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## Article

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# State Neutrality, Business Elite and the Lack of Export Services Development in Chile: an Exploratory Qualitative Analysis

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**Abstract.** *Economic development process implies, among other things, export expansion beyond natural resources and towards more knowledge intensive sectors. However, a common problem within developing countries is the lack of economic and political elite's 'entrepreneurial push' in order to diversify such exports. The Chilean economy is not an exception as its export basket is still characterized as being anchored in natural resources. This feature has persisted despite the prevailing consensus on the importance of diversifying the economy towards new industrial and service sectors, both beyond and within natural resources. This paper focuses on the causes of the absence of such an 'entrepreneurial push', looking into the failure of the development of a services export sector in the country. Through a qualitative exploratory analysis of elite's perceptions, we study the predominant hypothesis among key stakeholders. We argue that the rentier character of the economic elite and the lack of State support for productive transformation are the main causes of both Chile's export stagnation and the incapacity to diversify towards more knowledge intensive sectors such as services.*

**Keywords:** *development, trade in services, business elite, export diversification, Chile*

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## I. Introduction

Economic development refers, in a broad sense, to the process through which a country moves aggregate resources from sectors with low economic dynamism and technological spillover (e.g. labour-intensive industries, natural resources sectors, etc.) to sectors with high technological dynamism (e.g. manufacture, modern services, etc.) (Amsden, 2001). This process differs widely from mere economic growth as development necessarily implies an innovation process towards building new economic sectors, markets, productive processes and organisational structures (Schumpeter, 2017 [1934]). Unquestionably, as Schumpeter reminded us, this process is never given, as it requires economic agents' specific characteristics such as high creative capacities and low risk-aversion to carry this process on, which he defined as 'entrepreneurship'.

At the same time, as classic developmentalism has shown, the process of structural change and innovation faces inherent problems related to a series of market failures such as coordination failures, positive externalities and factor immobility (Cypher & Diez, 2004). These situations indicate that, together with economic agents' 'entrepreneurial spirit', development also requires the active State involvement in order to solve those failures. This requires the State to be in a constant dialogue with economic agents in order to identify the traps and support the risks involved in the innovation process (Evans, 1995).

Therefore, economic development process requires business elite participation through the control of private investment and State elite participation, through the control of the public apparatus. Both elites have the power in modern societies to shape the economic growth pattern and determine countries development possibilities (Stiglitz, 2016). However, the typical situation in developing countries is the lack of that 'entrepreneurial push' in both the State and business. How can we explain this lack of resource-mobilization capacity? Following Schumpeter (2008 [1943]), one key economic problem is to explain why elites sometimes passively adapt to existing productive order, while in other situations they actively change it. In this last instance, what is the relationship between elites and economic development?

This question is particularly relevant to understand the stagnation of Chile's economic diversification. Chile's productive and export baskets are anchored in natural resources, where mineral extraction (i.e. copper) is the most important economic activity, followed by other low value-added sectors such as agriculture, fishing and forestry. Nowadays, there is consensus in the political system regarding the importance of diversifying the Chilean economy for its long-term sustainability, moving its pattern of specialisation towards new industrial and service sectors, both beyond and within natural resources (Direcon, 2009; Atria et al., 2015; Velasco & Briebea, 2019). Therefore, diversification and added value to Chilean exports has been identified as a political priority by the various administrations since the return of democracy in the 1990s, with a particular emphasis on the development of a services industry that may complement the existing natural resources sectors (Prochile, 2017).

However, despite the political discourse, Chile continues to show a highly concentrated export basket, and most programmes focused on the development of new productive sectors, especially in services, have failed to achieve their objectives. Many hypotheses have been raised within the academia in order to comprehend these failures, including the neutrality approach towards economic growth, problems in public policies design and/or the inherent inefficiencies in trying to move resources beyond the static comparative advantages (OECD, 2011). This paper presents an analysis of the hypothesis coming from the main stakeholders in both the public and private sectors in Chile. Through an exhaustive exploratory qualitative analysis, this paper argues that for the majority of the stakeholders considered, the rentier character of the economic elite and the lack of State support for productive transformation are the main causes of both Chile's export stagnation and the incapacity to diversify towards more knowledge intensive sectors such as services. These interpretations are consistent with contemporary literature on the political economy of development, particularly the one that has emerged as a result of the heterodox and developmentalist interpretations of the East Asian miracle (see Wade, 1990; Amsden, 1992; Chang, 2006) and the new studies on collective technological innovation and the entrepreneurial State (Mazzucato, 2004).

This paper is relevant not only to increase our understanding of Chile's current situation, but also to shed some light on similar problems that other countries of the region are facing. The lack of export diversification and the stagnation into extractive and low value-added sector for example, is a common characteristic within Latin American economies (Ocampo & Bértola, 2013). In the case of Mexico and Central American countries, the key issue is not so much the lack of industrial services, but the incapacity to go beyond mere low value-added production and avoid enclave economies, as is the case of *maquilas* in Mexico (Gallagher & Zarsky, 2007). There is evidence that points to causes similar to the ones this paper traces in the qualitative analysis, such as the lack of entrepreneurial spirit in the business class and the elimination of previous industrial policies from the State (Cypher & Delgado, 2011). The cases in South America are closer to Chile's, in the sense of the incapacity to deploy new exports beyond areas intensive in natural resources, particularly Peru or Bolivia which, as Chile, are highly dependent on extractive exports and do not have an important inward-looking industrial sector, as Argentina and Brazil. In these cases, some hypotheses have emerged, focused mostly on the rentier character of the extractive elites and their capacity to capture the State to avoid a demand for diversification (Bebbington et al., 2018). In that sense, this article can help to provide for new evidence to future comparative analyses that look at general tendencies in the region related to the causes of the lack of export diversification.

