosur increased from 19 to 33 percent). The trade balance, negative since 1991, became positive by 1995. While the volume of total trade quadrupled over the 1990s, composition changed marginally, especially for imports, concentrated in capital goods and intermediary inputs from the United States, Europe, and Japan (Tussie, Casaburi, and Quiliconi 2004, 79).

Importantly, the increase in exports and the deeper trade integration with Brazil were fundamental to moderating the negative shock brought by financial contagion during the Tequila crisis (Gerchunoff and Llach 2010). Originated in a run on the Mexican peso, the 1994 crisis triggered a domino effect in Latin America. Argentina, with its over reliance on capital flows since the establishment of the Convertibility Plan, could not avoid a temporary contraction of investment and domestic demand (World Trade Organization 1998, 3). Unemployment rose briefly, but the worse labor and welfare effects were about to come with the sustained appreciation of the exchange rate in later years. Such an external shock could have been a good moment to replace the fixed exchange rate regime without too much loss of reputation. However, the government's incentives not to change it were high, as they "had been raising the stakes of the game ... Ending Convertibility would probably have signaled that the economy was weak and that the stabilization game was over" (Galiani, Heymann, and Tommasi 2003, 130). In 1995, Menem was reelected, being the first

such reelection thanks to the new rules of the 1994 Constitutional Reform. As the protagonists of the reform believe, the reelection “was a plebiscite on the liberalization program” (Cavallo 2020).⁷⁴

Domestic businesses were less supportive of free trade. Businesses that lost with international competition and could not increase productivity lobbied to block the reforms, or obtain selective protection and compensation mechanisms (Etchemendy 2011). Protectionist lobbying efforts had weak success in this early period, as the economic crisis created a sense of urgency and delegation to the pro-market reform executive. The literature agrees that a major economic crisis was a necessary condition to implement radical market reforms (Edwards 1995; Cukierman and Tommasi 1998; Weyland 1998; Samford 2010; Stokes 2001; Kaplan 2013). Menem’s former Trade Secretary agrees with this view: “the hyperinflation crisis relaxed most obstacles to structural change in the economy” (C. Sánchez 2005). However, he said, “there was no true conviction about the benefits of a deregulated economy among businessmen.” According to the Trade Secretary, there were “two types of businessmen, those who [he] did not ever meet because they were efficient and requested nothing from the Ministry, and those who [he] saw every day, whose livelihood depended on subsidies, favors, and multiple exchange rates, and who had special information and connections with policy makers” (C. Sánchez 2005).

In fact, Argentine business was highly divided over trade policy. As predicted by mainstream political economy (Alt and Gilligan 1994; Rodrik 1995; I. S. Kim and Osgood 2019), the positions that Argentine firms and business associations took on the Menem-Cavallo trade liberalization depended on whether they produced tradable goods, engaged in exporting or importing, and their degree of concentration of production and location in the production chain

⁷⁴ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

(Tussie, Casaburi, and Quiliconi 2004; Bianculli 2016). While farmers and landowners favored the elimination of the anti-export bias of past ISI policies and opposed the fixed exchange rate regime, splits were more salient in the manufacturing sector. For example, big carmakers were pitted against local auto-parts producers, and the textile, clothing, and footwear industries were divided between manufacturers using domestic inputs, importers of finished goods, and manufacturers using imported inputs (Tussie, Casaburi, and Quiliconi 2004, 93). Also, a few industries were highly concentrated, such as steel and aluminum, conferring business owners greater access to policy makers. Manufacturing firms that had better access to financing, especially those of foreign capital, welcomed liberalization. Others did not, and when they could not increase their productivity to compete with foreign imports, businessmen sold their assets and factories (C. Sánchez 2005).

Industrialists' trade policy disagreements were reflected in the incoherent stance of the national manufacturing peak association, the Unión Industrial Argentina (UIA), in the Mercosur and WTO negotiations (Bianculli 2016). Firms that bore the costs of liberalization were less successful in lobbying for protection than scholars expected (Geddes 1995, 196). However, there was still room for some firms to obtain what they wanted. In 1995, the Argentine government deviated from the Mercosur's common external tariff on a third of all manufacturing tariff lines and such exemptions were associated with firms with political clout in the provinces they operated (Pezzola 2017). Once the Mercosur members began join negotiations with extra-regional countries, a few sectoral associations within the UIA, such as food processing, steel, and chemicals, displayed a stronger lobbying effort to obtain more market access abroad or more import protection at home (Tussie, Casaburi, and Quiliconi 2004; Bianculli 2016). The overall

orientation of trade policy under Menem-Cavallo, however, remained clearly pro-liberalization, not least because voters liked it.

4.3 Liberalization, Interrupted (1997-2001)

4.3.1 Losing Faith in Free Trade

Trade policy liberalization came increasingly under attack as the success of the price stabilization program generated problems elsewhere. The victorious fight against chronic high inflation rested on the fixed exchange rate regime. The Convertibility Plan made inflation fall from over 1,300 percent in 1990 to 25 percent in 1992 to 0.1 percent in 1996, the lowest rate recorded in six decades (World Trade Organization 1998, 6). As Cavallo's team recognized, the popularity of the Convertibility Plan made it a "magical trick" to address all sorts of problems, forgetting that it was just one macroeconomic tool with only one narrow goal (C. Sánchez 2005). The government and the private sector, both asset holders and ordinary individuals, "acted as if the evolution of the economy and the fiscal situation, in particular, need not cause big concerns" (Galiani, Heymann, and Tommasi 2003, 110). However, the Argentine economy remained threatened by the high volatility of international capital flows. The country was first hit with the 1994 Mexican crisis and then hit harder with the 1997 South East Asian crisis and the 1998 Russian crisis (Campello 2015). In the meantime, currency appreciation accelerated. That was especially the case once Brazil devaluated its currency. Under the Convertibility Plan, overvaluation had to be compensated with a substantial increase in the productivity rate, the same or higher than that of the US economy, with which the Argentine currency was pegged (C. Sánchez 2005). That did not happen. The fixed

exchange regime left little room to maneuver. Fiscal deficits became burdensome, too. Despite much rhetoric about the retreat of the state from the economy, public finances did not improve as recurrent borrowing in hard currency in international credit markets helped to close fiscal books (Galiani, Heymann, and Tommasi 2003; Campello 2015).

In some accounts, Argentine public opinion kept its faith in market reforms at least until the 1999 presidential elections. People were generally favorable to the stabilization plan and the bonanza enjoyed in the early and mid-1990s under Menem-Cavallo. Even as economic recession began, the trade surplus became a deficit, and unemployment rose, Argentines remained stubbornly committed to the Convertibility plan and the *libre mercado*.⁷⁵ On trade, Baker (2003) reports that Argentines were relatively pro-free trade at the end of the twentieth century. For instance, he reports a 1998 Wall Street Journal poll in which 66 percent of respondents agreed that free trade was good for the country and a 1999 poll from that newspaper in which 56 percent thought that Mercosur had been good for the country (Wall Street Journal 1998).

However, there were signs of growing opposition to unrestricted trade. Instead of attacking the core of the problem (i.e., currency overvaluation and fiscal deficit), the masses turned their backs on trade liberalization. In December 1997, Latinobarometer reported that only 34 percent agreed that more imports were a good thing for the country (Latinobarometer 1997). Economic growth became negative in 1997 and the national unemployment rate climbed to 19 percent (from 6.9 percent in 1992). Real wages stagnated. The recession was intimately linked to that of Brazil,

⁷⁵ One pro-market official reflected that “Argentine society did not call for us to be efficient, save, and invest in growth; they just asked us to keep the Convertibility at any cost” (C. Sánchez 2005). Because many people had contracted debts in dollars and because of the harsh memories of hyperinflation, they opposed any hint of change in the exchange rate regime (Pérez-Liñán 2007, 177).

Argentina's largest trading partner (Gutiérrez Girault 2018).⁷⁶ Job losses were especially pronounced in manufacturing. These two macroeconomic trends generated a rise in the percentage of households under the poverty line (World Trade Organization 1998, 5).

By early 2000, with economic recession and recently raised taxes in sight, public opinion was increasingly weary of free commerce, especially the preferential exchange with the Brazilians. As *The Economist* noticed, "as farmers and manufacturers have bled, so has Argentines' belief in open trade and Mercosur" (*The Economist* 2000a). In December 2000, a poll commissioned by the US Information Agency showed that 43 percent expressed that free trade benefited their country. But opinion was split in two, as disagreement to that statement was 41.5 percent (Mora y Araujo & Asoc. 2000). In April 2001, a Gallup poll reported that 49 percent of Argentine respondents opposed the Free Trade Area of the Americas, followed by 24 percent who had no clear opinion. In the run-up to the October 2001 midterms, most voters felt pushed away from the two main political parties, as they had failed them to provide growth and well-being for four years. Unsurprisingly, the largest number of votes were null and blank. In 2002, anything that sounded remotely linked to the now doomed Convertibility was perceived as a failure and a disgrace. According to a former foreign affairs official in the De la Rúa administration, the Argentine society "has a pattern of countering crazy with craziness, replacing the full commitment to the market with the full embrace of tight controls, as recurrent economic crises erode interpersonal trust and trust in public institutions" (Gutiérrez Girault 2018).⁷⁷ In early 2003, only 26 percent agreed that economic globalization was positive for the country (CIMA 2003). In August 2003, three months

⁷⁶ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

⁷⁷ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

after the election of Peronist governor Néstor Kirchner as president, only 12 percent expressed support for free trade agreements (Latinobarometer 2003).

Trade liberalization, having been one of the most visible market reforms, was “at the core of social discontent” (Tussie, Casaburi, and Quiliconi 2004, 77). A major source of dissatisfaction was the absence of a strong, coherent welfare net. The welfare state inherited from the ISI was not dismantled but its foundations were weakened. More importantly, the growth in population under the poverty line and the rise in income inequality of the late 1990s were not accompanied by an aggressive social policy to protect the vulnerable population (Holland and Schneider 2017). From 1989 to 1994, there were no improvements to social policies. Only during his reelection bid in 1995 did Menem address the growing social demands with a fragmented policy that emphasized targeted benefits with the creation of a Social Assistance Secretariat and several assistance programs under different cabinet and sub-cabinet level agencies (Acuña, Kessler, and Repetto 2002). Programs included school feeding programs and temporary small monetary sums for laid off and disabled individuals. Beneficiaries carried the burden of request and enrollment and were limited to the formal sector of the economy. The implementation of many of those actions were delegated to non-governmental organizations (Acuña, Kessler, and Repetto 2002). There were no permanent cash transfers across the board and state pensions for the elderly were subject to administrative freezes to deal with unbalanced public finances. Moreover, although the World Bank contributed part of the funding since 1997, the social assistance policies had a pro-cyclical nature, with lower public spending when total economic output was low. In addition, the decentralization reform that transferred responsibilities over public education and health care to cash-stripped and low state capacity provincial governments hindered the development of policies to increase the competitiveness of the workforce. Financially constrained, the De la Rúa

government did not increase the size or nature of the social assistance benefits. The inadequacy of social benefits was aggravated by the regressive nature of the tax system, where sales taxes on food and other consumption goods are levied at higher rates than other taxes.

4.3.2 Last Measures before the Collapse

Trade policy liberalization lost steam with the deepening of the economic crisis that began in 1997. Crucially, public opinion forced a change to trade policy. Menem's gambit to seek a third consecutive presidential tenure led to his party bosses and ministers to act in light of voters' increasing dislike of open commerce. Paraphrasing Ernest Hemingway's famous line, Argentina's return to protectionism evolved in two ways: "gradually and then suddenly." Starting timidly in 1997, trade policy became increasingly more protectionist. For example, Mercosur became a contested issue. The temporary obstacles to full within-block free trade became deeply entrenched. In mid-1997, the Menem administration, which had by that time replaced Minister Cavallo with Roque Fernández, the outgoing Central Bank President and an economist trained at the University of Chicago, agreed to start talks with the Brazilians to lower import tariffs on sugar, a commodity that both economies produce (more efficiently in Brazil). However, the president's party in Congress, the Partido Justicialista, passed a bill to bar lower tariffs to protect a major source of local government revenue and low-skilled employment in the Northwest provinces.⁷⁸ The

⁷⁸ One family-run business group dominates the sugar market and is the major private employer in the province of Jujuy. It also runs biodiesel, renewable energy, paper, and citrus production. The firm holds leadership positions within

president vetoed the bill, but his own party insisted on overriding it (The Economist 1997). Eventually, the two presidents convinced their Paraguayan and Uruguayan counterparts to agree to an increase in the common external tariff rate by three percentage points for at least two years.⁷⁹ Propositions on a common currency and price index coordination were abandoned (Gutiérrez Girault 2018).⁸⁰

Argentina's establishment of trade barriers on clothing and footwear imports led it to becoming a defendant on two WTO dispute panels initiated by the European Union. Argentina lost a WTO dispute initiated by the United States and was asked to eliminate the statistical tax of 3 percent *ad valorem* imposed on imports from all sources other than Mercosur. Furthermore, Argentina did not fully comply with the Multilateral Agreement on Trade-Related Intellectual Property Rights (TRIPs). The country had no patent regime for pharmaceutical products, benefiting the local industry, which produced and imported versions of new drugs developed and registered in the industrialized economies (Etchemendy 2011, 64). The Menem administration sent a bill to Congress in 1993 to comply with the TRIPs. The proposed legislation generated the outspoken opposition of the domestic pharmaceutical firms, which successfully rallied legislators

the peak industry association, the UIA (Nougues 2018) (Personal Interview, Buenos Aires, Argentina, October 10, 2020).

⁷⁹ In early 2000, Brazil threatened to sue Argentina before the WTO over import quotas on Brazilian textiles while the governor of Buenos Aires, Argentina's most populous province, blamed the devaluation of the Brazilian currency for business closures and ramping unemployment in his district (The Economist 2000b).

⁸⁰ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

and public opinion in an anti-free trade movement that delayed and water-down the legislation (Tussie, Casaburi, and Quiliconi 2004, 82).⁸¹

On the domestic realm, trade policy liberalization stagnated. While criticism of the Convertibility Plan was public taboo, “disputes became deflected to discrepancies in effective rates of protection. Particularly after the recession began to bite sharply after 1998, trade policy came to be seen as a tool to mitigate macroeconomic distress” (Tussie, Casaburi, and Quiliconi 2004, 77). The national peak industry association, the UIA, structured a more anti-free trade position. The UIA, however, remained split between two internal factions: the more competitive, large scale, export-oriented car, food and beverage manufacturers against the low-productivity, low-innovation textile, clothing, footwear, and home appliances sectors “that the government calls sensitive” (Nougues 2018).⁸² Given the sharp differences between the factions, a few large business groups with diversified investment across the economy play a pivotal role within the business association. These latter companies tilt the balance for or against free trade depending not on their natural comparative advantage but on the effect of the exchange rate on their production costs (Nougues 2018).⁸³ Currency appreciation and low consumer demand due to growing unemployment and output contraction led the business groups to demand greater trade protection in the late 1990s.

With the evolution of the Mercosur’s CET, the simplified four-tier import tariff structure from the first Menem presidency evolved into an eleven-tier structure by the end of Menem’s

⁸¹ The legislation ultimately adopted in 1996 proved insufficient to satisfy the United States, a major trading partner and the biggest proponent of the reform. The US removed Argentina from its Generalized System of Preferences.

⁸² Personal Interview, Buenos Aires, Argentina, October 10, 2020.

⁸³ Personal Interview, Buenos Aires, Argentina, October 10, 2020.

second tenure in office (World Trade Organization 1998).⁸⁴ By late 1998, Argentina had a higher average import tariff rate (13.5%) than in 1992, with a fifth of all imports being dutiable at rates above 20 percent. The highest tariff rates were for footwear, cars, and used machinery. In addition, some imported items became subject to minimum specific duties and all imports were subjected to the value-added tax. Changes in tariffs were used not only to provide protection to domestic businesses, but to increase government revenue in the middle of a recession. Tax revenue collection from imports doubling from 2% to 4% as a share of total tax collections by 1997 (World Trade Organization 1998, 45).

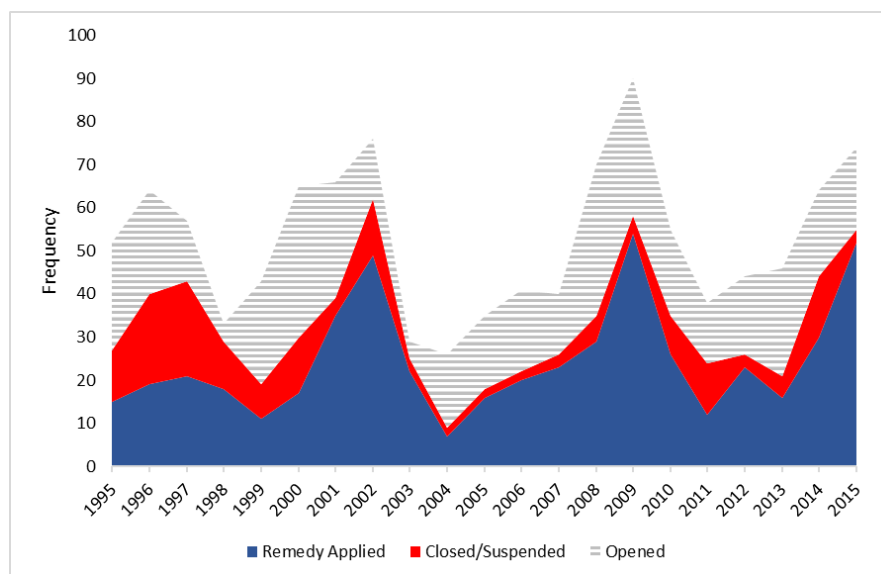
Moreover, Argentina became one of the world's leading players in anti-dumping (AD) cases, particularly during the years leading up to the December 2001 crisis (World Trade Organization 2007a). Figure 4.4 reports the requests and decisions of the Comisión Nacional de Comercio Exterior. As one of the CNCE professional bureaucrats at the time (he later became the chair of the agency's board) told me, "the reality ended the naivety of free trade among Argentine policy makers" (Bertoni 2018).⁸⁵ Definitive and provisional AD measures as well as the application of safeguard import quotas, targeting steel, chemicals, and electric appliances imports from Brazil, China, and the European Union, were more frequent than the Menem and De la Rúa governments would like to acknowledge. From January 1998 to December 2001, the CNCE initiated 85 new anti-dumping cases, 15 of which were against Brazil and 14 against China. Over a third of cases involved steel. Most other cases involved intermediate inputs, such as PVC, nylon,

⁸⁴ The previous tiers were 5, 13, 22 and 35 in percentage points, and the new rate tiers were 0, 2, 4, 6, 8, 10, 12, 14, 16, 18 and 20, plus a temporary 3 percent increase. In terms of economic sectors, agriculture had the lowest rate and standard deviation while industry had the highest rate.

⁸⁵ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

and polyester, and consumer goods, such as bicycle tires, washing machines, and microwave ovens. Breaking with previous patterns, the Argentine authorities granted final anti-dumping remedies to 71 of those cases. Moreover, in 1999 the Economy Ministry re-established automatic pre-importing licenses for consumer goods after more than a decade without them, with the goal of quickly analyzing the option of establishing trade remedies.

Figure 4.4: Anti-Dumping Decisions in Argentina (1995-2015)



Note: Author's own elaboration based on data from Comisión Nacional de Comercio Exterior, *Statistical Yearbooks*, various years. Higher values of anti-dumping remedies applied (in blue) represent more protection. Cases in red are government's decisions to not prosecute or apply anti-dumping remedies.

The relationship between protectionist sentiment and protectionist policy continued under President Fernando De la Rúa. One of his top economic policy advisors said in an interview that his government's "measures on trade have to be understood as the political consequences of citizens' low trust in foreign partners" (Gutiérrez Girault 2018).⁸⁶ The CNCE accelerated the rate

⁸⁶ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

of approval for domestic firms' request for anti-dumping relief. In early 2001, as the economic recession deepened and the service of the external sovereign debt became more difficult, De la Rúa appointed Cavallo as his Economy Minister. This time, Cavallo did not conceal that currency appreciation had to be addressed and that trade policy would serve as a revenue-generating tool (Cavallo and De Pablo 2001). Bypassing Congress, the Ministry issued Resolution No. 8/2001, which raised the import tariff rate to 35 percent for a thousand consumer goods and increased tariff rates for some other products.⁸⁷ Cavallo also created the "convergence factor," a fiscal scheme in which dollar receipts from exports were converted into pesos with a more favorable exchange rate (based in the Euro) while purchases in dollars of imported goods (even those from Mercosur) were discriminated against with a lower rate (Tussie, Casaburi, and Quiliconi 2004, 81). Cavallo also accused the Brazilian government of upsetting trade by deliberately devaluing their currency and betting on the collapse of Argentina's currency board regime. As one of his lieutenants told me, the president was convinced that "the government had to face the crisis, whatever it takes, which means recognizing Argentine culture of distrust against foreign actors" (Gutiérrez Girault 2018).⁸⁸

De la Rúa's defensive economic measures proved weak and he lost political support. In the last quarter of 2001, the economic situation was dire and social unrest was generalized. The defeat of the ruling party in the midterm legislative elections generated skepticism not only among households and domestic businessmen, but foreign investors as well (Galiani, Heymann, and Tommasi 2003; Pérez-Liñán 2007). Capital flight and a run against the banks accelerated the fall of the De la Rúa government. Besieged by food riots and looting, massive demonstrations, the

⁸⁷ In 2000, the government re-introduced the domestic preference system to local contractors of public procurement.

⁸⁸ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

mobilization of unions and the middle classes, and the lack of support from other political parties, the president submitted his resignation on December 21, 2001. Absent a vicepresident, the Peronist-controlled Congress selected Governor Adolfo Rodríguez Saa as interim president. In his inaugural speech, the new president declared the default of the sovereign debt with private creditors. Amidst steady public outrage against the entire political system, Rodríguez Saa resigned a week later, to be replaced with former Peronist presidential candidate Eduardo Duhalde. His first measure in office was to abandon the fixed exchange rate regime.

4.4 Full Reversal of Liberalization, 2002-2015

4.4.1 Economic Recovery and Anti-Export Bias

Trade led the recovery of the Argentine economy once it hit rock bottom in early 2002. The economy was in tatters. Output had contracted by 16 percent in the first quarter and the unemployment rate was at 25 percent. The long recession, coupled with business closures, layoffs, and the devaluation by 75 percent of the Argentine peso, pushed at least half of the population to poverty (Campello 2015). The Duhalde government had abandoned the currency board, forcibly converted dollar-denominated assets, savings and debts into pesos, extended the maturity of bank deposits, changed public utilities contracts, and extended capital controls to the wiring of dividends, interests, and remittances abroad.⁸⁹ The unorthodox policy mix averted hyperinflation

⁸⁹ The Economy Minister was Jorge Remes Lenicov (January – April 2002), replaced by Roberto Lavagna (April 2002 - November 2005), when the department's name changed to Ministry of Economy and Production.

and had an immediate positive outcome on trade flows. The devaluation stimulated the development of a high trade surplus. Exports increased from 11.5 percent of GDP in 2001 to 27.7 percent in 2002, whereas imports went from 10.2 percent to 12.8 percent of GDP (Campello 2015, 173). Exports grew both in volume and in price. International commodity prices began a boom like no other in the past decade. Export growth was based in the new high demand from growing emerging economies outside of Mercosur, namely China and India, which were avid for soybeans, grains, and other foodstuff commodities. By mid-2002, the strong export performance had translated into positive GDP growth (World Trade Organization 2007a). The Argentine economy came back to its feet as many households, businessmen, and investors slowly regained confidence that the worse of the crisis had already happened.

Despite exports being the fuel of the economic recovery, the Peronist administration restored the anti-export bias characteristic of the postwar era (Bouzas and Gosis 2014). Duhalde established export duties with the stated goal of increasing revenue for a cash-stripped government.⁹⁰ That was not new in the global history of trade policy, as governments frequently resorted to trade taxes to fund the treasury (Irwin 2017; Coatsworth and Williamson 2004). What was different was that the Argentine government could do it while other developing democracies failed to offset trade revenue losses as both firms and voters refuse to pay other taxes due to weak public goods delivery (Bastiaens and Rudra 2018). The export tariff rate was determined at 45 percent for natural gas, 25 percent for crude petroleum, 20 percent for soybeans, wheat, and maize,

⁹⁰ In Chapter Three I do not analyze the extent of trade policy responsiveness with export measures because there are no available reliable time series data on export restrictions for my panel of 18 countries. This does not mean that responsiveness could not happen with regards to that type of trade policy. Either way, the narrative in this section is to provide a background for the import control measures discussed below.

15 percent for beef, and 5 percent for all other exports. The new duties were introduced by Ministerial resolution as temporary measures, but with no set end date. Furthermore, the rate for export drawback on all goods was reduced by half (Resolution 56/2002). In addition, the Economy Ministry determined official export prices and reference markets for each product. Overall, export duties accounted for nearly 10 per cent of total tax revenue between 2002 and 2005 (World Trade Organization 2007a). Importantly, trade revenue in Argentina goes directly into the federal treasury and is not shared with subnational governments, such as the income and sales taxes (G. Sánchez 2018).⁹¹ Finally, the Duhalde administration, together with the Central Bank, established a separate foreign exchange market for exporters, who were asked to register, make sales, and convert dollars into pesos at a differentiated exchange rate.

When Néstor Kirchner was elected president in 2003, the export duty rates and the foreign exchange restrictions remained in place.⁹² His government also moved forward with the first quantity restrictions on exports of meat in decades. The favorable terms of trade led to sharp increases in the domestic price of food, which grew at a faster pace than the general inflation rate. By 2006, the positive relationship between trade openness and lower consumption prices of the prior decade had reversed. The price of meat in a country that traditionally produces a lot of meat and where citizens eat a lot of meat “became a sensitive and salient political issue” (Ardanaz, Murillo, and Pinto 2013, 417). Kirchner instructed the Finance and Agriculture departments to adopt quantitative export restrictions for bovine livestock and meat cuts (Bouzas and Gosis

⁹¹ Personal Interview, Buenos Aires, Argentina, October 24, 2020.

⁹² Néstor Kirchner’s appointees to the Ministry of Economy and Production were Roberto Lavagna (April 2002 – November 2005), Felisa Miceli (Nov. 2005 – July 2007), and Miguel Peirano (July – December 2007).

2014).⁹³ The decision was welcomed by many poor households but triggered protests from cattle ranchers. Unionized meatpacking workers mobilized against the trade policy and later that year, the government created an employment assistance program for that industry.

The 2007 presidential elections were won by Senator Cristina Fernández de Kirchner, Néstor Kirchner's spouse. The Kirchner governments were not homogenous and there were clearly distinct ruling styles and approaches to policy making (Kulfas 2016, 13). Still, Cristina Kirchner kept and deepened her predecessors' restrictions on exports (Bouzas and Gosis 2014). First, foreign exchange restrictions remained in place during Cristina Kirchner's first tenure and replaced with more stringent capital controls in her second tenure.⁹⁴ Second, exports such as grain, meat and dairy products had to be disclosed in a specific register. Third, exports for consumption were subject to a value control system to enforce duty collection. Fourth, the government prohibited exports of natural gas and established an export quota for bread-type wheat (World Trade Organization 2013). Finally, the government established a floating export duty system in which rates adjusted in reaction to international commodity prices. In the short term, the infamous Resolution 125/2005 increased export duty rates up to 33 percent for the most profitable commodity in the country: soybeans. Whereas in 1990 there were only 5 million hectares of soybean crops (out of 18 million total crop land), by 2008 soybean cultivation covered 18 million

⁹³ In 2005, the Kirchner administration also temporarily suspended exports of tailings of copper and aluminum alloys to reduce the price of inputs for domestic industries.

⁹⁴ Since 2011, funds for any new investment or purchase of shares and real estate must have been liquidated through the so-called Single Free Exchange Market controlled by the Central Bank, which was also responsible for authorizing wiring profits and remittances abroad.

hectares (out of 30 million in total) (Kulfas 2016).⁹⁵ As the government disclosed to the WTO, the duties were to be used to cushion the effect of exchange rate fluctuations on domestic prices and to finance public spending in the context of the international financial crisis of 2008 (World Trade Organization 2013). The same economic sector that was hugely benefited by the massive currency devaluation was about to “be charged the favor in installments through export duties” (Kulfas 2016, 128).

Cristina Kirchner’s government believed it was a relatively harmless way to raise revenue. (export duties represented 24 percent of government revenue, see Figure 4.5). While Argentina’s traditional main exports of beef and wheat were key domestic consumer goods, soybeans are not consumed by Argentine households but used to feed livestock abroad. However, the policy generated fast and widespread opposition from rural producers, big and small alike. Producers started a national production lockout and established roadblocks across the countryside. Cristina used anti-agrarian rhetoric and her government was swift in using the security forces to lift the roadblocks. Those episodes increased media coverage nationwide (Mangonnet, Murillo, and Rubio 2018). Soon, the historically anti-Peronist (but largely disorganized) urban and suburban middle classes joined forces with the agricultural sector in a large, loose opposition movement. Eventually, the government agreed to secure legislative support for the new export system. But in

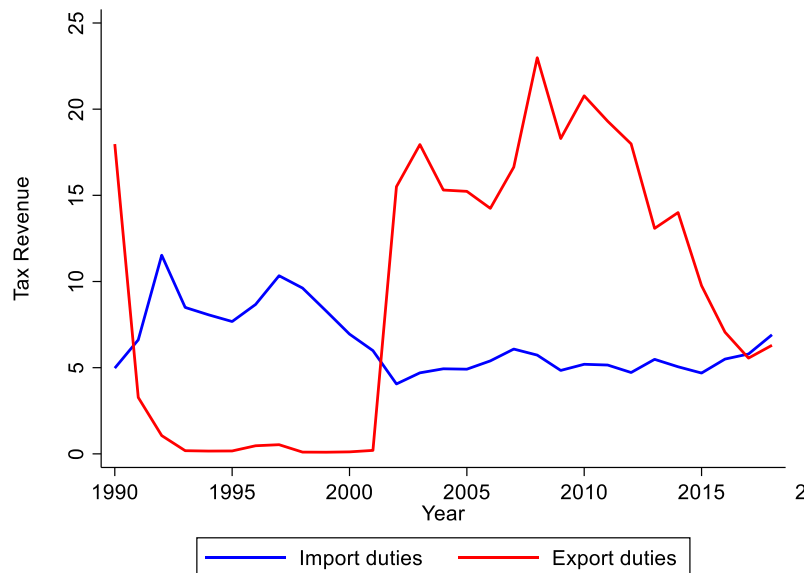
⁹⁵ Soybean production locates in both traditional fertile zones and new areas opened by the expansion of the agrarian frontier due to a capital-intensive model relying on mechanization, harvesting subcontracting, and agrochemicals. Soybean wealth also boosted the demand for services in towns across the countryside (Mangonnet, Murillo, and Rubio 2018).

a momentous decision amid a split vote in the Senate, Cristina Kirchner's vice-president voted against the bill.⁹⁶

The lack of political wisdom to reverse the unpopular export *retenciones* cost the president a significant amount of voter support and the ruling party the midterm legislative elections of 2009. Between March and July 2008, nation-wide presidential approval fell from 55 to 15 percent (Novaro 2020). In mid-2009, the Peronists lost the majority of the National Chamber of Deputies for the first time in decades. All the largest and most densely populated provinces voted against the president's party. Cristina's intransigency with the export tax produced a rarely seen voter movement that cut across traditional party lines (Mangonnet, Murillo, and Rubio 2018; Porto and Lodola 2013). The legislative electoral defeat forced key Peronist party bosses in Congress and Peronist provincial governors to reevaluate the strategy and renounce the unlikely alliance between farmers' demands and urban dwellers (Ardanaz, Murillo, and Pinto 2013).

⁹⁶ Economy Minister Martín Lousteau (Dec. 2007 – April 2008) was replaced by Carlos Fernández (April 2008- July 2009), then replaced by Amado Boudou (July 2009 – Dec. 2011). The department was renamed Ministry of Economy and Public Finance in mid-2008, as Cristina Kirchner created the Ministry of Industry, where she appointed Debora Giorgi, assuming responsibilities over Domestic Commerce and Business (“Comercio Interior”) and Foreign Trade (“Comercio Exterior”). In her second tenure as president, Cristina Kirchner appointed Hernán Lorenzino (Dec. 2011- Nov. 2013) and Axel Kicillof (Nov. 2013 – Dec. 2015) to head the Economy and Public Finance Ministry and confirmed Giorgi as Minister of Industry.

Figure 4.5: Trade as a Source of Government Revenue in Argentina



Source: Author's own elaboration based on data from the World Bank Development Indicators. Note: Tax revenue is percentage of revenue of the Argentine central government.

4.4.2 Sui Generis Import Protection

Néstor and Cristina Kirchner adopted anti-import protectionist policies in the face of low public support for free trade. A survey from September 2002 reported that 45 percent of Argentine voters preferred a closed economy with high state intervention in the economy, followed by a 15 percent who wanted a closed economy with less state intervention (Mora y Araujo 2011). In May 2004, one year into Néstor Kirchner's presidency, only 27 percent of respondents agreed that economic globalization had been good for the country and just 19 percent agreed that joining the FTAs would be good for the national economy (CIMA 2004). In the 2004 Latinobarometer poll, only 30 percent agreed that free trade treaties were either positive or very positive to increase job opportunities (Latinobarometer 2004). In November 2006, 50 percent saw free trade treaties as positive or very positive (Latinobarometer 2006). One year later, as the presidential elections to

succeed Néstor Kirchner were taking place, just 33 percent of voters saw FTAs as a good thing (Latinobarometer 2007).⁹⁷

After a traumatic change of course at the turn of the century, aggregate preferences about integration to the world economy and the role of the state in the economy between 2002 and 2011, did not deviate much from a pattern of backlash against market reforms (Mora y Araujo 2011). Mass opinion reflected the sense of threat that the Argentine middle classes perceived from the outside world once their economy went burst (Mora y Araujo 2011). As a former trade policy maker told me, “the 2001 crisis lives in the minds of Argentine voters with the image that corn was imported from France while factories we have known our whole lives were closing. So the 2003 election was a plebiscite between traumatic free trade versus protectionism, which led to everything that happened during under the Kirchners” (Bertoni 2018).⁹⁸

Breaking with the regional trend of the 2000s, the Kirchners did not pursue the deepening of trade integration through international preferential treaties. As can be seen in Table 4.2, only six PTAs were signed and entered into force during the 12 years in which the Kirchners ruled, and only three of those were with extra-regional partners, none of which represented an important market for Argentina.

⁹⁷ In December 2007, 42 percent of respondents agreed that trade was good or very good for their own welfare (PIPA 2007).

⁹⁸ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

Table 4.2: Preferential Trade Agreements Signed by Argentina

Preferential Trade Agreement	Date of Signature	President	Entry into Force
MERCOSUR	3/26/1991	Menem	11/29/1991
MERCOSUR - Chile ACE 35	6/1/1996	Menem	10/1/1996
MERCOSUR - Bolivia ACE 36	12/17/1996	Menem	2/28/1997
MERCOSUR - Mexico ACE 54	7/2/2002	Duhalde	1/5/2006
MERCOSUR - Mexico ACE 55*	9/27/2002	Duhalde	1/3/2003
MERCOSUR - India	1/25/2004	N. Kirchner	6/1/2009
MERCOSUR - Colombia - Ecuador - Venezuela ACE 59	10/18/2004	N. Kirchner	4/1/2005
MERCOSUR - Morocco	11/26/2004	N. Kirchner	4/29/2010
MERCOSUR - Peru ACE 58	11/30/2005	N. Kirchner	12/13/2005
Argentina - Mexico ACE 6	8/24/2006	N. Kirchner	1/1/2007
MERCOSUR - Israel	12/18/2007	C. Kirchner	12/23/2009
MERCOSUR - Turkey	6/30/2008	C. Kirchner	Not yet
MERCOSUR - Southern African Customs Union	12/15/2008	C. Kirchner	4/1/2016
MERCOSUR - Egypt	8/2/2010	C. Kirchner	9/1/2017
MERCOSUR - Colombia ACE 72	7/21/2017	Macri	Not yet
Argentina - Chile	11/2/2017	Macri	5/2/2019
MERCOSUR - European Union	6/28/2019	Macri	Not yet

Source: Author's own elaboration based on Organization of American States (2020).

In an interview, Rafael Bielsa, Nestor Kirchner's first Foreign Affairs Minister, told me that "the president knew that the Argentine people did not tolerate the idea of a free trade agreement with the United States, so he ordered [the minister] to use diplomacy to boycott the political-level negotiations on the *ALCA* [the Free Trade Area of the Americas] in the coming Summit of the Americas that Argentina was hosting" in 2005 in the city of Mar del Plata (Bielsa 2020).⁹⁹ The free trade initiative was launched by George Bush Sr. using the template of the NAFTA. There were several non-cabinet-level technical meetings in Washington and other places during Bill Clinton's tenure to identify common grounds for tariff liberalization, standards

⁹⁹ Personal Zoom Interview, Santiago, Chile, August 11, 2020.

harmonization, and rules of origin. By 2003, however, the Western Hemisphere governments were already talking of a “FTTAs a la carte,” with few universal rules to allow for more preferences to be agreed on a bilateral basis as Chile, Colombia, and Peru were doing (Bianculli 2016). Reinforcing a traditional Anti-American discourse during the Summit and exploiting the common position between the Argentine and Brazilian peak industrial associations, the Argentine government got Lula da Silva to back a move to prevent Mexico, Chile, and the Central American delegations from including a crucial statement of support for the FTAs. Moreover, George Bush Jr.’s attendance to the Summit was met with an unusual level of popular opposition enabled and promoted by the host. The ruling Peronist party helped organized an alternative Peoples’ Summit repudiating US foreign policy in the region. The episode was followed by Kirchner’s invitation to Chávez for Venezuela becoming a full member of the Mercosur in 2006.¹⁰⁰

The protectionist import policy was deepened with several ad-hoc measures established by the executive branch as a reaction to the increase in domestic consumption prices (Kulfas 2016). For example, the Néstor Kirchner administration established excise duties on cigarettes, beverages, and cars; a new certificate to import bicycles (Resolution 220/2003);¹⁰¹ non-automatic import licenses for carpets (Resolution 54/2004) and washing machines (Resolution 444/2004); an import quota on imported TV sets from Brazil (Resolution 43/2005); a toy import certificate (Resolution 485/2005); and a footwear import certificate (Resolution 486/2005). In 2006, the Federal Revenue

¹⁰⁰ Venezuela’s accession culminated in 2012 at the same time that Paraguay was temporary suspended due to the removal by impeachment of President Fernando Lugo, a political ally of Cristina Kirchner. Later on, Paraguay would be restored, and Venezuela would be kicked out of Mercosur for failing to comply with the within-block free trade and the CET.

