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TRADE PROMOTION POLICIES FOR KPO COMPANIES,
AND THEIR STRATEGIES – THE CASE OF BUSINESS
CONSULTING FIRMS IN CHILE.

Formative activity equivalent to thesis: Case study to qualify for the degree of
Master in International Strategy and Trade Policy

MARIA CAROLINA PAIVA GOMES

Guiden professor: Osvaldo Marinao

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IN APPRECIATION

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TABLE OF CONTENTS

ABSTRACT v

INTRODUCTION..... 1

OBJECTIVES & HIPOTHESIS 5

 Overall Objective..... 5

 Specific Objectives..... 5

 Hypothesis 5

METHODOLOGY 6

ETHICAL CONSIDERATIONS 8

 I. CONCEPTUAL FRAMEWORK 9

 II. KPO DEFINITION & ITS DEVELOPMENT IN CHILE 14

 III. TRADE IN SERVICE PROMOTION POLICIES BEST PRACTICES 29

 III.1 The Colombian experience 30

 III.2 The Peruvian experience 33

 III.3 The South Korean experience 37

 IV. GAPS & OPPORTUNITIES IN TRADE IN SERVICES PROMOTION IN CHILE 42

 V. FINAL CONSIDERATIONS 47

BIBLIOGRAPHY..... 49

TABLE OF TABLES

Table 1: Latin America, development of trade in service 3

Table 2: One of the highest Tertiary School Enrollment Ratios and the best Management Schools of the Region..... 21

Table 3: Network Readiness Index 2013 (selected economies, position) 24

Table 4: OECD Fixed Broadband basket High 5: 54 GB, 45 Mbit/s and above, Sept. 2012 25

TABLE OF DIAGRAMS

Diagram 1: The Trade Promotion for the economic Development..... 9

Diagram 2: Offshore Services Scheme 19

TABLE OF MAPS

Map 1: Global demand and offer of the Offshoring Services Industry 17

ABSTRACT

This case study presents a review on the Chilean trade in service policy, and its importance in attracting consulting firms to the country. Presenting the current trade in service policy in Chile, and an analysis of its strategies in the past, it emphasizes the differences between policies considering the changes in the central government. In order to complement the study, an overview on the best practices of the trade in service policies in Colombia, Peru, and South Korea is provided.

Key words: Trade promotion policies, Service trade promotion, KPO companies, Strategies.

INTRODUCTION

Rapid rates of globalization have brought significant changes in the structure of the world economy: the emergence of new technologies and the evolution of existing processes, joined by the fast improvements in telecommunications systems, has created new opportunities, and forms of trade, that no longer depend on any specific geographic location, but on the capacity of the firms to deliver fast and reliable services. This opportunity create new niches, and the companies that are willing to adapt to this new demand, and deliver a high value service, as required by the market, will create a profitable business.

Due to these fast changes in the market, companies have to adapt to try to be more competitive focusing exclusively on their core business, creating opportunities for the development of the offshore service industry, where other companies replace their clients activities with human resources, marketing, consulting, market research, customer service, IT, among others.

In an increasingly global economy, the future prosperity of a country depends more and more on the international competitiveness of its firms and industries. A firm's competitiveness is usually explained by the differential offered by the firm's product or service, including their resources and costs compared to others and how these affect the ability to succeed in international markets. In this study, trade promotion policy is considered as an alternative framework for understanding and developing a firm's international competitiveness. According to this perspective, a

firm's development, including its international competitiveness, depends not only on its own efforts, skills and resources, but also in other important ways, on the performance of trade promotion policies.

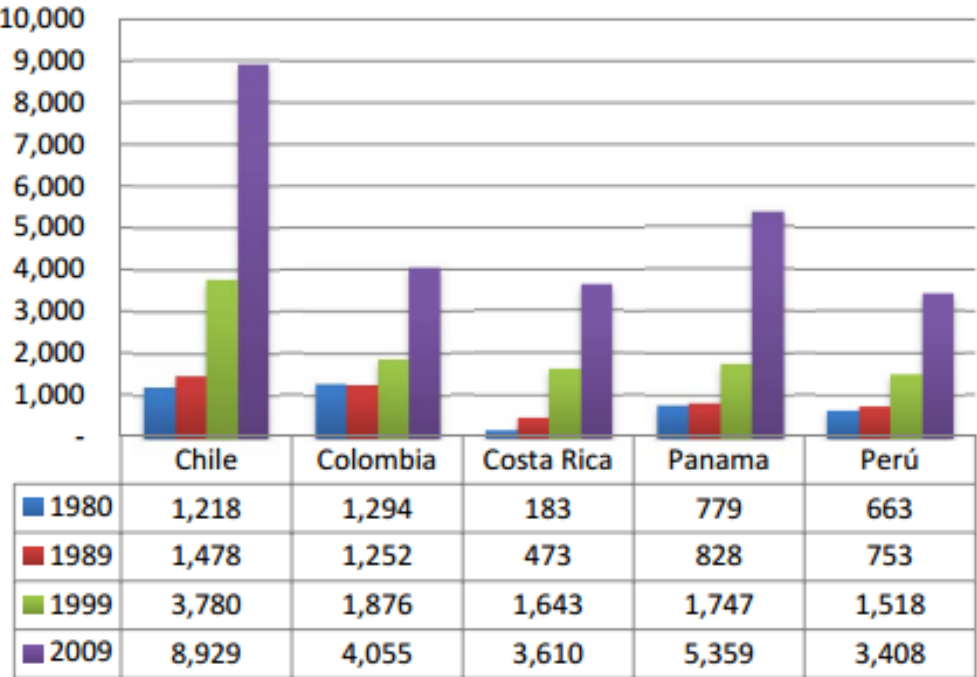
In this intense and competitive market, due to the nature of the offshore service industry, the companies do not need to be located in the same place as their clients are. This development allows for large degrees of dynamism in this sector, and gives countries the opportunity to compete globally. This industry is especially favorable for countries that have low amounts of natural resources. Since the service industry depends on the human capital, it gives these countries a great opportunity to compete in the international market.

The focus of this study will be to identify the trade in service promotion policies for the Knowledge Process Outsourcing (KPO) companies in Chile, and the importance of trade promotion policies as a strategy in the internationalization of local companies, and the attraction of international companies to the country.

From the development of the outsourced services, and specifically the KPO companies in the 90's, it is clear how this segment creates a high valued added service, and therefore depends on specialized human capital, and also delivers a high profitable business to the country. In that sense, it will be demonstrated how the KPO companies are integrated in the Chilean economy. There are local KPO companies, international KPO companies -which were attracted due to some differentials that the country provides-, and other KPO companies are the development of BPO companies, into a new segment, with more value added.

It was considered important for this study to compare the current situation of the trade in service promotion for KPO companies in Chile, with its partners in South America. For that, Colombia and Peru were the two countries chosen, due to their aggressive international promotion for the service companies, investment attraction projects, and change in the countries regulations.

Table 1: Latin America, development of trade in service



Source: (WTO in [Ministerio de Comercio Exterior y Turismo, Perú, 2010]).

One Asian country was also chosen as a point of reference, in order to establish a comparison between the trade in service policies from South America to Asia. It was decided that South Korea would be the best example to use as a benchmark, due to the country’s size, population, and development in the past 50 years. From the South Korean experience, substantial support from the public sector

was identified in the process of attracting new service companies to the country, especially through policies that generated the most suitable conditions for the establishment and consolidation of service networks that will ultimately respond efficiently to the context of economic integration.

Once the Colombian, Peruvian, and South Korean experiences with regards to the trade in service promotion are taken into account, it is easy to determine the main opportunities and gaps that Chile provides for the KPO companies. In addition, it becomes clear how now, more than ever, the public sector needs to make alliances with the private sector, and be constantly caring for their needs in order to provide the best environment for the development of this specific niche in the country.

OBJECTIVES & HIPOTHESIS

Overall Objective

To identify the main strategies to improve Trade in Services Policy in Chile when promoting KPO services.