The paper is divided as follows: after this introduction, the second section presents a literature review on the relation between elites and economic development, with particular reference to Chile. The third section reviews how services have become an important component of political discourse and public policies towards economic di-

versification and development in Chile. The fourth section presents the methodology and results of this research. Finally, conclusions and some final remarks are presented.

## **II. Elites and economic development: a literature review**

One of the empirical facts of capitalism expansion during the ‘first globalisation’ (from the 19<sup>th</sup> century to the First World War) was that new wealth and productive capacities generated in Europe did not expand evenly across nations, but actually reinforced the unequal development of countries (Madisson, 2007; Williamson, 2009). This empirical fact opened the door, during the mid-20<sup>th</sup> century, for a series of economists to look at the causes of this inequality, putting attention on the main characteristics of underdeveloped regions.

Nurkse (1961) identified two key elements that explained the ‘vicious circle of poverty’ of underdeveloped regions: the low income derived from the export of natural resources, on the one side; and the tendency of elite to replicate the pattern of consumption of Western countries’ elite (‘demonstration effect’), on the other. This last element refers to a cultural tendency of economic elite in underdeveloped regions to ‘emulate’ the consumption patterns of elite from wealthy countries, thus spending huge amounts of saving on conspicuous consumption and not on productive investment.

The key element in Nurkse’s account is that economic elite is culturally unable to deploy an entrepreneurial Schumpeterian function. If that was the case, the entrepreneurial role was to be assumed by the State that, through progressive tax reforms and a series of public investments, could mobilise resources towards the industrial sector.

As a clear expression of that ‘cultural’ perspective, the classic work of Rostow (1961) suggested that the main reason countries were unable to initiate a process of modern growth was the still predominant pre-capitalist institutions and, thus, the non-capitalist rationality of their respective elite. This reasoning was, in fact, the predominant explanation until around the first half of the 20<sup>th</sup> century and had typical representatives in the classic works of Chile, Encina (1955) with a conservative approach and Jobet (1951) representing a socialist one. Both identified the economic and political elite of the 20<sup>th</sup> century as the main reason for Chile’s lack of economic industrialisation and associated this condition with the colonial influence and the pre-capitalist mentality, in a sharp contrast, according to them, to their peers in UK and the US.

However, the ‘cultural’ explanation was not the only one available in the classic developmentalist repertoire. According to Rosenstein-Rodan (1976), the reason that in underdeveloped regions capitalist elite were unable to develop a process of economic development was not cultural, but strictly economic in nature, as it assumed that the capitalist class is strictly guided by an economic profits maximization rational.

Underdeveloped regions have hidden developmental potential that is limited by a series of coordination problems (lack of public infrastructure, human capital, complementary investments, inputs suppliers, etc.) that cannot be assumed by the individual

profit-seeker capitalists: their interests as economic agents are to survive in the market through permanently increasing their private profit and reducing their private costs. Investing in public goods that could solve the coordination problem, for example, generates positive externalities that cannot be completely appropriated by the capitalists. Thus, even though the social return of those kind of investments can be high, their private return is low, locking the economy into a less-than-optimal economic equilibrium. In this case, Rosenstein-Rodan considered the State as the institution that could assume those investment costs, precisely because it rationally goes beyond short-term profit and is able to assume the risks of those investments.

Classical developmentalism was not the only approach to elaborate a critical view on the relationship between elite and (under)development. Latin American Structuralist school of thought also introduced key elements to this analysis. In fact, its key contribution was to link the role of the elite not with their (in)capacity to overcome 'market failures', but to insert their interests and economic action horizons into the structural positions in which they were placed.

For Prebisch (1981), along with a lack of 'entrepreneurial spirit', and in line with Nurkse's approach, unproductive consumption patterns are a key element of peripheral countries' economic elite, locking the economy into extractive and low value added sectors (Ahumada, 2019). As the construction of an integrated free market tended to reproduce core and periphery conditions (relegating Latin America to the specialisation in the export of natural resources and low value added manufactures), economic elite that could benefit from these conditions, generating comparative advantages, would protect this kind of integration, restricting the implementation of policies focused on the development of new industries and, therefore, the building a developmental project. The peripheries' elite was contrary to development because they defended their position derived from the global market's international division of labour.

