



Chile: Computer / Software Industry

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Summary

Chile has signed Trade Agreements with more than fifty countries, including the U.S., Canada, Central America, China, Japan, Mexico, Panama, South Korea, and the European Free Trade Association (EFTA); and Association Agreements with the European Union (EU), New Zealand, Singapore, India, and Brunei Darussalam (www.direcon.cl). It is currently negotiating agreements with Malaysia, Australia, Ecuador, and Turkey. Chile is also interested in joining the OECD, Organization for Economic Cooperation and Development; however, in order to be able to accede it needs to comply with various requirements that include information technology advances such as: improvement on legislation that norm information technology crimes and protection of personal information.

According to the International Data Corporation, (IDC), the IT activity indicators for Chile, in 2007 are the following:

- a) In the hardware segment, investments reached US\$1,729 million, in 2007. The estimate investment in this segment for 2008 is expected to be US\$1,902 million and for 2009, US\$ 2,206 million.
- b) In the software segment, investments reached US\$ 234 million in 2007. The estimate investment for 2008 is expected to reach US\$ 266 million and, for 2009, US\$ 301 million.
- c) In 2007, the information technology services segment, investments reached US\$ 646 million. The estimate investment for 2008 is approximately US\$ 718 million and, for 2009 US\$ 804 million.

The following highlights some of the current in the information technology market in Chile:

- Increase in hardware demand for residential use.
- Sustained notebooks' market growth.
- Government of Chile projects to advance the digital era in the country.
- Modernization of information technology infrastructure.
- Increase of data centers services.

According to the IDC, 68% of the software installed in Chile is illegal, representing an annual loss for the country's economy of US\$ 163 million. Inadequate IPR protection agreed upon in the U.S. Chile Free Trade Agreement led to Chile's incorporation in the U.S. Trade Representative's "Priority Watch List" classification, in early 2007. This represents a serious draw-back in Chile's prestige as a serious country that complies with its agreements.

Market Demand

Hardware

In 2007, hardware imports reached US\$ 1,729 million of which 37% were laptop computers, greatly exceeding laptop sales in other Latin American countries where laptops average 10% of PC sales. In 2007, laptop imports reached US\$480 million of which 58% was imported from China, 20% from the United States, and 6.4% from Malaysia.

The HS Codes considered to prepare the following hardware chart were: 84433211, 8443312, 8443313, 8443319, 84433290, 84433900, 84713000, 84714110, 84714190, 84714910, 84714990, 84715000, 84716010, 84716040, 84717011, 84717012, 84717019, 84717020, 84717090, 84718010, 84718020, 84718090, 84719010, 84719020, 84719090, 85284110, 85284120, 85285111, 85285112, 85285119, 85285120, 85285910, 85285920, 85286100.

COMPUTER HARDWARE in US\$ million (Computers and Components)	2006	2007	2008 (*)
Imports	476.0	1,729.0	1,902.0
Exports	11.0	12.6	32.7
Local Production	3.2	3.5	3.7
U.S. Imports	135.1	141.6	221.3

Source: Legal Publishing (*) Estimate

In connection with local production, only control cards (hardware to control industrial machinery) are manufactured in Chile. Nowadays, it is common to assemble the same computer models using components imported from multiple countries, but primarily from Asia. Currently, there is a great deal of competition between locally assembled computers and brand-name, pre-assembled imports. Locally assembled or clone-computers dominate 60 percent of the market, while imported computers control represent 40 percent.

The Chilean government has implemented “Digital Strategy, 2007 – 2012” to further the country’s information technology development and to foster Chile’s overall progress and modernization. To reach this goal, the action plan includes: a) increasing connectivity and access, which represents a geographic breach between distant regions and the central part of the country; b) electronic government, to provide innovative solutions for an integrated and transparent management and administration; c) adoption of ITC in private sector and clusters, to foster SMEs in the ITC use and decrease the gap between large companies and small ones; d) education and training, to further infrastructure and ITC use in the country’s public school system and among the adult population, IT training to improve the education level of the most disadvantaged; e) offshoring, as a strategic niche for the country’s development, and f) improvement of environmental conditions, applicable to all previous steps.

