

Chile: Service Globalization 2.0

17th August, 2017

Opportunities in Services Globalization

Table of Contents

Chile: Service Globalization 2.0.....	1
Opportunities in Services Globalization.....	1
Table of Contents	2
Services Globalization Opportunities.....	4
Scope and Objective	5
Methodology.....	6
Executive Summary	6
Highlights from Tholons report published in 2010	7
Competitive Landscape	10
Services Globalization Chile- An Overview	11
Upward Trending Economy	12
Scale and Quality of Labor Pool	13
Language	14
Regulations and Policies.....	15
Cost of Operations	16
Outsourced Services Provided by Chile	17
SWOT Analysis	21
Need for Digital	22
Digital Innovation.....	22
Open Innovation Ecosystem	23
Five Pillars of Innovation	24
Co-Work Co-Innovate Co-Invest.....	25
Looking Forward - Conclusion and Recommendation	26
APPENDIX.....	32
Appendix A: Tholons Global Network of Clients/Client Partners (>500)	32
Appendix B: Tholons Global Network of Innovation Hubs and Startups (>10,000)	33
Appendix C: Tholons Global Network of Investors (>500).....	34
List of Figures	
Figure 1: Service Globalization Spend	4



Figure 2: Open Innovation Ecosystem	23
Figure 3: Five Pillar Innovation	24
Figure 4: CXO Connect	32
Figure 5: Startups	33
Figure 6: Co-investors	34

List of Tables

Table 1: Chile Competitive Landscape.....	10
Table 2: Select Domestic and Foreign Service Providers in Chile.....	17
Table 3: Other IT Businesses Industry Association in Chile.....	19

List of Charts

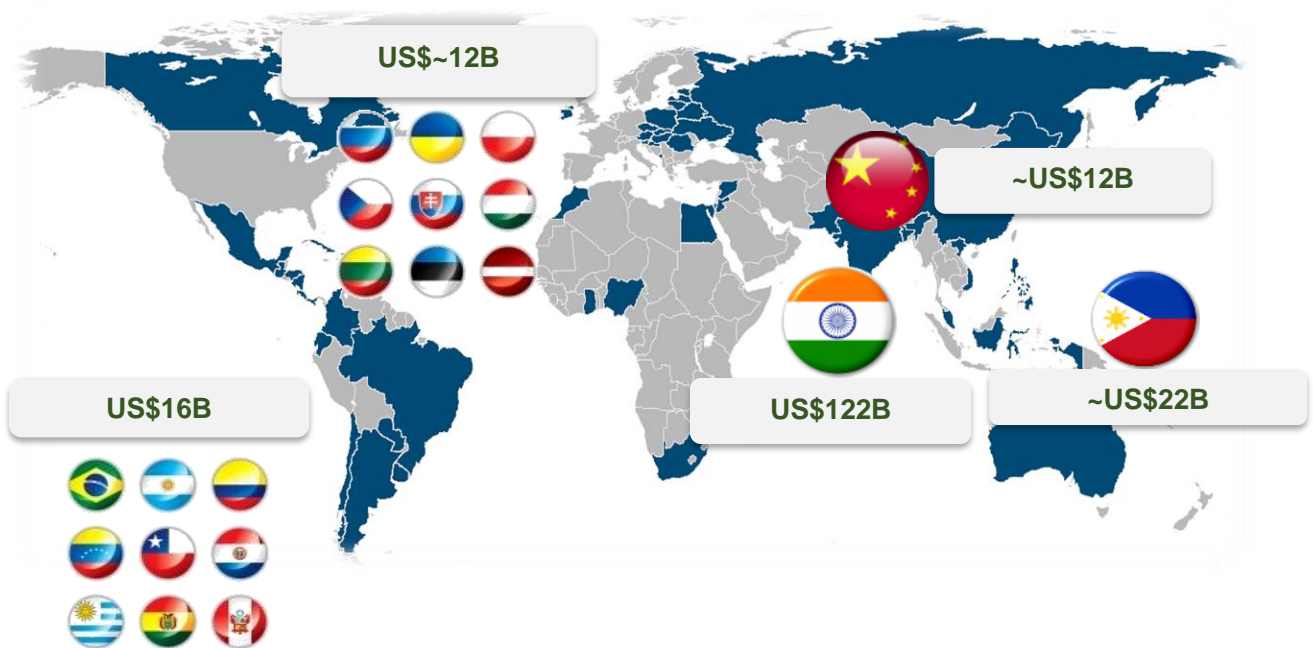
Chart 1: Economies gaining and losing Technology related skills	14
Chart 2: Select Domestic and Foreign Service Providers in Chile.....	17



Services Globalization Opportunities

Services Globalization is a US\$ 200 billion export industry globally. The two big giants India and Philippines have export revenues of US\$122 billion and US\$22 billion respectively with Latin America having US\$ 16 billion, Europe having US\$ 12 billion and China US\$ 12 billion as well. It is also expected that over the next 10 to 15 years services globalization would employ close to 50 million people worldwide and become the largest contributor to GDP for 3 countries – Philippines, Sri Lanka and Vietnam.

Figure 1: Service Globalization Spend



Source: NASSCOM 2016, IBPAP 2016, IDB, Tholons Research and Estimates 2016, Cisco white paper "Embracing the Internet of Everything To Capture Your Share of \$14.4 Trillion", Emerging Europe.

Services Globalization previously known as Outsourcing and Off-shoring has the power to bring people out of poverty and improve the standard of living significantly. It also ushers in technological development and serves as an impetus for progressive developmental measures that improve infrastructure and education. The global digital technology and business process management spend of US\$ 2.4 Trillion is being hammered by digital. There is an additional US\$ 14.4 Trillion opportunity being created by the combination of increased revenues and lower costs that is migrating among companies due to digital technologies.



In the past five years, Chile has continued to build its digital capabilities. It has proactively adopted national policies and trade agreements to ensure that the country maintains its favorable business environment for services globalization. However, maintaining its position and growing it will become more and more challenging as other countries around the world embark on aggressive digital transformation. Significant successes of other emerging destinations in the region such as Argentina, Colombia, Cost Rica, Mexico and Brazil, as well as the continued dominance of traditional delivery centers such as India, Philippines and other Asian destinations have resulted in a greater need to accelerate the pace of growth of digital in Chile.

The country's image as a favorable and mature provider of globalized services is constantly challenged by real apprehensions of prospective and current digital investors. While multiple initiatives for developing the industry are in place, there remains room for improvement. Chile has done a remarkable job on marketing the country as a favorable destination of foreign investors. Now it is time for more effective actions to deliver taglines with tangible results. The key question that the report asks is how can Chile, with its current efforts for industry development and marketing, optimize its digital revenue share amidst the intensifying competition with other emerging and established destinations and continue its leadership as a "Destination of Choice for Services Globalization"?

Scope and Objective

Tholons' report "Chile Outsourcing – Optimizing Opportunities in Globalization Services", published in January 2010, was a detailed assessment of Chile and its competitive positioning in services globalization. As per Tholons assessment, Chile was well positioned to benefit from services globalization, especially with the fast emerging market for multilingual services and the expanding demand for high-value services which Chile has capabilities to perform. With that hypothesis, this report presents its findings from an update study sponsored by the Inter-American Development Bank (IADB) to understand how Chile can benefit from the dynamic digital transformation of industries and what it needs to do to maximize revenues by leveraging digital transformation of services over the next decade.

