MADE IN THE WORLD

THE CASE OF COSTA RICA

Facts and Implications for Trade Policy

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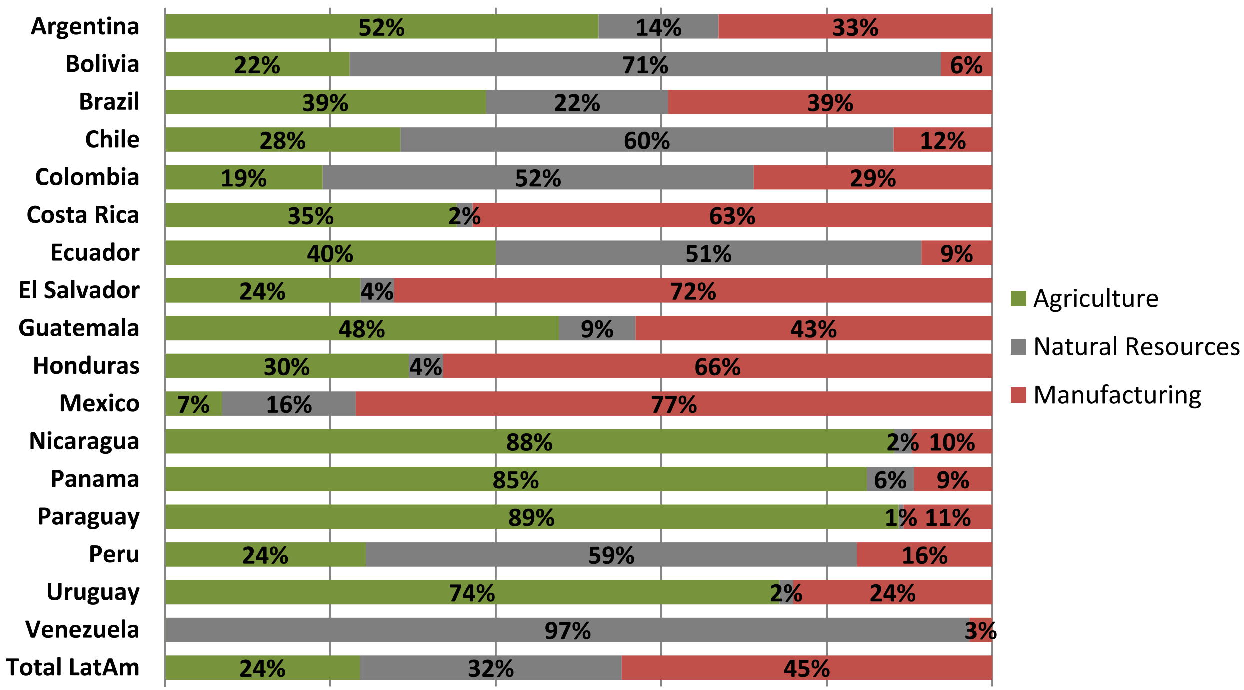
THE LATIN AMERICAN CONTEXT

Agriculture and natural resources dominate most LA countries' export basket (minimum transformation, low unitary values, little differentiation)

- ***Driven by surging Asian demand***

Latin America: Export Basket by Country (2009)



