



**“ANALYSIS OF FDI IN THE SERVICE SECTOR IN CHILE: IS  
THERE A POLITICAL RHETORIC ON ITS IMPLEMENTATION?”**

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**Alumno: Julia Rosello**

**Profesor Guía: Manuel Agosin y Mikolaj Malinowski**

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# ANALYSIS OF FDI IN THE SERVICE SECTOR IN CHILE: IS THERE A POLITICAL RHETORIC ON ITS IMPLEMENTATION?

Author: Julia Rosello Acuna <sup>†</sup>  
Supervisor: Manuel Agosin and Mikolaj Malinowski

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## Abstract

Does political discourse have an impact on productive development programs? To answer this question, the following paper analyzes Chile's policies for attracting Foreign Direct Investment (FDI), specifically in the services sector over the last three decades. Although Chile is known for its economic prosperity within the region, its performance has not stood out significantly as would be expected. The hypothesis that emerges here is that one of the main obstacles to growth is the lack of a long-term state policy, due that even when there are initiatives, most of them are modified or eliminated by each government that assumes the political administration of the country. In order to elucidate the approach, a qualitative analysis was carried out through interviews with professionals closely related to attracting FDI in service related programs. The objective was to explore and deepen the complexity of the situation through their opinion and experience. These interviews were analyzed together with the available information that was gathered on the subject. The main conclusion is that Chile has

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<sup>†</sup> E-mail: [jrosello@fen.uchile.cl](mailto:jrosello@fen.uchile.cl) .

done well, even if it has been lax in the implementation of its public policies. However, even though there has been rhetoric on the part of those in the political power, there are expectations that in the near future the policies to be implemented will leave behind the partisan and short-term political bias. To this end, it will be essential to establish a long-term State policy, as well as better coordination among related entities and strengthening of statistical measurement tools.

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Keywords: FDI, Industrial policy, Economic Policy, Service sector exports

## **1. Introduction**

Historically, the vast majority of Latin American countries, has concentrated its economy on the exploitation of raw materials. The need to diversify and complexify the productive matrix has been of great concern in the region for decades. And as has been demonstrated in the literature, it is more likely that a country will achieve higher levels of development and provide a better quality of life for individuals through diversification, than by maintaining a reduced level of products and services with a low value-added content. An example of this is the work done by Hausman, R. and Hidalgo, C. (2013), those who state “The more complex your economy is, the more likely you are to have a higher level of income”.

In light of this, the Economic Commission for Latin America and the Caribbean (ECLAC) has proposed different plausible strategies, in which Productive Development Policies (PDP) stand out. In recent decades, the worldwide growth of Foreign Direct Investment (FDI) is being featured among these policies. Which is not surprising, taking in account that a considerable number of positive externalities are expected from them, which will be reviewed in detail later in this paper.

To this end, the case of Chile is quite interesting to analyze. Since in the last decades, Chile has made tremendous progress towards greater economic prosperity and lower poverty. A clear example of this, is that per capita income more than doubled over the past 20 years and is now the highest in Latin America (OECD, 2021). However, Chile is less complex than expected for its income level. And as a result, its economy is projected to grow moderately (The Atlas of Economic Complexity, 2019). This is mainly explained by the fact that the Chilean economy relies on the export of minerals such as copper, and therefore is significantly affected by market price fluctuations. If we add to this the fact that since October 2019, Chile has faced two unprecedented shocks, which are the social protests and the outbreak of COVID-19. The way to raise public policies and reactivate the economy has reached a greater importance and urgency. This once again suggests strengthening the diversification of the productive matrix to overcome stagnation. The service sector, due to its growth potential, can play a key role.

In this work, the focus will be to determine if political discourse do have an impact on productive development programs, specifically those related to attraction of Foreign Direct Investment in the service sector. Given that, according to theory and evidence that will be reviewed in detail below, the service sector is one of the sectors with the highest growth potential, being considered as one of the fundamental points to diversify its activity and thus boost Chile's economic development. It is therefore interesting to study how the issue has been addressed in Chile.

The hypothesis that emerges here is that one of the main obstacles to growth in the country is the lack of a long-term state policy, due that even when there are initiatives, most of them are modified or eliminated by each government that assumes the political administration of the country according to their political tendency. This is an issue that has been considered in several papers, such as Dorotea Lopez's doctoral thesis (2015), in which she carries out an extensive analysis of public sector economic development strategies in Chile. Another research where it is mentioned as key obstacle is the work from Mariano Alvarez et al.(2020) "Governance and export performance of modern services in Latin America and India".

In order to elucidate the approach, in this work a qualitative analysis was carried out through interviews with professionals closely related to the subject of attracting foreign investment in services. The objective was to explore and deepen the complexity of the situation through their opinion and experience. These interviews were analyzed together with the available information that was gathered on the subject; such as the existing institutions and the initiatives implemented to date, in order to verify with facts the political bias and how it has affected the proposed programs for FDI.

The main conclusion is that Chile has done well, even if it has been lax in the implementation of its public policies. However, even though there has been rhetoric on the part of those in the political power, there are expectations that in the near future the policies to be implemented to attract FDI will leave behind the partisan and short-term political bias. To this end, it will be essential to establish a long-term State policy, as we have learned from the successful experience of other countries, as well as better coordination among related entities and a strengthening of statistical

measurement tools.

This issue is an interesting topic to analyze since it serves as an example for the rest of the region and for developing countries in general, providing a space to question what has been done well in Chile, and what aspects are important to improve.

This paper is structured as follows, the second chapter is devoted to a review of literature, in which are briefly exposed topics such as the importance of services sector development, the attraction of foreign direct investment and its effects on developing economies, the country's enabling conditions and some of the productive development policies that are proposed as tools by important organizations such as ECLAC, among others. The third chapter explains the research methodology chosen to develop this work along with its motivations, the process of obtaining the information and the way in which the data were processed. Chapter 4 brings together the main ideas expressed in the interviews, where an attempt is made to synthesize the most relevant points, to mention a few: the importance of the role of the state, Chile's performance with respect to FDI and the need to solve data problems. In order to carry out a complete analysis, a chronological synthesis is made of the institutions and PDPs that have been carried out regarding foreign direct investment in Chile in Chapter 5, as a space to discuss and analyze the findings, which are contrasted with the opinions expressed in the interviews. Finally, Chapter 6 presents the conclusions and recommendations of the study.

## **2. Literature review**

In this chapter, first of all, a brief conceptualization of foreign direct investment will be made, followed by a synthesize of the literature related to the research, which will serve to better understand the motivation of this work, context and expected results. It will mainly review papers that deal with issues related to services sector development, the attraction of foreign direct investment and its effects on developing economies and the impact of politics on public policies.

## **2.1. Conceptualization of Foreign Direct Investment (FDI)**

Productive development policies can be defined as strategic efforts conducted by the state to encourage economic development through the strengthening of the productive structure. This measures can include any type of intervention or policy which aims to improve growth and competitiveness of various sectors such as large and specific ones, or even key activities (Melo Rodriguez-Clare, 2006). In recent decades, the worldwide growth of foreign direct investment has stood out among these policies. This is not surprising, considering that a number of positive externalities are expected from them.

Foreign direct investment is defined by the OECD as “a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy”. It is evidence of such a relationship the Ownership of 10 percent or more of the voting power in an enterprise in one economy by an investor in another economy (OECDiLibrary). Its objective is to create a long-term economic link for both the foreign investor and the host country. The investor can be an individual, a Transnational Corporation (TNC) or a Multinational Enterprise (MNE). Definition that is shared in Chile, and is established by Law 20.848, published in 2016<sup>1</sup>.