This update undertakes assessment of the current scenario of services globalization and transformation of industries through new and innovative technologies. Objective of this report is to highlight global best practices that need to be implemented in Chile for Services Globalization 2.0.



Methodology

Tholons used its proprietary and industry leading “Country Assessment Methodology and Framework” to prepare and analyze competitive positioning of countries. The data for the report was collected through two key methods:

- **Primary Research:** Tholons conducted face to face interviews with multiple stakeholders in Chile. These interviews included representatives from service providers, government, financial institutions, educational institutions and private sector companies in this space. Data gathering was also carried out to determine market and labor pool availability, quality and scale, so as to validate analyses. The recent primary research included meetings with all key stakeholders including ProChile, CORFO, InvestChile, Finance Ministry, IDB, Industries and other stakeholders by Mr. Avinash Vashistha.
- **Quantitative and Qualitative Analysis:** Tholons undertook a detailed analysis of the data gathered for Tholons Services Globalization Index 2017 (TSGI), a research report and ranking of major cities and nations. This included a comparative assessment of multiple elements making a location a ‘Destination of Choice’ including:
 - Innovation and Digital
 - Scale and Quality of Workforce
 - Demand and Supply Characteristics
 - Economic Conditions, Risk Profile, Regulations and Policy, Government Incentives
 - Business Maturity
 - Cost of Operations

The analysis covered a comparison of each of the elements to locations worldwide which were best in class. Subsequently, based on the analysis, a set of recommendations were identified and developed.

Executive Summary

This report assesses the current scenario of services globalization and rapid digital transformation of industries. Objective of this report is to highlight global best practices that need to be implemented in Chile for Services Globalization 2.0. It gives an overview of Chile’s current scale and quality of labor pool, English speaking capability, various trade in agreements, cost of operations and economy trends. The report also provides competitive landscape of Chile and gives



insights on how Chile has certain advantages over other Latin American countries, in leveraging services globalization.

Report also discusses why there is need of digital technology and digital skilled labor in order to strive in the era of digital disruption. It also suggests how digital capabilities of industries can be enhanced by strengthening open innovation ecosystem.

Chile is a key South American country competing for the vast nearshore and offshore opportunities across the globe. Chile is among the global Digital Innovators according to the “Tholons Services Globalization Index – 2017” and is ranked 7th in Top “Digital Nations”. Chile offers a customized set of advantages and incentives for businesses looking for near shore delivery location or setting up / expanding their businesses in Chile.

Towards the end of this report Tholons suggests best practices and programs that Chile should consider to address and garner the opportunities brought by digital and innovation.

Highlights from Tholons report published in 2010

The primary aim of the Tholons report published in January 2010 was to understand and analyze, what various advantages Chile possesses and the key challenges it would have to overcome to become a leader in the digital industry. The objective of this update report is to take a relook at Chile and assess its position in the new competitive landscape. Digital transformation of industries and role of services globalization has shaken the services players in all countries including India and Philippines. This is an opportunity for Chile to see how it can position itself for accelerating its transformation and path to higher services revenues.

The report examined key issues including:

- Adapting to the changing needs of the key markets
- Ensuring skill availability and capacity building to meet new demand and grow existing demand
- Role of the Government and Industry Trade Bodies to foster the evolution towards digital transformation
- Branding and promotions to target client markets and specific knowledge based niche segments

Highlights of recommendations made in report “Chile Outsourcing: Optimizing Opportunities in Globalization Services” dated March 2010 are as follows:

1. Building Human Capital to Meet Future Requirements



The accurate inventory of the labor force's skills will be vital for growing Chile's outsourcing industry. Test and assessment of current workforce is required for initiating a talent development program that will produce tangible results in the quality of the workforce. The Chilean workforce's employability can also be improved by following India's model of finishing schools. Finishing schools serve as supplementary source of training, honing student technical and soft skills required for the industry. Chile needs more than the national database of English speakers to fulfill the demand for English speaking employees. Chile has to be more ambitious in its basic-English training, especially since most of the older Chileans of today grew up without any English training in the classroom. Certification and accreditation programs also provide companies and individuals with best practices and practical roadmaps that could help them improve their capabilities. ISO 9000, e-Sources Capability Models for Service Providers (eSCM-SP), People Capability Maturity Model (PCMM), Sarbanes-Oxley Compliance (SOX Compliance) are few of selected outsourcing training and certification programs.

2. Local development

To achieve sustainable and aggressive growth in the global outsourcing industry Chile must also focus on strengthening the operations of local players by enhancing their niche areas, this growth can be further accelerated by focusing on certain key areas such as:

- Internationalization of SMEs: Government should market the competencies and capabilities of local SME providers. There is a need to encourage seed venture financing like CORFO to support SMEs. Government should setup a committee at national level that tracks plans, policies and guidelines to be followed by governments.
- Expanding operations in BPO and KPO: Chile should also look to optimize its services portfolio by exploring or expanding to a wider array of service categories, to include Healthcare services, Procurement services, Education and Training services, Legal Process Outsourcing (LPO) services and others (BFSI, Pharma etc.). Chile should continue its expansion in the KPO space so as to leverage its skilled labor pool. This approach is basically to create specialized centers for verticals such as financial services and capital markets, fund administration, market and financial analytics, etc. It helps to promote of the country as an advantageous location for KPO-Business Services, specifically in outsourced market research and analytics.

3. Government and Regulation



- **Reduce import taxes:** A comprehensive analysis of Chilean tax structure suggests that the country must adopt a progressive move towards optimizing its import policies related to technology imports, software and other services imports which stand at 30%.
- **Additional tax benefits:** Incentives can be expanded to include tax deductions like in Brazil where spending on staff training and development, and R&D can be deducted against income tax at 200% and 160% to 200% respectively. This tax scheme functions as an incentive for companies to actively participate in the government's endeavors for human capital development.
- **Double taxation agreements with potentially strategic nations:** DTAs are critical specifically with economies such as US (prime client market), and India and China (major offshore players). Such agreements would enable Chile to deepen its reach in high growth markets. These agreements help in reducing or eliminating bilateral tariffs, lowering of trade barriers, promotion of economic integration, and expansion of opportunities between Chile and the partner countries.

4. Promotion

Promotion and marketing initiatives must be strategic in that it must select with practicality the markets it would target. It must not compromise the country's image in global outsourcing arena by promoting beyond its realistic capacities. The key therefore to effective and aggressive promotion is identifying which markets Chile should target, what outsourcing segments the country can actively compete in, and finally, which unique selling points Chile must focus on for effective branding and marketing. Strengthening the high-value services sector is the most logical strategy for locations which have limited scalability or resources. Smaller European countries are competing for dominance in the R&D and financial analytics. Romania (Population: 22.3 million) is working to secure its place in the Financial Analytics sector while Estonia (Population: 1.3 million) is building up its advantages in HR Outsourcing. Czech Republic (Population: 10.2 million) has been recognized by industry analysts as a Center of Excellence for R&D and is beginning to explore its capabilities for ESO as well. Chile can similarly present itself in the global outsourcing arena.



Competitive Landscape

Chile is world's 11th largest receiver of foreign direct Investment, more than \$122 Bn¹ FDI was made in Chile between 2009-2014. Chile does not possess the advantage of scale as some of its neighboring nations, but advantages like high tertiary graduate enrolment rate and high skilled talent pool availability has put Chile consistently in the list of top offshoring destinations.

