ITA: a key ingredient for integrating Costa Rica in Global Value Chains
Outline

- Consistent trade liberalization
- FDI attraction: cornerstone of development strategy
- Costa Rica and the ITA
- INTEL: turning point for FDI attraction performance
- Diversification and sophistication of exports
- Integration in GVCs
- What next?
- Summary
Consistent trade liberalization

Unilateral trade liberalization started in the mid 80s

- 80's
  - Accession to the GATT

1990
  - First bilateral FTA (with Mexico)

1995
  - WTO Member

1997
  - ITA Signatory

2009
  - CAFTA-DR enters into force

2011
  - FTA with China enters into force

Robust export platform provides for security and predictability to trade and investment:

9 FTAs in force and 3 forthcoming (Singapore, Peru and EU-CA EPA)
Consistent trade liberalization

Costa Rica: Average tariff (1982-2011)

Source: own elaboration, using data from COMEX.
Consistent trade liberalization

Costa Rica: Trade covered by FTAs (2011)

Exports
- 67% FTAs in force
- 19% FTAs negotiated
- 14% Not covered yet

Imports
- 73% FTAs in force
- 8% FTAs negotiated
- 19% Not covered yet

Source: own elaboration, using data from PROCOMER and BCCR.
FDI attraction: cornerstone of development strategy

Costa Rica: FDI as a share of GDP (1981-2011)

Source: own elaboration, using data from BCCR.
FDI attraction: cornerstone of development strategy


Source: own elaboration, using data from PROCOMER and BCCR.
Agricultural exports accounted for 53% of Costa Rica’s total exports by 1995.

Nevertheless, Costa Rica was an early supporter and signatory of the ITA.

The entry into force of the ITA coincided with the time in which INTEL and other leading high-tech firms were considering Costa Rica as a potential destination for their investments.

Costa Rica’s early support and membership to ITA signaled the country’s commitment to shift its export supply towards the knowledge economy.

Such shift has taken place through the diversification and sophistication of the country’s exports, which are now integrated in GVCs.
Costa Rica and the ITA

Costa Rica: share of ITA products in exports

Source: own elaboration, using data from PROCOMER.
Costa Rica and the ITA

Costa Rica: Destination markets for ITA exports (2011)

- U.S.A.: 35%
- Hong Kong: 22%
- EU-27: 18%
- Malaysia: 8%
- China: 7%
- Chinese Taipei: 3%
- Japan: 3%
- Other: 4%

Source: own elaboration, using data from PROCOMER.
INTEL: turning point for FDI attraction performance

Agroindustrial Sector

First contact centers

Consolidation of CR as one of the main FDI locations in Latin America

1960
1982
1986
1990
1995
2000
2004
2011

Pioneer of the industrial sector

1st leading medical devices company

Blue-Chip companies

CR ranks 1st among high-tech exporters in Lat.Am
Diversification and sophistication of exports

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

1994: Top 10
- 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%

2011: Top 10
- Electronic integrated circuits: 18%
- Bananas: 8%
- Pineapple: 7%
- Serum infusion and transfusion equipment: 6%
- Coffee: 4%
- Food preparations: 3%
- Other medical devices: 3%
- Medical prosthesis: 2%
- Pharmaceuticals: 2%
- Crude palm oil: 2%
- Other: 47%

Source: COMEX, using data from BCCR and PROCOMER.
Diversification and sophistication of exports

Share of high-tech exports in manufactured exports

Costa Rica: Average share of GVC-related exports in total exports (2009-2011)

GVC-related exports: 37%
Other exports: 63%

Source: own elaboration, using data from COMEX.
Integration in GVCs

Costa Rica: GVC-related exports by industry (2011)

- Electronics: 55%
- Medical devices: 36%
- Automotive: 7%
- Film & Broadcasting: 1%
- Aeronautic/Aerospace: 1%

Source: own elaboration, using data from PROCOMER.
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<th>Key Drivers</th>
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| **Strategic vision**                                                       | • Attraction of FDI  
• Interagency execution                                                      |
| **Sound business environment**                                             | • Political and economic stability  
• Export processing zone regime                                               |
| **Solid export platform**                                                  | • WTO (incl. ITA) + 12 PTAs  
• Robust air transportation network                                           |
| **Educated work force**                                                    | • Quality of educational system -1st in Latin America (WEF)  
• Cost competitive                                                             |
| **Privileged geographical location**                                       | • Middle of the Americas  
• Proximity to US market                                                        |
What next? 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. expansion of the ITA

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

- **Protection of IPRs**
- A multilateral investment framework?
What next? Prospects for expanding ITA

- Substantial transformation occurred in IT over the years calls for an expansion of the Agreement.

- Coverage of ITA should be expanded to respond to the needs of IT-trading agents and to contribute to global economic recovery.

- Need for new signatories: non-signatory IT producers should be brought on board.

- Broader product coverage: as technology advances and becomes more important in everyday life, more IT products should benefit from ITA.

Costa Rica is supportive of the prompt beginning of negotiations to expand the coverage of the ITA.
Summary

• Costa Rica has pursued a significant diversification and sophistication of its exports through trade liberalization and FDI attraction

• The ITA has contributed to the diversification and sophistication of Costa Rica’s exports

• Costa Rica ranks 1st in Latin America (and 4th worldwide) on the share of high-tech exports in manufactured exports

• A significant share of Costa Rica’s total exports is integrated in GVCs

• Costa Rica is supportive of the prompt beginning of negotiations to expand the coverage (signatories and products) of the ITA, which has been a key ingredient for integrating in GVCs
The experience of developing ITA participants: the case of Costa Rica

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