Specific Objectives

1. To identify the trade promotion policies in Chile from 2007 to 2014, analyzing the four main factors: Infrastructure, human capital, international promotion, local industry.
2. To compare the results of attraction strategies for KPO companies in Colombia, Peru, and South Korea.
3. To identify the main gaps in the trade promotion policies in Chile from 2007 to 2014.
4. To identify the opportunities to improve the trade promotion policies in Chile.

Hypothesis

The Chilean trade promotion policies for attraction of KPO services companies are insufficient, considering factors such as infrastructure, human capital, international promotion, and local industry.

METHODOLOGY

This study presents characteristics of a field research that provides a systematic analysis of existing problems, in order to describe, interpret, understand the nature and constituent factors that explain its causes and effects, or to predict its occurrence, using characteristic methods from any of the paradigms or research approaches that are already known or are being developed (Barrios, 2006). All the relevant data is directly collected from reality, meaning that the research is based on primary data, coming from interviews, surveys, or statistical procedures; leading to a free interpretation of the trade in services policies in Chile that specifically affect the KPO companies.

In this specific case, the research has developed a qualitative approach because it uses data collection without numerical measurement to discover or refine research questions in the interpretation process. As in most qualitative studies, this case study does not involve testing of the hypothesis made a priori, but creates new assumptions, which will be refined accordingly throughout the research process (Hernández, Fernández, & Baptista, 2010).

The fundamental aspect of a qualitative research is to position the investigator as close as possible to the subjects, in order to gain access to them and to describe personal experiences. These are interpreted in the context of social settings. There are no precisely defined hypotheses like those present in quantitative research. There are only general aims and theoretical notions about the phenomenon being

studied. Then, these are open to modifications as data collection proceeds (Ebrahim & Sullivan, 1995). In order to evaluate the current structure of the Chilean trade in services promotion policies and to determine the main gaps and opportunities for the country in this specific niche, the data is collected directly from original sources - interviews are a major part of this study-, as well as the analysis of articles, books, and journals.

The interviews that supported the realization of this study case were granted by:

- Carlos Jerez, Global Partner (Atheneum Partners Consulting Firm)
- Fatima Linares, Country Manager (Euromonitor)
- Francisco Prieto, Former Head. Department of Trade in Services (Prochile), and Former Advisor for the Advisory Board of the Global Service Cluster (Corfo)
- Joaquin Piña, Senior Executive Santiago Chamber of Commerce (CCS)
- Mario Castillo, Former Executive Secretary for the Advisory Board of the Global Service Cluster (Corfo)
- Osvaldo Marinao, Former Head. Department of Trade in Services (Prochile)

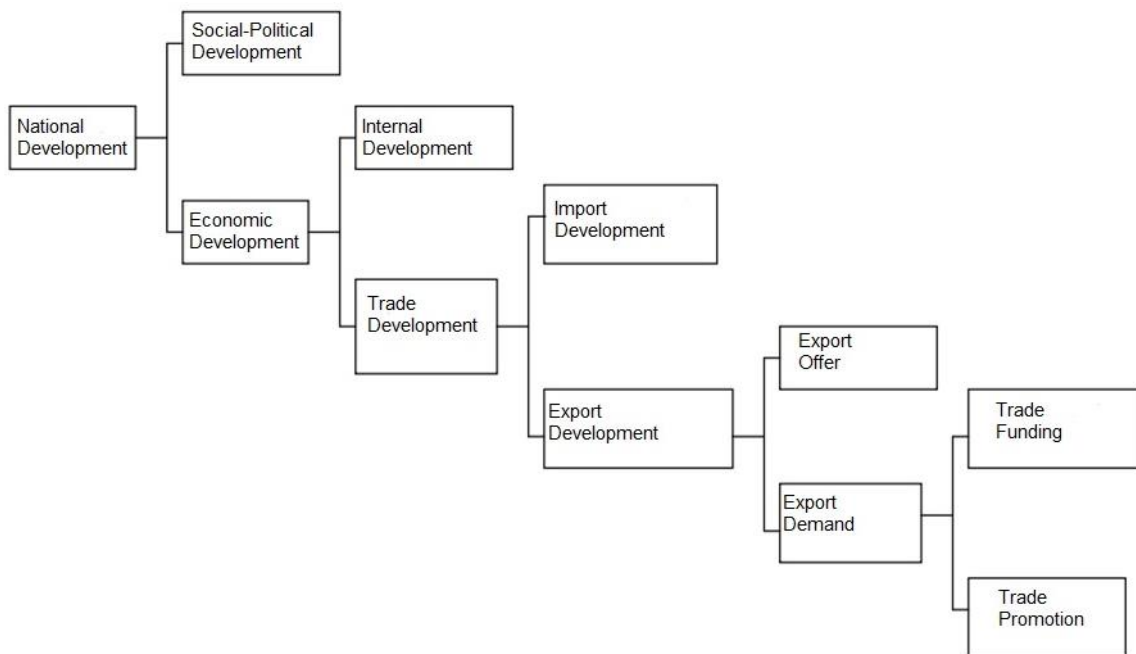
ETHICAL CONSIDERATIONS

The information acquired from interviews, which contributes to the purposes of this study, is properly quoted in the document and has the mutual consent from each one of the consulted experts, as well as the author. There were no opinions provided with an expressed confidential nature.

I. CONCEPTUAL FRAMEWORK

During the last 50 years, Trade Promotion has been established as a fundamental part of the economic development through countries' trade policies, in the specific area of export development, as can be seen in Diagram 1. The strategy for export development comprises a set of broad steps to follow that are required to create or increase the export supply. It also indicates how export demand can be created or met, and it is in this area that export promotion can be found (Serinhaus, 1993). Export promotion uses structures such as Trade Promotion Organizations and different programs and incentives to achieve the trade objectives and policies of each country.

Diagram 1: The Trade Promotion for the economic Development



Source: (Serinhaus, 1993).

The international literature makes different definitions regarding trade promotion policy; it generally characterizes aspects as the country image, or the national incentives to start exporting for non-exporting companies, but very few authors mention the creation of incentives to attract new exporting companies to the country as a policy. According to Seringhaus & Rosson: “Export promotion [is] defined as public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level. The role of export promotion then is the creation of awareness of exporting as a growth and market expansion option; the reduction or removal of barriers to exporting; and the creation of promotion incentives and various forms of assistance to potential and actual exporters.” (1990, p. 27).

The Promotion policy is considered as a key factor for the trade in services, and its strategies are crucial for the development of new markets for the export of services. The trade strategies should reinforce the competitiveness of existing products and services in existing markets, as well as seek to create new markets and to develop new productive capacity in advance to meet newly generated demand. Similarly, a domestic export strategy cannot focus simply in supporting existing business. It must also provide for promoting new companies and new business alliances that will lead to new products or services with greater value-added (International Trade Centre/UNCTAD/WTO, 2000).

In a globalized world, with large movements of capital, a well designed and implemented trade promotion policy is an essential strategy to position the country as a recognized trade partner for products or services. In order to be successful, the

development of these policies must be a joint action between the government, and other economic and commercial actors. Creating a national export strategy is an important national issue involving all relevant players, from the public and private sector. Although trade is recognized as fundamental to economic development, in most cases, trade development is not treated as a national, interdisciplinary and multi-sectorial measure. Export strategy formulation is generally developed by the trade ministries or trade promotion agencies, with involvement from other key economic ministries, such as the economic or finance ministries, and very low participation from the business community. A strong national export strategy has to include the effective participation of the ministries of economy, finance, and industry as well as representatives from the major commercial and economic players in the country.

To be effective, trade promotion policy strategies must be developed with strong linkages with other economic and developmental strategy initiatives. The strategy should focus on enhancing the country's existing export capacity, as well as creating new exports possibilities for local and foreign investors. Promoting export-oriented foreign direct investment must go in tandem with promoting exports in the international market place.

The private sector has a key role when implementing the country's export strategies; therefore, they must be fully involved and committed to the overall development process of these policies. The private sector must incorporate and feel responsible for the success or failure of the country's exports strategy. It is not usual to see a real and effective partnership between the public and private sector, when

developing and implementing the exports strategies, but both sectors must understand the importance and the high value of their cooperation. Their partnership is crucial for the country's strategic vision, and a public-private partnership can address several issues by consensus and define strategies to solve them.