Table 1: Chile Competitive Landscape

Metrics	Chile	Uruguay	Argentina	Brazil
Population (Mn.)	17.95	3.432	43.42	207.8
Global Competitiveness Index	33	73	104	81
FDI (Mn USD)	11266	953	5745	58680
Tertiary Graduates enrolment ratio (%)	84	63.137	82.917	49.28
Technology Start-ups	1250	200	1000	2500
Workforce (Mn.)	9	1.7	20	108.56
Internet Users (%)	64.29	64.6	69.4	59.8
Mobile cellular subscriptions (%)	129.5	160	146.7	126.6
ICT Exports (Bn. USD)	2968	737	6282	19062
English Skills ² (100)	50.10	51.63	58.40	50.66

The World Economic Forum's Global Competitiveness Report 2016-2017 ranked Chile 33rd among 138 economies globally and 1st in the region. Stable macroeconomic environment, low corruption rates and a well-functioning financial market remains the center of attraction for IT-BPM companies in Chile. Chile's openness towards global trade and investment provides robust base to its macroeconomic environment. Chile has 21 free trade agreements with other countries that include access to market benefits.³ Chile has been ranked 51 in "The Human Capital Index" by World Economic Forum which measures knowledge and skills embodied in individuals that enable them to create economic value. Chile benefits significantly from a well educated population compare to other countries in the region. Its 25-54 prime working age group also boasts highest tertiary education attainment rate in Latin America (10th Globally) with one in three people in this age group having completed university.⁴

¹ World Bank 2015, The UNCTAD Inward FDI Performance Index (2016)

² EF EPI "The world's largest ranking of countries by English skills"

³ Foreign Trade Information System, Organization of American State

⁴ World Economic Forum 2016. "The Human Capital Report-2016"



Services Globalization Chile- An Overview

Chile is a key South American country competing for the vast nearshore and offshore opportunities across the globe. Various studies have commended Chile's industry offerings that make it conducive to host local and multinational service providers alike. Tholons Services Globalization Index 2017 – which ranks Emerged and Emerging services globalization locations based on qualitative analysis and quantitative scoring of cities and countries innovation / digital capability, cost competitiveness, business catalysts, scalability and quality of labor force, infrastructure, quality of life and risk profile – also recognized Chile's potential and Chile made itself in the Top 10 Digital Nations list.

The country fervently practices an open market system and maintains free trade agreements with various economies across the globe. Such economic strategy entails favorable tax measures and institutional openness for foreign investors, making Chile an ideal country for multinational service providers looking to expand global footprints. One of the most common ways to gain exposure to Chile is by investing in one of the many stock opportunities. The Santiago Exchange has several markets and trades over \$2 billion a day in equities, fixed income and money-market instruments. One of the highest-traded stocks on the exchange is Banco Santander-Chile (BSAC), which can be purchased directly on the Santiago Exchange or as an American depository receipt (ADR). Banco Santander-Chile provides commercial and retail banking services to Chilean individuals and institutions.

Chile offers both nearshore and offshore buyers an educated and multilingual workforce. Chile also boasts of favorable labor laws that enhance the country's attractiveness for the labor-intensive business of service globalization. Furthermore, the country has reliable telecommunication infrastructure and adequate airport connectivity – one to five hour flights across the region and overnight flights to major cities in the US. Geographical proximity allows for time zone compatibility, with similar and/or minimal time difference with US and Western Europe.

The country's infrastructure, business catalysts and workforce all combine to supply service providers a favorable environment to provide world class services in BPO, KPO, ITO and Digital. Innovation and R&D processes especially benefit from Chile's sound intellectual property laws and technical graduates. Industry verticals availing outsourced services in Chile include finance, health care, telecommunication and transportation sectors. These advantages attracted many nearshore and offshore service providers.



Upward Trending Economy

One of Chile's most striking characteristics is its economic and political growth. The Telecommunication and Information Companies (TIC) represents about 3% of the national GDP. The \$7,500 million (3% GDP), 23.5% comes from the information technology: information technology providers, data centers, programming and software. According to Servicio de impuestos internos (SII) and CHILETEC there are 2,878 companies TIC's in Chile, 91% are SMEs.-regional representation is formed of the following form Santiago 76%, Valparaíso 7.6%, Bío Bío 3.3% and 2.4% lakes.

FDI inflow values are particularly interesting and this is seen as a sign of increasing investor confidence, with service providers in particular looking towards Chile for globalization services. This is further enhanced by strong institutional support from the government through incentives offered for foreign investors in practically all facets of business operations; from pre-investment to business launch as well as to human resources pooling and training. Its laws and regulations encourage investment by foreigners and very few restrictions upon FDI exist.

In 2015, Chile approved Law No. 20,848 in force since January 1, 2016, which establishes a new institutional framework for foreign investment. The new law provides a definition of foreign investor and FDI, and the applicable regime of rights. It recognizes the rights to non-discrimination, access to foreign exchange and free remittances, as well as the exemption from value-added tax on imports of capital goods for up to USD 5 million, for seven types of investment projects: mining, industrial, forestry, energy, infrastructure, telecommunications and R&D. It is in these forms of institutional support that Chile is able to maintain its distinct advantage over alternative locations.

SMEs in Chile are the largest source of private employment, absorbing about 70% of the workforce. In reality, SMEs have a clear advantage over MNCs in the context of innovation. An important M&A transaction was the acquisition by Scotiabank of 51% of Cencosud's retail financial business (USD280 million). In the telecoms industry, the Novator fund acquired Nextel Chile from Grupo Veintitrés, ISM Capital and Optimum Advisors. This company officially launched WOM, a mobile company. In the mining industry, Anglo American sold two non-strategic assets in Chile, Mantos Blancos and Mantoverde, which were acquired by Audley Capital Advisor and Orion Mine Finance respectively (USD300 million). In the insurance industry, Mutua Madrileña acquired 40% of Bci Seguros Generales, Bci Seguros de Vida and Zenit Seguros Generales from Empresas Juan Yarur (USD225 million). Finally, Gas Fenosa acquired control of CGE.

Chile has been ranked 57 in ease of doing business by World Bank. The initiative Your Business in a Day (Empresa en un día) is based on Law No. 20.659 / 2013 establishing a website offering



transactional services that make it possible to complete online all the procedures needed to setup a company in one day. Once registered, the business is given a tax identification number and can start its operations. This same number is also used for paying social security contributions and for submitting other modifications concerning the enterprise.

Initiative like Startup-Chile programmed to position Chile at the most important innovation hub in Latin America leads the way by attracting international entrepreneurs, investors and transform local entrepreneur culture to become global.

Rankings done by different external entities validate Chile's sound business environment. It also possesses the lowest country risk ratings in the region as ranked by credit rating agencies such as Moody's, Fitch, and Standard & Poor's. This can become a decisive factor for service providers in choosing where to locate in South America, as most other South American countries are no stranger to economic and political turmoil. Chile offers the nearshore advantage to service providers without the high risk brought by unstable and volatile business environments.

Scale and Quality of Labor Pool

Total enrollment in tertiary education is rising, as of the latest estimates; there are about 1.2 million higher education students in Chile, and about 130,000 graduates per year. These graduates come from the 134 HEIs in Chile and provide sufficient supplementary learning for Chile's labor force.

