



**Costa Rica's
Experience
in International Trade:
Successes,
Weaknesses and
Lessons Learned**

Velia Govaere

Outline

- Brief overview of the country
- International trade policies: a success story
- Pending challenges
- Lessons learned/where to go from here...

Costa Rica in Brief

- From the poorest colony in Central America, it became the region's most advanced country
- Intangibles: 200 years of republican life, 72 years without an army and strong tradition of rule of law
- Investment in education: 7.2% of GDP. Higher in per capita terms than OECD average.
- Time zone and proximity to the US
- 51,000 km² and 5 million people, with 6% of the world's biodiversity and 3 000 km of coastline:
"Costa Rica=Rich Coast"



COSTA RICA

Paradigm Shift

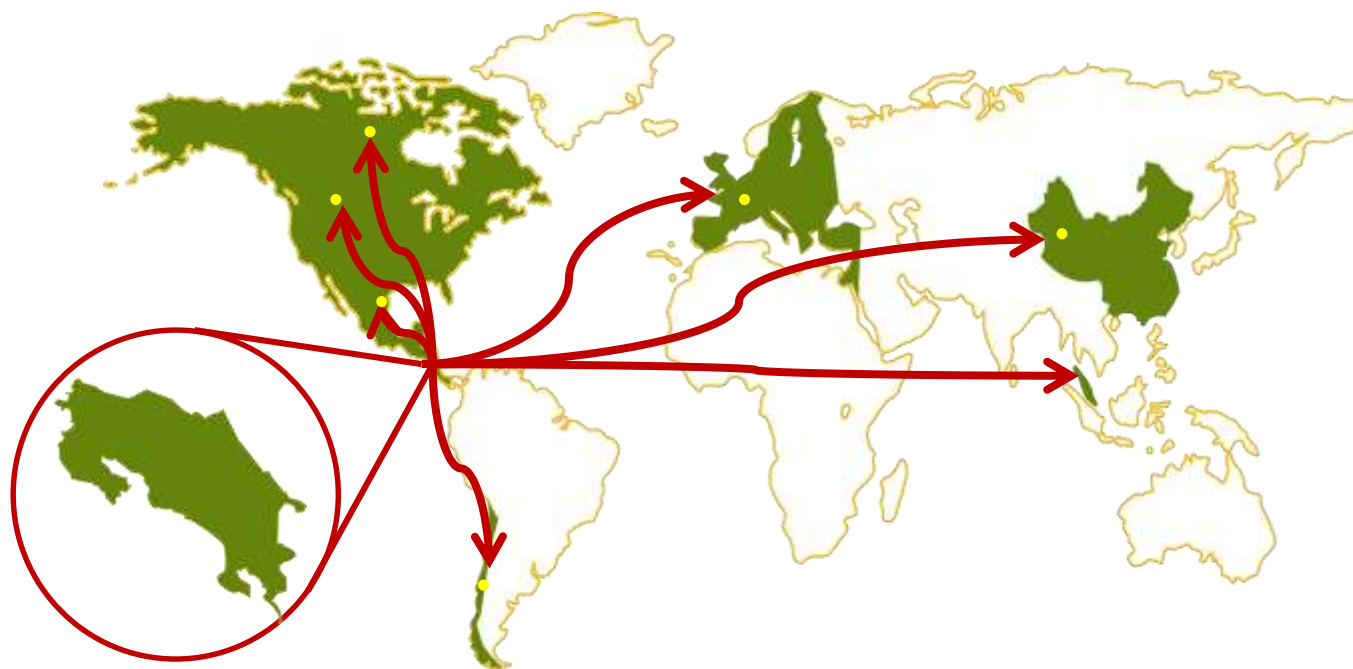
- The country went into default in the external debt crisis of the 80s, the worst in our history.
- The development model based on Import Substitution came to an end
- It was time for a paradigm shift: we had to look outward because we needed foreign currency to repay our debts and balance national accounts.
- An aggressive combination of a FTA platform and FDI attraction policies was used to turn the country around.