## **2.2. Evolution of FDI in the last few decades**

Despite the fact that the views on FDI differ between countries, the overall trend have taken them to become much more open to this PDP over the last five decades. This growth can be explained for two reasons. First, the global attitude toward FDI changed from largely negative to welcoming. This change coincided with a more favorable attitude toward globalization in general, and a more hesitant view on regulations and import substitution. Undoubtedly Southeast Asian countries had an important impact in the global FDI flows, highlighting China, which have a large size and good conditions for manufacturing production. The second reason for FDI growth has been the

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<sup>1</sup>Law published on January 21, 2016. Establishes the framework for foreign direct investment in Chile and creates the respective institutionality

rapid development in communication over long distances, which enabled surveillance of production chains over countries (Sjöholm, 2021). Even in Europe have been a renewed interest, since the acquisition of firm-specific knowledge-based assets is found to be an important channel for the diffusion of ideas and technologies (Barrell and Pain, 1997).

One possible positive effect in the host country is the transfer of workers from local firms with relatively low productivity to foreign MNEs with relatively high productivity, which also benefit to workers through higher wages. Another benefit is that MNEs might use and thereby increase the output of local suppliers, having a positive impact in productivity both in manufacturing and service sector. Also, host country can receive indirect spillovers such as business practices and technology brought by the MNEs, therefore domestic firms can imitate these practices (Sjöholm, 2021)

Nevertheless, the existing empirical literature is somewhat inconclusive but tends to find spillovers from FDI (Keller, 2021), this idea is shared by Sjöholm (2021), who states that it is difficult to say exactly how important are the contributions of FDI to economic growth because of causality, that is, FDI increases growth in host economies but at the same time economic growth attracts more FDI.

The effects of FDI seem to vary between countries, and their magnitude and sign depend on a set of circumstances. This is confirmed by the numerous empirical studies on the subject that have been offering heterogeneous results for several decades. An example is the analysis made by Manuel Agosin and Roberto Machado (2005), they have conducted a study in which the fundamental question is whether MNEs crowd in domestic investment, or whether they have the opposite effect of crowding out. This is relevant since if FDI crowd out domestic investment or fail in contributing to capital formation, would make us think that there is no reason to believe there's benefit for the recipient developing countries to implement a policy such as these.

Agosin and Machado (2005), state that there are favorable conditions for crowding in. For example, in developing country settings, foreign investments that introduce goods and services that are new



to the domestic economy (for the export or domestic market) are more likely to have favourable effects on capital formation than foreign investments in areas where there exist domestic producers. In the former case, the effects on capital formation will be positive because domestic producers do not have the knowledge required to undertake these activities and, therefore, foreign investors do not displace domestic investors. So one of the several conclusions of their work is that when the sectoral distribution of FDI is substantially different from the distribution of the existing capital stock or production, the contribution of FDI to capital formation is likely to be more positive than when the distribution of FDI follows the existing sectoral distribution of the capital stock. In other words, the relationship between FDI and domestic investment is likely to be complementary when investment is in an undeveloped sector of the economy (owing to technological factors or to the lack of knowledge of foreign markets). In this way, FDI would contribute to a significant and growing share of total gross capital formation in developing countries, where its portion is a much larger proportion of investment than in developed countries.

Another case of study focuses on spillovers effects operating across industries (Javorcik, 2004). The author based on firm-level data from Lithuania, produces evidence consistent with positive productivity spillovers from FDI taking place through contacts between foreign affiliates and their local suppliers in upstream sectors. As she quotes (Rodrik, 1999) “Today’s policy literature is filled with extravagant claims about positive spillovers from FDI but the evidence is sobering”.

Javorcik(2004) results are consistent with the presence of productivity spillovers taking place through backward linkages. Suggesting that a one-standard-deviation increase in the foreign presence in downstream sectors is associated with a 15% rise in output of each domestic firm in supplying industries. While productivity benefits are found to be associated with partially but not fully owned foreign projects, which is in line with the evidence suggesting a larger extent of local sourcing undertaken by the former type of FDI. Finally, as was the case with the earlier firm-level studies of developing countries, there’s no evidence of intrasectoral spillovers found. She claims that certainly more research is needed to fully understand the effect of FDI on host countries. In particular, it would be useful to confirm the findings of her paper using data that allow for identifica-

tion of individual firms as suppliers to multinationals rather than relying on input- output matrices to measure interactions between sectors. Moreover, it would be interesting to learn more about host country and investor characteristics that determine the extent of spillovers operating through different channels. Therefore, in her opinion it is to be hoped that improved data availability will allow researchers to examine these questions in the future.

In other words, it is important to note that, despite the positive aspects of this PDP, the empirical evidence on its impact is not conclusive, yielding different results at both the microeconomic and macroeconomic levels. However, there is some consensus that such impact is not exogenous, but depends significantly on the local conditions of the host economy (García, P., López, A. and Ons, A. (2021)), such as its institutions, available human capital, financial system stability, infrastructure, market structure and technological capacity.

### **2.3. Service Sector Development**

In Chile, the development of the service sector has been seen as a growth opportunity for many years. In 2007, at the request of the National Council of Innovation for Competitiveness of Chile, a “Study of Competitiveness of Clusters of the Chilean Economy” was carried out by the Boston Consulting Group team. This focused on analyzing specific sectors of the Chilean economy and developing a series of recommendations to accelerate its growth. The study identified the following groups with the greatest growth potential in Chile and the least effort to achieve the necessary competitiveness: Aquaculture, Mining, Special interest tourism, Global Services (Outsourcing, Offshoring) and Agri-food. The authorities at the time considered that global services were therefore a promising industry, which it was important to promote.

In addition, around 2008 it was stated that there is no other industry in the world with greater dynamism than the international services industry, with an estimated size of US\$ 65 billion and an expected average annual growth of 40% in the coming years (Leiva Castillo, 2008). It is argued that through the development of the global services industry Chile could access new sources of economic growth and development. However, it is also pointed out that the main challenge is to

sustain long-term growth driven by new structural reform initiatives. (OECD, 2007)

Similarly, a study commissioned by the World Bank states that through an analysis of the impact of the economic crisis on the offshore services industry, a small decline in demand was found; however, this did not cause any structural changes in the market. The crisis has created two opposing effects: general contraction of demand by existing customers due to the recession; and, at the same time, a substitution effect by which new services are being moved from developed countries to emerging economies in search of cost reduction. The paper concludes that the offshore services industry will continue to offer growth opportunities for developing countries not only among existing market players, but also a range of new countries. The industry has the potential to become an important source for employment and economic growth around the globe (Gereffi and Fernandez-Stark, 2010). Despite this, since 2010, Chile has lost a lot of ground in the area of global services outsourcing as its policy approach moved away from global trends. High labor costs resulted in a rapid decline in Business Process Outsourcing (BPO) activities, while the growth of the information technology (IT) sector failed to match the scale and pace of growth of other countries with a stake in the sector (Fernandez-Stark, Bamber, Couto, and Hamrick, 2021).

#### **2.4. Political relevance in terms of economic policy in Chile**

While politics is importantly intertwined with the economy, it is a cause for concern when it blocks a country's growth. While Chile has done quite well with respect to its economic development, its performance has not stood out significantly as one would expect. The hypothesis that emerges is that one of the main obstacles to growth is the lack of a long-term state policy, because even when initiatives exist, most of them are modified or eliminated by each government that assumes the political administration of the country.