¹⁰¹ Excise duties were created by Law 24674/2006, but the Ministry of Economy could modify rates.

Agency (AFIP) established sanitary import prohibitions for fresh fruit, lettuce, spinach, broccoli, among other vegetables, and fertilizers and pesticides (Resolution 2146/2006). That was in addition to the Minimum Specific Import Duties of 8 percent to textiles, clothing, footwear, toys, computers, and mobile phones from non-Mercosur markets (World Trade Organization 2007a, 37).

By the end of the Néstor Kirchner government, price control agreements between the national authorities and importers, producers, and grocery stores became widespread (Bouzas and Gosis 2014). The stated goal was to restrain price rises in the context of the return of high inflation for the first time in more than a decade. The immediate end of the Convertibility Plan did not cause a large increase in inflation because consumer demand and sales were low. But by late 2005, the expansion of state subsidies to public utilities and to finance consumer borrowing and the administrative rise of the minimum wage and of regulated private and public sector wages led to weaker budget figures. The Central Bank covered the demand expansion with monetary emission. As soon as consumer goods prices started to increase at the grocery store, the government launched “agreements,” justified by the annual extension of the Emergency Powers Act first established by Law 25561 of January 2002. Moreover, the authorities reactivated an old regulation from the early 1970s allowing criminal sanctions for people engaged in “raising prices artificially or unjustifiably; hoarding raw materials or products, or forming larger-than-necessary stocks; unjustifiably denying the sale of goods; or reducing normal production.” As an anti-inflationary tool, it did not work well, as they put pressure on supply and caused shortages among several consumer products as well as diesel (World Trade Organization 2007a). As a Kirchnerist economist acknowledges, “the price policy was perilous and insufficient at the same time” (Kulfas 2016, 121).

Under Cristina Kirchner, the state increased its role in the economy, leading to more trade protection. The government's failure to reach an agreement with a small group of bondholders, who owned sovereign bonds defaulted in 2001 and did not accept the terms of the 2005 and 2010 restructurings, cut the Argentine government and firms from access to international capital markets. The increase in public spending in welfare benefits and in subsidies to domestic producers and public utilities created a growing budget deficit. With no access to borrowing from abroad, the deficit was covered by monetary emission and transfers from the Central Bank and the state-owned banks. Capital flight accelerated in 2011. The authorities reacted by creating a "cepo cambiario" by which no individual or firm could buy or sell foreign currency without express authorization from the Central Bank and the Revenue Agency. At the same time, worried about growing inflation, the Kirchner administration did not want to further depreciate the peso in an economy with high pass through to domestic prices (Kulfas 2016). This highly unorthodox policy mix had effects on the composition of imports. Gas and petroleum, two commodities that led Argentine exports in the 1990s, were two of the top imported goods in the mid-2010s (Center for International Development 2020).

In that context, import restrictions were used to raise government revenue and to redistribute income to the core of the Peronist coalition of urban workers and industrialists. Import tariffs were not as important as they were in the past but still accounted for between 5 and 7 percent of all government revenue. Specific Duties were eliminated but certain ad-valorem tariff lines saw increases in duty rates. By 2012, the overall MFN simple average tariff rate was around 11 and 12 percentage points, with rates ranging from 0 to 35 percent. More than a quarter of tariff lines had duty rates above 15 percent. Moreover, the list of tariff exceptions to the Mercosur's CET was

increased from 100 to 300 product lines (Bianchi 2018).¹⁰² The structure of protection remained the same, offering more protection for the same industries benefited by Duhalde and Néstor Kirchner. Higher average tariff rates are applied to non-agricultural goods, especially textiles and clothing (average of 25 percent), footwear (25 percent), electronics (11 percent), and cars and transportation (18 percent).

Non-tariff import restrictions were raised significantly. Cristina Kirchner created the Ministry of Industry, and the Trade, Industry, and Small- and Medium Enterprise Secretariat within it. Former Secretary Eduardo Bianchi justified his office's increased intervention in trade flows in the expectation that world overproduction during the global financial crisis would swarm into the Argentine market damaging domestic producers (Bianchi 2018).¹⁰³ For that reason, the authorities "operated at the limit" of what was allowed by the WTO, making aggressive use of pre-import licenses and temporary trade remedies. The Secretary pressured the board members of the CNCE to accept new demands for relief against Chinese products, especially to force China not to pursue soybean oil refinement facilities (Bianchi 2018). In that period, Argentina ranked among the top five users of anti-dumping measures in the WTO (World Trade Organization 2013).

The use of non-automatic licensing increased substantially for textiles and clothing (238 tariff product lines covered by licenses) and machinery and mechanical appliances (126 lines), paper (35 lines), footwear (34 lines), and transport equipment (30 lines) (World Trade Organization 2013). Moreover, 114 tariff product lines required both automatic and non-automatic licenses, simultaneously. The WTO allows countries to use licenses to delay imports up to 60 days

¹⁰² Personal Interview, Buenos Aires, Argentina, October 22, 2018.

¹⁰³ Personal Interview, Buenos Aires, Argentina, October 22, 2018.

but the Argentine government repeatedly failed to comply with that limit (The Economist 2011a). As Bianchi himself acknowledges, the use of “pre-import licenses increased [his] political clout in the government and vis-à-vis firms that produced tradable goods.”¹⁰⁴ By 2012, Bianchi was succeeded by Guillermo Moreno, a famous and loud Peronist pundit. Moreno replaced the existing licenses with a more restrictive pre-registration and pre-approval regime known as the Advance Sworn Import Declaration (DJAI). In addition, he required importers to reach a certain level of local content in their production (Conconi and Schepel 2017). Moreno emerged as the ultimate decisionmaker on what could be traded across the border regardless of origin, sector, and specification (Kulfas 2016, 160). Foreign books, tires, and pharmaceutical inputs made the bulk of product restrictions at the customs (The Economist 2011a). The Secretariat kept a firm-level spreadsheet monitoring every commercial exchange and trading requirement, and it blocked de facto the import of intermediate goods (Nougues 2018).¹⁰⁵ The decision was not aimed at building local supply chains but to tightly control the foreign exchange. In an ultimate effort to avoid selling hard currency to acquire imported goods, the Trade Secretary asked producers that wanted to import goods but had no factories there to export goods worth at least as much they wanted to import (The Economist 2011a; Conconi and Schepel 2017).

The reality was far from what the Trade Secretary envisioned and most firms that needed to import goods had no material capacity, funding, expertise, or manpower to export. As the current Minister of Productive Development recognized not long ago, the para-legal scheme created in 2012 created “luxury car dealers who had to export wine and lemons, and a secondary market

¹⁰⁴ Personal Interview, Buenos Aires, Argentina, October 22, 2018.

¹⁰⁵ Personal Interview, Buenos Aires, Argentina, October 10, 2020.

emerged to exchange exporting quotas with a surcharge of 5 to 13 percent” (Kulfas 2016, 160). The import licensing system and the para-legal export-for-import measures were denounced by other countries at the WTO. The European Union initiated a dispute in May 2012, followed by a separate complaint by Japan, Mexico, and the United States, which also removed the concessional status of Argentine exports of fruits and other non-commodity goods in their Generalized System of Preferences. The Argentine government replied it was a mere customs procedure and retaliated initiating its own complaints against the European Union (biodiesel) and the United States (meat and citrus). The dispute panel, which found Argentina to be infringing Article XI of GATT, had a tough time examining the policies, unfamiliar to the WTO, due to their vagueness, non-legality, and ad-hoc discretion (Conconi and Schepel 2017).¹⁰⁶

Cristina Kirchner did not change course, as she felt that many people supported a tough stance on trade. The import restrictions remained in place until the end of her tenure in December 2015. However, the tight capital controls were highly unpopular (Lupu et al. 2015). Further, many Argentines seemed once again favorable to globalization. In May 2014, 68 percent of surveyed respondents by the Pew Research Center were favorable or very favorable to economic globalization. Interestingly, though, such popular support was shallow. In the same poll, only 39 percent of people thought that international trade led to lower consumer prices and 59 percent

¹⁰⁶ In addition, the Kirchner governments enlarged sector-specific and province-specific industrial promotion regimes and re-established Buy National incentives in public procurement legislation to increase protection against international competition. The largest regime is one by which the national government grants special tax incentives to domestic firms established in the island of Tierra del Fuego that assemble electronics and home appliances with components made abroad (World Trade Organization 2013). The regime, however, contributes little to value added manufacturing development or local supply chains (Kulfas 2016, 194).

thought that it increased wages (Pew Research Center 2014). But the perception of policy makers says otherwise. As the former chair of the CNCE under Cristina Kirchner told me, “when housewives could not find parts to repair washing machines due to the import restrictions, they said enough is enough. Which coincided with the rise of Macri as a viable alternative to Kirchner’s candidate in 2015” (Bertoni 2018).¹⁰⁷

Leading a new coalition of right and center parties, Mauricio Macri beat Néstor Kirchner’s former vicepresident in a presidential runoff in November 2015. One of his first executive orders in early 2016 was to eliminate export duties for soyabeans and suppress the non-automatic import licenses regime, the two most unpopular commercial policies of the past decade. Macri’s government also made the conclusion of a preferential trade agreement between Mercosur and the European Union a top priority, eventually becoming a major public issue after the 2017 midterm elections.

4.5 Why Is Argentina So Responsive?

The Argentine authorities have proven to be very responsive when it comes to trade policy during the contemporary democratic period. That does not mean that public opinion was the only driver of trade policy. Ideology was linked to some key trade policy decisions, such as Cavallo’s push for a free trade area with Brazil and the unilateral tariff reduction of 1991. Cavallo’s policy reform package is usually dubbed as the posterchild of the Washington Consensus (Edwards 1995; Kaplan 2013). That is the name of a list of economic policy recommendations that should be

¹⁰⁷ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

implemented by developing countries, according to the economists and technocrats working in Washington-based international organizations (the World Bank, the IMF, and the IDB) and the US Treasury.¹⁰⁸ Cavallo embraced the ideas of open markets, but according to him, “there was a Latin American Consensus, which others call a Washington Consensus. You are wrong to say that it was an imposition by Washington. The Consensus was a menu of economic policy issues that were not thought to be uniformly applicable to every country. The reforms that were implemented were made by national leaders based on their understanding and experience of the 1980s crisis” (Cavallo 2020).¹⁰⁹ Likewise, a former Secretary of Trade under Cristina Kirchner told me, “As everyone, I have an ideology. I am a *Peronista clásico*. For me, the consumer does not exist. Before the consumer, there must be a guy with enough income to consume” (Bianchi 2018).¹¹⁰

Business lobbying surely contributed to some significant trade policy decisions, especially product-level restrictions that affected individual firms. Well-connected large business groups in the countryside blocked the liberalization of the sugar market in the mid-1990s. Small producers in the clothing and footwear sectors of metropolitan Buenos Aires successfully lobbied for anti-dumping remedies and restrictive licenses that amounted to import quotas against Chinese-made sport shoes and Brazilian fabrics. Medium-sized businesses in the province of Tierra del Fuego

¹⁰⁸ However, the fixed exchange rate was not an IMF policy recommendation. It preferred devaluations to address short term imbalances (C. Sánchez 2005).

¹⁰⁹ Cavallo also believed that reforms would be effective if Argentina abandoned anti-Americanism so he made his first trip as Minister to Washington to meet State Secretary James Baker to learn firsthand what were his priorities (Cavallo 2020).

¹¹⁰ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

created with tax exemptions and no research and development investment avoided competing with American iPhones and Korean washing machines.

And yet, Argentine policy makers exhibited a remarkably adaptation to public opinion. When voters expressed discontent with market reforms, neoliberal officials such as Roque Fernández in the late 1990s and Domingo Cavallo (in the De la Rúa presidency) did not hesitate to erect trade barriers that run contrary to their beliefs. Certainly, the decisions these men took in the late 1990s were taken in the context of economic malaise (GDP contraction, rising unemployment). However, they did not take similar decisions under previous bad economic times when public support for economic liberalization was high (e.g. during the Tequila crisis in 1994). Néstor and Cristina Kirchner, who themselves had openly defended market reforms and liberalization in the 1990s when they ruled in the province of Santa Cruz, perfectly sensed the feelings of disgruntled voters after the 2001-2002 crash and adopted an exaggerated anti-free trade stance that suit them electorally once in national office.

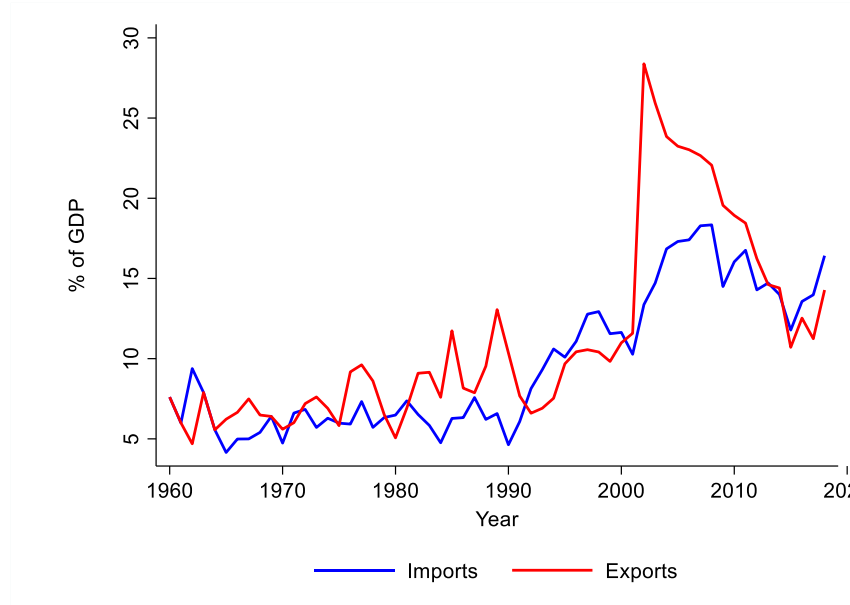
Trade policy responsiveness is possible in Argentina for three reasons: trade is salient for many people; the political system rewards visible policy changes in reaction to voter sentiment; and the concentrated institutional structure privileges political principals over bureaucratic agents.

4.5.1 Salience

Trade is very salient in Argentina. First, trade flows have reached significant figures as a share of the country's economic activity both at the beginning and the end of the 20th century. Trade was important in the modernization of the Argentine economic structure and the nation-state-building efforts from 1860 to 1914 (Gerchunoff and Llach 2010; Brambilla, Galiani, and Porto 2018; A. M. Taylor 2018). The protectionist and welfare state that evolved from the Great

Depression and the rise of the Peronist movement led to a substantive reduction in the coefficient of trade openness. Yet, trade remained salient in the postwar era as a political cleavage between urban and rural coalitions (Galiani and Somaini 2018; G. Sánchez 2018). After the debt crisis of the 1980s, the deepening of globalization in the early 1990s created opportunities for Argentine businesses to look outwards and engage in greater inter- and intra- industry trade and global and regional value chains. The trade policy changes of the early Menem administration facilitated the expansion of both imports and exports. As Figure 4.6 shows, total trade flows have been at least 20 percent of GDP since 1990. Immediately after the 2001-2001 economic crash and devaluation, total trade represented 42 percent of GDP. We have seen earlier in the chapter how important were exports of agricultural commodities to the recovery of economic activity, the upturn on society's expectations, and the improvement in public finances. Even when combined merchandise imports and exports fall back to 23 percent of GDP at the end of Cristina Kirchner's second government, policy makers and analysts recurrently and vehemently discussed the role of trade in the broader approach to Argentina's macroeconomic stability and international economic integration. Previous experiences of trade liberalization in simultaneity with financial integration largely shaped the political and technical debate around the role of trade policy in managing Argentina's integration to the world economy (Bouzas and Gosis 2014; López and Pascuini 2018).

Figure 4.6: Imports and Exports in Argentina (1960-2018)

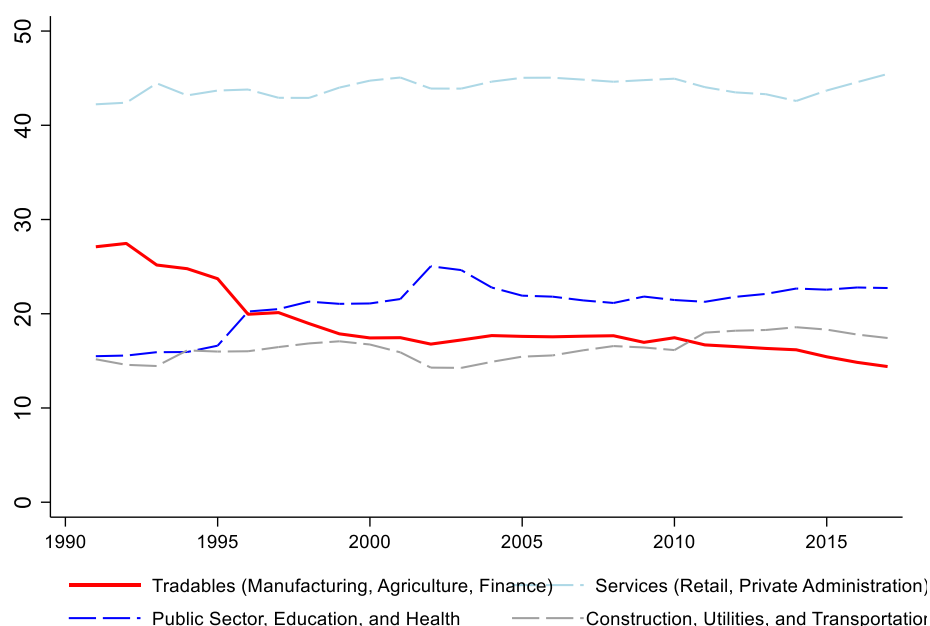


Note: Author's own elaboration based on data from the World Bank's Development Indicators.

A second reason why trade is salient is that the tradable economic sectors employ many people. At the national level, these sectors employ not a majority but a relatively large number of workers. Figure 4.7 shows employment across sectors estimated by the ILO since 1991. The red line indicates the workers in manufacturing, agriculture and mining, and finance as a share of total employment in the country. Manufacturing employment is the highest in import-competing sectors such as textiles, clothing, and footwear but also in sectors with high levels of intra-industry trade such as cars and appliances. Manufacturing sectors that employ fewer workers but contribute substantively to the value added, are exposed to international competition, such as steel production. Another manufacturing sector that employs relatively large numbers of workers but has an exporting profile, is the food and beverages industry. Agriculture, however, represents a small share of the total workforce because the exporting agricultural commodities that the country produces are intensive in land (very abundant in Argentina) but not on labor, given the types of crops and the development of mechanization. Yet, agriculture indirectly creates numerous jobs in

non-agrarian occupations and sectors in the towns its serves throughout the country's interior (Mangonnet, Murillo, and Rubio 2018). Finally, financial services are highly tradable since the lift of restrictions for foreign investment in the sector and the privatization of provincial state-own banks in the early 1990s. Banks employ many workers in both large and small cities across the country.

Figure 4.7: Share of Employment Across Economic Sectors in Argentina



Note: Author's own elaboration based on data from International Labor Organization. Economic sectors grouped by the author.

The importance of trade as a source of employment is clearer when we consider political geography. Employment in tradable sectors in Argentina is concentrated in crucial electoral districts: the largest and most populated ones. Policy makers are sensitive to the attitudes and demands of citizens in those metropolitan areas. Given how votes are tallied in national elections, not every district (24 provinces plus the capital city of Buenos Aires) counts the same. More

populous provinces carry larger weight in electoral coalitions. Successful presidential candidates need to obtain many votes in the province of Buenos Aires, home to 18 million people (39 percent of total population), or some combination of the other populous districts, such as Córdoba (8.4 percent), Santa Fe (7.7 percent), the city of Buenos Aires (6.8 percent), Mendoza (4.3 percent), and Tucumán (3.6 percent). Moreover, to pass legislation, governments need the support of many of the 70 deputies that the province of Buenos Aires has in Congress. That district has the largest absolute number of workers employed in tradable sectors. For instance, textiles, clothing, and footwear concentrate in the metropolitan core proximate to the city of Buenos Aires (home to most financial employees). It is also a massive employer of farmers and food and beverage industry workers, together with other large districts like Santa Fe and Mendoza. Córdoba is the country's carmaker powerhouse, home to thousands of autoworkers in foreign-controlled firms that assemble cars with parts made within the Mercosur. This does not mean that all or even a majority of workers in districts such as Buenos Aires or Córdoba are employed in industries with a large potential for trade. Residents of those districts who are bystanders because they have no clear pocketbook interests in trade, are better able to learn about the effects of trade in their communities just because there are several firms that export or face import competition close to where they live.

Caring about voters in districts with several firms with vested interests for or against deeper and freer trade is crucial for Argentine policy makers. This is especially so given the low mobility of labor across districts (G. Sánchez 2018).¹¹¹ When an economic sector employs many people, it obtains a special status. Trade authorities understand this; their survival in office depends on

¹¹¹ Personal Interview, Buenos Aires, Argentina, October 24, 2020.

“delivering for voters in big, politically important districts” (Bianchi 2018).¹¹² Business owners understand this; thus, they use the number of employees in their payroll as leverage when bargaining with the government to move trade policy closer to their private interests (Nougues 2018).¹¹³ In this context, more workers are better, whether one large firms employ many hands, or several small firms (employing few workers each) use abundant labor together (G. Sánchez 2018).¹¹⁴ Workers in “politically sensitive” districts can use collective action tools to protect their jobs in ways that escape from standard business lobbying to policy makers. In fact, labor unions are very strong in places like Buenos Aires, Córdoba, and Santa Fe. Across the country, organized labor has long-term histories of political affinity with the Peronist party. Further, organized labor knows how to and has the resources to mobilize to defend their members’ rights, an inheritance from its strength in the ISI period, which was not terribly curtailed by neoliberalism given the limited and negotiated nature of labor reform under Menem (Etchemendy 2011). With the rise of labor informality in the early 2000s, union membership has stagnated a bit in recent decades. Yet the “power of the streets,” with the frequent demonstrations and roadblocks in urban centers of the unemployed and informal worker movements, has appeared as a powerful substitute tool available for workers with no formal labor union rights.

Finally, society is informed about trade because the press produces high amounts of news about it. Argentina has one of the largest media markets as well as highest rates of internet penetration in Latin America (Mitchelstein and Boczkowski 2020). Since the return to democratic

¹¹² Personal Interview, Buenos Aires, Argentina, October 22, 2018.

¹¹³ Personal Interview, Buenos Aires, Argentina, October 10, 2020.

¹¹⁴ Personal Interview, Buenos Aires, Argentina, October 24, 2020.

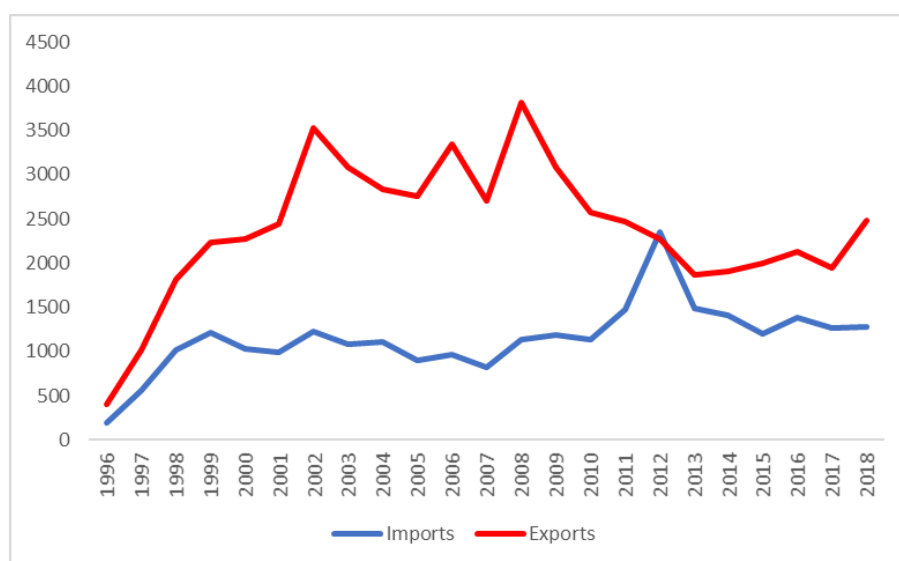
rule almost forty years ago, the country has enjoyed high freedom of the press, high freedom of speech, and a vibrant press. With the privatization of the wireless and of state-owned media organizations in the early 1990s, TV broadcasters and radio stations multiplied across the country. In the past twenty years, the market has increased in concentration with fewer media conglomerates controlling most the audience, especially in metropolitan areas. The national government and political parties do not own or control media outlets.¹¹⁵ Public broadcasting plays a very small role at the national level. Coverage of economic and public policy news is very widespread and Argentine media consumers receive a lot of information from the state budget to consumer inflation to business regulations. These types of news are not reserved for specialized business outlets. Radio and TV primetime news and talk shows spread information on economic news that would be alien to mainstream media in most other countries.

News coverage about Argentina's international trade has been extensive. That has been especially the case during the 2008 (defeated) export tariff bill, when the topic was in all major newspaper headlines every morning for several weeks (Mangonnet, Murillo, and Rubio 2018). In less extraordinary times, trade has also been a major topic in news coverage. Figure 4.8 reports the annual number of news articles containing the words imports and exports in the major national newspaper *La Nación* for more than two decades. Three patterns emerge. First, coverage of news on exports is very large, with more than 1000 articles a year on this topic since 1997. The trend is especially pronounced between 2001 and 2010, coinciding with the major role of exports in economic recovery after the crisis. Second, news coverage of imports is less frequent than that of

¹¹⁵ The situation is different in some small, backward provinces where political elites are also the economic elites and ruling families control the most important media outlets in town.

exports but has still been remarkably high, with at least 2.8 articles a day in this major newspaper since 1999. Third, news coverage of trade-related topics remained very high but experienced a change in content around the beginning of Cristina Kirchner's second presidential administration. When her government established widespread controls to cross-border exchange of goods, services, investment, and currency, news coverage of imports surpassed that of exports.

Figure 4.8: Annual Frequency of Trade-Related Articles



Note: Author's own elaboration based on results from the La Nación newspaper's online search engine for articles with headlines including the keywords *importación*, *importaciones*, *exportación*, *exportaciones* between January 1996 and January 2018. The results are grouped by year.

4.5.2 Strong Party Leaders

Argentina has strong party leaders with incentives to cater to aggregate citizen sentiment. The main party leaders in Argentina are the president, the legislative party bosses, and provincial governors. First, presidents have large constitutional powers to enact public policies closer to their ideal points. Presidents have the status of co-legislators, endowed with powers to propose, veto,

and amend legislation (Calvo 2014; Crisp, Olivella, and Rosas 2020). Further, they dominate the agenda-setting process and get complete attention by the national media. Since 1995, Argentine presidents are elected for a tenure of four years in direct elections in which the whole country is one district, and the presidential elections are concurrent with elections for one half of the National Chamber of Deputies and a third of the Senate. Candidates that obtain more than 45 percent of the vote (or 40 percent and more than 10 percentage points of margin with the second candidate) are declared winners. If no one reached that threshold, a runoff or ballotage takes place a month later between the two candidates with more votes. For these reasons, challenger candidates and presidents seeking reelection care about the broader national electorate. Rafael Bielsa, the former Minister of Foreign Affairs of Néstor Kirchner, told me in an interview that his department did not proceed with trade talks with other countries, including Mercosur members' high level meetings, unless the president himself approved each step along the way (Bielsa 2020).¹¹⁶ According to a Trade Secretary of Cristina Kirchner, senior advisors to the President requested his office to “pay attention to the requests made by businessmen whose firms employed many workers in proximity to elections” (Bianchi 2018).¹¹⁷

Second, there is a select group of legislative party bosses, especially in the Senate (the upper chamber) who care about the broader electorate, unlike other types of legislators whose careers depend on local power relations in their districts (Kikuchi 2018). Although there is no formal seniority system in the Argentine Congress, legislative leaders wield impressive power over other legislators, controlling committee membership, committee bill reports, and the small

¹¹⁶ Personal Zoom Interview, Santiago, Chile, August 11, 2020.

¹¹⁷ Personal Interview, Buenos Aires, Argentina, October 22, 2018.

leadership forum where bills with committee reports are filtered and selected to go to a vote on the floor (Calvo 2014). The result is that influence “flows from the top down, and the rank and file grants automatic support to the party leadership” (Ames 2001, 205). Finally, governors are party bosses in their provinces. They build up territorial political support based on their personal influence and control of provincial budgets and federal transfers (Jones and Hwang 2005; González and Mamone 2015). These resources allow them to obtain and maintain the support of local electorates. Moreover, governors control a significant part of legislative party list nominations in Argentina’s closed-list PR electoral system (De Luca, Jones, and Tula 2002). As a former Trade Secretary reported in an interview, “governors phone national authorities and send delegates to Buenos Aires to make demands for industries and workers in their districts” (Bianchi 2018).¹¹⁸

Since 1946, there have been two catch all parties, the Peronists (formally, *Partido Justicialista*) and the century-old *Unión Cívica Radical*, which fall along the Peronist – Antiperonist cleavage, which does not fit typical left-right or conservative-liberal programmatic divisions. With the return to democracy in 1983, the two parties remained the largest forces and each one ruled for the next two decades. In 2001-2002, the political storm that emerged from the economic crisis diminished substantially the *Radicales* electoral strength in national elections. The Peronists split into factions after the crisis and their hold on national power has relied on unstable coalitions between governors and legislative bosses. Further, two center-right antiperonist parties, Macri’s *Propuesta Republicana* and Elisa Carrió’s *Coalición Cívica*, emerged powerful in the largest metropolitan areas, especially in Buenos Aires.

¹¹⁸ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

Strong party leaders and few strong parties mean that legislative discipline in the Argentine Congress is high and legislators usually follow what their party leaders say. Legislative behavior follows one unidimensional cleavage: government versus opposition (Jones, Hwang, and Micozzi 2009). Legislators sign committee reports and vote for or against bills on the floor based on whether they belong to the president's party or to the opposition. If the president's party has not enough seats to form a single party majority, they form legislative coalitions with small provincial parties and independents, and the same government-opposition logic applies (Calvo 2014). There is almost no room for parochial behavior. If legislators need something from the treasury or a national ministry for their districts, they bargain outside of Congress and do not challenge bills initiated by the executive (Calvo 2014; Kikuchi 2018). This is despite the fact that the Constitution says that Senators represent "the will of the provinces" while Deputies "represent the nation." Deputies are elected across the 24 subnational districts in full PR systems with D'Hondt formula and an average district magnitude of 13.7 (Crisp, Olivella, and Rosas 2020). Small provinces have a minimum bound of five deputies. Until 2001, Senators were appointed by indirect election by state legislatures. After the electoral reform contained in the 1994 Constitutional reform went into effect, members of the upper chamber are elected directly by the citizens in a modified PR system with a magnitude of 3.0, with two seats allocated to the party with most votes in a province and one seat for the next party in votes (Crisp, Olivella, and Rosas 2020). The electoral reform of 1994 created incentives for directly elected Senators to be responsive to voters (Micozzi 2013). In spite of multi-level ambition (e.g., legislators seeking future positions in local government), Senators have become highly visible political figures. Many Senators are former governors, national cabinet ministers, and even presidents. For these reasons, bill production in the Senate and, in particular, general (as opposed to provincial-targeted) bills, have increased since 2001.

There were very few instances, however, in which Congress had an important role in trade policy making. The Constitution gives Congress jurisdiction over “tariffs and customs” and “economic development” (Article 75, sections 1, 22, 24). Nonetheless, Congress has delegated trade policy making to the Executive Branch, or the former has directly assumed the responsibility without consent. Renunciation of the constitutional mandate began with the establishment of a new Customs Code in 1981 by the last military dictatorship, a time during which Congress was closed. After the return to democratic rule, the Legislative Branch explicitly and willingly delegated its powers to set import and export tariffs to the Executive Power (Bouzas and Gosis 2014, 90). The 1994 Constitutional Reform made it easier for the President and the *Jefe de Gabinete de Ministros*¹¹⁹ to pass legislation after been authorized to do so by a law of Congress with simple majority. For legal purposes, the Executive Branch has treated trade tariffs as taxes and changed tariff rates by executive decree based on laws that authorize delegation to change taxes. For instance, in 2001 Minister Cavallo signed more than 90 resolutions changing economic regulations, including tariffs, based on a generous interpretation of the delegation of Act 25414. In 2002, President Duhalde assumed plenty of budgetary and trade policy powers based on the delegation of Act 25561, a piece of legislation that has been subsequently renewed to all presidents with special delegatory laws (such as the 25972 Act of 2004 and the 26896 Act of 2013) as well as ordinary annual budget acts. Moreover, with the Mercosur’s common external trade policy in 1994, Argentine legislators have had no say in tariff schedules agreed to at the regional block level (G. Sánchez 2018).¹²⁰

¹¹⁹ Translation is Chief of Staff, but it is more like a Premier in semi-presidential systems like France.

¹²⁰ Personal Interview, Buenos Aires, Argentina, October 24, 2020.

The Legislative Power, however, has intervened in the ratification of international agreements as mandated by the Constitution. The President's party in Congress has had usually little difficulty in securing ratification of PTAs despite a few raucous speeches against the deals on the floor of the legislature (Bertoni 2018; Bianchi 2018; Gutiérrez Girault 2018). The high rate of approval of PTAs obeys to the internal working of the Argentine Congress, in which the only bills that make it to the floor are those that were pre-cleared by the powerful inter-party pre-floor committee (Calvo 2014). Congress has also intervened to restrict the liberalization of tariffs on sugar from Mercosur and the protection of the domestic pharmaceutical sector against the TRIPS Multilateral Agreement in the late 1990s, and the parliamentary discussion of the contentious export tariffs on agricultural commodities in 2008. Those were the only three strange occasions in which deputies and senators broke party lines and did not vote together with their party block in the typical government vs opposition division. Finally, it is worth referring to the type of concerns that legislators make about trade policy, irrespective of party, in opportunity of the legislative authorization to the Executive Power to appoint some ambassadorships abroad.¹²¹ In the televised hearings, senators questions only focus on bilateral trade balances and inquiry the appointees about what measures they will take in office to make trade *imbalances* (more imports than exports) into trade *surpluses*.

¹²¹ Presidential appointees that do not belong to the diplomatic corps must obtain authorization from the Senate.

4.5.3 Concentrated Policy Making

Finally, Argentine governments have been able to respond to public opinion because the policy-making process is concentrated in a few political actors within the Executive Branch.¹²² Such concentration has made it easier to adopt changes to the policy status quo. While there has been no cabinet-level Trade Ministry, decisions on trade policy have been made by few politically appointed decision makers with little involvement of independent and technocratic civil servants (Bouzas and Avogadro 2002; Bouzas and Gosis 2014). Jurisdiction over trade policy can be divided in two broad areas: one that deals with the “unilateral” administration of trade with rules applied within borders and another that deals with “reciprocal” trade relations involving rules or decisions that affect other trading partner countries.

Historically, the Ministry of Economy (or Finance) proposes and defines the general orientation of trade policy. Ministers are appointed and dismissed by the President with no intervention of Congress. Secretaries and Under Secretaries are appointed and dismissed by Ministers.¹²³ Until the election of Cristina Kirchner, the Finance Ministry was in charge of administering non-tariff barriers and customs regulations as well as non-trade policies that have effects on trade flows, such as investment regulations, tax exemptions, and state subsidies (Bianchi

¹²² Concentration should not be confused with administrative centralization. Argentina is a federation and subnational governments enjoy substantive levels of administrative, political, and fiscal decentralization. Trade, however, is a policy responsibility delegated from provinces to the federal (national) government by Constitutional design since the first such political arrangement in 1853.

¹²³ National cabinet positions are called Ministries. The lower levels, in descending order, are Secretariats, Under Secretariats, and National Directorates.

2018; Cavallo 2020). Within the Finance Ministry, the Trade Secretariat (*Secretaría de Comercio*) has direct jurisdiction over import and export licenses, quotas, and tariffs. In Spanish, *commerce* is a noun with two meanings: international trade and domestic market regulations (e.g., consumer protection, antitrust). In Argentina, the Trade Secretariat usually contains two or more Under Secretariats, one for each dimension of commerce: the Under Secretariat for Foreign Trade and the Under Secretariat for *Comercio Interior*, or business regulation (Bouzas and Gosis 2014). In 2008, Mrs. Kirchner re-assigned the Trade Secretariat to the new Ministry of Industry. For a few years, the Trade Secretariat also had responsibility over industrial policy and SMEs promotion (World Trade Organization 2013).¹²⁴ Since 1991, all Finance and Industry Ministers and Trade Secretaries have been politicians, scholars, or public figures, but none has been a business owner, leader, or representative.