For the case of Chile, the works of Pinto and Véliz became clear representatives of this view. Pinto (1959) argued that while the US was able to initiate an industrial transformation through the victory of the bourgeois elite and its protectionists policies against 'England's free trade imperialism', in the case of Chile the power bloc (landlords, traders and financiers) did not develop any clear interests towards overcoming Chile's peripheral condition, passively adapting to the pressures from global trade for specialising in the static comparative advantages of natural resources. Véliz (1963) reinforced this view and indicated that the key problem of Chile's economy during the 19<sup>th</sup> century until the crisis of 1930 was the 'free trade' coalition, confining any non-marginal State involvement and protection, in order to safe their profitable (yet socially sub-optimal) passive integration into the global market. The deepest historical analyses coming from this view for the Chilean case are Zetilin (1984), and Zeitlin and Ratcliff (1987). The first one suggested that Chile had different 'Civil Wars' (1851-61, 1891 and 1973) between a pro-development, industrialist and protective proto-industrial bourgeoisie, and a liberal, free-trade, extractive and financial elite. The results were an abortive in-



dustrial development and the triumph of the most liberal elites, unable and unwilling to implement the series of protective policies necessary for building new comparative advantages beyond the ones 'given' by the world economy. The result was the consolidation of an elite power bloc established by capitalists focused on trade and finance together with a strong landlord class that shaped Chile's economy towards passively accepting the world market's pressure for specialisation in natural resources and trade activities, leaving manufactures and industrial production to the capitalist centres.

The Dependency school deepened and radicalised this approach. For Frank (1967), the economic elite of peripheries is as rational as any capitalist class; their motives are strictly guided by modern profit-seeking rationality just as their Western peers. For him, the elite's lack of an 'entrepreneurial spirit' does not come from some colonial heritage or pre-capitalist and feudal rationality (as was assumed, implicitly or explicitly in the classical developmentalist and modernization approaches), but from the most capitalist-rational way to accumulate wealth in peripheries: resource extraction, finance and commerce, any of this able to spark a process of industrial capitalist accumulation.

After the falling down of the Industrialization by Import Substitution (ISI) regime, classical developmentalism and structuralism began to be reconsidered by a new school vaguely defined as 'neodevelopmentalism' (Bresser-Pereira, 2019). This school based most of its analyses on the comparison between East Asian 'economic miracle' and the economic stagnation of both the ISI and liberal experiments of Africa and Latin America (see Kohli, 2012).

This school reproduced many of the argument for State involvement established by the classical developmentalist school. Market economies in peripheral societies deployed a series of market failures that private capitalists were unable to integrate into their investment decisions. According to Fajnzylber (1983), capitalists in developing countries made investments, which while statically efficient (in terms of resource allocations under given technological and productive conditions), were inefficient in a dynamic way (unable to invest in new comparative advantages). The reason was straightforward: capitalists base their investment on the expectation of future profit, which means deciding between options according to the level of risk and short-term gains. In that sense, investing in new industries or higher value-added sectors, which went against the given signals of profits from the market, was, economically speaking, irrational. This 'irrationality' was explained as an outcome of both the immobility of their productive factors and the path dependency dynamics derived from their previous investments and the institutional inertia for Latin America see Schneider (2013), an example applied to the US can be found in Brenner (2006).

This literature suggested that the Asian example showed that a cohesive State with a strong bureaucracy implementing active industrial policies was the main 'entrepreneurial agent' in driving public and private resources towards dynamic efficient sectors beyond the market signals (Amsden, 1989; Evans, 1995; Kohli, 2004). While this type of State helped the capitalist elite to be Shumpeterian and explained the Asian success,

the absence and the predominance of the capitalist rentier elite power in the rest of the peripheral countries explained their failure to industrialise (Chibber, 2004; Kay, 2002; Evans, 1995)<sup>1</sup>.

In the case of Chile, a new heterodox literature concerning the limits of its contemporary productive structure has focused on two interconnected elements: the character of the economic elite and the lack of a proper State agenda towards productive development. In relation to the first element, it has been pointed out that Chile's economic elite can be characterised as rent-seeking as their main investment goes to the exploitation of natural resources (Ricardian rents), retail and commercial sectors (control of distribution areas) and the control of financial services (financial rents). These characteristics go together with low investments in R&D and technological upgrading, as high rents reduce the incentives for innovation (Ahumada, 2019).

In relation to the passive role of the government concerning productive development, the predominance of a subsidiary ideology in the State has restricted the horizons for the implementation of industrial and trade policies that could support the emergence of new comparative advantages in more knowledge-intensive areas (Guardia, 2015; Taylor, 2008). This narrative restricts the State's actions to just securing property rights and only directly intervening in economic areas when there are no previous private businesses interested in investing. As these businesses tend to be risk-averse and rent-seekers, their predominance limits the capacity of the economy to diversify into more dynamic areas.

As recent empirical and theoretical discussions have shown, the rentier elite and the subsidiary character of the State are connected elements. Acemoglu & Robinson (2013) have stated that extractive economic institutions (that privilege rent seeking and reduce incentives for entrepreneurship) are path-dependent and lock in societies' growth patterns into sub-optimal outcomes. This has been considered the result of the capacities of the extractive elite to use *de facto* political power (lobby, bribery, etc.) against the *de jure* power of, for example, contemporary democratic regimes. In that sense, even though a political system can be inclusive and democratic in formal terms, it perpetuates a series of informal extractive institutions in the economic order (Acemoglu & Robinson, 2008). For the case of Chile, González, Mounu & Urzúa (2018) have indicated that economic groups in Chile that emerged after the privatization process implemented during Pinochet's regime were able to build strong *de jure* political power (political connections, financing campaigns, etc.) that perpetuated their power during democratic governments. This hypothesis has also been supported by Huneus (2014), who identifies the causes of contemporary democratic deficit and the lack of economic

<sup>1</sup> Contemporary analyses on economic innovation in developed countries have reached similar conclusions. For Mazzucato (2013, 2018), the State has been behind key technological innovations in the United States through public investments in R&D and high-risk investments in novel inventions (2013). The business sector, on the contrary, has tended to appropriate the rents from these public-financed new technologies, through strong intellectual monopoly rents (Mazzucato, 2018).



diversification in the path-dependent persistence of the institutions of the dictatorship actively supported by the economic elite.

