SERIE DESARROLLO PRODUCTIVO 46

THE INTERNATIONAL COMPETITIVENESS OF THE COSTA RICAN CLOTHING INDUSTRY

Michael Mortimore and Ronney Zamora

INVESTMENT AND CORPORATE STRATEGIES

LC/G.1979
April 1999

This document was prepared by Michael Mortimore, Officer in Charge of the Unit on Investment and Corporate Strategies of the Division of Production, Productivity and Management of ECLAC and Ronney Zamora, Director of Research of the National Chamber of Industries of Costa Rica. The views expressed herein are those of the authors and do not necessarily coincide with the views of the Organization

TABLE OF CONTENTS

TABLES

Page

Page

Page

CHART

ABSTRACT

Costa Rica has become a new centre of international competitiveness in Latin America and the Caribbean. Its share in the imports of the member countries of the Organization for Economic Co-operation and Development (OECD) has gone up from 0.07% to 0.09% (0.15% to 0.23% of the North American market) and in the market for manufactures from 0.01% to 0.04% (0.03% to 0.16% in North America). Costa Rica's pattern of exports to those markets has varied, with the slow-growing natural resource sector, which accounted for 91.2% of total exports in 1980 (85.2%), losing ground to fast-growing manufacturing sectors, which made up 38.5% of the total in 1995 (56.6%). The share of the 10 main export products (at three digits of the Standard International Trade Classification) in total exports came to over 78% (72%), while clothing become the most important category of the new line of exports, with a 24.5% (37.7%) share of the total.

The striking success of the garment industry, however, is threatened by two factors. First, clothing manufacturers in the Caribbean Basin cannot hope to match the advantages Mexico enjoys as a signatory of the North American Free Trade Agreement (NAFTA). With regard to tariffs, Mexico has a six-point advantage in the United States; many garments it produce are no longer subject to import quotas; and, even more importantly, in order to fulfil minimum content requirements, inputs of Mexican origin are considered as produced within NAFTA. Second, other countries in the Caribbean Basin -such as El Salvador, Guatemala and Honduras- have begun to compete with Costa Rica, on the strength of their lower wages. Together, these two factors have precipitated a drop in garment exports and a decline in the share of some articles in United States imports.

In order to study the experiences and competitive situation of garment assemblers in Costa Rica, a total of 16 such firms (12 foreign and 4 local) were surveyed. Particularly revealing and significant were the findings with respect to the interrelationship between the three groups of factors associated with international competitiveness: the global market, corporate strategies and national policy. It has possible to identify the main features of three distinct groups in the sample. As becomes clear, each competitive situation has a certain logic.

Group I, consisting of large United States underwear manufacturers, operates in a well-defined competitive situation. In terms of the global market, over a decade ago the parent companies faced a strong challenge from Asian competitors in their domestic market. They responded by setting up manufacturing operations in Latin American countries, which offered them cheap labour and specific incentives (chiefly duty-free import facilities and tax breaks) and preferential access to the United States market (through the HTS 9802 mechanism). This enabled them to face down the Asian challenge. Underwear exports from the Caribbean Basin, especially Mexico, the Dominican Republic and Costa Rica, increased exponentially, and as a result United States producers were better able to defend their shares in their own market.

It is interesting to note that these companies have tended to create more extensive networks by establishing assembly plants in several Caribbean Basin countries, a strategy that gives them the ability to respond to changes in the competitive situation of each cost centre. Each assembly plant is a small part of the overall organization, and with similar operations in various countries the companies can add production lines depending on the efficiency of each individual plant, without having to abandon any particular site, except in extreme circumstances. For these firms, international competitiveness becomes to a large extent an internal matter at the corporate level, and most consider that their main competitors are other United States companies rather than Asian firms. These strategic factors confer security on the integrated production systems of parent firms. They have, in fact, managed to deal successfully with the Asian challenge.

This situation is generating significant results in Costa Rica. The underwear industry has become

the leading source of garment exports from Costa Rica to the United States. This industry is comprised of three firms established before 1982, along with two others set up in the late 1980s; together, they make up Group I. This group of firms accounts for close to 60% of exports and total employment in the sample. In terms of the number of employees, their operations doubled from 1985 to 1989, and again from 1990 to 1995. Their expansionary corporate strategies were extremely successful.

The competitive situation of the four local firms that make up Group III represents the other extreme of the sample. This is a homogeneous group of small and long-established producers of men's and boys' outer garments (SITC 842) and other garments; they operate primarily via export contracts to the United States market, with several categories subject to quotas. These firms were set up as part of the import-substitution industrialization strategy, and, with the policy shift of the 1980s, they lost local market share as a result of import penetration. This forced them to adapt to obtain contracts from foreign buyers, chiefly large department stores or manufacturers of name-brand clothing. They compete with the rest of the world for relatively short contracts, the main determinant of which is price. This group of companies does not enjoy the advantages of the transnational garments firms that assemble in Costa Rica. Unlike foreign companies, the corporate strategies of these firms are based on their competitiveness, rather than global market factors. They tend to adopt defensive positions and have shown mixed results. One of the local firms went bankrupt in 1996.

The third competitive situation typifies the remaining foreign firms in the sample. They make up Group II, which is less homogeneous, as it includes new small foreign firms (five from the United States and two from Asia) that produce men's and boys' outer garments (SITC 842) as well as other garments for export to the United States under EPZ or temporary admission arrangements or the Harmonized Tariff Schedule (HTS) 9802 mechanism. Many of the products they export are subject to quotas. Firms in this group are in an intermediate situation that includes elements of both Group I and Group III.

As with Group I, firms in this group have a corporate network with many advantages; generally speaking, however, their networks are thinner and more widely extended, and feature larger but less specialized components. They identify their competitors and their competitive situation as the local firms do, i.e., their competitors are other assemblers located in the Caribbean Basin and competition is based either on competitive pricing or defence of their parent companies market share. Their strategies are more focused on cost centres. Five of the seven firms surveyed stressed that the main motive that would induce them to leave Costa Rica would be to reduce labour costs. In addition, an Asian firm that started out by supplying its corporate network in the United States has begun to compete for contracts with large buyers not related to its parent company.

Firms in this group are important and account for about 30% of exports and employment in the sample. They did not show the same sort of job growth as firms in Group I; they increased employment by only 50% in the period 1990-1995; however, this was considerably better than in the case of the Group III firms. Three of the seven firms increased their share of the global market in 1990-1995. The export categories that lost the most momentum in 1995 were suits, men's and boys' pants and women's pants.

In conclusion, analysis of the successes and challenges of Costa Rica's garment industry was facilitated by the study of the three competitive situations of the different groups of firms operating in that country.

RESUMEN

Costa Rica se ha convertido en un nuevo foco de la competitividad internacional de América Latina y el Caribe. Su participación en las importaciones de los países de la Organización de Cooperación y Desarrollo Económicos (OCDE), ha aumentado de 0.07% a 0.09% (de 0.15% a 0.23% en el mercado de América del Norte), y en el mercado de las manufacturas de 0.01% a 0.04% (de 0.03% a 0.16% en América del Norte). La estructura de las exportaciones de Costa Rica a esos mercados ha variado, ya que los recursos naturales no dinámicos, que representaban 91.2% del total exportado en 1980 (85.2%) fueron reemplazadas por rubros dinámicos del sector manufacturero, que aportaron 38.5% de ese total en 1995 (56.6%). La participación de los 10 principales productos de exportación (clasificados con tres dígitos en el sistema de la CUCI), en las ventas externas totales fue de más de 78% (72%), en tanto que el vestuario se convirtió en el rubro más importante de la nueva gama de exportaciones, con una contribución de 24.5% (37.7%) al total.

El notable éxito de la industria del vestuario se ve amenazado, en particular, por dos factores. En primer lugar, las empresas de armado de prendas de vestir de la Cuenca del Caribe no pueden equiparar las ventajas que ofrece México como signatario del Tratado de Libre Comercio de América del Norte (TLC). En materia de aranceles, México tiene una ventaja de seis puntos en los Estados Unidos, muchos artículos de vestuario producidos en el país ya no están sujetos a cuotas de importación y, más importante aún, para el cumplimiento de los requisitos mínimos de contenido los insumos de origen mexicano se consideran generados en el ámbito del TLC. En segundo lugar, otros países de la Cuenca del Caribe -como El Salvador, Guatemala y Honduras- se han convertido en competidores de Costa Rica, porque su nivel de salarios es más bajo. Los dos factores mencionados han provocado una disminución de las exportaciones de prendas de vestir y cierta pérdida de participación en las importaciones estadounidenses de algunos artículos.

Con el fin de conocer las experiencias y situación competitiva de las empresas ensambladoras de prendas de vestir de Costa Rica, se encuestó a 16 de ellas, 12 extranjeras y 4 nacionales. Especialmente importantes, reveladores y significativos fueron los resultados del análisis respecto de la interrelación entre los tres grupos de factores que se asocian a la competitividad internacional: el mercado internacional, las estrategias corporativas y la política nacional- y que permitieron definir los elementos principales de las tres situaciones distintivas de la muestra, esto es, del grupo homogéneo de grandes ensambladores estadounidenses de ropa interior. Como puede apreciarse, cada situación competitiva tiene una cierta lógica.

El Grupo I, integrado por grandes ensambladores estadounidenses de ropa interior, opera en una situación competitiva definida. En términos del mercado internacional, hace más de una década que sus casa matrices debieron enfrentar el severo reto de los competidores asiáticos en su mercado internos. Su respuesta fue establecer operaciones de ensamble en países de América Latina, que les ofrecían mano de obra barata e incentivos específicos (principalmente facilidades de importación libre de derechos y exenciones tributarias), y acceso preferencial al mercado estadounidense (a través del mecanismo HTS 9802). Como resultado, fueron capaces de enfrentar el desafío asiático. Las exportaciones de ropa interior desde la Cuenca del Caribe, especialmente desde México, República Dominicana y Costa Rica, crecieron exponencialmente y así estos productores estadounidenses defendieron mejor su participación en su propio mercado.

Es interesante señalar que estas compañías tendieron a establecer redes más amplias mediante la instalación de plantas de ensamble en varios países de la Cuenca del Caribe, lo que les dio una gran capacidad para responder a los cambios en la situación competitiva de cada centro de costos. Cada planta ensambladora es una pequeña parte de la gran organización y, con operaciones similares en diversos países, pueden agregar líneas de producción de acuerdo con la eficiencia de cada una de

ellas, sin necesidad de abandonar ningún emplazamiento específico, excepto en condiciones extremas. Para estas empresas, la competitividad internacional se vuelve en gran medida un asunto interno a nivel corporativo y en la mayoría de ellas se considera que sus principales competidores son las otras compañías estadounidenses y no las asiáticas. Estos elementos estratégicos dan seguridad a los sistemas integrados de producción de las casas matrices. De hecho, han logrado responder con éxito al desafío asiático.

Esta situación genera resultados significativos en Costa Rica. La industria de ropa interior se ha convertido en la fuente principal de exportación de prendas de vestir desde ese país hacia Estados Unidos. Esta industria incluye tres empresas establecidas antes 1982, que se complementaron con otras dos que se instalaron a fines de la década de 1980; todas ellas forman parte del Grupo I. Corresponde a estas empresas cerca de 60% de las exportaciones y del empleo total de la muestra. En términos de número de empleados, sus operaciones se duplicaron durante el período 1985-1989 y volvieron a hacerlo entre 1990 y 1995. Sus estrategias corporativas expansivas fueron extremadamente exitosas.

Al otro extremo de la muestra se encuentra la situación competitiva de cuatro empresas nacionales que integran el Grupo III. Este es un grupo homogéneo de pequeños y antiguos productores de ropa exterior para hombres y niños (CUCI 842) y otras prendas de vestir; operan principalmente mediante contratos de exportación al mercado estadounidense, en el que algunos rubros están sujetos a cuotas. Estas empresas fueron creadas en el proceso de industrialización por sustitución de importaciones y a partir de la reorientación de la política de los años ochenta han perdido participación en el mercado nacional a raíz de la penetración de importaciones. Esto los ha obligado a adaptarse para conseguir contratos con compradores externos, principalmente grandes tiendas de departamentos o productores de prendas de vestir de marcas registradas. Compiten con el resto del mundo por contratos relativamente cortos, cuyo principal determinante es el precio. No tienen las ventajas de las corporaciones transnacionales que ensamblan en Costa Rica. A diferencia de las empresas extranjeras, sus estrategias corporativas se centran más en su competitividad que en los factores del mercado internacional. Tienden a adoptar posiciones defensivas y sus resultados han sido variados. Una de las firmas nacionales fue a la bancarrota en 1996.

