

NEW FDI POLICY IN CHILE: PARADIGM SHIFT OR CHANGE IN OBJECTIVE?

NUEVA POLÍTICA DE INVERSIÓN EXTRANJERA EN CHILE: ¿CAMBIO DE PARADIGMA O CAMBIO DE OBJETIVO?

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Abstract

During 2013-2016, an abrupt and dramatic change took place in Chile's Foreign Direct Investment (FDI) policy. The Foreign Investment Statute, also known as DL 600, was abolished and the Law 20,848 was enacted. The Foreign Investment Committee (FIC) was transformed into a new FDI agency, InvestChile. Besides, the first national Strategy for FDI Promotion and Development was established.

This radical policy change did not take place due to a predictable expiration of DL 600; nor a continuous decline of FDI inflows in Chile; nor the pursuit of liberalizing more FDI rules; nor the intention of collecting more taxes by repealing the invariable income taxation; nor the disuse of DL 600; nor following steps in the rational decision-making model. Then, why did the Michelle Bachelet's government bring a sudden end to the FDI policy, which had been successful during the last 40 years, and establish a new policy? How did the policy entrepreneurs achieve the policy change?

The result of the *qualitative content analysis* (coding, categorization and extraction of results) on the discourses of policy entrepreneurs, in accordance with Kingdon's Multiple Streams Framework (MSF), demonstrates that the OECD had a considerable influence on the Chile's FDI policy change during 2013-2016. Embracing very actively OECD's problematization and recommendations in the *Problem Stream* and the *Policy Stream*, the policy entrepreneurs achieved a *change in objective* in which the Chilean government has been transformed from a *passive recipient* to a *proactive promoter*. It is considered as an important advancement within the same paradigm of attracting more and better FDI and a deeper integration into the global economy.

Keywords: Chile's FDI policy, Policy Change, OECD, Kingdon's Multiple Streams Framework (MSF), Qualitative Content Analysis

Resumen

Durante 2013-2016, se produjo un cambio abrupto y dramático en la política de Inversión Extranjera Directa (IED) de Chile. Se derogó el Estatuto de la Inversión Extranjera, también conocido como DL 600, y se promulgó la Ley 20.848. El Comité de Inversiones Extranjeras (CIE) se transformó en una nueva agencia de IED, InvestChile. Además, se estableció la primera Estrategia Nacional de Promoción y Desarrollo de la IED.

Este cambio radical de política no se produjo por el previsible vencimiento del DL 600; ni por la continua disminución de las entradas de IED en Chile; ni por la búsqueda de liberalizar más las normas de IED; ni por la intención de

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recaudar más impuestos derogando el invariable impuesto a la renta; ni por el desuso del DL 600; ni por seguir los pasos del modelo de decisión racional. Entonces, ¿por qué el gobierno de Michelle Bachelet puso fin repentinamente a la política de IED, que había sido exitosa durante los últimos 40 años, y estableció una nueva política? ¿Cómo lograron los empresarios de la política el cambio de política?

El resultado del análisis de contenido cualitativo (codificación, categorización y extracción de resultados) sobre los discursos de los empresarios de la política, de acuerdo con el Marco de Corrientes Múltiples (MSF) de Kingdon, demuestra que la OCDE tuvo una influencia considerable en el cambio de política de IED de Chile durante 2013-2016. Adoptando muy activamente la problematización y las recomendaciones de la OCDE en la Corriente del Problema y la Corriente de la Política, los empresarios de la política lograron un cambio de objetivo en el que el gobierno chileno se ha transformado de un receptor pasivo a un promotor proactivo. Se considera un avance importante dentro del mismo paradigma de atraer más y mejor IED y una integración más profunda en la economía global.

Palabras clave: Política de IED de Chile, Cambio de Política, OCDE, Marco de Corrientes Múltiples (MSF) de Kingdon, Análisis de Contenido Cualitativo.

I. Introduction

During 2013-2016, an abrupt and dramatic change took place in Chile's Foreign Direct Investment (FDI) policy. Before the 2013 Chilean Presidential Election, then-candidate Michelle Bachelet proposed to repeal the Foreign Investment Statute, also known as DL 600 (*Decreto Ley N° 600* in Spanish), in her Government Program 2014-2018. Afterwards, Bachelet's administration actually included the abolition of DL 600 in Tax Reform 2014. On January 30, 2015, the executive introduced a bill to establish a new FDI policy in Chile. On June 16, 2015, the Law 20,848 was enacted and it would come into force from January 1, 2016. Then, on May 24, 2016, the Chilean government presented a new FDI agency, InvestChile, as well as the publication of the first national Strategy for FDI Promotion and Development.

A number of people wondered why such a sudden policy change occurred. Personally, as a researcher of KOTRA (Korea Trade-Investment Promotion Agency), I have received plenty of questions on the matter, in particular, from actual and potential investors. This is due to the fact that the policy change did not take place because of a predictable expiration of DL 600; nor a continuous decline of FDI inflows in Chile; nor the pursuit of liberalizing more FDI rules; nor the intention of collecting more taxes by repealing the invariable income taxation; nor the disuse of DL 600; nor following steps in the rational decision-making model. Kathleen C. Barclay, president of the Association of American Chambers of Commerce in Latin America (AACCLA), also pointed out: "We cannot find sufficient reasons that justify the abolition of DL 600" (BCN, 2015, p. 110).

The aim of this study is to comprehend and analyze the main causes of Chile's FDI policy change during 2013-2016, through the *qualitative content analysis* on the discourses of policy entrepreneurs in accordance with Kingdon's Multiple Streams Framework (MSF). Also, the study aims to analyze the policy entrepreneurs' strategies while the Policy

Window was open. Finally, based on previous analyses, the study classifies the Chile's FDI policy change during 2013-2016.

1.1. Presentation of research topic

1.1.1. Conceptualization of Foreign Direct Investment (FDI)

Based on the definitions of international organizations – OECD (2008), IMF (2009), UNCTAD (2012) – and Article 2 of the Law 20,848, FDI can be defined as the transfer to Chile of foreign capital or assets owned or controlled by a foreign investor for an amount of or more than US\$5 million – in the form of money, physical goods, capitalization of loans, technology, or loans – in order to acquire a *lasting interest* expressed in control of at least 10% of the company's voting shares, or an equivalent percentage of the share capital if it is not a stock company.

The FDI is different from *foreign portfolio investment*, also called *foreign indirect investment*, which refers to “crossborder transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets” (IMF, 2009, Paragraph 6.54). In general, foreign portfolio investment is carried out by means of a diversified portfolio of stocks, bonds, real estates, funds and other financial assets with the intention to reduce investment risks. In contrast to FDI, it is not aimed to exert a certain influence on a recipient company's management or to establish a lasting economic relationship between investors and recipients.