### **III. Services as an alternative for economic diversification**

Chile has identified the diversification of its economy, particularly its export matrix, as a priority, and the development of an export service industry one of its key objectives (ProChile, 2017). The prioritization of services as an economic sector that may boost Chile's development has been justified due to the evidence pointed out by empirical research considering that added value incorporated in some exports services boosts economic growth, a necessary condition for development (Adlung, 2007; Deardorff, 2001; Deardorff & Stern, 2008; Mattoo, Rathindran, & Subramanian, 2006; Riddle, 1986; UNCTAD, 2016).

The literature has identified different transmission channels in which trade in services affects economic growth and therefore, development (López et al., 2017). First, trade liberalization improves services performance and productivity (see Borchert, Gootiiz, Grover, & Mattoo, 2015; Cali, Ellis & Willemte, 2008; Eschenbach & Hoeckman, 2006; Francois & Hoekman, 2010). Second, we must consider that services openness impact on economic growth varies between countries, according to their economic development stages (Wölfl, 2005). Services added value is positively correlated to per capita income levels (Francois & Reinert, 1996), but this is dependent on the performance of opening markets implementation. Trade openness may improve competition and productivity in domestic services sectors, increasing their export likelihood, and having positive effects on manufactures and labour productivity (López et al., 2017).

As stated by Devlin & Moguillansky (2011), services (and trade in services) are instrumental for the development of global value chain (GVC), particularly telecommunications and transport. Service expansion opens new trade opportunities for firms, in a context of an intensive competition among them to participate in GVC, considering that global offshoring (particularly of services) has become a relevant part of production relocation and fragmentation (DIRECON, 2015).

The absence of an active export promotion in non-traditional sectors tends to concentrate them in few firms and in products with a less dynamic demand, which has increased the interest to understand how trade promotion may boost services exports (Cali, Ellis, & Williem, 2008; Mattoo & Payton, 2007; OCDE, 2005). Export promotion policies complement trade liberalization and macroeconomic stability<sup>2</sup> as they are directed to help exporters to overcome sectoral barriers and react in a proper way to price or other markets signals (Agosin, 1997). As the capability to export services is de-

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<sup>2</sup> Common instruments for promotion of trade in services include: trade openness and trade agreements; markets exploration and trade intelligence; capacity building; clusters programs; associativity; subsidies, tax relief and regulatory support; trade finance schemes; exchange rate policies; and investment attraction.

terminated by the interplay of endowments, institutions and infrastructure (López et al., 2017), a services strategy demands to link institutions and instruments with the design of short and long term scenarios that allow the creation of new comparative advantages (Lin & Chang, 2009). Some preconditions for successful policies towards the promotion of a services industry include: levelling playing field and enabling competition; b) warranty of services quality; c) protection of consumers and guaranty transparency; d) protection of the environment; and e) guaranteed access to services (Cali et al., 2008).

Chile has based services export promotion support mainly in two Ministries: Foreign Affairs and Economy. At the Ministry of Foreign Affairs, DIRECON (renamed as Undersecretary of International Economic Relations), the agency responsible for Chile's international economic relations and trade negotiations, and due to the relevance of services within international negotiations, opened a specialized department on services, investment and air transport. This Department has been complemented with the inclusion of a Digital Economy program. Second, ProChile, the export promotion agency established a services department in 2004 in charge of designing and implementing strategies and programs with the aim of internationalization of this sector. At the Ministry of Economy, CORFO (*Corporación de Fomento de la Producción*), agency created to enhance national productive activity oriented to create industrial capacity, included services export development in their work agenda, as included in the Clusters Program during President Bachelet first government. The Finance Ministry also started to get involved in facilitation of trade in services through reforms and projects within the customs service, the internal revenue service and the foreign investment attraction office, which have begun to get awareness of the importance of services exports (López et al., 2017).

Taking into consideration that during the examined period the dominant policy paradigm was a neutral approach towards industrial development, we have identified three main policies implemented for the development of the export services industry: first, trade openness, which has become the most important instrument and base of national economic policy; then, since Bachelet's first government sectoral brands and the cluster policies have been also implemented. These will be the main policies which will be then analysed in the interviews.

**Trade Openness:** Due to the political decision of non-State intervention in the economic system, Chilean administration has worked toward the achievement of free markets to enhance the development of any industry including services through competition. In this context, trade openness becomes fundamental for economic policy, as it allows for international competition within the domestic market, and ensures (through agreements) fair competition in foreign markets. Services become part of these strategies, particularly after their inclusion in the GATT's Uruguay Round, and the establishment of the WTO GATS in 1995 (López et al., 2017). Since the FTA with Canada (1996), including services in negotiations agendas has become an important condition for Chile. Currently, out of 28 trade agreements in force, 19 contain provisions related

to trade in services. To complement markets access gained through FTAs, Chile has also signed investment and double taxation agreements.