Software

According to the IDC, investments in software represent 11 percent of the total Chilean information technology market, while generating 33 percent of the industry jobs. However, 68 percent of the software installed in the country is illegal, representing an annual loss of US\$163 million, as mentioned earlier, for the local economy.

The Chilean Association of Software Distributors, under the umbrella of the Business Software Alliance (BSA), recently determined that among SMEs, there is no real awareness that one software package should be installed in only one PC. For example, if a firm has five PCs, either buys five packages of software or pays five licenses, in order to have the right to use a program.

To this effect, the association offers free counseling to those SMEs interested in verifying and updating its software licenses; which, in turn, gives these companies opportunities for software upgrade or access to a new versions that may be downloaded from internet, in addition to support from the software manufacturer for applications and virus threats. According to the association, its campaign should drop the piracy rate in 2 percent by the end of 2008.

Windows continues to be favored by most Chilean companies and it dominates 80 percent of the software market, of which 40 percent of these consumers specifically prefer Windows XP. Regarding database software, most of the Chilean companies prefer MS SQL Server 2000, SQL Server 7.0, My SQL, and Oracle.

The HS Codes considered to prepare the following software chart were: 49070090, 85232921, 85234021, 85234022, 85234029, 85235200.

SOFTWARE in US\$ million	2006	2007	2008 (*)
Imports	4.7	92.7	101.9
Exports	0.54	6.4	6.8
Local Production	0.6	1.2	1.6
U.S. Imports	2.2	35.1	38.6

Source: Legal Publishing (*) Estimate

Eighty percent of national software sales are concentrated in the Santiago "Metropolitan" Region and 11 percent of sales are in the neighboring region of Valparaiso, mainly due to the fact that foreign companies' branch offices are located in Santiago. However, information technology is a Chilean government priority and is used throughout the country.

Best Prospects

Software

- Antivirus with pro-active protection: software that monitors computer processes by detecting threats and eliminating viruses.
- Anti-malware: an umbrella term for anti-virus programs, spyware blockers, intrusion detection systems, and other software that detects and eradicates unwanted input from the web.

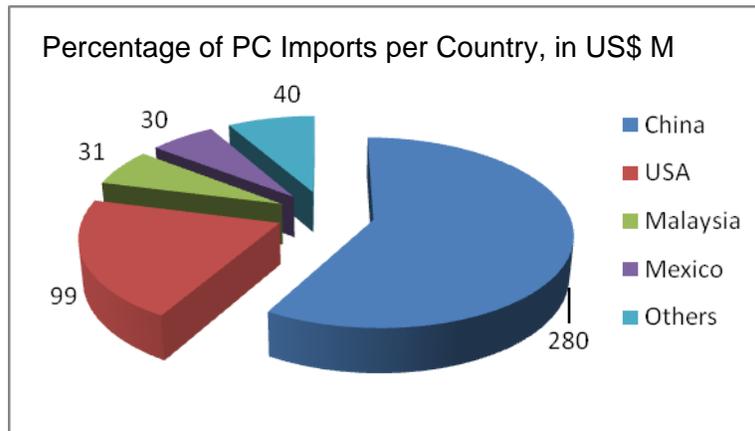
Hardware:

- Hard drives: more memory capacity with every model; some models with as much as 250 GB, for fast and optimal performance
- Laptops: including CD/DVD copying capabilities
- Cards: for wireless internet access
- Gate-defender: security hardware with filtered content that functions as a firewall in real time
- Wireless products