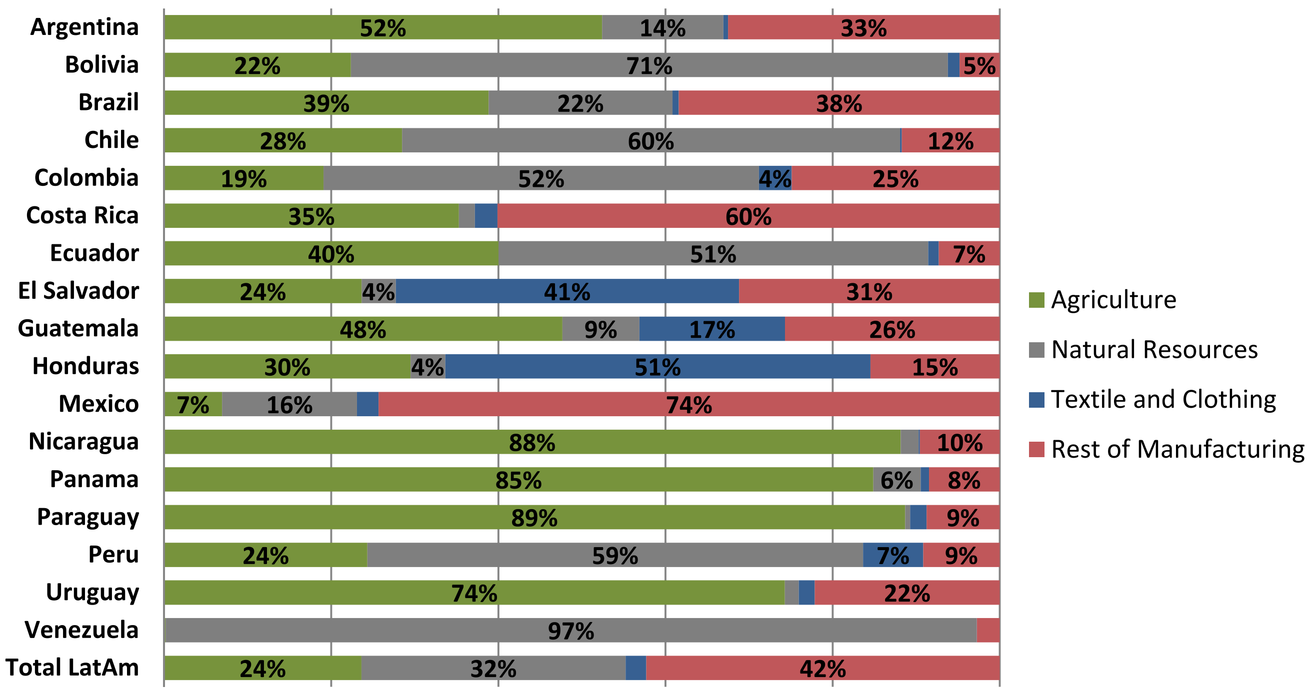
Source: COMEX, using data from the WTO Statistics Database.

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*

Latin America: Export Basket by Country (2009)