Relations between the Trade Secretariat and firms and business associations has been highly informal. There are no clear legal mechanisms in which firms and associations can participate in the formulation and implementation of trade policy, discussing ideas, exchanging information, or demanding solutions to their problems (Bouzas and Avogadro 2002; Bouzas and Gosis 2014). And yet, the business sector does frequently reach out to the Minister and the Secretariat in an ad-hoc fashion (Bouzas and Avogadro 2002). As a major business leader claimed, informal “dialogue” on trade between large business representatives and political leaders is

¹²⁴ During the Néstor Kirchner administration, responsibility over foreign direct investment and trade in energy commodities was given to the new Ministry of Federal Planning and Public Investment (World Trade Organization 2007a). The Ministry of Agriculture and the Ministry of Tourism were established in 2009 and 2010, respectively, with formal responsibilities in formulating trade policy in agricultural goods and tourism services, but they were secondary to the will of the Finance and Industry Ministries (Bianchi 2018).

common but seldom produces the results that business wants (Nougues 2018).¹²⁵ Political appointees ultimately make trade policy decisions based on what their political superiors ask them to (Bouzas and Gosis 2014; Bianchi 2018). The reason is that the Executive Power tend to give greater preeminence to macroeconomic policies that affect the broader electorate, such as price stability and total government revenue, rather than particularistic policies (Gerchunoff and Llach 2010; Bouzas and Gosis 2014; G. Sánchez 2018).

Reciprocal trade policy, such as international trade negotiations with foreign countries, were delegated in 1990 from the Ministry of Economy to the Ministry of Foreign Affairs and has remained there until 2016, when Macri transferred them to the Ministry of Industry, accentuating concentration. The *Cancillería*'s Secretariat for International Economic Relations represents the Argentina's official position in bilateral, regional, and multilateral trade talks, agreements, and disputes (Bianculli 2016).¹²⁶ The Argentine diplomatic corps is widely praised for being one of the few independent bodies within the national state bureaucracy. As such, diplomatic officers pursue an image of partisan independence that make them to remain at arms-length of political parties and private interest groups. Business associations have complained about being kept out of talks and receiving little information from the Foreign Affairs officials (Nougues 2018).¹²⁷ Thus,

¹²⁵ Personal Interview, Buenos Aires, Argentina, October 10, 2020.

¹²⁶ An International Studies Center (CEI) was created within the Ministry of Foreign Affairs to provide technical assistance, such as general equilibrium models to assess the effects of trade liberalization in the economy (Gutiérrez Girault 2018) (Personal Interview, Buenos Aires, Argentina, October 17, 2018). Furthermore, the Ministry oversaw an export promotion agency, Fundación ExportAr, that provided domestic private firms with foreign market information.

¹²⁷ Personal Interview, Buenos Aires, Argentina, October 10, 2020.

the Trade Secretary sends delegates to participate in bilateral trade talks with foreign governments, in which specific trade policy changes are decided, while the diplomatic corps leads the multilateral talks in which general trade norms are discussed (Bianchi 2018).¹²⁸ Inter-agency cooperation and coordination between the Ministries of Economy, of Industry, and of Foreign Affairs has been weak and sometimes produced diverging official preferences during talks with other countries (Bouzas and Gosis 2014, 77)

In between the administrative dimension (decided by the Ministry of Economy) and the international dimension of trade policy (at the Ministry of Foreign Affairs), in 1994 the Argentine government created a National Foreign Trade Commission (CNCE) in charge of examining firms' demands against unfair foreign practices. It was an idea of Minister Cavallo, who openly copied the model of the US International Trade Commission (Decreto 2191/94). Before that, anti-dumping petitions were considered in a very ad-hoc fashion by advisors to the Trade Secretary with no legislation to rely on (Finger and Nogues 2005). Cavallo's goal was to provide compensation to import-competing Argentine firms amid the radical trade liberalization he was leading, because "it was visible to the authorities that many imported goods had prices well below those in their countries of origin and there was not yet the WTO we could resort to" (Cavallo 2020).¹²⁹ On paper, the CNCE is an independent technical body that replicates the two-track US model, in which the Commission investigates injury to industry while the Secretary of Trade decides on the existence of the unfair practice and establishes WTO-compliant temporary trade remedies, based on the Commission's technical recommendation (Bouzas and Avogadro 2002).

¹²⁸ Personal Interview, Buenos Aires, Argentina, October 22, 2018.

¹²⁹ Personal Interview, Buenos Aires, Argentina, July 14, 2020.

The division of duties was aimed at defusing lobbying pressures on political appointees (Tussie, Casaburi, and Quiliconi 2004, 85). Furthermore, the Argentine anti-dumping law states that the Commission's opinion is binding only when it finds no injury, but is non-binding when the investigation yields damage (Bertoni 2018).¹³⁰

The establishment of the CNCE, however, did not eliminate politicians' intervention on trade restrictions. The CNCE board members are appointed by the Ministry of Economy, using quotas for members of the ruling and opposition parties (Bouzas and Avogadro 2002). But replication of the US logic failed in Argentina, which has a multiparty system and where the dominant party, Peronism, is a catch-all, ideological loose movement (Bertoni 2018). Moreover, by copying the US model without granting the agency with full financial and legal autonomy, the CNCE is trapped in lengthy bureaucratic procedures.¹³¹ There are two separate file procedures for anti-dumping and safeguards examinations which "make it difficult for domestic firms, especially SMEs, to make investigation requests," and for civil servants to comply with the timeframe allowed by the WTO (Bertoni 2018).¹³² In words of its former head, the CNCE functions "as an emergency room, only dealing with 'sensitive' firms that recurrently request protection, without having the ability to study trade flows in the long term and the general implications of trade policy" (Bertoni 2018). In that context, decisions by the board on whether to recommend the existence of injury are taken informally in agreement with the Under Secretary for Foreign Trade: that "official communicates to the board member their intention to vote in unanimity in line with the goals of

¹³⁰ Personal Interview, Buenos Aires, Argentina, October 17, 2018.

¹³¹ The Commission does not have its own budget or legal counsel and has no power to subpoena complainants and witnesses (Bertoni 2018) (Personal Interview, Buenos Aires, Argentina, October 17, 2018.)

¹³² Personal Interview, Buenos Aires, Argentina, October 17, 2018.

the Trade Secretariat's leadership" (Bertoni 2018). Unanimous votes at the CNCE board make it more likely that the Minister of Economy will decide to impose a temporary trade remedy. That does not mean that board members are co-opted or bought by special interests (Tussie, Casaburi, and Quiliconi 2004; Finger and Nogues 2005). Lobbying by firms and business associations exists, but it is aimed not at the CNCE employees or board members, but at the Minister of Economy and the Secretary of Trade (Bianculli 2016; Bertoni 2018).

4.6 Summary

In this chapter, I have documented the relationship between public opinion and trade policy in Argentina from 1989 to 2017 and shown that governments have been generally responsive to voters when making trade policy. Public opinion on trade has been largely affected by export and import flows and the difficulty synchronicity issues of opening trade and finance while simultaneously using the exchange rate to stabilize prices. Moreover, the welfare net was inadequate to avoid a backlash in the late 1990s. Unemployment, poverty and inequality all rose, first with the import shock and then by the massive devaluation to address competitiveness and liquify debts in hard currency. Public officials unmistakably with neoliberal credentials noticed the popularity of free trade and reacted by resorting to several non-tariff barriers, increasing the non-discriminatory import tariff rate, and abandoning negotiations on trade treaties with the United States, Europe, and the major economies of the region such as Mexico and Colombia. The governments of the 2000s and 2010s used trade protection as social protection as well as a revenue generating tool in large part to finance social spending. The problem was that Cristina Kirchner did not react to the change in aggregate sentiment and the unlikely urban-rural popular alliance

that briefly emerged to oppose the 2008 export taxes. After an electoral defeat, the Peronist administration focused on regulating imports, adopting many restrictions, including some considered discretionary, unfair, and illegal by the WTO and the country's major partners, such as Brazil. However, those measures were just an overreaction to the low levels of popular support for free trade.

Argentina has a combination of institutional and structural factors that make policy makers willing and able to respond to voters, factors that are not present everywhere. As we will see in the next two chapters, trade is not always as salient and present in the public agenda as it is in Argentina. For instance, in Peru (Chapter Six), trade is not a salient issue despite the crucial role of mineral exports for national economic activity as very few Peruvians work and are in contact with tradable industries. In that context, a pro-free trade consensus has emerged among the political and business elites. Moreover, the institutional setup of the policy-making process conspires against governments' ability to respond to public opinion. Colombia (see Chapter Five) has a very fragmented process to change trade policy and several technocratic agencies intervene in decisions. Furthermore, the electoral system creates incentives for Colombian politicians to focus on smaller constituencies rather than in the national electorate. Lastly, the Peruvian political system makes it very hard for voters to participate in policy making, especially on economic issues such as international trade. In the 1990s, the country suffered from competitive authoritarianism and decisions were made by the odd mix of neoliberal populists, technocrats, and business leaders. In the 2000s, democratization evolved into a democracy without parties with extreme electoral volatility and very shallow party roots in society, breaking the chain of representation. Instead, trade politics remains there as the product of ideologues and a few large business interests with unified trade interests.

5.0 Colombia: Powerful Interests, Technocracy, and Moderate Responsiveness

This chapter analyzes the relationship between public opinion and international trade policy in Colombia between 1990 and 2017. I present survey evidence of popular support for free among Colombians and detailed historical evidence of unilateral, reciprocal, and multilateral trade policy changes in the period under study. The main takeaway is that trade policy responsiveness is moderate. Based on elite interviews in Colombia, I analyze how each of the moderators of the conditional theory of responsiveness developed in Chapter Three fare in this case.¹³³ There are weaker political incentives for politicians to appeal to the broader citizenry and there are important formal obstacles to the ability of governments to modify the trade policy status quo.

In the past thirty years, public sentiment on commercial integration in Colombia has been generally stable towards free trade. From 1994 to 2012, the average level of support for free trade has been over 50 percent, with survey evidence of support for free trade in principle as well as for particular free trade policies. Free trade sentiment was at its highest between 1999 and 2003 and then shortly after the global financial crisis, but in all other periods it has trended below 60 percent, suggesting it is not an extremely popular issue. In fact, the review of the existing survey questions on trade indicates that about a quarter of all surveyed respondents have constantly failed to express support or opposition to trade-related questions. In the last years of the period, average sentiment has been less supportive of free trade. Interestingly, the available data suggest that Colombians do not differ much in their support or opposition to free trade based on income level.

¹³³ I conducted IRB-approved structured interviews with legislators, executive branch trade policy makers, business representatives, and other elite members in Bogotá in February-March 2020.

Trade policy seems to be dual. On the one hand, the general level of non-discriminatory import tariffs has been decreasing since 1990 and Colombia has signed several international treaties that lower barriers to trade with the country's largest partners including those outside Latin America. On the other hand, the structure of tariffs is highly skewed toward protection for national agriculture and there has been a proliferation of state subsidies for import-competing producers and farmers as well as an extensive use of quality and quantity-control non-tariff import barriers. Targeted protection is granted to some manufacturing industries via technical standard requirements and temporary trade remedies, too. Table 5.1 provides the major trade policy developments in the period under study.

Table 5.1: Major Trade Policy Changes in Colombia by Sub-Period

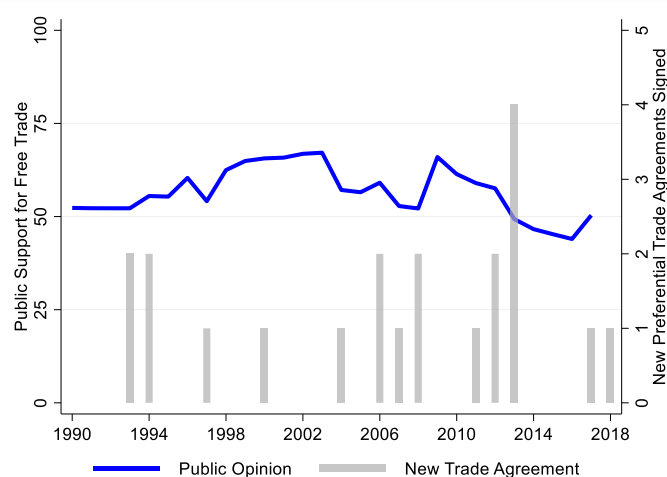
Sub-Period	President	Trade Policy Changes
1990-1991	Gaviria	Unilateral reduction of tariff rates. Unilateral reduction of quantity-control NTBs.
1992-1995	Gaviria	Locking in liberalization with Andean Group, G3 Agreement and WTO.
1996-1999	Samper	Increase of price-control NTBs for agriculture. No new PTAs.
1999-2002	Pastrana	No new PTAs. No changes to tariffs despite economic crisis.
2003-2007	Uribe	US Free Trade Agreement. New intra-regional PTAs.
2008-2010	Uribe	Increase in quantity and quality-control NTBs. New extra-regional PTAs.
2010-2018	Santos	Increase in quantity and quality-control NTBs. New extra-regional PTAs.

Note: Sub-periods are author's choice and do not necessarily match presidential tenures. Text in blue represents changes in trade policy towards more free trade. Text in red represents changes in trade policy towards less free trade. Selection and sources for this table are discussed throughout this chapter.

Both policy dimensions (i.e., general pro-free trade policies and selective protection) have been stable over time with few changes. My fieldwork and analysis in Colombia find that if there is one word that summarizes this country's experience, it is stability. Contrary to what we see in other parts of the region, Colombians have experienced macroeconomic stability as a result of political compromise among the economic elite and the insulation of an extensive technocratic state (Robinson 2007). The stability in fiscal and financial arenas is replicated in trade policy.

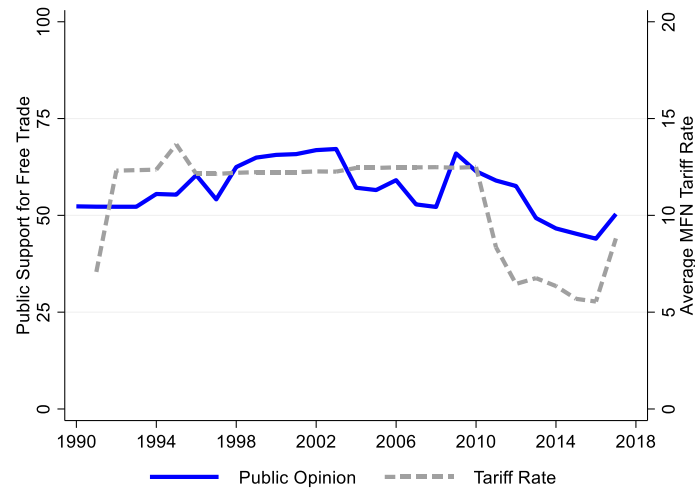
Trade policy has not been very responsive to public opinion. Figures 5.1, 5.2, and 5.3 show how public support for free trade has changed over time based on the index developed in Chapter Two, plotted against three policy instruments that regulate imports from abroad: PTAs, tariff rates, and non-tariff barriers, respectively. The reduction in support for open borders of the mid 2000s did not avoid that the government signed several PTAs. Moreover, the depression of pro-free trade sentiment between 2008 and 2016 was followed by a reduction of Most Favored Nation import tariff rates.

Figure 5.1: Public Opinion and Preferential Trade Agreements in Colombia



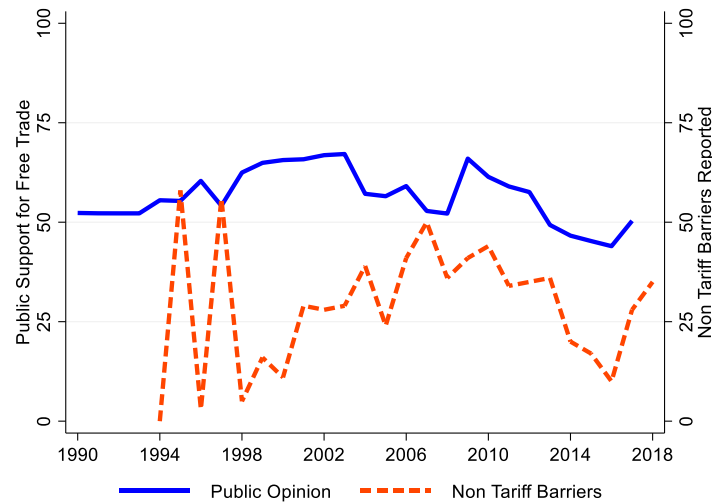
Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the number of new preferential trade agreements (PTAs) signed by Colombia, based on data from the Organization of American States. The height of the vertical grey lines indicates the cumulative number of new PTAs signed in a given year. Empty spaces indicate that no new PTA was signed that year. More PTAs represent more free trade.

Figure 5.2: Public Opinion and Import Tariff Rates in Colombia



Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the Colombian average *ad valorem* Most Favored Nation import tariff rate with data from the World Bank. Higher tariff rates represent less free trade.

Figure 5.3: Public Opinion and Non Tariff Barriers in Colombia



Note: Author's own elaboration based on the index of latent public support for free trade (developed in Chapter Two) and the number of price-, quantity-, and quality-control non-tariff import barriers (NTBs) established by the Colombian government in a given year, with data from the World Trade Organization. More NTBs represent less free trade.

Why has responsiveness been moderate to low in this case? Part of the answer is that Colombian political institutions are ill suited to provide what voters want. The political system creates incentives for legislators and presidents to cater to powerful economic interest groups. As the former Deputy Minister of Trade acknowledges, “business associations (*gremios económicos*) and large private domestic corporations (*grupos económicos*) knock on the Trade Ministry’s doors the whole day and obtain everything they want ... because politicians are outspokenly pro-free market but continuously provide the special measures that businessmen asked them for” (Sarasti Montoya 2020). Business associations and individual firms, especially large family-run business groups, are well-organized, well-funded, and well-connected (Schneider 2004; Rettberg 2005). They exert high pressure on elected officials, political appointees, and top civil servants alike. Public policies in Colombia, a long surviving democracy with extreme levels of political violence and economic inequality, have a strong private-regarding character which frequently disagree with voter preferences (Robinson 2007; Cárdenas, Junguito, and Pachón 2008; Eslava and Meléndez 2009). Those regulations undermine productivity growth and economic modernization despite the general liberalization ethos installed in the early nineties (Eslava and Meléndez 2009).

The rules to elect legislators have discouraged the building of strong party brands and have made it more politically expedient for candidates and representatives to seek private financing catering to special interests (Archer and Shugart 1997; Botero 2007; Pachón and Shugart 2010). Even though Colombia is a presidential democracy with direct elections, a weakened President after the Constitutional reform of 1991 has incentives to align with the preferences of congressmen and senators when considering policy changes, especially given the post-election coalitions that take place given the noncurrent nature of the elections. And the frequent use of PTAs has required formal ratification in the bicameral Congress, which is much more than a rubber stamp.

The other part of the answer is that Colombia has a large technocratic bureaucracy since the late 1950s that makes it difficult to change public policies in general, and the same applies to trade (Cárdenas, Junguito, and Pachón 2008; Dargent 2011; Eslava and Meléndez 2009). While there is a ministry in charge of trade policy, embedded within a department that also regulates industrial policy, there are several other cabinet-level ministries that intervene in trade policy making. Moreover, there is an extended system of checks and balances within the Executive Branch where expert bureaucrats and top appointees have to provide consent to choose between policy alternatives. The proliferation of state agencies offers special interest groups with more access points to the policy-making process. As the literature highlights, Colombia has a vibrant domestic private sector, represented by powerful business associations, and the large business *grupos* (conglomerates) have connections in all parties and across the state apparatus. Yet, a fuller picture that emerges from my analysis is that the professional civil service does not automatically ally with firms and industry leaders; technocrats have their own knowledge, ideas, and expertise, and act accordingly.

The rest of the chapter is organized in five sections and a final summary. The first section offers a historical background on trade and trade policy in the twentieth century in Colombia. The second section presents evidence from Colombian opinion polls with questions on trade that were used to construct the index developed in Chapter Two. The third section describes the trade liberalization of the early 1990s, both in its unilateral and reciprocal/multilateral dimensions as well as on the general orientation of the reform and the important pockets of protection that survived or grew. The fourth section describes major trade policy changes in the 2000s under the right-wing governments of Alvaro Uribe and Juan Manuel Santos, especially the making, signing and ratification of PTAs starting with the free trade treaty with the United States. The fifth section

explains the patterns of moderate to low responsiveness to public opinion with focus on an electoral system that fosters a personal vote and a fragmented, technocratic policy-making process.

5.1 Background

Colombia has historically managed its integration into the world economy differently than other countries in Latin America. Colombia has not experienced the economic volatility and balance of payments crises of other developing countries (Robinson 2007).. For nearly a century, the economy enjoyed continued growth, relatively low inflation, sound public finances, and low public debt (Cárdenas, Junguito, and Pachón 2008). Under the Conservative Party and Liberal Party governments, Colombia has exhibited “unspectacular but steady progress and its economic policy on the whole has been subtle and conservative with a judicious addition of heterodox measures” (Thorp 1991, 14). Rival regional economic elites fought for control over national political power (Bushnell 1993), but the two mainstream political parties did not really differ in their preferred economic policies (Robinson 2007). Liberals and Conservatives relied on pork barrel to guarantee legislative approval of policy changes. The trend did not change with the consolidation of a competitive political regime with an explicit bipartisan arrangement and civilian control over the armed forces in the late 1950s. Later in this chapter I show how the political system explains the stickiness of its trade policy in the long term and the diminished response to public sentiment.

Governments’ approach to international trade has been relative stable. Colombia was not an open economy at the beginning of the 20th century and it did not become more closed after 1930 (Villar and Esguerra 2007). Trade was hindered by high transportation costs and large distances

from productive localities to the coasts. Geography, with its rugged terrain, the challenges of the Andean mountain chain, the tropical climate, has been more of a burden than a blessing. Traditionally, economy activity has been oriented toward the center instead of its two oceanic coasts (Holguín 2020). Public infrastructure has been inadequate, even by regional standards (Eslava 2020). In the postwar era, Colombian rulers followed an import substitution industrialization (ISI) strategy. The policy included trade protection via high tariff rates for the large, non-commodity agricultural sector (meat, dairy, and wheat) and the light manufacturing sector. Protectionist policies were the result of a non-diversified export base in an environment of low access to international financing (Villar and Esguerra 2007).

But contrary to other nations in the region, the Colombian version of ISI incorporated the active promotion of traditional exports, mainly coffee, and some non-traditional exports (Juárez 1993; Perfetti, Higuera, and Oviedo 2018). It is worth noting that the main commodity of Colombia has not been subject to trade policies and is not examined in this study: illicit drugs, especially cocaine.¹³⁴ Within the legal economy, the performance of coffee exports contributed to the business cycle as well as to the internal dynamics of the Colombian society (Posada-Carbó 2012).¹³⁵ Coffee production was dispersed across small and medium sized farms, but the selection of high-quality coffee and its commercialization abroad was concentrated in a public-private management apparatus (Thorp 1991). In 1967, Colombia adopted a crawling peg exchange rate regime in place until 1991, creating stability and predictability to domestic producers who wanted

¹³⁴ In recent decades, illegal gold and emerald mining have also appeared as major exporting sectors.

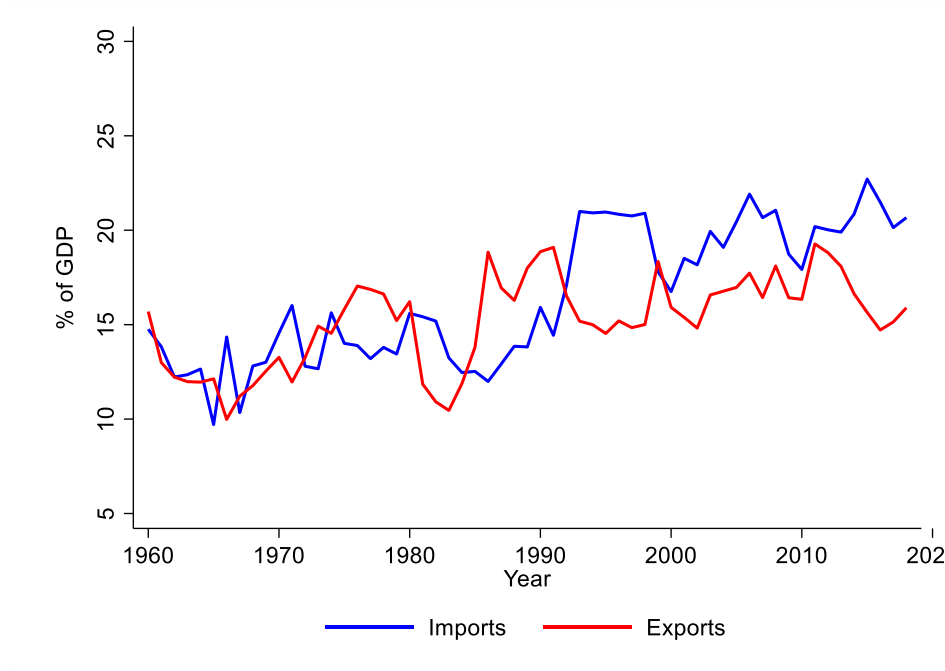
¹³⁵ Trade in coffee experienced three major trends: boom in volume and prices from 1910 to 1940, stagnation from World War II to the mid-1970s, and price raises since the late 1970s.

to export goods other than coffee.¹³⁶ The pro-export component of the ISI included generous state subsidies, such as the draw-back systems of tariff exceptions and tax credit certificates for non-traditional exporters (Juárez 1993; Edwards and Steiner 2008). By the mid-1980s, oil replaced coffee as the major exporting good, representing more than 40 percent of merchandise exports.

By the late 1980s, integration to world markets retained its bimodality: concentration of exports on one or two commodities and a closed economy that imported few inputs and consumption goods and no integration in value chains. Imports accounted to only 15 percent of GDP, the same as in 1960. Exports of coffee, the main commodity, had experienced sharp decreases in the previous decade due to the fall of international prices (see Figure 5.4). Colombia's commercial regime was highly restrictive, and in that respect not far from its Latin American neighbors, with several import tariff categories, an average import tariff rate of 70 percent in 1985 (30 percent in 1989), and more than three quarters of imports subject to prior licenses (Edwards 2001, 28).

¹³⁶ Coffee exhibited a low response to the real exchange rate (Villar and Esguerra 2007).

Figure 5.4: Imports and Exports in Colombia (1960-2018)



Note: Author's own elaboration based on data from the World Bank's Development Indicators.

5.2 Public Opinion on Trade

In Colombia, public opinion has been generally favorable to free trade. The index of public support for free trade developed in Chapter Two has a mean of 57.4 percent for Colombia, with a standard deviation of 7 percentage points over thirty years. The average value is higher, and the variance is smaller, than the figures for all Latin American countries. This is replicated with the examination of observable data from real polls. For example, in September 1985, the US Information Agency commissioned a poll with an item about citizens' agreement with the idea of lifting restrictions to trade: 65 percent approved the statement (USIA 1985). Six months later, that same question received a 66.5 percent of agreement (USIA 1986). This trend is sustained over

time and has not suffered greatly under sluggish economic growth or changes in other forms of public mood such as presidential approval. In 1997, for instance, the Latinobarometer project found that 65 percent of surveyed Colombian agreed that increased commercial integration was good for their country (Latinobarometer 1997). Two decades later, favorable replies to that same question reached 59 percent (Latinobarometer 2016). Similar phrased questions from other pollsters got similar answer rates. In early 2009, just months after the trade collapse of the global financial crisis, 60 percent of Colombian respondents believed that economic globalization was a good thing (CIMA 2009).

Public sentiment remains generally pro-free trade even when we break it down into particular groups of people. Colombians' support for free trade policies cuts across social classes, at least based on the available data. The LAPOP project is one of the few that allow us to examine responses about free trade along with information on the income level of respondents. Answers to the question on whether free trade agreements are good for the respondent's country are ranked in ascending order of agreement from 1 to 7, inclusive, plus a do not know category. By grouping answers into three camps, supportive, opposed, and no opinion (which includes "neither or" answers), we can more easily make observations of common patterns for the five self-reported income level groups. In 2004, during the international stage of the USFTA negotiations, all five income groups had more than 50 percent of respondents giving a 5, 6, or 7 points of agreements with free trade agreements. The two extreme tails, the very poor and the very rich, had 52 percent of individuals in agreement, while 60 percent of those in the middle groups were on average 60 percent in favor of those liberalizing agreements (LAPOP 2004). In 2008, during the global financial crisis, there were even smaller differences in support for FTAs: the lowest income group was 47 percent in agreement, the same value as the median group, and just two percentage points

lower than that reported for the highest income group. In 2010, during an impasse in the strategy of signing new PTAs between the one with Canada in 2008 and the next one with the Pacific Alliance in 2012, LAPOP reported the same distances of two percentage points, just with a higher overall value across groups (the lowest score was 56 percent) (LAPOP 2010).

Questions about support for free trade agreements get relatively similar responses to questions about free trade in general. During the Gaviria administration, 65 percent of surveyed individuals agreed that the Free Trade Area of the Americas was a good deal for Colombia (USIA 1993). Years after, under President Samper, a poll from the same organization showed that 78 percent approved of the US approach of PTAs with the Latin American region (USIA 1996). By the end of the Pastrana administration, 61 percent of the public continued to agree that the FTAA was positive for the country's development (Latinobarometer 2001). Months into Uribe's first government, 65 percent of surveyed Colombians approved of the FTAA (CIMA 2003). According to Gallup, aggregate sentiment for the bilateral trade agreement with the United States was likewise very positive during the closing international negotiations (Gallup 2006). It remained barely unchanged in early 2008 at the next round of Gallup's *Voice of the People*, even after the deal was ratified after acrimonious debate in Congress. Moreover, the positive mass attitudes toward free trade in Colombia do not change significantly between those who say that it is good for job opportunities from those who say it is good due to the greater access to consumer goods (Latinobarometer 2006; 2007).

However, closer examination of available survey data reveals that Colombian voters who disapprove of free trade are usually the same number, or less, of those who have no opinion or are neither in favor nor against free trade. Massive opposition to free trade is nonexistent in this

country.¹³⁷ There seems to be both little knowledge and little disagreement. For example, while in the early 1990s only 18 percent gave a negative opinion of PTAs that increase trade integration in the Americas, 17 percent had no opinion (USIA 1993). In the early 2000s, other polls showed similar figures: 14 percent of disagreement with the FTAAAs while 25 percent expressed no definitive views (Latinobarometer 2001; CIMA 2003). In 2004, 24 percent of individuals surveyed by the Latin American Public Opinion project had negative views about trade integration via PTAs, but 21 percent had no views about the issue (LAPOP 2004). This also emerges from the more recent surveys conducted by the Mexican *Centro de Investigación y Docencia Económicas*: negative and non-opinion recorded answers about economic globalization and trade integration are roughly the same across polls in Colombia (CIDE 2008; 2010; 2015).

These findings provide some support for the claim that Colombian governments are not very constrained by voters' views on trade because trade is not a divisive issue on the public agenda. Academics and policy makers interviewed for this study claimed that very few ordinary voters voice strong attitudes for or against free trade. There are two small groups of individuals with strong views on trade. On the one hand, top state bureaucrats in charge of economic policy and business leaders from large corporations respond openly in favor of free trade. On the other hand, university student groups, fringe political parties on the left with few legislative seats, and human rights activists strongly oppose free trade on the grounds that it is directed by Washington, DC. But those groups "are anti-free trade as much as they are Anti-American," and have not gained

¹³⁷ There was only one instance (in a September 1994 USIA poll) of negative opinion larger than 40 percent of total opinion in the series of observed survey marginals along 30 years.

“many followers in a society that leans conservative” (Urrego 2020).¹³⁸ As the former Vice Ministry of Foreign Trade told me, in between those two small groups, “most Colombians do not voice sharp views about international commerce. It is not like in Argentina, where everybody knows what they can buy from abroad and what the government does about it” (Sarasti Montoya 2020).¹³⁹

5.3 The Apertura of the 1990s

In 1990, the national government adopted a program of trade policy liberalization. It was part of a market reform package, popularly known as the *apertura*, drafted during that year’s electoral campaign by a group of politicians from the incumbent Liberal Party, academic advisors (mainly, economists from the Universidad de los Andes, a top private school), and representatives from large business groups. The package was approved by the National Council for Economic and Social Policy (CONPES) to be implemented in the next five years (Edwards and Steiner 2008, 128). The authors of the reform criticized the historic low level of openness and the productivity sluggishness and sought to move Colombia toward an explicit “outward orientation and export growth” strategy through the “gradual and partial” integration to the global economy (Edwards 2001, 63). The package included reforms in other areas such as foreign direct investment, financial (de)regulation, exchange rate policy regime, and the independence of the Central Bank.

¹³⁸ Personal Interview, Bogotá, Colombia, February 26, 2020.

¹³⁹ Personal Interview, Bogotá, Colombia, February 24, 2020.

Outgoing president Virgilio Barco implemented the first set of trade policy changes in February 1990 with the abolition of quantitative restrictions to imported goods. Quantitative restrictions were replaced by tariffs whose rate would be determined via auction by import-competing producers in confidential bids solicited to the Instituto de Comercio Exterior.¹⁴⁰ The Barco administration then established by executive decree a new procedure to evaluate anti-dumping petitions, reduced export subsidies through the tax reimbursement program, and nearly eliminated the subsidies to imports of capital goods for exporting firms. In the final days of the Barco government, the percentage of products with pre-import licenses shrank to 33 from 60 percent six months before (Juárez 1993; Edwards 2001; Echavarría and Gamboa 2004).

Unilateral trade liberalization via import tariff cuts was implemented as soon as the new president César Gaviria, Barco's former Minister of the Interior and campaign advisor to the assassinated candidate Luis Carlos Galán, was inaugurated in September 1990. The Ministry of Economy, under Professor Rudolf Homes, led the reduction from 14 to nine tariff rate groups, with a 50 percent average tariff rate for consumption goods (down from 58 in December 1989), 31 percent for raw materials and intermediate inputs (down from 38), and 28 percent (down from 37) for capital goods. The new tariff schedule came into effect while the Central Bank devalued the currency. The short-term effect was that, instead of increasing, imports declined compared to exports (Edwards 2001, 48). The behavior of trade flows in the context of the lift of capital account restrictions created a large surplus in the balance of payments. Within one year, the Gaviria administration further deepened the liberalization with the adoption of a simplified, four-category

¹⁴⁰ The government received petitions for only a third of auctioned product lines due to its complexity and lack of transparency (Edwards and Steiner 2008).

import tariff structure. In September 1991, average tariff rates were less than half of their previous levels: consumption goods at 21 percent, raw materials and intermediate inputs at 12 percent, and capital goods at 13 percent. Further, import licenses were requested for less than three percent of product lines (Edwards 2001). Lastly, the Colombian government embraced foreign direct investment in the oil sector, principally from the US (Occidental Petroleum) and the United Kingdom (British Petroleum), including removing restrictions to trade in energy commodities (Dunning and Wirpsa 2004).

The trade policy reform included a major regional integration initiative. In 1992, the Colombian Ministry of Foreign Affairs negotiated with its largest trading partner, Venezuela, a free trade agreement within the framework of the Andean Group. Originally established in 1969, the Group was almost defunct by the late 1980s (Echavarría and Gamboa 2004, 150). The new preferential agreement covered most sectors but excluded agriculture and cars. In 1993, the neighboring countries, with Ecuador also on board, created a customs union and adopted a Common External Tariff (CET). The CET came into force in February 1995 with four main categories that replicate the existing tariff system in Colombia, although the common tariff excludes the agricultural and automobile sectors. Contrary to the Mercosur, the Andean Group established within-block mechanisms to deal with anti-dumping, counter-vailing duties, foreign investment, intellectual property, and transportation (Echavarría and Gamboa 2004, 151). The Group also legalized the signing of free trade agreements with other countries. In late 1993, Colombia signed a partial scope agreement with Chile and in 1994, Colombia signed the G3 trade agreement with Mexico and Venezuela, which phased out tariff rates within ten years and established equal treatment for foreign investment. Lastly, at the multilateral level, Colombia actively participated in the Uruguay Round (it had joined the GATT in 1981). In preparation to

the establishment of the WTO, Colombia negotiated some of the highest tariff ceilings (for agricultural products, some reaching 270 percent) in the region (Echavarría and Gamboa 2004, 149).

There was one crucial difference in the Colombian trade reform compared to other Latin American countries: there was no major crisis when the policy change was launched. There was no economic recession, bank run, or hyperinflation. The annual rate of growth of GDP since 1985 had been greater than 3 percent. Inflation was high compared to world standards but low compared to the region and it was under control, with an annual average increase in consumer prices lower than thirty percent. Compare that to the hyperinflations in Argentina or Peru. Further, the national unemployment rate in Colombia was stable around 10 percent since the mid-1980s. In that context of macroeconomic stability, the *apertura* was not welcomed by businesses which traditionally enjoyed policy favors from the state (Edwards 2001; Juárez 1993). The coffee producers association (*Federación Nacional de Cafeteros*), representing the most competitive exporting sector and the trustee that had administered the National Coffee Fund for over four decades, supported the reform (Edwards 2001; Cárdenas, Junguito, and Pachón 2008). So did the cut flower producers (*Asociación Colombiana de Productores de Flores*), representing non-traditional exporting interests, the banks (*Asociación Bancaria*) and the retail and services association (*Federación Nacional de Comerciantes*). But other powerful interests groups opposed it, including the national peak industry association, which includes but is not exclusive of large manufacturing (*Asociación Nacional de Empresarios de Colombia*, ANDI) and the rural producers society (*Sociedad de Agricultores de Colombia*), founded in 1871 and the strongest pro-agriculture voice

in the countryside (Juárez 1993; Schneider 2004).¹⁴¹ Most labor unions, although relatively weak in the Colombian private sector, also opposed it. Even the exporting firms alliance (*Asociación Nacional de Exportadores*) opposed the elimination of tax incentives to export. So did a large faction of the ruling Liberal Party that backed the Minister of Economic Development, Ernesto Samper (Edwards 2001; Edwards and Steiner 2008). However, some of those same groups backed other components of the market reform package such as the labor flexibilization reform and the privatization of state-own companies.