A New Paradigm of Trade Openness

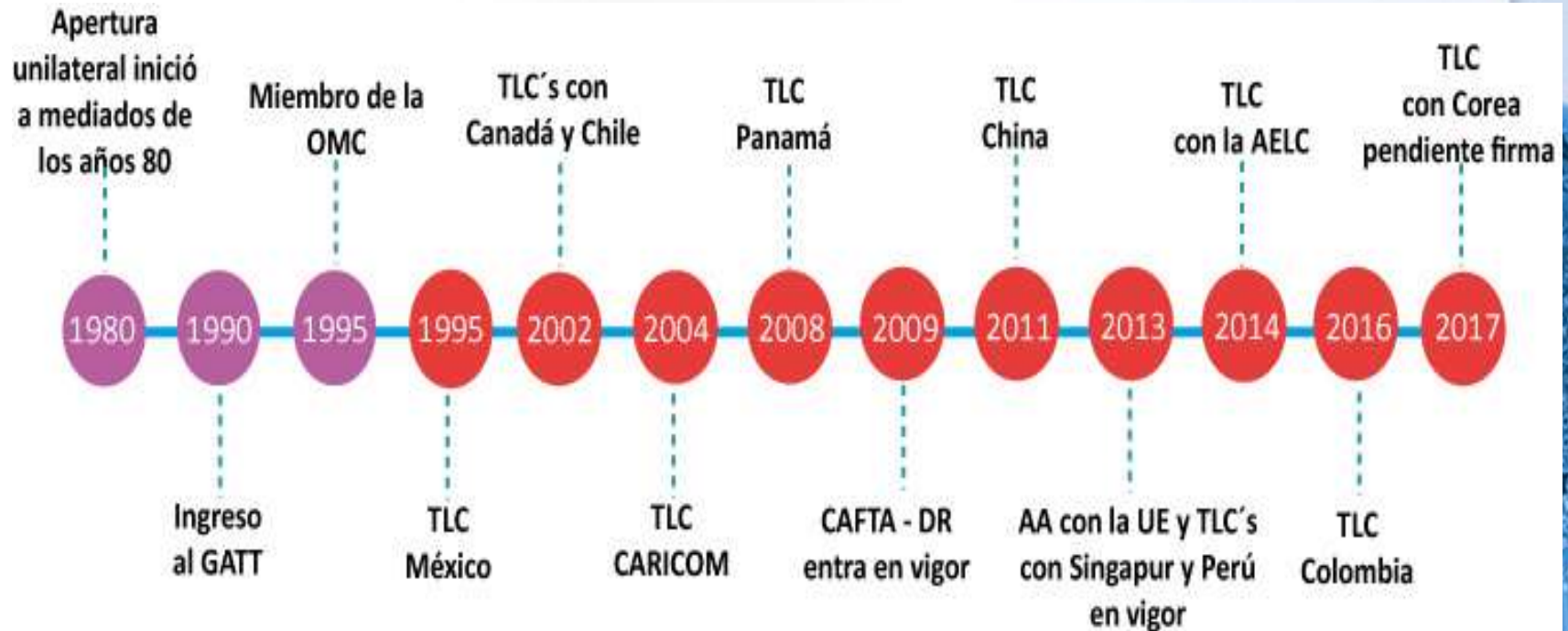
The last 30 years have seen consolidation of a hegemonic paradigm where macroeconomic equilibrium is based on:

- creation of a broad FTA platform,
- attraction of FDI under duty-free zones, oriented toward a productive specialization of high technology,
- a very successful tourism policy.

FTA Plataform



40 Years of Internationalization



Why is Costa Rica Emblematic?

With a population of only 5 million:

- **Most important exporter of high-tech products in LA**
- **Exports more than 4,500 products to 150 countries**
- **35% of exports are high-tech products.**
- **Participation in global value chains.**

Structural transformation of its exports:

- **In the 1990s: primary goods were 57.6%; by 2000, only 26%.**
- **In the 1990s: high and medium-tech manufactured products were 9.3%; by 2000, 48,5%.**
- **High tech went from 3.2% to 36.5%.**
- **Notable increase of service exports.**

Export Diversification

Número de Productos Exportados

(Costa Rica, Partidas Arancelarias con exportaciones > US\$200)



Why is Costa Rica emblematic?