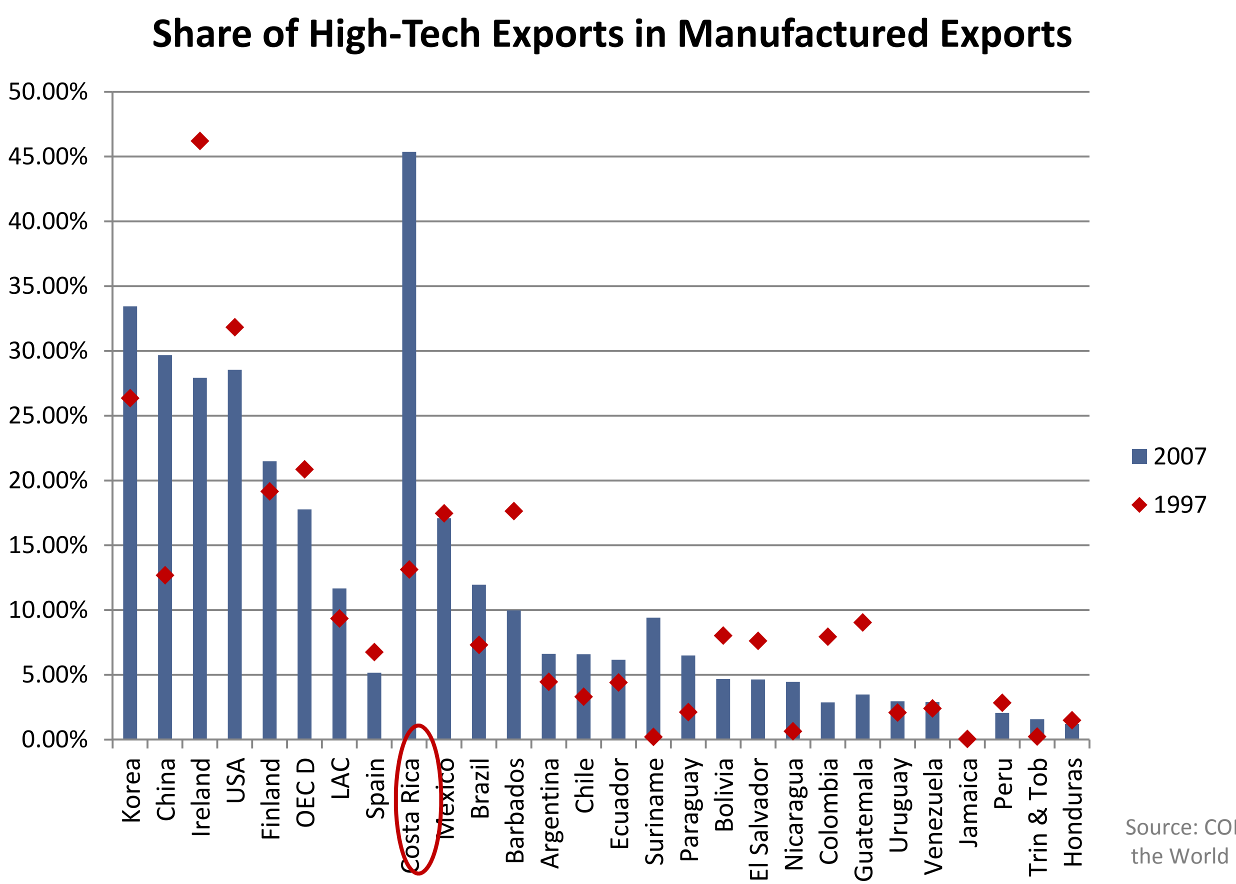


Source: COMEX, using data from the WTO Statistics Database.

THE LATIN AMERICAN CONTEXT

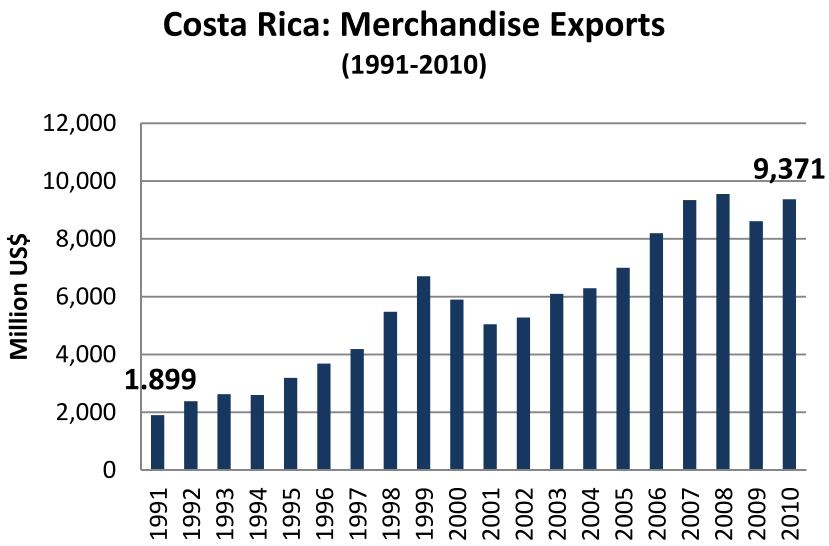
Limited participation –by few countries- in GVC with higher technological content