**Sectoral Brands:** Aimed to support the international branding of Chilean products, the program was first implemented by CORFO. It expected that through collaborative work of international positioning, it would contribute to the expansion of sectoral industries exports and the construction of a Chilean brand abroad. In 2011, it was incorporated into ProChile, in order to strengthen State support for the internationalization of companies and productive sectors, by taking advantage of the institution's experience in exports promotion, knowledge of the markets and its wide international network (López et al., 2017). ProChile undertakes to co-finance up to 60% of annual activities with no ceiling. The program is open on an ongoing basis to applications from any sector, therefore the selection criteria are based on actual applications and do not reflect a strategy from the government to choose specific economic sectors. Since the inception of the program, 19 sectoral brands have been created, based on both goods and services.

**Global services cluster:** During Bachelet's first term in office, the National Innovation Council for Competitiveness (CNIC) defined the National Innovation Strategy for competitiveness, with a view to doubling GDP per capita by 2020. Using a diagnosis made by the international consultant firm Boston Consulting Group in 2007<sup>3</sup>, a Global Services Cluster was installed by the end of 2007. Most actions took place in 2008 and 2009, including prospective field trips to potential export markets and capacity building programs. During 2010, under the administration of President Piñera, CORFO defined non-selectivity as a management criterion and reformulated the cluster program, in order to support private sector initiatives in a neutral way (López et al., 2017).

## IV. Research methods and Results

### *Data collection, sample and limitations*

For this study, we employed a qualitative methodological approach to get an in-depth understanding of the perspectives of the role of elite and the State in the development of the services export sector in Chile. For this purpose, in-depth semi structured interviews were conducted.<sup>4</sup> In order to establish the representative sample for these interviews, we followed Malterud, Siersma, and Guassora (2016) approach on the information power of the sample, which relies on the information that could be extracted from selected interviewees. Hence, the selection criteria were based on the aim of the study, sample specificity, established theories, quality of dialogue, and analysis strategy. To

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<sup>3</sup> BCG was hired to elaborate a "Cluster Competitiveness Study of the Chilean Economy", resulting in five clusters for the sectors with the greatest growth potential in the medium and long term: food, mining, special interest tourism, aquaculture and offshoring services.

<sup>4</sup> Interview questionnaire guideline is presented in Annex 1.

maximize the information power of the sample, we took a two-step identification process of key stakeholders. First, we identified the main organizations representing business and State elite related to economic development in Chile, with particular attention to services industry. Second, amongst those organizations, we identified which actors hold key positions during the examined period, forming a preliminary list of stakeholders to be interviewed. Fieldwork was conducted between May 2014 and September 2018 until we established that we had reached a “saturation point” (Glaser & Strauss, 1999).

An initial sample of over 50 stakeholders representative of the different elites were identified and approached by email and phone in order to invite them to participate in this study. Each potential interviewee was informed about voluntary participation in the study; they were told that confidentiality of their identities would be assured; results were going to be published anonymously; and interviews would last around 60 minutes. Each participant was asked for their Informed Consent before the interview began. Interviews were conducted at participants’ offices by two researchers and were recorded with the participants’ permission. All data was de-identified and coded, assigned according to their occupational sector and used for research purposes exclusively.

A total of 53 interviews were conducted during fieldwork, descriptive statistics of the sample are presented in Table 1. Rejection to participate in the study was insignificant. In order to categorize the participants regarding the sector they represent, and due to the long period examined, we selected the most important position they held. This is relevant, as some stakeholders have moved from public to private sector or academia, particularly during government changes. This classification was established in accordance with the interviewees, who were informed of the position in which their responses would be classified, hence they were asked to answer according to the position in which they had been classified.<sup>5</sup> This approach was established to narrow the aim and dialogue scope in order to maximize the information power derived from each interview.

Although representatives of all sectors have been interviewed, the sample may seem to have a bias towards public sector officials. This may be explained by the access to key stakeholders available to answer our questions, and the need to understand not only the role of economic elite, but why the various administrations did not design nor used more aggressive strategies, although there was awareness that the country’s export and production baskets lack of complexity was insufficient to achieve better jobs, greater equity and improve individuals’ life quality (López et al., 2017). Together with this, we must state that representatives from private sector are much more stable than those from pub-

<sup>5</sup> Regarding public sector, high-level officials included ministers in different governments (Foreign Affairs, Treasury, Economy and Agriculture), vice-presidents of CORFO, and directors of DIRECON and ProChile. Mid-level officials included department heads from DIRECON, CORFO, Treasury Ministry, Customs and Agriculture. Regarding the private sector, we have split our sample into two categories: the stakeholders from individual firms, and actors belonging to business chambers and private associations. Finally, part of the sample corresponds to stakeholders from the academia, NGOs and international organizations.

lic sector being in office for longer periods of time. Nevertheless, little discrepancy was found amongst interviewees, particularly when classified according to their sector.

**TABLE 1. Sample demographics (n = 53)**

Demographics	N	Percentage
Gender		
Male	40	75.5%
Female	13	24.5%
Sector		
Public	28	52.8%
High-level officials	12	22.6%
Mid-level officials	16	30.18%
Private	11	20.75%
Chambers	6	11.3%
Companies	5	9.4%
Academia / International Organizations	12	22.6%
Nationality		
Chilean	49	92.4%
Foreigner	4	7.5%
Total	53	100%

With the information gathered, we conclude that with the given interviews we had arrived at a data saturation point (Malterud et al., 2016), as no new evidence was added by the last interviewees, and the depth of the gathered information proved to be sufficient to answer our research question (Mason, 2010; Fusch & Ness, 2015).