An alliance between the public and private sectors can generate long-term strategies for the country. In the same vein, it creates continuity for the programs and generates the stability of strategies between election cycles; it also promotes the participation of stakeholders in the process of formulating the strategy plans and serves as an implicit public assessment of its effectiveness and related public policies. Another very important factor to be considered is that the processes to build consensus around a particular strategy can mobilize and incorporate the best information, perspectives and national capacities available, in addition to promoting the achievement of stable funding commitments in connection with agreed priorities.

It is important to state that a true commitment between the public and private sector is not easy to achieve. Several actions must be done in order to create a safe negotiation space, where both parties can solve problems and reach agreements, isolated from daily political confrontations and supported by analysis based on real figures. The organization of forums and/or high-level meetings may be an appropriate mechanism to achieve a social consensus on a national strategy in the medium and long term.

In order to organize a representative social process from the public-private sectors, an intelligent national effort to identify key opportunities that would fire structural changes is absolutely essential. Strong efforts must be made to generate

a joint cooperation between both sectors to create a social process, which is inclusive and representative of the public and private actors. Its mode of operation must favor the definition of an objective and empirically founded diagnostic, which facilitates consensus building on the positioning of the economy on the international market to the short, medium, and long term. Finally, it must set a series of realistic, as well as objective goals.

According to Devlin & Moguillansky, “the key is to organize a representative social process, within a framework of alliances that facilitate an intelligent national effort to identify opportunities which would accelerate the production changes and the dynamic international integration of the country, as well as defining the restrictions on short, medium and long term and the ability of the public and private sectors to eliminate or reduce them in order to achieve the stated objectives. The design of the social process is crucial here: it must be socially inclusive and representative, supported at the highest political level without state capture by its own interests.” (2009, p. 114).

II. KPO DEFINITION & ITS DEVELOPMENT IN CHILE

Within the past decades, due to the massive use of internet, and the quick development of e-commerce, the world has seen a fast change in the way people and companies have commercialized. Nations must keep track of this rapid evolution and adjust their policies in order to benefit from the opportunities created by this new scenario.

According to Gereffi & Fernández-Stark (2008), specifically considering the offshore industry, there are three main segments that have significantly evolved in the past few decades: Information Technology Outsourcing (ITO), Business Process Outsourcing (BPO), and Knowledge Process Outsourcing (KPO). Between those three segments, the one with most value added is the KPO services; therefore, its development is extremely beneficial for any country, bringing great revenue for the companies dedicated to this segment.

In the late nineties, business process outsourcing reached mainstream management thinking mainly in large corporations. It has shifted from outsourcing back-end, non-core, and repetitive processes such as accounts payables and accounts receivables to outsourcing core processes that require analytical thinking and judgment, processes like market research, business consulting, business analytics, market intelligence, and legal services. This shift has created new opportunities for many vendors around the globe, and this study will focus specifically on the consulting firm niche.

The KPO sector has experienced explosive growth in recent years, which was driven in part by the adoption of international standards for professional qualifications, improved access to a large pool of skilled and experienced professionals abroad, and improved remote project management capabilities due to improvements in telecommunications and other enabling technologies. Industries that are increasingly using KPO include legal, financial services, management consulting, and life sciences. Some of the core processes that are being outsourced include: data search, data integration, market research, fraud analytics, project management, remote education, research and development, radiology, medical transcript preparation, and legal processes.

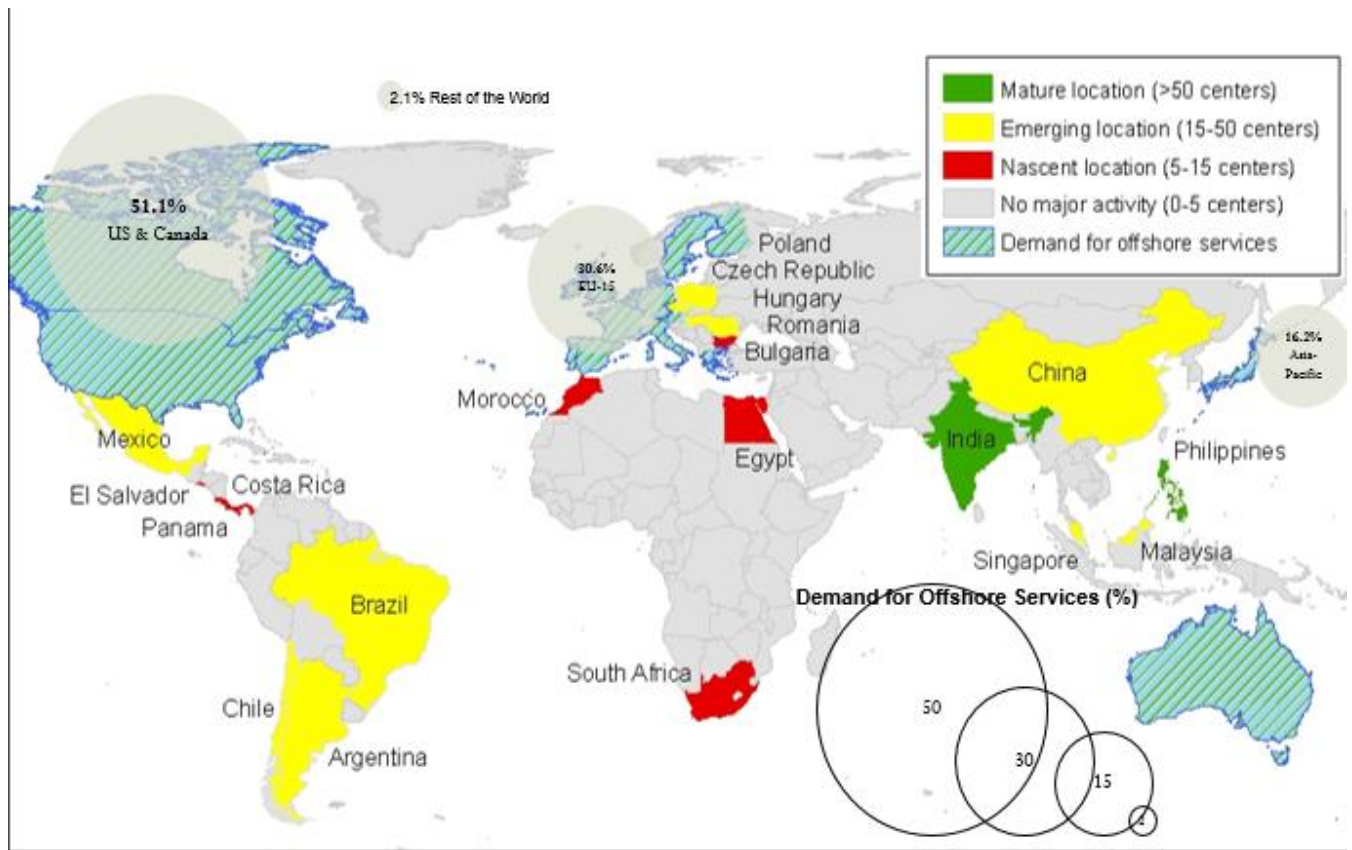
There are four categories of KPO vendors: off-shore, near-shore, captive, and on-shore. Off-shore KPO vendors are generally located abroad in places like India or Singapore. Other countries like Colombia, Peru, and Chile are quickly becoming preferred locations for their time zone advantages and are referred to as near-shore KPO vendors. Near-shore vendors offer additional advantages because of shorter travel times, cultural similarities and political stability. Captive Outsourcing is another category of KPO that includes companies with company owned operations abroad, where the outsourced process activities are performed. Large management consulting companies, for example, own operations in India that provide centralized support for market research and data analysis to all their offices around the globe. Some KPO vendors also have operations in the same country as their clients and they are known as on-shoring.