In the third chapter of the book "Governance and export performance of modern services in Latin America and India" Dorotea Lopez and Felipe Muñoz (2020) make a brief but complete analysis of Chile and the tension between sectoral and horizontal policies. As the authors point out, despite the country's important international insertion through numerous free trade agreements, Chile has

important limitations that hinder its economic development due to its export basket that depends heavily on natural resources (especially copper), and also lacks value added in export products. For more than two decades the country has defined the export of services as one of the sectors that the country could promote. With this in mind, initiatives such as the creation of the Services Department in ProChile (2004), the Global Services Cluster (CSG)<sup>2</sup>, InvestChile, among others, have been proposed. However, in the country there is still a strong interference of the economic model promoted by the alumni of the Chicago School in the seventies<sup>3</sup>, which is based mainly on the neutrality of the State, which has created a significant deficit in the governance of export promotion policies specific to a given sector. In this paper the authors indicate that in addition to the existence of a policy of neutrality, the lack of statistics to measure services and the important presence of goods in the promotion work have been issues in the design of public policies. So, although the export of modern services has practically doubled in recent years, its low absolute values do not allow us to speak of a significant change in the country's export matrix. Therefore, a greater impulse is needed for modern services to make a substantial contribution to Chile's trade diversification (Alvarez, Fernandez-Stark, and Mulder, 2020).

Following the same line, in a previous work Dorotea Lopez (2015) discusses how the permanent debate regarding state intervention in the economic sphere has prevented the deepening of development policies in specific sectors, thus only those sectors that have comparative advantages can position themselves in international markets. She performs an analysis of the message that the president of Chile delivers annually to the National Congress in the May 21. She uses it as the main document for the analysis of the political and administrative priorities of the country. Through the analysis of the presidential messages of the period 1990-2014. The author seeks to have a first approximation on the importance that existed in the discourse on services and their internationalization. Considering that the May 21 Speech is not enough to prove a clear intention of reconversion

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<sup>2</sup>For more information, please review the "Study of competitiveness of clusters of the Chilean economy" conducted in 2007 by Boston Consulting Group, at the request of the National Innovation Council for Competitiveness. This study identifies the sectors with the greatest growth potential in Chile, where Global Services (Outsourcing, Offshoring) stand out.

<sup>3</sup>For more information on the Chicago boys in Chile, see the review of the essay Barber, W. J. (1995)

of the economy towards the speeches, she also includes a last section in which strategies and designs of some policies aimed at trade in services and diversification are pointed out. According to her findings, it becomes evident when democracy arrived to the country (in 1990), there was clarity about how fundamental diversification and value addition are for the country's progress as a whole, however, there are very subtle biases with respect to the involvement of the State. Although all presidents agree on maintaining the neoliberal model with a subsidiary state, during Michelle Bachelet's first administration, the possibility of greater state participation is raised, but without displacing the market. Which we can see is reaffirmed in her second term (between 2014-2017) through the policies implemented<sup>4</sup>, which are not particularly shared by her predecessor Sebastian Piñera.

### **3. Research methodology**

This section details the research methodology that was chosen together with its motivations, the process of obtaining the information and the way in which the data were processed.

As indicated above, FDI is an industrial policy that developing countries are currently trying to promote given the positive spillovers expected from it, where Chile is no exception. Quite a few initiatives have been raised in order to promote FDI in the service sector, however, after reviewing literature on the subject and making a chronology of the milestones achieved, there has been a not minor obstacle, which has prevented to deepen the programs successfully implemented in the country. The hypothesis of this paper is the lack of a long-term State policies, since despite the fact that there are initiatives, most of them are modified or eliminated with each government that takes over the political administration of Chile. Therefore, the main question to be answered is whether there is a political rhetoric, and whether it has an impact on Productive Development Policy programs of FDI for service exports in Chile.

A qualitative analysis was carried out to answer this question. In order to gather information, per-

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<sup>4</sup>Some of the most relevant policies are mentioned in the timeline contained in the annexes of this work.

sonal interviews were conducted with professionals closely related to the subject, who participated and/or currently participate in public organizations, such as the Production Development Corporation (CORFO), InvestChile, Economic Commission for Latin America and the Caribbean (ECLAC) and Undersecretariat for International Economic Relations of Chile (SUBREI). This with the aim of explore and gain a deeper understanding of the complexity of the situation through their opinion and experience which is, without a doubt, fundamental. It is expected that the interviews will allow the interviewees to take a self-critical look at the work performed, and to express their own suggestions for current and future public policies.

To carry out the interviews, first were contacted two well-known international consultants who have led research projects related to economic development and competitiveness for important entities such as the Inter-American Development Bank (IDB), Economic Commission for Latin America and the Caribbean (ECLAC), Organization for Economic Cooperation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), among others. A meeting was held with them to discuss the situation in Chile, where the subsidy program for the attraction of investment in high technology in 2001 was highlighted<sup>5</sup>. The points for and against FDI were discussed, as well as some of the work that has been done in this regard and the limitations of existing data. This was an important starting point, since thanks to their experience and suggestions, the names of important people linked to the subject emerged to be contacted and interviewed at a later date.

After studying the related literature, people were contacted to set up the meetings. The interviews were semi-structured and lasted approximately one hour and took place through computerized communication platforms. The full transcripts of the interviews are presented in the Appendix.

Interviews were conducted as follows, first of all was discussed the importance of attracting FDI in Chile with each one of the professionals, leaving them the space for sharing and express their

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<sup>5</sup>For more information on this review Agosin, M. R., and Price, J. J. 2010. Foreign investment: towards a top-down policy? InvestChile: the high-tech investment attraction program. In O. Muñoz, ed. Productive development in Chile: the CORFO experience between 1990 and 2009. Catalonia. Santiago.

proximity and experience in the subject. Secondly, generic questions were asked in order to know their position regarding which sectors should be emphasized and strengthened in the country in the short and long term, and what would be the justifications to this thinking. Third, they were consulted on their opinion and evaluation regarding Chile's performance in terms of the promotion and implementation of foreign direct investment programs in the past and present, naming what they consider as successes and/or mistakes/opportunities for improvement. This question is crucial to the research, as it is expected to bring out the importance of institutions and the government's political and economic stance as one of the fundamental axes to be considered in the impact of productive development policies. And in case it is not mentioned spontaneously by the interviewee, the opinion on the matter is also consulted. Fourth, is asked if the incentive packages granted in the past or present to attract investment are considered adequate or sufficient. And lastly, since according to the press and considering the reports of the Central Bank of Chile, FDI was doubled in 2021, which is much higher than the average of the last 5 years, reaching US\$16,782 million<sup>6</sup>, it is asked what is their opinion about this kind of press headlines, and if they think it is a sustainable growth in the long term.

It is to be expected that there may be biases in the opinions expressed, such as positions that tend to favor state intervention given the occupations of the people consulted, those who work or were part of public organizations, given that the selection of interviewees was based on the linkage and knowledge of these people on the subject of services or productive development policies in Chile.. Also is expected a greater optimism from people who are currently working in the area, compared to those who have already left or are in other functions, with the latter being more critical.

#### **4. Research Findings**

This chapter will summarize the issues and opinions expressed in the interviews conducted with professionals who are working in institutions of interest, or were recently part of them, actively

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<sup>6</sup><https://www.latercera.com/pulso/noticia/la-inversion-extranjera-directa-a-chile-se-duplico-en-2021-y-es-muy-superior-al-promedio-de-los-ultimos-5-anos/IAK3G4BD6FDU3MRHGMSMFOR4FU/> Published 07.02.2022

participating in the promotion and/or attraction of FDI and its subsequent export as services. To complement this, chapter 5 will analyse and discuss the main points addressed in the interviews, by comparing the opinions expressed with the data collected from various sources, such as institutional websites, study papers and statistical sources, among others.

