

## **WORLD INVESTMENT REPORT 2002: Transnational corporation and export competitiveness**

### **CHAPTER 8: Targeted promotion**

#### **Box VIII.6. Costa Rica's CINDE: the "other" story of promotional effectiveness (Pg. 232)**

The success of Costa Rica's IPA, Costa Rican Investment Board (CINDE), in attracting Intel to its territory has become legendary in investment promotion circles. How did CINDE get to that point of promotional effectiveness?

CINDE was formed in the mid-1980s, with significant involvement of the Costa Rican private sector, and with substantial funding from the United States Agency for International Development (USAID). Early in its development, it adopted a targeted approach to its task, with advice from Ireland's Investment and Development Agency (IDA). Indeed, a seasoned IDA executive served as a resident adviser to CINDE for two years in the mid-1980s and introduced the principles of promotion that had worked well in Ireland.

The Agency's focus was largely geographic (United States) and industrial (electronics). It adopted a deliberate strategy to shift away from the previous dependence on natural resources and garments. Subsequently, business services, medical devices and special projects were added to electronics as targeted industries. A lean overseas promotional organization was developed with highly trained and well-compensated Costa Rican nationals engaging in a process of personal marketing to targeted companies. The Agency had a budget of approximately \$2 million and just over 40 employees who were encouraged to build long-term relationships with the companies identified. Its compensation system allowed for bonuses for high-performing executives. Benchmarking against salary levels of the private sector and salary surveys were carried out with the help of consultants in order to establish a better fixed and variable income level. Much attention was also paid to the development of an Agency-wide investor tracking system to create an organizational memory for promotional activity, in addition to providing a basis for personnel evaluation and compensation.

CINDE was successful in attracting mainly small electronic firms to invest in Costa Rica during the late 1980s and early 1990s. It eventually hit a "hole in one" when it secured Intel's massive investment in the mid-1990s but this was preceded by many smaller achievements in the form of attracting small electronic firms that created the beginnings of an electronics cluster in Costa Rica. By 1996, companies such as Bourns-Trimpot Electronics (electronic components), Espion (transformers and electronic switches), Cortek (coils), Suttle (telephone connectors), Altor Electronics (transformers), DSC (circuit boards), Protek (electronic components) and Sawtek (frequency filters) had all invested in the country.

Costa Rica finally managed to attract the attention of Intel managers and to win the investment in fierce competition with more well-known locations, including Argentina, Brazil, China, Mexico, Singapore and Thailand. Among the main factors behind the success was the highest possible attention given to the electronics industry and to the Intel project by CINDE, involving even the President. Throughout the process, Intel was impressed by the way CINDE managed the project, under strict confidentiality. Moreover, thanks to substantial investment in, and a changed strategy for, its education system, Costa Rica had developed the necessary labour skills. Finally, a comprehensive incentive

package, including income and municipal tax exemptions under the free zone legislation, helped to tip the balance in favour of Costa Rica. This was not the most critical factor to Intel, but it was important to other investors.

Other notable investments that followed Intel's include those by Abbott laboratories (medical devices), Remec, EMC technology and Camtronics (electronic components), Sensortronics (sensors) and Aetec (board contractors). More recently, Costa Rica's targeting efforts have paid off in the services sector as well. Successes in 2001 include the decision by Procter & Gamble to site its shared-services centre for the Americas in Costa Rica and Western Union's decision to establish a financial services centre.

Today, CINDE is a state-of-the-art IPA. On the basis of studies as well as positive experiences of foreign affiliates in Costa Rica, CINDE identifies the areas in which Costa Rica enjoys a comparative advantage at a given moment. The identification of target areas is dynamic and subject to change. CINDE does not promote mass-market products but rather niche areas with small production runs and medium-to-large requirements for a skilled workforce. With the exception of Intel and Abbott, medium-size investments in high-technology manufacturing, high-value products and skill-intensive services are the targets. The common link among them is Costa Rica's human resources, which are the basis of the country's strategy for development. The country's comparative advantages are regularly reviewed through benchmarking with selected competitors for specific investment projects and the targeting efforts adjusted accordingly. There are important expectations with the recent creation of the CMTEC Foundation, a joint effort of individuals from the private and academic sectors who work together to enhance the country's competitiveness for high-technology investments. As part of Costa Rica's "e-readiness" programme, CMTEC seeks to provide online financial services to SMEs and to help enhance their ability to participate in the knowledge-based economy –

In a sense, the success of the Costa Rican Investment Board in attracting the Intel project converted its FDI policy into a concrete manifestation of the new development policy (Rodriguez-Clare, 2001). Nevertheless, Costa Rica remains weak in embedding export-oriented FDI in the local economy. There is as yet little evidence of linkages, clustering effects or the upgrading of domestic supplier capacities, despite the implementation of programmes such as Costa Rica Provee and Impulso, which have been set up with this kind of objective in mind. In order to sustain its success, Costa Rica will have to diversify its exports to other markets and improve the links between export-oriented production and domestic enterprises.

Source: UNCTAD, World Investment Report 2002, 232 and 233 pages