- ***The case of Costa Rica***

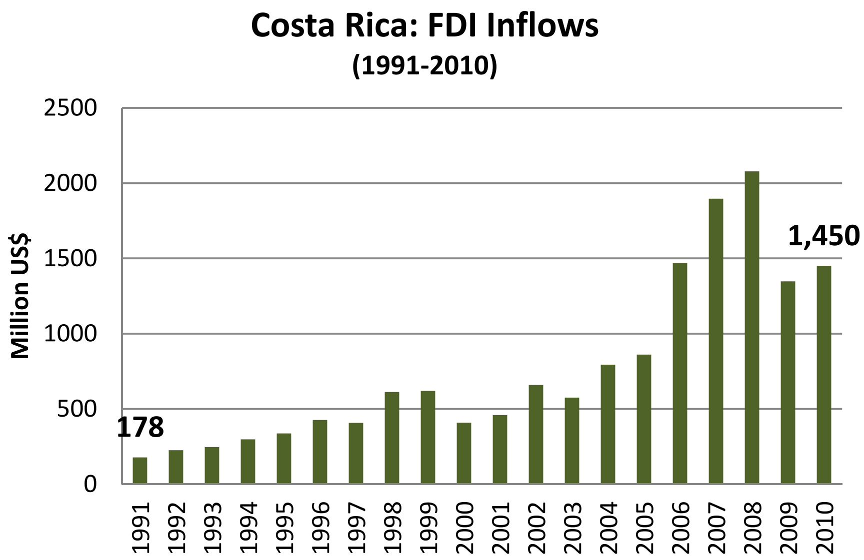


Source: COMEX, with data from the World Bank

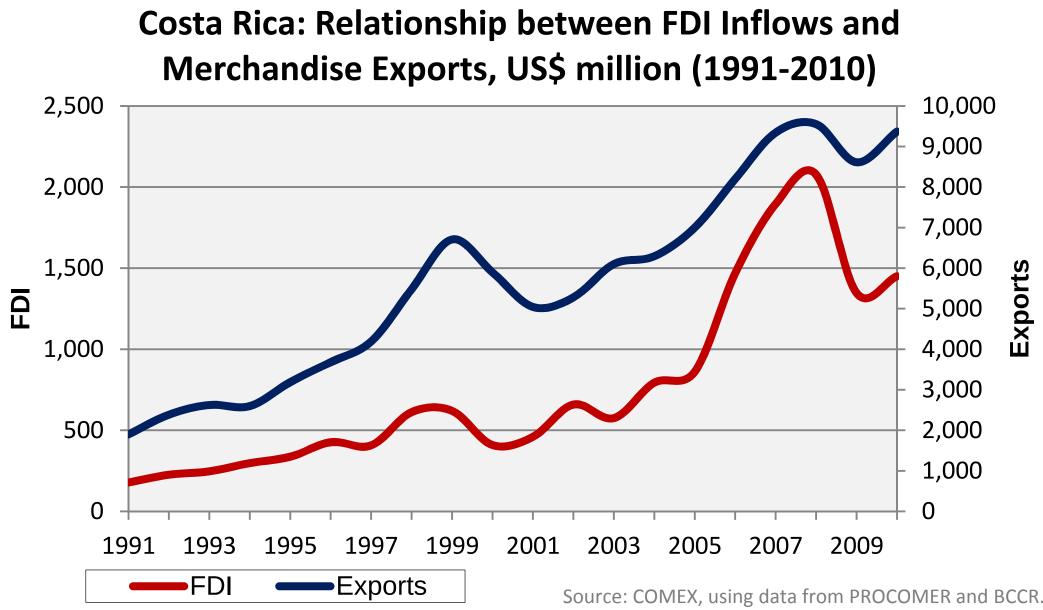
COSTA RICA: EXPORTS AND FDI



Source: COMEX, using data from PROCOMER.