La tercera situación competitiva es la que se da en las restantes compañías extranjeras de la muestra. Integran el Grupo II, que es menos homogéneo, ya que está compuesto de empresas nuevas, pequeñas y extranjeras (cinco de Estados Unidos y dos de Asia) que ensamblan ropa exterior para hombres y niños (CUCI 842) y otras prendas de vestir, para su exportación a Estados Unidos bajo el régimen de zonas de procesamiento de exportación o de admisión temporal, así como mediante el mecanismo HTS 9802. Muchos de los productos que exportan están sometidos a cuotas. Las empresas se encuentran en una situación competitiva intermedia que muestra elementos identificados tanto en la del Grupo I como del Grupo III.

Al igual que el Grupo I, poseen una red corporativa con muchas ventajas; sin embargo, generalmente sus redes son más pequeñas y extendidas, con componentes mayores, pero menos especializados. Por otra parte, identifican a sus competidores y su situación competitiva en la misma forma que las empresas nacionales, es decir, sus competidores son otros ensambladores localizados en la Cuenca del Caribe y la naturaleza de su competencia se basa en lograr precios competitivos o bien en defender la participación de mercado de sus casas matrices. Tienen una mentalidad más enfocada en centros de costos. Cinco de las siete empresas encuestadas subrayaron que el principal motivo por el cual dejarían Costa Rica sería la reducción de costos laborales. Además, una compañía asiática que era proveedora de su red corporativa en Estados Unidos entró a competir por contratos con compradores mayores no relacionados con su casa matriz.

Las empresas de este grupo son importantes y representan cerca de 30% de las exportaciones y el empleo de la muestra. No se expandieron, como las del Grupo I, en términos de empleo, ya que durante el período 1990-1995 éste apenas se incrementó en la mitad; sin embargo, comparadas con las firmas del Grupo III, se aprecia una considerable mejoría. En términos de su participación en el mercado internacional, tres de las siete empresas lograron avances durante 1990-1995. Además, los

principales rubros de exportación que perdieron dinamismo en 1995 fueron los trajes enteros y pantalones de hombre y niño, y pantalones de mujer.

En conclusión, el análisis de los éxitos y retos de la industria del vestuario en Costa Rica fue facilitado por el examen de las tres situaciones competitivas de los diferentes grupos de empresas que operan en el país.

INTRODUCTION

THE INTERNATIONAL COMPETITIVENESS OF COSTA RICA: A CANALYSIS [1]

There is little doubt that the international economy is undergoing a transformation in which international competitiveness is intensifying and playing an increasingly central role in the definition of benefits and their distribution among countries. International competitiveness can be analysed from various angles and measured in different ways.[2] The framework of this study is based on the Competitive Analysis of Nations (CAN) computer software, version CANPLUS,[3] which was created by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). According to this software, international competitiveness is measured exclusively by the import market shares of the members of the Organization for Economic Cooperation and Development (OECD).

1. International competitiveness: A CANalysis

The CAN software indicates that between 1980 and 1994 the weight of **manufactures** in the total imports of the OECD countries grew dramatically from 54% to 74% of the total. The market share of developing countries grew from 11.2% to 19.9% of total OECD imports of manufactures. Within the category of manufactures, those not based on natural resources[4] were most dynamic, rocketing from 49% to 70% of total OECD imports. As with total manufactures the market share of developing countries (Africa, Asia-excluding the Middle East- and Latin America) in OECD imports of dynamic manufactures shot from 11.2% to 19.9%. In other words, the structural transformation of international trade opened up a **dynamic opportunity for developing countries** to improve their integration into the international economy by gaining market share in the most dynamic sectors, that is, manufactures.

---

[1] A preliminary version of this chapter was presented at the seminar "Costa Rican Industry: The challenge of globalization and trade liberalization", held at San José on 27-28 April, 1995

[2] For example, at one extreme is The Economist, which measures international competitiveness solely in terms of an index for real effective exchange rates and at the other the IMD/World Economic Forum, whose World Competitiveness Report 1994 incorporates over 380 separate indicators.

[3] The CAN computer programme is an instrument for measuring the international competitiveness of countries. For further details, consult the article by its inventor, Ousmene Mandeng, "International Competitiveness and Specialization", CEPAL Review, 45, December, 1991. ECLAC distributes the software through training workshops in the countries that request them. For example, three such events were organized in Costa Rica during 1995-1996: The first was held in February 1995 at the Center for the Training of Trainers and Technical Personnel (CEFOF), with the support of the Costa Rican Chamber of Industries, and the following two were held in October 1995 and November 1996 at the Costa Rican Technological Foundation (FUNDATEC).

[4] Manufactures not based on natural resources are those defined in Sections 5 through 8 less divisions 61, 63 and 68, and less groups 661, 662, 663, 667 and 671 of the SITC-Rev.2.

Table 1 in the Statistical Appendix lists the fifty most dynamic sectors (at three digits of the SITC-Rev.2) in terms of OECD imports during 1980-1995. These fifty groups (of a total of more than 230) accounted for almost 51% of total OECD imports in 1995, up from less than 30% in 1980. These fifty groups grew on average by 81% over the 1980-1995 interim. As can be appreciated in the table, six major industries (i.e.,computers, other electrical machinery and electronic equipment, clothing, chemicals and pharmaceuticals, non-electrical machinery and equipment and automobiles) alone accounted for almost 39% of total OECD imports in 1995, up from 21% in 1980.

Without doubt, the countries that are capable of participating in this explosion of international trade in these industries will bring this dynamism to their economic growth and development trajectory. During 1980-1995, ten "winner" countries proved capable of increasing, by 0.5% or more, their share of OECD imports of manufactures. They are China (3.8%), Mexico (1.4%), Singapore (1.0%), Malaysia (0.9%), Spain (0.7%), South Korea (0.7%), Thailand (0.7%), Taiwan (0.6%), Indonesia (0.5%) and Japan (0.5%). As is evident, the winners are almost exclusively Asian countries.

This Introduction examines the nature of the participation in this international market of the following groups of countries: (1) OECD[5], particularly the example of Japan; (2) the developing Asian economies, distinguishing the Asian tigers from the Association of South-East Asian Nations (ASEAN) and the particular case of China; (3) Latin America, both the larger countries of the Latin American Integration Association (LAIA) and the smaller ones of Central America and the Caribbean; and (4) the specific new focal points of international competitiveness in Latin America, that is, Mexico, the Dominican Republic and Costa Rica.

In this manner, it is possible to identify the principal tendencies in the international market and the distinct paths by which some developing countries are being integrated into that market. This analysis will serve to locate Costa Rica in the context of this transformation of the global economy.[6]

Table 2 in the Statistical Appendix deals specifically with OECD. Its total imports effectively define the international market, both because it accounts for about 70% of world imports and because it is a very demanding market. There exists a pronounced tendency in favour of manufactures and away from natural resources.

The same OECD members dominate the most dynamic elements of international trade, that is, total manufactures (85.38% in 1980 and 75.39% in 1995) and manufactures not based on natural resources (87.24% in 1980 and 76.43% in 1995); however, they are losing market share in those areas. That transformation produced a great opportunity for non-OECD countries to increase their share of international trade by exporting manufactures to OECD.

Eight of the ten principal exports (at three digits of the SITC-Rev.2) of OECD countries to other OECD countries, which represented more than a quarter of their total exports in 1995 are found among the fifty most dynamic sectors in international trade. The automobile, computer and chemical-pharmaceutical industries are prominent. Nonetheless, in eight of these ten groups, OECD countries are losing market share, while other, more competitive countries are winning market shares in these sectors.

---

[5] Each table on the “Aspects of the International Competitiveness” of a group of countries identifies the constituents of the group in the notes.

[6] See M. Mortimore, "Paths Toward International Competitiveness: A CANalysis", Desarrollo Productivo, No. 25, ECLAC/UNCTAD Joint Unit, Santiago, Chile, June 1995.

Although the European Union (from 56.02% in 1980 to 47.09% in 1995) and North America (from 17.88% to 16.25%) lost international market shares in non-natural resource-based manufactures a few OECD members such as Japan and, to a lesser extent, Spain, did demonstrate considerable dynamism during this period. The competitive situation of Japan is found in table 3 in the Statistical Appendix. Japan's exports to OECD are almost exclusively manufactures, virtually all of which are manufactures not based on natural resources. Japan can be considered the inventor of this particularly successful path towards international competitiveness, increasing its market share from 9.54% in 1980 to 13.37% in 1985. Nine of Japan's ten principal exports corresponded to the fifty most dynamic groups during 1980-1995 (especially the automobile, computer and electronic industries), and Japan won market share in seven of the ten. Nevertheless, even the powerful Japanese export machine lost relative market share in non-natural resource-based manufactures during 1985-1995 (falling from 13.37% to 9.75%).

In general, the developing Asian economies best took advantage of the mentioned opportunity in international trade. This group saw a strong transformation of the structure of their exports to OECD member countries, in favour of manufactures. As table 4 in the Statistical Appendix indicates, they gained market shares mostly in manufactures (from 7.43% in 1980 to 15.54 % in 1995) but also in natural resources (from 7.71% to 9.08%). In developing Asia, the ten principal exports to OECD accounted for over 40% of total exports in 1995. Modern industries, such as computers and their parts and other electronic equipment, are prominent, along with more traditional ones, such as clothing; nevertheless, eight of the ten principal exports are found among the fifty most dynamic sectors defined earlier. In all ten of these exports, the market share of developing Asia increased during 1980-1995. This suggests that these economies are further back on a path similar to Japan's, adapting extremely well to the changes in international trade over this period. The "flying wild geese" concept would seem to apply here.[7]

If one desegregates the group of countries called developing Asia into its more dynamic elements, namely the four Asian tigers, the members of ASEAN integration scheme and China, it is possible to better appreciate the nature of Asian's success in taking advantage of the international trade opportunity of 1980-1995 and the relevance of the flying wild geese concept. Each of these elements experienced huge improvements in their international competitiveness but in somewhat different ways.

The Asian tigers, namely Hong Kong, the Republic of Korea, Singapore and Taiwan (Province of China), made themselves famous by their ability to conquer foreign markets with their manufactures. Like Japan before them, however, their success was concentrated in the 1980-1985 interim, when they increased their market share for non-natural resource-based manufactures from 5.73% to 7.77%. Table 5 in the Statistical Appendix points out that as in the case of Japan, their ten principal exports were also dynamic, but they were losing market shares in three of them, especially apparel and toys. Other Asian competitors were advancing faster in these areas.

Within the category of developing Asian economies, the ASEAN countries and China had the most success during 1980-1995, following the example of Japan and the

[7] Akamatsu Kaname made this concept famous in the 1930s. Later, Kojima Kiyoshi and Terumoto Ozawa brought it up to date. See Pekka Korhonen, "The theory of the flying geese pattern of development and its interpretations", Journal of Peace Research, Vol. 312, No.1, 1994.

Asian tigers before them. As table 6 in the Statistical Appendix indicates, the ASEAN countries increased their market shares for non-natural resource-based manufactures from 0.68% to 3.19% over the 1980-1995 period. They began to displace the Asian tigers with regard to certain dynamic exports, such as telecommunication equipment, other electronic equipment and apparel.

China also increased its market shares were in sectors where the Asian tigers had previously experienced success. In this case, however, the dimension and velocity of the change was even more dramatic (from 0.53% in 1980 to 4.42% in 1995), as can be seen in table 7 in the Statistical Appendix. China's success was concentrated in dynamic sectors such as apparel, footwear and other relatively less-sophisticated manufactures, where they gained shares in all of their principal exports.