Recognizing the country's limitation in scale, the Chilean government began a series of initiatives and educational reforms in order to fully utilize the capacities of the labor force for offshore operations. The *Enlaces Program* prioritizes ICT knowledge through Internet access and instruction in public schools, while the National Campaign for Digital Literacy aims to develop the same proficiencies for Chileans outside of the formal education reach. In fact, such initiatives designed to improve the quality of the labor force are reflected in the country's educational spending. Chile spends about 7% of its total GDP in education, noticeably higher than the OECD average of 5.5%⁵. Figure below is the Economic graph analyzed by Linkedin which reflects that Australia and Chile are leading their regions in gaining technology related skills while Mediterranean countries such as Greece and Canada are losing them.

⁵ *Tradingeconomics.com*



Chart 1: Economies gaining and loosing Technology related skills

Economies gaining skills		Economies losing skills	
Australia	Oracle	Greece	Strategy
	Web Services		MySQL
	XML		Construction
	SQL		Linux
	Java		Change Management
	Software Project Management		SQL
	C#		Risk Management
	JavaScript		Telecommunications
	Microsoft SQL Server		Team Management
	Agile Methodologies		Business Analysis
Chile	MySQL	Canada	Matlab
	Engineering		Strategic Partnerships
	SQL		Statistics
	Management		Salesforce.com
	HTML		Facebook
	Java		Critical Thinking
	Teamwork		Integrated Marketing
	Project Management		SEO
	AutoCAD		Construction Safety
	Project Planning		Python

Source: World Economic Forum 2016. "The Human Capital Report-2016", LinkedIn

Language

Chile's official language, like most of South America, is Spanish. An overwhelming percentage of the population is fluent in Chilean Spanish, which differs from European Spanish in pronunciation, accent, and vocabulary use. This way, Chile is able to utilize its inherent language capabilities and explore other client nations since it cannot thrive nor survive if it competes directly with other South American countries. Mexico, for example, would dominate the Hispanic market from the United States, as its language capabilities are more homogenous with the demands of the clientele compared to Chile's own language capabilities. English usage, on the other hand, remains relatively low in this country. English is used in Chile for international business language and increasingly, as a medium of instruction in schools.

The Chilean Economic Development Agency (CORFO) created a National Register for English speakers, on the basis of their certification from the Test of English for International Communication (TOEIC). As of the latest data, CORFO's National Register lists approximately 90,000 English speakers nationwide. Of this number, about 74% are university students and technicians under 30 years of age, and 26% are in the field of Engineering, IT and Business. To further promote the establishment of offshore operations in the country, CORFO also offers its training programs for service providers looking for qualified local talent.



Regulations and Policies

Trade in Agreements

Chile has preferential trade in services with more than 30 economies in 4 continents (about 75% of world trade in services). According to Foreign Trade Information System, Chile has 1 multilateral agreement, 21 free trade agreements and 5 preferential trade agreements. There are 2 free trade agreements which already have been signed but not in force. Chile has signed FTAs or Economic Association Agreements (EAAs) with Australia, Canada, Central America (i.e. Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), China, Colombia, the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway, and Switzerland; EFTA), the European Union, Hong Kong, Japan, Malaysia, Mexico, the Pacific 4 (i.e. with Brunei, New Zealand, and Singapore; P4), Panama, Peru, Republic of South Korea, Thailand, Turkey, the United States, and Vietnam. All these agreements provide for reduced or zero rate customs duties⁶. According to Foreign Trade Information System, Chile has in total 36 bilateral investment treaties which are in force and 12 bilateral investment treaties which are not yet in to force.

Tax Policy

Chile's foreign investment policy is based on simplicity, transparency and non-discrimination towards foreign investors. Over the past years, the Government has worked to simplify investment procedures. The country also offers investors a large range of solutions and has established a programme called 'The Innovation Policy Platform' in order to encourage investment. These measures have notably led to the development of a new type of company, the 'Simplified Limited Company' ('empresa individual de responsabilidad limitada' - EIRL) that allows a foreigner to create a business in Chile without needing a local partner. Also, joint stock companies can be formed without a local partner (but another legal entity is required). In 2016, the Government established a new foreign investment promotion and attraction strategy that included the creation of a new national investment promotion agency, InvestChile. The Government has identified five sectors as priorities for investment attraction: mining industry services, sophisticated food industry, exportable technological services, sustainable tourism and energy/logistics infrastructure for development. Under the 2016 investment law (N° 20.848), investments of at least USD 5 million are exempt from VAT on imports of capital goods for up to the first USD 5 million, for seven types of investment projects: mining, industrial, forestry, energy, infrastructure, telecommunications and R&D. While tax invariability is no longer granted as under the former law, from 2016-2020, foreign investors will be able to lock in a ten-year effective income

⁶ PWC2016, Corporate - Tax credits and incentives



tax rate of 44.45% for investments of at least USD 50 million. Some of the notable policies have been pointed below:

- On a fiscal level, foreign investors benefit from a moderate income tax on companies, and they are guaranteed access to the formal foreign exchange market, including free remittance of capital and profits.
- Taxes paid in the importation or acquisitions of goods required in the export activity are reimbursed.
- VAT on exports is zero-rated.
- The Productivity Law provides that, as of 1 November 2016, the export of technical or engineering services duly qualified by the Customs Authority as 'export services' will not be subject to Additional WHT in Chile.
- The Productivity Law establishes that the export of services rendered completely or partially in Chile will also be subject to the corresponding VAT exemption if the services are qualified as 'export services' by the Customs Authority and are used abroad.

Technology and Innovation Policy: Support for innovation, including Research and Development (R&D) activities. CORFO is the principal public agency in charge of promoting the innovation in all types of enterprises, both consolidated and new enterprises. It also has important lines of support intended for research centres. Relevant examples of programmes include the R&D Tax Credit Law (for favourable taxation of R&D investments), the International Centres of Excellence in R&D (intended to foster the establishment in Chile of International Centres of Excellence in R&D).⁷

Cost of Operations

Cost of operations in Chile is relatively higher than or in most cases at par with other nearshore destinations such as Mexico, Costa Rica, Brazil and Argentina. Real estate costs are rather cheap while salary costs are higher than Argentina and Uruguay but cheaper than Mexico and Brazil. While basic salary may not reflect a striking quantitative advantage when placed alongside other South American countries, Chile's cost advantage may be found in the favorable labor laws that benefits service providers:

- Long term savings may be achieved from ease of hiring and termination;
- The most favorable process to recruit international expat expertise;

⁷ OECD (2016), *Regulatory Policy in Chile: Government Capacity to Ensure High-Quality Regulation*, OECD Reviews of Regulatory Reform, OECD Publishing, Paris.



- Manageable public holidays (15 days per year); and

Reasonable overtime rates are paid for hours exceeding the regular 45-hour work week.

This is a significant advantage, considering the labor-intensive nature of service globalization.

Outsourced Services Provided by Chile

With Chile's multilingual workforce equipped with technical education that is being delivered from centers mostly located in the capital city of Santiago. The Contact Support sector also expects healthy growth rates in the near term, with Spain as its main offshore market for bilingual and multilingual Contact Support services. Atento, Entel, Actionline, Prego, Unisono and Sitel are also primarily Spanish-speaking, providing support to domestic and regional markets.

