THE CASE OF COSTA RICA

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Minister of Foreign Trade, Costa Rica

WTO Public Forum
September 19, 2011
Agriculture and natural resources dominate most LA countries’ export basket (minimum transformation, low unitary values, little differentiation) • Driven by surging Asian demand

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Natural Resources</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>52%</td>
<td>14%</td>
<td>33%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>22%</td>
<td>71%</td>
<td>6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>39%</td>
<td>22%</td>
<td>39%</td>
</tr>
<tr>
<td>Chile</td>
<td>28%</td>
<td>60%</td>
<td>12%</td>
</tr>
<tr>
<td>Colombia</td>
<td>19%</td>
<td>52%</td>
<td>29%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>35%</td>
<td>2%</td>
<td>63%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>40%</td>
<td>51%</td>
<td>9%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>24%</td>
<td>4%</td>
<td>72%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>48%</td>
<td>9%</td>
<td>43%</td>
</tr>
<tr>
<td>Honduras</td>
<td>30%</td>
<td>4%</td>
<td>66%</td>
</tr>
<tr>
<td>Mexico</td>
<td>16%</td>
<td>77%</td>
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</tr>
<tr>
<td>Nicaragua</td>
<td>30%</td>
<td>88%</td>
<td>2%</td>
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<tr>
<td>Panama</td>
<td>85%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>89%</td>
<td>1%</td>
<td>11%</td>
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<tr>
<td>Peru</td>
<td>24%</td>
<td>59%</td>
<td>16%</td>
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<tr>
<td>Uruguay</td>
<td>74%</td>
<td>2%</td>
<td>24%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>97%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Total LatAm</td>
<td>24%</td>
<td>32%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: COMEX, using data from the WTO Statistics Database.
THE LATIN AMERICAN CONTEXT

Some participation in low-value GVC (eg. Apparel)

• Impacted by China et al and by greater trade exposure to industrialized markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Natural Resources</th>
<th>Textile and Clothing</th>
<th>Rest of Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>52%</td>
<td>14%</td>
<td>33%</td>
<td></td>
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<td>35%</td>
<td>60%</td>
<td>7%</td>
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<td>40%</td>
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<td>51%</td>
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<td>El Salvador</td>
<td>24%</td>
<td>41%</td>
<td>31%</td>
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<tr>
<td>Guatemala</td>
<td>48%</td>
<td>9%</td>
<td>17%</td>
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<td>Honduras</td>
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<td>Nicaragua</td>
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<td>10%</td>
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<td>Panama</td>
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<td>8%</td>
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<td>Paraguay</td>
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<td>9%</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Total LatAm</td>
<td>24%</td>
<td>32%</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Source: COMEX, using data from the WTO Statistics Database.
Limited participation – by few countries – in GVC with higher technological content

• The case of Costa Rica

Share of High-Tech Exports in Manufactured Exports

Source: COMEX, with data from the World Bank
COSTA RICA: EXPORTS AND FDI


Source: COMEX, using data from PROCOMER.

Source: COMEX, using data from BCCR.

Source: COMEX, using data from PROCOMER and BCCR.
COSTA RICA: EXPORTS AND EPZ


Costa Rica: Domestic Component of GVC Exports (DCE), by chain (2009)

Costa Rica: Structure of Imports (2010)


Source: COMEX, using data from BCCR and PROCOMER.
COSTA RICA: COMPOSITION OF EXPORTS

1994: Top 10 Export Products
- Bananas: 22%
- Coffee: 12%
- Pineapple: 2%
- Jewelry: 2%
- Cotton panties: 2%
- Hair dryers: 2%
- Melons: 2%
- Boned beef: 1%
- Shrimp: 1%
- Ornamental plants: 1%
- Other: 53%

2010: Top 10 Export Products
- Computer microchips: 10%
- Computer parts: 9%
- Bananas: 8%
- Pineapple: 7%
- Serum infusion and transfusion equipment: 5%
- Medical prosthesis: 3%
- Pharmaceuticals: 3%
- Food preparations: 3%
- Coffee: 3%
- Textiles and apparel: 2%
- Other: 46%

Costa Rica: Structure of Industrial Exports by Intensity in the Use of Factors of Production

Source: COMEX, using data from BCCR and PROCOMER.
COSTA RICA: TOWARDS INCREASED SOPHISTICATION OF PRODUCTION PROCESS

- **Sub-assembly**
  - Parts and components assembly
  - Sub-assembly of components

- **Assembly**
  - Textile maquila
  - Devices class I
  - Product assembly

- **Manufacturing and Assembly**
  - Extrusion
  - Injection
  - Thermoforming
  - Precision engineering
  - Product assembly
  - Packaging

- **Design and Engineering**
  - Re-design of products
  - Devices class II and III
  - Product validation
  - Re-design of processes
  - Automatization

- **Research & Development**
  - New products design
  - Design of new processes (BTCa)
  - Prototype testing
  - Pre-clinical and clinical studies

Source: CINDE, 2011.
Notes: a/Business Transformation Center.
COSTA RICA: EVOLUTION OF FDI

- **1960**: Pioneer of the Industrial Sector
- **1982**: Agroindustrial Sector
- **1986**: Contact Centers started to arrive
- **1990**: CR was consolidated as one of the main FDI locations in Latin America
- **1995**: CR 1st high-tech exporter in Latin America
- **2000**: Blue-Chip companies started to arrive
- **2004**: CR 1st high-tech exporter in Latin America
- **2010**: CR 1st high-tech exporter in Latin America