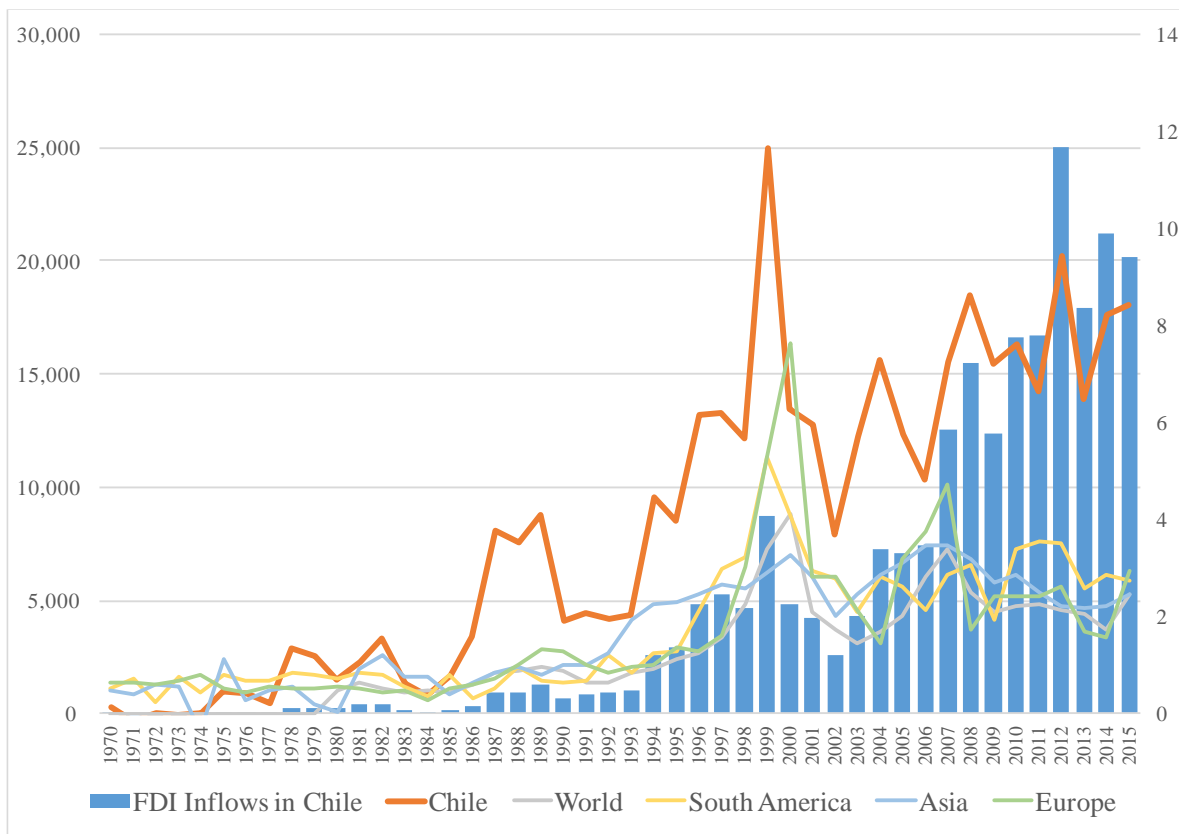
1.1.2. FDI Inflows and Policies in Chile 1974-2016

FDI has played a crucial role in Chile's economic development. As shown in Graph 1, FDI net inflows in Chile increased from US\$12.3 million in 1970 to US\$20,176 million in 2015. The FDI captured by Chile has risen significantly since 1994 and has remained on an upward trend in recent years.

Chile has shown a relatively very high FDI-to-GDP ratio compared to South America, Asia, Europe and the World, increasing from 0.12% in 1970 to 6.8% on average during 2000-2015. It is clear that the country's economic growth has a close relationship with the affluence of foreign capitals. According to UNCTAD (2016), Chile ranked in 17th place among the countries which attracted more FDI in the world and also ranked in 3rd place in Latin America.

Examining the FDI flows by industry in Chile during 2009-2015, the mining industry ranked top as it captured 45% of the total. Other important target industries were electricity, gas & water (11% of the total), financial services (10%), commerce (7%), manufacturing industry (6%) and communications (3%). This fact shows that the mining sector is more sensitive to a FDI policy change in the country.

Graph 1. FDI Net Inflows in Chile (MMUS\$) and Percentage of GDP (%)

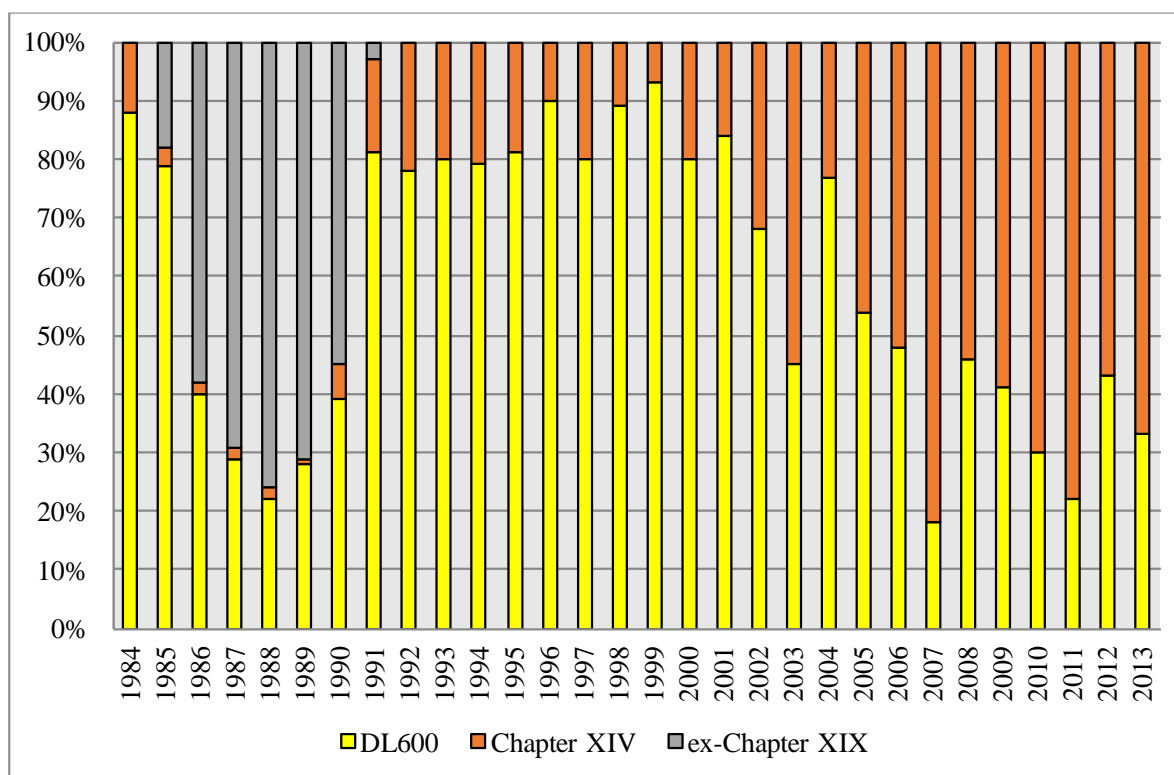


Source: Prepared by the author based on UNCTAD Statistics

As shown in Graph 2, Chile has had three FDI inflows mechanisms during the last 40 years, prior to the recent FDI policy change: (1) ex-Chapter 19 of the Foreign Exchange Regulations of the Chilean Central Bank; (2) Chapter 14 of the Foreign Exchange Regulations of the Chilean Central Bank; and (3) Foreign Investment Statute (DL 600).