Knowledge Process Outsourcing services are considered high value, since their development need to be carried out by professionals with a high level of specialization. Therefore, employees generally have, at minimum, a Bachelor's degree, if not more advanced ones, depending on the specificities of the service.

According to the literature, prior to the year 2000, the offshore services industry in Chile was insignificant yet, by 2008, the country registered a major increase close to US\$900 million in service exports (IDC Latin America, 2009). There had been prior efforts to increase the participation of Chile in the global offshore market, but this specific growth was encouraged by a project developed by CORFO in 2008, called the High Tech Investment Program. In that sense, Chile is considered as an emerging market for the offshore services industry.

The map below demonstrates how Chile, with a smaller internal market than Argentina and Brazil, is also considered an emerging market for the offshore service industry. According to the map, Colombia and Peru, countries considered for this study, have no major activities when it comes to the offshore service industry, showing how Chile is an advantageous situation when compared to those two countries.

Map 1: Global demand and offer of the Offshoring Services Industry



Source: (Everest & Datamonitor in [Fernández-Stark, 2012]).

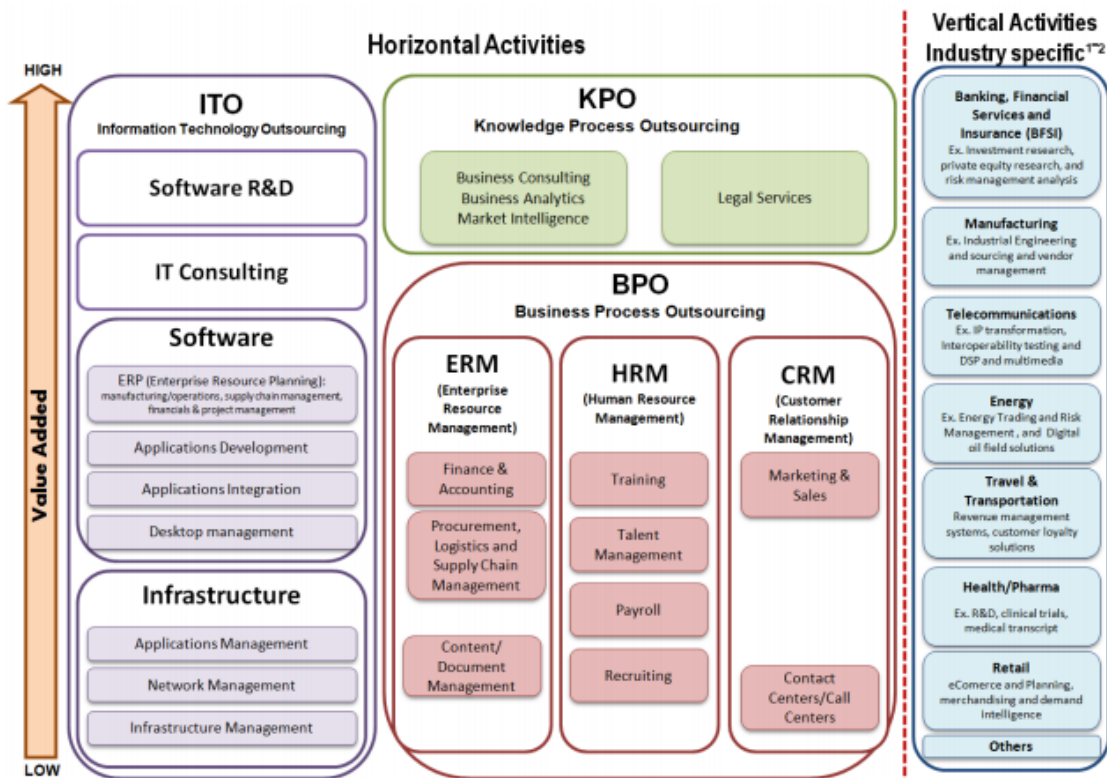
In the year 2008, a program called Global Service Cluster was created, specifically for offshore services, BPO, ITO, KPO, and R&D. This cluster was managed by a public-private advisory board, and it was responsible for attracting, as well as supporting, new Foreign Service firms to the country. The program itself was developed to attract low and high value services, and there was no specific effort to develop one specific niche.

Nowadays considering the offshore services, the KPO segment is the least developed sector in Chile and offers great opportunities for growth. According to

Fernández et al. (2010) this segment, being the most recent to emerge in the outsourcing arena, is also the least documented at a global level. The KPO in Chile is in its beginning stage, but it's rapidly developing. Today the country works as an entry point in South America for different companies in the global research industry like Euromonitor, Evaluateserve, Atheneum Partners, among some local players as Ipsos, Penta Analytics, Virtus Partners, and Matrix. Also, there is a strong cadre of international consulting firms in the country, including Mckinsey, Boston Consulting Group, Nielsen, and Bain.

Export revenues in Chile for the offshore services industry in 2009 topped \$840 million and employed 20,000 people. Chile has great advantages when expanding into new markets. According to a report by the IDC consulting company, the main markets for Chile's global services exports are South America (Peru, Colombia, Argentina), followed by the U.S. and Europe. Opportunities abound for global services investors in Chile across the industry, where engineering services are the area of KPO that generates the most revenue. With exports of \$276 million, the KPO services represent 73% of the offshore service sector's revenues and more than a third of the total export revenues.

Diagram 2: Offshore Services Scheme



Source: (Fernández-Stark, Bamber, & Gereffi, 2010).

a) Trade in Services promotion policies in Chile

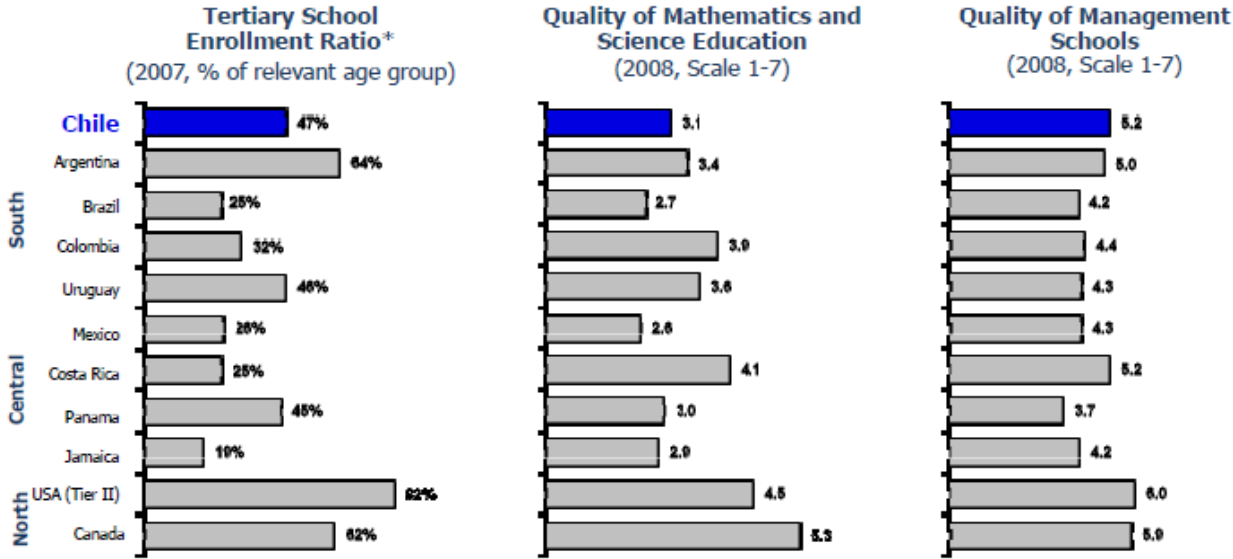
As we have seen, trade promotion policies are extremely important for the development of a country's export sector. Many factors make Chile a competitive country to receive, or to prosper from offshore service companies. The country possess a stable economic and political environment, easy and clear investment policies, a high-tech network infrastructure, high value human capital, low business costs, among others. Nowadays, Chile has no specific law to protect the promotion of trade in services, which makes all the current promotion policies vulnerable to the

changes in the government, thus causing instability, and a poor *tool*, when competing with other countries in the region.