Higher-value services that include technological innovation and R&D are also delivered by multinational service providers from centers in Chile. Service providers are taking advantage of the fiscal incentive and assistance that the government is providing to encourage high-technology investments to come into the country.

Synopsys – a provider of design automation software with operations in Japan, Europe, North America, India and Israel – has chosen Chile because of the country's socio-economic stability and competently trained computer and electronics professionals. It has benefited from the fiscal incentives that the government grants to service providers deciding to set up delivery centers in Chile.

Another company with a similar success story is Intersystems, a provider of advanced database technologies which enable enterprises to deploy, run, and connect applications. They have set up their Software Development Center in Santiago.

Chile hopes to increase further its folio of companies that provide higher-value services, recognizing the vast opportunities that moving up the value chain can give the industry. The table below show examples of multinational companies located in the country with their respective employee size and type of services offered.

Table 2: Select Domestic and Foreign Service Providers in Chile

Company	Location
Software AG	Valparaiso
Citigroup	Santiago



Softland	Santiago
Soluziona	Santiago
Readsoft	Santiago
Altec	Santiago
Intersystems	Santiago
Synopsys	Santiago
JP Morgan	Santiago
BBVA	Santiago
TCS	Santiago with branches across the country
Experian	Santiago
BHP Billiton	Santiago
Oracle	Santiago
SGS	Santiago
Lafarge	Santiago
MSD	Santiago
Freeport-McMoran Copper and Gold	Santiago
GE	Santiago
Reuters	Santiago
Unisys	Santiago with branches across the country
Sitel	Santiago
Transcom	Concepcion and Valdivia
Unisono	Santiago
Teleperformance	Santiago
Konecta	Santiago
Atento	Santiago
Emergia	Santiago
Evalueserve	Valparaiso

Source: Invest Chile – CORFO

Key Government Agencies and Industry Associations



The Chilean government actively promotes its service globalization industry through various initiatives and key associations. These organizations enable current and prospective service providers to tap Chile's industry offerings, including the different incentive schemes that are made available to companies.

The Chilean Economic Development Agency (CORFO) is the government organization in charge of promoting economic progress of the country through business investments and innovation. The organization does this through providing comprehensive information about Chile's business sectors and opportunities and facilitating the set-up of businesses in Chile. They also provide the necessary transactions assistance to prospective investors, limiting red tape and complicated setup processes. It is under the CORFO that the program "Invest Chile" was created. This 9-year old program is actively promoting Chile as an attractive destination for IT companies looking to locate in South America. Aside from marketing Chile as an attractive center, Invest Chile also supports the network of various sectors of the Chilean economy – telecommunications industry, academe, domestic IT companies, etc. – and service providers through industry events and expositions. Finally, Invest Chile program entices prospective service providers with industry-specific incentives such as tax cuts on innovation or technology transfer and tax holidays for newly established multinational service providers.

Listed below are some of the other business associations that support Chile's service globalization industry

Table 3: Other IT Businesses Industry Association in Chile

Chilean Association of IT Companies (ACTI)	ACTI has more than 130 members, companies providing hardware, software, training, systems integration and Internet development. Its primary objective is to promote and develop the Chilean IT industry by creating an extensive network of collaboration and representing the industry before the government, academia, and other business sectors, and conducting industry studies.
Chilean Software and Services Society (CHILETEC)	CHILETEC represents the national software industry. It conducts economic studies and certification programs such as the ISO 9000-2000 and CMM for member companies. It also coordinates IT-related development efforts within Chile.
InvestChile	InvestChile is the government agency responsible for promoting Chile in the global market as a destination for foreign direct investment, serving as a bridge between the interests of overseas investors and the business opportunities the country



	offers and providing world-class services that are in line with the country's economic development policies.
Fundación País Digital	Fundación País Digital has coordinated efforts between business sectors, the government and academe to bring technological innovations to all aspects of Chilean society. Their projects include working with Telefónica Chile to bring South America's largest Wi-Fi network to Santiago's university neighborhood.
Fundación Chile	Fundación Chile's mission is the introduction of innovations and the development of human capital in the Chilean economy's key industry: technology management. The organization has significantly contributed to the technological development.
ProChile	ProChile, the Trade Commission of Chile, is part of the General Directorate of International Economic Affairs of Chile's Ministry of Foreign Affairs. It is responsible for implementing and enhancing Chile's trade policy. Its mission is to provide support to small and medium-sized enterprises, helping to encourage and diversify exports of Chilean products and services by increasing the number of export markets and companies. ProChile's Trade Offices and Agencies are located in over 35 countries, covering 90 percent of the destination markets for Chilean exports.
CORFO	The Chilean Economic Development Agency (CORFO) is a government organization, founded in 1939, to foster economic growth in Chile by encouraging investment, innovation, business and cluster development. CORFO's work involves the provision of incentives, services and comprehensive information regarding business opportunities in various sectors of the Chilean economy. In 2008, the agency awarded US\$153 million in grants and around US\$657 million in loans, providing services and support to almost 80,000 companies (mainly SMEs).



SWOT Analysis

A focused and forward-looking SWOT of Chile brings out the specific challenges and threats that Chile will face over the next 3- 5 years as also the opportunities. Chile's strengths in the services globalization sector are well documented and need no more explanation. However, Tholons believes that the specific challenges and threats are slightly under-estimated. In order for Chile to build on its achievements in this sector, Chile needs to have a focused plan to tackle these challenges and threats.

<p>Strengths</p> <ul style="list-style-type: none"> • Stable economy and business environment • Skilled and low cost labor pool for high end work • Strong Spanish language skills • Government support for foreign businesses • Low income tax rate • High-quality business infrastructure • Free Trade and Bilateral Agreements with various countries • Business friendly VISA and expatriates norms • Good connectivity and favorable time zones with key markets like USA, Southern Countries and parts of Europe 	<p>Weakness</p> <ul style="list-style-type: none"> • Relatively poor English speaking pool resulting in restricted scope for foreign companies to expand beyond 1000 employees • High cost of operations when compared to peer groups such as Argentina and India • Relatively small size of local companies • Limited trade integration into global value chain • Lack of credible, clear alternate locations to Santiago in order to balance demand load and also reduce costs
<p>Opportunity</p> <ul style="list-style-type: none"> • Strong opportunities in global financial services sector • Opportunity for growth in offshoring and global services because of low infrastructure cost, openness to trade and sound regulatory environment. • Opportunity to better optimize tax structure for local companies and for international operations 	<p>Threats</p> <ul style="list-style-type: none"> • Cost of operations should be further optimized in order to help foreign and local companies to grow and attract small and medium sized clients to invest in Chile • Growing threat from countries like Brazil, Mexico, Argentina and Costa Rica as they aggressively market their services to global clients • Corporate tax rate has increased to 25 %



Need for Digital

Digital technologies and Innovation are disrupting major industries, challenging incumbents and reshaping markets faster than any force in history. The big change is a certainty! The global digital technology and business process management spend of \$2.4 Trillion is being transformed by digital. Traditional businesses are becoming technology businesses, prominent examples being Uber and Airbnb. Digital era is here:

- Top 5 global brands are digital at the core - Apple, Google, Microsoft, Amazon, Facebook
- Amazon and eBay are the only pure retailers on the list of the top 100 brands
- People online: 3.5 Bn.; People on social media: 2.8 Bn. and Facebook users: 1.6 Bn.
- People on phone: 7 Bn. and over 6.5 Bn. Mobile subscriptions
- Value of work performed via Online Labor Platforms: 5 Bn.