Despite the general pro-free trade reform, the opposition of interest groups blocked the removal of trade policy protection for some economic sectors, especially the non-commodity agriculture, i.e. crops other than coffee. While the state monopoly in the grains import market ended, the Gaviria administration expanded subsidies to banana exports, established ad-hoc tariff and quantitative restrictions to cotton and textiles, set minimum reference prices for more than thirty agricultural products, and suspended imports of dairy and chicken (World Trade Organization 2006; Edwards and Steiner 2008). Especially important is the special price band system for agricultural imports (SAFP), which has the stated goals of shielding domestic agriculture from world price fluctuations and stabilizing farm incomes (Perfetti, Higuera, and Oviedo 2018). The system, which can be traced back to the variable levies of the European Union's Common Agriculture Policy set in the 1950s, consists of import tariff rates based on the difference between international reference market prices and floor and ceiling prices set by resolution every

¹⁴¹ The *Asociación de Cultivadores de Caña de Azúcar* (sugar), the *Federación Colombiana de Ganaderos* (livestock) and the *Asociación Colombiana Popular de Industriales* (light manufacturing and supply chains) also opposed indiscriminate liberalization.

six months on the basis of historical values (World Trade Organization 2006).¹⁴² The SAFP is a major source of trade policy protection and rents for rural producers in the countryside, harming the processed food industry (Echavarría and Gamboa 2004; Perfetti, Higuera, and Oviedo 2018). Furthermore, in 1993, Congress created an “equivalent special tariff discount” mechanism to compensate importers of wheat, barley, maize, and sorghum, with the funds being administered directly by private firms rather than the state (Torres 2020). In that context, the Gaviria administration resorted to the type of social policies promoted by an efficiency response to globalization: increased government spending in education instead of compensation to the losers from international competition (Levy and Schady 2013; Holland and Schneider 2017).

The Gaviria trade reforms were not deepened by his successor, Ernesto Samper, inaugurated in August 1994, but were not reversed either. Perhaps the most salient trade policy change was the extension of the SAFP at the Andean Group level, renamed *Comunidad Andina* in 1996. Imports of poultry cuts became subject to prior licensing, too. Moreover, the Colombian authorities wanted to deepen trade with the United States by way of joining the NAFTA. The George H. W. Bush administration had launched the Andean Trade Preference Act (ATPA) as a unilateral system of tariff preferences to discourage illicit drugs production and trafficking in Bolivia, Colombia, Ecuador, and Peru. However, as the former chief trade negotiator claims, “the Clinton administration rejected the idea of expanding NAFTA and convinced the Colombians to sign a bilateral investment treaty and to participate in region-wide technical-level talks to create a

¹⁴² If the reference price is below the floor, the CET is applied plus a surcharge. If the reference price is above the ceiling, the CET is applied with a discount. If the reference price is the same as or between the ceiling and floor prices, only the CET applies (World Trade Organization 2006).

free trade block in the entire hemisphere, the FTAAs” (Torres 2020).¹⁴³ The Samper government’s approach to all other foreign economic policy issues was consumed by its diplomatic confrontation with the US government due to the increasing involvement of drug cartels in domestic politics.

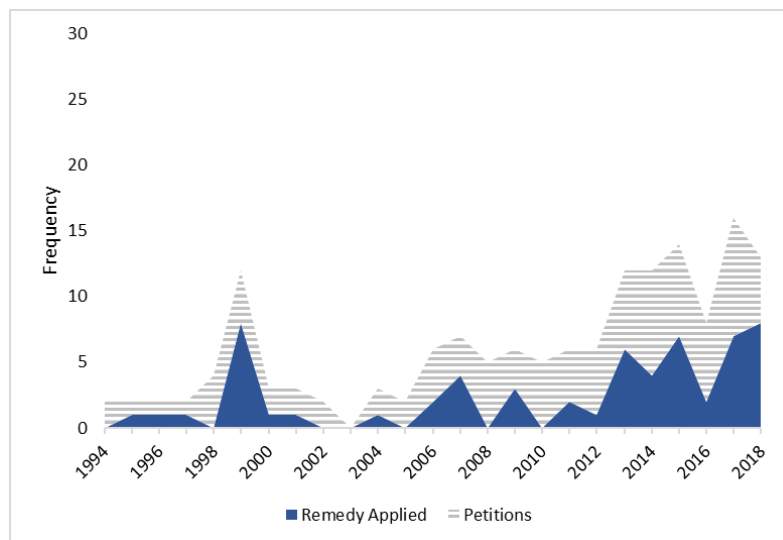
Trade policy remained unchanged through economic crisis. After decades of growth, the Colombian economy stagnated in 1998 as a consequence of the financial volatility in emerging markets across the region and the world. The secular appreciation of the exchange rate since 1992 and the rise in imports in the middle of the decade contributed to a current account deficit (Villar and Esguerra 2007). In addition, the capital inflows that followed the relaxation of controls during the *apertura* were channeled toward a construction and real estate boom fostered by the process of urbanization (Perez-Reyna 2017). The private sector was increasingly indebted in foreign currency. With the financial contagion and the reversion of global capital flows since the currency crises of South East Asia in 1997, Colombian firms, households, and banks became under severe stress and private risk levels soared (Perez-Reyna 2017). There were concerns about the budget deficit after the increase in public spending in education and health mandated by the 1991 Constitutional reform (Cárdenas, Junguito, and Pachón 2008). Eventually, the generalized fall of expectations depressed the real economy. In 1999, just one year into the administration of Conservative Party president Andrés Pastrana, total output in Colombia was -4.2 percent, effectively the largest recession that the country faced since the Great Depression.

Adjustment during the crisis was conducted by the Central Bank, which abandoned the monetary approach of the mid-1990s, increased the inter-bank interest rate, and devaluated the currency. Pastrana also requested a bailout from the IMF, which asked for a reduction in fiscal

¹⁴³ Personal Interview, Bogotá, Colombia, February 27, 2020.

transfers from the central government to the subnational units (Cárdenas, Junguito, and Pachón 2008). Many indebted firms closed across economic sectors. Unemployment jumped to 20 percent and wages were severely deteriorated. In December 2000, the government launched a conditional cash transfer program, *Familias en Acción*, at first of limited reach and small benefits (\$17 per month), largely financed by the World Bank and the IDB. The crucial point to our story is that the government did not resort to increasing tariff rates or imposing quantitative restrictions during the crisis (Villar and Esguerra 2007). Figure 5.5 shows that the use of anti-dumping investigations accelerated in 1998 and 1999, especially in the steel and chemicals sectors, but it was short of the cases of crisis-battered Argentina and Brazil around the same time. The Andean CET remained in effect, while agricultural imports were subject to higher tariff rates (World Trade Organization 2006).¹⁴⁴

Figure 5.5: Anti-Dumping Decisions in Colombia (1994-2018)



Note: Author's own elaboration based on data from Ministerio de Comercio, Industria y Turismo, *Statistical Yearbooks*, various years. Higher values of anti-dumping remedies applied (in blue) represent more protection.

¹⁴⁴ Congress created a special charge for customs service that would effectively increase the cost to import, but it was struck down by the Constitutional Court in 2001 (World Trade Organization 2006).

5.4 The PTA Strategy under Uribe and Santos

Serious change in trade policy came when the government of Álvaro Uribe embraced a strategy of pursuing new generation preferential trade agreements (PTAs), especially with extra-regional and industrialized partners. The PTAs were devised by the Ministry of Foreign Trade, Industry, and Tourism (MINCIT) as a tool to lock in the tariff cuts of the *apertura* a decade before as well as to diversify markets abroad. With the appointment of Jorge Botero, Uribe's electoral campaign manager, as head of the MINCIT, it was clear that the PTAs would have preeminence in the government's program. The idea of establishing a PTA with the United States (the USFTA), however, included other considerations, such as ensuring US economic and military aid to support the fight against the drug cartels and the left-wing guerrillas FARC and ELN. In addition, the Uribe administration wanted to partially privatize the state-own *Empresa Colombiana de Petróleos* (Ecopetrol) and to provide incentives for more foreign investment as well as security protection in the energy sector (Dunning and Wirpsa 2004).¹⁴⁵ The trade strategy gained momentum once it became apparent that US government would not automatically extend the ATPA (Silva 2007; Torres 2020). In April 2003, President Uribe announced his willingness to sign a PTA with the US. The George W. Bush administration accepted the idea but insisted on negotiating with all other countries affected by ATPA because it thought it would be easier to impose American objectives (Torres 2020).

¹⁴⁵ The policy deepened under President Santos when duty-free concessions were made to the energy sector in March 2011.

Negotiations for the USFTA were hard both at home and abroad. On the one hand, the agreement entered the public agenda and there was substantial mobilization around it, an important difference with the PTAs subscribed in the past. The main business associations, such as ANDI, supported the proposal to begin talks, as they wanted to expand Colombian exports to the United States, secure access to US-made intermediate inputs and consumption goods, and guarantee the foreign aid after the failed peace negotiations with the guerrilla under Pastrana (Eslava 2020; Holguín 2020). By contrast, the *Sociedad de Agricultores* and the national pharmaceutical companies expressed their opposition (López Montaña 2007). Furthermore, student movements, leftist politicians, social and human rights activists, and indigenous representatives formed an alliance to oppose the trade deal (Urrego 2020). Mobilization against the deal was not directed at trade concessions per se but at the close ties with the United States in the context of increased militarization of homeland security policy (López Montaña 2007; Rettberg et al. 2014).

The MINCIT was not alone, though, as “the President himself led the pro-USFTA domestic campaign, which included public audiences with local non-government organizations as well as ordinary citizens” across the country (Urrego 2020).¹⁴⁶ Uribe’s average popularity levels were very high, around 60 percent (Carlin et al. 2018). The Attorney General issued a legal opinion that trade negotiators could not be sued in complaints about “ceding sovereignty” during the international talks. Further, the deputy ministers of Foreign Affairs and Agriculture joined the international negotiation team, and congressmen as well as the executive directors of the ANDI and the *Sociedad de Agricultores* were invited to attend pre-official meetings abroad (Torres 2020; Urrego 2020). The government also courted domestic interest groups by tying the approval of the USFTA

¹⁴⁶ Personal Interview, Bogotá, Colombia, February 25, 2020.

to the launch of a “Competitiveness Agenda,” consisting of pro-investment regulations in public infrastructure (Eslava 2020). The ruling coalition also created a compensation mechanism via social protection: the Future Rural Income Act (*Ingreso Agro Seguro*), which established cash transfers to rural producers to be administered by the *Sociedad de Agricultores* (Silva 2007). The rural income transfer soon became engulfed by a corruption scandal in which payments meant for small farmers went instead to large landowners (The Economist 2011b), although it continued to be delivered. The geographical coverage and the monetary benefits of the *Familias en Acción* program were also strengthened.¹⁴⁷

On the other hand, it was not easy to negotiate together with other Andean countries vis-à-vis the highly experienced US Trade Representative team. The main issue, of course, was “the highly asymmetric economic relationship between Colombia and the United States” (Eslava 2020).¹⁴⁸ As a former negotiator recalls, it was “hard to directly oppose American demands in face to face talks, especially when they took place in large and empty ballrooms of grey, dark federal buildings in Washington, DC” (Torres 2020).¹⁴⁹ Moreover, divergences among the South American governments soon ensued. Peru wanted a faster deal and was eager to concede more, while Bolivia and Ecuador were absorbed in domestic political turbulence that made them leave the negotiating table (Silva 2007). Eventually, negotiations became bilateral and the US extracted

¹⁴⁷ The government also launched transfer programs to the elderly population: *Programa Subsidio de Apoyo de Pensión* and *Programa de Protección Social al Adulto Mayor*.

¹⁴⁸ Personal Interview, Bogotá, Colombia, February 24, 2020.

¹⁴⁹ Personal Interview, Bogotá, Colombia, February 27, 2020. This source also recalls how the American delegation organized two field trips to Puerto Rico and Tucson (places that had nothing to do with the bilateral and regional trade being discussed) to ease relations with the South American delegations.

an important concession: any PTA that Colombia signed in the future could not give more benefits to other countries unless Colombia also granted those benefits to the United States. Finally, the labor and environmental standards and the intellectual property chapters were closer to what the Democratic opposition in the US Congress demanded than to what the Bush and Uribe governments wanted.

Despite all the effort that the Uribe administration put to get the deal, the USFTA would not come into force for at least six more years. The USFTA was signed by Uribe and Bush in November 2006. In February 2007, Uribe formally requested urgent treatment of the treaty. The Committees on Foreign Affairs of both chambers discussed it in 19 meetings, with the participation of many of those interest groups and activists that opposed the deal (De la Cadena Ortíz 2008). The Colombian Congress ratified the USFTA in June 2007: the House of Representatives voted in favor 85-10 (71 congressmen did not vote) and the Senate voted 55-3 (43 senators did not vote). Despite the quick ratification in Colombia, the US Congress was not willing to ratify it after the Democratic Party won the midterm elections, citing human rights and environmental concerns. In the meantime, the constitutional revision of the USFTA was approved by the Constitutional Court in 2008. After winning the presidency, Barack Obama could not get his party to move ahead with the ratification. It was a humiliating defeat for Uribe and the MINCIT, but they could not confront the Americans given the compromise for military aid.

The first containers with Colombian goods to access the US market under the preferential agreement would have to wait until May 2012, after eight months of new bilateral trade talks and the approval of a new bill by both Congresses. By that time, bilateral trade flows were weaker, with 32 percent of Colombian exports destined to the US and 26 percent of imports coming from the US. Rural producers continued to lobby the state for special protection once the USFTA

entered into force. The Minister of Agriculture understood that giving special treatment to farmers through the Future Rural Income was crucial so that when “the cold shower of the FTA hits them, it doesn’t turn into pneumonia” (The Economist 2011b).

Colombia tried to leave the USFTA fiasco behind by making free trade deals with other countries. All PTAs signed by Colombia are listed in Table 5.2. Top government officials recognize that the 2008 global financial crisis was “an opportunity to minimize the economic dependency from the United States and diversify trading partners” (Holguín 2020).¹⁵⁰ In November 2008, within days apart, the MINCIT reached agreements with Canada and the European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland). Both deals faced few hurdles in Congress. After his election in 2010, President Juan Manuel Santos, former Vice-President under Uribe, Minister of Foreign Trade under Gaviria, and Minister of Finance under Pastrana, continued and accelerated the free trade agenda of his predecessor. Colombia signed and ratified agreements with Venezuela (after the reestablishment of relations broken between Uribe and Hugo Chávez), Costa Rica, the Republic of Korea, Mercosur, and the European Union.¹⁵¹ The latter, granting immediate duty-free access to 60 percent of goods between Colombia and the 27 European partners at the time, was a strategic move vis-à-vis the United States, signed just weeks after the USFTA came into force. The ratification process was longer than that of the USFTA, but ultimately fewer legislators were absent and more voted in favor (79 to 18 in the House of Representatives and 75 to 15 in the Senate).

¹⁵⁰ Personal Interview, Bogotá, Colombia, February 26, 2020.

¹⁵¹ Korea represented 1.3 percent of Colombian total merchandise exports and 1.9 percent of its imports while the European Union constituted the 14 percent of exports and 16 of imports.

Table 5.2: Preferential Trade Agreements Signed by Colombia

Preferential Trade Agreement	Date of Signature	President	Entry Into Force
Colombia - Panama	7/9/1993	Gaviria	1/18/1995
Colombia - Chile ACE 24	12/6/1993	Gaviria	1/1/1994
Colombia - Mexico - Venezuela ACE 33	6/13/1994	Gaviria	1/1/1995
Colombia - CARICOM	7/24/1994	Gaviria	1/1/1995
Andean Community – Sucre Protocol	6/25/1997	Samper	6/25/1997
Colombia - Cuba ACE 49	9/15/2000	Pastrana	7/1/2001
Colombia - MERCOSUR ACE 59	10/18/2004	Uribe	4/1/2005
Colombia - United States	11/22/2006	Uribe	5/15/2012
Colombia - Chile ACE 24 additional	11/27/2006	Uribe	5/8/2009
Colombia - El Salvador, Guatemala, Honduras	8/9/2007	Uribe	11/12/2009
Colombia - Canada	11/21/2008	Uribe	8/15/2011
Colombia - European Free Trade Association	11/25/2008	Uribe	7/1/2011
Colombia - Venezuela	11/28/2011	Santos	10/12/2012
Alianza del Pacífico	6/6/2012	Santos	7/20/2015
Colombia - European Union	6/26/2012	Santos	3/1/2013
Colombia - Korea	2/21/2013	Santos	7/15/2016
Colombia - Costa Rica	5/22/2013	Santos	8/1/2016
Colombia - Israel	6/10/2013	Santos	Not yet
Colombia - Panama	9/20/2013	Santos	Not yet
Colombia - MERCOSUR ACE 72	7/21/2017	Santos	12/20/2017

Source: Author's own elaboration based on Organization of American States (2020).

President Santos embraced the idea of constituting the Pacific Alliance as an “association of like-minded, free trading countries that would integrate their economies” beyond merchandise trade, as the Deputy Minister of Trade told me (Sarasti Montoya 2020).¹⁵² By 2011, Colombia and the other Andean Community nations had consistently lowered import tariff rates. Non-agricultural products had a MFN tariff rate of 4.9 percent while the rate for agricultural products was 11.5 percent. The average level of applied tariffs was just 6 percent, down from 12 in 2006, and very few products are taxed at rates higher than 20 percent (World Trade Organization 2012).

¹⁵² Personal Interview, Bogotá, Colombia, February 25, 2020.

In that context, the Colombian chief negotiator claims that the Pacific Alliance was a “political initiative” that looked proactively to Asia and the Pacific basin, past the traditional approach toward Latin American regional integration especially “after the collapse of trade with crisis-torn Venezuela” and “the special relationship with the United States” (Torres 2020).¹⁵³ Signed in February 2014, the Pacific Alliance was ratified in November 2015, giving immediate access to preferential tariff rates around 0.4 percent to 95 percent of goods within the block.¹⁵⁴ The Alliance is not an international organization; it has no secretariat, bureaucracy, or office, and the country that holds the rotative presidency leads the agenda in a given year. The driving force is the diplomatic corps, who see it as a foreign policy tool. Diplomatic officials, instead of MINCIT officials, made the major decisions, such as the requirement that new members sign a PTA with the Alliance as one entity (Torres 2020).

Despite the emphasis on free trade agreements, selective protection continues for some economic sectors. Most of the measures protect agricultural producers. In 2010, the Santos administration established import tariff quotas for maize, rice, soybeans, cotton, and dairy products. In 2011, it adopted export quotas of live bovine animals and levy surcharges for mild coffee, emeralds, and coal. The Andean SAFP remained in place for more than 150 agricultural tariff lines, including tariff rates higher than 100 percent. The average MFN tariff for agricultural products rose from 14.5% in 2011 to 15.4% in 2017, with an MFN tariff rate for dairy of 55 percent that goes up to 68 percent under the SAFP (World Trade Organization 2018). Manufacturing has

¹⁵³ Personal Interview, Bogotá, Colombia, February 27, 2020.

¹⁵⁴ Some voices warn that trade will not increase more within the block because Chile was already very open to all, Mexico is focused on North American integration, and Peru is a direct competitor of Colombian exports (Eslava 2020; Torres 2020).

not been protected as often, although a few restrictive measures have been taken. On the one hand, some restrictions were aimed “at keeping consumer inflation down,” such as the exceptions to the CET import rates for clothing and footwear, publicly defended as customs measures against under-invoicing (Sarasti Montoya 2020).¹⁵⁵

On the other hand, the MINCIT has used anti-dumping measures, but not other commercial policies, to tackle the increased inflow of cheap manufacturing goods from China since 2010. Contrary to other Latin American countries that have welcomed closer economic ties with China, Colombian political elites have been relatively wary. A prominent figure of the ruling conservative alliance believes that “China has an essentially different political and economic development model that is alien to Colombian capitalist and pro-American model” (Holguín 2020).¹⁵⁶ Chinese imports have put downward pressure against employment in the manufacturing sector, “but have not affected the national unemployment rate due to a relatively high mobility to the services sector” (Eslava 2020).¹⁵⁷ Unemployment, however, have seen an increase in the past years since the massive inflow of Venezuelan immigrants. Some migrants, many of whom are low skilled, “find temporary harvest jobs in the countryside but many others pour into the largest cities” (Vélez 2020).¹⁵⁸

Further, non-automatic, pre-import licenses continue to be in effect for up to 180 tariff lines, including used cars, used tires, and chemicals (World Trade Organization 2018). Finally, the most visible change against the open borders policies of the past has been the public refusal of

¹⁵⁵ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁵⁶ Personal Interview, Bogotá, Colombia, February 27, 2020.

¹⁵⁷ Personal Interview, Bogotá, Colombia, February 24, 2020.

¹⁵⁸ Personal Interview, Bogotá, Colombia, February 27, 2020.

Ivan Duque to sign new PTAs in the run up to the 2018 presidential elections (Eslava 2020; Sarasti Montoya 2020). Once sworn in as president, Duque withdrew the letter of intent to join the Trans Pacific Partnership and Congress passed a bill which modified the ratification procedure and the judicial review of PTAs (Torres 2020). According to legislators from Duque's coalition, the president is "ideologically in favor of free trade," but they think that "public infrastructure development and the shrinkage of the trade deficit should be the priority in the short term" (Vélez 2020).¹⁵⁹

5.5 Explaining the Stability of Trade Policy

Why is trade policy in Colombia so stable? Why do not governments change policy to respond to shifts in public opinion? This section explores how the economic structure and the political system make policy makers more or less willing to respond, and then how the institutional setup and functioning of the policy-making process shapes trade policy choice and outputs.

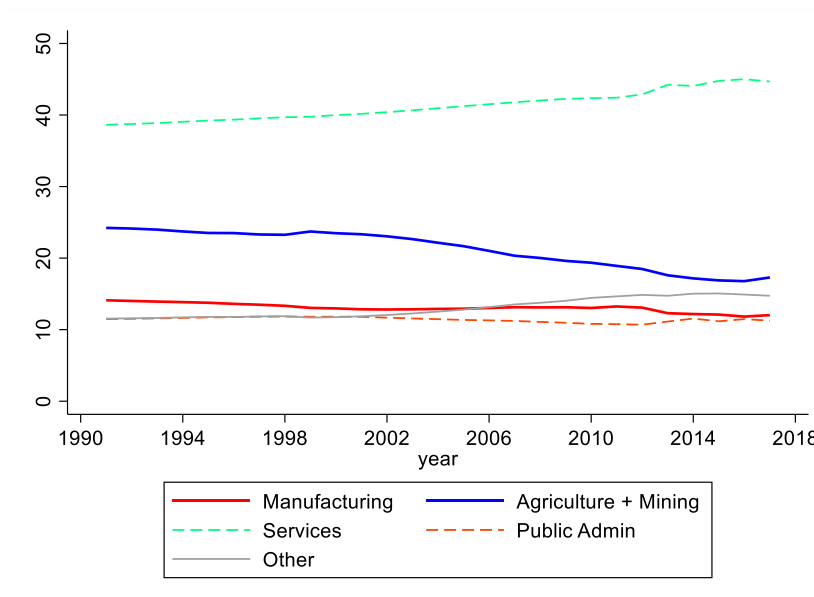
5.5.1 Salience

Trade has remained a low-profile issue even though employment in tradable sectors is moderate. Figure 5.6 presents the estimated distribution of the labor force across 14 economic sectors calculated by the International Labor Organization, regrouped by the author in five categories. Two clear trends emerge. First, over forty percent of the workforce is employed in

¹⁵⁹ Personal Interview, Bogotá, Colombia, February 27, 2020.

sectors that engage in trade, counting both manufacturing and agriculture and mining. Second, there is a secular decrease in jobs in the agriculture and mining category since the late 1990s, albeit the two sectors retain more around twenty percent at the end of the series. There are several possible explanations for such a decrease (rural to urban migration; job destruction in the economic crisis of 1998-2000; the layoff of workers with the privatization of Ecopetrol in the early 2000s; the classification of greater value-added stages of internationalized production in food and flowers as services instead of primary activities). But employment in the manufacturing sector has remained stubbornly stable at 15 percent over time. This is a major development in the context of the rise of China as a major source of competition since the early 2000s. The only systematic analysis of the effects of the China shock in Colombia using time series firm-level data finds that more imports from China have decreases domestic productivity growth and the growth rate of the number of exported products while producing no significant changes in the level of employment or conditions (e.g. informality) of the Colombian manufacturing sector (Molina 2020).

Figure 5.6: Share of Employment Across Economic Sectors in Colombia



Note: Author's own elaboration based on data from International Labor Organization.

The news media avoid discussing trade in their major headlines. Information about cross-border flows or proposed commercial policies is “only newsworthy in the specialized business pages; ordinary folks just get a hint of trade in shallow stories about exotic tropical products being sold in faraway markets” (Urrego 2020).¹⁶⁰ For a narrow window during the 2006 negotiations of the USFTA, the MINCIT top officials were portrayed in the national news media (Torres 2020).¹⁶¹ Overall, however, mainstream political parties and their “aligned opinion leaders in the press have minimized opportunities for trade to become an issue on the public agenda” (Urrego 2020).¹⁶² As a presidential candidate from the current ruling coalition told me, “I do what I think is best for the country, not whether voters like or not” (Holguín 2020).¹⁶³ Even the Green Party whip in Congress recognizes that center-left politicians “embrace globalization by default” and that they do not campaign on trade integration, even though they may later oppose certain contents of trade policies (Sanguino 2020).

5.5.2 The Political System

The political system does not generate incentives for policy makers to care about the national median voter. From independence to the late twentieth century, the Colombian political system has been characterized by a close connection between local economic elites and national political elites, a bipartisan system with high intraparty competition, the constant exclusion of other

¹⁶⁰ Personal Interview, Bogotá, Colombia, February 26, 2020.

¹⁶¹ Personal Interview, Bogotá, Colombia, February 27, 2020.

¹⁶² Personal Interview, Bogotá, Colombia, February 26, 2020.

¹⁶³ Personal Interview, Bogotá, Colombia, February 27, 2020.

political groups, and a large technocratic bureaucracy. The policy outputs have been profuse special favors to economic elites with macroeconomic stability (Eslava and Meléndez 2009; Eslava 2020). The political result has been civil violence but democratic stability. For more than a century, the system was dominated by local elites from the Liberal and Conservative parties (Bushnell 1993). Elections have been frequent since the days of the federal republic in the 1850s, albeit with limited suffrage until well into the current unitary state. The expansion of the franchise to all males occurred in 1936. While Colombia has seen no populist movement, it surely developed a clientelist political system, with a few large firms receiving many rents from the state, and a violent dispute over their control (Robinson 2007). For years, the members of the political and the economic elites “all spoke to and knew each other” (Thorp 1991, 198). Violence between the Liberals and Conservatives was common until the bipartisan power-sharing deal of the *Frente Nacional* to evict military ruler Gustavo Rojas Pinilla in 1958. That arrangement, originally planned to last 12 years, included a two-party government coalition, with quotas for filling in cabinet and bureaucratic positions, and the nomination of presidential candidates by consent from the two parties (Bushnell 1993).¹⁶⁴ Presidents had strong decree powers, exclusive introduction of some legislation, quasi-judicial review attributions, and the ability to rule under state of siege (Cárdenas, Junguito, and Pachón 2008, 206).

Violence and public unrest led to the fall of the bipartisan arrangement and the adoption of a new Constitution in the early 1990s. Political violence has been common in Colombia and the state has struggled to establish effective control over significant parts of the jungle and mountains.

¹⁶⁴ During the formal stage of the *Frente* until the mid-1970s, strict parity between the Liberals and the Conservatives also included Congress, the courts, subnational governorships, and municipalities.

In the context of revolutionary insurgencies across Latin America, in Colombia the accumulation of economic grievances and the lack of opportunities for political outsiders beyond the bipartisan arrangement led to the formation in the 1960s of the Marxist guerrilla *Fuerzas Armadas Revolucionarias de Colombia*. Another insurgent group that emerged was the Movement April 19th in reference to the alleged fraud by the *Frente Nacional* that impeded Rojas Pinilla from winning the 1970 presidential election.¹⁶⁵ The National Front ended officially in 1974. In the late 1970s and early 1980s, drug cartels organized and established coca fields and cocaine factories, exploiting the weakness of the territorial reach of the Colombian state (Thorp 1991; Robinson 2007). Local landowners funded paramilitary militias to provide private security, increasing overall violence (Acemoglu, Robinson, and Santos 2013). For many decades, aims at addressing the civil strife reached stalemate between Congress, which catered to rural interests, and the Executive Branch, which was trying to accommodate the increasingly urban median voter (Nielson and Shugart 1999).¹⁶⁶ Three presidential candidates were slain during the 1989 campaign. In that context of carnage, the student movement of the *Séptima Papeleta* effectively shaped national public opinion and pressured the government to call for a Constitutional reform.

5.5.2.1 Presidents and Legislators

Since 1971, the President has enjoyed exclusive authority to make most trade policy changes. Tariff rates, for instance, can be modified by executive decree (Villar and Esguerra 2007).

¹⁶⁵ Other left-wing armed insurgent groups included the *Ejército de Liberación Nacional* (ELN) and the *Ejército Popular de Liberación* (ELN).

¹⁶⁶ Colombian rules gave Congress the sole authority to make constitutional revisions and legislators have conspicuously blocked previous reform efforts.

Sanctioned in July 1991, the new Constitution reduced presidential proactive and integrative powers, restricting the use of executive decrees, and withdrawing the unilateral appointment powers of the cabinet and state agencies (Cárdenas, Junguito, and Pachón 2008). It also lowered the requirements for legislative override of presidential vetoes. However, Congress and other state actors have become increasingly relevant in the trade policy-making process (Cárdenas, Junguito, and Pachón 2008; Eslava and Meléndez 2009). Legislators must ratify any international treaty, including PTAs. In Colombia, legislators have not been very responsive to the average urban voter (Nielson and Shugart 1999; Edwards 2001). The 1991 Constitutional reform did not eliminate the candidate-centered electoral system to select representatives. For decades, there was no vote pooling across party lists and no limit on the number of lists per party. Despite the historic control by just two parties and the fact that the Senate is elected in a single national district, existing rules undermined attempts to build strong party organizations focused on national issues (Archer and Shugart 1997; Crisp and Ingall 2002; Pachón and Shugart 2010). Colombian parties lacked the internal coherence and discipline in the national legislature to effectively make policy. The situation did not change with 1991 reform. The Constituent Assembly established nonconcurrent elections for Congress and the Presidency while it did not constrain the ability of elected politicians to vote on bills as they see fit instead of following party lines. The electoral formula was the Hare largest reminders, generating incentives for parties to fragment into factions. The authors of the reform also reduced the number of members to each of the congressional houses and established a minimum of two congressmen for each subnational district. To end the partisan duopoly, the state started funding candidates who run for national office, instead of parties (Botero 2007).¹⁶⁷

¹⁶⁷ The reform also encouraged the participation of demobilized guerrilla combatants into legal politics.

The result was the extreme proliferation of parties in a new multiparty system, with an effective number of legislative parties higher than seven and high volatility between elections (Botero 2007; Pachón and Hoskin 2011; Posada-Carbó 2011). Post-election coalitions and greater participation of legislators in the election of the president have become common after 1991 (Cárdenas, Junguito, and Pachón 2008, 208). In 2002, Álvaro Uribe, a candidate with no real partisan organization, won the presidential elections and members of Congress belong to at least 70 different movements among parties and factions (Cárdenas, Junguito, and Pachón 2008, 211). In 2003, an electoral reform was passed to reduce inter-party fragmentation and strengthen partisan representation with the Congress. The D'Hondt formula was adopted, together with the restriction of one party list per district and minimum thresholds of the national vote. However, district magnitudes remained the same and party lists could be either open or closed. The institutional change decreased the number of parties running in large magnitude districts but increased the level of intraparty competition in such territories (Pachón and Shugart 2010). Despite being less personalized after 2003, Colombia remains with one of the highest scores in the region in the personal vote index envisioned by Carey and Shugart (1995).

For the past thirty years, the Colombian Congress has repeatedly intervened in the ratification of PTAs. As confirmed by both representatives (Sanguino 2020; Vélez 2020) and executive trade officials (Torres 2020), the intervention of the legislature does not only take place *ex post* of the signing of the international treaty, but during the negotiations as well. Even though negotiations are secret, “groups of select Congressmen and Senators are briefed by the executive officials before and after high-level talks with foreign counterparts” (Holguín 2020).¹⁶⁸ The

¹⁶⁸ Personal Interview, Bogotá, Colombia, February 27, 2020.

President and the Minister of Trade, Industry, and Tourism “have informal talks with representatives to gauge the likelihood that the PTA would be ratified” (Urrego 2020).¹⁶⁹ Legislators are frequently “approached by leaders of the *gremios*, the business associations, during the negotiating stage” (Torres 2020).¹⁷⁰

Once the treaty is signed by the executives of the two or more trading partners, the process of formal ratification begins with discussions at the committee level. Each chamber of Congress has only seven Committees as mandated by the Constitution and representatives can only participate in one (Cárdenas, Junguito, and Pachón 2008, 211). The *Comisión Segunda* of each chamber examines all foreign policy bills, from defense strategy to PTA ratification. The committee “is not one of the most appealing” by individual legislators (Vélez 2020), likely because of the lack of opportunities for making appropriation amendments (Holguín 2020).¹⁷¹ However, “tradition dictates that the President of the Chamber should come from this committee, so high-profile politicians become members there,” as evidenced by my interviews with members, among others, the opposition whip (Sanguino 2020)¹⁷² and a presidential candidate of the incumbent coalition (Holguín 2020).¹⁷³ As one of the interviewed representatives said, PTAs are not discussed as mere commercial tools but as part of the international strategic alliances (Holguín 2020). In addition, the committee allows to “conduct political control of the executive, and top executive

¹⁶⁹ Personal Interview, Bogotá, Colombia, February 26, 2020.

¹⁷⁰ Personal Interview, Bogotá, Colombia, February 27, 2020.

¹⁷¹ Personal Interviews, Bogotá, Colombia, February 27, 2020.

¹⁷² Personal Interview, Bogotá, Colombia, February 24, 2020.

¹⁷³ Personal Interview, Bogotá, Colombia, February 27, 2020.

officials are recurrently invited to answer legislators' questions" about ongoing negotiations as well as the implementation of existing deals (Sanguino 2020).¹⁷⁴

Crucially, neither committees or the plenary can make amendments when ratifying PTAs, just yes or no votes for the entire bill. This prohibition, together with the increasing tendency for legislators to caucus and vote along the government and opposition divide, helps to understand the weak role played by district specific economic interests in explaining individual legislators' vote on the most salient of all treaties, the USFTA (De la Cadena Ortíz 2008). In the first episode of ratification in 2007 (a second, smoother vote took place in 2012), legislators who may have opposed the USFTA because their constituents opposed it, or were more likely to be harmed by the liberalization, have decided to be absent rather than take a critical negative vote on the floor. By contrast, in November 2005, legislators from wheat-producing districts were able to vote on the exclusion of wheat from the *Acuerdo de Complementación Económica* agreement with the Mercosur (opposed by the Uribe administration) while voting in favor of the bill in general (De la Cadena Ortíz 2008).

5.5.3 Technocratic Fragmentation

The policy-making process is highly fragmented even beyond the separation of powers between the President, Congress, and the Constitutional Court. The latter was assigned in 1991 with the responsibility to conduct *ex ante* review of statutes, treaties, important bills, and presidential emergency decrees before they are implemented (Cárdenas, Junguito, and Pachón

¹⁷⁴ Personal Interview, Bogotá, Colombia, February 24, 2020.

2008, 213). The original Supreme Court retained the judicial functions. Members of the Constitutional Court are appointed by Congress based on recommendations by the President and the State Council. To change the status quo, the President must align its policy preferences with those of the Constitutional Court. During the *apertura* in the 1990s, top bureaucratic officials in the Ministries of Finance and of Trade made adjustments in their internal procedures as well as in the content of international economic treaties, from investment treaties to PTAs, to accommodate the new state organ and its broad powers (Torres 2020). Each PTA signed by the President and ratified by Congress has been also examined by the Constitutional Court, “delaying on average one year their entry into force” (Sarasti Montoya 2020).¹⁷⁵

Colombia has a large, strong technocracy composed of institutional veto players within the Executive Branch. No major policy decision is made “without the participation of all such players” (Torres 2020).¹⁷⁶ Every new presidential administration rules under an official programmatic document, the National Development Plan, which results from the participation of many of these veto players. The Plan is developed by the Administrative Department of National Planning (DNP), a quasi-cabinet-level agency established in 1958 as part of the National Front agreements by recommendation of the Curry Mission from the World Bank (Cárdenas, Junguito, and Pachón 2008; Dargent 2011). That technical mission envisioned the DNP as responsible for planning for long-term economic development while the *Banco de la República* would guarantee financial stability and the Ministry of Finance would guarantee fiscal stability. The DNP is expected to develop and monitor policy goals within the National Development Plan, but it does not have

¹⁷⁵ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁷⁶ Personal Interview, Bogotá, Colombia, February 27, 2020.

legislative initiative or direct responsibilities over budget expenditures as cabinet ministries do (Rivera Pérez 2020). In recent decades, the DNP has worked divided into a territorial branch, that deals with subnational officials and intergovernmental transfers, and a sectors branch, which mirrors the President's cabinet and intervenes in national public policy formulation and evaluation.