In order to construct this study, four main factors identified as the base of the Chilean trade in service promotion will be considered: human capital, and its capacity to work on the low, and high value service industry; necessary infrastructure to develop and export services; international promotion, government actions publishing Chile as a country that exports services; and local industry, identifying main sectors in which Chile would be competitive. During the different interviews with the public and private sector representatives those factors were identified as the most relevant for the trade in services in the country.

Chile's tertiary education provides a labor force with strong business skills. In the 2015 América Economía Ranking of MBAs in Latin America, Chile has three programs ranked in the top 10 (Colombia has only one, and Peru none). In total, 7 programs ranked in the top 20 MBAs. The country also had more than 4.100 commercial engineers graduates in 2009, according to Universia, which provides a solid supply of analysts to work in this industry.

Table 2: One of the highest Tertiary School Enrollment Ratios and the best Management Schools of the Region.



Source: (World Bank, 2015).

Also, a higher proportion of professionals speak English than the rest of the population (around 7-10%). Where local human resources are unable to satisfy needs, such as language skills to interact with multiple cultures or specific industry knowledge, the immigration policies combined with the high standards of living in Santiago and Viña del Mar make the country an attractive location for international staff (Schenkel & Knezovic, 2009 in [Fernández-Stark, Bamber, & Gereffi, 2010]).

The lack of professionals with fluency in English, and other languages, is one of the greatest challenges for consulting companies in Chile. Although immigration laws are quite flexible in Chile, which allow the entry of foreign professionals to supply the lack of national professionals with this knowledge, according to the Chilean labor law, there is a limit on the number of foreigners that a company may

employ. Article 19 of the Labor Code establishes that, in companies with more than 25 employees, at least 85% must be Chilean nationals. Companies with up to 25 employees are exempt from this norm.

This percentage is calculated over the total number of workers that an employer has in Chile, not in each branch separately.

There are some exceptions to this norm:

- Specialized technical personnel not available locally are excluded; the employer must be able to prove this in the case of an inspection.
- A foreigner will count as Chilean if married to a Chilean, the parent of Chilean children or the widow or widower of a Chilean.
- Foreigners will also count as Chileans if they have been a resident in the country for more than five years, without taking into account involuntary absences.

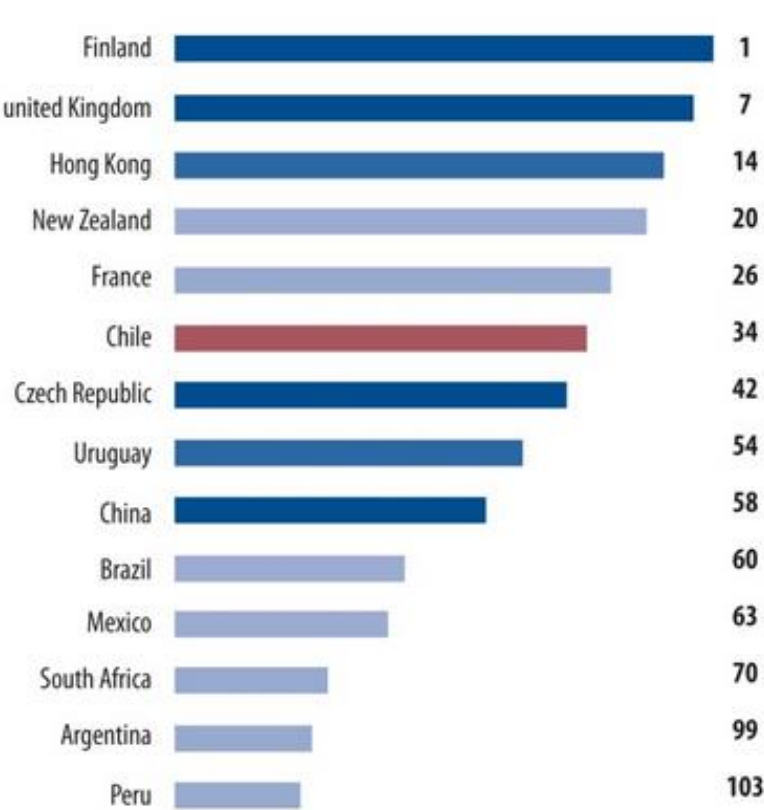
This law represents an enormous barrier for growing companies, or for the international consulting firms which need to bring professionals from other offices when opening their offices in the country. According to the interviews from the private sector, most of the candidates that fit the profile for the consulting firms are foreign professionals, and today those candidates cannot be hired due to the limitations provided by the law. In one of the companies considered for this study, the managers decided to hire over 20 Chilean employees for the second semester of 2015, for tasks such as cleaning, or delivering mail, which are services that are normally outsourced,

in order to have more Chileans in their payroll, and be able to hire foreigners for the consulting positions.

Chile is well known for having a world-class telecommunications infrastructure to establish productive offshore services companies. Today, the country has the third highest rating regarding the use and the existence of telecommunications infrastructure technologies, as ranked by the Conectivity Scorecard 2009, prepared by the academic Leonard Waverman -from London Business School and consulting firm LECG-. The good performance was, mostly, due to the skills and technological infrastructure that exists in the business world. Chile has quickly adapted to the new technology, especially in the service sector, where companies see technology as strategic for their development.

According to the Networked Readiness Index of 2013, published by the World Economic Forum (WEF), Chile took 34th place out of 144 economies and, with a score of 4.59 points, the country is ranked ahead of all other Latin American countries. Moreover, it was among the top 20 countries globally on indicators that included mobile network coverage, ICT use, government efficiency, and e-participation.

Table 3: Network Readiness Index 2013 (selected economies, position)



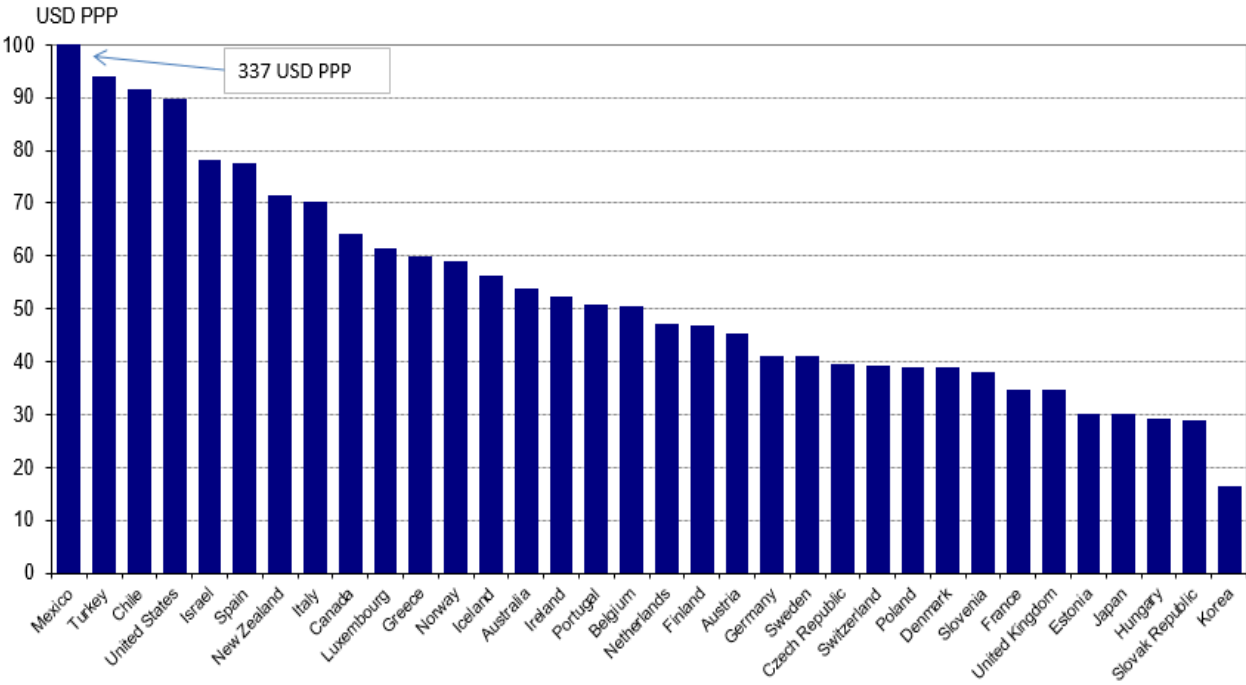
Source: (World Economic Forum in [CIE Chile, 2015]).