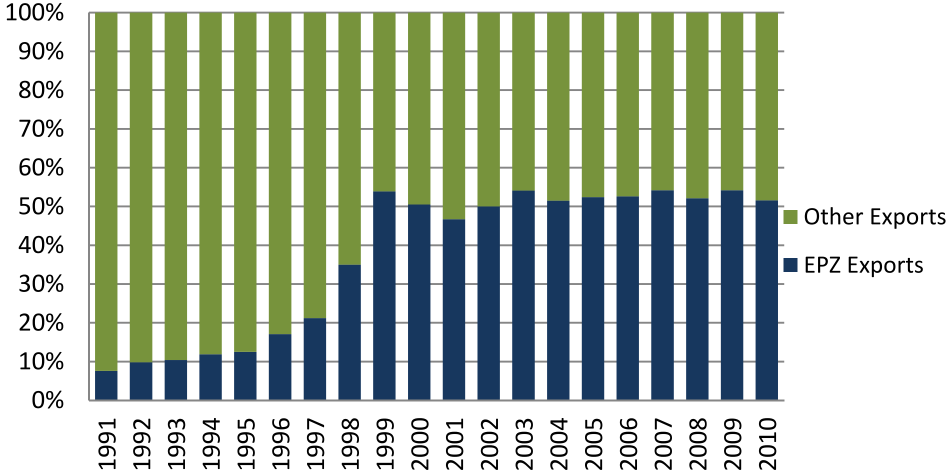
Source: COMEX, using data from BCCR.



Source: COMEX, using data from PROCOMER and BCCR.

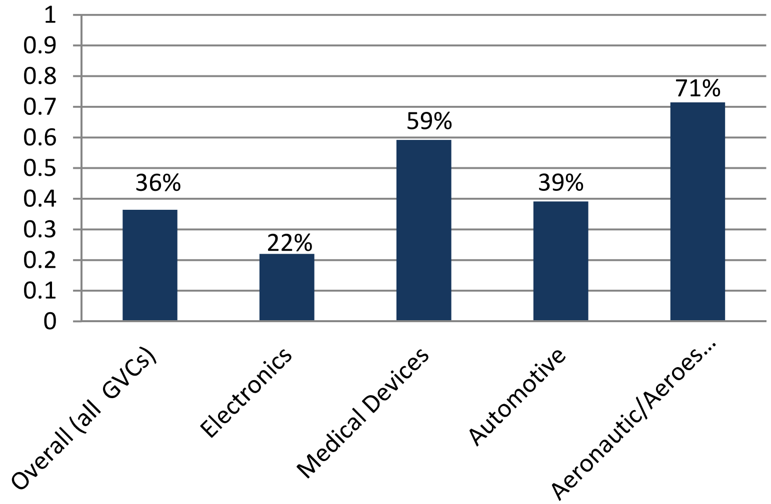
COSTA RICA: EXPORTS AND EPZ

Costa Rica: Share of EPZ Exports (1991-2010)



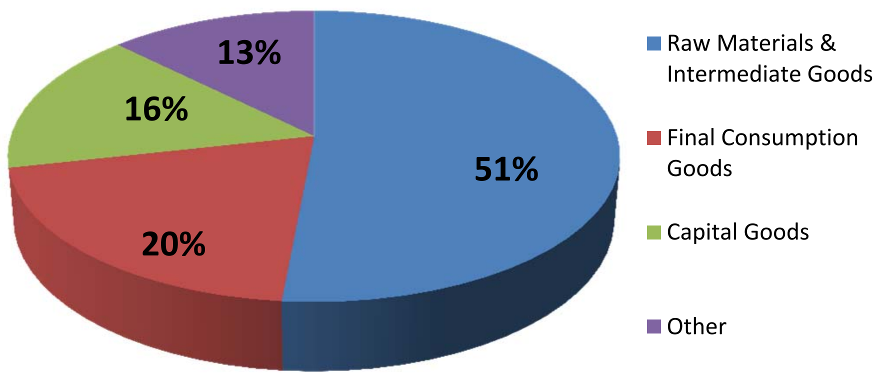
Source: COMEX, using data from BCCR and PROCOMER.