The ex-Chapter 19 of the Chilean Central Bank is a kind of debt-for-equity swap whose aim is to convert foreign debts into assets. It permitted foreign investors to buy debt obligations in the international secondary market and to bargain with Chilean debtors (exchange the debts for the debtor’s equity capital) at a discount (Chackiel & Orellana, 2014, p. 7). The United States International Trade Commission (1992) noted that “since 1985 Chile has reduced its foreign commercial bank debt by about 70 percent, or by \$10.3 billion, largely through debt-swap arrangements” (Ch. 5 p. 16). However, since 1991 the use of the ex-Chapter 19 has declined significantly “due to the shortage of eligible Chilean debt obligations and because Chile's foreign debt has increased significantly in value in the secondary debt market” (United States International Trade Commission, 1992, Ch. 5 p. 16). As a result, the ex-Chapter 19 became completely out of use from 1992 (see Graph 2) and it was abolished in 1995 through the Chilean Central Bank Council Agreement No. 442-08-950803.

Graph 2. Distribution of Gross Capital Inflows in Chile



Source: Prepared by the author based on Chackiel & Orellana, 2014, p. 22-24.

As from 1992, DL 600 and the Chapter 14 of the Chilean Central Bank have been the principal channels used for FDI entrance to the country. However, strictly speaking, the Chapter 14 is not a FDI policy as it doesn't take into account a lasting interest or a certain amount of money (US\$ 5 million); rather, it is a sort of “administrative control system over remittance amounts equal or exceeding \$10,000” with the purpose of “ensuring the currency stability and the normal functioning of the payments system” (De Solminihac y Moreno, 2014, p. 4-5).

The essential and fundamental characteristics of DL 600 and the new Chile's FDI policy, which has been established during 2013-2016, are summarized in Table 1.

Table 1. Comparison of FDI Policies in Chile

	Former FDI Policy (DL 600)	New FDI Policy (Law 20,848)
Legal Mechanism	Contract-law directly signed with the State of Chile, through the Foreign Investment Committee (FIC)	FDI Certificate, issued by InvestChile
Responsible Institutions	- FIC - Executive Vice Presidency	- Committee of Ministers - InvestChile

FDI Strategy	No	Yes
Access to the Formal Exchange Market (FEM)	Yes. With a prior certification from the Executive Vice President of FIC	Yes. Once the required tax obligations, in accordance with the national regulations, have been duly completed
Remittance of Capital and Profits	Yes. The remittance of capital is possible after 1 year, but that of profits is possible anytime	Yes. Once the required tax obligations, in accordance with the national regulations, have been duly completed
Invariable Income Taxation	Foreign investors can contract, waivable only once, the invariable income tax rate of 42% for 10 years for industrial projects and for 15 years for mining projects whose value equals or exceeds US\$50 million.	- During 2016-2019, foreign investors can choose, waivable only once, the invariable income tax rate of 44.45% for 10 years for industrial projects and for 15 years for mining projects whose value equals or exceeds US\$50 million. - It will be repealed since 2020
No Discrimination	Guaranteed	Guaranteed
Tariff and Value-Added Tax (VAT)	It is possible to contract the invariable tariff and VAT – or exemption of the latter – only for importing machines and equipment which are not produced in Chile; which are incorporated in the list referred to No. 10 of the letter B of Article 12 of DL 825 of 1974; and which form part of an investment project under DL 600	Only the VAT exemption for importing capital goods, which are incorporated in the list referred to No. 10 of the letter B of Article 12 of DL 825 of 1974, at least 12 months after clearance through customs or for acquisition of first capital goods in the country
Investment Liquidation	The net proceeds of sale or liquidation of the companies bought or created with foreign investment are exempt from any levy, tax or charge up to the sum of the materialized investment.	It is subject to all the tax obligations in accordance with the national regulations

Source: Prepared by the author

1.2. Problematization

In general, a country with a high FDI-to-GDP ratio is very reluctant to a sudden and radical change in its FDI policy in order not to forfeit the confidence of foreign investors. Undoubtedly, sometimes an abrupt FDI policy change takes place, as long as there are obvious economic reasons, for example, in front of a continuous decline in FDI inflows (case of India) or due to the necessity of seeking more liberalization in FDI rules (case of China and Mexico).

However, the case of Chile is very unique and unusual in six aspects. First of all, the Chile's FDI policy change during 2013-2016 did not occur due to a predictable expiration of DL 600. In 2010, the Chilean government organized a public-private commission to discuss the issue of whether to continue or abolish DL 600. The commission members recognized that DL 600 offered security and benefits to foreign investors, and "even was imitated by other countries around the world" (Commission for the Modernization of DL 600, 2010, p. 11). In this respect, instead of eliminating DL 600, the Commission issued the final resolution to propose some changes to modernize it. Nevertheless, only four years since these efforts, unforeseeably the Chilean government decided to abolish it.

Secondly, when Bachelet's Government Program 2014-2018 was presented, in which the intention to produce a radical change in FDI policy was revealed for the first time, there wasn't any crisis or a continuous decline in FDI inflows in Chile (see Graph 1). It indicates that the policy change bears little relation to a simple need to increase the amount of FDI in the country.

Thirdly, the policy change is distant from the pursuit of liberalizing more FDI rules. On the contrary, the Law 20,848 reduced and eliminated the security and benefits that DL 600 had provided. For instance, the invariable income tax rate jumped from 42% to 44.45%, and even it shall not be given since the year 2020. Moreover, now foreign investors are not able to pursue the maximum security by having a contract-law directly signed with the State of Chile.

Fourthly, contrary to popular belief, the Chile's FDI policy change – especially, the elimination of the invariable income taxation of DL 600 – has nothing to do with collecting more taxes. Even though DL 600 permits foreign investors to choose, waivable only once, the invariable income tax rate of 42% for 10 years for industrial projects – which can be extended to 20 years – and for 15 years for mining projects whose value equals or exceeds US\$50 million, "most foreign investors have chosen to waive it because the common tax regime is only 35%" (Commission for the Modernization of DL 600, 2010, p. 9). In the Special 7th Session of the Treasury Commission of the Chamber of Deputies, Alberto Arenas, then-Minister of Finance, stated that "only 1 foreign company had opted for the invariable income taxation contained in DL 600" (De Solminihac et al., 2014, p. 7-8). In the XVIII Center for Copper and Mining Studies (CESCO) Supper, the President Bachelet pointed out that the FDI policy change was irrelevant to tax collection, and added, "We have the substantiating data which prove that the use of the invariable income taxation on the part of companies is very marginal" (Bachelet, 2014b).