In other words, in Asia, where the dynamism of the improved international competitiveness of "winner" countries was concentrated, certain differentiation is in order with respect to the ASEAN countries and China. In flying wild goose fashion, the migration of certain dynamic industries from “leader” to “follower” countries can be perceived in terms of the changes of relative market shares. This appears to have been the case in clothing, the assembly of electronic apparatus, electronic components and other sectors, which Japan developed as strong export industries until they migrated first to the Asian tigers and later to the ASEAN countries and China, based on their improved competitive situations, according to the CAN statistics for 1980-1995.

With regard to the international competitiveness of Latin America and the Caribbean, table 8 in the Statistical Appendix indicates that, in spite of important efforts to specialize more in manufactures and thereby improve their competitive situation, the Latin American countries have not had much success in taking advantage of the mentioned opportunity of international trade. It is more than evident that it is not this region which is gaining markets shares at the expense of the OECD countries. Nor do these countries behave like "flying wild geese" in the Asian sense.

While Latin American countries have more than doubled their exports of manufactures (from 21.3% to 52.3% of total exports to OECD during 1980-1995), especially manufactures not based on natural resources (from 13.7% to 45.1%), this advance in the dynamic industries of international is not reflected in the region’s OECD market shares (the overall share fell from 5.30% to 4.97% during 1980-95). Thus, despite strong efforts to promote the export of manufactures to OECD, Latin America was unable to reverse the trend toward its marginalization in international trade, given that the region continued to specialize in natural resources such al petroleum, petroleum products, certain agricultural products and mining.

The region’s market share for manufactures did increase, (from 2.07% in 1980 to 3.44% in 1995), but this advance was not achieved in manufactures not based on natural resources. This is also reflected in the ten principal exports to the OECD of this region. The region was gaining market share in seven of the ten products, but only three of the products correspond to the most dynamic sectors of international trade. In other words, Latin America and the Caribbean did not succeed in adapting well to the opportunities available in the international trade field, unlike the more dynamic developing Asian economies.

It is possible to distinguish two separate tendencies within Latin American and Caribbean with regard to international competitiveness. One pertains to the bigger countries (generally members of the LAIA) and the other to the smaller ones (generally found in the Caribbean Basin).

The situation of LAIA members is demonstrated in table 9 in the Statistical Appendix, which is quite similar to the overall situation of the region as a whole and

reflects the weight of the bigger countries in those statistics. In spite of a decrease in the export of natural resources to OECD as a share of total LAIA exports (from 75.6% in 1980 to 44.4% in 1995) and a significant increase in the export of dynamic manufactures (from 23.1% to 52.9%), the overall market share of the region declined somewhat (from 4.41% to 4.39%). That of manufactures improved only slightly (from 1.87% to 3.08%). Again, these larger countries reflect the difficult situation of the region in terms of taking advantage of the opportunities of world trade, and the fact that huge efforts at transforming the structure of their exports to OECD in favour of manufactures have not yet translated into major market share gains. This is also reflected in their ten principal exports to OECD: of the seven areas in which the region increased its market share, only four correspond to the dynamic sectors of international trade.

The overall tendency in Central America and the Caribbean is even more negative than that for the larger countries of the region, as can be seen in table 10 in the Statistical Appendix. Exports to OECD from this subregion are still highly concentrated in natural resources (85.1% in 1980 and 50.1% in 1995). A significant shift towards manufactures (from 12.2% to 47.1% of the region's exports to OECD) did not prevent the overall market share from collapsing (from 0.88% in 1980 to 0.58% in 1995).

Central America and the Caribbean is still specialized in natural resources, especially agricultural products, textile fibers and minerals. The region made few significant gains in terms of international competitiveness. One exception was in the category of manufactures not based on natural resources in which OECD import market share doubled from 0.16% to 0.36% over the 1980-1995 period but this market share is still very low. The ten principal export products capture this reality: with the exception of clothing, market shares were lost in all of them.

In general, this subregion was unable to take advantage of the opportunity in world trade which arose during this period.

The differences between developing Asia and Latin America and the Caribbean could not be starker in respect of improving their international competitiveness in order to fasten the dynamism of international trade to the local economic growth performance. While the developing Asian economies led the way, the Latin American ones generally lost ground. Compared to the “flying wild geese” of developing Asia, the Latin American countries appeared more like “sitting ducks”.[8]

2. Competitive focal points in Latin America

Not all the developing Asian countries are winners, nor are all the Latin American ones losers. There are a few new focal points of international competitiveness in the Latin America and Caribbean region located in Mexico, the Dominican Republic and, to a lesser extent, Costa Rica. A look at these cases allows one to better appreciate the nature of these new signs of competitiveness in the region.

Mexico constitutes the principal exception with regard to the situation of the LAIA countries during 1980-1995, product of its success in increasing and transforming its exports to OECD (see table 11 in the Statistical Appendix). This has been a very significant process in which Mexico has succeeded in transforming the structure of its

[8] M. Mortimore, "Flying geese or sitting ducks? Transnationals and industry in developing countries", CEPAL Review, No. 51, December, 1993.

exports from two-thirds natural resources in 1980 to slightly more than two-thirds manufactures in 1995. Mexico's overall market share increased (from 1.26% to 2.09%), as did that of manufactures (from 0.71% to 2.10%), especially those not based on natural resources (from 0.65% to 2.17%).

The few dynamic exports of manufactures among the ten principal exports of Latin America in general (see table 8) or of the LAIA countries in particular (See table 9) (i.e., automobiles, automobile parts and electrical equipment) all came from Mexico. This country exported a wide array of dynamic manufactures, including telecommunications equipment, TV receivers, electrical apparatus for making and breaking circuits, and internal combustion motors.

The restructuring of the Mexican automobile is the best example in Latin America of the restructuring and internationalization of an existing industry dominated by transnational corporations.[9] In 1995, Mexico also registered very high world market shares for certain products involving electrical and electronic assembly: meters and counters (26.32%), material for distributing electricity (20.22%), TV receivers (20.50%), electric power machinery (7.40%), radios (7.20%) and internal combustion motors (6.38%). Effectively, nine of Mexico's ten principal exports are dynamic ones, and Mexico has gained market share in nine of its ten exports.

In other words, Mexico represents the best Latin American example of a large country which has adapted well to the opportunities produced by international trade during 1980-1995, and its success was centered on the automobile industry and the assembly of electrical and electronic products.

The Dominican Republic also increased its total share of the OECD market (from 0.02% to 0.12% as table 12 in the Statistic Appendix points out. In particular, non-natural resource-based manufactures rose from 0.02% to 0.12%, although the country continued to specialize in manufactures based on natural resources. The Dominican Republic's success was primarily centered on clothing and a few assembly products (e.g., electrical apparatus, medical instruments and apparatus and jewellery). The Dominican Republic gained market share in seven of its ten exports and seven of them corresponded to the most dynamic in international trade.

Certain of the Dominican Republic's manufactures possessed very significant OECD import market shares in 1995, considering that they came from such a small country: leather manufactures (6.67%), men's outer wear (2.57%), knitted or crocheted under garments (2.36%), medical instruments and apparatus (1.81%), women's outer wear (1.04%), and jewelry (1.02%).

The Dominican Republic can thus be considered the most successful example, within the Caribbean Basin, of adaptation to the changes in international trade during this period.[10]

Another relatively successful case in Latin America, although less so than the cases of Mexico and the Dominican Republic, was Costa Rica see table 13 in the Statistical Appendix. It underwent a dramatic transformation of the structure of its

[9] M. Mortimore, "Transforming sitting ducks into flying geese: the Mexican automobile industry", Desarrollo Productivo, No. 26, Santiago, Chile, October 1995. See also A. Calderon, M. Mortimore and W. Peres, "Mexico: Foreign investment as a source of international competitiveness", in J. Dunning, and R. Narula (eds.), Foreign Direct Investment and Governments: Catalysts for Economic Restructuring, Routledge, London, 1996.

[10] M. Mortimore. H. Duthoo and J.A. Guerrero, "Informe sobre la competitividad internacional de las zonas francas en la República Dominicana", Desarrollo Productivo, No. 22, Santiago, Chile, October 1995.

exports to OECD during 1980-1995, natural resources dropped considerably (from 91.2% to 60.4%), while manufactures grew strongly (from 8.0% to 38.5%), especially those not based on natural resources (from 7.1% to 37.4%).

Costa Rica's overall market share increased (from 0.07% to 0.09%) and that growth was concentrated in the 1985-1995 period. While the market share for agricultural products improved somewhat (from 0.42% to 0.44%), that for manufactures expanded rapidly from a small base (from 0.01% to 0.04%. In 1995, the ten principal exports to OECD consisted of five agricultural exports (fruit, coffee, vegetables, meat and prepared fruit) and five clothing manufactures (the only "dynamic" items of the ten principal exports). Costa Rica gained market share in all ten of these principal export items. Certain dynamic manufactures attained significant OECD import market shares during 1995: knitted or crocheted under garments (1.43%), men's outer garments (1.02%) and other under garments (0.91%).

Costa Rica's success in exporting apparel to OECD does not approximate that of the Dominican Republic; however, it does represent a similar path towards international competitiveness.

There are two ways to make relative these scarce examples of success in the field of international competitiveness in Latin America and the Caribbean. One way is to directly relate these changes in Latin America to the dynamic sectors highlighted in table 1, and the other is to analyse the countries' performances using the CAN adaptability index. Table 14 in the Statistical Appendix demonstrates the situation in Latin America with respect to the dynamic industries of international trade during 1980-1995.

Clearly, Mexico is the leader in Latin America at gaining OECD import market shares in these dynamic industries (computers, electrical machinery and electronic equipment, chemicals, pharmaceuticals, automobiles and clothing.). That is, Mexico was the Latin American country which best took advantage of its international competitiveness in the dynamic industries. The Dominican Republic had considerable success in clothing and electric machinery and electronic equipment. Costa Rica had some success, mainly in the clothing industry. The other Latin American countries enjoyed few successes because minor gains in certain dynamic industries were offset by losses in others.

The CAN adaptability index[11] shows that, in general, these three countries adapted relatively well to the changes in OECD imports over the 1980-1995 period. Their adaptation in terms of contribution (i.e., the change in their OECD export structures in favour of the fastest growing sectors) was superior to that of market shares. Table 15 in the Statistical Appendix, which measures the variation from 1980 to 1995, indicates that the adaptation of the Dominican Republic (1,305% for export structure and 316% for market share) was superior to that of Mexico (792% for export structure and 164% for market share) which in turn was somewhat greater than that of Costa Rica (645% for export structure and 121% for market share).

[11] This index measures how well the changes in country's exports to the OECD compare to the overall changes in OECD imports. A value of 1 indicates that the shift in the country's exports corresponded exactly to the overall shift in OECD imports. A value of more than 1 suggests that the country adapted well by increasing market share or export specialization in the dynamic sectors of OECD imports, while a value of less than 1 suggests that the country did not adapt well to those changes in OECD imports.

3. The competitive situation of Costa Rica

Costa Rica represents one of the few exceptions in Latin America in the sense that to some extent it took advantage of the opportunity available in international trade during 1980-1995. It adapted its exports relatively well to the important changes which took place in the international market. That adaptation took two forms: on one hand, Costa Rica radically altered the structure of its OECD exports in favour of manufactures and, on the other hand, within the category of manufactures Costa Rica increased its market shares in several of the more dynamic sectors. In this sense, Costa Rica can be considered to have adapted relatively well to the main trends in international trade.

A powerful element of Costa Rica's export success has been clothing exports, especially those stemming from the use of special export regimes, such as temporary admissions and export processing zones (EPZs), mostly by subsidiaries of foreign firms. Nonetheless, information on clothing imports to the United States market for 1993-1995 suggest that perhaps the Costa Rican clothing industry is losing competitiveness in that market vis-à-vis Mexico and other Central American exporters.[12] It is not clear yet, if this situation is related to clothing firms which migrate from country to country in search of cheaper labour or if it points to a more systemic problem within the Costa Rican clothing industry.

It was this preoccupation for, and challenge to, the Costa Rica clothing industry that provoked this study on its competitive situation.