## Results

In this section, the results from the qualitative analysis based on the interviews with key stakeholders are presented. Interviews analysed stakeholders' perceptions on the Chilean economic development model, focusing on corporate, institutional and even cultural ideological aspects. More specifically, the questions referred to the (im) possibility of meeting a goal such as the development of an international competitive services sector. Although the interviews were focused on the (under)development of export services, most stakeholders' answers referred to a general economic environment which does not create the conditions for the development of any value-added activity.

The premises that we tested were the perception amongst stakeholders that, since the late 70s, there has been an absence of any State policy to promote service export, which is in line with the given neoliberal economic Chilean model, and the lack of a business elite with the essential characteristics to modify the export matrix, such as high creative capacities and low risk aversion to add value, as Schumpeter considered is needed for capitalism advance.

These two premises derive from the perception that the neutrality State approach to the productive sphere implemented in Chile demanded a different business elite in order to modify the export matrix to a more complex composition, such as one based on services. The existing business elite marked by rentier characteristics do not have the entrepreneurial spirit needed for this kind of changes. Therefore, although the productive development policy was to ensure market conditions to warrant perfect competition which will allow business elite to have the conditions to develop a complex export sector, it simply kept the pre-existing industry model. Nevertheless, the continuity of the economic model implemented during the military regime became a sort of “normative law”, due to the desire of keeping peace and governance at a particular moment in recent Chilean history when it was needed to achieve a peaceful democratic transition. As mentioned by an academic stakeholder, “the rest of Latin America had severe hyperinflation and economic disorder when exiting from authoritarian regimes. Chile had to demonstrate that we were capable of ensuring governance without the military in command”. During the first years of democracy, not changing the economic model was considered a condition for political stability.

Chilean business elite is the result of geographical conditions, their participation in the economic model, and the surviving capacity after the dictatorship period. According to a high-level public official, “the existing entrepreneurial culture or spirit was restricted for reasons of cultural and historical class formation, in neo-rentier forms, by climate, latitude and even by geography”. They also share Nurske’s critique of the ‘demonstration effect’ of elite (1961), spending huge amounts of saving in consumption instead of productive investment. They do not behave as traditional capitalists and are not prepared to undertake the risk associated with profitability. Chilean economy continued to be dependent on an elite power bloc constituted by capitalists focused on commerce and finance and a strong property owner class. There were no incentives to change the pre-existing economic conditions, which based economic empowerment in rent-seeking from monopolistic position or natural resources exploitation.

For the literature considered here, business risk-taking attitude is essential for service industry development. As exposed by the interviewees, complex non-rentier forms of productive operations are viewed with precaution in Chile. The national entrepreneur demands certainty and rational risk management. As stated by a high-level public official, “the business sector is very comfortable. It seeks mainly regulatory changes and elements related to labour issues. The same happens with the private associations”. The main problem lies in the characteristics of the Chilean business elite, particularly their rent-seeking characteristics. The case of the rentier element, as expressed by an academic, “would respond to the presence of factors associated with a society that lives off the exploitation of its natural resources and does not develop capitalism”. The general view is that elite is a more fearful and less risky group, particularly in Chile, where elite is small, isolated and used to agreeing amongst them, tending to reproduce existing productive structures.



In a country like Chile, rich in natural resources and with little State regulation over them, the expected tendency is an irrational exploitation of primary goods, not the investment in services trade opportunities. This idea is confirmed by actors from different sectors, who define it as a non-capitalist rationality that has been developed based on the exploitation of natural resources. Representatives of academia mention that “it would respond to the presence of factors associated with a society that lives off the exploitation of its natural resources and does not develop capitalism”. This idea is shared by business leaders, but taking into consideration that if natural resources are available, it is not a fault to develop an industry based on their extraction, but the country’s economic advantage. In that sense, it is considered by business as a completely capitalist rationality, the specialization in low value added natural resources exploitation. Regardless of the difference in interpretation, both perspectives share the incapacity of the capitalist elite to develop a Schumpeterian entrepreneur.

This kind of economic development is largely reinforced by the lack of State regulations. As mentioned by various stakeholders, “In Chile, firms have very low social responsibilities to extract natural resources, and no obligation to innovate or add value... We have an elite which will only do business that is secured. They minimize risk and are not interested in a more egalitarian society. They have had a logic that maximizes the individual over the social”. This is considered as an overall dynamic that is expressed in the sectoral level (i.e. service) as an incapacity of these agents to create any exportable services that would require new investment and a longer-term benefit return.

In order to explain these characteristics, two justifications were identified within the responses of the interviewees: one coming from private sector and other from government officials. The first inclined their answers towards a business sector that operates with a profit maximizing logic, having to deal with a rapid international economic insertion. “Entrepreneurs are called rentiers only because they like to earn money. And if they do it by exploiting natural resources and nobody regulates or prohibits them, why should they make efforts in another direction?” states a business representative.

