CHAPTER 1.9

Benefits of Trade Facilitation: The Case of Costa Rica

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The Global Express Association represents the four global express carriers: DHL Express, FedEx Express, TNT Express, and UPS. These carriers' sophisticated networks, which provide time-guaranteed delivery of express shipments in 220 countries and territories, are an essential component of the global supply chains that define present-day trade patterns.

As such, they are strong advocates of advances in trade facilitation. Very frequently, whether a shipment can be delivered at a specific time in a specific location depends on its ability to get clearance at the border. In other words, trade facilitation measures are also essential for the functioning of global supply chains, which traverse many countries or continents in most sectors. In such a context, a country with modern, efficient border management is likely to be an attractive location for investment because of its favorable positioning within the global supply chains.

The benefits of trade facilitation have been amply demonstrated by a number of studies conducted by international agencies and academia. The numbers are there and speak for themselves. Most recently, the Organisation for Economic Co-operation and Development (OECD) estimated that the adoption of the trade facilitation package being discussed at the World Trade Organization (WTO) could result in a 10 percent reduction in trading costs. This is a very substantial amount.[1] This figure refers to trading costs in OECD Member States, which are developed economies. One can only guess at the (much higher) savings figures a similar study would yield if it were applied to less-developed economies.

Rather than quoting more such studies or embarking on another defense of the benefits of trade facilitation, the Global Express Association would like to take a look at a real-world example—a case study, if you will. This approach has the benefit of testing the various studies' assumptions in practice. It also shows what went well and what did not.

Costa Rica is a case in point. Granted, with a population of about 4.5 million people and a GDP of around US$30 billion, Costa Rica may not spring to mind immediately when thinking about global supply chains. The C in BRICS is not for Costa Rica. Yet this country's recent success in fostering trade provides an example of what a country's commitment to foreign trade can do to transform its economy, and demonstrates the importance of trade facilitation to such a strategy.

Costa Rica has signed Free Trade Agreements with a number of countries, most of them from the Americas (including Canada, Chile, Mexico, and the United States) but also with the European Union, China, and Singapore. In all, its 52 preferential trade partners represent 83 percent of its total foreign trade and 86 percent of exports. Costa Rica has also been an early proponent of trade facilitation measures. It ranks 43rd on the 2012 Enabling Trade Index (and 3rd in that Index in Latin America).

Costa Rica has had a "single-window" system (called *TICA*) for border management since 2002. The system has been a good start, although there is room for

Table 1: Top 10 exports from Costa Rica, 1994 and 2010

1994: Top 10 Export Products	
Bananas	22%
Coffee	12%
Pineapple	2%
Jewelry	2%
Hair dryers	2%
Melons	2%
Boned beef	1%
Shrimp	1%
Ornamental plants	1%
Other	32%

2010: Top 10 Export Products	
Computer microchips	10%
Computer parts	9%
Bananas	8%
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. Reprinted with permission of the Costa Rican Government.

improvement, as will be shown below. Costa Rica also has a US$25 *de minimis* threshold, coupled with a bi-yearly *de minimis* tax exemption for a single import under US$500. This entire approach to trade facilitation—which includes both the thresholds described and the TICA system, among other things—has allowed for relatively fast clearance times, especially when compared with the clearance times of other countries in the region.

As far as the express delivery sector is concerned, the figures speak for themselves. According to the national express delivery association (Asociación de Empresas de Entrega Rápida de Costa Rica, a member of the Latin American express trade association CLADEC), 250,000 express shipments were handled in Costa Rica in 2005. Six years later, in 2010, the figure had increased eightfold to 2,000,000 express shipments. For the government, this increased duty collection tenfold, from US$2 million to US$20 million per annum over the same period.

Naturally, the Government of Costa Rica did not introduce trade facilitation and a single-window system to merely please express carriers. The system is part of a much wider policy that attempted to place Costa Rica firmly on the global supply chain map. And the policy succeeded. The current Costa Rican Minister for Trade, Anabel González, recently delivered a presentation on this issue at the WTO's Public Forum.

Costa Rica's policies have attracted a number of foreign investors from high-tech sectors, mainly from the electronics, medical devices, aeronautics, and automotive industries. By 2008, foreign direct investment inflows amounted to over US$2 billion, about a fourfold increase since 1998. This has led to a dramatic change in the composition and value of Costa Rican exports.