On international trade, the DNP intervenes in at least three ways: by identifying trade-related goals to be included in the National Plan; by conducting the technical revision of any trade bill that the MINCIT wants to send to Congress; and more consequently, by participating with voting power in two key inter-agency committees that make trade policy decisions (Rivera Pérez 2020).¹⁷⁷ The “Triple A” (for its Spanish acronym) Committee on Customs Affairs, Tariffs, and Trade makes general and sectoral policy recommendations on tariff and customs barriers. The other committee is the Under Directorate for Commercial Practices within the MINCIT, which receives firms' demands on anti-dumping and decides and carries out technical investigations. To conduct these tasks, the DNP counts with an entire Under Directorate of Business Productivity and Internationalization with 12 full time professional employees, mostly economists and lawyers (Rivera Pérez 2020).¹⁷⁸ Moreover, prior to the *apertura* of the 1990s, the DNP was responsible for administering foreign direct investment (Torres 2020).¹⁷⁹

In addition to the DNP, there is a National Planning Council, a corporatist state body with representatives from business, labor, subnational governments, student movements, native peoples, among other groups, which discusses the draft of the National Development Plan (Eslava

¹⁷⁷ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁷⁸ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁷⁹ Personal Interview, Bogotá, Colombia, February 27, 2020.

and Meléndez 2009). The Plan is then formally approved by the National Economic and Social Policy Council (CONPES), an advisory body within the Presidency of the Republic, where cabinet ministers, the CEO of the Coffee Federation, and the president of the Central Bank participate and vote (Eslava and Meléndez 2009).¹⁸⁰ The last actor, known as the *Banco de la República*, is the monetary, exchange, and credit authority and was granted formal independence from other state actors as well as the private sector in the 1991 Constitutional reform. Previously, the directorate of the Monetary Board was comprised of representatives of different industry *gremios* (Cárdenas, Junguito, and Pachón 2008). Furthermore, in the past the Central Bank administered the large subsidized credit system for exporters (Edwards and Steiner 2008).

There are other extra-cabinet institutions with formal responsibilities to participate in the trade policy-making process, such as the Foreign Trade Supreme Council and the Foreign Affairs Advisory Council. The former is an inter-agency coordination forum where the President and ministers from all cabinet departments with responsibility over trade policy convene to make long-term policy changes. It “barely meets,” but when it does and agrees on policy choices, “they must be implemented by the Ministries” (Rivera Pérez 2020).¹⁸¹ The latter, by contrast, is an institutional space outside of the Executive Branch that meets to provide non-binding advice to the President. It is integrated by all former Presidents and Ministers of Foreign Affairs as well as current representatives from each chamber of Congress, which makes it “an incredibly high level political forum” (Holguín 2020).¹⁸² The advisory council has not met in the last couple of years, although

¹⁸⁰ The secretariat of the CONPES is exercised by the Deputy Director of the DNP.

¹⁸¹ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁸² Personal Interview, Bogotá, Colombia, February 27, 2020.

members of the incumbent coalition claim to “have informal access to the President and the cabinet” (Vélez 2020).¹⁸³

At the cabinet level, Colombia has had a Ministry of Trade since the early 1990s. The Foreign Trade Framework Act of 1991 created the Ministry of Trade, which took the attributions of the *Instituto de Comercio Exterior*, which was formerly in charge of trade remedies (e.g. anti-dumping measures), as well as jurisdiction on foreign investment and financial services from the DNP and the *Banco de la República* (Edwards 2001). The bill also established the Bank of Foreign Trade (Bancoldex) and the Proexport promotion agency (Edwards and Steiner 2008). Still, under President Gaviria, the major trade policy changes were decided and implemented by the Ministry of Finance and the Central Bank (Torres 2020). Starting with the Samper administration, the Ministry of Trade increasingly gained power. Several *técnicos* such as lawyers and economists from the Ministry of Finance and the Central Bank were transferred to the new agency. Those bureaucrats joined the league of professional civil servants that constitute the cream of Colombia’s technocratic democracy (Dargent 2011). Top negotiators were trained by trade officials from Chile (Torres 2020; Urrego 2020). However, the leadership of the ministry in the early era was occupied by career politicians from the party opposite to the President’s, in a reminiscence of the old bipartisan arrangement of the *Frente Nacional*. In later years, however, trade ministers and their deputies have been copartisans or close acquaintances of the President.

Soon after his inauguration, President Uribe merged the Ministry of Trade with the long-standing Ministry of Economic Development (not to be confused with the DNP). Trade policy within the Ministry of Trade, Industry, and Tourism (MINCIT) is administered by the Deputy

¹⁸³ Personal Interview, Bogotá, Colombia, February 27, 2020.

Ministry of Foreign Trade. As one former Deputy Minister explained to me, trade policy is decided and administered by four major units, called Directorates: Economic Integration (on Latin America and the Andean Community), International Trade Relations (with extra-regional partners, such as the United States and the European Union), Foreign Investment and Trade on Services, and Foreign Trade, which includes the Under Directorates for Commercial Practices (e.g. anti-dumping remedies) and of Operations (e.g. exporters register, importers register), and the Imports Committee, which deals with import licenses (Sarasti Montoya 2020).

Top officials across the Directorates are mostly recruited from leading universities and other technical state agencies through informal meritocratic rules (Dargent 2011). Despite the large overall budget of the Ministry and the relative high level of qualifications of MINCIT bureaucrats, former top MINCIT officials complain that “they do not have strong capacity to collect and analyze domestic and international economic and business data to inform most of their policy choices” (Sarasti Montoya 2020).¹⁸⁴ International trade negotiators respond directly to the Minister of MINCIT, which generates intra-agency frictions between the Chief Negotiator and the Deputy Minister of Trade (Torres 2020). Moreover, MINCIT negotiators have to coordinate their work with the Ministry of Foreign Affairs, although diplomatic officials are not formal members of the international trade negotiations as with other countries in the region. Lastly, the MINCIT has a Deputy Ministry of Industry, which deals with regulations of and subsidies to the manufacturing sector.

Since 2002, the MINCIT leads the trade policy-making process, although with important intervention of all the other institutional veto players, such as the DNP. As has been mentioned

¹⁸⁴ Personal Interview, Bogotá, Colombia, February 25, 2020.

above, the Ministry of Agriculture has an important role in receiving and filtering rural producers' demands and providing compensatory subsidies in the context of trade liberalization. In addition, the highly pro-free trade Ministry of Finance and three anti-free trade technical executive agencies implement trade policy and fill in many of the gaps about content: the National Customs Directorate, the Agricultural Quality Institute, and the Food and Drug Surveillance Agency (Eslava 2020; Sarasti Montoya 2020; Urrego 2020). Since the ratification of the USFTA, the Ministries of Transportation, Labor, and Environment have gained a seat in the decision table on trade matters. Former and current officials agree that inter-agency coordination, and even intra-agency coordination within the MINCIT, is "suboptimal" (Sarasti Montoya 2020) and is plagued with "deadlock" (Rivera Pérez 2020). The gridlock is "less a consequence of ideological differences but of the administrative jealousy of bureaucrats with opposite mandates and constituencies" (Urrego 2020).¹⁸⁵

5.5.3.1 Institutions and Special Interest Politics

How does the competent but fragmented Colombian state filter and respond to social demands? There is an important debate among scholars as to whether technocrats, especially those that we can find in places like Colombia, are agents of private business, politicians, foreign actors, or autonomous actors with their own preferences and sway (Centeno 1993; Dargent 2011; Kaplan 2017; Schneider 2004). Several technocrats have been trained and pursued careers at pro-free trade international financial institutions in Washington, DC, especially the World Bank and the IDB. However, there are also public officials, especially at the deputy minister or minister levels, that

¹⁸⁵ Personal Interview, Bogotá, Colombia, February 26, 2020.

come from the private sector. Regardless of their origin, the academic consensus is that in Colombia, economic policy making, including foreign commerce, has traditionally included close consultations with the business sector. This is confirmed by former top policy makers interviewed for this study, some of whom have continued their careers as leaders in business associations (Sarasti Montoya 2020; Torres 2020; Urrego 2020).

This comes as no surprise because Colombia is known to be a case of well organized business participation in Latin America (Schneider 2004). Powerful business associations, organized at the sector, regional, and peak levels, have represented the private sector vis a vis the state. The *Federación Nacional de Cafeteros de Colombia*, for example, was perhaps the strongest business association in South America for many decades, having a large, professionalized staff and organizing many welfare and training activities. The Federation represented the interests of coffee growers while working as a multinational corporation in world coffee trade and a quasi-public provider of services across the countryside (Juárez 1993; Schneider 2004). As we have discussed above, business associations from the ANDI to the *Sociedad de Agricultores* have taken positions in public for or against trade policy changes depending on how they would be materially affected by changes in the tariff structure, the licensing regime, the subsidized credit mechanism, and other policy tools. In fact, business leaders organized the *Consejo Gremial Nacional* as a national peak association to operate as the sole business representative discussing details of the reform with the state during the Gaviria administration (Schneider 2004). Moreover, the business sector has traditionally been led by domestic firms, not international business. Participation of foreign-based multinational corporations in economic activity has been low in Colombia (Thorp

1991), except for the oil sector, where a few foreign private players concentrate extraction, refinery, and export.¹⁸⁶

The important trait is that business associations lobby not only legislators (Eslava 2020) but also executive ministers (Sarasti Montoya 2020) and even justices who sit in the Constitutional Court (Urrego 2020). Lobby is not a registered legal activity as in the United States. However, business associations provide financial contributions during electoral campaigns. More importantly, they exert pressure by constantly monitoring and sharing information about government plans to change the status quo (Juárez 1993). At the smallest hint that the rules of the game are being considered to be changed, such as when public officials had small chats at cocktail parties with diplomatic representatives from China, the associations call ministers and even the president himself to pressure against any change (Sarasti Montoya 2020).¹⁸⁷ If the state agency continues with plans to pursue a trade policy change the associations have not requested, the latter “resort to the friendly press, which is concentrated under few private hands, to carry out a negative campaign against sitting officials” (Urrego 2020).¹⁸⁸

Still, the political clout of business associations has weakened since the restructuring of the economy since the *apertura* in the early 1990s and the financial crisis of 1998-2000. Instead of business clubs, individual firms regularly engage in the policy-making process. This is especially the case with import-competing and exporting firms, a third of which have reported to petition the authorities as surveyed by the monthly studies of FEDESARROLLO, the country’s largest private

¹⁸⁶ However, the energy sector still has important participation by the partially privatized Ecopetrol.

¹⁸⁷ Personal Interview, Bogotá, Colombia, February 25, 2020.

¹⁸⁸ Personal Interview, Bogotá, Colombia, February 26, 2020.

think tank (Eslava and Meléndez 2009). More importantly, Colombia's integration into the world economy has brought more firm concentration in a new style of hierarchical capitalism that, despite reinforcing dysfunctional development outcomes such as a dual labor market, has strengthened the political clout of the private sector (Schneider 2013). A few, large family-run business groups gained strength within the private sector and increased access to government (Eslava and Meléndez 2009). The groups are constituted by many dozens of incorporated firms, sometimes even more than a hundred, across a diversified portfolio in different economic sectors, usually including both agriculture, manufacturing, and finance (Schneider 2013). Four family run groups, the *Santo Domingo*, the *Ardila Lulle*, the *Sarmiento* and the *Sindicato Antioqueño*, together own assets equivalent to a sixth of the country's GDP and almost the entire stock value of domestic own firms in the national stock exchange (Rettberg 2005). The *grupos* have "product-level trade policy demands" as they engage in intra-industry and intra-firm trade with subsidiaries in Latin America (Urrego 2020).¹⁸⁹ As the interviewed officials recognize, "it is in the interest of these *grupos* to have a professional, informed staff with expertise and connections with the multiple civil servants and politicians that intervene in the policy-making process" (Sarasti Montoya 2020).¹⁹⁰

5.6 Summary

This chapter has shown that there is some correlation between the fairly stable level of public support for free trade and the free trade character of new international treaties and the low

¹⁸⁹ Personal Interview, Bogotá, Colombia, February 26, 2020.

¹⁹⁰ Personal Interview, Bogotá, Colombia, February 25, 2020.

average level of import tariff protection. But the analysis has shown that there is considerable slack and shirking by policy makers. Important sectors of agriculture and industry remain heavily protected by tariff and non-tariff barriers. Governments and lawmakers have not been punished for these deviations. The review of the available evidence and the interviews with former and current policy makers points to the little willingness and the general inability of government officials and legislators to follow aggregate opinion.

6.0 Peru: Political Chaos, Elite Consensus, and Low Responsiveness

This chapter studies the relationship between public opinion and trade policy in Peru, a case of low responsiveness. Peru radically liberalized trade policy at the beginning of the 1990s in the midst of a severe economic crisis, very much like in Argentina. Unlike what we saw in Colombia, Peruvian governments made a sharp reversal in the way of integrating their country into the world economy. There was a public demand for liberalization in 1990, but popular support for free trade evaporated soon after and was feeble through the rest of the decade. Instead of adjusting commercial rules in line with public opinion as their counterparts in Argentina, Peruvian policy makers consolidated and locked in the liberalization.

Peru today has one of the least restrictive trade policy regimes in Latin America. Governments of different ideological orientations have created a dense web of encompassing free trade international agreements that grant unrestricted access to the Peruvian market for all major trading partners within and outside the region. Table 6.1 provides an overview of the major trade policy changes that are discussed in this chapter.

From 2003 onwards, Peruvians have been more welcoming of free trade, and the general level of support has oscillated between 50 and 60 percent of surveyed respondents. However, the analysis of the opinion data reveals that public support is more fragile than apparent at first sight, with less than 40 percent of support for PTAs in some years, and that there are significant differences in opinion between groups of citizens based on income, with the two richest quintiles expressing high support and the other three quintiles revealing much lower levels of support.

Table 6.1: Major Trade Policy Changes in Peru by Sub-Period

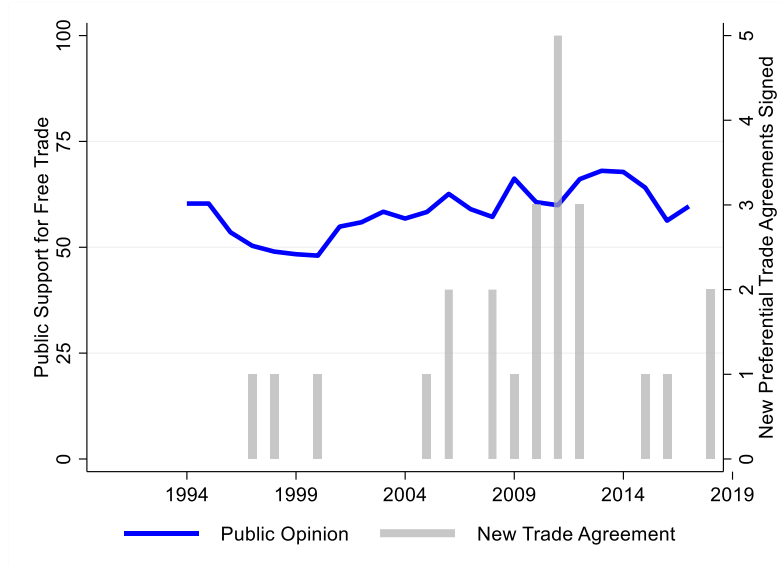
Sub-Period	President	Trade Policy Changes
1990-1991	Fujimori	Unilateral reduction of tariff rates. Unilateral reduction of quantity-control NTBs.
1992-1995	Fujimori*	Accession to WTO. No new PTAs.
1996-1999	Fujimori*	Accession to Andean Community. Unilateral reduction of tariff rates.
2002-2006	Toledo	US Free Trade Agreement.
2003-2007	García	Unilateral reduction of tariff rates. New intra-regional PTAs. New extra-regional PTAs.
2008-2010	Humala	New intra-regional PTAs. New extra-regional PTAs. Increase of price-control NTBs.
2016-2018	PPK	New intra-regional PTAs. New extra-regional PTAs.

Note: Sub-periods are author's choice and do not necessarily match presidential tenures. Text in blue represents changes in trade policy towards more free trade. Text in red represents changes in trade policy towards less free trade.

* denotes non-democratic regime. Selection and sources for this table are discussed throughout this chapter.

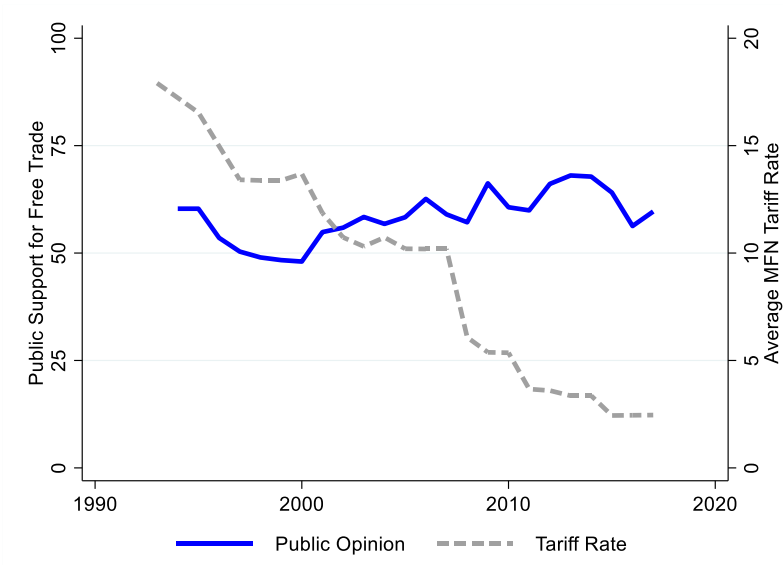
Figures 6.1 through 6.3 provide a glimpse of how trade policy outputs behaved in relation to aggregate sentiment on trade. In contrast to what happened in the 1990s, changes in non-discriminatory import tariff rates seem to have followed voters' revealed attitudes in the 2000s (Figure 6.2). But we find the opposite situation in regard to PTAs (the most visible trade policy instrument) and NTBs (the least visible instrument). On the one hand, the prolific signing of international treaties that increase trade exposure seem to be off pace with the level of support for free trade: there are more PTAs than one would predict based on public opinion. On the other hand, the use of non-tariff barriers has increased significantly since the 2008 global financial crisis and has not gone back to the levels registered in the previous decade, despite generally favorable citizen views on trade in recent years.

Figure 6.1: Public Opinion and Preferential Trade Agreements in Peru



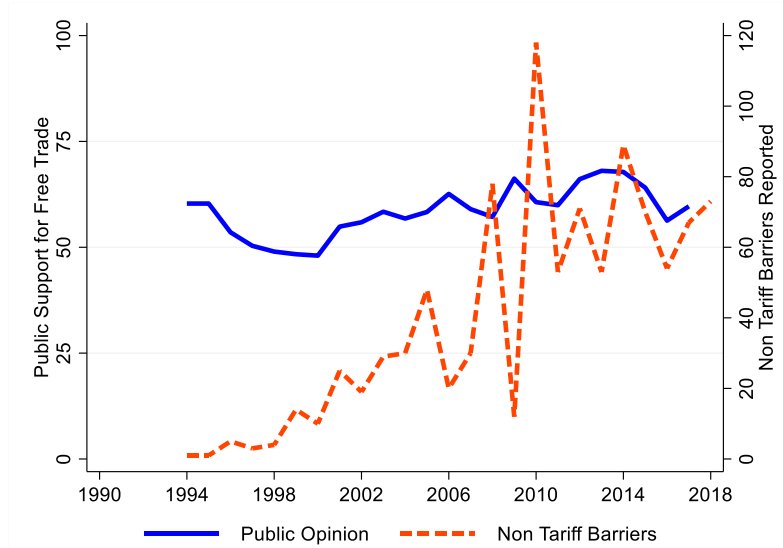
Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the number of new preferential trade agreements (PTAs) signed by Peru, based on data from the Organization of American States. The height of the vertical grey lines indicates the cumulative number of new PTAs signed in a given year. Empty spaces indicate that no new PTA was signed that year. More PTAs represent more free trade.

Figure 6.2: Public Opinion and Import Tariff Rates in Peru



Note: Author's own elaboration based on the index of public support for free trade (see Chapter Two) and the Peruvian average *ad valorem* Most Favored Nation import tariff rate with data from the World Bank. Higher tariff rates represent less free trade.

Figure 6.3: Public Opinion and Non Tariff Barriers in Peru



Note: Author's own elaboration based on the index of latent public support for free trade (developed in Chapter Two) and the number of price-, quantity-, and quality-control non-tariff import barriers (NTBs) established by the Peruvian government in a given year, with data from the World Trade Organization. More NTBs represent less free trade.

What is going on in Peru? One part of the answer is that the economic structure of the country produces low salience for trade. The exporting sector employs few workers, mostly unskilled, and does so in places far away from the urban centers. A few large foreign corporations control the extraction and exporting of minerals, Peru's more profitable commodities for centuries. There has been little public discussion about the foreign ownership and destination of metals, although the past two decades have seen the rise of localized social protests around the mines for environmental and cultural grievances.

The second major part of the answer is that Peru has a chaotic political system. The citizen-representative connection is broken. President Alberto Fujimori decided to pursue whatever policy he and his allies saw fit after the 1992 self-coup d'état and the dissolution of Congress, consolidating a unique authoritarian and neoliberal mix. Democratic representation was curtailed by both the rise of technocrats and business interests in government during the 1990s. Fujimori

recruited neoliberal technocrats to stabilize and deregulate the economy in the early 1990s, but they were relegated later in the decade, when the leaders of the business associations representing firms that had won from liberalization came to fill in the main positions. Despite poor export performance, damaging trade deficits, and a recession, trade was not a major issue in the public agenda of the 1990s because society was consumed around the polarizing figure of Fujimori and the corruption scandal that toppled his regime. As President Toledo's former Secretary of Industry told me, "Peru integrated into the world economy under Fujimori. He adopted hard measures, but it looks like he was a necessary leader. You love him or you hate him" (Matthews 2019).¹⁹¹

After the fall of Fujimori, politicians promised to clean the state and be more responsive to voters. But politicians increasingly lost connection with voters in a new dysfunctional competitive regime without real parties and mesmerized by electoral volatility. Corruption scandals multiplied and eroded all trust in government. In the meantime, a small group of technocratic officials concentrated all commercial policy decisions in close alliance with the largest exporting firms and business associations.

This chapter continues as follows. First, I give a general historical background of trade in Peru. Second, I analyze the major trade changes that occurred under Fujimori in the 1990s. Third, I offer evidence that public support for free trade was feeble in that period. Fourth, I review the major liberalization of the 2000s under four administrations that kept the same orientation. Fifth, I provide survey evidence of the still low public support for free trade in the second period. Finally, I discuss each of the institutional and structural factors that jeopardize trade policy responsiveness.

¹⁹¹ Personal Interview, Lima, Perú, September 10, 2019.

6.1 Background

Since the Spanish conquest, Peru has had a difficult time to manage its integration into the world economy. For centuries, the economy has been organized in two radically different sectors, with one small but highly profitable segment that extracts and exports minerals in enclaves in the mountains while the rest of the economic activity is in non-tradable subsistence agriculture and low-skilled services (Contreras 2018; Thorp and Bertram 2013). For some authors, there is a third category: the illegal economy, which includes narcotics and contraband and is considered to generate more income than the legal exporting sectors (Durand 2007). The dual organization of the Peruvian economy emerged during the colonial era, when the demographic crisis among the native population produced by European conquest led to a withered internal market, encouraging the orientation of the colonial economic system toward mining of precious metals to export to the Iberian metropolis (Contreras and Cueto 2018; Contreras 2018). Chronic low state capacity, epitomized with the first population census in seven decades taking place only in 1940 and the complete absence of the national public administration in the countryside, had negative consequences to remediate economic and ethnic inequality (Contreras and Cueto 2018, 324). The exporting sector has been the major source of government revenue since the independence wars and until the 1960s, the political elites reinforced the dependence in that small dynamic sector with economic policies such as an undervalued exchange rate and low corporate taxes.

In modern history, Peru has suffered from very volatile economic policies, mismanagement, and corruption, regardless of political regime type. The armed forces intervened in Peruvian politics and directly exercised government first in the First World War and then in the 1930s. In the 1950s, General Manuel Odría sought to expand the state intervention in the economy and attacked the landed elite in line with other military commanders turned into populist leaders

in the region, like Juan Perón in Argentina. The sixties saw two brief democratic governments, albeit in the context of rapid social changes from the migration to the cities and the demise of the economy based on fishmeal exports (Cotler 1978). In the 1970s, the country experienced swings from the heterodox nationalism, including an extensive land reform, of General Juan Velasco Alvarado (1968-1975) to the orthodox adjustment of General Francisco Morales Bermúdez (1975-1980), another military despot. In the 1980s, the swings were from the austerity and liberalization by democratically elected President Fernando Belaúnde Terry (1980-1985) to the leftist nationalism of his democratic successor, Alan García (1985-1990). By that time, business owners and representatives largely distrusted a state they saw as inefficient, ill-prepared, and lacking appropriate channels of communication and participation for private interests to have a say in policy making (Thorp 1991, 197).

The instability and failure of economic policy was evident with the import-substituting industrialization (ISI). Peru undertook ISI at a relatively late date, in the mid-1960s, as an accessory to the top-down agrarian reform envisioned by Velasco (Samford 2010). Landowners were offered cash instead of state bonds if they were to invest in manufacturing industries (Contreras and Cueto 2018, 370).¹⁹² The military regime also directed subsidized credit to build and operate automobile, appliances, and small electrical machines factories. A new Chrysler factory made the cheap utilitarian trucks that inundated the *Sierras*. Imported goods, which had been unimportant due to the lack of consumer demand, were severely restricted by high tariff rates and quotas to protect the nascent industries around Lima. The ISI policy under Velasco had a heavy

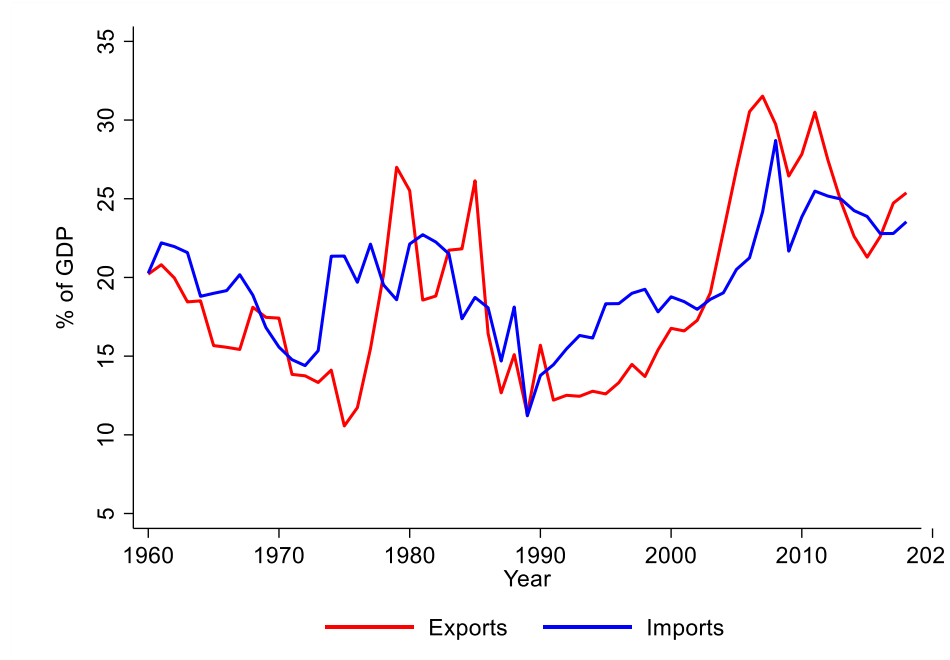
¹⁹² More than ten million hectares (across 16,300 farms) were expropriated and given to the rural, mostly indigenous labor force (Contreras and Cueto 2018, 371).

anti-export bias. The government nationalized the mines and farms and controlled the export market with the trading corporations MINPECO S.A. (mining) and EPCHAP (fishmeal and cotton). The system was managed with inefficiency and produced currency overvaluation, exaggerated capital intensity, and little employment generation (Samford 2010, 195).

Soon after the transition to democratic rule in 1980, center-right President Belaúnde launched the first trade liberalization reform, announcing a sharp reduction of tariff and non-tariff barriers. Interviewed for this study, Richard Webb, the former president of the Central Bank under Belaúnde, recalled that the trade reform was part of a series of market actions to curtail inflation and seize the hard currency windfall from the 1979 oil shock as new oil deposits were discovered in the country (Webb 2019).¹⁹³ However, the manufacturing sector mobilized against the Belaúnde's effort (Samford 2010). The government, assailed by the Mexican sovereign debt crisis and the fall in revenue due to a climate shock, conceded to the industrialists and returned tariff rates to their previous levels (Webb 2019).

¹⁹³ Personal Interview, Lima, September 10, 2019.

Figure 6.4: Imports and Exports in Peru (1960-2018)



Note: Author's own elaboration based on data from World Bank's Development Indicators.

Belaunde's successor, Alan García from the leftist Aprista Party, took a hard stance against foreign creditors, both private and multilateral, and approached the financial clouds announcing the nationalization of all banks, leading to massive capital flight. García's heterodox program included price controls, devaluation, demand stimulation, and more than half a dozen exchange rate regimes (Stokes 1996). In addition to administering more than fifty different import tariff rates, the government banned the import of more than 500 goods, which accounted for a quarter of all domestic industrial production (Webb, Camminati, and Thorne 2005). Imports of consumption goods briefly soared, fueled by a stronger domestic demand, but exports stagnated. Foreign reserves dwindled, the fiscal deficit worsened, inflation soared, and wages suffered their largest fall in history (Contreras and Cueto 2018). The Maoist guerrilla movement Shining Path that had emerged in the mountains during the Belaúnde era begun executing terror attacks in cities,

leading to a spiral of violence.¹⁹⁴ The decade ended in chaos and the inability of the state to provide the most basic social services (Segura-Ubiergo 2007, 267). Peruvians were frustrated, fearful, and fatalistic.

6.2 Radical Liberalization under Fujimori

In 1990, Peruvians were “willing to accept anything to take the country out of the abyss,” as one of the policy makers perceived at the time (Illescas 2019).¹⁹⁵ Legislative and presidential elections took place during an hyperinflation crisis with annualized four digit figures of consumer price increases. In June, Alberto Fujimori, the little-known dean of the National Agrarian University, won the run-off presidential election against world-renowned author Mario Vargas Llosa. The latter ran on a libertarian platform with backing from the conservative parties and the urban elites; one of his campaign’s TV ads depicted a state bureaucrat as a monkey urinating on a desk (Stokes 1997, 212). Fujimori, by contrast, cultivated the image of a common man and a political outsider untainted by the political establishment (K. M. Roberts 1995, 95). He traveled the Andean highlands with a poncho on a tractor and ate in public marketplaces in urban shantytowns. Fujimori campaigned on the need of a “gradual” but not a “shock” type of economic

¹⁹⁴ Formally named the *Partido Comunista del Perú por el Sendero Luminoso de Mariátegui*, the guerrilla group was initiated and led by philosophy professor Abimael Guzmán in the Southern region of Ayacucho. A Truth Commission in 2003 found that the guerrilla attacks and the government’s anti-subversion response using the armed forces led to 70,000 deaths (Contreras and Cueto 2018, 397)

¹⁹⁵ Personal Interview, Lima, Perú, September 9, 2019.

adjustment to curb hyperinflation. By the time of the election, a poll by research firm Apoyo S.A. showed that 67 percent of low-income respondents in metropolitan Lima preferred a gradual approach, while 74 percent of the wealthiest respondents said they wanted a shock. Half of low-class voters surveyed who did not vote for the Vargas Llosa told pollsters after the election that they did not support him because he “represented the interests of the rich” (Stokes 1996, 549).

Soon after the election, Fujimori developed a remarkable policy shift, embracing swift pro-market reforms from opening international commerce to liberalizing public utility prices to the privatization of state own-enterprises to deregulating private labor contracts (Stokes 1996; 1997). Vargas Llosa had lost the election, “but his platform won” (Contreras 2019).¹⁹⁶ As the former president of the Central Bank put it, Fujimori “had no clear policy ideas, so he was not difficult to influence” (Webb 2019).¹⁹⁷ The winning candidate had been advised by Adolfo Figueroa, an anti-austerity economist from the Catholic University of Peru. However, electoral victory led to approaches by neoliberal economists Hernando de Soto and Juan Carlos Hurtado Miller, who organized a road trip to New York and Tokyo to meet with private bankers, multilateral creditors, and top government officials (Stokes 1997, 217). In addition, economists at the Central Bank had been “making predictions on Lotus spreadsheets about the reach of a shock liberalizing all previously regulated consumer prices,” as one of those technocrats remembers (Illescas 2019).¹⁹⁸ Joining a troupe of politicians campaigning on what Stokes (2001) calls “security-oriented” platforms that promised a blend of gradual correction and popular appeals to the masses across

¹⁹⁶ Personal Interview, Lima, Perú, September 10, 2019.

¹⁹⁷ Personal Interview, Lima, Perú, September 10, 2019.

¹⁹⁸ Personal Interview, Lima, Perú, September 9, 2019.

Latin America (e.g., Carlos Menem in Argentina, Carlos Salinas in Mexico, Fernando Collor de Melo in Brazil), Fujimori openly embraced economic liberalization in discourse and action.

Trade policy liberalization was unilateral, fast, and furious. It was part of Finance Minister Juan Carlos Hurtado Miller's plan to lift regulated prices rapidly and indiscriminately (Samford 2010). On August 8, 1990, in what became known as the "Fuji-shock," the state eliminated the "administered" prices of gas, fresh produce, and other items of household consumption, and unified the preexisting multiple exchange rates into a managed floating regime after a sharp devaluation. During the next two months, the mean import tariff rate fell from 72 percent to 23.6 percent. Import tariff categories of dutiable goods dropped from 56 to just three, capped at 15, 25, and 50 percent rates, respectively (Webb, Camminati, and Thorne 2005). Import quotas and the banned imports list were eliminated as well, and export subsidies and cash transfers from the Central Bank to inward-looking textile and agricultural firms were eradicated (Webb, Camminati, and Thorne 2005; World Trade Organization 2007b). In early 1991, as Hurtado was replaced by another liberal economist, Carlos Boloña, the highest tariff rate was eliminated, a schedule to reach a uniform import tariff rate of 15 percent was published, and prior import licenses and the import registry were ended. Later that year, Fujimori issued decrees enshrining the "freedom of commerce" and the "elimination of monopolistic practices and any restriction on free competition" (Webb, Camminati, and Thorne 2005). In addition, the Fujimori administration adopted other neoliberal reforms to open the economy. It restructured the outstanding sovereign debt with the IMF and foreign private lenders in return for accepting a fiscal austerity plan, launched a Committee on Private Investment Promotion to privatize state-owned companies, offered "tax stability contracts" to private firms to trade off greenfield investments for no new taxes, and passed

legislation on equal treatment for foreign direct investment (Contreras 2018; Contreras and Cueto 2018).

The radical liberalization significantly and rapidly affected the business landscape and the labor market, but it was not followed by mass protests. In a matter of days after the initial Fujishock, domestic firms that had survived for decades due to tariff protection “had to restructure or close” (Illescas 2019).¹⁹⁹ Several small and medium enterprises in clothing, textiles, and supplies for appliances and machines closed shop. But according to the executive of one of the associations of big business, unrestricted capital and labor mobility made industrial reconversion less painful due to investment in technology and the low barriers to hiring of low-skilled women in services, respectively (Teullet 2019).²⁰⁰ As one of the public officials involved in the previous, failed effort reveals, “in light of the earlier opposition to Belaúnde, it is surprising that the industrialists did not mobilize to oppose the liberalization of 1990. Fujimori’s free room to reform was unusual in Peruvian history” (Webb 2019).²⁰¹

However, while there was support among some business associations for the reform and the streets were mostly quiet soon after the launch of the reform, small and medium manufacturers in the textile and appliances industries that became insolvent by the falling barriers protested and found support among the opposition that controlled Congress (Samford 2010). Fujimori’s *Cambio 90* political organization was an electoral vehicle more than a real party. The legislature was controlled by opposition forces from García’s Aprista Party and Vargas Llosa’s FREDEMO. On

¹⁹⁹ Personal Interview, Lima, Perú, September 9, 2019.

²⁰⁰ Personal Interview, Lima, Perú, September 9, 2019.

²⁰¹ Personal Interview, Lima, Perú, September 10, 2019.

April 5, 1992, citing resistance among legislators to the economic reforms and his discretionary use of executive orders to change laws, Fujimori decided to break the constitutional order and carried out an *autogolpe* that included the dissolution of Congress, the courts, and the subnational governments. Pressured by the United States and the European Community, Fujimori called for a constitutional reform to be ratified by a citizen referendum.

The democratic breakdown did not affect the trade liberalization. To the contrary, political centralization and Fujimori's top-down ruling style impeded any reversion of the commercial reforms (Illescas 2019; Matthews 2019). The President continued governing by decree even though his supporters gained several seats in Congress (Samford 2010). During the Uruguay Multilateral Round, the Peruvian government committed to an import tariff ceiling of 30 percent and a further reduction of the average tariff rate to 16 percent. The Fujimori administration also launched two major institutional changes affecting trade: the creation of the National Customs Superintendency (SUNAT) and of the National Institute for the Defense of Competition and Protection of Intellectual Property (INDECOPI) as autonomous state agencies tasked with administering tariff and non-tariff barriers, respectively (Webb, Camminati, and Thorne 2005). The second entity followed a quasi-judicial model to make decisions on temporary trade remedies with new legislation (by presidential decree, not legislative bills) compliant with the GATT. Furthermore, the Peruvian government decided to withdraw from the Andean Community Free Trade Area for "not being open enough," as the common external tariff system had higher rates than those unilaterally set by Peru (Torres 2020).²⁰²

²⁰² Personal Interview, Bogotá, Colombia, February 27, 2020.