Although Chile offers a world-class telecommunications infrastructure, which is essential for the development of the service sector, the cost of the telecommunication service in the country is not competitive at all. The interviews from the private sector indicated that there are high costs in the telecommunication infrastructure of the country, and that those costs are the highest when compared to the same services provided in different countries where they also have offices.

In the table below, there is a clear example of how expensive the telecommunication services are in Chile. It is a comparison between countries from

the Organization for Economic Cooperation and Development (OECD) for high internet broadband, which is the most common service required for the consulting firms. In the comparing costs table, Chile is only behind Mexico and Turkey, for high speed internet broadband.

Table 4: OECD Fixed Broadband basket High 5: 54 GB, 45 Mbit/s and above, Sept. 2012



Source: (OECD, 2015).

Considering international promotion, in 2008 the Chilean Economic Ministry through CORFO launched a successful project called Global Service Cluster, which among other actions would promote the service trade by a public-private presence in major global service events in India, the EU, and the USA. In addition, they would do research for consulting opportunities for Chilean companies in India, and the

USA. They also promoted one-on-one meetings with the top 20 global service companies in India and the USA.

Despite the success of those actions in attracting international companies to the county, and favoring international trade in the sector, this project was discontinued due to changes in the central government.

Nowadays, Prochile, the trade promotion agency from the Ministry of Foreign Affairs, is responsible for supporting the promotion of Chilean services through its presence in International Fairs, and by providing supporting material such as market studies, guidance, and general information on how to export.

The Chilean promotion agency, ProChile, works mainly with non-exporting SMEs in the area of capacity building. It offers the companies different tools so they have a better chance of success in the international market. For SMEs that are able to export, a specific trade promotion work is done, facilitating their participation in trade fairs and seminars. It is important to highlight that the tools for exporting and potential exporters of services are not specifically designed for this sector, but respond to the adjustments of instruments to promote goods. While the institution has incorporated the trade in service promotion, this area is relatively new when compared to the institutional experience in promoting the best-known products such as wine and fresh fruit.

ProChile has offices in the 15 regions of Chile and is constantly encouraging and preparing companies to export. The role of commercial offices abroad (more

than 50 offices in 38 countries), is to identify trade opportunities and to create market intelligence studies to promote the closure of deals.

Also, there is the Foreign Investment Committee (CIEChile), which is an agency from the Ministers of Economy (who acts as president of the Committee), Finance, Foreign Relations and Planning as well as the president of the Central Bank. It also represents the State of Chile in its dealings with foreign investors and helps to position Chile as a highly attractive destination for foreign investment and international business through its role in subjects related to the administration and communication of the law, the development of promotional activities of different sorts and the preparation of information concerning foreign investment for investors and potential investors.

KPO and the equivalent high-value segments of individual industry value chains are the fastest growing, most dynamic sectors of the offshore services market (Gereffi & Fernández-Stark, 2010). Today, these are currently dominated by engineering and innovation services, including new product design and R&D as firms work “to increase speed to the market for their new products or processes and to better access Science & Engineering (S&E) talent” (Manning et al., 2008, p. 3).

Chile can offer higher value added services in several industries, based on the upgrading of the country’s development of each sectors. The Chilean industries that KPO companies consider as target markets are the following: copper mining, financial services, fruit and processed foods, aviculture, aquiculture and tourism; High Potential Clusters include: mining, aquiculture, foods and tourism; Industries

supported by ProChile include: architecture, audiovisual, environmental services, forestry, pulp and paper, mining and legal services related to mining.

Therefore Chile has enormous potential to develop its KPO service, since it has a strong local industry that could benefit from the use of business intelligence, market research, risk analysis, customer analytics, business consulting services, and legal process outsourcing. According to the information collected during the interviews, those are considered new services, so there is enormous growth potential for KPO companies.

III. TRADE IN SERVICE PROMOTION POLICIES BEST PRACTICES

Benchmarking is a very useful process, which consists in comparing one's business processes and/or performance metrics to the industry's bests or best practices from other companies. In the process of best practice benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compares the results and processes of those studied to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

Also referred to as "best practice benchmarking" or "process benchmarking", this process is used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice companies' processes. These processes are usually conducted within a peer group defined for the purposes of comparison. Then, this allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be an on and off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.

In this specific chapter, the trade in service promotion policies from significant peers in the region, Colombia, and Peru, will be looked at in order to understand the efforts made in the region to attract, and retain service companies in the countries,

taking into consideration the 4 factors to be benchmarked: Infrastructure, human capital, international promotion, and local industry.

In addition, the trade in service promotion policies from South Korea will be considered as an example of long-term best practices for the trade in service promotion policies.

III.1 The Colombian experience

Colombia currently counts on a strong commitment from their Government with the service sector; they have developed a Productive Transformation Program –PTP-, to support and help develop the strategy to promote service sector growth. In recent years, this program has created a favorable environment to consolidate its worldwide recognition. The program has four main pillars:

- Human capital;
- Legal and regulatory framework;
- Sectorial strengthening, promotion, and innovation;
- Infrastructure sustainability.

As we have seen, KPO companies need high-level human capital in order to develop their services. Therefore, only a country with a high number of college graduated professionals may be considered as a good location for a KPO company to establish its services.

According to official figures from the Colombian Ministry of Education, in the past 11 year, more than 2.2 million higher education professionals graduated. 30.8% have an education in business, economics and/or accounting, and out of these, 49% have a university degree, 25% have a postgraduate education (specialization, master's or doctorate) and 26% have some form of technical training.

The National Government, through the Productive Transformation Program, has designed a plan to strengthen the industry with an emphasis on high value-added activities through the development of human capital, implementation of macro rounds for business, and hiring characterization studies sector to help guide the best implementation strategy.

The presence of high value human capital is crucial for the development of the service sector, and Colombia can exploit that strength combined with a natural strategic and competitive geographic location, which provides easy access to world markets. Colombia is situated in the middle of five time zones, sharing time zones with important negotiation, and financial centers, which allows the country to become a hub for distributing offshore services to the mains cities in Central, North, and South America.

There is also an attractive regulatory framework developed by the Colombian Government that has created a series of tools to facilitate the establishment of a service company, for example the “Plan Vallejo para la exportación de servicios”, in which exporters of services may request authorization from the National Customs Agency (DIAN) to import capital goods and spare parts with total or partial abrogation of customs duties.

A good infrastructure network is essential for the development of service companies, due to its strategic location; Colombia has access to five submarine cables, complemented with one optical fiber ring, which makes it possible to interconnect more than one thousand cities in the country, generating multiple service development poles in cities like Barranquilla, Bucaramanga, Cali, Medellin, among others, which are far from the capital, Bogota.

Colombia also counts on intellectual property rights, and a Statutory Law of Habeas Data, which are both extremely important in guaranteeing the protection of knowledge, especially for KPO and R&D companies. There is also the exemption of value added tax (VAT) to services provided in Colombia, an attractive tool for service exporter companies.

As for opportunities in the local market, Colombia continually grows in different areas; generating a high demand for different services such as ITO, BPO, and KPO, which make the country an attractive place to establish a new company.

Colombia has had a sustained expansion in the health sector, and an increasing demand from the population (47 million), thus generating opportunities for patient monitoring (telemedicine), R + D + I, medical transcriptions and consolidation of information (Data Entry).

In addition, the Colombian government has developed several growing plans for different economic sectors, such as the financial sector, oil & gas, and telecommunications, which, by itself, create large opportunities for the development of offshore service companies. Currently they are also carrying out an ambitious plan

for the development of road infrastructure, port, rail and airport in the country, which require support services in accounting, finance and logistics.