The second group emphasizes the lack of interest in changing the status-quo under which business elite have developed their businesses, but acknowledging the low governmental support they face to move into services. A high-level official proposes that there are “few incentives to innovate, insufficient and uncertain, which also contributes to the low entrepreneurial attitude of the private sector”. This is complemented by a feeling that “privatizations, the contraction of CORFO, the dissemination of the initiatives to promote exports, the small size of the State with non-regulatory schemes, reduced innovative culture”. Therefore, an accommodated business elite which does not innovate, together with a State incapable to implement strong development promotion policies towards services, explains the failure to build an alternative economic sector within export services.

This elite is also perceived as reluctant to develop the necessary attributes to insert themselves in international trade in services. For example, a business representative

states that having to “be certified so that your product can enter the markets, in a world that is guided by certifications as the services, has been a problem for the firms”. This is complemented by the perception of high-level public officials which states that “they prefer buying the foreign technology to investing in research or certification processes”.

As evidence, most of the Chilean successful companies when reaching a size when they need to develop new strategies to continue in business prefer to sell their firm to large transnational corporations; this was the case of local engineering firms like CADE or ARCADIS. This is the short-term vision, which is explained by business owners as part of the Chilean market size, where “successful ventures end up being bought by foreigners, and that is where the strategy is changed”. This means that it is easier to import services than to create them on your own with the investment and risk association.

The business elite is perceived as very different from those of Asian economies; they are less entrepreneurial and more traditionally rentiers and landowners than in many of the Latin-American countries. This would be the main difference from the Asian countries which has been documented as opposed to the business essence of the Latin American countries: a risk-taking essence (Palma, 2011). This opinion is shared at the different stakeholders’ clusters. Nevertheless, a business chamber representative stated that “entrepreneurs, for example, the Koreans, have very different and closest links with the State, they always count on it to protect and help them in other markets, something that services often need”, taking into consideration the need of public-private partnerships towards the development of new economic sectors.

State institutions responsible for services sector consider that to the extent of their restrictions, they have reacted permanently to the demands placed by the business sector. They point out that because of their heterogeneity and difference in firms’ size in services, there is a serious problem in companies’ ability to associate. Currently, the literature sustains that associativity is essential to develop a strong service sector, and therefore this incapability will come a handicap in the possibility of developing this kind of industry in Chile.

A conclusion is that services exports are not an objective or even a desirable positive externality for these elites, which emerged from an economic model based on the extraction of natural resources and monopoly rents. In fact, the new business elite after the military regime are inherently risk-averse rentiers, and the State has not developed the incentives or regulations that could provide capacities and incentives to build a services export sector. As an academic expert indicated, “the current productive export matrix (intensive in copper and agroindustry with low added value, and not in services) is the result of a lack of consistency, resources and will”.

Finally, when stakeholders were consulted about the future, we found a general consensus towards the need to implement more active and selective policies. As pointed out by one interviewee, the lack of industrial policies is product of “a fearful society, a conservative business class and a State reduced to a minimum”. Currently, the country is in a productive steady-state, and in order to change it, actions and policies need to be

**TABLE 2. Main ideas from the perception of the business elite (BE) characteristics about its participation in the export matrix composition**

HIGH LEVEL OFFICIALS	<ul style="list-style-type: none"> <li>• There is an absence of nationalist business elite (BE) in Chile.</li> <li>• The conservative attitude of the elite, which prefers to maintain the status quo, exploiting natural resources.</li> <li>• The BE seeks, most of the time, for regulatory reforms or labour conditions modification but not for big transformations or State participation.</li> <li>• The main characteristic of BE is to pursue profits just from exploiting natural resources, which is perceived as a neo-rentier elite.</li> <li>• The few incentives in Chile for BE to innovate are insufficient and uncertain, which also contributes to the low entrepreneurial attitude of private sector.</li> <li>• They prefer buying the foreign technology to investing in any investigation; certification is like taking risks.</li> </ul>
MID LEVEL OFFICIALS	<ul style="list-style-type: none"> <li>• The business elite should be responsible for adding value to their production in order to modify the export matrix.</li> <li>• The State strategies for services exports support are better in some Asian countries than in Chile.</li> <li>• The Chilean elites are small, isolated and used to agreeing amongst them, which tends to reproduce their productive structures.</li> <li>• The business does not have access to finance to export services.</li> </ul>
PRIVATE SECTOR: COMPANIES	<ul style="list-style-type: none"> <li>• The BE behaves as expected, as profit maximization agents.</li> <li>• The big Chilean firms have been at the level of any company, there are big services exporters as retail companies.</li> <li>• The BE does not have any support, and for the SMEs it is impossible to get into other markets alone.</li> </ul>
PRIVATE SECTOR: CHAMBERS	<ul style="list-style-type: none"> <li>• The business elite acts over guaranteed business. They minimize risk.</li> <li>• The conventional elite do not risk capital, and services are highly intensive on it to develop.</li> <li>• The BE does not like to be certified, in a world that is guided by certifications as the services.</li> <li>• The small size of the Chilean market has effect in the low services production that can take you to export them.</li> <li>• The BE successful ventures end up being bought by foreigners, and that is where the strategy is changed.</li> </ul>
ACADEMIA/ INTER. ORG.	<ul style="list-style-type: none"> <li>• In Chile there is transplanted elite, meaning that they do not have strong linkages with Chile.</li> <li>• The BE has high consumption patterns, they are not investors.</li> <li>• The BE lacks any entrepreneurial spirit. Military period destroyed the entrepreneurial spirit.</li> <li>• The Chilean elite is not the one you define as Schumpeterian capitalist elite.</li> <li>• The BE maximizes the individual benefits over the social ones.</li> <li>• In Chile, the firms have very low social responsibilities to extract natural resources, and no obligation to innovate or add value. The State regulation does not consider this issue.</li> <li>• The BE has enough profits with natural resources exploitation, they do not have to modify their production to compete or to maintain their profits. They rent from natural resources.</li> </ul>

pushed. Particularly, there is a need to reinforce Chilean business class entrepreneurship to promote economic development. “Chileans stopped being entrepreneur, and if it does not recover it, we will not develop”.