[12] See R. Buitelaar, "La competitividad autentica en América Central y el Tratado de Libre Comercio de América del Norte: Llueve sobre mojado?", document presented at the seminar on "Costa Rican Industry: Challenges of globalization and trade liberalization" held at San José, 27-28 April 1995.

CHAPTER I

COSTA RICAN INDUSTRIALIZATION AND THE COMPETITIVE SITUATION OF ITS CLOTHING INDUSTRY

This chapter presents the Costa Rican policy framework with regard to its industrial trajectory and the challenges facing it. The first section examines the nature of the industrialization process, including the drastic changes and policy reorientation which occurred during the crisis of the 1980s. That is followed by a short analysis of the global tendencies of the world textile and clothing industry and their significance for the Costa Rican clothing industry. Finally, the third section of this chapter concentrates on the specific competitive situation of the Costa Rican clothing industry.

1. Costa Rican industrialization

Costa Rica's growth and development trajectory has been influenced by various stages of the industrialization process, primarily the substitution of industrial imports and the opening up of the economy to import competition. Those two stages were separated by the period of debt crisis which marked the 1980s. This section, which is essentially of a descriptive nature, will present a vision of the Costa Rican industrialization process by examining first the logic of the import substitution period up to about 1982, followed by that of the adjustment and liberalization period.

(a) The import substitution process

The first attempts to promote industry in Costa Rica by way of import substitution took place in 1940 in the form of the Law of New Industries, which provided certain tax benefits to new manufacturing activities. These benefits were available to firms with new activities in which less than 25% of total raw material inputs came from outside of the country.[13]

Such initiatives did not produce an important effect in terms of industrial growth at the time because the economy was enjoying a boom in traditional exports, particularly coffee. It was not until the late 1950s that the idea took hold that the only way to overcome the limits on foreign trade was to diversify the economy by using import substitution to promote "development from within". The final objective was to achieve a more diversified export structure that was capable of financing development.[14]

With this objective in mind, the Law for Protection and Industrial Development was enacted in 1959. The United Nations Economic Commission for Latin America (ECLAC), which promoted industrial development in the region and economic integration in Central America, assisted in the design of this new strategy.

---

[13] L. Sibaja, J. Rovira, A. Ulate and C. Araya, La industria: su evolución histórica y su aporte a la sociedad costarricense, Camara de Industria de Costa Rica, San José, 1993.

[14] E. Alonso, Agenda para la modernización y competitividad industrial en Centroamérica. Informe Costa Rica, ONUDI/CEPAL/FECAICA, San José, 1995.

The Costa Rican Chamber of Industries also strongly supported the new law which replaced the Law of New Industries of 1940. It was felt that without legislation establishing the necessary instruments to promote industry local industrialists would not be in a position to advance with regard to the subregional economic integration scheme then being pursued.

The Law for Protection and Industrial Development provided a series of elements which proved fundamental for the industrialization process. One element was a tax which had the effect of tripling the existing tariff protection for imports which competed with national products. Another was a tariff of 99% applied to all imports of machinery, motors, and tools, raw materials and semi-elaborated products. A third consisted of exemptions from certain municipal and territorial taxes.[15]

In addition to national efforts to promote industrial development through import substitution and "development from within", Costa Rica entered into the General Treaty for Central American Integration in 1963. The other countries of the region signed this Treaty in 1958 in Tegucigalpa, Honduras.

By signing the Treaty, the Central American countries initiated a dynamic process that could create the conditions to improve trade and stimulate regional development.

This integration scheme aimed at greater economic independence based on the unified subregional market. In this manner, a solution was sought for the problem of promoting industry based on small national markets so as to take advantage of greater economies of scale and increased specialization. Once consolidated, this initiative was to produce the diversification of national exports.[16]

Based on an import substitution perspective, the member countries instituted a custom union based on two essential ingredients: a free trade zone and a common external tariff. In order to reorient resources towards productive activities aimed at supplying the subregional market, certain additional mechanisms to deal with financing, tax incentives and infrastructure were established by international treaty and other formal agreements.

The subregional industrial policy had the objective of stimulating manufacturing production and protecting it from international competition. Its principal components were as follows:

- the establishment of common tariff and non-tariff barriers to imports from third countries;

- the elimination of the majority of internal tariffs for industrial products manufactured in the member countries;

- the provision of tax exemptions on imported raw materials and on income, and subsidized interest rates for domestic and foreign investments in manufacturing;

- the promotion of the Central American Common Market to produce a larger market, protected against imports from third countries, in order to promote investments in local manufacturing activities;

- the establishment of new sources of finance for industrial projects by way of the creation of the Central American Bank for Economic Integration (BCIE) coupled with

[15] L. Silbaja, J. Rovira A. Ulate and C. Araya, op. cit.

[16] E. Alonso, Desgravación arancelaria, promoción de exportaciones y transformación productiva: un enfoque integral, Instituto Centroamericano de Administración de Empresas, Alajuela, 1991.

the financial support of the United States Government for the promotion of investment in manufacturing in the region;

- the promotion of "integration industries", which sought to direct regional industrial development by allocating certain industrial pursuits to particular countries; and

- the creation of the Central American Institute for Industrial Research and Technology (ICAITI) to assist the manufacturing sector to increase its productivity and improve its international competitiveness.

At the national level, Costa Rica added other elements to this industrial development policy package in 1972. The Costa Rican Development Corporation (CODESA) was created with public sector funding to assist in the establishment of new manufacturing activities through technical assistance to new and existing companies, direct financing for companies or projects that favoured industrial development and the promotion of new enterprises.

The National Council on Scientific and Technological Research (CONICIT) was also founded in 1972. It was the first non-university institution to advise the Costa Rican Government on science and technology and to promote research (including the construction of laboratories), create qualified human resources, and, generally, make science and technology available to local industry.[17]

Of all the elements of the proposed industrial policy, in the short run, it was the tariff protection in combination with the exchange rate policy (overvaluation of the national currency) which proved to be the most important because it magnified the attractiveness of the captive market for import substitutes. The effective protection was much higher than the formal nominal limits established by the integration scheme.

Numerous studies and evaluations indicate that, in its first stages, the results of the Central American Common Market progressed satisfactorily both at the subregional and national levels.[18]

Unfortunately, the permanent application of the "inward-looking" development scheme at both the regional and national levels provoked a number of structural rigidities and, in spite of the industrial dynamism created, the limits of the regional market produced the effect that the benefits began to grow less rapidly due to the increasing costs that the model produced.[19]

The original idea was to limit tariff protection to the time frame necessary for infant industries to consolidate their operations and become internationally competitive outside of the Central American subregion. Authorities would then slowly reduce the tariff protection and encourage the reorientation of the manufacturing sector to exports outside Central America.

In the case of the integration industries, the selectiveness of that policy was poorly applied and practically any industry was permitted with little concern for the changes taking place in the international market and the nature of Central American specialization. Many such industries were subsequently moth-balled because their scale

---

[17] A. Cruz, "La vinculación universidad-sector productivo en Costa Rica" in G. Ary (ed.), Cooperación empresa-universidad en Iberoamérica, CYTED, Sao Paulo, 1993.

[18] For example, see The World Bank, "Central America: Special Report on the Common Market", No. 2325b-CA, Washington, D.C., September 1980; W. Cline and E. Delgado (eds.), Economic Integration in Central America, The Brookings Institute, Washington, D.C., 1978; D. McClelland, The Central American Common Market: Economic Policies, Economic Growth and Choices for the Future, 1972; and J. Nugent, Economic Integration in Central America, 1974.

[19] Alonso, 1995, op. cit.

was too small and the costs of their reconversion were too great in the time frame contemplated.

The Costa Rican Government gradually abandoned the import substitution policy and the associated institutional framework. The institutions did not receive either the economic resources or the political support necessary to advance to the stage of improving the international competitiveness of the manufacturing industry. In the end, the industrial policy was transformed into a policy of maintaining protection and the status quo. The objectives of improving productivity and attaining genuine competitiveness were lost.[20]

Because of the degeneration of the industrial policy, the import substitution framework became an end in itself instead of representing a dynamic mechanism for the diversification of the productive apparatus and its exports.

The Costa Rican Government did implement a policy to promote exports, however. The Export Promotion Law (Law 5/62) of 1973 incorporated several elements, such as the Temporary Admission Regime, the Tax Credit Certificate and the Export Increase Certificate.

The policy sought to reorient resources toward the non-traditional export sector and toward the international market beyond the subregion. As such, it can be seen as an element of the industrial policy pursued in the 1960s and 1970s. Unfortunately, in the existing macroeconomic conditions associated with high tariffs and an overvalued national currency, this export promotion policy could not completely compensate for the anti-export bias contained in the inward-looking import subtitution policy, such that its results were meager.[21]

Another policy failure concerned the Costa Rican Development Corporation. It did not produce the desired effect in terms of assisting and financing new manufacturing activities because its funds were directed primarily to the creation of State firms, which were generally mismanaged. This led to the questioning of the Corporation's purpose and its contribution to the country's industrial development.

Statistical tables and graphs aid in appreciating the structural changes which have taken place in the Costa Rican economy. Table I.1 indicates the structural change in the gross domestic product (GDP). Viewing the information for 1970-1985, it can be seen that the manufacturing sector experienced a growing presence in the Costa Rican economy, rising from 18.2% to 18.7% of the total.

Table I.2 presents similar information for the manufacturing sector alone. During the 1970-1985 period, just one division--food products, beverages and tobacco (ISIC 31)--accounted for one-half of the total product for the manufacturing sector. The most dynamic manufacturing division was that of chemicals (International Standard Industrial Classification of all Economic Activities, ISIC 35), which increased from 12.1% to 21.3% of the total over the 1970-1985 interim.

While the paper products industry (ISIC 34) showed certain dynamism from 1980 to 1985, machinery and equipment (ISIC 38) and textiles and clothing (ISIC 32) both lost ground in terms of their relative weight in GDP.

---

[20] Muñoz, J.J., "La industrialización en Costa Rica: retos ante un nuevo entorno económico" document presented at the seminar on "Costa Rican Industry: the challenges of globalization and trade liberalization" held at San José on 27-8 April, 1995.

[21] Alonso, 1995, op. cit.

TABLE I.1
COSTA RICA: GROSS DOMESTIC PRODUCT BY SECTOR, 1970-1995
(in percentages)

	1970	1980	1985	1990	1995
Agriculture	22.5	17.4	18.8	15.7	18.0
Manufacturing	18.2	18.5	18.7	19.4	18.6
Commerce	21.0	20.0	20.5	20.1	20.0
Government	10.6	15.2	13.0	14.9	13.9
Construction	4.3	6.3	3.6	3.2	2.3
Transportation	4.2	4.1	5.0	5.1	5.3
Others	19.2	18.5	20.4	21.6	21.9
TOTAL	100	100	100	100	100

Source: ECLAC, Anuario Estadístico de América Latina y el Caribe, 1994, Santiago, 1995, and Central Bank of Costa Rica.