Fifthly, the phrase "DL 600 is not currently used" (p. 27) in the Bachelet's Government Program 2014-2018 is an obvious exaggeration. As shown in Graph 2, DL 600 has still been an important mechanism for attracting FDI (more than 30% of gross capital inflows) in spite of a decline in participation for the last 10 years.

Last but not least, the Chile's FDI policy change during 2013-2016 was not produced in the rational decision-making model¹. There wasn't any alternatives search or ex ante evaluation

¹ The rational decision-making model refers to taking the following steps in a consecutive way: (1) Define the goals clearly; (2) Set the levels of achievement of those goals; (3) Canvass many (ideally, all) alternatives that might achieve these goals; (4) Compare the alternatives systemically;

carried out by the Chilean government. Jorge Pizarro, then-vice president of FIC, did not give a clear answer to the question in terms of the impact that the abolition of DL 600 would have; rather, he said simply, “It is established on the principle of gradualness” (Cáceres Jara, 2014).

In summary, we can realize that the Chile’s FDI policy change during 2013-2016 did not take place due to a predictable expiration of DL 600; nor a continuous decline of FDI inflows in Chile; nor the pursuit of liberalizing more FDI rules; nor the intention of collecting more taxes by repealing the invariable income taxation; nor the disuse of DL 600; nor following steps in the rational decision-making model. Then, why did the Michelle Bachelet's government bring an end to the FDI policy, which had been successful during the last 40 years, and establish a new policy? How did the policy entrepreneurs achieve this radical policy change?

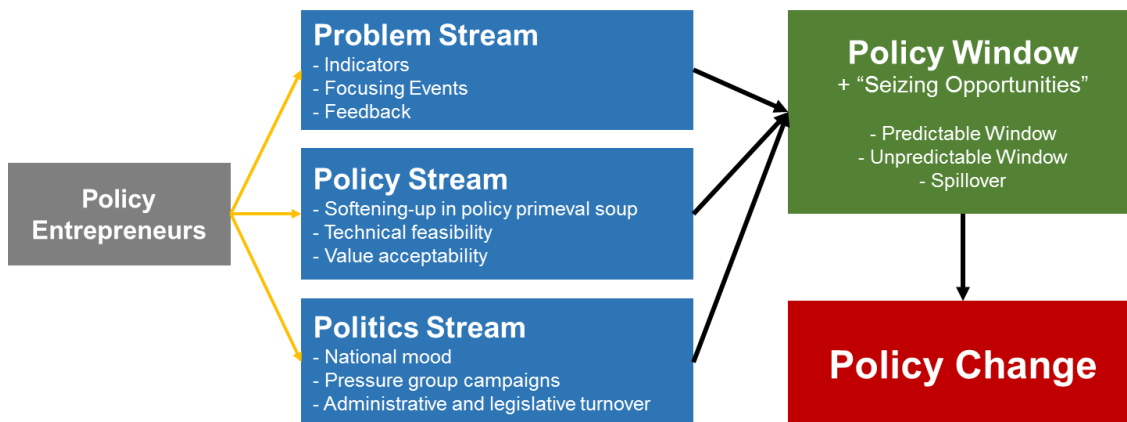
2. Methodology

2.1. Kingdon's Multiple Streams Framework (MSF)

Kingdon's Multiple Streams Framework (MSF) was originally created, on the basis of the Garbage Can Model (Cohen, March & Olsen, 1972), in order to explain the agenda-setting and policy-making process. However, nowadays it is also used for analyzing policy change process.

In a government perceived as an *organized anarchy*, there are three major separated – but not absolutely independent – streams: “(1) problem recognition, (2) formation and refining of policy proposals, and (3) politics” (Kingdon, 2013, p. 87). Each stream is named Problem Stream, Policy Stream and Politics Stream. The alignment of three streams at a critical juncture, that is, when “a problem is recognized, a solution is available and the political climate makes the time right for change” (Kingdon, 2013, p. 88), opens a Policy Window in which a policy change can be produced.

Chart 1. Kingdon's Multiple Streams Framework (MSF)



(5) Assess their costs and benefits; (6) Choose the alternatives that would achieve their goal at the least cost (Kingdon, 2013, p. 77-78)

Source: Prepared by the author based on Kingdon (2013)

To begin with, the Problem Stream refers to why policy makers pay attention to some problems and not others. The key factors in this stream are indicators, focusing events and feedback.

The Policy Stream consists of a *softening-up* process in the *policy primeval soup* where a number of ideas float, disappear, confront and combine together. In this stream, policy entrepreneurs “attempt to soften up both policy communities, which tend to be inertia-bound and resistant to major changes, and larger publics, getting them used to new ideas and building acceptance for their proposals” (Kingdon, 2013, p. 128). The most important requirements for the ideas to survive as available solutions are (1) technical feasibility and (2) value acceptability (Kingdon, 2013, p. 131).

Last but not least, the Politics Stream is related to the occurrence of political events, such as national mood, pressure group campaigns, administrative and legislative turnover, etc. (Kingdon, 2013, p. 145).

Policy entrepreneurs are defined as “advocates who are willing to invest their resources - time, energy, reputation, money - to promote a position in return for anticipated future gain in the form of material, purposive, or solidary benefits” (Kingdon, 2013, p. 179). Although they tend to be more involved in the Politics Stream, they are able to influence all three streams.

Kingdon (2013) indicates that there are three types of Policy Window: predictable, unpredictable and spillover. Furthermore, as Policy Window opens rarely and is open for a brief time, policy entrepreneurs must make their best endeavors to produce a policy change by “seizing opportunities” (Kingdon, 2013, p.175), as the saying goes, “Strike while the iron is hot”.

2.2. Typology of Policy Change

On the basis of the work of Peter A. Hall (1993) – first, second and third order change – and further consideration of the need to distinguish more clearly between a paradigm shift and a change in policy objectives, the new typology of policy change is presented in this study.

Above all, the *change in instruments* refers to a change in materials and tools, such as agency(ies), human resources, budget, etc., with which objectives of a policy can be reached.

The *change in strategies* is a change in guidelines that are designed to steer and guide the work and efforts of corresponding agency (ies) and people in charge. Generally, a change in this dimension takes place because of (1) the necessity to improve the efficiency of use of existing instruments; and/or (2) the incorporation of new instruments in a policy.