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



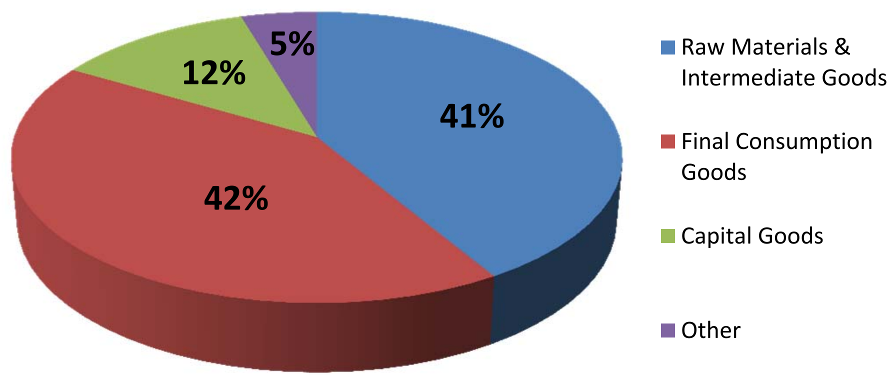
Source: Monge-Ariño (2011).

Costa Rica: Structure of Imports (2010)



Source: COMEX, using data from BCCR.

Costa Rica: Structure of Exports (2010)



Source: COMEX, using data from BCCR.

COSTA RICA: COMPOSITION OF EXPORTS

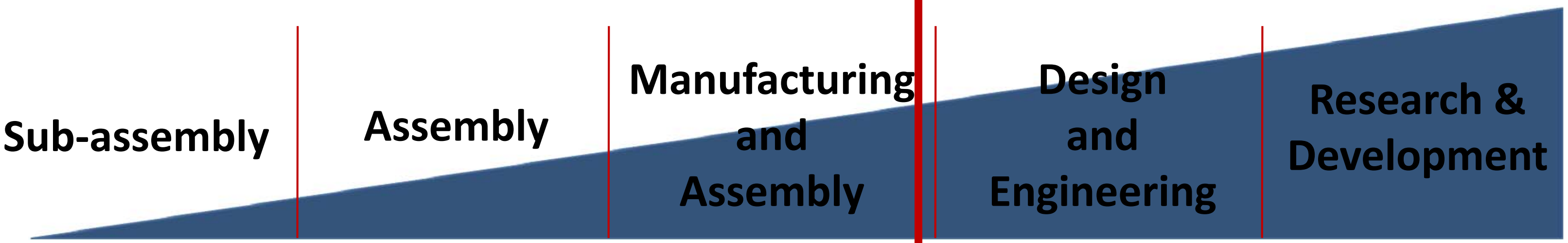
Source: PROCOMER.

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%

Source: COMEX, using data from BCCR and PROCOMER.