In 1993, the Ministry of Finance under Jorge Camet “developed a roadmap on trade policy” that included the accession to the World Trade Organization and the goal of locking in the reforms with preferential international agreements (Illescas 2019).²⁰³ Led by technocrats trained at the Central Bank, the authorities started trade negotiations with the United States, first with the goal of joining NAFTA and then with idea of entering the FTAs (Illescas 2019). However, that goal would not be reached for more than a decade. Until 1997, there were no major changes to the commercial policy instruments, except for the approval of a free export zones regime. That year, Fujimori agreed with his counterparts at the Andean Community to re-join the free trade area and adopt the common trade policy. The average import tariff rate fell to 13 percent with a standard deviation of just 3 percent, although a temporary surcharge duty of 5 percent was set for meat, grains, and dairy products (Webb, Camminati, and Thorne 2005; World Trade Organization 2007b). By 1999, Peru had signed a trade agreement with Chile, its historically regional adversary, and joined the Asia-Pacific Economic Cooperation.

6.2.1 Feeble Support for Liberalization

Peruvian citizens exhibited early buyer’s remorse regarding the liberalization. Data on public opinion on trade policy is not available before 1994, but there is reliable information on urban citizens’ agreement with the total neoliberal reform package in the previous years. The local market research firm *Apoyo Opinión & Mercado* conducted monthly polls on the reform package among residents of Lima since September 1990. Approval of the Fuji-shock was moderately high

²⁰³ Personal Interview, Lima, Perú, September 9, 2019.

at 59 percent, but approval soon fell below 40 percent for the rest of the first year of the Fujimori administration (Stokes 1996, 552). The highest peak in support for the neoliberal plan was just after the April 1992 *autogolpe*, when around 65 percent of respondents expressed their agreement with the market reforms. However, that approving mood soon evaporated, and opinion would not be favorable for the neoliberal program at least until the campaign for reelection in mid-1995 (Stokes 1996, 553). Public opinion may have mattered little in the new period of autocratic rule, a time during which the President used tanks to threaten opposition legislators and created *sui generis* institutions to reform the constitution.

Polls based on national representative samples report weak aggregate support for free trade. In August 1994, *Apoyo Opinión & Mercado* conducted a poll sponsored by the US Information Agency and found that just 37 percent of respondents supported the idea of lowering restrictions to imported goods (USIA 1994). In May 1996, after the reelection of Fujimori, the World Value Surveys project showed that support for free trade was very low, at just 20 percent (WVS 1996). Around the same time, the Latinobarometer found a similar pattern for aggregate opinion on the Free Trade Area of the Americas: only 28 percent of respondents approved of the deal that the Fujimori government had begun to negotiate, almost the same figure as the number of respondents that chose “do not know” (Latinobarometer 1996). By late 1997, average support for the removal of trade barriers in general had climbed to 60 percent, although 18 percent did not express an opinion for or against it (Latinobarometer 1997). Two years later, as the country was entering the climax of polarization around Fujimori’s attempt for another reelection, the polls showed that only 51 percent of Peruvians agreed that globalization was good for their country’s development (USIA

2000).²⁰⁴ Overall, public sentiment was welcoming of the reforms early on but “then became increasingly suspicious, even though there was no widespread popular opposition” (Vidarte 2019).²⁰⁵

Aggregate sentiment on free trade was weak because the trade performance was unimpressive and there was no compensation to the losers of the new economic system. The early supportive attitude to the stabilization and liberalization program of 1990 fits with what scholars have said about this case (Stokes 1996; 1997; Weyland 1998). The grim mood generated by hyperinflation, electricity cuts, and violent terrorist attacks had prepared Peruvians to embrace a radical departure from the status quo (Contreras and Cueto 2018). The economic crisis was perceived by many people as the failure of the closed economy (Contreras 2019).²⁰⁶ This view is ratified in my interviews with former policy makers of that time (Casas 2019; Illescas 2019; Webb 2019). Public support for reform was high during the early stabilization stage, which was successful in bringing down inflation and coincided with the repression of the armed insurgency. The optimism was contagious for a time, like the “taxi driver who drives happily across town

²⁰⁴ Two related economic policy reforms were received differently by Peruvian voters. The liberalization of foreign direct investment (FDI), which flew mostly to the financial, mining, and retail sectors, was supported massively (Casas 2019). However, the privatization of state-owned enterprises in the energy and public utilities sectors generated opposition, a much larger disagreement than with trade liberalization (Casas 2019; Teullet 2019). Protests erupted in the Southern region of the country against the rise in utility fees for water and sanitation, electricity, and gas. Eventually, the negative mood reached residents in Lima, who also turned their backs against the proposal of privatizing the big state-run oil company, *PetroPerú* (Casas 2019) (Personal Interview, Lima, Perú, September 10, 2019).

²⁰⁵ Personal Interview, Lima, Perú, September 10, 2019.

²⁰⁶ Personal Interview, Lima, Perú, September 10, 2019.

listening to the radio about the fall of the Shining Path's leader while the suspension compressor cracks, the passenger seats shattered" (Contreras 2019).²⁰⁷

However, public opinion turned its back against reform as the trade liberalization did not generate immediate gains in wages and job opportunities. The performance of the exporting sector was poor until 1994 even though the economy was growing strongly. In the first three and a half years after the unilateral changes to the tariff regime, exports stagnated (Illescas and Jaramillo 2011). Only when international prices of oil and minerals rose around 1995 did export performance improve. The increase in prices was stronger than that of exported volumes (Illescas and Jaramillo 2011). Also, the success of the price stabilization and the new rules friendly to investment generated new opportunities for export growth in non-traditional goods such as textiles and fruits (Contreras 2018). And yet the decade of the 1990 is one of sustained deficits in the trade account because import flows increased exponentially, as can be seen in Figure 6.1. Imports grew, first, because a stable and growing domestic market required consumption of goods insufficiently produced locally. A sign of the new times was the opening of the first shopping malls in Lima, whose stores were filled with imported goods previously unavailable. As one of the leading economic historians puts it: "The malls had an important psychological effect. It was like entering a palace for the first time; even if you had no money to buy the goods, you felt like you were in and belonged to a better place" (Contreras 2019).²⁰⁸ Interestingly, however, the increased access to cheaper and more varied consumer goods did not translate in an overall high level of approval of free trade as reflected in the poll data. Second, imports of intermediate and capital goods grew

²⁰⁷ Personal Interview, Lima, Perú, September 10, 2019.

²⁰⁸ Personal Interview, Lima, Perú, September 10, 2019.

to supply the means to the new FDI in the energy and mining sectors and the reconversion of the business activity toward services, construction, and retail (Illescas and Jaramillo 2011).

The second major cause of weak support for trade liberalization among ordinary voters in the 1990s has to do with the lack of state compensation to the losers of the structural changes. The preexisting welfare net in Peru was almost nonexistent, except for the pension program for public employees and some liberal professions (Contreras and Cueto 2018; Segura-Ubiergo 2007). Public health and education systems were in shambles and there were no active or passive labor market programs. As the economic shock therapy took place, Peruvian citizens “were left with no cushion to weather the sudden loss of subsidies for food and gas or invest in skill acquisition” to a transition to other occupations or sectors (Trivelli 2019).²⁰⁹ Most workers in the informal economy, which by some accounts were 50 percent of the economically active population, have never received welfare benefits (Segura-Ubiergo 2007, 267). Further, the Fujimori reform package included the deregulation of labor contracts and the establishment of a private pension system copied from the US and Chilean voluntarily pension market regimes (Mesa-Lago 1997).

Pressured by the IDB and the World Bank, Fujimori launched the Social Development Cooperation Fund, a small scale, means-based social assistance program to provide basic social infrastructure projects in poor neighborhoods, with money from those same multilateral organizations (Trivelli 2019). After a weak electoral performance among low income voters in the 1993 constitutional referendum, Fujimori expanded social expenditures and targeted them to low income electoral districts (Segura-Ubiergo 2007, 269). Crucial to Fujimori’s new “war on poverty” was the unexpected \$2 billion windfall from a privatization settlement with Spanish investors over

²⁰⁹ Personal Interview, Lima, Perú, September 12, 2019.

the telecommunications service; the sale price was equivalent to more than half of annual export earnings (K. M. Roberts 1995, 104). Fujimori's coordinator for social policy agreed in an interview that public spending for low income families increased with school breakfast, community kitchens, and rural road improvement programs (Teullet 2019).

However, there were no changes in the direction of more social protection or investment in education and training (Segura-Ubiergo 2007). As the former Minister of Social Development to President Humala told me, "the people negatively affected by the trade opening had already perished [*fritos*] before the actual liberalization due to the hyperinflation, and then they carried on perished [*fritos*] in the new economic system" (Trivelli 2019).²¹⁰

6.3 Second Generation Liberalization

Trade liberalization in Peru continued despite the economic slowdown and the political crisis of the late 1990s. As we have seen in previous chapters, the emerging economies of Latin America were severely affected by the financial crises of South East Asia and Russia. In a context of increased financial volatility and relaxed regulations, global investors took their funds out of emerging countries in a domino effect that hit countries like Argentina, Brazil, and Colombia (Campello 2015). However, despite the free capital mobility in Peru, the country did not suffer such a blunt loss in market confidence. The business cycle and public expectations were more affected by the increasing political polarization around the figure of President Fujimori and his pursuit of a third consecutive presidential mandate, banned by the constitution (Contreras and

²¹⁰ Personal Interview, Lima, Perú, September 12, 2019.

Cueto 2018, 428). The political tensions erupted with a widely televised corruption scandal that harmed Fujimori's personal reputation. Contrary to previous years, when the economic reforms that radically changed the Peruvian society, or Fujimori's 1992 self-coup, did not trigger massive protests, the political scandal caught all the public's attention and led to loud protests against the president. In November 2000, during an official visit across Asia and after an opposition leader was appointed chair of the legislative assembly, Fujimori presented his resignation and sought political asylum in Japan.

In the 2001 presidential elections, opposition leader, businessman, and Stanford graduate Alejandro Toledo won the presidential elections. He had campaigned on an anti-corruption and pro-democracy platform while calling for "building the second floor," or new generation, of pro-market economic reforms in Peru (Contreras and Cueto 2018, 432). Regardless of party and self-reported political ideology, Toledo (2001-2006) and all those who succeeded him in democratic elections in the past two decades (Alan García [2006-2011], Ollanta Humala [2011-2016], Pedro Pablo Kuczynski [PPK, 2016-2018], and Martín Vizcarra [2018 to date]), maintained the pro-free trade and pro-business orientation once in power.

The approach to trade policy in the early 2000s was to lock in the removal of cross-border restrictions on goods and to deepen the liberalization of services and FDI by creating binding international commitments. Both the incoming public officials and the technocrats at the international financial institutions, especially the IDB, believed that despite the sharp changes in the tariff structure in the early 1990s, Peru was still a laggard in international trade flows, with a low trade opening coefficient and a high export concentration in a few commodities with little value added (Díaz Clarke 2019; Pierola 2019; Posada 2019). The selected instrument was the preferential trade agreement (PTA), including measures on tariffs, non-tariff barriers, services,

FDI, and standards. President Toledo created a Ministry of Trade and Tourism (MINCETUR) and charged it with the mission of advancing the PTA agenda. Table 6.2 presents the list of all PTAs signed by Peru since 1990. Notice the rise in new agreements since the accords with the Mercosur block in late 2005 and the United States in early 2006.

Table 6.2: Preferential Trade Agreements Signed by Peru since 1990

Preferential Trade Agreement	Date of Signature	President	Entry Into Force
Andean Community	6/25/1997	Fujimori	6/25/1997
Peru - Chile ACE 38	6/22/1998	Fujimori	7/1/1998
Peru - Cuba ACE 50	10/5/2000	Fujimori	3/9/2001
Peru - MERCOSUR ACE 58	11/30/2005	Toledo	1/2/2006
Peru - United States	4/14/2006	Toledo	2/1/2009
Peru - Chile ACE 38 additional	8/22/2006	García	3/1/2009
Peru - Canada	5/29/2008	García	8/1/2009
Peru - Singapore	5/29/2008	García	8/1/2009
Peru - China	4/28/2009	García	3/1/2010
Peru - EFTA	7/14/2010	García	7/1/2011
Peru - South Korea	11/14/2010	García	8/1/2011
Peru - Thailand	11/18/2010	García	12/31/2011
Peru - Mexico ACE 67	4/11/2011	García	2/1/2012
Peru - Panama	5/25/2011	García	5/1/2012
Peru - Costa Rica	5/26/2011	García	6/1/2013
Peru - Japan	5/31/2011	García	3/1/2012
Peru - Guatemala	12/6/2011	Humala	Not yet
Peru - Venezuela	1/7/2012	Humala	8/1/2013
Alianza del Pacífico	6/6/2012	Humala	5/1/2016
Peru - European Union	6/26/2012	Humala	3/1/2013
Peru - Honduras	5/29/2015	Humala	1/1/2017
Peru - Brazil ACE 58 additional	4/29/2016	Humala	Not yet
Peru - Australia	2/12/2018	Kuczynski	2/11/2020
Trans-Pacific Partnership	3/8/2018	Kuczynski	Not yet

Source: Author's own elaboration based on (Organization of American States 2020).

In the early 2000s, Peruvian trade policy accompanied the good performance of exports under highly favorable external conditions and a stable macroeconomic management. Since 2003,

a boom in international commodity prices fueled by Chinese demand, such as gold, silver, copper, and zinc, generated spectacular total output growth and high government revenue collected from income tax. Between 2000 and 2015, Peru experienced a decade of unprecedented economic growth. Income per capita grew at 6 percent annually (World Bank 2015), almost three times faster than the world average and six times faster than in the previous forty years (Pierola, Fernandes, and Farole 2018). The country achieved substantial labor accumulation, supported by a strong demographic dividend and impressive labor-force participation (higher than that in Malaysia, Chile, and most OECD countries), while capital accumulation was at the level expected for the country's income per capita (World Bank 2015, 6). Savings by the private and public sectors helped finance a sharp increase in investment rates without resorting to higher debt.

In an interview for this study, Juan Carlos Matthews, the first National Director of Foreign Trade, reflects on how they approached the “second generation” trade liberalization. The FTA with the United States was “a true political and policy landmark. It was a major market for us because the US represented a fifth of our imports and exports and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) was up for renewal. Peru began trade talks as part of the CAN. When we saw that the Colombians were not willing to offer several items, we continued with bilateral talks with the Americans. The latter were eager to reach a deal with us for geopolitical reasons, because the US had no friends in the region beyond México, Chile, and Colombia. At least that is what a US Senator told me after the conclusion of a bargaining round” (Matthews 2019).²¹¹ This is a similar account of what I found in Colombia, where policy makers also pointed at the expiring date of the ATPDEA and the split into bilateral talks midway into the negotiations (see Chapter

²¹¹ Personal Interview, Lima, Perú, September 11, 2019.

Five). As another trade official, who relocated from the Central Bank to the MINCETUR, told me: “The USFTA was a breakthrough that enabled Peru to pursue the aggressive commercial policy goals established by Fujimori in the 1993 Constitution by way of PTAs with the rest of the world” (Illescas 2019).²¹²

As opposed to the top-down approach of trade liberalization under Fujimori, the new administration displayed a more consensual approach to the new era of commercial opening with greater participation of the private business sector. This is the view that emerges from interviewing former and current policy makers and business leaders. From the onset of the Toledo administration, the mandate given to the officials at the MINCETUR was clear, “follow the Chilean model,” as a former senior trade advisor recalls (Díaz Clarke 2019).²¹³ That model implied an important international agenda of PTAs with diversification of North and South trading partners as well as an aggressive export promotion strategy designed and executed by the state based on creating a national brand (*Marca Perú*) and marketing flagship export products, such as llama wool, pisco, quinoa, and wild berries. Those policies required close state-business collaboration. The producers that worked with the government were not the big (mostly foreign owned) mining and energy companies that were already very internalized, but the new non-traditional agricultural businesses that emerged in the coasts (Pierola, Fernandes, and Farole 2018). With the structural changes that took place in the 1990s, the light manufacturing auto-parts and home appliances sectors disappeared. Those medium-sized business owners that were able to restructure, did so by

²¹² Personal Interview, Lima, Perú, September 9, 2019.

²¹³ Personal Interview, Lima, Perú, September 9, 2019.

setting shop in the previously unfertile lands between Lima and the Northwestern frontier (Contreras 2018).

When trade talks with the United States were making progress, many firms had a strong interest in exporting and obtaining preferential access to foreign markets (Teullet 2019).²¹⁴ In 2002, the MINCETUR had recruited firms and business associations to develop the National Strategic Export Plan, enshrining the trade policy goals of the “Chilean model.” The policy makers in charge recalled receiving financial aid and technical cooperation from the Swiss Agency for Development and Cooperation, the German Corporation for International Cooperation, the United States Agency for International Development, and the IDB (Díaz Clarke 2019; Matthews 2019). The work lasted almost two years of formal consultation and input from the Peruvian private sector (Díaz Clarke 2019). During the negotiations with the United States, the MINCETUR built on that prior collaboration and asked to have a single input channel from the domestic business sector (Posada 2019).²¹⁵ The latter reacted positively, creating the Business Council on International Negotiations, with participation from the associations of big traditional exporters and the smaller and newer non-traditional agricultural firms. That initiative accomplished the goal of offsetting protectionist voices.

Government leaders and lawmakers seem to have narrowly responded to public opinion when they decided to approve the treaty with the United States. The international signing of the agreement, and thus the beginning of the formal domestic approval, took place after the first round of the 2006 presidential elections. Senior officials at the MINCETUR and the President’s Office

²¹⁴ Personal Interview, Lima, Perú, September 9, 2019.

²¹⁵ Personal Interview, Lima, Perú, September 12, 2019.

commissioned opinion polls to research firms before the signing of the USFTA, as confirmed by some of those private pollsters (Chaparro 2019).²¹⁶ That confirms that they cared about public opinion, or at least were curious to know more about it. In addition, the MINCETUR conducted more than 500 small town halls across the country to present the deal to local civil society representatives, which “was an opportunity to gauge their opinion” (Matthews 2019).²¹⁷ There is no public access to those commissioned polls, but other surveys around the time portrayed a restrained mood. In 2004, when the deal was not news in the national media, only 45 percent of respondents supported a free trade agreement, with almost 40 percent being undecided or having no opinion (Latinobarometer 2004). In November 2006, during the ratification process in Congress, 54 percent expressed agreement with the idea that such a deal would be good for job opportunities (with 26 percent having no opinion) (Latinobarometer 2006). Crucially, however, the PTA was “not a big issue in the public agenda that average Peruvians cared about. The noise and the backstage bargaining were with the business associations,” as a former MINCETUR official who worked on the treaty told me (Díaz Clarke 2019).²¹⁸

Political opposition to the USFTA was not widespread but headed by center-left candidate Ollanta Humala, who denounced the removal of protection for farmers and the intellectual property clause that would increase the price of prescription drugs (Posada 2019; Vidarte 2019). Although neither the lame-duck President Toledo nor the Aprista candidate, former President García controlled legislative majorities of their own, there were pro-free trade majorities across parties

²¹⁶ Personal Interview, Lima, Perú, September 12, 2019.

²¹⁷ Personal Interview, Lima, Perú, September 10, 2019.

²¹⁸ Personal Interview, Lima, Perú, September 9, 2019.

(Borges 2019).²¹⁹ Disregarding a majority of Peruvians who preferred the issue to be discussed by the new legislature (Chaparro 2019; Vidarte 2019), Congress moved forward with ratification in a lame-duck session (The Economist 2006). The USFTA was approved in a 79-14 vote without much debate. Even though Peru failed to push back on the agricultural subsidies to American farmers, the treaty did not enter into force due to the opposition of the Democratic Party's takeover of the US Congress. When the Bush administration incorporated the labor and environmental clauses required by the Democrats, the Peruvian legislature led by President García's Aprista coalition quickly ratified the modified deal. As discussed below, there was no big change in public opinion at the time. In late 2007, the President was given delegated powers to implement by decree the necessary measures. That was a much more contentious issue. The congressional vote was 54-38 in favor of delegation, with 28 abstentions. Eventually, García enacted 60 decrees in excess of the number allowed by Congress, generating social unrest in the Amazon due to the deregulation of communal indigenous lands (Borges 2019).

After the trade treaty with the United States “put Peru back on the map” (Posada 2019),²²⁰ the García administration negotiated and signed PTAs with other Northern partners (Canada, the European Free Trade Association), China, Global South partners (Singapore, South Korea, Thailand, Japan), and Latin America (Mexico, Panama, Costa Rica, Guatemala). The fastest negotiations were with China: the content of the treat was agreed to in six rounds, even though it

²¹⁹ Alan García had experienced an ideological transformation from left to right when out of power (Vidarte 2019). During the 2006 campaign, he believed that “If Fujimori had opposed the economic shock during the 1990 campaign but then was forced by the crisis to implement it quickly after winning,” he could not commit the mistake of not implementing the treaty with the United States (Contreras 2019).

²²⁰ Personal Interview, Lima, Perú, September 12, 2019.

was the one that generated greater opposition from domestic producers of import-competing goods. The Peruvian negotiators were able to exclude up to 500 product-level import tariff lines in the clothing and textiles categories from the phase in structure and the Chinese quickly accepted (Matthews 2019; Posada 2019). The number of signed PTAs was smaller under President Humala, but the depth and number of member countries was much larger because Peru entered into a free trade area with the European Union and created the Pacific Alliance with Chile, Colombia, and Mexico. Humala was sceptical about these deals as an opposition leader, but after entering into the presidential run-off, the anti-Fujimorista parties reached an electoral alliance with him. One of the major concessions was to move forward with the negotiations in course and to ratify and implement those already concluded (Contreras and Cueto 2018; Contreras 2019; Teuliet 2019). The MINCETUR did not receive many firms' demands for tariff protection. Instead, firms requested the state to provide "insurance guarantees to borrow abroad, acquire technology, and establish tax-free zones" (Matthews 2019).²²¹

Later in the decade, by the time that President Kuczynski was impeached by Congress during a corruption scandal linked to a foreign construction and infrastructure firm, 95 percent of Peruvian trade was channeled within preferential agreements. Since 2016, as the commodity boom unwind, the PTA agenda has lost steam (except for the signing of the Comprehensive Trans-Pacific Partnership) and the focus has turned to the aging public infrastructure and increasing firm productivity with intra-border regulations. Peru continues to export less than would be predicted by its income per capita level, import flows as a share of GDP are one of the world's lowest, and

²²¹ Personal Interview, Lima, Perú, September 10, 2019.

participation in global value chains is highly concentrated in forward links to its commodity exports (Pierola, Fernandes, and Farole 2018).

6.3.1 Public Support in the New Era

The average Peruvian exhibited “cautious optimism” about free trade since the fall of Fujimori in 2001. As the commodity boom was taking hold in early 2003, surveyed citizens expressed high levels of satisfaction with economic globalization (approval level of 64 percent) and optimism about the FTAs (agreement of 62 percent), although 27 percent of respondents did not know whether it would be good or not (CIMA 2003). By 2004, however, the level of popular support for free trade would decrease and would never be higher than 56 percent at the most for the next decade. In addition, the number of people who disapproved of free trade agreements, the removal of import restrictions, or trade globalization in general, was usually around 20 and 35 percent, depending on polls and years.

The non-opinions of Peruvians remained significant at the same or higher rate than those of explicit opposition to free trade. For example, approval of globalization reached 51 percent of surveyed individuals in May 2004 (CIMA 2004), while another poll the same month showed that agreement that PTAs were beneficial for the country’s economy was only 45 percent, with 40 percent of respondents who did not know (Latinobarometer 2004). In late 2006, 54 percent of respondents said that PTAs were good for job opportunities in Peru, while 66 percent agreed with the statement that PTAs would increase the access for respondents to cheaper foreign goods (Latinobarometer 2006). Importantly, the small elite opposition to the USFTA that year was geared towards the threats to the environment and the access to drugs for low income people, not job losses

(Contreras and Cueto 2018, 432; Vidarte 2019). The following year, support for PTAs obtained again 52 percent (Latinobarometer 2007).

In 2008, after the ratification of the second version of the USFTA and when international negotiations with Canada and Singapore were about to conclude, the *AmericasBarometer* reported that aggregate support for PTAs was just 39 percent, with 30 percent of rejection, and 27 percent of non-opinions (LAPOP 2008). Two years later, the *AmericasBarometer* reported almost identical figures for support of PTAs: 38 percent of approval, 30 of disapproval (LAPOP 2010). In 2012, the percentage of surveyed respondents that supported PTAs climbed a little but still did not pass the 50 percent barrier and people who said they did not know was 28 percent (LAPOP 2012).

Contrary to what we found for Colombia, public opinion on trade in Peru seems to vary across income levels. Available disaggregated data from the *AmericasBarometer* for three separate waves (LAPOP 2008; 2010; 2012) allows us to see the views on trade from Peruvians with different self-reported household income (grouped at the quintile level). People in the two lowest income groups express lower support for free trade than the rest of society. The pattern for the lowest two income levels is consistent across waves: 29 and 36 percent in 2008, 28 and 20 percent in 2010, and 36 and 47 percent in 2012. Further, only the highest income group had 50 percent or more of support for free trade in 2008 and 2010 (in 2012, 50 percent or more individuals in the three highest income groups were in agreement with free trade, but the highest of all had even higher approval ratings, at 73 percent).

This is not surprising given the negative labor market effects from increased trade competition and the weakness of the Peruvian welfare state in a context of income inequality. On the first issue, analysis with panel data of firms and customs transactions shows that the inflow of manufactured consumption goods from China since 2003 has reduced sales and demand for new

workers in small sized firms while the competition with Chinese products in third markets has reduced the rate of employment growth in Peruvian exporting firms (Mercado, Pierola, and Sanchez-Navarro 2019). On the second issue, social protection remains poorly provided and underfinanced despite efforts by the center-left government of Humala to reach more people and institutionalize social programs. There was no cabinet level agency for social policy until 2011. Increased government revenue in the past decade has allowed the government to launch a conditional cash transfer program, with the Brazilian model of *Bolsa Família* in the policy makers' minds, although the Peruvian welfare state faces strong challenges associated with the historical low state capacity and the lack of a pro-social policy constituency to demand social rights, especially among the poor indigenous people in the countryside (Trivelli 2019).²²²

Interestingly, this is not the view that some business leaders have of the effects of free trade. The CEO of the powerful business association *Confederación Nacional de Instituciones Empresariales Privadas* told me that “the winner of the liberalization was the low-income consumer. Previously, poor people had to buy used clothing in yard sales. Now, my daughter and her nana [babysitter] wear the same Nike shoes” (Teullet 2019).²²³

On the other hand, there seems to be little difference in support for PTAs in terms of self-reported ideological position, except for those in the extreme left that are openly against PTAs (LAPOP 2008; 2010; 2012). Support for free trade does not divide people along partisan lines in a highly polarized landscape where the main cleavage is between Fujimoristas and anti-Fujimoristas (Chaparro 2019; Vidarte 2019). Recall that the opposition to Fujimori in the late

²²² Personal Interview, Lima, Perú, September 12, 2019.

²²³ Personal interview, Lima, Perú, September 9, 2019.

1990s was due to his disregard for democracy and corruption, not due to the pro-market reforms he implemented (Contreras 2019; Vidarte 2019). Similarly, in the 2000s, while there was opposition to free trade from one electorally viable leftist sector, that of Ollanta Humala, he embraced trade liberalization once elected president. There pro-free trade discourse is shared by the political elite.

6.4 Limited Responsiveness under an Autocracy and a Democracy without Parties

Peru is a society with a historic democratic deficit. The twentieth century witnessed several military regimes. After the constitutional reform of 1979, the military handed over power, and Belaúnde won the presidential elections the next year. Formal democracy seemed consolidated, despite poor economic performance and increasing unrest and political violence in the countryside. In that context, it is expected that governments are responsive to voters. As we have discussed above, there seemed to be a close relationship between a popular demand for change in the economic realm and the swift neoliberal reforms implemented by Fujimori soon after inauguration in 1990. However, policy responsiveness became more limited after Fujimori suspended the Constitution and dissolved Congress in April 1992 to overcome legislative deadlock to his economic reforms (Samford 2010). Those actions represented a breakdown of democracy and is classified as such by country and foreign experts (Mainwaring and Perez-Liñán 2013). That year, Peru's score in the Polity index of democracy dropped from 7 to -3 and remained below 1 on the -10, +10 scale (Marshall and Jaggers 2010).

The Fujimori regime dodged vertical (electoral) and horizontal (inter-branch) accountability. It did so despite calling for elections to select a constitutional assembly (and then

other elections to ratify the new constitution) and to elect a new president in 1995, in which Fujimori won the reelection (K. M. Roberts 1995; Cameron 2004; Levitsky and Cameron 2003). In fact, the political regime under Fujimori meets the criteria of competitive authoritarianism, a hybrid regime in which formal democratic institutions remain the primary means of gaining power, but in which incumbent rulers abuse power, skewing the field to compromise the opposition's ability to compete (Levitsky and Loxton 2013). Since 1998, with the move by Fujimori to try a second reelection even though it was banned by the Constitution, appeals to voters became gradually important again (Morgan 2003). However, that did not make the regime more democratic. Human rights abuses continued. For example, thousands of rural women were forcibly sterilized in an anti-poor campaign carried out by the national health authorities (Contreras and Cueto 2018, 448). Overall, the country consistently got a score of 0.1 (the lowest possible) on the Varieties of Democracy index of liberal democracy during that decade, indicating the almost complete absence of liberal democracy (Lindberg et al. 2014).

A democratization transition ensued once Fujimori fled the country into exile due to a corruption scandal. The country obtained scores of between 0.6 and 0.7 in the index of liberal democracy and a 9 in the Polity index of democracy. In the new period, Peru remained a presidential regime where the chief executive is elected directly by the people (with a run-off system) and enjoys significant legislative powers. This should have brought greater responsiveness to the broad electorate. Moreover, democratic Peru has one factor that according to the theory in Chapter Three should facilitate responsiveness: the concentration of the policy-making process. However, in the first two decades of the twenty first century, Peruvian governments' embracing of trade liberalization is greater than we would expect from the light aggregate support for free trade.

Why was responsiveness limited in this period? The answer refers to both the political system and the economic structure of Peru. Permissive electoral rules in a society with extremely low attachment to parties and political institutions have impeded the evolution of a party system after the transition to democracy. Presidents and political appointees in the executive branch, on the one hand, and legislators, on the other, have loose connections to voters. In addition, trade policy responsiveness is affected by the low salience of trade, despite the huge role that exports have played in this country's history and the drastic experience of the first stage of trade policy liberalization under Fujimori. Politicians and the media do not talk about trade. This is explained by the unique nature of the exporting sector in Peru, which has until recently been an enclave economy with a few, large extractive industries spotted in the mountains employing few workers, while the rest of the economy is little integrated not only into the global economy but the formal sector, subsisting beyond the reach of tax collectors, labor unions, and public goods provision.

6.4.1 Concentrated Policy Making

According to the theory developed in Chapter Three, the concentration of the policy-making process should enhance trade policy responsiveness because election-motivated policy makers can have a firm control over the state apparatus to make policy changes when they see fit while there are fewer opportunities for external pressures from special interest groups to take hold on the echelons of the public administration. If a firm or a business association offers money to bureaucrats in charge of designing PTA clauses, levying tariffs, or granting licenses (or hassles those officials in public), concentration of the policy-making process should allow the political principal (such as the President or the Minister) to monitor such situation and act accordingly. If the President or Minister feel they need to respond to aggregate sentiment, and that sentiment is

contrary to what the firm or business association demands, they will instruct the public administration with the policy path more palatable in electoral terms. Based on these expectations, Peru appears as a case of policy-making concentration. The President has more legal powers, and greater political legitimacy, than the legislature. More importantly, few bureaucratic agencies intervene to formulate and implement all sorts of trade policies in Peru. This has been the case in the authoritarian context of the 1990s as well as in the democratic 2000s.

The first stage of trade liberalization was led and implemented by the Finance Ministry (MEF), with support from the Central Bank, which had inherited the system of subsidies for exporters and other firms. The description by an interviewed former official is very revealing: “The liberalization was top-down. The political decisions were made by the President and the Ministers he appointed to open the economy. There was then total delegation of the trade policy goals, tools, and outputs to the *técnicos*. In the first stage, the business sector did not participate in the strategy or the administration of commercial policy” (Pierola 2019).²²⁴ At the MEF, the driving force of the trade liberalization process was Roberto Abusada, an economist graduated from Cornell who had served in the same post under President Belaúnde in the failed attempt to cut import tariffs and remove non-tariff barriers (Webb 2019). Concentration of decision making was strongest between the inauguration in 1990, its immediate stabilization program (the Fuji-shock), and the ascension of Jorge Cammet, the leader of the largest business association, CONFIEP, to the MEF in 1993. In that earlier period, the President had enlisted Carlos Boloña and a young group of lawyers from the Catholic University and economists from the exclusive, private University of the Pacífico, a few of whom had done graduate studies in the United States, to

²²⁴ Personal Interview, Washington, DC, August, 2019.

“transform Peru into a market economy,” as one of them told me (Casas 2019).²²⁵ Those appointees and advisors constituted a technocratic group “charged with the establishment of the new rules for the new economy” (Casas 2019).²²⁶

The President delegated economic policy decisions to the MEF and the Central Bank, whose charter was replaced by Fujimori with the sole mandate of price stability, “while keeping the power to veto anything he did not like” (Pierola 2019).²²⁷ The two agencies became “efficiency islands [*islas de eficiencia*],” a term shared by several former policy makers interviewed (Casas 2019; Matthews 2019; Webb 2019). Those “islands” were sustained by the international financial organizations in Washington, DC. The IDB had an important role in sending technical missions and providing access to foreign public officials and US-based scholars (Casas 2019).²²⁸ Their role was important to temper the international criticism against the democratic backsliding and human rights abuses (Dargent 2019). The technocrats, however, consciously and openly “believed in the neoliberal agenda; it was no imposition from the business sector or the multilateral creditors. We asked the IMF for some of the harshest measures in the loans’ letters of intent, not the other way around” (Illescas 2019).²²⁹ There was a shared consensus “bordering dogmatism” among the younger levels of the economic policy agencies (Pierola 2019).²³⁰

²²⁵ Boloña was recommended by economist and libertarian celebrity Hernando de Soto (Illescas 2019).

²²⁶ Personal Interview, Lima, Perú, September 10, 2019.

²²⁷ Personal Interview, Washington, DC, August, 2019.

²²⁸ Personal Interview, Lima, Perú, September 10, 2019.

²²⁹ Personal Interview, Lima, Perú, September 9, 2019.

²³⁰ Personal Interview, Washington, DC, August, 2019.

The scholarship (Arce 2003; Dargent 2011) and the policy makers interviewed (Illescas 2019; Pierola 2019; Webb 2019) agree in that the Ministries of Industry and International Economic Relations and of Agriculture had no real role in the trade liberalization. Those cabinet agencies, which had developed relations with domestic producers in previous years, were delegated to a secondary role in the set of economic policy goals. Fujimori appointed a different type of people to those posts: loyalists with family and ethnic ties to the President, with no policy preferences of their own (Arce 2003). That appointment strategy was part of Fujimori's new variety of populism in which he astutely manipulated symbolic themes and articulated a strong anti-establishment discourse that, instead of attacking the economic elite as in the old days, blamed the country's problems to political parties, Congress, and the Judiciary (K. M. Roberts 1995, 97). That explains the decision not to go ahead with a much-announced reform of the state bureaucracy in the late 1990s. The civil service career remained not professionalized, the number of public employees increased more than under Alan García, and the autonomy of the tax agency was challenged and used to operate a kickback scheme (Arce 2003, 349).

After the 1992 coup, the influence of the MEF increased, now without a legislative oversight (Dargent 2019), and Fujimori governed without a party, relying on the intelligence agencies and patronage as substitutes to build political support (K. M. Roberts 1995; Cameron 2004; Levitsky and Loxton 2013). The government insulated even more the bureaucrats in charge of examining firms' demands for trade remedies by creating the INDECOPI and appointing a free trade believer as its chair as well as young economists that were considering working in the Central

Bank or abroad (Pierola 2019).²³¹ But the neoliberal technocrats eventually lost the leadership positions. Jorge Cammet, a construction and real estate developer and the president of the powerful CONFIEP, was appointed head of the MEF in 1993, once the major economic reforms (including trade liberalization) were already in place (Arce 2003, 341). Cammet remained in that post until 1998, the longest tenure of an economy minister in decades. Business-government relations became gradually more cooperative and stable in that period (Arce 2003, 339). “Even as a technocrat, one does not work in a vacuum. That does not mean we accommodated every demand from the private sector, either,” argues a former trade official (Illescas 2019).²³² The new intimacy between the MEF and the CONFIEP, whose leadership was recruited throughout the decade from the national Exporters, Banks, and Fishing associations, and the institutional changes at the Central Bank, disabling the subsidies regime, helped the free trade cause, as the CEO of the peak business association told me (Teullet 2019).²³³

After the fall of Fujimori, the trade policy-making process remained concentrated, albeit with a new technocratic body. President Toledo delegated macroeconomic management to his Chair of the Cabinet Council, Princeton-graduate and former Wall Street investment banker Pedro Pablo Kuczynski. Toledo prioritized trade policy in his government agenda by creating the MINCETUR early in his tenure, with full competence over international commercial policy and

²³¹ Andean Community Affairs were conducted by career civil servants in the Ministry of Industry and the Ministry of Foreign Affairs.

²³² Personal Interview, Lima, Perú, September 9, 2019.

²³³ Personal Interview, Lima, Perú, September 9, 2019.

export promotion.²³⁴ The new cabinet-level agency was the initiative of Vice-President Raúl Díaz Canseco, who got his nephew Alfredo Ferrero appointed as its first Minister (Dargent 2019).²³⁵ The Ministry of Industry and International Economic Relations was disbanded, with some responsibilities going to the MINCETUR and others to a new Ministry of Economic Production. The Ministry of Foreign Affairs lost all responsibility over foreign economic relations and the economic liaisons in the diplomatic missions abroad were replaced by those appointed by the Ministry of Trade.