Source: CINDE
### COSTA RICA: PARTICIPATION IN GVC

<table>
<thead>
<tr>
<th>GVC</th>
<th>Total Firms</th>
<th>Firms in EPZ</th>
<th>Average employees per firm</th>
<th>Main Products</th>
<th>Exports 2009 (US$ million)</th>
<th>Share in Total Exports*</th>
<th>Main destination</th>
<th>Share in GVC Exports</th>
</tr>
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</table>
| Electronics     | 10          | 90%          | 571                        | - Computer parts and accessories  
- Digital microprocessors  
- Electrical switches  
- Electronic filters for TV sets                                      | 2.196,6              | 25,5%                    | China                         | 35%                  |
| Medical devices | 25          | 80%          | 475                        | - Needles, catheters and equipment for serum infusion and transfusion  
- Other medical devices  
- Devices for electro-diagnose  
- Medicaments put up for retail sale                            | 1.268,8               | 14,7%                    | USA                            | 60%                  |
| Automotive      | 9           | 89%          | 273                        | - Tires  
- Shock-absorbing systems for cars  
- Incandescent lamps and electric tubes  
- Seats for vehicles and their parts  
- Lubricant or fuel filters  
- Plastic manufactures for injection equipment  
- Film and foil of polymers of vinyl chloride  
- Parts for vehicles’ seats                                           | 180,0                | 2,1%                     | USA                            | 75%                  |
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| Aeronautic/Aerospace | 16          | 69%          | 137                         | - Design of turbines for airplanes  
- Design and testing of electronic devices for airplanes  
- Machined parts for airplanes  
- Printed circuit boards for airplanes  
- Thermostats  
- Repair of mother boards for airplanes  
- Maintenance for helicopters  
- Metal coatings for airplane parts  
- Wire harnesses for airplane parts  
- Turbines for airplanes  
- Lasers for airplanes  
- Circuit protection gas tubes  
- Design of plasma engines for space shuttles | 21,9          | 0.3%          | USA                          | 34%                           |
| Film/Broadcasting Devices | 1          | 0%           | N/A                         | - Tripods for videocameras                                                    | 20,4          | 0.2%          | USA                          | 53%                           |
| **Sub-total** | **60**      | **80%**      | --                          |                                                                               | **3.687,8**     | **42.8%**     | --                            | --                            |
| **Total**    | --          | --           | --                          |                                                                               | **8.611,3**     | **100.0%**    | --                            | --                            |

Source: Monge-Ariño (2011)

*Includes only exports of goods. The Aeronautic/Aerospace GVC has in addition exports of services that were worth US$41.7 million in 2009.
# Costa Rica’s Participation in GVC: Key Drivers

<table>
<thead>
<tr>
<th>Key Driver</th>
<th>Drivers Highlights</th>
</tr>
</thead>
</table>
| **Strategic vision**                            | • Attraction of FDI  
• Interagency execution                                                               |
| **Proactive and coordinated approach**          |                                                                                     |
| **Sound business environment**                  | • Political and economic stability  
• Export processing zone regime                                                         |
| **Solid export platform**                       | • WTO + 12 PTAs  
• Robust air transportation network                                                    |
| **Educated work force**                         | • Quality of educational system - 1st in LA (WEF)  
• Cost competitive                                                                   |
| **Privileged geographical location**            | • Middle of the Americas  
• Proximity to US market                                                                |
COSTA RICA: WHAT NEXT IN GVC?

**Diversify**
- Participate in more GVC
- Increase tasks performed
- Expand number of firms

**Strengthen**
- Increase local content
- Promote backward linkages to local suppliers

**Upgrade**
- The role of innovation, science and technology
- Increased focus on high-skilled tasks
OPPORTUNITIES AND CHALLENGES AHEAD

**Opportunities**
- Increased links between Asia and Latin America
- Expansion of GVC
- Off-shoring services
- Growth dynamics of emerging markets

**Challenges**
- How to increase participation in GVC in the absence of a regional production system?
- What growth potential for US-centered GVC?
- What role for Costa Rica in GVC centered in Asia?
- What role for Costa Rica in GVC producing for emerging markets?
THE DOMESTIC AGENDA

• Securing preferential access to international markets and deepening trade liberalization

• Reducing the cost and time to trade at the border and securing trade flows
  • Simplification, rationalization and digitalization of customs and trade-related regulations and procedures
  • Improved logistics

• Enhancing and expanding the human resource base
  • Technical education
  • Engineering and science-based careers
  • Language skills
THE DOMESTIC AGENDA

• Moving towards an innovation-driven economy
  • Increased investment in innovation
  • Enhancing indigenous capacity
  • Promoting innovation-based FDI

• Upgrading infrastructure
  • Improving physical and communication infrastructure

• Feeding the manufacturing base
  • Guarantee capacity, cost and security of energy supply

• Better understanding Costa Rica’s participation in GVC
  • Joint study with IDE-Jetro
WHAT ROLE FOR TRADE POLICY IN ENHANCING COSTA RICA’S PARTICIPATION IN GVC?

• **Trade liberalization**
  - The role of PTAs
  - Removal of non-tariff barriers
  - Increased competition in trade-related services
  - Exploring new ideas
    - Eg. an International Digital Economy Agreement?

• **Trade facilitation**
  - Simplification and harmonization of trade regulations and procedures
  - Other

• **Protection of IPRs**
  • A multilateral investment framework?
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