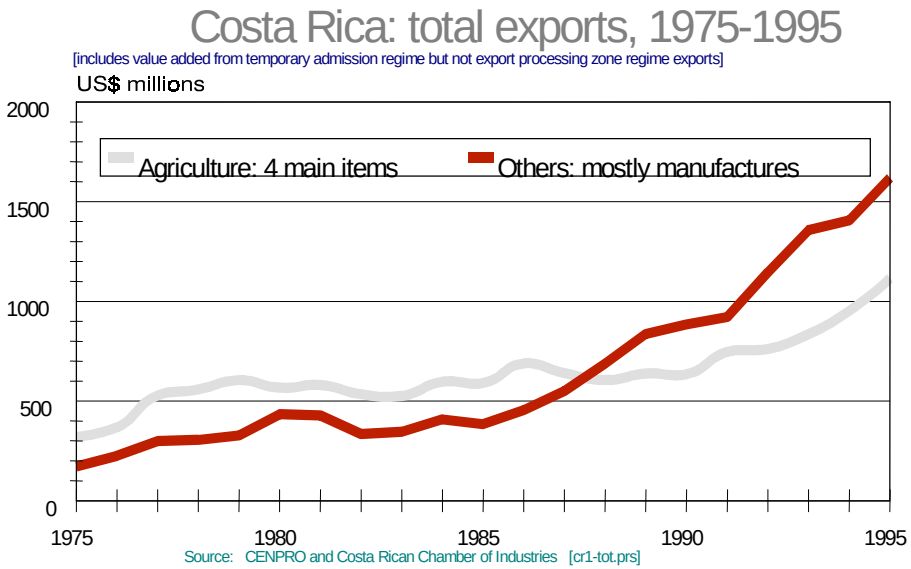
TABLE I.2
COSTA RICA: THE PRODUCTION OF MANUFACTURES, 1970-1994
(in percentages)

	ISIC	1970	1980	1985	1990	1994
31	Food products, beverages and tobacco	54.4	49.4	50.5	48.6	46.0
32	Textiles, clothing, leather and shoes	10.3	7.9	7.6	6.6	7.1
33	Wood products	5.7	5.0	4.2	3.8	3.3
34	Paper products, printing and publishing	4.4	4.8	5.7	8.7	7.1
35	Chemicals, plastics, rubber and pharmaceutical products	12.1	18.7	21.3	18.5	20.3
36	Non-metal mineral products	2.7	2.6	3.0	4.1	4.6
37	Basic metals	0.9	1.2	0.1	0.2	0.1
38	Machinery and equipment.	8.9	10.1	7.4	9.2	11.3
39	Other manufactures	0.8	0.2	0.3	0.3	0.2
	TOTAL	100	100	100	100	100

Source: ECLAC, on the basis of the PADI computer programme, and the Costa Rican Chamber of Industries.

Figure I.1 indicates the export performance of the Costa Rican economy. It should be mentioned that a consistent series of trade data demonstrating the unequivocal trajectory of exports of manufactures could not be constructed. This figure separates the principal four traditional agricultural exports (banana, coffee, meat and sugar), which have historically dominated Costa Rica's exports, from the "others", which are mostly manufactures (about 70% of the value of total exports recently).

Chart I.1



As of 1986, it was possible to introduce consistent data on clothing exports via the temporary admission regime. Solid data for the other important export regime—export processing zones—was not encountered and is therefore not included in this figure. Even considering the limits of this information, several aspects merit attention. The period 1975-1980 saw a considerable upward tendency in the value of total exports, including both the “others” and the main products. The process of industrialization seemed to keep pace with the four major agricultural exports and, undoubtedly, the hope was that the exports of manufactures would introduce an element of stability into export performance which was traditionally characterized by strong oscillations in the international prices of banana and coffee. The disruption of the debt crisis in the early 1980s produced a temporary decline in the absolute level of "other" exports, thereby quashing those hopes.

The available data on the textile and clothing industry indicate that there existed one reality for exports during the period 1970-1984 and another thereafter. In the first period, exports from this industry were relatively stable at the equivalent of around 10% of all exports of manufactures. More than 90% of those exports were textiles (ISIC 321) rather than clothing (ISIC 322), and almost all those textiles exports went to the Central American market. Textile exports reached about US $45 million in 1981 before entering into a nose-dive from which they never recovered. In other words, the textiles industry received an important impulse from the import substitution policy in both its national and subregional contexts. It started from a small base and succeeded

generating a rising stream of exports to the Central American Common Market. The textile industry during this period employed a higher proportion of the national workforce than did the clothing industry.

Beginning in the mid-1980s, the clothing industry experienced dynamic growth, particularly in association with the temporary admission regime and the export processing zones (EPZs).

Finally, although these data are also incomplete, it is evident that during the import substitution phase, high and rising levels of foreign direct investment (FDI) were flowing into the manufacturing sector. Table I.3 confirms that while in the early 1970s more FDI went into agriculture (54% in 1970-1974) than manufacturing (35%), during the last half of the 1970s a much higher proportion went to manufacturing (59%) than agriculture (28%). The debt crisis of the 1980s reversed that trend, though, not before the proportion of the stock of FDI in the economy shifted toward manufacturing, which nearly equalled the stock of FDI in agriculture in 1980 (See table I.4).

Table I.3

COSTA RICA: NET INFLOWS OF FOREIGN DIRECT INVESTMENT, BY SECTOR, 1970-1993

(Percentages and millions of dollars)

	Agriculture and Mining (%)	Manufacturing (%)	Services (%)	TOTAL	
				% (Incl. Others)	Millions of dollars a/
1970-1974	54	35	1	100	34.7
1975-1979	28	59	7	100	60.8
1980-1984	69	12	12	100	57.4
1985-1989	46	36	12	100	94.7
1990-1993	48	28	20	100	203.4
1975-1993	48	33	14	100	82.6

Source: ECLAC, Directorio sobre Inversión Extranjera en América Latina y el Caribe 1993: Marco Legal e Información Estadística, Santiago, 1993.

a/ Annual averages by period in current values.

Table I.4

COSTA RICA: STOCK OF FOREIGN DIRECT INVESTMENT, BY SECTOR, 1970-1990
(in percentages and millions of dollars)

	Agriculture and Mining (%)	Manufacturing (%)	Services (%)	TOTAL	
					Millions of dollars a/
1970	53	32	14	100	201.2
1980	46	43	11	100	671.9
1990	59	37	12	100	1498.6

Source: ECLAC, Directorio sobre Inversión Extranjera en América Latina y el Caribe, 1993: Marco Legal e Información Estadística, Santiago,1993.
a/ Accumulated current values to 31 December.

The logic of the import substitution phase of the Costa Rican growth and development trajectory never lived up to its promise. In terms of national policy, the incentives of the industrial promotion policy were not limited in time for the purpose of giving industrial firms a temporary boost in the export phase of the industrialization process, and other severe problems of implementation limited its effectiveness. With regard to the Central American Common Market, the integration industries did not become strategic and exemplary elements of industrial development but rather examples of poor financial decisions by the development bank. Industrial production tended to be overpriced, of poor quality and lacking in international competitiveness. It did not produce the foreign exchange needed to finance Costa Rican development. The debt crisis of the 1980s obliged authorities to completely rethink their developmental strategy.

(b) Crisis and adjustment

In the late 1970s and early 1980s, a series of internal and external factors highlighted the need for a new logic in the industrialization and development in the country.

Some of the external factors which forcefully affected the economy were the sharp increases in the international price of petroleum during the 1970s, the decline in the international prices of Costa Rica's principal traditional exports, the political and economic problems of the region (which led to the collapse of the Central American

Common Market at the end of the 1970s), and the impact of the sharp rise in international interest rates, on the debt service in 1980-1981.[22]

Internal politico-economic factors were also very much present. The existing industrialization process was based on a narrow national market and an undependable subregional one; Traditional exports, which formed the backbone of the productive structure, suffered declining demand and unstable international prices; industrial exports were then less profitable for industrialists than production for the national market; the productive process was characterized, as now, by a lack of vertical integration and dependence on imported inputs; technological and scientific development was limited; and internal management of the political economy was by all accounts poorly executed.

All of these factors were present in the strong macroeconomic disequilibria of the 1980s, which caused a stagnation of GDP growth, high inflation (it reached 80% in 1980), rising unemployment (urban unemployment surpassed 10%), a huge deficit on current account, the rapid decline of international reserves and the subsequent collapse of the national currency (from 9.24 to the dollar in 1980 to 50.45 in 1985). These macroeconomic conditions translated into a significant reduction in general welfare.

This challenge to national welfare provoked a severe questioning of virtually all aspects of the existing inward-looking industrialization and development strategy. Proponents of new policies based on structural adjustment, on the one hand, and export promotion, on the other, gained ground.

Those in favour of structural adjustment desired a freer and more agile functioning of all markets for goods and services, such that prices would better reflect the relative scarcity of resources. This orientation sought policy neutrality in terms of eliminating the anti-export bias of existing policy, thereby exposing the basic comparative advantages of the economy; however, it did not contemplate any kind of special incentives for exports.

Those in favour of export promotion policy sought special incentives such as tax, credit and exchange rate benefits for the exporters of certain specific products.[23] Costa Rica applied a mixed policy as of 1984, one in which structural adjustment initiatives ran parallel to a defined policy of export promotion.

Like many developing nations requiring emergency financing from multilateral institutions, Costa Rica launched a structural adjustment programme. This marked the beginning of a new strategic approach to development, in which exports served as the motor for economic growth. The structural adjustment programme began in earnest in 1985 with a Structural Adjustment Loan of US$80 million from the World Bank. This was followed by a second initiative in 1987, with financial support of US$200 million. As the central aim of these programmes, the country undertook a transformation of its tariffs and export incentives.

With regard to tariffs, a gradual and progressive transition was defined to reduce the effective protection of industrial activities and its dispersion. For 1992, the goal was

[22] J. Salazar, and E. Doryan, La reconversión industrial y el Estado concertador en Costa Rica, Corporación Costarricense de Desarrollo, San José, 1989.

[23] S. de Franco (ed.), Estrategias de crecimiento y orientación hacia afuera: dimensiones económicas e institucionales, Editorial Universitaria Centramericana, San José, 1988. For an update, consult M. Agosin, E. Gitli, and L. Vargas, “La promoción de exportaciones en Costa Rica: diagnóstico y recomendaciones para la próxima etapa”, mimeo, February, 1996.

to have a maximum tariff of 20% for consumer goods and a range of 5% to 10% for intermediate and capital goods, depending on wether they were produced locally.

In 1984, new legislation on incentives for exports was implemented to produce a rapid increase in the volume and diversification of exports and, consequently, greater foreign exchange earnings.[24] The objective was to complement the structural adjustment process by accelerating the reorientation of resources toward the export sector. Specifically, it provided financial support to companies engaged in export activities, and compensated for the distortions produced by the previous strategy. This latter feature included subsidies in the form of income tax exemptions, import tariff exemptions, and, in the case of export contracts,[25] the granting of Tax Credit Certificates (CAT) based on the FOB values of exports to markets, outside the Central American subregion. An export promotion fund (FOMEX) was established in the Central Bank. This export promotion policy also aimed at attracting foreign investment to complement national investment in productive activities, to obtain competitive technologies and modern organizational and marketing practices, and to diffuse knowledge on foreign markets.

In institutional terms, the Export and Investment Programme of the Office of the President of the Republic was established in 1983 to give political priority to promoting the export of new products to new markets. With the assistance of the United States Agency for International Development (USAID), the private sector Coalition for Developmental Initiatives (CINDE) was created, and its function was centreed on attracting foreign direct investment. In 1986, the Ministry of Foreign Trade was created to coordinate all initiatives by way of executing agencies, such as the Centre for the Promotion of Exports and Investments (CENPRO) and the Corporation for Export Free Zones.

Certain tension existed between the structural adjustment and export promotion perspectives, in the sense that the export promotion policy did not eliminate distortions but rather created new distortions to compensate for the existing anti-export bias to economic policy. The harmonizing element was that the export promotion policy was to be limited in time (for 12 years beginning in 1984). The export promotion policy was viewed as a necessary short-term incentive to exports and investments, while the long-term economic policy focused on the elimination of existing distortions.[26]

Recent studies suggest that much of the success met in transforming the Costa Rican economy during the 1980s had more to do with the export promotion incentives than the structural adjustment policy. For example, non-traditional exports, which include manufactures, increased in meteoric fashion and underwent a remarkable diversification. This policy also was successful in diversifying export markets, significantly reducing the dependence on the Central American Common Market.

Other results of the period of crisis and structural adjustment can be appreciated in the tables and charts used in the previous section on the import substitution period. Table I.1 indicates that in 1985-1990 Costa Rica did not experience a process of de-industrialization as did many other Latin American countries undergoing structural reform. Rather, manufacturing continued to grow as a share in GDP. During 1990-1995,

[24] Law on Incentives for Nontraditional Exports. Chapter III of the Law on Financial Equilibrium of the Public Sector, February 1984.

[25] Other related initiatives had to do with export promotion regimes involving the temporary importation of inputs and the use of EPZs. These are examined in more detail below.

[26] Alonso, 1995, op. cit.

however, a de-industrialization process did become apparent. The weight of the manufacturing sector within GDP fell from 19.4% to 18.6%.