#### **4.1. Productive sectors and growth potential in the country**

Undoubtedly within the responses obtained it is mentioned that the goods sector is the one with the greatest potential, such as the most processed goods of agribusiness, which require greater innovation and technology, so it would be interesting to keep exploring this field. Likewise, the service sector is an area that has been gradually increasing and has potential. Since the active sectors have not changed significantly in the last 20 years, given that Chile is in a period of stagnation in its productive matrix. We are still a mining country above all. According to most of the interviewees, a key fact is that because of the the policy implemented to date is not sectorial, there would be a major obstacle in the speed of growth of the services sector, despite the fact that there has been interest of previous governments in promoting exports in this field.

F.Samhan<sup>7</sup> points out that although Chile continues to be a mining country above all, and with an agro-industrial portion, the difference is that lately some industries with a greater technological factor have emerged. F.Samhan comments “A clear example is non-conventional renewable energies, where Chile went from being a country that had an energy crisis to being among the first in the world in investment in non-conventional renewable energy and first in solar generation. This is due to a series of regulatory and contextual changes, which did not exist in the year 2000”. Another important industry that F.Samhan highlights is the export of global services, she mentions “Chile is now a HUB of data centers that exports to the world because it has been able to supply the issue of cheap energy. It is a country with a high level of connectivity, much higher compared to the

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<sup>7</sup>F.Samhan is currently working as Head of Marketing in InvestChile, the agency for promoting Chile as an investment destination (FDI). Is in charge of designing and implementing the branding strategy, strengthening the position as main actor regarding FDI promotion in the country and reinforce Chilean’s image as an attractive destination for business opportunities.



rest of the region. More than 60 multinationals have set up there, and the latest announcements by Google, Huawei, ORACLE are proof of that”.

Meanwhile G.Stojkovic<sup>8</sup> emphasizes the importance of Global Services Sector, “The interesting thing about it, is that it goes beyond a particular field. It is related to all the other sectors, because it increases the added value through the use of high technology, both in mining and agriculture, and it is not only the sector itself. Because it is one thing to bring the IT company to Chile and say “Ok, let’s work on software development”, but you also have a whole series of products or services that can be developed, where you can make use of high technology, products that today are not being made in Chile”.

#### **4.2. The importance of Role State**

Very spontaneously, the following is expressed among the interviewees, “The idea that the role of the State should be greater”, because although today the country has close to 31 trade agreements that facilitate the export of services, this does not have a great impact if the country is not competitive in the international market. This is a point that F.Samhan agrees with, and she goes deeper by emphasizing the country’s history. Chile is considered a neoliberal experiment, between 1973 and 1990 the model proposed gave the least possible participation of the state in the development of the economy. And although democracy was achieved after years of dictatorship, through a peaceful and consensual transfer, it is very difficult to change the economic model. In addition, the level of poverty and inequality was very high, so the governments of the 1990s focused mainly on reducing these differences, which was achieved significantly. Thus, the country’s productive development still moves between two views. One very reductionist in the role of the state, which is largely promoted by right-wing governments, and another linked more to the political sector of the center and left-wing. The latter tries to recover the role of the state so that it becomes a protagonist, not necessarily interventionist, but efficient and adaptable enough to develop institutions and public

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<sup>8</sup>G.Stojkovic currently works as a research assistant at ECLAC, where she has extensive experience. She also served as Director of Global Services between 2007-2011 for InvestChile and CORFO, leading projects oriented to support the Investment Promotion Program in International Services.

policies to clear information asymmetries and promote industries where the private sector will not invest due to the high costs of entry or level of risk. In other words, an accompanying, promoting and facilitating state.

One of the most important points, E.Valpuesta<sup>9</sup> comments that although there are financing programs in entities such as ProChile for exports, the main markets that Chile is targeting are China, the United States and the European Union. But it would also be important for the country to place greater emphasis on exports to the Latin American continent. For this, it would also be important a coordination of the different entities of the State, in which they focus the efforts in the most competitive sectors, that is to say, a cluster policy. She states that each government changes its economic programs, so it is important to formulate a long-term country policy, not only during the term of each government. In the same way, F.Samhan states that political alternation is positive for the country, but when faced with such opposing views in each change of government, this undoubtedly generates a setback of the possible initiatives proposed during the previous four years. In other words, it is a constant cycle of advances and setbacks. It is therefore important to be able to propose a state policy and not a government policy, with a view to the long term. F.Samhan says “the important thing is that as a country you are able to generate institutions within the state that are able to mobilize in a more flexible way, and respond to the needs of the paradigm or global socioeconomic changes, pandemics, post-pandemics, etc”. There is a broad consensus that every four years the State is going to strengthen sectors or eliminate programs that are conceived for the long term, which does not make sense, since in four years no great results will be achieved. E.Valpuesta indicates “There must be a stronger line of work, especially in the scaling up of value chains for Chile, both for goods and services. In that sense we are far behind, we need a more coordinated policy”.

The interviewees agree that today the promotion of industrial policies has returned to the economic scenario, E.Valpuesta points out “Maybe now we talk a little more about industrial policy, but some

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<sup>9</sup>E.Valpuesta is a Chilean economist who currently serves as Head of the Economic Analysis Division at the Chilean Undersecretary of International Economic Relations (SUBREI).

time ago it was almost a word that could not be used, here (referring to Chile) we use a transversal policy, and I think that time has taught us that this is not the way”, which is complemented in part by the bad reputation that attracting foreign investment (FI) had, as F.Samhan says “it is often said that FI came to emerging or less developed countries as an extractive foreign investment. That is, investment that practically does not comply with the rules, so it is ideal for it to be in a deregulated country. But that is not what is sought behind having an investment promotion agency, but precisely to lead and attract foreign investment that is of a high aggregate level, because that pays off in taxes, types of work, gender policies and a series of elements that foreign companies of a certain standard have. ”

### **4.3. Chilean performance in FDI**

The interviewees consider it important to take into account that Chile, being a Latin American country, plays with the rules of the environment. Under this point of view, the general consensus is that Chile (despite all possible criticism) has done the job well. There have probably been setbacks and there are still adjustments to be made, but it cannot be ignored that Chile is still a developing country, and that it has been able to get ahead with relatively few resources.

Despite the ambivalence of the governments in office, the path for Chile is quite clear. There have been initiatives since 1990 to promote the export of services and diversify national activity. Among these, Chile is one of the countries with the largest number of free trade agreements in the world, for which it has access to 90% of international GDP. That is to say, it is a country that is interconnected with the world despite the fact that geographically it is located in the last corner of the continent. In addition, no one has put another better alternative on the table, it is not that there is a productive development model with a possible roadmap to follow.

G.Stojkovic “Chile has done well within everything,” it could have done better, and it could have done much worse given the context. An interviewee comments as a joke, that “probably the neighboring countries help to have a positive perspective of Chile”, since due to their missteps, they make the country seem much better in terms of the instability of governments, for example. An

important point to consider, given that the countries with which Chile is generally compared (such as Mexico, Brazil and Argentina), are enormous economic powers, always interesting for investors, where despite the bad conduct they may have, they will not fall due to its size. These countries are an attractive market, with which Chile can not compete. These markets are interesting for multi-nationals for internal consumption, while foreign companies are not going to settle in Chile to sell things to the locals, but rather, to generate processes. In words of F.Samhan, “Chile is not attractive as a consumer market, but as an early adopter it is, which allows it to be a good testing market”.