COSTA RICA: TOWARDS INCREASED SOPHISTICATION OF PRODUCTION PROCESS



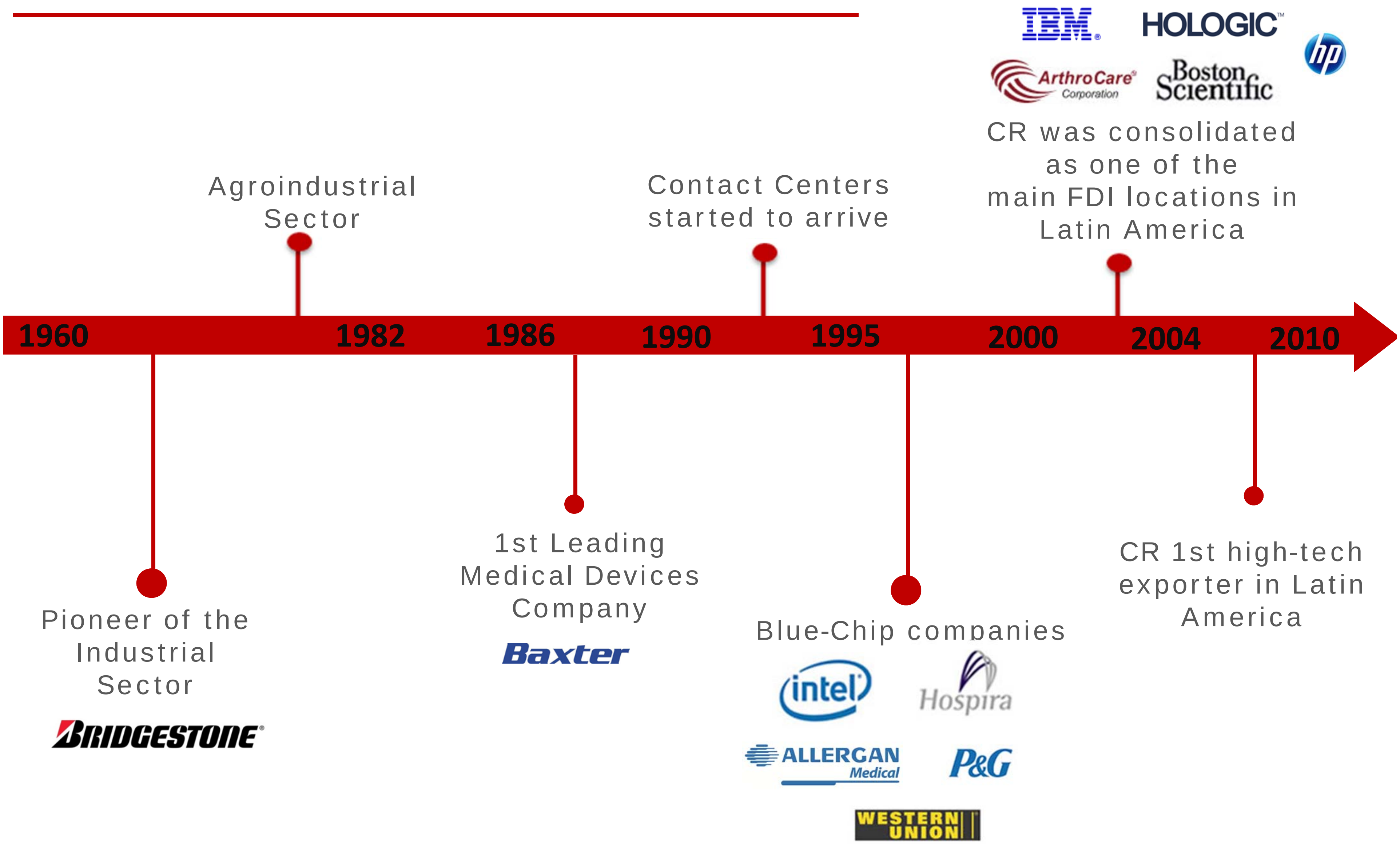
Sub-assembly	Assembly	Manufacturing and Assembly	Design and Engineering	Research & Development
•Parts and components assembly •Sub-assembly of components	•Textile maquila •Devices class I •Product assembly	• Extrusion •Injection •Thermoforming •Precision engineering •Product assembly •Packaging	•Re-design of products •Devices class II and III •Product validation •Re-design of processes •Automatization	•New products design •Design of new processes (BTC[a/]) •Prototype testing •Pre-clinical and clinical studies

Low cost labor

Access to highly Skilled labor pool

Source: CINDE, 2011.
Notes: [a/]Business Transformation Center.

COSTA RICA: EVOLUTION OF FDI



Source: CINDE

COSTA RICA: PARTICIPATION IN GVC

GVC	Total Firms	Firms in EPZ	Average employees per firm	Main Products	Exports 2009 (US$ million)	Share in Total Exports*	Main destination	Share in GVC Exports
Electronics	10	90%	571	- Computer parts and accesories - 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 divices - 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%

COSTA RICA: PARTICIPATION IN GVC

GVC	Total Firms	Firms in EPZ	Average employees per firm	Main Products	Exports 2009 (US$ million)	Share in Total Exports*	Main destination	Share in GVC Exports
Aeronautic/ Aeroespace	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 hamesses 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

Strategic vision Proactive and coordinated approach	• Attraction of FDI • Interagency execution
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

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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

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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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