Nowadays, Colombia relies on an investment attraction program called “Invierta en Colombia”, this program was developed by the Colombian public promotion agency ProColombia, and it focuses on three main sectors: manufacturing, agribusiness, and service. For the purpose of this study, only the actions for service sector were considered.

Colombia is showing to foreign investors the opportunities to develop investment projects in the BPO, offshore, near-shore, KPO, and shared services sector, demonstrating that the country has local market growth, availability of a competitive workforce, and a strategic position to provide services to the region and to the world.

III.2 The Peruvian experience

Considering the specific actions for the promotion of the service sector, the Peruvian government works in three main segments: the development of service offerings, the consolidation of existing service companies, and the development of service demand.

To strengthen the service offering from existing ITO, BPO, and KPO companies in the country, the government promotes free business advisory and training, multi-sectorial programs, and projects, focusing on regional development,

motivating the trade within countries from the region, and the use of benefits from existing trade agreements.

In order to consolidate Peru as a hub for the service sector, the government has maintained that Peruvian human capital is able to respond to the challenges brought about by the new offering of services. Although the official trade in service documents used for this study states that Peru relies on outstanding professionals in the fields of engineering, medicine and business management, no figures were identified to support these affirmations, thus making them unreliable.

Considering direct international promotion, the Peruvian government has invested in strong commercial promotion by participating in specialized events and fairs, creating promotional catalogs, constant participation in congress and conferences, and the creation of the Peru Service Summit, a yearly event that gathers the main Peruvian service export companies, with international commercial partners.

The main actions to develop the demand for the Peruvian offshore services are to provide market intelligence knowledge, such as the identification of business prospects, market research, and overseas market programs. In addition, the government provides free commercial information and service industry statistics to give an overview of the market and the main competitors.

The Peruvian ministry of international trade and tourism has developed a yearly institutional operative plan - "Plan Operativo Institucional- POI", which is an instrument of short-term management that allows different institutions to focus their

efforts by establishing lines of action for the achievement of preset goals and objectives according to the government priorities. Likewise, it constitutes as a management document that orients staff and institutions to respond systematically to the specific requirements of the prioritized processes, avoiding duplication of functions; above all, to improve the quality, efficiency, and effectiveness of the Sector Institutions management.

The main goal of the POI is to achieve a sustained increase in international trade, giving special emphasis on the exports of non-traditional sectors, such as frozen fish & seafood, refined copper, t-shirts, and dried fruits among others. In addition, POI seeks to consolidate the image of Peru as an exporter of competitive goods and services, such as BPO & KPO services. In order to achieve this main goal, the government segmented two priorities. The first one is to improve the conditions of market access and to establish clear rules and disciplines for the exchange of goods, services, and investments. The second one is to allow for the competitive insertion of goods and services in the international market.

A couple of specific strategies were developed in order to improve the conditions of market access and to establish clear rules and disciplines for the exchange of goods, services, and investments:

- The active participation in multilateral trade forums, ensuring the fulfillment of commitments and defending the position assumed and the country's interests internationally.

- The active participation in forums of regional integration ensuring the fulfillment of assumed commitments, as well as the deepening and the strengthening of the sub-regional integration.
- The negotiation of bilateral and plurilateral trade agreement in order to accelerate the process of reciprocal trade liberalization and at the same time, establish deeper rules and disciplines regarding multilateral forum.
- The management of signed trade agreements in order to ensure its proper use.

There is also another set of strategies developed to achieve the competitive insertion of goods and services in the international market, they are:

- To develop a more diversified exportable supply with higher value-added and higher quality in each of the regions that Peru trades with.
- To diversify, and to consolidate the presence of Peruvian companies, products, and services in their target markets.
- To implement effective mechanisms of international trade facilitation, allowing access and the delivery of financial services, and physical distribution on better terms when considering factors such as quality and price.
- To develop an exporter culture with a global vision and strategy that encourages entrepreneurial skills and good business practices based on values.

On top of all those efforts, Peru also created a law for the Promotion of Trade in Service, where it establishes the framework for the promotion of trade services and declaring this sector of national interest, since it is strategic and a priority for Peru. It creates a multi-sector committee in charge of a strategic plan to develop the sector, an export promotion plan, and an investment attraction plan.

All of these actions show that that Peru is committed to becoming a local player in the offshore service industry, but the country must face the main challenge of a lack of strong network infrastructure to support the trade in services. The service sector depends directly on a high-end network infrastructure, and the lack of it generates extras costs for companies, whether they are exporters or importers.

III.3 The South Korean experience

Over the past 60 years, Korea has seen remarkable economic growth, rising from the ashes of war to take center stage globally. A prosperous nation of 50 million, and with a GDP exceeding USD 24,000, they are now one of the world's top-10 economies in terms of foreign reserves, exports, and total trade. Korea's leading industries and business-friendly environment make Korea an attractive investment destination.

With regards to human capital, South Korea is well known for its highly skilled workforce, which is to be expected from a developed nation at a very competitive rate. The country has a competitive educational environment, due to its passion for

education and high college enrollment rate, which produces quality talent in large numbers. Today, over 65% of the 25-34 years old demographic in South Korea have college degrees, the highest in the Organization for Economic Cooperation and Development (OECD), to which Chile also belongs.

South Korea's talented workforce is ideal for the development of the offshore service industry in the country. They have a high number of professional that have studied, interned, and trained abroad, meaning they are knowledgeable in foreign languages, cultures, and corporate environments that enable them to make big contributions at the corporate and global levels. In 2013, more than 230,000 South Koreans were studying abroad and more than 400,000 South Koreans work in the field of R&D.

In order to deliver the best offshore services, like KPO, the country needs to provide a reliable infrastructure, and South Korea provides high-end power, water, and telecommunications infrastructures, which are among the best in the world. On top of that, services such as mobile broadband are available nationwide, as is same-day wired or wireless service provisioning, and they are also reasonably priced.

Today, South Korea is considered a hub for these services in Northeast Asia. The country is located between China and Japan, the world's second and third-largest economies, respectively, and South Korea is within a 3-hour flight of 147 cities with a population of more than 1 million. And as the transportation hub of Northeast Asia, they are an ideal bridge to the region's 1.5 billion consumers.

Another sensitive aspect covered by South Korea is their intellectual property coverage, which is the result of aggressive, concentrated efforts by the South Korean government over many years. The patent examination process has been streamlined, resulting in examination periods that are significantly shorter than those of other developed nations, such as the United States and Japan. This combination of robust IPR protection and speedy patent-related services makes South Korea a safe and secure location for the service industry, specially KPO, and R&D companies.

The South Korean Trade-Investment Promotion Agency promotes different services in order to promote the exports of the KPO services from the country, like:

- Business Matchmaking;
- Trade Missions;
- Exhibitions and Conventions;
- Cultural Media Business.

Other than that, South Korea counts with a strong investment attraction program for offshore service companies, created in 1997 after the Asian financial crisis swept across the South Korean economy. In 1998 the South Korean government enacted a Foreign Investment Promotion Act for the purpose of courting foreign direct investment. The Korean government opened its market and liberalized foreign direct investment as part of the effort. Recently, the Foreign Investment Promotion Act was amended in order to improve the existing foreign investment system and promote foreign investment in the service sector (Act No. 10232, promulgated on April 5, 2010, taken into force on October 6). The foreign investment

zone, which refers to the zone designated exclusively for the purpose of leasing or transferring lands to foreign-invested companies, has been expanded to allow foreign-invested companies in the high value-added service industries to move into the zone. The amended Act also stipulates high value-added industries, which are allowed to move into a foreign investment zone.

The South Korean Foreign Investment Promotion Act is a law designed to facilitate foreign investment by supporting foreign investment and increasing investor convenience. It works as the basic law for foreign investment, and its subordinate statutes include the Enforcement Decree of the Foreign Investment Promotion Act and Enforcement Rule of the Foreign Investment Promotion Act, which prescribe matters delegated by the Foreign Investment Promotion Act and matters necessary for the enforcement thereof, and Regulations on Foreign Investment and Technology Introduction.