This increased innovation and digital transformation will swell up spending annually from \$2.4 Trillion to \$3.8 Trillion giving a significant jump in the opportunity to new age tech companies, new age super cities and digital nations. The growth opportunity is large and can be realized through participating in the digital transformation of industries through startup and innovation. Robotics, Artificial Intelligence (AI), Social Media, Cyber Security Risks, are transforming all industries faster than anyone of us can comprehend, strategize and manage.

Digital Innovation

Digital is the Y2K of this era. Businesses must embrace digital technologies and platforms like social media, mobile technology, cognitive computing, cloud and artificial intelligence. As start-ups are synonymous with the best of the innovations it becomes imperative to study start-up ecosystem of a location.

Chile is among the global Digital Innovators according to the “Tholons Services Globalization Index – 2017” and is ranked 7th in Top “Digital Nations”. Chile long back established itself as most stable and suitable place to set up and do business in Latin America. The start-up ecosystem in Chile as is rightfully called — the “Chilecon Valley” has over 1,500 Startups. Chilean Government has initiated more than 50 programs to encourage new businesses. Start-Up Chile is one of the most successful initiatives launched in 2010 to change the nation’s culture towards entrepreneurship and to position Chile as the hub of innovation for Latin America. It offers an equity-free grant and six months mentoring. Around 1250 companies from 80 countries participated in this program. The Chilean Economic Development Agency (CORFO) provided grants to over 1300 startups. Chile is



on a fast track and has the strongest potential to accelerate innovation, entrepreneurship in growth markets.

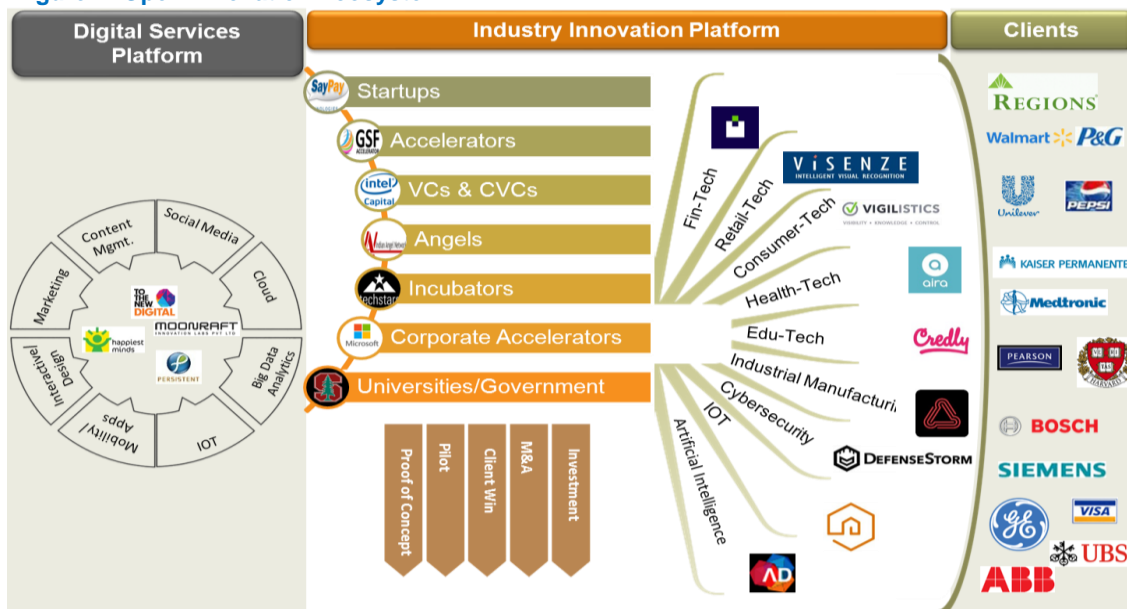
Santiago's ecosystem is fragmented but competitive. The program "Startup Chile" helps entrepreneurs to scale up their business ideas by awarding selected entrepreneurs an equity-free government grant of 20 Million Pesos. Foreign entrepreneurs are expected to contribute 10% of the total grant's value and are incentivized to employ local talent. Santiago Startups have an average pre-money valuation of over \$3.1 Million.

Open Innovation Ecosystem

Open innovation revolves around building an ecosystem wherein start-ups, academia (i.e. universities), private institutions (i.e. ITeS companies, technology suppliers) and financial institutions (i.e. venture capitalists, banks, angels, etc.) come together to foster collaboration and co-innovation. Start-ups are expected to conceptualize and develop their products or services, the academia is expected to churn quality graduates for the start-ups, and the financial institutions are expected to provide the funding for the start-ups to develop their products and services.

The open innovation ecosystem needs support from government through policies and incentives aligned to promote innovation, entrepreneurs and collaborative working between all stakeholders.

Figure 2: Open Innovation Ecosystem



Source: Tholons Labs (2017)

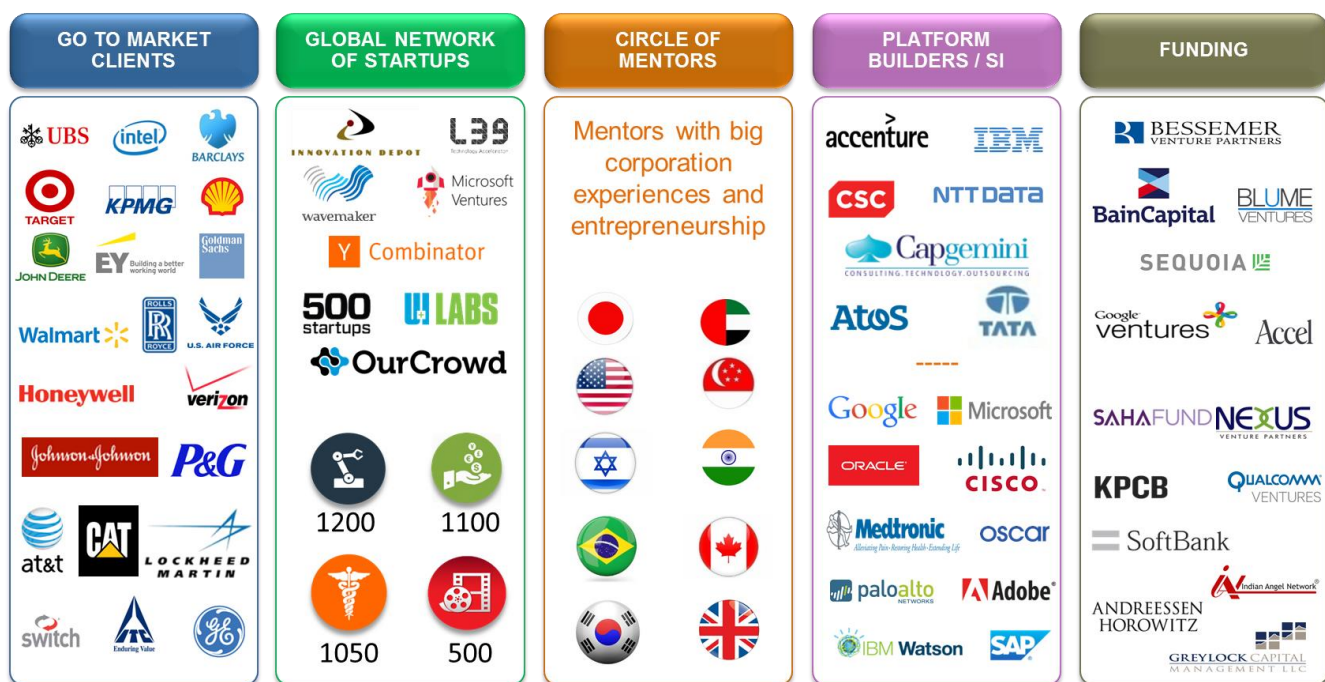
Open Innovation is the key in today's world where innovative company products and services are disrupting major industries.