The *change in objectives* is a fundamental change in final goals of a policy, which also leads to a dramatic change in its instruments and strategies. As a change in this dimension looks very conspicuous, it tends to be regarded as a *substantial policy change* in practice.

Lastly, the *paradigm shift* refers to a revolutionary high-dimensional change that brings about a fundamental rupture in the continuity of the framework of ideas and rules. In other words, it is a Copernican change that gives rise to subversion against the existing system and the way of thinking. For example, the radical policy change in the United States based on Donald Trump's protectionism can be regarded as a paradigm shift. In the case of FDI, if Chile closed its door and accepted little FDI, it would be considered as a paradigm shift.

2.3. Literature Review

Since the Chile's FDI policy change during 2013-2106 is the latest incident, there is still no research on it at the time of literature review. Besides, it is very difficult to find a study on FDI policy change in the field of public policy because a FDI policy change usually takes place, unlike the Chilean case, due to explicit economic reasons. Yet, there are innumerable empirical studies that used Kingdon's Multiple Streams Framework (MSF) to analyze policy changes in a variety of fields: Anderson et al. (2015), Bell-Sepulveda et al. (2015), Chow (2014), John (2003), Jones (2014), Lancaster et al. (2014), Resnick et al. (2015), Travis et al. (2002), etc.

Also, there are a number of studies which used Atlas.ti, qualitative data analysis software, in order to obtain and analyze the Multiple Streams: Young et al. (2010); Quinn et al. (2015); Marzuki et al. (2015); Kelly et al. (2016); Petridou et al. (2017), etc.

2.4. Qualitative Content Analysis

The first step to conduct the qualitative content analysis (coding, categorization and extraction of results) on the discourses of policy entrepreneurs is to collect (1) the discourses of President Bachelet (Bachelet, 2013; Bachelet, 2014a; Bachelet, 2014b; Bachelet, 2015; Bachelet, 2016a; Bachelet, 2016b; Bachelet, 2016c), (2) the discourses of advocates in the parliamentary debate (BCN, 2015), (3) the interviews and quotations of advocates in the Chilean major newspaper, *El Mercurio* (Futuro, 2014; Marticorena, 2014a; Marticorena, 2014b; Marticorena, 2014c; Rossi, 2016) & *La Tercera* (Cáceres Jara, 2014; La Tercera, 2015; San Juan, 2015; San Juan, 2016), and (4) the transcriptions of CNNChile interviews with Jorge Pizarro, vice president of FIC (Pizarro, 2015), and Vicente Mira, first Director of InvestChile (Mira, 2016). Then, the open coding and categorization of the collected data, in accordance with Kingdon's Multiple Streams Framework (MSF), are carried out by using Atlas.ti.

Besides, the influence of the factors/codes and sub-factors/sub-codes of each stream is measured by means of the network of codes and the number of quotations. Particularly in the analysis of the Policy Stream, the comparative analysis between the OECD's recommendations and the bill is conducted to find out to what extent the international organization's perspective was reflected in the solution proposed by the policy entrepreneurs.

In the following section, two Policy Windows for bringing about the Chile's FDI policy change are examined. Then, the strategies that the policy entrepreneurs adopted, while the Policy Window was open, to expedite the policy change are evaluated. Finally, based on the previous analyses, Chile's FDI policy change during 2013-2016 is classified according to the typology of policy change presented in the Methodology.

3. Results

3.1. Policy Entrepreneurs in Chile's FDI Policy Change during 2013-2016

Based on the definition of Kingdon (2013), Mintrom and Norman (2009) suggest that four elements are central to policy entrepreneurship (p. 651): (1) displaying social acuity², (2) defining problems, (3) building teams, and (4) leading by example. Hence, policy entrepreneurs are different from simple advocates who show their consent and support to a certain policy change, in a way that the policy entrepreneurs exercise a significant influence on the streams by showing their social acuity, defining problems, forming teams and leading by example.

Under this concrete definition, seven governmental actors can be selected as the policy entrepreneurs in the process of the Chile's FDI policy change during 2013-2016: (1) President Michelle Bachelet, (2) Luis Felipe Céspedes, Minister of Economy, Development and Tourism, (3) Jorge Pizarro, vice president of FIC, (4) Alberto Arenas, ex-Minister of Finance, (5) Vicente Mira, first Director of InvestChile, (6) Rodrigo Valdés Pulido, Minister of Finance, (7) Aurora Williams, Minister of Mining.

The reason why all the policy entrepreneurs are governmental actors is based on three factors. First of all, unlike other social issues such as education, pension, crime, etc., FDI is an issue that is far away from the citizens' and civil groups' attention. There is no document or notice that deals with any interest group or non-governmental actor who had influence on the abolition of DL 600 and/or drove the FDI policy change.

Secondly, even though some civilian experts participated in the Presidential Advisory Commission³, they held a debate simply about the OECD's recommendations and even failed to reach an agreement on the elimination of the invariable income taxation (Ministry of Economy, Development and Tourism & FIC, 2015, p. 16-17). In fact, Jorge Pizarro, then-vice president of FIC, stressed in the parliamentary debate that the OECD's report (2015) had been an "important input" in the work of the Presidential Advisory Commission (BCN, 2015, p. 30). Moreover, the analysis of the Policy Stream in the following section substantiates that it had a Top (OCDE)–Top (Bachelet's Government) –Down(Chile) approach that didn't allow space where the opinions of civilian experts or groups could have exercised influence.

Finally, the deputies and senators of the ruling coalition, New Majority (*Nueva Mayoría* in Spanish), have demonstrated their full support to the bill and the FDI policy change. Nevertheless, they are not regarded as policy entrepreneurs due to the fact that they didn't

² According to Mintrom y Norman (2009), policy entrepreneurs display social acuity in two ways (p. 652). First, they make good use of policy networks. Second, they understand the ideas, motives, and concerns of others in their local policy context and responding effectively.