Figure I.1 clearly demonstrates that the manufacturing sector was exceedingly dynamic in terms of generating exports. They exploded from about US$300 million in 1985 to about US$1.2 billion in 1995, representing the great bulk of the "other" exports and significantly surpassing the four, until then, dominant agricultural exports. Over the 1975-1995 period, as table I.5 indicates, non-traditional exports jumped from about one-third to almost 60% of the value of total exports. Exports of manufactures were very prominent among these non-traditional exports.

The export situation of the textiles and clothing industry is particularly interesting. This type of export held steady at about 10% of total exports of manufactures before the crisis. In this stage, exports originated almost exclusively from the textile sector (ISIC 321) and were destined primarily for the Central American market. The debt crisis adjustment period caused a total transformation of the industry, as shown in figures 1.2 and 1.3. Textiles exports went into more or less terminal decline while clothing exports rocked from close to zero in 1984 to over US$160 million in 1995 (excluding the value added via the EPZ regime but including the temporary admission regime). Figure I.4 shows that the value added to clothing exports by way of the temporary admission regime surpassed those of all other regimes (although data for clothing exports by way of the EPZ regime are not available). These exports went almost exclusively to the North American market.

Table I.5
COSTA RICA: TRADITIONAL AND NON-TRADITIONAL EXPORTS, 1975-1995
(annual averages in millions of dollars and percentages)

	Traditional (4 agricultural)	Non-Traditional (mostly manuactures)	Total	Traditional (%)	Non-traditional (%)
1975-9	476.5		742.7	64	36
1980-4	561.2	390.7	951.8	59	41
1985-9	632.9	583.7	1216.6	52	48
1990-4	786.4	1143.8	1930.2	41	59
1995	1116.6	1620.2	2736.8	41	59

Source: CENPRO, on the basis of official data.

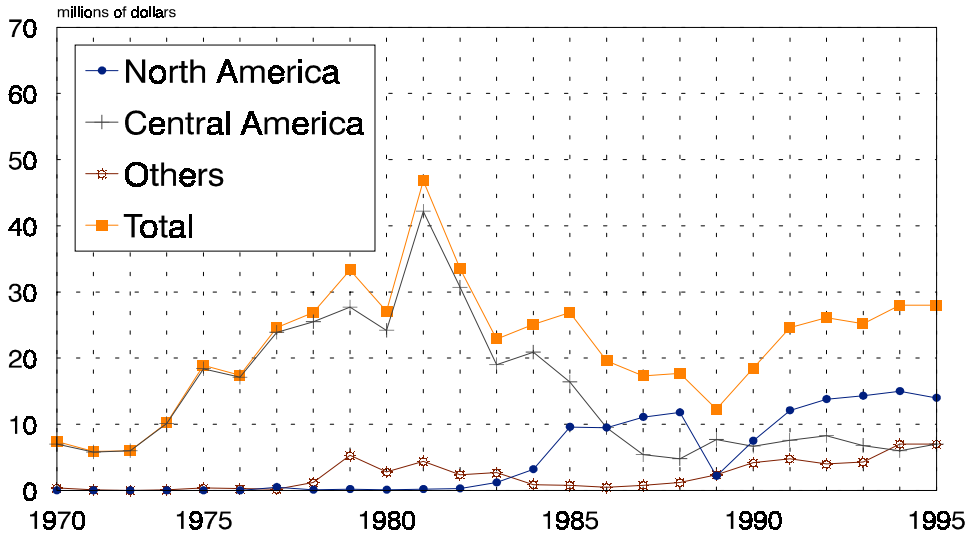
In the 1990s, unlike the import substitution period, the clothing industry employed more than double the labour of the textile industry. This industry would appear to be an excellent example of the effect of the process of structural adjustment and export promotion which took place in the Costa Rican economy during the post-1982 period.

The information available on FDI is only useful for limited analysis of its role in the process of adjustment. Annual net inflows doubled between 1980-1984 and 1985-1989 and doubled again in 1990-1993, reaching over US$200 million. They went increasingly to agriculture and services, however, rather than to manufacturing activities. By 1990, the stock of FDI in manufacturing was a little more than a third of the total for the country as a whole. Thus, it appears that FDI was not a central aspect

of the adjustment undertaken in the manufacturing sector, although its impact on other areas of the economy is harder to define.

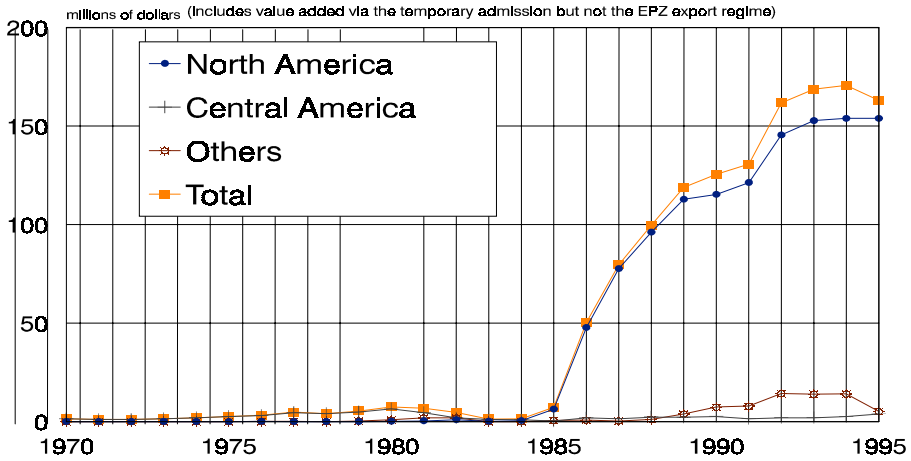
The structural adjustment programmes produced gradual reductions in tariff protection for manufacturing firms without offering any specific action to guide the transformation taking place. For the few companies that were already accustomed to a competitive environment, the effect of the tariff reduction was not important, except perhaps that it meant cheaper imported inputs. This was not the case for the vast majority of the manufacturers, which were not accustomed to a competitive environment and which did not perceive, let alone react to, the threat of ever-increasing import competition.

Chart I.2. Costa Rica: textile exports (ISIC 321), by market, 1970-95



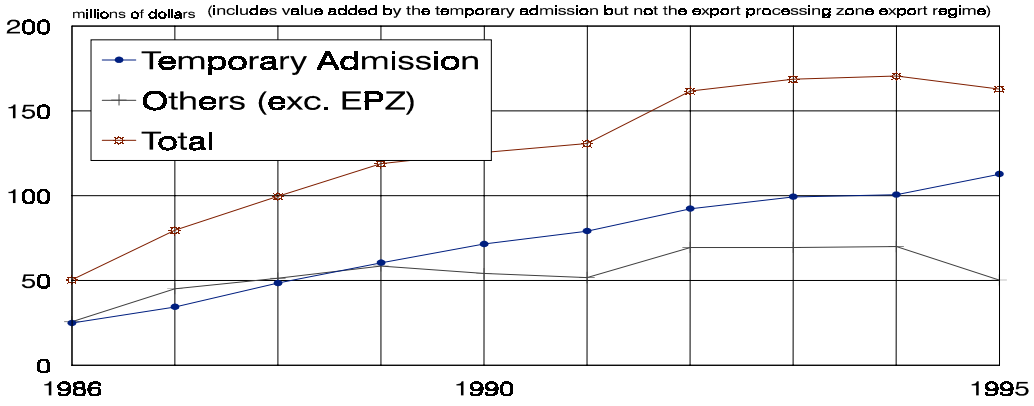
Source: the BADECEL data base of ECLAC (cr2-321.prs)

Chart I.3. Costa Rican clothing exports (ISIC 322), by market, 1970-95



Source: BADECEL and Costa Rican Chamber of Industries [cr3-322.prs]

Chart I.4. Costa Rican clothing exports (ISIC 322), by export regime, 1970-95



Source: BADECEL and Costa Rican Chamber of Industries [cr4-322.prs]

The threat of extinction for these firms resulted in a policy initiative with regard to industrial reconversion. Two policy options existed for stimulating changes in the productive apparatus and specifically in the industrial sector: the more liberal option was to reduce tariffs drastically and thereby let market forces and competition determine which local manufacturing firms would survive; the more interventionist stance called for the State to work in concert with local business associations and labour groups to provide a strategic vision for the overall process of economic and institutional transformation.

The second option was implemented in the Government of Oscar Arias (1986-1990). The first industrial reconversion programme was put in place, establishing work

groups with representatives from all three sectors to identify subsectoral problems and propose solutions.

The idea was that diagnoses at the subsectoral level would provide specific responses to particular problems. In practice, the industrial reconversion programme lost credibility because it did not produce concrete actions and the support of the three different sectors began to weaken. More to the point, the funds from the structural adjustment loans which were originally assigned to industrial modernization were eventually used for other purposes.

The Government of Rafael Angel Calderon (1990-1994) effectively ended the existing industrial reconversion programme in 1990. This government put more emphasis on foreign trade and directed financial support for strengthening existing firms which already exported to markets outside of the Central American Common Market. Thus, like the previous programme this programme had very limited effect.

This situation provoked considerable uncertainty and consternation on the part of local business groups that felt that they no longer were a priority of industrial policy. In addition, these companies faced increasing competition from imported products in the national market, which consumers tended to prefer over domestic alternatives.

The Government of J.M. Figueres (1994-1998) decided to critically re-evaluate the industrial reconversion programme of the Arias Administration. In a document entitled "A Strategy for Industrial Modernization in Costa Rica", it laid out the principal elements of that policy:

- the creation of a fund for industrial modernization in the form of specific credit lines in the national banking system;
- the creation of a fund for partial guarantees for small firms;
- the establishment of a single administrative office for all industrial certificates;
- the installation of a service centre for businessman; and
- the formation of sectoral committees for industrial modernization whose objective was to channel the requests of industrialists and formulate specific measures for their industrial modernization.

In general, the period of structural adjustment has produced significant results in Costa Rica. The export sector has been by far the principal beneficiary in terms of the specific incentives given to compensate for existing distortions, the implementation of a more realistic exchange rate policy[27] and the general structural transformation which favoured that sector. The firms facing the greatest difficulty in adapting to the structural adjustment were manufacturing firms producing for the local or subregional markets.

The incorporation of Costa Rica in free trade agreements, such as that signed with Mexico in 1994, will deepen those existing tendencies in terms of structural adjustment. This suggests that government policy must begin to deal more directly with topics such as reindustrialization and the more systemic aspects of Costa Rica's international competitiveness,[28] such as financial reform, investment in infrastructure, institutional reform and the modernization of education.

---

[27] Exchange rate policy has been crucial for the success of the export promotion programme. From 1984 to 1992 a system of mini-devaluations was implemented in an attempt to maintain the real exchange rate. In 1992 a dirty float mechanism was used briefly until the beginning of 1993, when the mini-devaluation scheme was reintroduced. This system continues to be in use at present.

[28] F. Fajnzylber, "Competitividad Internacional: evolución y lecciones", Revista de la CEPAL, No. 36, Santiago, Chile, 1988.

The Costa Rican process of industrialization, which was extended considerably during the import substitution period up until the debt crisis of the 1980s, was subjected to a strong challenge in the form of the structural adjustment of the economy during the 1985-1996 period. The manufacturing sector surpassed agriculture in terms of its participation in GDP, but roughly one-half of the manufacturing sector production stems from agro-industrial pursuits. Exports of manufactures surpassed agricultural ones; however, agro-industrial exports were still the principal exports.

Government policy underwent a wholesale transformation in the shift of focus from import substitution to general structural adjustment. Tariff protection, an overvalued national currency, an expanded subregional market and specific industrial incentives were not replaced by a general preoccupation for industry, in particular. Rather, authorities sought a structural adjustment which would highlight Costa Rica's comparative advantages in the highly competitive international market, coupled with an emergency policy to promote exports in the face of the foreign exchange crisis.

Although the process of industrialization flourished during the period of crisis and adjustment, the excellent export results seem to be more an outcome of the incentives offered non-traditional exports than any reflection of a genuine structural adjustment based on international competitiveness. It is not clear how FDI affected these results.