Five Pillars of Innovation

Enterprises are challenged to integrate digital and innovation in their businesses. It's not just about "Global Sourcing" and "Outsourcing" of IT and business processes. Innovation has to be a key part of the way enterprises work in the future. Enterprises need to collaborate with technology partners and startups to build innovative solutions. The future of innovation is to Co-innovate. Tholons innovation strategy for enterprises is built on "Five Pillars". The five pillars bring in client, client partners, network of global startups / innovation hubs, mentors, digital platform builders and investment to accelerate building enterprise solutions.

Figure 3: Five Pillar Innovation



Source: Tholons Labs (2017)

1. Connect with Clients (Refer Appendix A for detail)

Connect with clients enables startups to not only have increased opportunities to market their products, they also get priceless engagement and feedback from the largest of clients in the target industries. Tholons has a network of more than 500 clients / client partners globally across various industries like Healthcare, Energy and Utilities, Manufacturing IOT, Cyber Security etc.

2. Network of startups (Refer Appendix B for detail)



Network of global startups brings with it, the best of breed startups to connect and collaborate. Furthermore, connections with other accelerators provide startups with more avenues to seek funding. Tholons has a network of over 10,000 startup hubs and startups globally.

3. Mentors/Partners

Mentors are key in bridging the enterprises and clients with startups. Client partners are representatives of a stakeholder client, and their input is critical to make sure the product suits industry needs and requirements. Mentor partners help bridge the gap between an enterprise and startups. With trusted partners and mentors, startups engaging in co-innovation will have the best possible support structure. Tholons has a network of over 300 mentors / client partners globally.

4. System integrators/platform builders

System integrators and platform builders are critical to the process of integrating a solution from multiple startups and deploying it across a large enterprise and potentially across the globe. Tholons works with the largest and top 50 SI, technology and strategic partners across the globe.

5. Co-funding (Refer Appendix C for detail)

Successful startups need funds to fuel their growth. In today's age, clients, technology partners and venture funds co-invest. Tholons Labs works with over 500 venture capital firms, corporate venture companies across various industry segments.

Co-Work | Co-Innovate | Co-Invest

A good model to bring and implement the innovation in Chile would be to create Co-Work | Co-Innovate | Co-Invest hubs. The future of collaborative working is Co-work; the future of innovation is Co-innovate; and the future of investing is Co-invest. These three collaborative elements are core to how enterprises will work, innovate and invest in the digital innovation and transformation of industries and consumer experience.

1. Co-Work

Co-work is more than just affordable workspaces. It is about working in a community, sharing and helping each other. Freelancers, entrepreneurs and startups feel as part of the community. These offices have spaces for meeting rooms, hot desk plans, dedicated desk plans, lounge, pantry and many more attractive facilities. A strong community presence is the greatest asset for a Co-work space.



2. Co-Innovate

Innovation is a crucial factor for the survival of companies and industries. Businesses are becoming more and more connected. Individual efforts are not sufficient for innovation. Collaboration and co-innovation between clients, technology partners and startups is becoming imperative.

3. Co-Invest

The revolutionary involvement of partners in the co-innovation model relies on an equally pioneering yet simple co-funding strategy. The most promising startups will use equity sharing to be able to attract the best partners. Today, clients and technology partners are investing alongside venture funding.

Looking Forward - Conclusion and Recommendation

Based on the recent reviews of Chile, the below mentioned best practices and programs should be designed to address and garner the opportunities for implementation:

Best Practice 1: Training and Skill development

- **New needs for talent:** Orient training programs in schools, colleges, institutes and finishing schools to include digital skills-social media, cloud computing ,design, machine learning, artificial intelligence etc. Post graduate programs offered by universities to IT professionals are another value addition. IT professional now days tend to seek for options to continue their education, as new certifications and innovation emerge in digital- IT industry. To cater to the need, educational institutions design and implement customized courses introducing new technology developments, enabling training of a specific skill such as how to use new software or a certification that will improve professionals ' chances to bridge the talent gap.
- **Skilling and re-skilling of middle level managers:** Digital transformation of industries requires skilling and re-skilling of the workforce predominantly in soft skills, English, process skills and digital foundational skill sets as highlighted in the above sections. A key layer of the workforce pyramid is middle level managers. The training will cover both managerial and technical courses. Managerial Courses include Project Management, People Management, Business Development, Communication Skill, Attitude Loyalty, Requirement Engineering, Business Analysis, Finance for Non-Financial Managers and Customer Management. Technical courses include SMAC-SPSS, ERP, CRM, SaaS & PaaS, Networking & Security,



Robotics, AI, IoT, Big Data Analytics, Assessment Certification, Software Architecture, SD Lifecycle/Agile and Quality Management/SW Testing.

Best Practice 2: Regulation policies to promote unilateral trade of services

- **Ease of doing Business:** The government of Chile should support SME's development by formalizing stakeholders' involvement throughout the regulatory process with the aim of having interventions that are more suitable to their needs. The consultation process could largely benefit from clear, standard and compulsory guidelines regarding SMEs, even at the sub-national level.
- **Tax Policy:** Economies around the world have made paying taxes faster, easier and less costly for businesses – by consolidating payments and filing of taxes, offering electronic systems for filing and payment, establishing tax payer service centre or allowing for more deductions and exemptions. While Chile made paying taxes more costly for companies by increasing corporate income tax rate. Many nations have lowered tax rates. Changes have brought concrete results. Some economies simplifying tax payments and reducing rates have seen tax revenue rise.⁸
- **Technology and Innovation Policy:** The introduction of new tax incentive for the private sector R&D is a strong signal about government commitment to research and innovation. But to have a long term impact this needs to be accompanied by more reforms to encourage private sector innovations. The government of Chile should promote public private partnerships to increase cooperation between private and public sector and also Chile should strengthen coordination and cooperation among policy agencies dealing with innovation. There is also a need to help young companies developing their innovative capacities which would require a combination of actions such as support on steps from concept to prototype, industrial production and marketing; promoting development of markets for knowledge, including relevant institutions, and technological intermediaries; or making a clearer division of work between the national council for technology research and development (CONICYT) and CORFO.
- **Competition Policy:** There are several laws to fine tune the competitiveness among various industries these includes Anti-Trust Law and Merger Control but there is still room for improvement on how to make better use of competition for healthy growth of companies. Government should grant their competition authorities, express legal power to compel the provision of the information from the private firms and public bodies for the specific purpose of conducting market studies.