One of the interviewees commented that while “we saw how India works in attracting foreign direct investment (FDI) and the truth is that it was totally on another scale. They had massive technology parks, they had an education of human capital. Companies had their own universities where they educated people in one or two years trained them to be able to work in their companies, it was not just an English topic, it was a matter of training them in everything that is needed for their companies”. So if we compare Chile with other countries, there is obviously a long way to go still, but as previously commented, putting in the context of Chile, and its economic capacity, its performance has been good.

#### **4.4. Examples of successes and/or mistakes/opportunities for improvement**

To be more specific regarding the Chilean experience and performance, financing stands out as one of the points to be strengthened. Chile has had a strategy for many years to insert exporting companies in global value chains or make productive linkages, but there has always been a lack of financial support. In this regard, it is necessary to work together with trade policy, which is focused on opening markets and facilitating international trade. E.Valpuesta states “For example, involving the “Banco Estado”<sup>10</sup>, and have it act in coordination with CORFO, ProChile and InvestChile, since the latter cannot operate in isolation to attract the necessary foreign capital investment, it could make a difference”.

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<sup>10</sup>“Banco del Estado de Chile” is the only state-owned commercial bank in Chile, legally established in 1953. It provides financial services to individuals and companies. Its main lines of business are savings, mortgage loans, loans to SMEs and companies in general.

Regarding the attraction of foreign direct investment, the interviewees point out that one of the current obstacles and a point to improve is that the monetary incentives remained in CORFO, while the promotion is in the foreign investment committee. Formerly, CORFO had the promotion of the country for investment and incentives in the same place. Thus, it was much easier to offer a complete package to the investor and, therefore, to be an attractive destination. Today the promotion goes one way and the incentives go the other. Most of the interviewees agree that this does not help to have an agile process. However, from what they understand, there would be a legal clause regarding what the foreign investment committee can handle as money and incentives, this being the main limitation.

Another topic to improve, and one of the most serious problems is the ambivalence in the governments in office, since every time the government changes, the programs to be implemented change every 4 years. Against this, a long-term policy is needed. Both for goods and services. The state must be present, it is possible to debate to what degree to be present and how to improve the inefficiencies of the state, because these things exist. Therefore, one of the most mentioned points is the mistake of discontinuing programs such as the high-tech attraction program, which was having positive results, even better than projected.

As previously mentioned, one successful initiative was promoted by the state for the generation of clean renewable energy. In 2005, public tenders were held to provide financial support for ideas along these lines, which proved to be a success. Thanks to this, today Chile is a benchmark in the region for clean and sustainable energy. But it should be noted that for this success to occur, it was important to also achieve a change in the regulatory framework, instruments and incentives to move the market, and then instruments for suppliers of that market to be encouraged to be in Chile, inviting foreign investors. That is, there is a lot of articulation work when you define that you have a path. And thanks to that, today the country has energy security. This is undoubtedly a case example of how an excellent result can be achieved when the will and instruments are put in place for a long-term goal, which could be replicated for the attraction of foreign direct investment in high technology.

It is also mentioned that another point to improve is the export process, where it would be important to review and facilitate, from improvements in the information available, as well as to encourage the improvement of digital and language skills in the population, which is essential when internationalizing any company and exporting services. Due that would be a good opportunity to boost digital commerce.

One opportunity for improvement mentioned, is that in the second government of President Bachelet, from ECLAC have been carried out advisories to InvestChile in the development of global services. However, there has never been any talk of instruments of support, since that part remained in CORFO, so only strategy has been talked about. This is because under Chilean law no tax incentives can be given. These are not an alternative. In other words, it has been done what was possible with the existing tools and legal framework, but there is clearly room for improvement here.

#### **4.5. Future FDI expectations in services for Chile**

Chile will always look good, given that it is the first Latin American country to join the OECD. Moreover, at the beginning of the pandemic, UNCTAD predicted that foreign investment would fall by 40% in the region, while Chile had a fall of 18%, a percentage that was re-caused the following year, closing 2021 with the best figure of the last 5 years in FDI income. Now, it is important to bear in mind that FDI is not a project of immediate results, but rather of long periods. In general companies when they are looking to change their location are several conversations and evaluations, being able to last at least one year, if they are not 2, 3 or 4 years. F.Samhan “That is, in 2021 we harvested what was sown in 2018 and 2019”.

The interviewees think that now could be a good moment for greater impulse for a public-private partnership. G.Stojkovic states “Because if you put together a suitable strategy where local companies do not feel threatened with the arrival of foreign companies, you gain points within the country. On the contrary, if you bring in a foreign company and they start competing for human resources, because the foreign company gives them a higher salary and you are also providing financial support for this, you are threatening the local Company”. So it’s important to be careful

about these kind of proposals, that can not pass over local businesses.

In general the interviewees are optimistic about the entry of the new government headed by President Gabriel Boric, as they consider that he intends to assume the responsibility for the challenge to move towards the diversification of the productive matrix and the exportable supply with an active participation of the State, given its political stance.

#### **4.6. Data Problems**

From the interview with E.Valpuesta, she highlights from the beginning the problem of obtaining reliable data on the services sector, indicating that this has been a major issue since the Law decree 600<sup>11</sup> was repealed, in addition to the fact that the customs service is unable to account for all exports of services. Regarding this last point, E.Valpuesta indicates that its measurement is complex because there is no way to control services, unlike goods that must go through customs control and comply with a rule of origin, among other things. For example, computer services or professional services are complex to account for, also having data protection from the internal tax service.

There is no way to accurately measure the export of global services. The official data is that of the central bank, which must be supplemented with the information provided by the customs service, but still not get the full picture. And what you can't measure, you don't know how it develops or where to aim or what to boost.

This is closely related to the question regarding the figures of 2021 in FDI. In general terms respondents agree that in press terms is going to sound good. And this is positive for people's vision of these initiatives. However, it is important not to be carried away by isolated figures, and rather to observe the consolidated of the year. While the figures are released once a month, they may have a rise or fall due to an acquisition or merger injection, or because the following year foreign companies make the capital recovery and take it to their parent companies doing their bond distri-

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<sup>11</sup>Law decree 600 was issued in 1974 in Chile and constituted a series of rules on protection and promotion of foreign investment as an option of a Contract with the State of Chile, in which the investor could subscribe to guarantee his rights. Will be discussed again later in this paper.

bution. In that month it seems that they took everything from Chile, but that amount is reinvested the next month. So there could be a significant bias in the reported value, G.Stojkovic indicates “it is important to have details of what we are talking about. Are we talking about buying up local businesses? Are we talking about Greenfield? that are investments in deposits or are we talking about investing to open the company and use it in Chile? Because for example in the observatories in northern Chile is a type of investment in infrastructure, but Chileans do not work in it.”

Therefore, data collection is a sensitive issue, which will need to be given greater importance in the future in order to obtain specific and reliable data that will allow objective measurement and comparison.

#### **4.7. “Brief history” of Technology Investment Programs in Chile**

This is a special section, since I had the opportunity to interview M. Castillo<sup>12</sup>, who, according to all interviewees, is considered the “Father of the High Technology Investment Attraction Program”. His nickname is not only earned because of a specific program, but also because he has a wide trajectory and vast knowledge of how the different initiatives were developed since its beginnings in 1994. Experience that he shared with me in his story and that is essential to capture in this work.