One of the main benefits for service companies when establishing operations in South Korea is that the Foreign Investment Promotion Act indicates that for foreign investment, taxes may be abated or exempted under specific conditions. The trade promotion measures for South Korea consist of tax incentives, financial incentives, establishment of free trade zones and the support for organizations.

The service sector is very important for the South Korean economy, together with IT, auto parts, and logistics; they are expected to absorb the majority of Foreign Direct Investment in South Korea in the near future, largely through mergers and acquisitions (M&A), in line with global trends.

In South Korea, the Ministry of Strategy and Finance (MOSF) administers tax and other incentives to motivate advanced technology transfer and investment in high-technology services, such as KPO, and R&D. They have created three types of special areas for foreign investment, including Free Economic Zones, Free Investment Zones, and Tariff Free Zones, where favorable tax incentives and other support for investors are available.

South Korea aims to attract more foreign investment by promoting its eight Free Economic Zones. The FEZs differ from the other zones appointed for foreign investment, due to the creation of a new concept of living and working environment with biotechnology, aviation, logistics, manufacturing, service and other industrial clusters, and developing the social infra-structure of international schools, recreational facilities, and international hospitals.

The South Korean government provides the following direct incentives for foreign investors:

- Cash grants for the creation and expansion of workplaces for high-tech business plants and R&D centers;
- Reduced rent for land and site preparation for foreign investors;
- Grants for establishment of convenience facilities for foreigners;
- Reduced rent for state or public property; and
- Preferential financial support for investing in major infrastructure projects.

Due to these intense investment opportunities, and intellectual property development, South Korea, nowadays, is a global innovation leader in a broad range of fields, including ICT platforms and knowledge process innovation. Korea also ranked first on the Bloomberg Global Innovation Index ranking of 215 countries, published in January of 2014, scoring particularly high for patent activity, manufacturing capability, high-tech density, tertiary efficiency, and R&D intensity.

South Korea is a global market leader in IT products, automobiles, chemicals, steel, and shipbuilding. This success stems from South Korea's partnerships with countless companies worldwide to create global value chains. In the 1960s and 70s, foreign companies invested in Korea, supplying the parts and the technological know-how that helped lay the foundation for domestic companies to grow and become competitive. Today, 259 of the companies on the Fortune Global 500 are key partners for South Korea, helping local companies in every industry expand their market share around the world. This is particularly relevant for KPO companies, since their main clients are the powerful industries, which request reports on the most diverse fields, making an excellent market for consulting companies.

IV. GAPS & OPPORTUNITIES IN TRADE IN SERVICES PROMOTION IN CHILE

As the service sector depends on subjective factors as trust, and reliability, Chile is presented as the best evaluated economy in Latin America and, indeed, one of the best evaluated among emerging economies worldwide. Its sustained economic growth and social progress have been highlighted by different

international organizations and, in 2010, it became the first South American country to join the Organization for Economic Cooperation and Development (OECD).

The Country's strong institutional framework, stable economy and relatively advanced development level were some factors indicated by the interviewees when deciding to relocate their companies to the country. Chile was never the first option for the KPO companies considered for this study, but due to the political and economic instability of other South American countries, Chile was the country chosen to establish their operations in South America.

Another strong opportunity for the country is to be used as a starting point for Foreign Service companies in the region, due to the fact that the Chilean tax system benefits enterprises that administer businesses in other Latin American countries. Companies that use the country as a business platform can administer investments in other countries without paying Chilean income taxes on profits the foreign investments generate.

The Chilean strategic advantage of sharing similar time zones to the United States and off-cycles with Europe and Asia, offers a great advantage to the KPO companies in the country. These companies require multilingual staff with a global perspective in order to interact with both clients and internal offices around the world. Therefore, the lack of professionals with fluency in English is one of the strongest problems for the KPO companies in Chile, and replacing those professionals with foreign professionals could be a solution, since the country offers flexible immigration law, but there is a labor law that limits presence of foreign professionals per company

with more than 25 employees to 15%, thus continuing to be a barrier for the company's growth.

Due to the presence of the major multinational actors, and strong local players in the country in the different industries (agricultural, mining, retail, etc.) that are not used to consume consulting services, the KPO companies have a great pool of potential clients, being able to access, and grow fast, compared to other local markets. Actually, there is a wrong assumption in the market that associates consulting firms with surveys, and its analyses, therefore once the KPO companies see this low knowledge about their services as a business opportunity they can start to "evangelize" the potential clients, which can be highly profitable.

The availability of direct flights to Argentina, Brazil, and Peru is also considered an opportunity for the KPO companies in Chile, considering that Argentina, and Brazil have an enormous internal market, and the easy access to both countries is especially important when developing business for the KPO companies.

On the other hand, the low offer of direct flights to Central America countries, or other countries in South America was pointed out as one of the main problems by the KPO considered for this studied. The companies stated that as they attend clients in Colombia, Dominican Republic, Costa Rica, and other countries in the region, their professionals spend long hours making connections on others airports, such as Lima, which they foresee as the next main hub for the service sector in the region.

Despite the presence of the Foreign Investment Committee, there is a lack of direct public incentives to attract, and develop new companies from different segments to Chile. Other countries are more aggressive, offering free office space, low rate on energy, and telecommunication services, making the service sector more competitive when competing on the international level. This is very important for the exports of trade services, since before coming to the country those companies tend to request market studies to evaluate their possibilities, and just as an example that would be a prosperous market for KPO companies in Chile.

The countries benchmarked in this study developed a regulatory framework with different tools to attract companies, develop, and promote trade in service in the countries. Chile also has several tools to promote the export of services, but no law to promote the trade in services for the country, according to experts interviewed, the processes to obtain public benefits are complex, and not every service exporter has access to them.

Another strong gap pointed by the companies considered for this study is the lack of transparency of the process in the country. There are several data points available on official websites that can be misinterpreted. For instance, on the Foreign Investment Committee website they state how simple it is to open a bank account in a Chilean bank for foreigner or international companies, or how there is a huge offer for professionals ready to work in the high value service sector, but the reality is completely different, and the companies find themselves with huge barriers to overcome once they are in the country. Another clear example is how on the official

websites Chile expresses the excellent telecommunication network presented in the country, but it does not inform about how expensive the telecommunication service is.

V. FINAL CONSIDERATIONS

Considering all the information gathered in this study and the analyses on the gaps and opportunities of Chile in the KPO industry, it is easy to identify the main strategies to improve Trade in Services Policy in Chile when promoting KPO services.

Due to the strategic importance of trade in the service sector for Chile, the development of a legal framework to propel the service industry forward in the country is essential. According to the comparisons made with Colombia, Peru, and South Korea, all these countries showed that they possessed a regulatory scheme that the service industry could rely upon. Even if this regulatory framework is not the best developed, or offers the best solution for the industry like in Colombia or Peru, it is important to have a regulatory structure to start working off of.

As it was presented in the study, the human capital factor is key when developing the service industry, and especially for KPO companies, since they need highly skilled professionals. Therefore, an investment in education is needed, university careers that are oriented towards the global market, developing on the students tools, and skills, which will be requested by companies, like language skills, dynamism, flexibility, adaptation, goal orientation, among others. Most of these are soft skills that can be developed through different academic experiences, like exchanges programs, participation in international programs, international NGOS, and the reception of international students.

The benchmark with South Korea was a clear example of how direct and effective investment in education provides long-term development of the service industry in the country. South Korea incentivizes their students and professionals to have experience abroad and also develops professionals that are oriented to the global market needs, and that are knowledgeable in foreign languages, cultures, and corporate environments, which gives South Korea high skilled professionals, which are needed in the KPO industry.

And most importantly, a strong alliance between the public and private sector is the best path to the development of more effective policies, since the private sector is able to give clear insight on the market needs and trends guiding the public sector on the development of the services industry in the country; the establishment of alliances with different sectors of the government in the formulation of relevant policies; on the establishment of regulatory framework; and on the generation and dissemination of information pertinent to the industry.

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