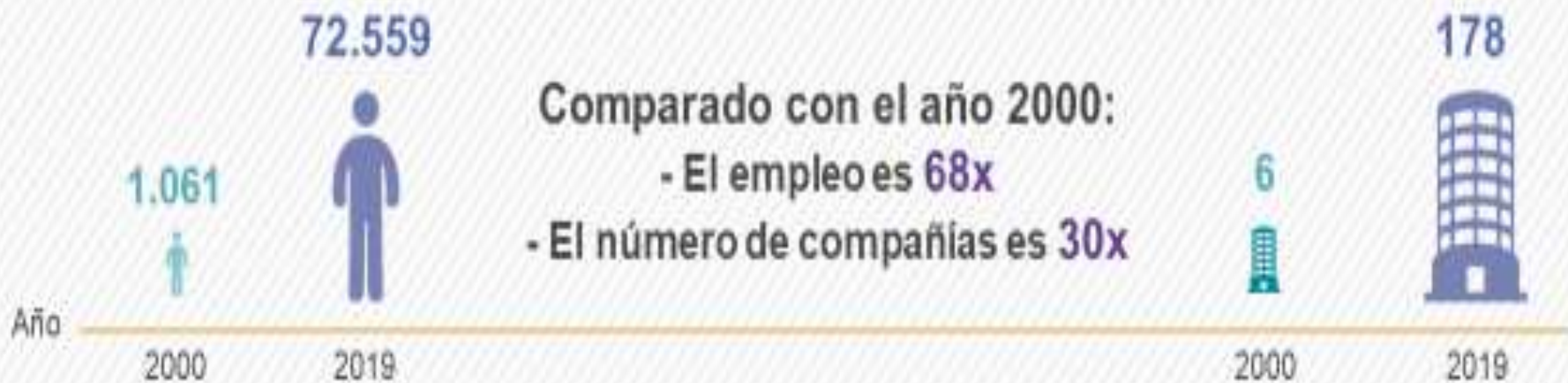
- A solid FTA platform and political stability attract FDI: 280 high-tech companies.
- Exports under FTZ represent 51% of total exports and 7.9% GDP
- Medical devices segment represents 4% of GDP (#1 in manufactured goods)
- Growth of the services sector: Modern services represent 7.6% of GDP.
- Before the pandemic, 3 million visitors.

Evolución: Sector Servicios Corporativos

De Centros Back Office - A modelos GBS y BPO de valor agregado



Línea del tiempo





But the very successful trade opening policies have dramatic weaknesses...



Weaknesses in the Model (1)

- FTZ exports excluded, the main domestic exports are still primary agricultural products (coffee/bananas/pineapple)
- Volume and diversification but highly concentrated exports of low national value added:
 - 2% of companies contribute more than 70% of exports
 - 73% of companies export less than 1%
 - Out of every US\$7 of export value, only US\$3 correspond to national value added

Weaknesses in the Model (2)

Trade balance is unsustainable in the long run:

- 98% of this trade deficit has been balanced with FDI
 - Over the last 25 years, imports grew at an annual rate of 50% higher than that of exports
- FDI has an important macroeconomic impact and generates better paying jobs **BUT...**
- It is only moderately linked to local production and offers limited technological spillovers

Weaknesses in the Model (3)

- Little national investment in research and development
- Lack of integrated industrial policies
- Gaps between educational supply and labor demand
- Export transformation: yes, but little to moderate domestic transformation
- The most dramatic impact: a deepening fragmentation between TWO ECONOMIES: a new “export economy” vs. a “domestic economy” with lower wages and different territorial outreach.

**Lessons learned:
Where do we go from here?**



In the last 30 years, a hegemonic paradigm has taken hold, where macroeconomic equilibrium is based on the creation of a broad FTA platform, which attracts FDI, oriented toward a productive specialization in high technology.

This was a success. But the paradigm shift came in response to an emergency, and the resulting model never transcended its initial premise. Costa Rica's trade opening lacked a comprehensive development roadmap.

The result: an economy of paradoxes, dualities, and contradictions.

It began to look outward, but...it stopped looking inward. Outwardly we became one of the most emblematic models of internationalization. Inwardly we remained stagnant, with productivity of the domestic industry in decline since 1980.

There are two economies: a "new economy" linked to exports and an "old economy" under the logic of the domestic market.

Access to and use of the opportunities generated by trade has been unequal and has varied by sector. All this deepens a dual society and a territorially fragmented country.

We performed well, but we can do better.

Emerging from the COVID-19 pandemic year, we can do better by:

- Seeking new opportunities to increase FDI in manufacturing (nearshoring).
- Continuing to grow in the services sector.
- Taking advantage of the renewed surge in tourism (digital nomads).
- Fostering more linkages.
- Increasing access to opportunities through better aligned educational offerings.
- Improving territorial integration, and addressing the most pressing gaps.



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