According to all the interviews conducted, the “High Technology Investment Attraction Program” (hereinafter referred to as the “program”) is considered the main and most far-reaching FDI-related FDI in Chile. Although it was implemented in 2000, M. Castillo tells how its beginnings go back much earlier, in the government of President Eduardo Frei (between years 1994-1999), when there were a series of conversion and development programs for the development of the country’s extreme zones implemented by CORFO. M.Castillo says “In this context CORFO in coordination with the Ministry of Finance began to define some incentives to support the development of these

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<sup>12</sup>M.Castillo has worked for the last 20 years in projects related to economic development, trade, gender and new technologies, being Director of Technological Investments at CORFO between 2003 and 2005, Executive Secretary of the Global Services Cluster for the National Innovation Council for Competitiveness (2007-2010) and Investment and Development Manager at CORFO (2006-2010). He currently serves as Director of the International Trade and Integration Division at ECLAC.



areas, to promote private investment, and that with subsidies to fixed capital, labor training, infrastructure, then, from that experience, CORFO makes a proposal to make an investment attraction program with a focus on new technologies.”

Then, with the predecessor President Ricardo Lagos is a first design of the program, which coincides with a trip of the president to New York. During his visit to NASDAQ, the program to attract technological investments in Chile is launched. M. Castillo “Obviously we worked for the design with the experience of previous programs, but we also studied exhaustively the experience of Ireland, Singapore and particularly that of Costa Rica”. Since in 1996, the company INTEL, placed Chile on its “short list” of possible destinations to invest US\$ 300 million in the installation of a semiconductor assembly and testing plant. However, finally it was settled in Costa Rica, which offered an attractive benefits package, including subsidies, as opposed to Chile, which did not offer any specific incentive.

M.Castillo tells “That was the inspiration. Then it was decided to make a strategy not only of incentives, but also of international promotion, and a visit of the president to Silicon Valley was organized, that was quite famous, you can find it in the press. The president made a series of meetings with leading companies, he traveled to Seattle and met with Bill Gates, in San Francisco he met with the CEO of CISCO, BHP, the main technology companies, which at that time were the leading companies at international level, we are talking about the year 2000. And CORFO takes leadership, later we opened offices in Silicon Valley, we began to focus on software issues, development centers, and working on initiatives with different companies.”

Later on, with the arrival of the crisis of the “.com” companies in mid-2000, it was decided to turn the program towards technological platforms. At that time, shared services centers were the main ones, with transnational companies from different industries, such as Unilever and Nestlé. M.Castillo tells us “These companies already had operations throughout Latin America, and needed to improve their efficiency due to the international crisis. They started to use information technology to consolidate services, then for example, took the decision to have a single regional purchasing

and financial analysis center. What they did was a migration program. Through consolidation, standardization of processes, and then chose a country to install this service center. Afterwards, the big transnationals started to implement these shared service centers, and generally they consolidated a shared service center in Europe, another one in Asia, and one in the Americas. From this issue of software promotion while silicon valley went into crisis, we reoriented from services to shared services centers, and therefore the first projects have to do with that area.”

We are talking about the year 2001-2002. Then CORFO began to see the potential in transnational companies, opening up to European countries, mainly Nordic. Seeing the possibility of establishing technology centers in industries in which Chile is a leader, such as the mining industry, so that they could establish their technology centers in Chile, due that the mining area is quite strong in the whole region. In addition, CORFO also defined health sectors, M. Castillo “We did a program for the pharmaceutical industry, with the intention of installing companies that were implementing the production of generic products, patents that were being released, they were looking for facilities for their companies, they even installed a couple of them. We also addressed the issue of clinical trials, which at that time was quite controversial, and we worked with the Ministry of Health to provide greater transparency regarding how Chile could position itself as a platform for clinical trials for the pharmaceutical industry, and some projects were also carried out in this regard”.

Therefore, after the government of the President R. Lagos, CORFO had experience with the program. Then in 2007 comes the initiative of royalty to mining. This was a great policy that was implemented at the end of the government of President Lagos, with the intention that these resources were invested in sectors that had effectively added value, impact on employment, and in technological enterprises. Thus, within the framework of the royalty program, the national innovation council was created to define the strategic areas in which Chile would invest those resources. “Different clusters began to be defined. Obviously there was the mining, food sector, etc, and since CORFO already had experience in the technology investment program, we worked together with the consulting company that made the cluster program. We then proposed to develop the global services cluster.”

The idea is that the global services cluster was in practice the first sector that Chile was developing, and was not intensive in natural resources, but intensive in human resources and services exports. Given that CORFO had the leadership, M.Castillo had to assume as executive secretary of the cluster, where he participated throughout the period in which it functioned. M.Castillo says “We created a private public alliance with international companies, universities, human capital training topics and we did many promotional missions, etc. The English language training programs started there, which was a bottleneck especially for companies that started to install service centers and had to be bilingual.”

So when the clusters were formed, given the work done previously, CORFO already knew what the sectors, companies and bottlenecks existed. M.Castillo “Then we used the resources of the innovation council to amplify that program and make it stronger. We open offices in California, New York, also in Europe: Spain, Sweden, even in India”. Several Indian software companies were installed in Chile, and in China they also managed to open an office, which was an investment attraction, “Because there was already an export promotion office, but not an attraction. Thus we were strengthening the incentive framework also, we tried to focus some regions of the country, particularly Valparaiso, where we wanted to develop a cluster of technology companies. We made a major effort in the city of Temuco in southern Chile, where software companies were also installed.”

All this story told by M.Castillo is important to consider for a later analysis, since many of the initiatives that are told here are not currently reflected in the milestones of ministries or public organizations, and if they exist they are difficult to find. Rather, they are stories that remain in the history of those who participated in it. Since we can conclude that Chile has made modest progress in diversifying its export matrix, we must highlight the experience of M.Castillo, who tells us that there have been a number of efforts made to change this situation. And as other interviewees indicate, the truth is that Chile has achieved a lot with few resources.

## **5. Discussion and analysis of findings**

According to the interviews conducted, it was found that there are 3 points to which the interviewees gave greater emphasis. These will be analyzed and discussed below, by comparing the opinions expressed with the data collected from various sources, such as institutional websites, study papers and statistical sources, among others.

### **5.1. Problems with service sector data**

A rather important problem which was mentioned repeatedly by the interviewees was that of data relating to the service sector. One of the reasons is that it is complex to give an exact definition of services, and even more so to measure them.

As Dorotea Lopez (2015) points out, “The definition and classification of service activities vary considerably from one system of national accounts to another, making international comparisons difficult”. Among the difficulties are excessive statistical aggregation at the sectoral level, underreporting problems by underrated informal sectors, the obtaining of adequate and comparable figures is problematic and the inadequacy of time series for developing countries makes analysis of trends difficult.

InvestChile (2021) also highlights measurement problems. It indicates that Chile does not have a mechanism for registering foreign investment that can accurately and up-to-date measure FDI flows in the economy. For the same reason, the analysis processes are based on the different official statistics available. One of these is the statistics published by the Central Bank of Chile. However, it should be said, that the amount of flows indicated by the Central Bank does not necessarily represent an increase in investment cash, since this is measured by gross fixed capital formation, and there is a problem of timing of the investment (because the recording of FDI flows does not necessarily coincide with the actual investment). Therefore, a high flow of FDI is not representative of capital growth in the economy.

