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Item 9: Investment for development: Towards a new generation of investment policies for inclusive growth and sustainable development

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Item 9: Investment for development: Towards a new generation of investment policies for inclusive growth and sustainable development

Remarks by H.E. Ms. Anabel González, Minister of Foreign Trade of Costa Rica

Geneva, September 24th, 2012

The starting point

- **FDI is a powerful motor for growth and sustainable development** – if it were not, why is it that most countries, both developed and developing compete –quite intensely- for attracting foreign investors? This was indeed one of the important themes discussed in the round table "Addressing the policy challenges for sustainable investment and enterprise development" organized in the context of UNCTAD XIII in Doha, last April.

- The distinct benefits and challenges associated with FDI, and the balance among them, are related to the specific type of investment that a country aims at attracting and each country, of course, has its own circumstances. Nevertheless, **three points are key for setting the stage to maximize the benefits of FDI**: embedding investment policy in the national development strategy, aligning it as much as possible with policies in other areas and making policy consistent over time.

The case of Costa Rica: evolution of FDI

- I would like to share with you today Costa Rica's experience with **FDI associated with expanding a country's productive capacity and export base,** particularly in the manufacturing and services sectors, as this type of investment has been a major force in the transformation of the productive structure, as well as in the growth and increased diversification and sophistication of the country's exports.

- Whereas in the early 1960s some pioneer enterprises in the industrial sector established operations in the context of the import substitution model, it was not until the 1980s - after the country's most severe economic crisis - that **Costa Rica began to open up its economy while in parallel putting in place institutions to foster international trade and attract investment,** originally in the areas of agroindustry and textiles and apparel.

- We soon came to understand, however, that it would not take long for other countries to enter into this productive activities, while at the same time realizing that **we had what was needed to upscale in the production**

system -basically peace and stability, an educated workforce, a strategic geographic location in the middle of the Americas and a good business climate-.

- **A major breakthrough came in 1997 when Intel decided to establish a microchip test and assembly plant in Costa Rica**. This was not only the most important investment in the country at the time –initially $300 m-, but it also put Costa Rica on the map as a great investment site, the only place in Latin America where an operation like this was taking place.

- Intel opened the door for others to follow and **Costa Rica organized itself to take advantage of this.** A strong investment promotion policy, coupled with an active trade liberalization strategy, a strong education policy, and a good business climate –including an effective export processing zone regime- were instrumental in significantly attracting foreign direct investment into the country.

- **The following decade saw a significant increase in FDI**. While continuing to attract companies in the electronics areas, Costa Rica moved into new sectors in manufacturing, including medical devices and to a lesser degree aeronautics and automotive, while also becoming an important player in the area of services, particularly in IT and business process outsourcing. Today an impressive array of world class multinationals have settled in the country and some have even begun to carry out more complex and knowledge-intensive activities, including, for example, engineering design, software development and research in computer science and nanotechnology.

- **The results have been very positive**. FDI has gradually gained a critical presence in the economy. From 1985 onward, FDI has grown significantly, with its average share in GDP rising from 1.5% in 1985-89 to 5.6% in 2004-2010. Costa Rica has been called one of the world's most de facto FDI-intensive economies. Since the mid-1980's, its FDI-GDP ratio has consistently exceeded international levels, with a few exceptions. At the same time, the net balance of FDI flows has turned into a consistent and stable financing source of the current account deficit.

- The continuous flow of FDI in Costa Rica has also resulted in foreign capital playing a substantial role in the economy. With an FDI stock comprising 37% of GDP, Costa Rica stands out second only to Chile in Latin America.

- **FDI has had a transformational impact in Costa Rica, radically changing its export structure**, transitioning from a few agricultural products (most notably, coffee and bananas) to manufacturing and more knowledge-intensive activities. Exports of goods have grown five-fold; have become increasingly diversified in terms of both products and markets: Costa Rica exports 4300 different products to 145 export destinations worldwide; and have become increasingly sophisticated, with more than half of our exports having a high technological content or being a specialized product. Exports of services other than tourism have gone from near nothing to surpassing tourism and representing about half the value of goods' exports. Moreover, contribution of exports of IT and corporate services to GDP equalled that of agriculture exports for the first time in 2011.

- **Costa Rica is today an active player in mid and high-tech global value chains:** 40% of the country's exports of goods are associated with global value chains and Costa Rica is the country in Latin America with the highest participation of high-tech exports in manufactured exports.

Key drivers of investment in Costa Rica

- **Several factors have driven FDI into Costa Rica**, among which the following are key: a strategic vision and proactive and coordinated approach; a sound business environment, including political and economic stability and an export processing zone regime; a solid export platform including WTO agreements and FTAs with over 50 trading partners and a robust air transportation network; and educated and competitive workforce; and a privileged geographical location.

Where do we stand today – the new global competitive scenario

- **Under the new global competitive scenario, Costa Rica has interesting opportunities ahead.** Unbundling of productive processes –including in the services area- has opened great opportunities for Costa Rica and the country is well positioned to take advantage of them.
  - A small country, where development of significant industrial capacity would had been unfeasable, has become viable as a manufacturing site.
  - A country that had long invested in education and health has found a more robust return for its investment, as this new-economy activities favoured intellectual over physical competencies –which, among others, opened up new opportunities for women, who are much better at operating telephones or computers than they are at harvesting sugar cane-.

- However, there are at least **two key challenges** associated with FDI. The first one, of course, is **attracting it** and in this regard it is important to note that competitive pressures are not insignificant. Developing countries are moving up the value chain, with enhanced competitive environments. As technological improvements shorten geographical distances, competition becomes global. And, if there was not enough competition at the South-South level, we also face now the reality that developed countries are trying to bring manufacturing jobs back home.

- The second is **continuing to develop the right domestic conditions not only for attracting FDI, but for consolidating, growing, upgrading and harnessing investment for sustainable development.** For Costa Rica this basically means completing the transition from an efficiency-based economy to an innovation-driven economy. Not easy, but we are working on trying to consolidate a national innovation system, further strengthening the supply of skilled labor, increasing expenditures in research and development, promoting greater linkages between foreign and domestic firms, and further aligning investment and innovation policies, among others.

- In this context, I like **UNCTAD's Investment Policy Framework for Sustainable Development**, as it provides a useful instrument for thinking about key issues in harnessing investment for sustainable and inclusive development. Each country has its own circumstances, for sure, but the framework's core principles are fundamental in supporting investment policymaking in developing countries in a balanced and effective way.

- I would like to conclude by **thanking and recognizing UNCTAD** for providing us with a strong platform for debating investment policy. This is an excellent basis for promoting greater international cooperation in this strategic component of sustainable development.