The Vice-President personally recruited forty young professionals from the private sector who would become the top officials in the MINCETUR (Díaz Clarke 2019). A few technocrats from the Central Bank were designated at the new trade agency (Illescas 2019). Only employees working in the Directorate for Andean Community Affairs from the shutdown Industry ministry were retained by the MINCETUR. The cream of the new trade technocracy had little or no experience in public administration (Dargent 2019). That had some initial setbacks when forming the international negotiating teams for the USFTA, as the Director of Foreign Trade at MINCETUR recognized (Matthews 2019).²³⁶

²³⁴ The INDECOPI remained a separate, quasi-judicial agency for anti-dumping and safeguards. Moreover, the second version of the USFTA that included environmental standards forced President García to create a Ministry of Environmental Affairs (Casas 2019).

²³⁵ The Vice-President, who had served as Under Secretary of Tourism under Belaúnde, wanted to create a separate Ministry of Tourism, but the President and the Chair of the Cabinet Council thought it was too much (Matthews 2019).

²³⁶ Personal Interview, Lima, Perú, September 10, 2019.

From its inception, the MINCETUR served as the state agency to “uphold trade liberalization” (Dargent 2019).²³⁷ That did not change over time, regardless of the incumbent President. The MINCETUR did not change tracks under García, Humala, PPK, or Vizcarra. It followed the same National Strategic Exports Plan and the same PTA agenda set in the Toledo years. As one official said, “the low profile of the MINCETUR in public opinion allowed us to work without distractions” (Díaz Clarke 2019).²³⁸ No distractions meant no interference from politicians and other public agencies. For example, several legislators wanted the Ministry to give state subsidies to farmers, but the leaders at MINCETUR opposed and blocked that move (Matthews 2019).

6.4.2 An Unstable Political System

Peru is one of the most extreme cases of party collapse around the world. The Peruvian party system collapsed in the late 1980s under the weight of a hyperinflationary crisis and the Shining Path insurgency (Levitsky and Zavaleta 2016, 413). Party collapse cleared the election of Fujimori, who built his own party months before the 1990 election with no members of the traditional parties (Cameron 2004). The four parties that dominated Peruvian politics in the 1980s – Aprista, Popular Christian Party, Popular Action, and the United Left – declined from 97 percent of the vote in 1985 to just 6 percent in 1995 (Kenney 2003). Following Fujimori’s auto-golpe, the 1993 Constitution abolished the Senate and established an electoral system in which all 120 legislators were elected from a single national district. Fujimori’s anti-establishment rhetoric was

²³⁷ Personal Interview, Lima, Perú, September 10, 2019.

²³⁸ Personal Interview, Lima, Perú, September 9, 2019.

effective. Ambitious politicians abandoned the old parties and declared themselves “independents” (K. M. Roberts 1995). Conditions for party brand development based on programmatic differentiation were unfavorable: a consensus around neoliberal economic policies and the extermination of the Shining Path took hold of elites (Levitsky and Zavaleta 2016). None of Fujimori’s main rivals in 1995 and 2000 challenged his economic program. After Fujimori’s fall, presidential candidates who criticized neoliberal policies continued them once in office (Vidarte 2019). In addition, labor unions, never very powerful in Peru, were furthered weakened under Fujimori, as he bypassed low-income grassroots organizations and deregulated the labor market. Ethnic parties in a country with a majority of indigenous population in the countryside did not form, either (Cotler 1978; Levitsky and Zavaleta 2016).

Despite democratization in 2001, party system decay continues to date. Post- Fujimori Peru is a “democracy without parties” (Levitsky and Cameron 2003). All parties created after 1990 have collapsed, failed to achieve national significance, or remained personalistic movements (Levitsky and Zavaleta 2016). Politicians have become partisan free agents who create their own tickets or negotiate positions on others’ tickets. Most parties are dissolved after each election. Candidates for legislative or local office negotiate positions on other politicians’ slates. These harmful patterns have continued despite some electoral reforms to reduce the chaotic system. Now legislators are not elected in a single constituency but in 25 electoral districts that match the geographic boundaries of the subnational regions, which were devolved political decentralization after the fall of Fujimori (Tanaka 2006). The electoral rules now require a minimum threshold of 5 percent of the vote for entry into Congress, new parties need a higher number of citizen signatures from two thirds of the country’s districts, and independent candidacies are banned to run for President or Congress (Vergara 2011). The post-2001 score in the Personal Vote Index (see Table 3.2) is 5, a

moderately high number, the same that have Chile (with the binomial PR system) and México (using the mixed formula), but not as extreme as in Colombia. However, purchasing places on legislative lists is not unheard of; it can be as cheap as 20,000 dollars (Levitsky and Zavaleta 2016, 418). Moreover, there has been a wave of provincial and regional “movements” that compete exclusively in local elections (Vergara 2011). Politicians developed alternative strategies (e.g., party-switching, party substitutes) that enabled them to win elections without parties, weakening incentives for party building (Levitsky and Zavaleta 2016, 412).

The consequences of the lax electoral rules and completely non-institutionalized party system are a chaotic democracy without parties in which politician-voter linkages are weak and ephemeral. This does not contribute to democratic accountability even after the fall of a ruler like Fujimori who abused power in office. It is no surprise then that legislators have no incentives to intervene more actively in policy making and to follow citizens’ opinion on policy matters (Vergara and Watanabe 2016). Presidents have had little incentives to follow the average voter because immediate re-election has been banned after democratization. In theory, Presidents can run for another term after one has passed, but none have tried it. The balance of this unstable political system with no roots in society is one with no party enjoys a majority in Congress, two former Presidents (Humala and PPK) are jailed for corruption crimes, one (Toledo) is wanted by the courts and exiled in the United States, and the other former president (García) killed himself, as the police came to his house to detain him for corruption.

6.4.3 Low Salience in the Enclave Economy

If the political system were not enough to put a downward pressure on policy responsiveness, Peru’s economic structure does not help, either. Peru has a dual economy. There

is one dynamic, high profit, high productivity exporting sector, which relies in a small workforce, some of it highly skilled, as in the banks, but largely unskilled in the mining and oil sectors. The other is the densely populated, low-productivity, largely informal, non-tradable sector comprised of subsistence agriculture and low-skilled services in construction, retail, the food industry, and personal services (Contreras and Cueto 2018; Seminario 2015; Thorp 1991).

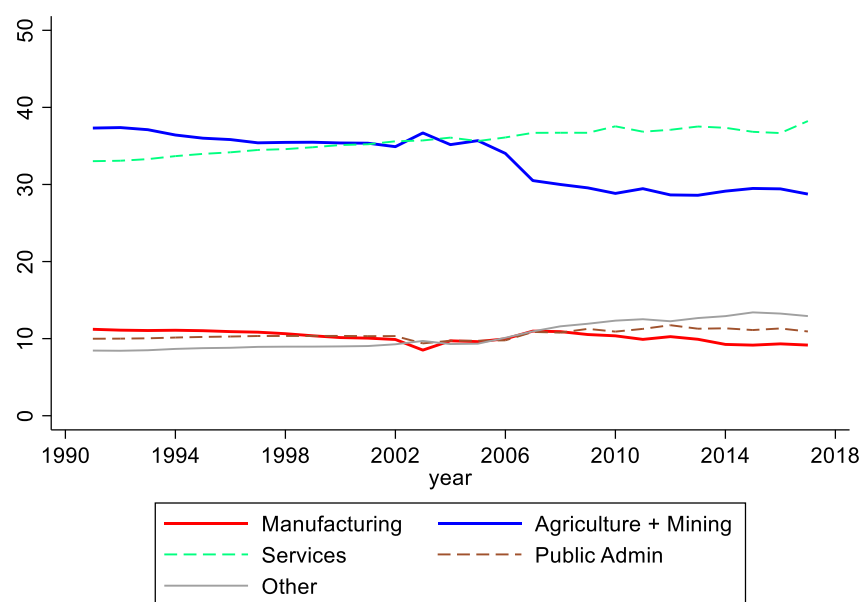
The dual organization of the economy emerged during the colonial era, when the demographic crisis among the native population produced by European conquest led to a withered internal market, encouraging the orientation of the colonial economic system toward mining of precious metals (Contreras and Cueto 2018; Contreras 2018). The historical trend did not change course in the two hundred years after independence. Peru only exhibited a sequential diversification of exporting commodities usually in small enclaves in different parts of the national territory, first sugar in the Northern coast (a plantation crop with highly concentrated land ownership), then rubber in the Amazon, guano fishmeal in the Pacific inner islands, then oil, and nowadays gold and copper (Thorp 1991; Thorp and Bertram 2013). The export destinations have changed (first it was Europe, then the United States, followed by some South American nations in times of bonanza, and now China), but the pattern of concentration of exporting goods remains intact. The Peruvian economy depends on international commodity prices and thus has experienced recurrent boom and bust cycles. The expansion of exports (usually in price, not volume) has contributed slightly to the general development of the country.

The salience of trade is low. “Integration into the world economy is very disconnected from the daily lives of Peruvians” (Seminario 2019).²³⁹ In the past decade, the exports generated by the

²³⁹ Personal Interview, Lima, Perú, September 11, 2019.

“modern,” or dynamic, economy represented, on average, 25 percent of the country’s GDP. Mining commodities like gold and copper, controlled by a small number of big private corporations, generate 65 percent of the country’s exports (16 percent of the GDP) (Contreras 2018; Seminario 2015). By some accounts, more than 70 percent of mining and energy corporations are foreign owned since the privatization of public companies in the early 1990s (Seminario 2015), returning to the patterns of foreign concentration seen at the turn of the nineteenth century and the boom of *guano* exports (Thorp and Bertram 2013). The dominance of Australian, British, Canadian, Swiss, and US corporations is being surpassed by Chinese investment.

Figure 6.5: Estimated Employment by Economic Sector in Peru



Note: Author’s own elaboration based on data from International Labor Organization.

Crucially, the exporting sector employs few workers. Official statistics for 2017 show that only 9.5 percent work in manufacturing and 25 percent work in the agriculture, mining, and fishing

sectors combined (INEI 2020). The rest are jobs in services, including construction, public administration, education, and health care. Time series estimates from the ILO based on those government statistics (see Figure 6.5) show that the distribution of the labor force has not changed a lot in the past thirty years, except for the reduction in agriculture, fishing and mining group from 37 percent in 1990 to 29 percent since 2009. However, not every job in manufacturing or agriculture, fishing, and mining can be considered to be directly impacted by trade. Several product categories in the Peruvian manufacturing sector do not compete with foreign goods (Mercado, Pierola, and Sanchez-Navarro 2019). And more clearly, the bulk of jobs in agriculture are not in the dynamic sector that ships exotic fruits abroad but in the subsistence sector in the highlands.

Mining extraction of precious metals has been always an enclave enterprise, with isolated male workers in the Andes (copper in Arequipa, Cuzco, and Moquega; silver in Junín, Pasco, and Ancash; gold in Cajamarca and Madre de Dios) and the Amazon (gold). Since the 1990s, open-pit mining has relied in big scale automatization and few employees are needed to refine and ship the metals in the coast. One of the country's leading economic historians estimates that the metals mining sector employs fewer than 100,000 people (Seminario 2019). At the peak of the commodity boom in 2012, the government estimated that mining, energy, fishmeal production, finance, and non-traditional agribusiness directly employed one million Peruvians (Contreras 2018). That represents 8 percent of the economically active population (INEI 2020). Peruvian policy makers, business leaders, and international bureaucrats like to boast about the huge rise in the arid lands of the Pacific coast of non-traditional agricultural goods of asparagus, quinoa, avocado, paprika, mango, and berries since the early 2000s (Pierola 2019).²⁴⁰ Exports of these few products to Europe

²⁴⁰ Personal Interview, Washington, DC, August 2019.

and the United States represent up to 70 percent of agricultural exports. However, this is a highly specialized industry with little labor demand (and mostly of low-skilled women in the fields): some accounts point to just 35,000 direct jobs (Contreras and Cueto 2018, 434).

The trade authorities estimate that the effect on jobs is stronger because they find that there are, on average, seven firms involved in the supply chain of each exporting firm (Matthews 2019).²⁴¹ However, those are likely to be poor paid, unstable jobs. The official statistics show that two thirds of all jobs in the country are informal. Such workers have no access to social rights such as minimum wage, paid vacations, retirement pension, or health care, and/or their employers are not formally registered, and thus less likely to provide any of those benefits (INEI 2020). Moreover, just 17 percent of the workforce had college degree in 2017 (it was 13 percent in 2007), and only 27 percent of all firms employ ten or more employees (INEI 2020). In addition, Peru experienced a strange demographic phenomenon in which the labor force shrank: when the country was growing the most between 2005 and 2010, more than 1.3 million Peruvians from low income families but with higher education level emigrated abroad, settling in Argentina, Chile, Spain, and the United States (Contreras and Cueto 2018, 449). Today, with their remittances in hard currency, Peruvians in exile constitute a major source of globalization inflow in the Peruvian economy.

For the Peruvian masses, trade is not an issue present in their homes, either. There is no primetime news discussion about exports prices, trade balances, pre-import licenses, or time to clear customs. In the 1990s, the media landscape changed with the decline of the traditional newspapers and the rise of tabloids and celebrity programs targeted at the new literate population in metropolitan Lima and the few other urban centers, while the countryside remained

²⁴¹ Personal Interview, Lima, Perú, September 10, 2019.

disconnected from national news altogether (Contreras and Cueto 2018, 425). That “*prensa chicha*” covers political scandals and entertainment, not economic and business news, and not even policy proposals. Every public official, business representative, scholar, and consultant interviewed for this study concurs that trade is just not in the public discussion. Politicians have no incentives to bring attention to the issue. That last time it happened was with the ratification of the USFTA when Humala was an opposition leader advocating for a blend of economic nationalism and indigenous heritage that he abandoned as soon as he was elected.

Nevertheless, another face of economic globalization is in the public agenda since the early 2000s: foreign direct investment in the mining sector. The issue is less with the foreign ownership of the mines or the export of the commodities than with the environmental and social consequences of mineral extraction. The main source of discontent is with access to water (used by corporations to extract metals) and blowing off mountain tops in deserted territories that overlap with indigenous ancestral lands. Local residents are also dissatisfied with the increase in substance abuse and crime surrounding the mines (Contreras and Cueto 2018, 441), many of which increasingly employ foreign workers, especially in management positions. The increasingly frequent violent clashes with the police and private security forces has put the issue in the national agenda and public opinion looks increasingly polarized about it between those who demand greater citizen consultation and protection of ecosystems and those who believe that the mining sector must not be blocked to stimulate the economy. The division is an interesting development in a country with very weak labor unions and civil society organizations (Dargent 2019).²⁴² However,

²⁴² Personal Interview, Lima, Perú, September 10, 2019.

citizen demands, and policy makers' responses, have had less to do with international trade policies or regulations about investments than with environmental standards and local regulations.

6.5 Summary

This chapter shows that Peruvian governments have pushed firmly in the direction of more open trade policies while public support has been fragile. The unique structure of Peru's export economy, the extreme weakness of parties, and the consensus of the elite (some of whom lead the agencies that make trade policy) about the model of integration into the world economy, leaves little room for voters and deviations are not punished in elections.

7.0 Conclusion

The world was moving into protectionist terrain even before the Covid-19 pandemic hit and governments closed borders, shattering global value and supply chains. The United States government has launched trade wars with China as well as with allies such as Canada and Japan, in a battlefield of tariffs and non-tariff measures against foreign goods from steel to wine. This was more than the doing of a populist president. The two political parties in the United States moved toward protectionism. The WTO's prime function, its dispute settlement mechanism, is fully paralyzed. Negotiations for a transatlantic trade agreement are frozen, as well. Argentina and its Mercosur partners took 20 years to culminate a trade deal with the European Union, but now a different administration in Buenos Aires has its own doubts while lawmakers in Brussels refuse to ratify the deal. Colombia, once the spearhead of free trade agreements in the Western Hemisphere, has withdrawn from the Comprehensive and Progressive Trans-Pacific Partnership.

After decades of assuming there was a strong free trade consensus, scholars, journalists, and pundits are increasingly pointing fingers at citizens' discontent with free trade. The "anti-globalization backlash" has entered our vocabularies. At its root, is the ideas that ordinary voters are unhappy with globalization because they think it has pernicious effects on their lives, their families, and the country as a whole (Colantone and Stanig 2019; J. Frieden 2019; Hays, Lim, and Spoon 2019; Norris and Inglehart 2019). Globalization is not only free trade, of course, but also unrestricted capital and massive migration. Still, trade is singled out as causing much harm and anxiety about our globalized world (Silver, Schumacher, and Mordecair 2020).

This came as a surprise because for too long, scholarship on trade politics either assumed that public opinion was strongly supportive of free trade or that public opinion had a very limited

role in trade policy making. The first view was overly optimistic about the masses embracing free trade (Baker 2009; Kono 2008; Milner and Mukherjee 2009) without having solid public opinion evidence that that was the case. The second view downplayed voters by focusing exclusively on lobbying by special interest groups (Alt and Gilligan 1994; Grossman and Helpman 1994; Rodrik 1995), both import-competing and exporting firms and business associations (J. A. Frieden 1991; Gawande and Bandyopadhyay 2000; I. S. Kim and Osgood 2019). The result was that studies did not examine whether and how public opinion really mattered in trade politics, which was analogous to “leaving soldiers out of the study of war” (Verdier 1994, xvii).

7.1 What I Did and What I Found

In this study, I brought the electorate at large back into trade politics. I argued that we should stop asserting citizens’ preferences on trade and start examining what aggregate trade sentiment is. If we measure aggregate sentiment about trade over time, I argued, we could test whether and how it shapes trade policy outputs. I recognized that sometimes aggregate opinion leans towards free trade and other times, it leans more toward protectionism. Those changes are not random, but orderly. I argued that changes in aggregate opinion on trade hinges not on the invariant preferences of people with clear economic preferences over trade policy (i.e., those who benefit or suffer from unrestricted commerce) but on what ordinary people with no direct stakes on trade, whom I called the bystanders, believe about trade. To assess trade, bystanders follow a neo-mercantilist shortcut which builds from the fact that trade openness has two components: imports and exports. Selling more exports abroad is portrayed by the media and the elite as a good thing because it creates jobs and signals national strength. By contrast, the neo-mercantilist

shortcut poses that buying many imported goods from abroad is a bad thing because it threatens jobs, is unfair and unsafe, and makes the nation look weak. Public support for free trade should be higher with more exports and lower when more imports. But not all surges in imports or sustained high levels of imports trigger a protectionist backlash. I followed the research on embedded liberalism and argued that government-provided social protection can compensate the losers from trade integration and dissuade bystanders from joining the anti-free trade coalition. Therefore, countries with a more generous welfare net should maintain relatively stable public opinion on trade in the face of an import shock.

In Chapter Two I presented a new time series index of public support for free trade for a large pool of countries in Latin America covering more than two decades. Studying these societies together is important because they exhibit some cultural and structural similarities but vary significantly in their trade policy choices over time. It is too simplistic to classify Latin American countries as converging to free trade just based on the fact that in all of them, governments rushed to unilaterally liberalize trade and join the WTO. Since 1995, Latin American countries have parted ways regarding trade, and this has especially been the case during the China-led cycle in commodity prices of the last two decades. In that context, I was able to estimate that public support for free trade was more fragile than previously thought (Baker 2009), and differences across countries were met with longitudinal variation within countries. Latin American voters, it turns out, like the idea of free trade when their countries enjoy strong export performance but become pessimistic when imports remain too high for a long time or suddenly grow too much.

The welfare state inherited from the pre-liberalization era (i.e., before the early 1990s) significantly shaped the reaction of the masses to the increase in foreign competition brought about with trade liberalization. The postwar welfare state in Latin America was developed by nationalist

governments that pursued import-substitution industrialization, the opposite of how the welfare state was developed in the open economies of Western Europe. Regardless of its origin, the web of social protection policies played a compensatory function. The panel data evidence shows that even when globalization pressured national governments in developing countries to cut public spending, social protection avoided the rise of anti-globalization backlash. This was especially true during the Chinese import shock of the last fifteen years.

My reassessment of public opinion in trade politics did not stop there. I asked how policy makers respond to public opinion to the point of eventually overcoming powerful interest groups and putting their own preferences aside. This is how we arrived at the conditional theory of trade policy responsiveness. In Chapter Three, I argued that policy makers respond to public (instead of elite or group-specific) opinion by choosing policies that ease restrictions on trade when free trade is more popular and by choosing policies that increase restrictions when free trade is less popular.

My theory predicted that there should be trade policy responsiveness when public officials are *willing* and *able* to follow public opinion. Informed by the literature on political economy, I argued that salience and incentives to appeal to the broader electorate shape the *willingness* to be responsive. The economic structure should determine salience, shaping how much trade appears as a prominent issue in the lives of many people. Differences in electoral institutions motivate politicians to cater to different electorates. In proportional democracies where rules give a dominant role to party leaders in campaigns and legislative behavior, lawmakers care more for the broader national electorate. In majoritarian democracies, or proportional ones where individual candidates cultivate a personal vote, lawmakers care more for the narrower electorate in their district.

Turning to the administrative dimension of economic policy making, I argued that the *ability* to respond to public opinion is crucial, offering two hypotheses. Responsiveness should be greater when the policy-making process is concentrated because concentration reduces coordination issues and shields the process from the recurrent access of special interest groups. And responsiveness should be greater when the trade policy instrument involved is more visible for society.

I tested the theory of trade policy responsiveness with quantitative data and econometric models in the same 18 Latin American democracies where I first measured public opinion on trade. These are countries that, on the one hand, diverge in the distribution of employment across economic sectors with varying level of exposure to trade, and on the other hand, all have majoritarian presidential systems with proportional (or mixed) systems for the legislature, but with a variety of electoral rule combinations. Above all, I found that the visibility of the trade policy instrument is a major source of ability to respond to public opinion. There is strong evidence of direct responsiveness to voters with preferential trade agreements and moderate evidence for average tariff rates. But there is no responsiveness to voters when dealing with non-tariff barriers, which are low visibility instruments. On the contrary, when voters are collectively more favorable to free trade, governments seem to impose new non-tariff barriers.

Furthermore, I found strong evidence in support for the idea that having fewer agencies in trade policy making enables governments to better respond to changes in aggregate trade sentiment. The causal mediation analysis shows that the setup of the trade administration is not a mediator but a condition for responsiveness. These two findings constitute major contributions to the political economy of trade, which had underemphasized the bureaucracy and public administration for a bigger focus on electoral incentives.

The three country case studies of Argentina (Chapter Four), Colombia (Chapter Five), and Peru (Chapter Six) ratified the findings on administrative concentration and offered qualitative evidence in support for the hypotheses on salience and party leaders, which had obtained only weak support in the statistical analysis with pooled panel data. On the one hand, the econometric models estimated that electoral rules that created incentives for a personal vote (in contrast to strong party leaders) were significantly associated with less responsiveness, given that in societies with those rules, higher public support for free trade led to higher tariff rates and NTBs. The evidence for PTAs, however, was the reverse, as higher public support for free trade led to more international trade treaties under candidate-centric rules. On the other hand, the econometric models found little support for the idea that willingness to respond to voters was higher when more workers were employed in the agriculture, mining, and manufacturing sectors (the evidence was stronger for NTBs than for the other two policy instruments). There are no optimal ways to measure salience as a pre-treatment condition and more work is needed to get a powerful instrument that works in a cross-country setting.

The case studies revealed that responsiveness works in Argentina precisely because there are strong party leaders that care about the national median voter and because trade is a highly salient issue, with a large labor force in import-competing industries in metropolitan districts, that divides political parties, and that captures the attention of the news media. The case studies also show how responsiveness is very low in a country with a diminutive import-competing industry and a highly dynamic export sector of raw materials that employs few, low-skilled workers, aggravated with a political system that has failed to develop real political parties after its late democratization. Finally, we clearly see in Colombia how an electoral system that rewards individual candidates over parties in legislative elections together with a very fragmented

technocratic trade bureaucracy makes it difficult to respond to public opinion, even though salience is not low.

What does this tell us about democratic representation in contemporary Latin America? According to a 2017 regional survey, 75 percent of Latin Americans believe that their elected leaders rule on behalf of “a few powerful groups” rather than for “the people as a whole” (Latinobarometer 2017). In Brazil and Mexico, the two largest democracies in the region, more than 90 percent of voters felt their governments do not care about society. This is higher, but not much from, the findings of the same survey question asked thirteen years before (Latinobarometer 2004). Citizens perceive their governments to be unresponsive and this is more extensive than any government’s level of (dis)approval or leader’s negative image. This is not surprising considering the growth in corruption scandals and the rise of inequality in a region where politicians had ignored campaign pledges and switched course in the past (Stokes 2001).

Citizens’ disaffection with democratic representation will not improve unless politicians are responsive once in office. The management of trade integration gives public officials a chance to follow public opinion. My findings show that, overall, responsiveness in the domain of trade exists but that governments do not all have the same incentives to follow public opinion or the ability to do so. There are important obstacles that hinder responsiveness in a public policy arena that has large effects locally and in the real economy at large. Those obstacles (the configuration of the public administration, electoral rules) are very hard for individual presidents or legislative sessions to modify. The best opportunity for policy makers to show that they care about voters when they regulate cross-border commerce is to choose visible policy instruments.

7.2 Public Opinion and Elite Cues

A remaining important question is whether policy makers manipulate mass opinion to give the false impression of responding to it. As Bourdieu said, for politicians “the modern equivalent of ‘God is on our side’ is ‘Public opinion is on our side’” (Bourdieu 1993). Some studies provide evidence that elites influence public opinion and citizens adopt politicians’ positions on public issues as their own (Gabel and Scheve 2007). All observational studies of public opinion and public policy will surely contain some degree of endogeneity, but that does not invalidate the whole research. The point is how to minimize it. While “economists rarely ask whether supply causes demand or whether consumers cause producers” (Baum and Potter 2008, 43), there is substantial scholarly disagreement in political science and communication science on whether political elites try to influence public opinion (and succeed or fail) and on how opinion leadership affects citizens’ preexisting views.

On the first point, there is observational evidence from the United States in the pre-Trump era that politicians try to craft opinion, but they are not very successful. The reason is that political competition tends to cancel out the impact of any individual party or politician (Chong and Druckman 2007; Canes-Wrone 2015). On the second issue, some authors contend that political elites exert persuasion on mass views by highlighting how their policy proposals are consistent with citizens’ preexisting values or by arguing they will accomplish shared goals (Chong and Druckman 2007; Zaller 1992). This model still allows politicians to be held accountable for deviating from responding to public opinion. But a different theory posits that political leadership is so strong that citizens are inclined to defer to politicians’ positions on an issue without demanding justifications to change their views (Achen and Bartels 2016). There is some field experimental evidence from the US subnational level that when voters receive information on issue

positions from their districts' representatives, those voters are more likely to adopt their representatives' positions, even if they previously opposed them (Broockman and Butler 2017).²⁴³ However, the experimenters acknowledge that the evidence “does *not* suggest politicians can always convince their constituents of anything, nor that they can reliably escape electoral punishment for everything” (Broockman and Butler 2017, 209).

This relates to the possibility that economic elites shape public opinion, too. There is evidence that business associations and large individual firms invest substantially not only to lobby policy makers but to influence voters with the goal of creating indirect pressure on policy makers to protect their interests (Jacobs and Page 2005). Economic elites can buy TV advertisements and use marketing tools for their causes, such as cutting corporate taxes or blocking regulations that harm their assets, but those are their more explicit influence activities. Businesses also recruit non-partisan experts and fund universities and think tanks that exert influence on citizens when they are interviewed by the media, or when the media disseminate their findings, and citizens respect them due to their positions of expertise.

Do elites consciously shape public opinion on trade, and if so, how? Trade is an international economic policy issue, which carries its own complications for studying the relationship between public opinion and public policy. Researchers generally argue that foreign policy affairs are “ripe for cue-giving” by elites exploiting the fact that foreign matters are distant from the lives of many citizens (Guisinger and Saunders 2017). Political elites can exploit the information gap of citizens and develop partisan cues to try to move citizens' opinion closer to

²⁴³ This well-known study has its own methodological problems: the inferences differ substantially once we control for post-treatment manipulation checks.

what they want. As Irwin (2017, 25) notes, “economic interests are sometimes passive until political entrepreneurs, motivated by ideas or driven by ideological passions, recruit them in support of a particular cause.” However, the available observational evidence, which is largely from the pre-Trump United States, suggests that trade policy is a domain in which partisanship does not significantly determine voter attitudes when controlling for individual income or skills (Guisinger 2009; Herrmann, Tetlock, and Diascro 2001). The most recent evidence, by contrast, shows that partisanship shapes Americans views on trade (Guisinger 2020). Donald Trump has effectively used loss frameworks, in which the aversion to losses outweigh the gains from trade (Freund and Özden 2008), to shape protectionist sentiment amid his followers. Business elites may also try to shape mass views on trade by financing information campaigns and experts that show how policies (they do not like) are effectively harming collective interests (while it may be the case it is only those specific business interests).

Moreover, observational evidence from contexts closer to this study show that politicians may have an important role in providing partisan cues to voters on matters of trade (Hicks, Milner, and Tingley 2014). Nonetheless, those actions occurred in Costa Rica surrounding the 2007 popular referendum to ratify the US-CAFTA, an extraordinary event, as voters were asked to cast a direct vote for or against a free trade agreement after political elites could not override legislative gridlock. In the rest of the region (and in other times in Costa Rica), voters do not intervene directly on trade policy decisions, but through their representatives and elected officials. Recent survey experiments in Argentina find that partisan voters that receive party cues on many policy issues, including trade, adopt the policy preferences attributed to their parties, polarizing opinions over issues that did not generate division in the absence of partisan sponsorship (Levy Yeyati, Moscovich, and Abuin 2020).

In this study I have addressed the relationship between public opinion, elite cues, and public policy in two ways. First, I have developed and tested a model of mass public opinion on trade. Opinion shifts toward protectionism and toward free trade are not random and not fully determined by members of society with clear interests for and against free trade. I argue that those changes are the result of people with no direct stakes on trade jumping into the protectionist or the free trade coalitions, respectively. The theory allows bystanders to receive messages from political and economic elites. Bystanders can receive messages from multiple members of the elite (e.g., the president, opposition leaders, business representatives) on factual, probable, or even fake effects of imports and of exports on the economy, their districts, and groups of people. The neo-mercantilist shortcut allows bystanders to make sense of these competing messages in the aggregate. Then I tested how two economic components of trade openness, the value of imports and the value of exports (with alternative indicators), that are not directly manipulated by public officials, explain shifts in aggregate sentiment.

The second way I addressed the relationship between public opinion and elite influence was to think of salience as a result of the national economic structure. If salience is one of the factors that should increase responsiveness, it cannot be a direct consequence of elite behavior or even of public policy choice. In the quantitative analysis, I measured salience with an indicator of the share of employment in the agriculture, mining, and manufacturing sectors of the economy using international classifications and data. In the case studies, I found evidence that policy makers sometimes assume what public opinion is and other times they monitor public opinion, but there was no indication that public officials acted consciously to manipulate public opinion on trade, with one exception. The exception was the extraordinary crisis that ensued in Argentina in 2008 when the government of Cristina Kirchner failed to change the new export taxes on agricultural

commodities in the face of public outrage. For many months, the single most important issue in the public agenda were the export taxes, and politicians from both sides of the aisle organized public acts and mobilized their voters to get others to support their positions for or against the policy. Either way, it was a reaction of the political elites to the initial change in the public mood that originated those partisan cues that tripled down to bystanders.

Political methodologists acknowledge the difficulty of estimating inherently endogenous causal relationships between public opinion, economic policy outputs, and macroeconomic outcomes. For example, Sattler, Freeman, and Brandt (2008) created a Bayesian structural vector autoregressive model to study how the British government reacted to changes in public opinion and how policy makers' policy outputs fed back into popular evaluations of government policy while controlling for the behavior of the real economy with quarterly data. Such a model involved 11 simultaneous equations, and just for one country. Unfortunately, there are no tractable empirical models for time-series, cross-country data.

7.3 Extensions

The first extension that future research should address is to predict policy makers' policy choices and position taking on trade policy by exploiting both variation in trade sentiment between subnational districts and individual policy makers' behavior. It is likely that trade sentiment in a given district does not match national trade sentiment. This could be the case for different reasons: firms' concentration, industrial development, import penetration, media presence and coverage, and elites' cueing and framing. District-level opinion could be estimated with Bayesian multilevel regression and poststratification. In the first stage, a multilevel model of individual survey

responses on trade is estimated, with opinion modeled as a function of demographic and geographic predictors. The second step is poststratification: the estimates for each demographic-geographic respondent type are weighted by the percentages of each type in actual district populations, so that we can estimate the percentage of respondents within each district who have an issue position (Lax and Phillips 2009; Caughey and Warshaw 2018).

The behavior of individual policy makers can be assessed by examining roll-call votes on trade-related bills and the content of legislators' speeches in the floor, by counting the frequency of positions for and against the removal of restrictions to trade. While nowadays executives take most decisions on trade policy, legislators intervene to ratify preferential trade agreements and sometimes they vote on omnibus bills that include customs regulations, including import and export tariff rates and schedules and quantitative restrictions on certain products and trading partners. It is interesting to study legislative behavior on trade because it helps to bridge the micro-to macro-level divide that I referred to earlier in this study. Legislators represent districts unevenly affected by trade and where free trade enjoys different levels of popularity. Such an empirical strategy could allow us to get at honest behavior given that legislators do not need to worry about domestic and international constraints on their trade policy choices as government leaders do, such as coordination with the exchange rate policy or legal commitments included in multilateral agreements. Moreover, this strategy would allow us to include direct measurement of interest group contributions and lobbying on trade matters which in multi-country studies are only inferred from indicators such as exchange rate movements and the business cycle.

My conditional theory of trade policy responsiveness and the model of shifting mass sentiment on trade are not limited to contemporary Latin America. Responsiveness is a problem of dynamic representation inherent to all democracies. And trade integration is an issue

everywhere. Moreover, the economic causes that activate the neo-mercantilist shortcut that drives the popularity of free trade are universal (all economies have imports and exports), while social protection is not. The next step would be to extend this research to other types of democracies.

The European case would be interesting for several reasons. First, those are parliamentary democracies with proportional representation, a combination that creates a different set of political incentives for policy makers to follow public opinion (Elkjaer and Iversen 2020). Members of parliament may not care much about the national median voter and the types of coalition governments that emerge will have to make compromises that may constrain responsiveness. The second reason is that, even when voters differ in their economic policy preferences by income level, European governments tend to follow not the wealthy as in the United States but the middle classes (Elkjaer and Iversen 2020). Third, the development of the welfare state was very different in Europe compared to Latin America. In the old continent it was part of a class compromise between workers and business leaders in the context of open borders and deep trade integration (Ruggie 1982; Hays 2009).

Most European countries have delegated substantial trade policy authority from the national government to the European Union. The EU Trade Commissioner and non-elected bureaucrats in the Directorate-General for Trade in Brussels make decisions previously reserved to national governments in the domains of administering the common external tariff, import control measures, standardization, inter-state trade disputes, and the negotiation of preferential trade agreements outside of the Union. This creates a whole set of constraints to respond to national-level public opinion. There are studies that show that countries representatives in the European Union administrative and executive bodies do try to accommodate their national electorates when voting on specific public policies (Hagemann, Hobolt, and Wratil 2017). But it is also true that

many European citizens feel disaffected in a political system which delegates important decisions on their jobs, wages, consumption, and production to a supranational body, a disaffection that has given rise to right-wing populism in consolidated democracies (Norris and Inglehart 2019).

The search for trade policy responsiveness in other democracies should not be limited to rich economies. I think we could gain a lot of insights from the relationship between public opinion and trade policy in a developing democracy. India would be a good candidate. With its important ethnic divisions, India's political system has different citizen-politicians linkages than those found in Latin America. The sources of political division and the rules that constitution makers in India have envisaged to accommodate such division can create other opportunities and costs for policy makers to respond to public opinion. Moreover, India is similar to the largest economies of South America, such as Brazil, in respect to the structure of trade policy. India is known for its frequent use of protectionist measures to isolate domestic producers from international competition. Crucially, India is a low income, low skilled labor abundant country that faces extraordinary pressure from the economic rise of China, boosted by high productivity, import repression, and state subsidies.

Extending the study of trade policy responsiveness raises the questions of the possibility of adjusting policy to public opinion in authoritarian regimes. In principle, authoritarian regimes are not prone to responsiveness because governments are not formed by popular will, the selectorate and winning coalitions that keep autocratic rulers in power are small, and there is no freedom of expression. The latter point implies that while public opinion does not cease to exist, because individuals have their own opinions, the masses cannot express their opinions freely without fear of retaliation from the government. Moreover, the aggregation of opinions may be channeled through institutional means that coerce and manipulate the results (e.g., pollsters may

need to adjust the survey findings to please state officials). The first two points, by contrast, deal with the political survival of policy makers. Autocrats fear no electoral punishment, because there are no elections, or when there are, they are not free and fair.

In recent years, however, scholars have shown that autocracies are not all the same, that they adopt different political institutions, with some regimes utilizing nominally “democratic” institutions, particularly legislatures and elections, to manage societal discontent (Gandhi 2008). This line of research argues that legislatures, such as in Brazil during the military dictatorship, help autocratic regimes identify popular discontent because they allow legislators to make demands on the government on behalf of their constituents, who then use the information to stabilize the political situation by making some policy concessions. Actual evidence of that mechanism is largely anecdotal, but some new studies with panel data identify that weak electoral results for autocratic parties (that allow elections) leads to increases in education and social welfare spending and decreases in military spending following elections (Miller 2015). There is no evidence, however, that autocratic governments respond to public opinion in between elections rather than to electoral results. In addition, I have low expectations that they would do so in the domain of trade policy, which is documented to have been used by autocrats to create and distribute rents to their winning coalitions in the business sector and the armed forces (Milner and Kubota 2005; Milner and Mukherjee 2009; Weyland 2002). In my case study of post-1992 Peru under the Fujimori regime, I show that in fact there was little responsiveness to voters on trade, even when the president replaced the neoliberal technocrats (who should be more isolated from societal pressures) in charge of trade policy with business representatives.