In 1994, Costa Rica's top export were bananas, followed by coffee and pineapples. By 2010, computer chips and parts topped that list, bananas having fallen to third place and representing a much smaller share of the total exports. Whereas in 1994 the list of the top 10 Costa Rican exports included mostly agricultural products and low-tech manufactured goods, in 2010 the list included transfusion equipment, medical prostheses, and pharmaceuticals (Table 1). For instance, electronic components now represent over 25 percent of total exports, and their main destination is China. All of these high-value-added, time-sensitive products are typically carried by express delivery companies. These companies would not have been able to provide their service absent modern border management. The lack of modern border management, in turn, would have reduced the appeal of Costa Rica as a production location.

The Costa Rican government estimates that industrial sectors operating in a global value chain context now represent 42.8 percent of total exports by value, which is around US$3.5 billion. The country has moved from being an exporter primarily of agricultural goods to being the top high-tech exporter in Latin America. Needless to say, this has had a very favorable impact on job creation in the country.

The Costa Rican government intends to further improve the present situation, in an effort to increase the value added by Costa Rica in the global supply chain. Perhaps the most visible project is the future rollout of a new, improved single window. And there is room for improvement: the TICA system does not now allow advance transmission of electronic data for clearance. In other words, the shipment must be in the country for the transmission to take place. Nor does TICA come with an automated risk assessment system. Recent attempts to introduce such an automated system have not been conclusive. An inspector still determines manually which shipments must be inspected. This is not in line with international best practice and has the effect of slowing down the logistics chain. Furthermore, although TICA accepts (and, in principle, demands) paperless documentation and stores data, formal entries must be made on paper because customs still requires an original signature on the document.

In cooperation with donor agencies, the Costa Rican authorities are working on a fully automated border management concept, one that will automatically link the databases of all 16 border-related agencies and be truly paperless. This should eliminate human intervention from the clearance process and increase its speed, from same-day clearance to clearance within hours or minutes. The Costa Rican government expects the new system to reduce clearance costs by 90 percent.

It is also important to note that the improvement of border management has not been a consistently linear process. Late in the evening on the eve of Black Friday 2011, the Costa Rican Ministry of Finance changed the interpretation of the US$500 per semester *de minimis* clause. Although the measure was aimed at Internet shopping, it had led to a backlog of 5,000 shipments being held at customs. This backlog, coupled with a return to manual inspections, affected not only shipments from individual to individual but it affected business-to-business supply chains as well. A seemingly technical issue quickly turned into a political one. It is to be hoped that this issue will soon be considered a mere hiccup in an otherwise positive process.

One can draw several conclusions from this case. First, it provides real-world evidence that supports the findings of the numerous academic studies on the importance of policy that facilitates trade. Costa Rica's experience also proves that benefits from improved trade facilitation flow to all players. The country has successfully taken advantage of its inclusion into global value chains and improved trade facilitation measures have significantly contributed to this outcome. Customs revenue has multiplied; employment has improved, both in quantity and quality, as have exports. This improvement in the environment, in turn, has led to further increases in foreign investment. The country, its citizens, and its corporations—both domestic and international—all three are winners. However, Costa Rica's experience also shows that even in the presence of strong and well-executed policies, setbacks can occur. There is constant room for improvement, especially after a few years of operation. Facilitating trade is not an easy process, and is one that requires constant attention.

In sum, the case of Costa Rica presents a very strong, practical argument for further multilateral trade facilitation measures, such as those discussed under the aegis of the WTO. It is tempting to repeat that trade facilitation leads to a win-win-win situation, a statement that has almost become a cliché. Costa Rica, however, has shown that, far from being a cliché, the benefits of trade facilitation are very real and widespread.

NOTE

1 Moïsé et al. 2011.

REFERENCE

Moïsé, E., T. Orliac, and P. Minor. 2011. "Trade Facilitation Indicators: The Impact on Trade Costs." *OECD Trade Policy Working Papers* No. 118. OECD Publishing. Available at http://dx.doi.org/10.1787/5kg6nk654hmr-en.