⁸ Doing Business 2017. *Equal Opportunity for All Economic Profile 2017 Chile*. World Bank



Best Practice 3: Develop and promote Open Innovation Ecosystem and Startup Culture

Although Chile has been doing very good in terms of developing open innovation and startup ecosystem, but still Chile needs to pay heavy emphasis on promoting new age transformational enterprise solutions. Open innovation ecosystem is one of the measures that brings profitability by reducing cost of R&D, accelerating time to market, minimizing innovation risk and propels company's business model forward in response to changes in the market place. The open innovation ecosystem needs support from government through policies and incentives aligned to promote innovation, entrepreneurs and collaborative working between all stakeholders. Tholons suggests its "Five Pillars of Innovation" and "Co-Work | Co-Innovate | Co-Invest" models to build an open innovation platform with in and across industries. The five pillars bring in client, client partners, network of global startups / innovation hubs, mentors, digital platform builders and investment to accelerate building enterprise solutions. To survive in digital era economies must promote co-innovation. Co-working and co-innovation model has capability to build industry transformational solutions by providing a platform for startups, researchers and tech- based companies to collaborate their ideas and bring modern and innovative solutions to clients.

To uplift startup culture, the government will select top 5 technology-based startups from pool of startups. These selected startups will be provided with an opportunity to work and collaborate with various startups and clients in Silicon Valley.

Process to be followed

Step 1 - Creating awareness among startups

Awareness needs to be created among entrepreneurs by promoting the startup venture and funding program. The event will be promoted on social media and at various startup hubs. Such events provide significant visibility to selected startups, connecting them to a network of mentors and access to investors for funding.

Step 2 - Screening and due diligence

Startups will register by providing information online. After the successful registration of applications from the various startups, each application will be screened and provided guidance and feedback. A due diligence process will down select to 30 - 50 startups that will go through a panel of jury and mentoring. Selection is based on basic fundability elements:

- Potential of Idea; Scalability; Opportunity Size and Stage of company's development
- Investor attractiveness; Compliance Framework and Team profile

Step 3 - Preparing for Pitch Session



Selected startups will receive instructions on expectations from pitch and other guidelines to help Startups submit pitch videos and presentations. The startups will receive mentoring and advice on best ways to present and approach investors.

Step 4 - Pitch Session

The pitch session is a daylong event with 20 to 30 startups making live presentations to 5 to 10 jury members and investors. Each pitch session lasts anywhere from 15 minutes to 30 minutes. All startups have the opportunity to participate and listen to all the startup presentations and investor Q&A.

The jury and investors finally select startups to take on board for further mentoring and investment. Five startups are finally selected to be sent to Silicon Valley for 3 months at Tech hub where they can Co-work and Co-innovate with multiple other startups, clients and technology partners.



Timeline

Objective	Activities	Month 1				Month 2				Month 3				Silicon Valley		
		W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	M1	M2	M3
Program Launch	Program, Design, Plan & Kickoff															
Creating Awareness about Startup Venture Events & Applications	Social Media Promotions-Facebook, Twitter, Emails, Newsletters, Website															
	Offline Advertisement, Media Relations, Stakeholder Awareness to Target Audience															
Event Planning	Jury Selection															
	Event Management Team															
Shortlisting Top 100 Startups	Registration Process															
	Evaluation of Applicants															
	Due Diligence & Shortlisting															
	Feedback to Applicants															
Pitch Session	Presentation Guidelines to Selected Applicants															
	Suggestions on Areas of Improvement															
	Selection of Top 5 Startups															
	Logistics Arrangement															



Connect with Silicon Valley	Connecting with Mentors																		
	Collaborate with other Startups, Clients and Funds																		

 Tholons

 Tholons, Chile Government.

 Chile Government.



APPENDIX

Appendix A: Tholons Global Network of Clients/Client Partners (>500)

Figure 4: CXO Connect

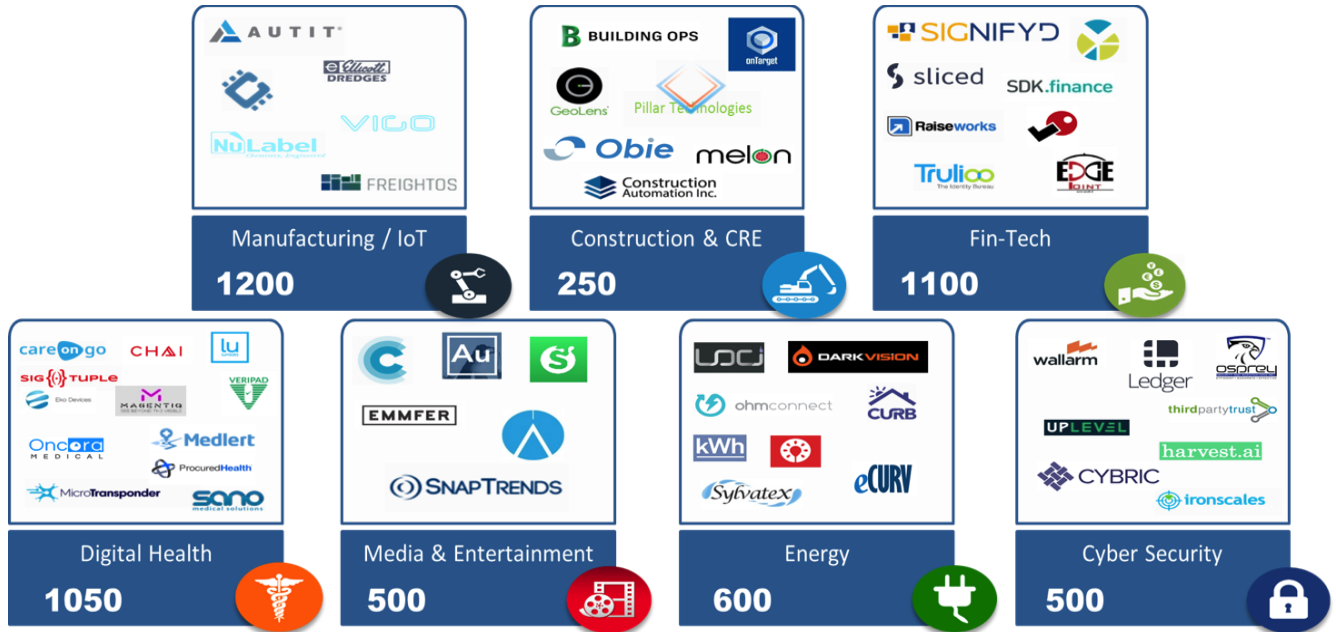


Source: Tholons Labs (2017)



Appendix B: Tholons Global Network of Innovation Hubs and Startups (>10,000)

Figure 5: Startups



Source: Tholons Labs (2017)



Appendix C: Tholons Global Network of Investors (>500)

Figure 6: Co-investors



Source: Tholons Labs (2017)



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About Tholons

Tholons is a global strategic consulting and research firm for country strategies, IT/BPM and digital serving Fortune 500 / Global 2000 clients, multi-lateral / development agencies and countries. Tholons has over two decades of experience and an unparalleled network of clients, mentors, startups, system integrators, technology partners and venture funds.

Tholons advisors engage with senior management of client organizations to develop strategies for global expansion. We have deep understanding of key industries like Financial Services, Banking, Healthcare, Insurance, Media and Entertainment, Manufacturing, Retail, Telecom, Education, Utility, Oil and Gas and Technology.

Tholons draws upon the considerable experience of a handpicked team, which has successfully formulated and executed globalization and digital strategies to unlock value. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for technology, digital, innovation and business process management.

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