While the roles of government policy and FDI in the general results of Costa Rican industrialization and development during this period are less than transparent, that is not the case for the textile and clothing industry. The industry more or less retained its presence in Costa Rican exports of manufactures, but the composition of those exports changed radically from the import substitution period to the structural adjustment period. In the first period, exports peaked in 1981 at US$50 million, and they consisted almost exclusively of textiles sent to the Central American market. In the second period, exports reached about US$200 million in 1995 (the sum of US$70 million normal clothing exports plus US$113 million value added to clothing exports via the temporary admission regime plus an estimated US$17 million value added via the EPZ regime), and they consisted almost exclusively of clothing sent to the North American market. The competitive situation of that industry will be dealt within detail following a short analysis of the tendencies in the global textile and clothing industry.

2. Aspects of the global textile and clothing industry

To better understand the competitive situation of the Costa Rican clothing industry, it is useful to have a solid idea of the major tendencies in the global textile and clothing industry, in general, and the changing nature of Costa Rica's principal market, the United States, in particular. The principal tendencies have to do with increased international competitiveness from new competitors, the new rules for trade in this industry and innovations in producers' strategies. In this manner, it is possible to better locate the Costa Rican situation within these global and regional tendencies.

(a) General

The three main constituents of this industry are textile fibres (natural and synthetic), cloth and final products (principally clothing). The most important tendencies in this industry have been the explosion of synthetic fibre production in the 1950s and 1960s, the huge increase in international competition, especially the dramatic upsurge of Asian clothing exporters in the 1960s and 1970s, and the new corporate strategies of American and European producers in the 1970s and 1980s to restructure their production in order to meet the Asian challenge.

In general, the industrial countries have maintained their competitiveness in the textile industry by way of technological innovation (mainly Japanese and European). That has not been the case with apparel, however, especially that which is most labour intensive (i.e., that in which wages represent 25-30% of the total cost). Attempts by the industrial countries to restrain trade (via tariff barriers and quotas) and prolong their existing competitiveness (via regional restructuring) in the face of the challenge of a few super-competitive Asian countries (which came to hold a US market share of almost 50% by 1970) have for the most part defined the options open to other developing countries.

Historically, the textile and clothing industry has been one of the most protected and for the longest time.[29] Tariffs are relatively higher than for other goods, and there is a definite tariff progression, in which increasingly higher tariffs are assessed depending on the degree of elaboration of the final product, as table I.6 suggests.

The use of quotas gives importing countries a notable bargaining power compared to the developing country producers. Effectively, the systems of preference result in a situation that is less fair or, indeed, frankly discriminatory in comparison with that of other industries whose trade is not bound by such. Furthermore, special tariff regimes in the industrial countries promote the assembly in developing countries of final products based on cloth manufactured by the home country. These features serve to counter continued home-market penetration, on the basis of comparative advantage, by the competitive textile and clothing industries in developing countries. In an industry with relatively low barriers to entry, this has had the effect of limiting the advance of integrated industries encompassing textile fibres through to final products in those countries.

Table I.6
SIMPLE AND WEIGHTED TARIFFS APPLIED TO IMPORTS OF MANUFACTURES, IN GENERAL, AND TEXTILE PRODUCTS IN SELECTED COUNTRIES BEFORE AND AFTER THE TOKYO ROUND OF GATT
(in percentages)

	United States		European Commuity		Canada	
	Before	After	Before	After	Before	After
Fibres						
Average:						
- simple	5.5	3.0	3.0	3.0	3.0	2.0
- weighted	7.0	3.5	0.5	0.5	4.0	3.0
Spun fibres						
Average:						
- simple	13.5	8.0	7.0	5.0	14.5	9.0
- weighted	14.5	9.0	8.0	7.0	16.0	13.0
Cloth						
Average:						
- simple	19.0	11.5	13.0	9.5	21.0	14.5
- weighted	16.0	11.5	14.5	10.5	25.5	21.5

[29] G. Shepherd, Textile Industry Adjustment in Developed Countries, Thames Essays, No. 31, Trade Policy Research Centre, London, 1981.

Apparel and clothing accessories						
Average:						
- simple	16.5	8.5	13.0	9.0	18.5	14.0
- weighted	13.5	7.5	11.5	7.5	23.0	20.0
Clothing						
Average:						
- simple	24.0	12.5	16.0	12.5	23.0	20.0
- weighted	27.0	22.5	16.5	13.5	25.5	24.0
All Manufactures */						
Average:						
- simple	11.5	6.5	9.5	6.5	13.0	7.5
- weighted	7.0	5.0	8.5	6.0	13.5	8.5

Source: Grupo Asesor Internacional TROD S.A., "Recomendaciones de Negociación al Gobierno de Costa Rica en el Grupo de Negociación sobre los Textiles y el Vestuario en la Ronda de Uruguay".

*/ Excluding textile and petroleum products.

The relatively high level of protection for producers in industrialized countries was consolidated and internationalized in the short-term and long-term agreements of the 1970s, which were converted into the first Multifibre Arrangement of 1974. With this arrangement the General Agreement on Tariffs and Trade (GATT) recognized the exceptional situation of the industry in respect of industrial country imports by permitting bilateral (importer-exporter) negotiations which, where agreement could not be reached, resulted in importer-defined and importer-imposed quotas. While the first Multifibre Arrangement contemplated a substantial increase in developing country exports (in the order of 6% per year) and certain flexibility in the use of quotas, the subsequent ones became more restrictive. The resulting accords were increasingly discriminatory, less transparent and unpredictable.

The Asian challenge to the textile and clothing industries of North America and Europe began with Japan, increased with the arrival of the competitive industries of Hong Kong, South Korea and Taiwan (Province of China) in the 1960s and 1970s, and continued thereafter with the initiation of serious exports from the ASEAN members and China. The key to success for the first group of countries was the installation of a very efficient integrated industry, while the second group of countries had more success with subcontracting relationships based on clothing assembly via cheap labour.[30] Figure I.5 presents these long-term tendencies in terms of OECD import market shares for clothing (SITC 84). One of the major alterations evident in the figure is the free fall of Western European country shares from 63% in 1963 to about 26% in 1995, with the decline accelerating in the 1990s.

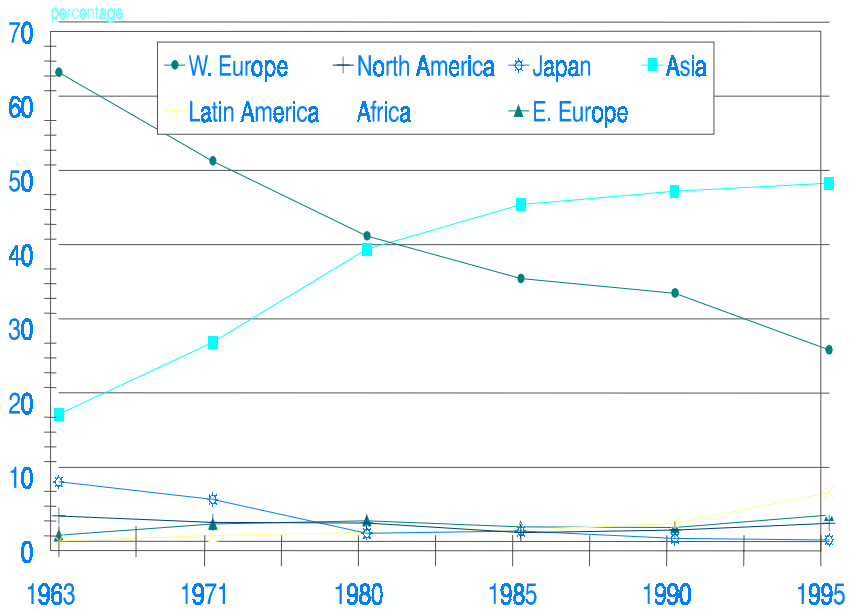
At the same time, Asian countries increased their shares from 17% in 1963 to almost 50% in 1995. Japan, which reached 8% market share in 1963, practically withdrew from international trade in clothing during this period, however. The Asian challenge thus provoked a defensive reaction among the industrialized countries, which slowed but did not stop the advance of the developing Asian economies.

[30] C. Oman, New Forms of International Investment in Developing Countries: Mining, petrochemicals, automobiles, textiles and food, OECD Development Centre, Paris, 1989.

Some additional changes evident in figure I.5 merit further comment. First, United States and Canadian clothing firms never possessed an important OECD import market share (only 3.43% in 1963). As of 1985, however, they began to improve their market shares, rising from 1.19% to 2.43% in 1985-1995. Second, other regions experienced even more notable market share increases over the same period: Latin America (from 1.49% to 6.59%), Eastern Europe (from 1.97% to 3.54%) and Africa (from 1.54% to 3.77%). Finally, figure I.6 indicates that within Latin America, the major winners during the period 1985-1984 were Mexico (with 1.85% in 1995) and the Dominican Republic (1.31%), while others such as Costa Rica (0.58%), Guatemala (0.51%) and Honduras (0.62%) also experienced important gains.

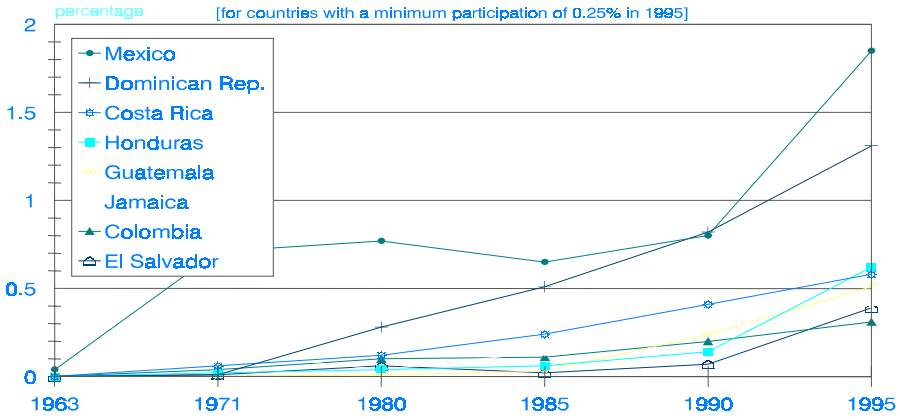
I.5. OECD Import Market Shares for Clothing (SITC 84), 1963-95

(countries with a market share of 0.5% or more, exc. Japan)



Source: based on CAN, version 1.1 and CANPLUS

I.6. Latin America: OECD import market shares for clothing (SITC 84), 1963-95



Source: CAN, version 1.1 and CANPLUS

The new strategies of the producers in industrialized countries were, on the one hand, to seek further import protection in their home countries and, on the other, to restructure their production facilities to become more competitive. The restructuring strategy incorporated three primary elements: (i) improve efficiency through the purchase of new machinery incorporating more modern technologies and organizational practices;[31] (ii) specialize in more exclusive market niches (i.e., high fashion);[32] and (iii) take advantage of the competitive advantages of developing countries through FDI licensing or subcontracting of the assembly of the final product, often coupled with special preference regimes in the importing country and special export regimes in the assembly country.[33] This last element was the principal feature of the internationalization of clothing assembly in Latin America, Africa and Eastern Europe in the last two decades; Europe's "special agreements" with Eastern European and Mediterranean countries, and North America's agreements with Latin American countries, were central features of such.

As a result of the Uruguay Round of GATT, the textile and clothing industry will be integrated into normal trade relations and subject to the discipline of the World Trade

[31] As has been the case of Japanese producers, in particular according to D. Spinanger, "La repercusión de los cambios estructurales y tecnológicos en el empleo de la industria del vestido" in G. Van Liemt (ed.), La reubicación internacional de la industria: causas y consecuencias, OIT, Geneva, 1994, pp. 114-115.

[32] Italy is a good example here. See G. Barba Navaretti and G. Perosino, "Re-deployment of production, trade protection and firms' global strategies: The case of Italy", in G. Barba Navaretti, R. Faini and A. Silberston (eds.), Beyond the Multifibre Arrangement: Third world competition and restructuring Europe's textile industry, OECD Development Centre, Paris, 1995; and G. Fornengo Pent, "Diferenciación de productos e innovación de procesos en la industria del vestido en Italia" in G. van Liemt (ed.) op. cit.