In sum, policy responsiveness is in the nature of representative democracies. The decisions that national public officials make to manage trade integration in the global economy can respond

to voters' aggregate sentiment when there is a real threat of electoral punishment for deviating from the popular will. This is the clearest when governments decide to move forward with international preferential trade agreements. Ultimately, the willingness to respond is shaped by the economic and electoral configurations in place while the ability to effectively respond depends on how democracies organize their policy-making processes.

Appendix A Appendix to Chapter 2

Appendix A Table 1: Distribution of Survey Questions by Source

Source/Pollster	Questions	Countries	Years
Centro de Investigación y Docencia Económicas	3	6	2004, 2006, 2008, 2010, 2012, 2014, 2015
Consortio Iberoamericano de Investigaciones de Mercados y Asesoramiento	2	18	2003, 2004, 2009, 2011
Gallup	1	2	2001, 2006, 2008
Graciela Romer & Asociados	1	1	1993-1995
Latinobarometer	4	18	1995-2010, 2015-2017
Latin American Public Opinion Project	1	14	2004, 2006-2008, 2010, 2012
Office of the President (Mexico)	4	1	1991-1993
Pew Research Center	1	7	2002, 2007-2011, 2014
US Information Agency	8	9	1990, 1992-2001

Appendix A Table 2: Full Survey Questions by Source

US Information Agency

1. Some countries favor few restrictions to trade. Others favor many restrictions in order to protect their own products. What do you think is best?
2. To what degree do you think that MERCOSUR benefits your country's economy?
3. Do you think that NAFTA is beneficial for you country?
4. Do you think that NAFTA will be beneficial for the country's economic development?
5. Do you think that NAFTA will be beneficial for the country's long-term economic development?
6. Do you think that the free trade policy of the US toward Latin America is beneficial to the economy of your country?
7. Do you think that the Free Trade Area of the Americas will benefit the economy of your country?
8. Do you think that a Free Trade Agreement with the US will benefit your country?

Latinobarometer

9. Do you agree that your country can buy goods and services from any other country and that any other country can sell goods and services?
10. Do you agree that the Free Trade Area of the Americas will be beneficial for the economic development of the country?
11. Do you think that economic integration agreements have a positive impact on job opportunities?
12. Do you think that economic integration agreements have a positive impact on your country's development?

Office of the Technical Advisor to the President of Mexico

13. Do you agree with your country joining a free trade agreement with the US and Canada to reduce tariffs and restrictions to trade?
14. Overall, do you agree with your country joining NAFTA?

15. Do you think that NAFTA will be beneficial for the country's economic development?
16. Do you think that NAFTA will be beneficial for the average citizen?

Centro de Investigación y Docencia Económicas

17. ¿Cree usted que el mayor contacto de nuestra economía con otras economías en el mundo, lo que se conoce como globalización, es generalmente bueno o generalmente malo para el país?
18. El libre comercio trae ventajas (por ejemplo, nuevos mercados para productos mexicanos) como desventajas (por ejemplo, mayor competencia de productos extranjeros). Tomando esto en cuenta, ¿cree usted que el libre comercio es bueno o malo para la economía de su país?
19. En general, ¿cree usted que el NAFTA es bueno o malo para la economía de su país?

CIMA

20. En general, ¿cree usted que el comercio internacional es bueno o malo para la economía de su país?
21. La globalización tiene ventajas (ej. mayor oferta de productos a precios más bajos) y desventajas (ej. mayor vulnerabilidad frente a crisis internacionales). ¿Cree que esto es generalmente bueno o generalmente malo para el país?

Pew Research Center: Global Attitudes

22. What do you think about the growing trade and business ties between your country and other countries?

LAPOP: Americas Barometer

23. To what extent do you think that free trade agreements with other countries in Latin America will help improve [country's] economy?

Gallup

24. Do you agree that a FTA with the United States will create more jobs in your country?

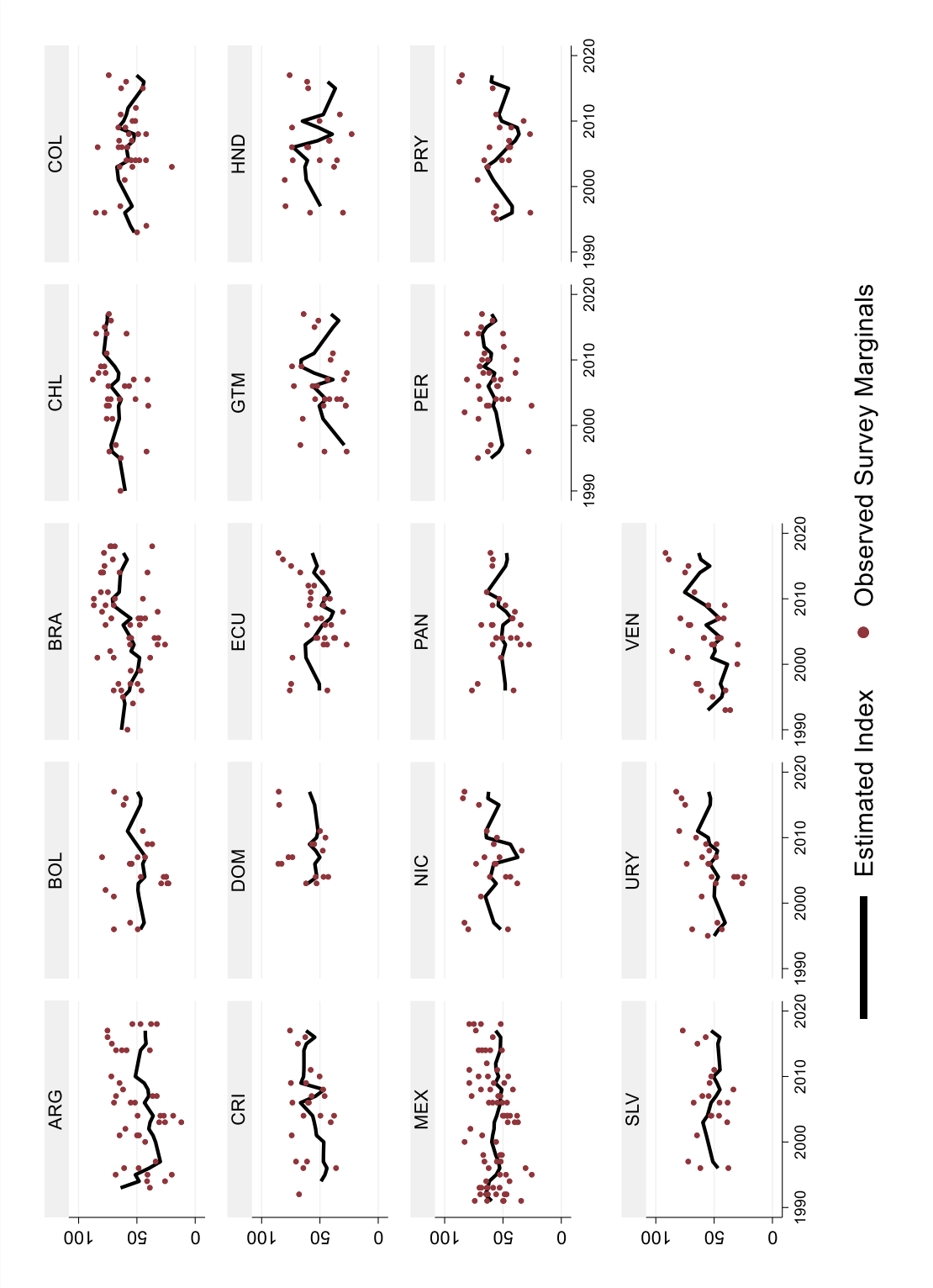
Graciela Romer & Asociados

25. ¿Está usted de acuerdo en que la apertura de las importaciones beneficia a los consumidores porque pueden comprar productos mejores y más baratos, o que la apertura perjudica a la gente porque aumenta el desempleo?

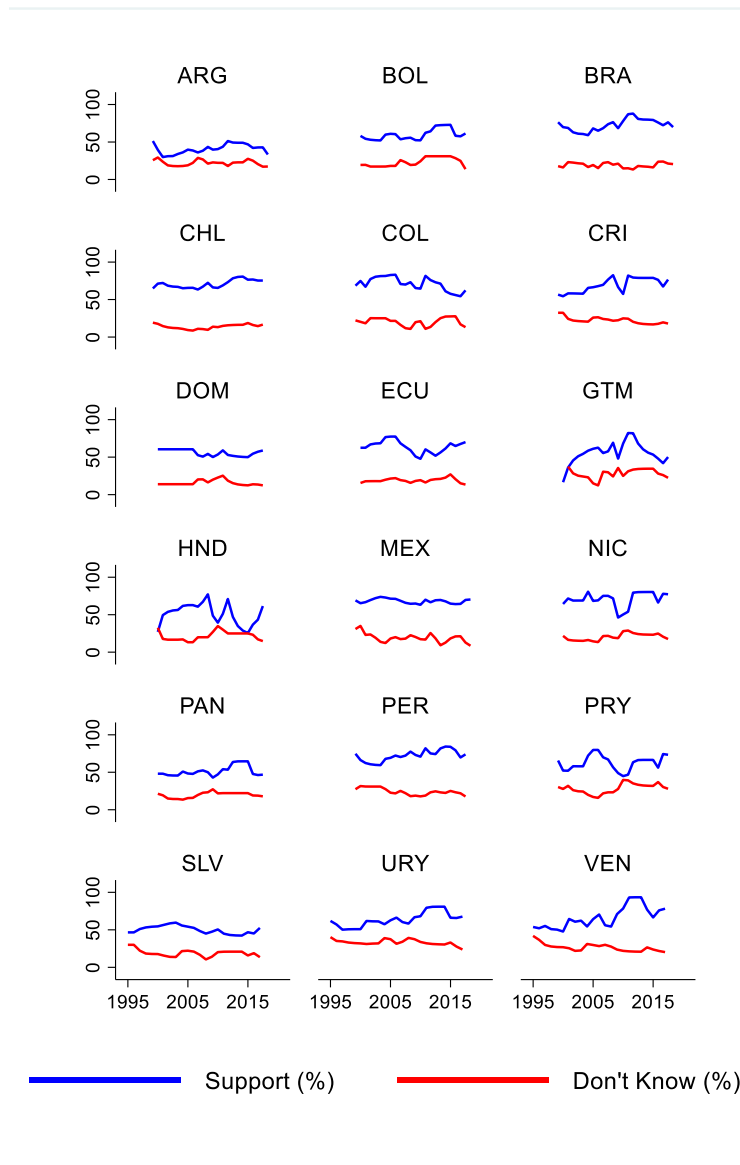
Appendix A Table 3: From Unbalanced Survey Marginals to a Continuous Indicator

Country	Years covered	Survey questions	Survey marginals	Estimated observations	Dimension Eigenvalue	Variance explained (%)
Argentina	1993-2017	10	34	25	1.28	87.71
Bolivia	1996-2017	8	24	22	0.78	71.37
Brazil	1990-2017	13	44	28	1.18	80.08
Chile	1990-2017	11	31	28	0.88	79.66
Colombia	1990-2017	11	32	28	0.92	87.03
Costa Rica	1992-2017	8	23	26	0.70	78.82
Dominican Republic	1996-2017	6	16	22	0.58	79.13
Ecuador	1996-2017	10	31	22	1.09	77.61
El Salvador	1994-2017	6	20	24	0.70	84.08
Guatemala	1996-2017	8	25	22	0.80	79.50
Honduras	1996-2017	6	20	22	0.70	72.01
Mexico	1990-2017	18	66	28	1.39	72.48
Nicaragua	1996-2017	6	20	22	0.80	88.53
Panama	1996-2017	8	26	22	0.87	73.58
Paraguay	1995-2017	7	22	23	0.83	86.55
Peru	1994-2017	11	35	24	0.88	70.27
Uruguay	1990-2017	8	25	28	0.76	85.11
Venezuela	1990-2017	10	30	28	0.93	86.71

Appendix A Figure 1: Observed Opinion Survey Data and Estimated Index of Public Support for Free Trade



Appendix A Figure 2: Support and Do Not Know Responses on Free Trade



**Appendix A Table 4: Three-Year Average Imports and Exports and Public Support for
Free Trade**

	(1) Random Effects	(2) Fixed Effects	(3) Fixed Effects	(4) Fixed Effects
Imports(3avg)	-0.086 (0.108)	-0.094 (0.138)	0.027 (0.078)	-0.012 (0.071)
Exports(3avg)	0.375*** (0.132)	0.426** (0.163)	0.189** (0.075)	0.207*** (0.073)
Social Protection _{t-1}	14.945** (5.978)	17.583** (6.625)	12.702*** (3.218)	4.139 (3.580)
Imports(avg)*Social Protection _{t-1}				0.612** (0.255)
Unemployment _{t-1}	0.237 (0.371)	0.376 (0.396)	0.448*** (0.120)	0.440*** (0.113)
Inflation _{t-1}	-0.045 (0.061)	-0.050 (0.053)	-0.040 (0.046)	-0.039 (0.046)
GDP growth _{t-1}	-0.037 (0.112)	-0.038 (0.109)	-0.061 (0.110)	-0.057 (0.109)
Exchange rate _{t-1}	-0.014 (0.010)	-0.005 (0.010)	-0.015* (0.009)	-0.014 (0.009)
GDP per capita _{t-1}	0.608 (5.451)	0.626 (4.535)	7.612** (3.787)	3.898 (3.614)
Labor mobility _{t-1}	-0.093 (0.199)	-0.084 (0.200)	-0.090 (0.087)	-0.112 (0.087)
Time trend			-0.397* (0.226)	-0.258 (0.218)
Public Support _{t-1}			0.552*** (0.052)	0.555*** (0.052)
Constant	19.744 (78.602)			
Observations	319	319	319	319
R ²	0.083	0.137	0.879	0.887
rho	.472			

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is index of public support for free trade (see Chapter Two). A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Model 1 is Random Effects regression with robust clustered standard errors. Model 2 is Fixed Effects regression with robust clustered standard errors. Models 3 and 4 are AR(1) Prais-Winsten Fixed Effects regressions with panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix A Table 5: Imports and Exports (Absolute) and Public support for Free Trade

	(1) Fixed Effects	(2) Fixed Effects	(3) Error Correction	(4) Error Correction
Imports (abs) _{t-1}	-0.003*** (0.001)	-0.007*** (0.002)	-0.003*** (0.001)	-0.008*** (0.002)
Imports (abs) _Δ			0.006*** (0.002)	0.005** (0.002)
Exports (abs) _{t-1}	0.002 (0.001)	0.003** (0.001)	0.002 (0.002)	0.003 (0.002)
Exports (abs) _Δ			-0.014*** (0.003)	-0.015*** (0.003)
Social Protection _{t-1}	11.338*** (3.978)	8.802** (4.389)	10.893** (4.300)	7.340 (4.732)
Imports (abs)*Social Protection _{t-1}		0.003*** (0.001)		0.004*** (0.001)
Social Protection _Δ			-0.974 (5.882)	-2.126 (5.495)
Imports (abs)*Social Protection _Δ				0.030 (0.065)
Unemployment _{t-1}	0.232** (0.098)	0.207** (0.098)	0.379*** (0.129)	0.333** (0.131)
Unemployment _Δ			0.327* (0.181)	0.313* (0.183)
Inflation _{t-1}	-0.008 (0.042)	-0.010 (0.041)	-0.063 (0.050)	-0.070 (0.049)
Inflation _Δ			-0.082* (0.050)	-0.088* (0.047)
GDP growth _{t-1}	0.027 (0.108)	0.025 (0.108)	-0.004 (0.206)	-0.002 (0.202)
GDP growth _Δ			-0.094 (0.172)	-0.093 (0.168)
Exchange rate _{t-1}	-0.023*** (0.008)	-0.023*** (0.008)	-0.015 (0.012)	-0.013 (0.012)
Exchange rate _Δ			0.010 (0.008)	0.010 (0.008)
GDP per capita _{t-1}	5.435 (3.571)	6.270* (3.537)	1.333 (4.329)	2.496 (4.332)
GDP per capita _Δ			-3.128 (15.052)	-2.765 (14.796)
Labor mobility _{t-1}	-0.089 (0.086)	-0.102 (0.084)	-0.183 (0.121)	-0.207* (0.118)
Labor mobility _Δ			-0.112 (0.107)	-0.120 (0.106)
Time trend	-0.228 (0.210)	-0.233 (0.211)	-0.048 (0.246)	-0.057 (0.248)
Public Support _{t-1}	0.587*** (0.046)	0.581*** (0.046)	-0.398*** (0.049)	-0.406*** (0.050)
Observations	325	325	310	310
R ²	0.868	0.884	0.288	0.293

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1 and 2 is index of public support for free trade (see Chapter Two). Dependent variable in Models 3 and 4 is change in index of public support for free trade. A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Variables with Δ indicate one-year change. Models 1 and 2 are AR(1) Prais-Winsten Fixed Effects regressions with panel corrected standard errors. Models 3 and 4 are Error Correction Models with Fixed Effects and panel corrected

standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix A Table 6: Trade Balance and Public Support for Free Trade

	(1) Fixed Effects	(2) Fixed Effects	(3) Error Correction
Trade Balance _{t-1}	0.255 (0.208)	0.133 (0.086)	0.366*** (0.128)
Trade Balance _Δ			0.449*** (0.147)
Social Protection _{t-1}	13.144* (7.184)	10.174*** (3.081)	11.850*** (3.128)
Social Protection _Δ			0.631 (6.431)
Unemployment _{t-1}	0.175 (0.373)	0.200** (0.091)	0.255** (0.112)
Unemployment _Δ			0.211 (0.179)
Inflation _{t-1}	-0.025 (0.056)	-0.019 (0.045)	-0.082 (0.056)
Inflation _Δ			-0.124** (0.057)
GDP growth _{t-1}	0.090 (0.083)	0.016 (0.106)	0.111 (0.225)
GDP growth _Δ			0.022 (0.194)
Exchange rate _{t-1}	-0.013 (0.015)	-0.020** (0.009)	0.004 (0.013)
Exchange rate _Δ			0.021*** (0.008)
GDP per capita _{t-1}	3.301 (4.355)	6.313* (3.426)	8.000* (4.652)
GDP per capita _Δ			-8.892 (20.067)
Labor mobility _{t-1}	-0.019 (0.181)	-0.098 (0.089)	-0.186 (0.134)
Labor mobility _Δ			-0.122 (0.123)
Time trend		-0.288 (0.199)	-0.465** (0.222)
Public Support _{t-1}		0.574*** (0.046)	-0.377*** (0.050)
Observations	328	325	310
R ²	0.085	0.864	0.312

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1 and 2 is index of public support for free trade (see Chapter Two). Dependent variable in Model 3 is change in index of public support for free trade. A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Variables with Δ indicate one-year change. Model 1 is Fixed Effects regression with robust clustered standard errors. Model 2 is AR(1) Prais-Winsten Fixed Effects regression with panel corrected standard errors. Model 3 is Error Correction Model with Fixed Effects and panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix A Table 7: Temporal Breaks

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Years covered	1995-2002	1995-2003	1995-2004	1995-2005	1995-2006	1995-2007	1995-2008	1995-2009	1995-2010	1995-2011	1995-2012	1995-2013	1995-2014	1995-2015	1995-2016
Imports	-0.180 (0.119)	-0.160 (0.114)	-0.049 (0.153)	-0.014 (0.089)	-0.055 (0.087)	-0.208* (0.117)	-0.250** (0.116)	-0.225** (0.098)	-0.178** (0.076)	-0.189** (0.077)	-0.161** (0.075)	-0.131* (0.073)	-0.128* (0.070)	-0.119* (0.071)	-0.103 (0.063)
Social Protection	11.877 (11.203)	12.597* (7.164)	24.393*** (7.184)	22.023** (8.949)	16.272* (9.283)	5.072 (9.325)	9.599 (6.917)	-2.852 (5.410)	-2.574 (4.877)	-0.390 (4.500)	1.866 (4.080)	3.249 (3.796)	3.475 (3.559)	3.333 (3.658)	4.026 (3.600)
Imports *	-0.225 (0.326)	-0.223 (0.239)	-0.806** (0.391)	-0.996* (0.562)	-0.777 (0.527)	-0.064 (0.507)	-0.090 (0.403)	0.610** (0.279)	0.566** (0.271)	0.654** (0.260)	0.594** (0.241)	0.541** (0.230)	0.515** (0.222)	0.659*** (0.235)	0.646*** (0.224)
Social Protection	80	97	115	133	150	166	182	198	214	230	246	262	278	294	310
Observations	0.995	0.990	0.979	0.982	0.977	0.968	0.966	0.930	0.913	0.920	0.915	0.896	0.893	0.881	0.855

Note: This table reports partial results from 16 AR(1) autocorrelation fixed effects regressions with panel corrected standard errors. Models incrementally incorporate one more year. Dependent variable is index of public support for free trade. A positive coefficient indicates that an increase in imports generates an increase in public support for free trade at higher levels of spending in social protection. All predictors are lagged one year. All models control for exports, unemployment, inflation, GDP growth, exchange rate overvaluation, GDP per capita, labor mobility, and a temporal trend (coefficients not shown here). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix A Table 8: Imports, Exports, and Social Protection with Country Effects

	(1)	
	Public Support	
Public Support	0.564***	(0.045)
Imports/GDP	-0.119*	(0.061)
Social Protection	4.440	(3.517)
Imports * Social Protection	0.554**	(0.221)
Exports	0.183***	(0.069)
Unemployment	0.212**	(0.089)
Inflation	-0.047	(0.049)
GDP growth	-0.055	(0.107)
Exchange rate	-0.019*	(0.010)
GDP per capita	4.671	(3.162)
Labor mobility	-0.122	(0.085)
Time trend	-0.271	(0.192)
Argentina	-16.400***	(3.768)
Bolivia	0.162	(2.474)
Brasil	-7.403**	(3.723)
Chile	-9.329***	(3.536)
Colombia	-4.488***	(1.731)
Costa Rica	-4.921*	(2.545)
Ecuador	0.261	(3.364)
El Salvador	1.875	(2.020)
Guatemala	2.053	(1.729)
Honduras	2.204	(4.397)
Mexico	-4.905**	(2.153)
Nicaragua	-0.978	(6.032)
Panama	-7.380**	(3.159)
Paraguay	-4.043***	(1.247)
Peru	1.972	(1.588)
Venezuela	-8.687***	(2.767)
Uruguay	-13.481***	(3.752)
Observations	325	
R ²	0.860	

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is index of public support for free trade (see Chapter Two). A positive coefficient indicates that an increase in the independent variable generates an increase in public support. Model 1 is AR(1) Prais-Winsten Fixed Effects regression with panel corrected standard errors in parenthesis.

Appendix B Appendix to Chapter 3

Appendix B Table 1: Public Opinion and Preferential Trade Agreements: Alternative Models

	(1)	(2)	(3)	(4)
	Linear Jackknife	Negative Binomial Jackknife	Negative Binomial Lagged DV	Negative Binomial PR
Public Support	0.151*** (0.028)	0.015*** (0.002)	0.005* (0.003)	0.037*** (0.012)
GDP per capita	7.863*** (1.338)	0.684*** (0.153)	-0.356 (0.505)	0.320 (0.456)
GDP growth	-0.041 (0.100)	-0.002 (0.011)	0.014*** (0.005)	0.011** (0.005)
Financial Openness	0.863 (1.980)	-0.081 (0.171)	0.245 (0.150)	0.262* (0.154)
Exchange rate	-0.005** (0.002)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Left	-0.653 (0.967)	-0.190 (0.128)	0.067 (0.056)	0.085* (0.051)
PR				1.097*** (0.296)
Public Support*PR				-0.013** (0.006)
Tradable Labor Force				0.014 (0.024)
Public Support* Tradable Labor Force				0.000 (0.000)
Trade Agencies				0.152** (0.073)
Public Support*Trade Agencies				-0.003** (0.002)
Lagged DV			0.040** (0.016)	
Constant	-71.502*** (14.182)	-131.073*** (22.516)	-128.335*** (36.223)	-150.602*** (36.887)
Observations	367	367	367	362
AIC	2091.382	1802.058	1466.856	1473.531
BIC	2118.720	1837.207	1502.004	1543.581
R ²	0.540			

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is cumulative stock of signed Preferential Trade Agreements. Model 1 is linear probability model with robust jackknifed std. errors. Model 2 is negative binomial regression with robust jackknifed std. errors. Models 3 and 4 is negative binomial Fixed Effects regressions with robust clustered std. errors. AIC: Akaike inf. criterion. BIC: Bayesian inf. criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 2: Public Opinion and Preferential Trade Agreements: Other Controls

	(1)	(2)	(3)
Public Support	0.021 (0.014)	0.015 (0.014)	0.023 (0.014)
Personal Vote	-0.252*** (0.063)	-0.270*** (0.057)	-0.270*** (0.057)
Public Support*Personal Vote	0.003*** (0.001)	0.002*** (0.001)	0.003*** (0.001)
Tradable Labor Force	-0.012 (0.022)	-0.011 (0.022)	-0.010 (0.023)
Public Support*Tradable Labor Force	0.000 (0.000)	0.001* (0.000)	0.000 (0.000)
Trade Agencies	0.316*** (0.087)	0.287*** (0.071)	0.321*** (0.077)
Public Support*Trade Agencies	-0.006*** (0.002)	-0.005*** (0.001)	-0.006*** (0.001)
GDP per capita	0.345 (0.449)	0.467 (0.459)	0.437 (0.433)
GDP growth	0.009** (0.005)	-0.002 (0.004)	0.010** (0.005)
Financial Openness	0.347** (0.137)	0.129 (0.103)	0.299** (0.145)
Exchange rate	0.000 (0.000)	-0.000 (0.000)	0.000* (0.000)
Left	0.068 (0.050)	0.029 (0.047)	0.074* (0.045)
Temporal trend	0.073*** (0.022)	0.058*** (0.018)	0.065*** (0.019)
Checks and Balances	0.032** (0.015)		
Regional Trade		0.035*** (0.007)	
Customs Union			0.970*** (0.219)
$\ln(\alpha)$	-17.689	-18.269***	-17.686***
Observations	347	362	362
AIC	1384.164	1441.192	1458.294
BIC	1441.904	1499.567	1512.777

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is cumulative stock of signed Preferential Trade Agreements. All models are negative binomial Fixed Effects regressions with robust clustered standard errors. AIC is Akaike information criterion. BIC is Bayesian information criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 3: Public Opinion and Import Tariff Rates: Alternative Models

	(1)	(2)	(3)
Public Support _{t-1}	-0.011 (0.036)	0.002 (0.005)	0.129 (0.143)
Public SupportΔ		-0.006 (0.007)	
Personal VoteΔ		-0.154 (0.142)	
Public Support*Personal VoteΔ		0.034 (0.058)	
Personal Vote _{t-1}	-0.333* (0.185)	-0.363** (0.182)	
Public Support*Personal Vote _{t-1}	0.014*** (0.004)	0.007*** (0.002)	
PR _{t-1}			8.236* (4.205)
Public Support*PR _{t-1}			-0.161** (0.079)
Trade Agencies _{t-1}	0.302 (0.214)	0.209 (0.158)	-0.378 (0.431)
Public Support*Trade Agencies _{t-1}	-0.005 (0.004)	-0.005 (0.003)	0.008 (0.010)
Trade AgenciesΔ		0.248** (0.100)	
Public Support*Trade AgenciesΔ		0.040** (0.017)	
Tradable Labor Force _{t-1}	0.049 (0.061)	0.018 (0.039)	0.077 (0.140)
Public Support*Tradable Labor Force _{t-1}	0.001 (0.001)	0.000 (0.000)	-0.001 (0.002)
Tradable Labor ForceΔ		0.059* (0.034)	
Public Support*Tradable Labor ForceΔ		-0.001 (0.007)	
GDP per capita _{t-1}	-2.031*** (0.723)	-0.107 (0.609)	-3.018 (3.051)
GDP per capitaΔ		-1.524 (2.595)	
GDP growth _{t-1}	-0.039** (0.018)	-0.048 (0.030)	-0.033 (0.030)
GDP growthΔ		-0.020 (0.027)	
Financial Openness _{t-1}	-1.547*** (0.318)	-0.670** (0.265)	-1.410* (0.789)
Financial OpennessΔ		-0.175 (0.381)	
Exchange rate _{t-1}	0.002 (0.002)	-0.001 (0.002)	0.001 (0.003)
Exchange rateΔ		0.000 (0.001)	
Left _{t-1}	0.272 (0.190)	0.081 (0.136)	0.465 (0.507)
LeftΔ		-0.459*** (0.145)	

Lagged DV		-0.553***	
		(0.057)	
Observations	353	332	353
R ²	0.804	0.360	0.400

Note: Pooled data, 18 countries, 1995-2017. Dependent variable in Models 1 and 3 is average level of ad-valorem Most Favored Nation (MFN) import tariff rate. Dependent variable in Model 2 is change in average MFN import tariff rate. A positive coefficient indicates that an increase in the independent variable generates an increase in the average level of import tariff rates (i.e., less free trade). Variables with Δ indicate one-year change. Model 1 is Fixed Effects linear regression with robust jackknifed standard errors. Model 2 is Error Correction Model with panel corrected standard errors. Model 3 is Fixed Effects linear regression with robust clustered standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 4: Public Opinion and Import Tariff Rates: Other Controls

	(1)	(2)	(3)
Public Support	0.003 (0.004)	0.004 (0.004)	0.004 (0.004)
Personal Vote	-0.181 (0.127)	-0.139 (0.132)	-0.137 (0.131)
Public Support*Personal Vote	0.006** (0.002)	0.005** (0.002)	0.004** (0.002)
Tradable Labor Force	-0.006 (0.038)	-0.007 (0.035)	-0.006 (0.036)
Public Support*Tradable Labor Force	0.000 (0.000)	0.001 (0.000)	0.001 (0.000)
Trade Agencies	0.080 (0.162)	0.145 (0.157)	0.133 (0.157)
Public Support*Trade Agencies	-0.004 (0.003)	-0.005 (0.003)	-0.005 (0.003)
GDP per capita	0.998* (0.538)	0.856 (0.571)	0.888 (0.553)
GDP growth	-0.035*** (0.013)	-0.036** (0.015)	-0.039*** (0.013)
Financial Openness	-0.860*** (0.279)	-0.718*** (0.277)	-0.752*** (0.273)
Exchange rate	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Left	0.286*** (0.107)	0.218** (0.101)	0.213** (0.102)
Checks and Balances	-0.030 (0.054)		
Regional Trade		-0.012 (0.020)	
Customs Union			-0.332 (0.822)
Temporal trend	-0.097*** (0.031)	-0.071** (0.033)	-0.077** (0.030)
Lagged DV	0.456*** (0.060)	0.470*** (0.059)	0.471*** (0.059)
Observations	333	345	345
R ²	0.949	0.951	0.950

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is average level of ad-valorem Most Favored Nation (MFN) import tariff rate. All models are AR(1) autocorrelation Fixed Effects linear regressions with panel corrected standard errors. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 5: Public Opinion and Non-Tariff Barriers: Alternative Models

	(1) Linear Jackknife	(2) Negative Binomial Jackknife	(3) Negative Binomial Fixed Effects	(4) Negative Binomial Fixed Effects
Public Support	0.919** (0.379)	0.036*** (0.012)	0.018** (0.009)	-0.039 (0.060)
GDP per capita	22.147*** (6.364)	1.195*** (0.365)	0.027 (0.750)	0.097 (0.883)
GDP growth	-1.336 (0.814)	-0.040* (0.021)	-0.000 (0.019)	0.004 (0.018)
Financial Openness	-17.338 (15.438)	-0.271 (0.524)	0.906** (0.460)	0.821 (0.501)
Exchange rate	-0.016 (0.012)	-0.001* (0.001)	0.005*** (0.001)	0.005*** (0.001)
Left	4.508 (9.483)	-0.042 (0.248)	-0.021 (0.124)	0.011 (0.146)
PR				0.991 (2.927)
Public Support*PR				0.005 (0.045)
Tradable Labor Force				-0.019 (0.073)
Public Support*Tradable Labor Force				-0.000 (0.001)
Trade Agencies				-0.525** (0.218)
Public Support*Trade Agencies				0.010** (0.004)
Lagged DV			0.006** (0.003)	
Constant	-209.553*** (61.128)	4.906 (32.483)		
ln(α)		0.395* (0.195)	-0.330 (0.150)	-0.372 (0.150)
Observations	367	367	367	362
AIC	3550.442	2922.615	2699.796	2684.164
BIC	3577.780	2957.763	2734.944	2738.647
R ²	0.254			

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is count of Non-Tariff Barriers reported by the government to the WTO, including price, quantity, and quality import control measures. Model 1 is linear probability models with robust jackknifed standard errors. Model 2 is negative binomial regression with robust jackknifed standard errors. Models 3 and 4 are negative binomial Fixed Effects regressions with robust clustered standard errors. AIC is Akaike information criterion. BIC is Bayesian information criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 6: Public Opinion and Non-Tariff Barriers: Other Controls

	(1)	(2)	(3)
Public Support	-0.041 (0.053)	-0.040 (0.050)	-0.037 (0.047)
Personal Vote	-0.046 (0.172)	-0.022 (0.167)	-0.016 (0.167)
Public Support*Personal Vote	0.001 (0.004)	-0.000 (0.003)	0.000 (0.003)
Tradable Labor Force	-0.014 (0.080)	-0.025 (0.079)	-0.019 (0.078)
Public Support* Tradable Labor Force	-0.001 (0.001)	-0.000 (0.001)	-0.000 (0.001)
Trade Agencies	-0.559* (0.299)	-0.548** (0.278)	-0.526* (0.290)
Public Support*Trade Agencies	0.011* (0.006)	0.011* (0.005)	0.010* (0.006)
GDP per capita	-0.064 (0.882)	0.273 (0.864)	0.032 (0.869)
GDP growth	0.009 (0.019)	-0.007 (0.020)	0.007 (0.019)
Financial Openness	0.895* (0.526)	0.626 (0.567)	0.863* (0.522)
Exchange rate	0.005*** (0.001)	0.004*** (0.001)	0.005*** (0.001)
Left	0.016 (0.126)	-0.015 (0.116)	0.005 (0.116)
Checks and Balances	0.005 (0.100)		
Regional Trade		0.050* (0.030)	
Customs Union			-2.163*** (0.394)
Temporal trend	0.015 (0.052)	-0.019 (0.052)	0.011 (0.053)
$\ln(\alpha)$	-0.328	-0.385	-0.362
Observations	347	362	362
AIC	2569.858	2683.595	2687.369
BIC	2627.598	2741.969	2741.852

Note: Pooled data, 18 countries, 1995-2017. Dependent variable is count of Non-Tariff Barriers reported by the government to the WTO, including price, quantity, and quality import control measures. All models are negative binomial regressions with robust clustered standard errors. AIC is Akaike information criterion. BIC is Bayesian information criterion. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B Table 7: Mediation Analysis: Trade Agencies

	(1) PTA First Stage	PTA Second Stage	(2) Tariff Rate First Stage	Tariff Rate Second Stage	(3) NTB First Stage	NTB Second Stage
Public Support	0.022* (0.011)	0.087* (0.046)	0.024* (0.011)	-0.064* (0.035)	0.022* (0.011)	0.877** (0.376)
Trade Agencies		0.386 (0.406)		-0.313 (0.242)		-0.371 (1.316)
Personal Vote	0.172** (0.073)	-0.238 (0.160)	0.179** (0.073)	0.270** (0.120)	0.173** (0.073)	1.087 (1.035)
Tradable Labor Force	0.022 (0.044)	0.442*** (0.093)	0.023 (0.041)	-0.057 (0.069)	0.022 (0.044)	0.410 (0.589)
GDP per capita	0.186 (0.824)	15.681*** (1.978)	0.187 (0.779)	0.633 (1.242)	0.186 (0.824)	27.280** (12.404)
GDP growth	-0.005 (0.024)	-0.128 (0.088)	-0.007 (0.023)	-0.098* (0.052)	-0.005 (0.024)	-1.375 (0.872)
Exchange rate	-0.000 (0.001)	-0.010*** (0.003)	-0.001 (0.001)	0.000 (0.002)	-0.001 (0.001)	-0.024 (0.015)
Financial Openness	-2.467** (0.849)	-0.981 (1.563)	-2.523*** (0.817)	-4.718*** (1.107)	-2.467*** (0.849)	-18.476 (14.487)
Left	0.533 (0.341)	0.093 (0.755)	0.500 (0.312)	-0.683 (0.567)	0.533 (0.341)	7.074 (10.075)
Constant	3.533 (8.712)	-154.692*** (20.508)	3.377 (8.249)	13.768 (12.880)	3.533 (8.712)	-270.947* (136.388)
ACME	0.008 [-0.009, 0.033]		-0.007 [-0.024, 0.003]		-0.008 [-0.081, 0.054]	
ADE	0.086 [-0.002, 0.173]		-0.064 [-0.132, 0.002]		0.876 [0.145, 1.587]	
Total Effect	0.095 [0.013, 0.183]		-0.071 [-0.133, -0.010]		0.867 [0.150, 1.583]	
% of Mediated	0.087 [0.041, 0.438]		0.106 [0.054, 0.515]		-0.010 [-0.044, -0.005]	
Observations	347	347	341	341	347	347
Adjusted R ²	0.381	0.685	0.410	0.369	0.253	0.381

Note: ACME (Average Causal Mediation Effect), ADE (Average Direct Effect). The 95% confidence interval is in brackets. Confidence intervals are estimated based on a nonparametric bootstrap with 1000 resamples. Mediation and outcome equations are estimated with OLS based on Imai et al. (2011).

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