A summary of the collected perceptions, organized according to the respective sector is presented in Table 2.

## VI. Final Remarks

During the last decades, Chile's economic growth has relied on the extraction of natural resources, which has led to different public agents to demand the emergence of new economic sectors and the diversification of its productive and export baskets. In this context, the development of a service export industry has become one of the main sectors identified by the State to be promoted. Although public policies towards this objective have been implemented, they have not been successful.

In this paper, we suggest that the key Chilean stakeholder agents share a common view about the causes of the persistence of a natural resource-based economy that has been unable to diversify towards services. From our research, it is possible to detect a consensus concerning the behaviour and rationality of the business elite and its link with economic development in general, and service investments in particular. As stated by government representatives, the 'rentier' attitude of Chilean business class is derived from 'natural protectionism' (natural resources) and lack of entrepreneurial 'culture'. Business representatives explain that their lack of capacity to diversify their investments is a direct consequence of their profit-maximization logic: if their relative gains in the global market are in natural resources and low value-added goods, the economic rationality would make them invest in those areas. In that sense, their position resembles Rosenstein-Rodan's argument regarding the incapacity of business in underdeveloped countries to assume rationality beyond the market signals and the short-term benefits.

The rentier characteristic of the business elite is aggravated by the Chilean State neoliberal hegemony. This has been affirmed by government representatives, who refer that this economic thought has tended to take the state out from any kind of industrial policy that goes beyond soft horizontal measures or, recently, comparative advantage-following clusters. The Chilean State does not have a strong institutional body to provide incentives to firms to diversify their export basket.

Together, both dynamics restrict the capacity of the country to advance in a novel path towards service industry and lock in the economy into an extractive, low value added and short-term pattern of economic growth. The business elite have no incentives to move away from their current production patterns, as those patterns maximise their profits, therefore, if new economic sectors (with higher added value) arise, the need of a strong State capable of developing and implementing policies towards them will arise. But if a neoliberal conception of the State continues, there will be no place for the necessary policies to be implemented.

The stakeholders' narrative and hypothesis about Chile's lack of diversification and economic lock-in go in consonance with the contemporary literature on development and its preconditions. As shown in the literature review, economic development implies a Schumpeterian process of innovation and knowledge production that requires the collaborative effort of both capitalists with long-term goals and low levels of risk-aversion and an efficient and cohesive entrepreneurial state. Without those preconditions, the literature would suggest, growth will tend to stagnate and lock into economic sectors with low dynamism.

This main narrative among stakeholders is relevant since it is counter-intuitive to what a researcher would expect. Traditionally, political and economic elites tend to be complacent and optimistic about the economic model in which they have vested interests. However, regardless of the different causes they identify, all the stakeholders share a critical view about the role of elite and the incapacity of the state of economic regime to diversify and develop.

This finding opens the door for more questions to be raised. How can an economic order maintain its inertia when the political, academic and private elites recognize their own short-termism passive role? This should be the next step of this line of research.

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## Annex 1. *Interview Questionnaire guide*<sup>6</sup>

1. According to your knowledge, what's been the base of the Chilean economic development strategy implemented since the 1990s?
2. Could you identify the main axis of this strategy?
3. Regarding this strategy, which would be the main differences between presidential periods regarding the formulation and implementation of policies for its consecution?
4. How would you describe the participation of business and political elites within this strategy?
5. Which were in your personal understanding the main policies and instruments implemented to achieve the economic development? Do you think this were successful?
6. Do you think export basket diversification is a pre-condition to achieve a higher development level? If so, why do you think Chile has not been capable to achieve this level?
7. Which countries do you think had been successful in the diversification and value-adding of their export baskets? Why? Which policies have they implemented?
8. With which other economic development process could we compare the Chilean case?
9. Regarding services, which strategies focused on the promotion of a services export industry could you identify?
10. To your personal understanding, which public programs aimed at the promotion of a services export sector have been more relevant?
11. Could you identify both public and private institutions involved in this process?
12. How would you grade the services cluster program?
13. How would you grade the trade openness policy and its impact on services export? How relevant are double taxation agreements within this policy?
14. Regarding their participation in the promotion of services exports, how would you grade the following institutions:
  - a. ProChile
  - b. Corfo
  - c. Santiago Chamber of Commerce
  - d. Banco del Estado (State Bank)
  - e. Private financial system
  - f. ACTI
  - g. SOFOFA

<sup>6</sup> This is an open questionnaire; hence, questions and topics expressed in the guideline were used to guide the conversation with the interviewees. Researchers engaged in active conversation deepened some topics as the interview was carried out. Each question was conceived as a starting point to understand a specific aspect of our research.