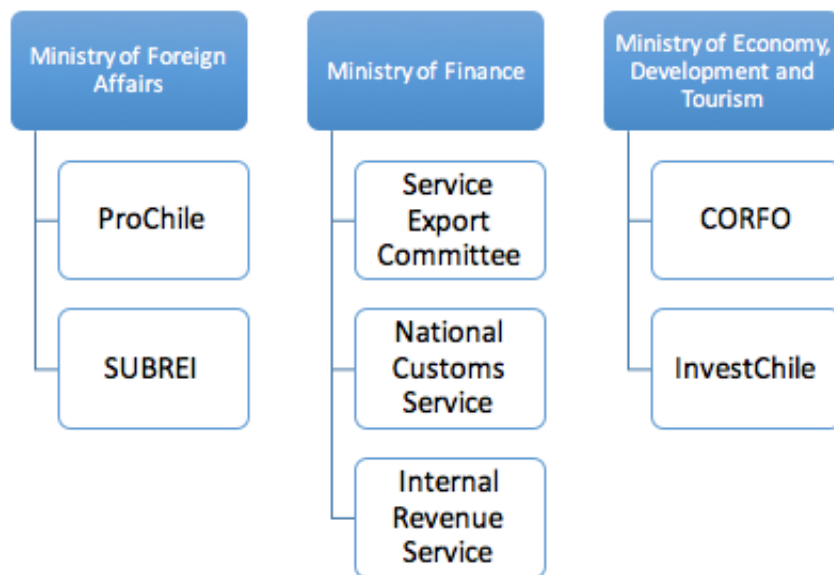
On the other hand, although it is possible to obtain the aggregate detail of services exports in Chile in the statistics of the Central Bank, and in terms of microdata it is possible to access the detailed analysis at the firm level provided by the National Customs Service. However, it should be borne in mind that these capture between 25% and 34% of exports of non-traditional services (Fernandez-Stark, Bamber, Couto, and Hamrick, 2021), that is to say, it is not very representative. In addition, it can be said that the expected information is from 2014 onwards. In other words, it is quite recent, but it does not allow a comparison in a significant period of time.

This is an important problem to solve, given that as one interviewee indicated “When you do not have numerical data to compare with, such as a KPI for example, you do not have a point of reference to know if the policies you are carrying out effectively have a positive impact or not”. And for that reason, it does not allow you to propose new strategies by not knowing where you really are and you do not have the possibility to compare. As G.Stojkovic said “If you don’t know where you are, you won’t know where you’re going either.” This makes it very difficult today to make a series of quantitative analyses of the subject.

## **5.2. Coordination between public and private entities**

The second point to highlight among the most mentioned in the interviews, is the lack of coordination between public and private entities.

The main agencies responsible for public policies aimed at the promotion, attraction and development of foreign direct investment in Chile are as follows:



Source: Own elaboration

First of all, a brief description of the institutions listed:

ProChile: institution of the Ministry of Foreign Affairs that promotes the offer of Chilean goods and services in the world. Thanks to its extensive international network, they also support the dissemination of opportunities to invest in Chile and promote tourism.

Undersecretariat for International Economic Relations (SUBREI, in Spanish Subsecretaría de Relaciones Económicas Internacionales): Public entity, under the Ministry of Foreign Affairs of Chile, whose purpose is to execute and coordinate the Government's policy on International Economic Relations; the defense of the country's interests in multilateral forums; and the negotiation and implementation of the network of free trade agreements, among other matters.

Public-Private Technical Committee for the Export of Services: advisory body, based in the Ministry of Finance, whose main purpose will be to issue opinions, proposals or suggestions for decision-making and monitoring of public policies, plans or measures associated with the export of services for organizations related to this economic activity.

National Customs Service: It is an autonomous administrative agency, and is related to the President of the Republic through the Ministry of Finance. Among its main functions is the surveillance and control of the passage of goods through the coasts, borders and airports of the country, intervention in commercial traffic for the collection of taxes levied on imports and exports.

Internal Revenue Service (SII, in Spanish Servicio de Impuestos Internos): Chilean public institution under the Ministry of Finance, especially in charge of the application and administrative oversight of tax provisions.

Production Development Corporation (CORFO, in Spanish Corporación de Fomento de la Producción): Chilean government agency, multisectoral body responsible for promoting national production and regional economic growth.

InvestChile: government agency responsible for promoting Chile in the global market as a destination for foreign direct investment.

According to the information gathered, although the agencies listed above are involved in service export initiatives in Chile, each one has independent objectives and timetables, which generates a dispersion of the limited resources available. This requires the implementation of a strategy that requires strong leadership and a coordinated approach capable of aligning public and private actors. In the document launched by SUBREI “Basis for a Chilean Services Export Strategy” they propose precisely the need for this strategy, in which coordination between InvestChile, ProChile and SUBREI is strengthened in order to align and expand investment and trade goals, as well as to strengthen a national services brand. Also giving continuity to targeted investment attraction strategies, with a view to attracting investors that use Chile as a platform for exports of digital and sustainable services.

This point is of great relevance, given that, as was mentioned in the interviews, although InvestChile currently has a team capable of providing relevant and necessary information to foreign investors, it does not have incentives to retain them, such as subsidies to train the workforce, which CORFO does have. And in turn, any action taken must be in coordination with public and private agents.

Given that any proposed policy or initiative, while it should attract investment, at the same time should not stand in the way of domestic industry. Unlike the period when the program to attract investment in high technology was implemented, where CORFO acted in coordination with InvestChile, which provided fluidity and speed in responding to investors interested in betting on Chile, being quite successful.

### **5.3. The importance of a long-term government policy**

The third point, and the most important in order to be able to answer the question posed as a hypothesis in this work, is the importance of generating a long-term state policy. This, in turn, goes hand in hand with the coordination of the entities just described.

How can this be explained? While all the information described above provides a framework from the importance of foreign direct investment in the country as a productive development policy that can undoubtedly have a positive impact in the economy of Chile given its conditions. In addition to the existing institutions and the policies implemented, we can see through the interviews the coherence of discourse among the interviewees. All of them agree that an obstacle to obtain better results is the lack of continuity in the projects.

With all of the above in mind, a timeline was made from year 1974 to date<sup>13</sup>, which contains trade agreements and milestones related to foreign direct investment, export of services, implementation of laws, among other points that were considered relevant to highlight.

In this timeline we can also see the presidential terms and draw our own conclusions. As stated by Lopez (2015) in her analysis of the presidential speeches presented annually, throughout the period considered the presidents maintain a policy in pursuit of maintaining the neoliberal model. We can see that broadly speaking all of them are in favor of trade liberalization through numerous free trade agreements, which gives the opportunity to trade with an important portion of the world. However, if we analyze in detail, there are subtle differences in economic policy between each other, which

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<sup>13</sup>Timeline is contained in the annexes of this work.



are exacerbated between periods of stronger political alternation, that is, when there is a change in the political orientation of the president in a significant manner. For example from the center-left to the right wing. The latter is represented by President Sebastian Piñera, who was elected for two terms (between 2010-2013 and 2018-2021).

But let's start from further back. During the period of the military dictatorship, we can see in the timeline that there was concern for having institutions that would help promote the export of goods from the country. With the arrival of democracy under President Patricio Aylwin in 1993, the first economic complementation agreements with Bolivia and Venezuela were signed. Also a strategy to differentiate and position Chile in the export market was initiated.

During the government of President Eduardo Frei, greater emphasis was given to fruit exports, and as M. Castillo told us in an interview, the country suffered its first "setback" when it lost the opportunity to receive Intel as investor, since Chile did not had incentives to attract companies, as Costa Rica did. In response, the following year the Services Export Committee was created.

Then, officially in 2001, period of the President Ricardo Lagos, the first High Technology Investment Attraction Program was launched, which acts as an industrial policy by granting a line of economic incentives, such as subsidies for investment in fixed assets and subsidies for human resources training, to name a few. Next step, in 2004 the Department of Trade in Services was created, becoming a priority due to its contribution to the added value of the national offer. In addition, we see an important association agreement with the European Union, as well as Free Trade Agreements with South Korea and the USA. In other words, as time goes by, the country is advancing slowly but surely through productive development strategies. Although the incentives proposed are modest to a certain extent, they fulfill their function and are within the country's legal framework.