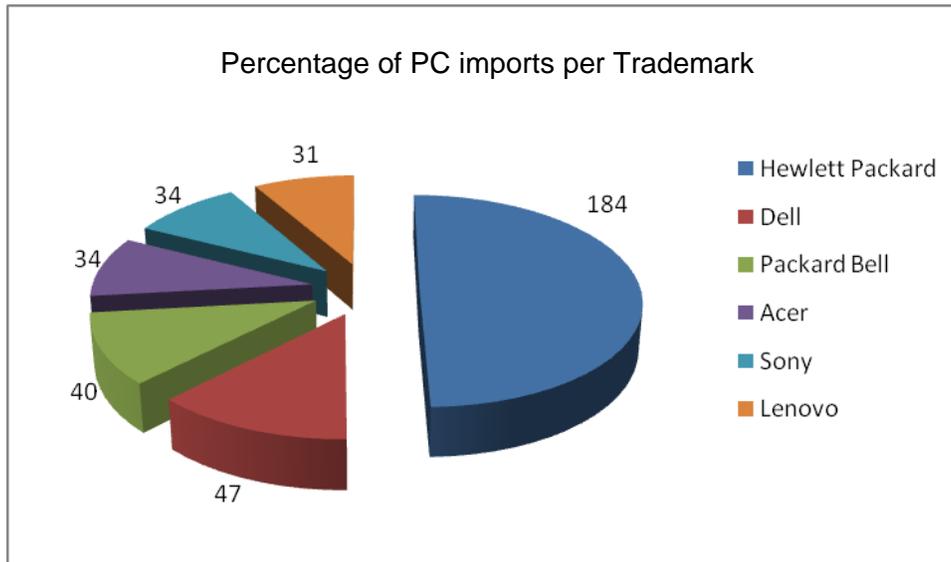
Key Suppliers

During 2007, the principal suppliers of hardware were: China 47%, United States 25%, Malaysia 4%, Mexico 4%, Brazil 2%, Japan 2%, and South Korea 1%.

Following is a snap shot of the personal computer imports of 2007, including laptops, by country and by trademark.



Source: Legal Publishing statistics.



Source: Custom: Legal Publishing statistics

In 2007, the total imports of software amounted to US\$ 92.7 million. The market share per country was the following: United States 43%, Mexico 10%, and Spain 7%.

Prospective Buyers

- According to the President of Codelco - the Chilean state-owned mining company - the firm's expansion project in information technology includes an investment of over US\$ 10,000 million.
- The local market shows an increase in the demand of memory and storage with specialized controlled and secure storage services, able to ensure privacy and accessibility at reduced costs and high-speed.
- The government is currently working on the first phase of the Information System for the country's Health Network. The program intends to unify the networks of twenty nine health care centers throughout the country, which will include software for productivity and management.
- The National Registry will open a bidding process in the near future to upgrade the national identification system and passports, for approximately US\$280 million.
- Chilean small and medium-size enterprises are expected to increase investments in IT in order to improve its business strategies, currently outdated. In addition, the local Internal Revenue Service is encouraging local companies to adopt modern applications that will result in less tax evasion.

Market Entry

Establishing a local subsidiary or branch office in Chile is the appropriate strategy for a U.S. exporter who is convinced that sales volume will be large enough to justify the investment. Local service support and local inventory are keys to success. Any corporation legally constituted abroad may form, under its own name, an authorized branch in Chile. Another practical and more common market entry strategy, especially for new-to-market exporters, is to appoint an agent or representative with good access to relevant buyers and solid technical expertise. Import duties on the majority of U.S. products that enter the Chilean market were eliminated due to the Free Trade Agreement signed by the U.S. and Chile in January 2004.

Market Issues and Obstacles

The U.S.-Chile Free Trade Agreement (FTA) came into force January 1, 2004. Some 98% of U.S. goods now enter Chile duty-free. All remaining tariffs on U.S. goods will be phased out by 2015.

Hardware products imported from the U.S. is tariff free if the product is manufactured in the United States. However, tariffs may apply if a product is imported from the U.S. but manufactured outside the United States. In either case, the value added tax ("VAT") of 19% is paid by the importer. Software imports are subject to a withholding tax that was reduced from 30% to 15% in December 2006.

Resources & Key Contacts

IT Companies Chilean Association www.acti.cl
International Data Corporation IDC www.idc.com
ADS Software Distribution Association, www.ads.cl.

For More Information

The U.S. Commercial Service in Santiago, Chile, may be contacted via e-mail at: veronica.pinto@mail.doc.gov Phone: (56-2) 330-3369; Fax: (56-2) 330-3172 or visit our website: www.buyusa.gov/chile

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