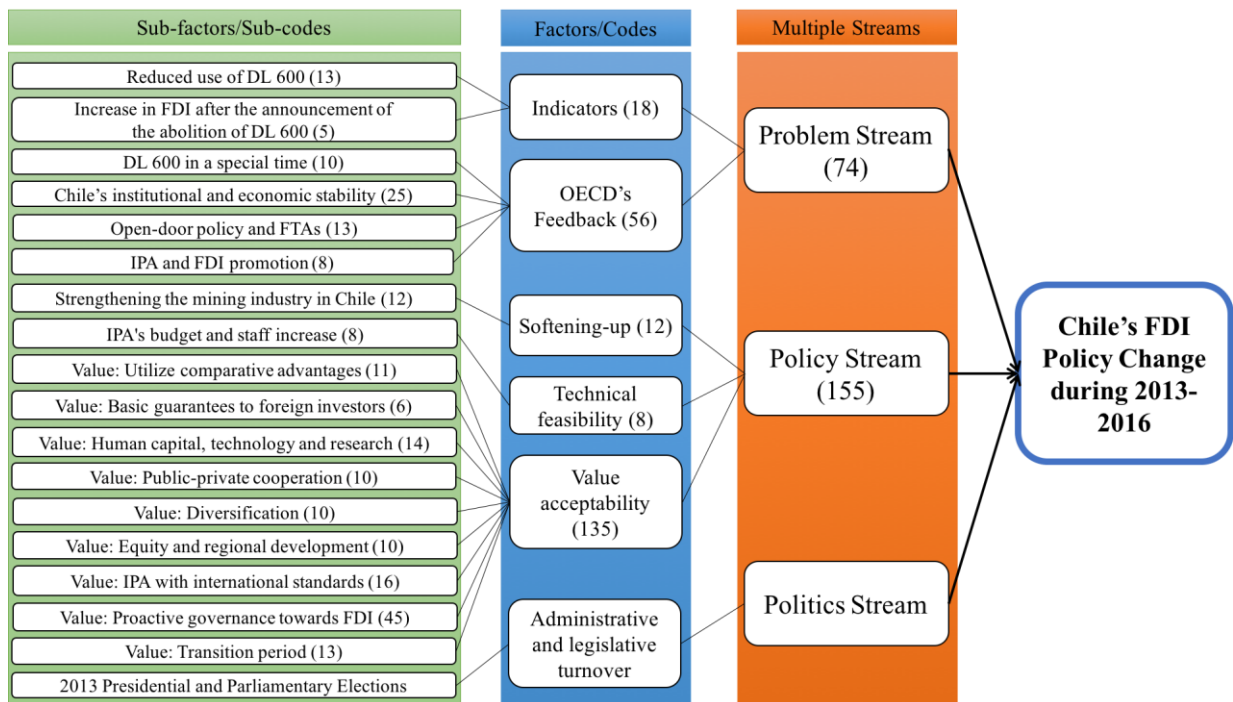
³ In Spanish, *Comisión Asesora Transversal para la Nueva Institucionalidad en Inversión Extranjera*

have any influence on the Multiple Streams. They simply ramped up efforts to expedite the bill, which had been prepared completely by the Executive, with only three minor alterations⁴.

3.2. Multiple Streams of Chile’s FDI Policy Change during 2013-2016

In Chart 2, the comprehensive analysis of the Multiple Streams in the process of Chile’s FDI Policy Change during 2013-2016 is presented. In total, there are 229 quotations, 18 sub-factors/sub-codes, 6 factors/codes and 3 streams.

Chart 2. Network of Codes of Chile’s FDI Policy Change during 2013-2016 (Number of Quotations)



Source: Prepared by the author

3.2.1. Problem Stream

In the Problem Stream influenced by the OECD’s problematization, the factor/code “indicators” is composed of two sub-factors/sub-codes: (1) Reduced use of DL 600; (2) Increase in FDI after the announcement of the abolition of DL 600.

In the sub-factor “Reduced use of DL 600”, the policy entrepreneurs reiterated that the FDI inflows through DL 600 accounted for only 30% of the total, which was a significant

⁴ Three minor alterations in the bill: In Article 12, 4), Article 15 and Article 16, a subparagraph regarding an active cooperation and coordination with local governments in the FDI promotion actions, is added. Also, in Article 15, “The Agency will be the only body authorized to promote and attract” changed into “The Agency must promote and attract”.

reduction in comparison to the past. Also, they emphasized that the invariable income taxation of Article 7 of DL 600 has been used by only one company and that of Article 11ter of DL 600 has been applied to very few mining companies whose value equals or exceeds US\$50 million.

In the sub-factor “Increase in FDI after the announcement of the abolition of DL 600”, the policy entrepreneurs underscored that the FDI inflows increased by 15 percent in spite of the fact that Bachelet’s Government Program 2014-2018 and Tax Reform 2014 had included the elimination of DL 600. They used this figure to argue that the foreign investors were not affected by the abolition of the old FDI policy.

The factor “OECD’s Feedback” consists of four sub-factors: (1) DL 600 in a special time (OECD, 2011, p. 210); (2) Chile’s institutional and economic stability (OECD, 2011, p. 210); (3) Open-door policy and FTAs (OECD, 2011, p. 215); (4) IPA⁵ and FDI promotion (OECD, 2011, p. 216). Among them, what the policy entrepreneurs reiterated and stressed most is the sub-factor “Institutional and economic stability of Chile” which has 25 quotations, followed by “Open-door policy and FTAs” with 13 quotations.

In summary, the principal argument of the policy entrepreneurs in the Problem Stream can be as follows: “A change in Chile’s FDI policy is vital because the use of DL 600 has diminished considerably in recent years. Besides, as Chile is now considered as a country which has stable economy and institutions, there is no need to offer the additional security and benefits which DL 600 has been providing”.

3.2.2. Policy Stream

The Policy Stream refers to a process of reaching an agreement on a set of solutions to the problems, in this case, perceived by the OECD and the governmental actors. The three factors/codes, “Softening-up”, “Technical feasibility” and “Value acceptability”, are the main components of the stream.

Above all, the factor “Softening-up” is concentrated on the mining sector that resisted fiercely the FDI policy change in the country. In front of the strong backlash of mining companies, the policy entrepreneurs highlighted two points in order to soften them up: (1) The FDI policy change has nothing to do with an additional or special tax on the mining industry; (2) In the pursuit of developing the mining sector, it is crucial to attract FDIs linked to human capital formation, technology development and energy supply, instead of providing some tax incentives.

The factor “Technical feasibility” consists of a single sub-factor “IPA's budget and staff increase”. The 22% budget increase and the recruitment of 14 new staff in InvestChile for 4 years have been proposed in a bid to make the FDI policy change feasible and successful.

The factor “Value acceptability” means that the proposals which survive in the policy community are compatible with the values of policy entrepreneurs (Kingdon, 2013, p. 132). In the process of establishing the values, in this case, the policy entrepreneurs relied heavily

⁵ IPA = Investment Promotion Agency

on the OECD's recommendations, via (1) the visit of Jorge Pizarro, then-vice president of FIC, to Paris for having meetings with the OECD Investment Division in May 2014; (2) the visit of Mike Pfister and Matthijs Weeink, foreign investment experts of the OECD, to Chile for providing consultancy on the new FDI policy in October 2014; (3) Peer review of the FIC with the OECD Investment Committee and OECD investment promotion agencies in December 2014.

It is noted that the policy entrepreneurs regarded the nine values as important and most of them were exactly based on the OECD's recommendations: (1) Utilize comparative advantages; (2) Basic guarantees to foreign investors; (3) Develop human capital, technology and research; (4) Public-private cooperation; (5) Diversification; (6) Equity and regional development; (7) IPA with international standards; (8) Proactive governance towards FDI in compliance with national economic development; (9) Transition period. Among them, in terms of the number of quotations, the sub-factor "Proactive governance towards FDI in compliance with national economic development" is of the greatest importance with 45 quotations, which is exactly based on the OECD's advice on the "development of linkages between FDI and the domestic economy" (OCDE, 2015, p. 65). Also, the sub-factors "IPA with international standards (16 quotations)", "Develop human capital, technology and research (14 quotations)" and "Transition period (13 quotations)" were considered crucial.