In 2007 and following the same line, during the mandate of President Michelle Bachelet, a complete diagnosis was made. Challenges were set to work on their achievement for the year 2014, where the main focus should be centered on potential exporters. The first major services export strategy

oriented to knowledge-intensive services is launched under the name of “Global Services Cluster Development Strategy” and the National Council for Innovation for Development (CNID) is also created. At this point, Chile is recognized by ECLAC (2007) as a good example, moving from a policy of neutrality to proactivity with respect to FDI attraction policies.

With the arrival of the right-wing government presided by Sebastian Piñera in 2010, there was an important change, since under his mandate non-selectivity was defined as a management criterion. In other words, the State can’t intervene in the market by favoring sectors chosen by the State. In this way, the Strategy for the Development of Global Services Clusters, as well as the program “Attraction of investment in high technology”, are cancelled. According to one of the interviewees in this study, the new government administration rejected a proposal for a loan that was going to be granted by IDB to continue with the Cluster strategy in the country. This decision undoubtedly marks a setback that to date has been difficult to pay off. Although CORFO launches the “StartUp Chile” project, its impact on the export of services is minor for the time being.

With the return to office of President Bachelet in 2015, Decree Law 600 was repealed. The aforementioned law decree was issued in 1974 and constituted a series of rules on protection and promotion of foreign investment as an option of a Contract with the State of Chile, in which the investor could subscribe to guarantee his rights. For almost four decades it was considered a successful policy to encourage foreign investment based on two pillars: legal certainty and security and the principle of national treatment, i.e., non-discrimination between domestic and foreign investors. Although the decision was questioned, it can be argued that it was more of a political gesture to cancel a decree created during the dictatorship. However, this is only conjecture, while in the objective Seonwook Choi (2021) proposes under a qualitative study that this action would have been rather an act of Embracing very actively OECD’s problematization and recommendations in the Problem Stream and the Policy Stream.

Afterwards, the Foreign Investment Promotion Agency (InvestChile) was created and then, in 2016, Law 20.848 was published, which establishes the framework for foreign direct investment in Chile

and creates the respective institutional framework. In 2017, Decree Law 56 was published, which approves the strategy for the encouragement and promotion of foreign investment. In short, it is once again a matter of prioritizing foreign investment and the export of services.

In 2018 the right-wing candidate Sebastian Piñera is once again elected, and against all odds, there is a very subtle change with respect to the government's position. Since this time the Ministry of Finance with the support of the IDB fund launches the "Program to Support the Export of Global Services from Chile"<sup>14</sup>. In addition, the Chamber of Deputies approves and dispatches Law project 21.080, which modernizes the Ministry of Foreign Affairs, making a series of modifications.

Although there are no major changes in terms of incentives for FDI from that government, it is beginning to be seen how it is gradually picking up in terms of statistics, which could be attributed to the work carried out by InvestChile since 2015. However, it is difficult to analyze the data given the problems discussed in the previous sections. It is also argued that the biggest increase is due to investment related to copper rather than other types of products or services, which does not really add much value to the country's productive matrix.

Thus, it can be concluded that although there has been a change in policies over the last 30 years. Most of them have been with the goal of attracting foreign investors and with them strengthen the export sector of services in the country, which to date is still quite promising.

There have been only two presidential terms that have undermined this project, given the political stance of neutrality. However, the second period was less categorical in terms of neutrality. And although it did not make big bets through productive development policies, it did not hinder instances such as the Credit granted by the IDB, and has kept InvestChile in force, which as an institution is slowly beginning to show the fruits of its work.

With respect to our question of analysis, we can conclude that there has undoubtedly been a political rhetoric, which although it is difficult to measure given that we do not have sufficient statistical

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<sup>14</sup>It should be noted that this loan was processed during President Bachelet's term of office, but it was finally granted during the following term of office.

tools, it is also difficult to quantify its impact with respect to the FDI that was lost during the periods of “neutrality”.

Therefore, while it is not that every change of government represents a step backward and a rhetoric in the path outlined for the country as it is persistently mentioned in interviews, there is such a problem when completely opposite political positions precede each other. Therefore, in order to avoid the ups and downs caused by these policies, it is important to propose and implement a state policy with a view to the long term, which can be proposed in an autonomous manner and which manages to integrate the interests of both the private sector and the citizens, who may be harmed or benefited depending on how the initiative is constructed.

Nonetheless, if we have not been able to see great results before, it is also because Chile is still a developing country that has taken time to overcome gaps such as poverty or inequality. Therefore, it cannot be expected to allocate significant amounts to certain programs. As was seen in the 1990s, growth is rather gradual. However, thanks to the data obtained we can see that there have undoubtedly been and will be good ideas to develop. But it is crucial that they be accompanied by supportive institutional and legislative backing.

Therefore, the arrival of the new president Gabriel Boric, who claims to want to give priority to the diversification of the country’s export matrix, is viewed with optimism. Given his center-left political stance, he is also expected to intervene in the market. Although not with the intention of having a completely interventionist government, but a facilitator and not a neutral one.

In this regard, it is worth mentioning that a report prepared by SUBREI itself was recently launched, which details step by step the basis for a Chilean services export strategy. It highlights both the global demand for natural resources and Chile’s export potential in mining, aquaculture, forestry and fruit, as well as the niche of Chile’s service exports in the global value chain of information technology. It also highlights the importance of a coordinated action of the institutions, and undoubtedly, in order to be able to implement a long-term policy, it will be of vital importance to generate instances for a State policy and not a government policy, which tends to be transitory and

short-term.

## **6. Conclusions and recommendations**

We can conclude that there has undoubtedly been a political rhetoric, which although it is difficult to measure given that we do not have sufficient statistical tools, it is also difficult to quantify its impact with respect to the FDI that was lost during the periods of “neutrality”.

Although, while it is not that every change of government represents a step backward and a rhetoric in the path outlined for the country as it is persistently mentioned in interviews, there is a controversy when completely opposite political positions precede each other. Therefore, in order to avoid the ups and downs caused by these differences, it is important to propose and implement a state policy with a view to the long term, which can be established in an autonomous manner and which manages to integrate the interests of both the private and public sector.

It also should be noted that even when Chile has been known for its macroeconomic, political and social stability, in recent years this vision has been questioned due to the fact that since October 2019, Chile has faced two unprecedented shocks, which are the social protests and the COVID-19 outbreak. Therefore way to propose public policies and to reactivate the economy has reached a mayor importance and urgency. This suggests that diversifying the productive matrix to overcome stagnation must be reinforced and promoted without delay.

## 7. Glossary

APEC	Asia-Pacific Economic Cooperation
CORFO	Corporación de Fomento de la Producción (Chilean Economic Development Agency)
Direcon	Dirección General de Relaciones Económicas Internacionales (General Directorate of International Economic Relations)
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
ISI	Import Substitution Industrialization
Mercosur	Common Market of the South
MNE	Multinational Enterprise
OECD	Organization for Economic Cooperation and Development
PDP	Productive development policy
SII	Servicio de Impuestos Internos (Internal Revenue Service)
SUBREI	Subsecretaria de Relaciones Económicas Internacionales de Chile (Undersecretariat of International Economic Relations of Chile)
TNC	Transnational Corporation
UNCTAD	United Nations Conference on Trade and Development

USA United States of America

WB World Bank

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## **8. Annexes**