

## Trade

### STRENGTHENING COSTA RICA'S INTEGRATION INTO GLOBAL VALUE CHAINS

- ▶ Open trade and investment policies have been an important part of Costa Rica's economic and social transformation since the 1980s.
- ▶ As Costa Rica seeks to further strengthen its integration in global markets, a critical focus should be on reducing the barriers to competition in its services sector, which currently represents 38% of total exports.
- ▶ Improving infrastructure that facilitates international trade is crucial. This requires investment in transport and logistics to go along with the country's good record in trade facilitation.
- ▶ Costa Rica's ambitious policy of intellectual property rights protection as a means to attract foreign investors and foster innovation has to be supported by more effective enforcement.

#### What's the issue?

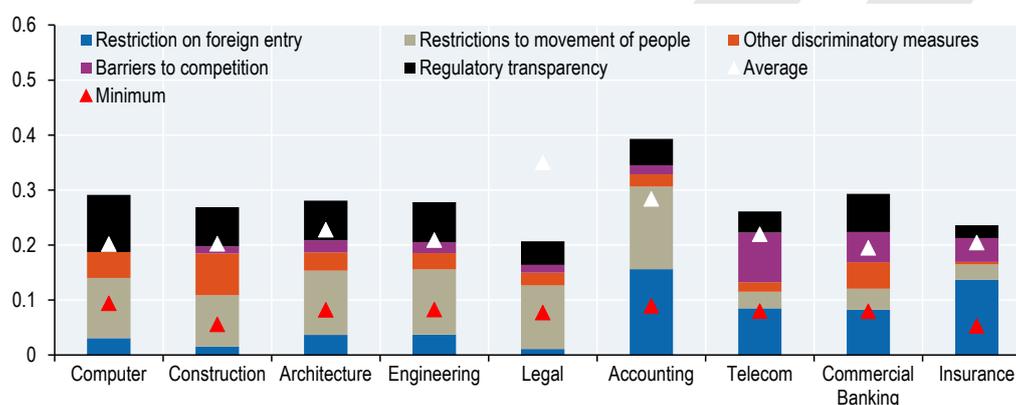
Global value chains (GVCs) have become a dominant feature of world trade, with production often fragmented around the world and components traded across borders multiple times. Since the 1980s, Costa Rica proactively sought integration into global markets as one of the central objectives of its social and economic transformation. It has largely been successful by focusing on an outward-oriented strategy of FDI attractiveness and export-led growth, along with improvements of the overall business climate. The country diversified its export profile, which had been dominated up until the 1960s by a few agricultural goods, to high- and medium-high-tech goods, including electronics,

medical devices, automotive, aerospace/aeronautics and film/broadcasting devices, as well as to services. Trade flows in value-added terms reveal that services contributed to over 38% of total exports in 2014.

Overall, Costa Rica has made advances in improving its business climate and pursuing international market openness, in particular by introducing mechanisms to assess the impact of domestic regulations on the economy, gradually reducing red tape and streamlining formalities in the country, and by introducing new trade facilitation measures. A number of digital platforms created in recent

#### Costa Rica restricts services trade more than other countries

OECD Services Trade Restrictiveness Index (STRI)



Note: The STRI index takes values between 0 and 1, from least to most restrictive. The STRI database records measures applying on a most-favoured-nation basis; preferential trade agreements are not taken into account. The average and minimum scores take into account all countries included in the STRI database. Data for Costa Rica are preliminary.  
 Source: OECD STRI Database (2016).

years have allowed simplifying and expediting procedures and formalities, in particular registration and permit procedures, which are still sometimes felt as excessively burdensome by private firms.

Costa Rica's efforts to simplify and automate procedures have started to bear fruit, but should be continued, with a particular focus on services sectors. According to the OECD Services Trade Restrictiveness Index, Costa Rica restricts trade in many services sectors more than other countries, which is partly explained by general regulations that affect all sectors, and by sector-specific legislations (see Figure). These include labour market tests, restrictions to the temporary movement of foreign services providers, long visa processing times, and complex and lengthy administrative procedures for companies to obtain the relevant permits and registrations.

Trade facilitation initiatives should be supported by concerted efforts to improve Costa Rica's transport, port and border crossing infrastructure, thereby reducing logistics costs. 97% of Costa Rica's total export volume goes through ports and roads/rail, which are highly inefficient, owing largely to the dominant role played by state owned enterprises, a complex institutional setting and public underspending in infrastructure.

Part of Costa Rica's strategy to improve the investment climate and attract foreign investors has been its ambitious policy in favour of intellectual property rights (IPR) protection, which has produced a well-developed legal framework. On the other hand, IPR enforcement still presents some challenges, in particular in terms of copyright piracy and trademark counterfeiting. As a result, IP instruments are not widely used by domestic industry. Costa Rica has recently taken actions to address factors hampering effective enforcement by boosting institutional enforcement capacity but results remain to be seen.

### Why is this important for Costa Rica?

Boosting the productivity and competitiveness of the economy would help Costa Rica to progress further and take full advantage of its integration into GVCs. Improving the competitiveness of services sectors is particularly pertinent. While services in Costa Rica accounted for a little over a third (38%) of total gross exports in 2011, they accounted for more than half total exports (56%) when measured in value-added terms. Services contribute to exports in their own right, but also as inputs into the production process of commodities and manufacturing exports. It follows naturally that better access to world class inputs and more efficient service sectors would enhance the productivity, and thus the competitiveness, of Costa Rican manufacturing firms, while at the same time, facilitating their participation in global production networks.

### What should policy makers do?

- ▶ Accelerate regulatory reforms, particularly in services, such as telecommunications, commercial banking and insurance services sectors.
- ▶ Improve the efficiency and quality of transport infrastructure.
- ▶ Promote entrepreneurship through the use of digital platforms, streamlined registrations and permits and the simplification of high-impact formalities.
- ▶ Improving access to finance for SMEs.
- ▶ Reinforce institutional capacity for ensuring effective enforcement of intellectual property rights protection.



### Further reading

OECD (2016), *Market Openness Review of Costa Rica*, forthcoming.

OECD (2015), *Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies*, OECD Publishing. [http://www.oecd-ilibrary.org/trade/participation-of-developing-countries-in-global-value-chains\\_5js331fw0xxn-en](http://www.oecd-ilibrary.org/trade/participation-of-developing-countries-in-global-value-chains_5js331fw0xxn-en)

OECD (2015), *Trade Facilitation Indicators: Costa Rica*, OECD Publishing. [http://www.oecd.org/tad/facilitation/Costa-Rica\\_OECD-Trade-Facilitation-Indicators.pdf](http://www.oecd.org/tad/facilitation/Costa-Rica_OECD-Trade-Facilitation-Indicators.pdf)