The additional comparative analysis between the OECD's recommendations (2015) and the bill sent to the National Congress on January 30, 2015 (BCN, 2015, p. 5-13) shows that most of the OECD's recommendations have been fully reflected in three essential pillars – Strategy for FDI Promotion and Development, Committee of Ministers, and IPA – of the bill, except only two points: (1) The Steering Committee composed of the Ministers and representatives from the private sector; (2) Director of IPA guaranteed as a permanent position to ensure its continuity regardless of political elections. Instead of the former, the policy entrepreneurs chose the Committee of Ministers with the help of a low-level public-private Consultative Advisory Council. Instead of the latter, they preferred the direct nomination of the Director of InvestChile by the President of the Republic. It proves that the Policy Stream of Chile's FDI policy change had a Top (OCDE)–Top(Bachelet's Government) –Down(Chile) approach.

The main idea of the policy entrepreneurs in the Policy Stream can be summarized as follows: "The Chilean government must have a proactive position towards FDI – by means of an IPA with international standards – in order to use it as a driving force of national economic growth by developing and promoting human capital, technology and research in the country. In this regard, there is a need to increase the budget and the number of staff in the IPA. Definitely, this policy change is very beneficial to the mining industry. The transition period of 4 years is allowed so that foreign investors will not have problem adapting to the new FDI Policy".

3.2.3. Politics Stream

In the Politics Stream, the sub-factor "administrative and legislative turnover" had the greatest impact, even though there is no direct quotation from the discourses of the policy entrepreneurs. If socialist Michelle Bachelet had not won in the 2013 Presidential Election,

a dramatic FDI policy change would not have occurred in Chile. In fact, the former President Sebastián Piñera and Evelyn Matthei, then-right-wing presidential candidate of the *Alianza* (later, *Chile Vamos*), didn't have any intention to eliminate DL 600. Felipe Morandé, then-chairman of Matthei's campaign, gave a scorching critique of the Tax Reform proposal and the abolition of DL 600 in the Bachelet's Government Program 2014-2018 (Hernández, 2013).

Besides, the New Majority coalition scored a major victory in the 2013 Parliamentary Elections, winning 67 of 120 seats in the Chamber of Deputies and 12 of 19 seats in the Senate. This result gave a tremendous impetus for the implementation of Tax Reform 2014 as well as the abolition of DL 600, which had been one of Bachelet's core election promises.

3.3. Policy Window and “Strike while the Iron is Hot”

In the process of Chile's FDI policy change during 2013-2016, broadly speaking, the Policy Window opened twice. The first preliminary Policy Window opened for the purpose of repealing DL 600 in the vortex of Tax Reform 2014. According to the classification of Kingdon (2013), it is regarded as the *Spillover Window* in that opening the Window for Tax Reform 2014 helped to open another Window for the abolition of the country's old FDI policy.

As a result of the parliamentary debate on Tax Reform 2014, Article 8 of Political Agreement Protocol stipulated that the Executive send a bill, which would establish the new FDI policy, within 120 days on the basis of the report of the Presidential Advisory Commission (BCN, 2014, p. 1704). In this context, the second principal Policy Window for the Law 20,848 can be considered as the *Predictable Window*.

As the principal Policy Window opened thanks to the alignment of the previously analyzed streams, the policy entrepreneurs made their best endeavors to “strike while the iron is hot”, that is, to seize the opportunity of producing a radical change in the country's FDI policy. In this regard, they adopted two important strategies.

The first strategy was putting *urgencies* on the bill. In the parliamentary debate of the Chamber of Deputies, the bill was labeled with *Simple Urgency*, which meant that the deputies had to process the bill within 30 days. In the parliamentary debate of the Senate, the bill was labeled with both *Utmost Urgency* and *Immediate Discussion*, which forced the senators to process the bill within only 15 days. Minimizing the duration of the parliamentary debate with urgencies affixed, the policy entrepreneurs forestalled the possible substantial amendment, particularly, made by the parliamentarians of the opposition coalition (*Chile Vamos*).

In addition to putting urgencies on the bill, the policy entrepreneurs and the parliamentary advocates – the deputies and senators of New Majority – emphasized that the bill should be passed until *May 21st*. According to Chilean political tradition, the May 21st is very important to the Executive and the ruling coalition because the very day the President gives a public address, takes an official photo of the Cabinet, and participates in the memorial of Iquique Naval Combat that takes place every year in Valparaíso. In this context, Senator Prokurica criticized that the ruling coalition, obsessed with the “*veintiunomayitis* (May 21st

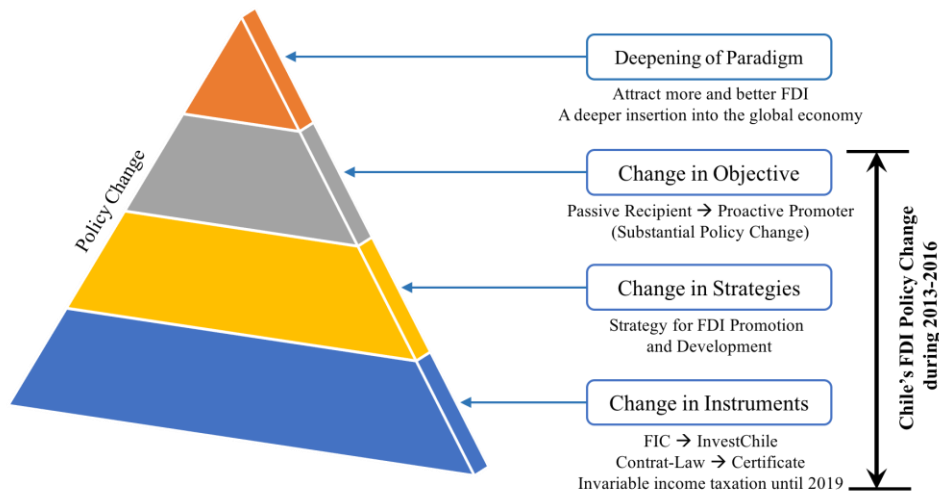
illness)”, wanted to pass in all haste the important bill which would replace the existing FDI policy (BCN, 2015, p. 140).

The second strategy that the policy entrepreneurs implemented was that they eliminated firstly DL 600 in the context of Tax Reform 2014, and then they sent the only alternative to the National Congress. The parliamentarians of the opposition coalition, who voted in favor of the bill, argued that passing the bill would be *a lesser evil* than leaving the country without any FDI policy. The Senator García of the center-right National Renewal Party (*Partido Renovación Nacional* in Spanish) voted in favor, stressing that passing the bill in general would be preferable to a situation in which there would be no incentive instrument towards foreign investment (BCN, 2015, p. 111). Also, the Senator Larraín of the center-right Independent Democratic Union Party (*Partido Unión Demócrata Independiente* in Spanish) said, “I will vote in favor of the initiative in general because it will be worse without a policy to promote foreign investment” (BCN, 2015, p. 153).

3.4. Classification of Chile’s FDI Policy Change during 2013-2016

Based on the previously presented analyses, it is confirmed that the Chile’s FDI policy change during 2013-2016 is not a small adjustment or modification of the existing framework, but it is an abrupt and punctuated policy change. In accordance with the typology of policy change presented in the Methodology, the policy change can be assessed as a *change in objective* under the same paradigm of attracting more and better FDI as well as pursuing a deeper insertion into the global economy.

Chart 3. Classification of Chile’s FDI Policy Change during 2013-2016



Source: Prepared by the author

In the level of instruments, a substantial change took place. The most significant change is the transformation from FIC to an IPA, InvestChile, which now provides the weighty services of promotion, pre-investment, landing and aftercare through direct overseas offices

in United States, Germany and Japan. Moreover, the contract-law of DL 600 signed directly with the State of Chile is now replaced by the FDI certificate issued by InvestChile. Lastly, the gradualness is applied in the termination of the benefits provided by DL 600 so that foreign investors are able to contract the invariable income taxation with a rate of 44.45% until December 31, 2019.

In the level of strategies, a considerable change was produced, too. Prior to the FDI policy change during 2013-2016, the Chilean government didn't have any strategy at a national level for FDI promotion. In this sense, when the first Strategy for FDI Promotion and Development was presented on May 24, 2016, the policy entrepreneurs stressed that Chile for the first time in its history depends on a strategy which has fundamental guidelines for FDI promotion efforts in the country. In the new strategy, five sectors have been accentuated as the most prioritized strategic sectors for attracting FDI (InvestChile, 2016, p. 33-34): (1) suppliers and mining services (automation, energy efficiency, etc.); (2) sophisticated food industry; (3) sustainable tourism; (4) energy and logistic infrastructure; (5) exportable technological services

In the level of objective, a radical change occurred. Prior to the policy change, the Chilean government had been a *passive recipient* of foreign investment, simply regulating and administrating the entrance of foreign capitals to the country. However, with the advent of the new FDI policy, the Chilean government has been now transformed into a *proactive promoter*, knocking directly on the doors of foreign investors in order to attract proactively specific FDIs which meet the country's needs and priorities.

In the final level of paradigm, instead of a change, there was a deepening of the existing paradigm. Historically, Chile is one of the countries who have supported and pursued strongly free trade and free investment, so as to make the most of comparative and competitive advantages that the country possesses. In the process of the FDI policy change, everyone involved has agreed with the fundamental idea that Chile must attract more and better FDI and seek a deeper insertion in the global economy.

4. Conclusions

The Chile's FDI policy change during 2013-2016 has been a great shock to both the Chileans and foreigners. During this period, DL 600 was abolished, and the Law 20,848 was enacted. The Foreign Investment Committee (FIC) was transformed into a new FDI agency, InvestChile. Besides, the first Strategy for FDI Promotion and Development was established.

Many people have been confused and disconcerted because this radical policy change did not take place due to a predictable expiration of DL 600; nor a continuous decline of FDI inflows in Chile; nor the pursuit of liberalizing more FDI rules; nor the intention of collecting more taxes by repealing the invariable income taxation; nor the disuse of DL 600; nor following steps in the rational decision-making model.

In order to comprehend precisely and concretely the reasons and factors of Chile's FDI policy change, this study has relied mainly on the qualitative content analysis on the

discourses of the policy entrepreneurs, in accordance with Kingdon's Multiple Streams Framework (MSF). Among various analysis results, three most important points are presented as follows.

First of all, the OECD's influence on Chile's FDI policy change during 2013-2016 has been dominant and pivotal. Particularly, it has had a great impact on the Policy Stream. Along with the abolition of DL 600 in Tax Reform 2014, Michelle Bachelet's government requested and received continually the guidance of OECD regarding the establishment of new FDI policy in the country. The analysis on the sub-factors in the Policy Stream illustrates that the nine values of the policy entrepreneurs were influenced considerably by the OECD's recommendations (2015). Among them, the policy entrepreneurs reiterated and emphasized most the sub-factor "Proactive governance towards FDI in compliance with national economic development".

Besides, the comparative analysis between the bill (BCN, 2015, p. 5-13) and the OECD's recommendations (2015) shows that the policy entrepreneurs have embraced actively the international organization's recommendations in the solution proposed by the Bachelet's Executive, except only two suggestions. It is verified that the Policy Stream had a Top (OCDE)–Top (Bachelet's Government) –Down (Chile) approach.

Secondly, the efforts and strategies of the policy entrepreneurs for accelerating the country's FDI policy change were adequate and astute. In the face of strong resistance from the mining sector, the policy entrepreneurs highlighted two points in order to soften it up in the Policy Stream: (1) The FDI policy change had nothing to do with generating higher tax income; (2) For the development of the mining industry in Chile, it is vital to attract specific FDIs related to human capital, technological advancement and energy supply. Furthermore, they repealed firstly DL 600, and then sent the only alternative to the National Congress with *urgencies* affixed in the bill. As the parliamentarians had only one solution in their hand and had to process it for a short time, the bill has passed successfully with only three minor modifications linked to the active cooperation with local governments in FDI promotion.

Thirdly, the Chile's FDI policy change during 2013-2016 is a *change in objective*. In the level of instruments, a tremendous change happened: transformation from FIC into InvestChile providing the FDI promotion services at international level; change from the contract-law to the FDI certificate; the possibility to contract the invariable income taxation with a rate of 44.45% until 2019, etc. In the level of strategies, the first national Strategy for FDI Promotion and Development was established, focusing particularly on five sectors: suppliers and mining services; sophisticated food industry; sustainable tourism; energy and logistic infrastructure; exportable technological services. In the level of objective, the Chilean government has been transformed from a *passive recipient* to a *proactive promoter* trying to associate FDI attraction with the country's economic development. Consequently, it is considered as an important deepening of the paradigm of attracting more and better FDI and pursuing a deeper insertion into the global economy.

In the end, this study has an important implication for future research. This study has corroborated that the OECD's influence on the Chile's FDI policy change during 2013-2016 was very crucial and decisive. According to experts in the field, the influence of international organizations is also evident in a wide variety of public policies not only in

Chile, but also in the South America region. In this context, in addition to diversifying case studies for policy change in other social areas, there is a strong need to conduct investigations to analyze and compare systematically the influence of international institutions on public policy process in Chile as well as in other South American countries.

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