[33] The best examples are Germany on subcontracting arrangements and the United States on the use of FDI in whollyowned subsidiaries. See L. Piatti, and D. Spinanger, "Re-deployment of production, trade protection and firms' global strategies: The case of Germany" in G. Barba Navaretti, R. Faini and A. Silberston (eds.) op. cit.; y D. Spinanger, op. cit., p.127.

Organization (WTO).[34] The existing restrictions, as of 31 December 1994, will be phased out in four stages, with deadlines of 1 January 1995 (16% of total, by volume), 1998 (17%), 2002 (18%) and 2005 (the rest).

Most industrialized countries left until the last phase the items of most interest to developing countries. The major innovation is that access to industrialized markets will be administrated by the WTO Textiles Monitoring Body. Therefore, it is to be supposed that international competitiveness will play a more preponderant role in the definition of market share winners. Factors such as price, quality and rapid and sure delivery will become more important for market access in the industrial countries.[35]

The WTO rules impose a concrete calendar for the integration of the textile and clothing industry into world trade, and that obliges developing country producers to react to this existing opportunity within the foreseen time frames.

(b) The situation in the United States market

Because it is the principal export market for Costa Rican clothing, it is convenient to explain in more detail some of the special characteristics that have defined the competitive situation of the United States market. United States textile firms have historically been less internationalized than European and, especially, Japanese firms, and United States technologies in this field were relatively less advanced. Also, the Asian challenge was felt with greater force. In fact, the quotas imposed on Japanese clothing exports to the United States market provoked the internationalization process by those firms in Asia; the phenomenon known as subcontracting arose as an instrument for supplying the United States market by way of third countries which faced no such quotas.

The United States reaction to the Asian challenge in the textile and clothing industry was based on diverse new forms of protectionism. United States import tariffs for most-favoured nations (MFN) on textiles (14%) and clothing (18%) are relatively high for that market, where the weighted average is only about 5%. The United States took the initiative in imposing increased restrictions in the Multifibre Arrangement in response to the accelerating market penetration by Asian superexporters. These protectionist measures were complemented by other measures, such as the provisions of regulation 807 of the US tariff system and the implementation of special regimes, which aimed at helping United States textile and clothing producers face up to the competition.

The provisions of regulation 807 of the United States tariff system, which is now item 9802.00.80 of the Harmonized Tariff Schedule (HTS), facilitated improved competitiveness by United States producers within their own market[36] by permitting imports of clothing assembled outside of the United States but based on the incorporation of domestically produced materials (i.e., cloth). In this way, United States clothing producers could take advantage of cheap labour in developing countries, paying tax only on the value added outside of the United States, not on the original United States components. United States textile producers, clothing manufacturers and national

[34] World Trade Organization, Trading into the Future, Geneva, 1995.

[35] This does not mean that access is now easy. For some of the complex aspects related to quality, for example, see Centro de Comercio Internacional UNCTAD/GATT, Textiles y prendas de vestir: introducción a los requisitos de calidad de diversos mercados, Geneva, 1994.

[36] The members of the European Union have a similar programme called outward processing trade quotas. G. Barba Navaretti, R. Faini and A. Silberston, op. cit., p. 19.

distributors were the principal beneficiaries of this regulation. Two-thirds of the total value of such United States clothing imports came from just three principal countries in 1993: Mexico (31%), the Dominican Republic (26%) and Costa Rica (11%).[37]

In addition to the HTS 9802 provisions, the United States employs special regimes for the Caribbean Basin (since June 1986), Mexico (since January 1989), and the Andean Community countries (since July 1992). These regimes offer the additional benefit of Guaranteed Access Levels (GALs) in that they are practically free from quotas, for clothing imports which incorporate cloth that is made and cut in the United States. An initiative in 1992 to permit cloth made in the United States to be cut in the partner country did not pass in the United States Congress.

Finally, the North American Free Trade Agreement (NAFTA), which unites the United States, Canada and Mexico, produced some very important benefits for the latter in the clothing industry. The principal benefit is tariff-free, quota-free entry for all clothing incorporating regional inputs (i.e., originating in the United States, Canada or Mexico) which have been transformed two or three times according to the rules of origin, although certain significant exceptions exist.[38] Other specific benefits for Mexico concern access for clothing produced by in-bond assemblers (maquiladoras) incorporating cloth made in third countries but cut in the United States (up to 25 million square meters), as well as certain cotton and synthetic fibre clothing (up to 45 million square meters) and certain wool clothing (up to 1.5 million square meters), even if they are not from North American sources.[39] In 1995, an initiative in the United States Congress sought NAFTA parity for the countries of the Caribbean Basin; it did not meet with any success, however, thereby continuing Mexico's advantage in this regard.

The effect of this policy coupled with the new strategies of the United States producers was to slow down the success of the Asian challenge in the United States market and improve the competitive situation of several Latin American countries. In fact, by 1996, the market share of Asian countries in United States clothing imports under the Multifibre Arrangement dropped to 58.8% while that for Latin America rose to 28.5%.[40] Figures I.7a and I.7b indicate the specific situation for United States imports of knitted and crocheted clothing (HTS 61) and non-knitted and non-crocheted clothing (HTS 62). Although the starting point is different in each case, the result is the same: the decline in the developing Asian market share and the rise of the Latin American market share.

---

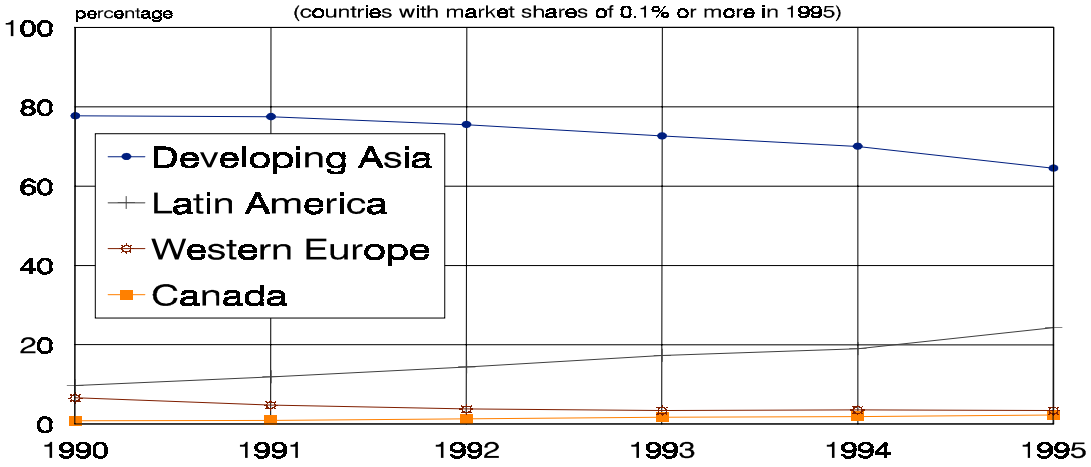
[37] International Trade Commission, "Production sharing: Use of US components and materials in foreign assembly operations, 1990-3", USITC Publication 2886, Washington, D.C., May 1995, pp. 2-22.

[38] G. Bannister and P. Low, "Textiles and apparel in NAFTA: A case of constrained liberalization", World Bank Working Paper, WPS 994, Washington, D.C., October 1992, p.14.

[39] S. Lande and N. Crigler, "The Caribbean and NAFTA: Opportunities and challenges", IDB/ECLAC Working Paper on Trade in the Western Hemisphere, WP-TWH-51, July 1993, p. 22.

[40] United States International Trade Commission, "Annual Statistical Report on US Imports of Textiles and Apparel, 1996", Publication 3038, Washington, D.C., April, 1997, pp. 6-8.

I.7a. US Import Market Shares for Knitted Clothing (HTS 61), 1990-95



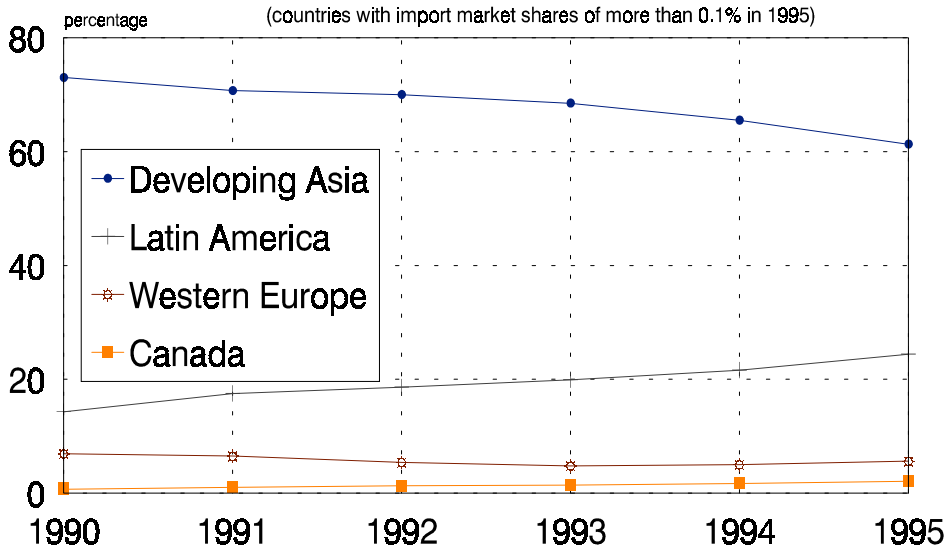
Source: based on the MAGIC computer program of ECLAC [cr7-US61.prs]

Figures I.8a and I.8b point out which countries in Latin America have most improved their market shares and to what extent they have done so. In the case of knitted and crocheted clothing, Mexico has been the big winner, while Honduras has exceeded Jamaica and El Salvador has caught up to Costa Rica. With regard to non-knitted and non-crocheted clothing (HTS 62), Mexico is again the big winner, and the Dominican Republic has also maintained an important market share. Guatemala and Honduras have, just barely exceeded Costa Rica. In other words, only a handful of Latin American countries have benefited from new strategies of the United States clothing firms, which have been restructuring the United States clothing industry over the last 15 years.

Clearly, the Asian challenge produced a strong reaction in the United States clothing market, both in terms of United States Government policy and the restructuring strategies of national producers.[41] This policy context allowed many of these firms to take advantage of the strong devaluations in Latin America during the debt crisis of the 1980s, which had the effect of greatly reducing the cost of local wages measured in dollars and, consequently, the total costs of production. Many United States firms established subsidiaries in the Caribbean Basin, and this was a key ingredient in their improved ability to compete with Asian imports in the United States market. Other firms achieved the same effect by licensing or subcontracting local producers in Latin America.

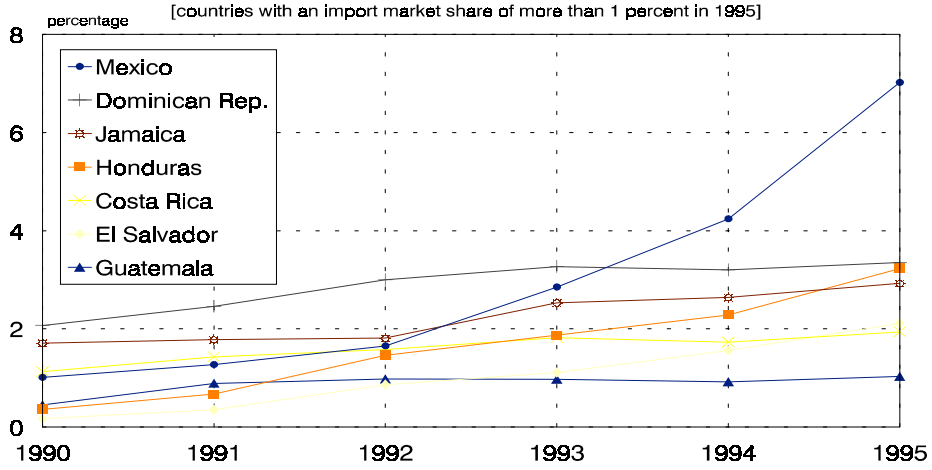
[41] J. Ahmad, "Case study 1: The North American clothing industry", in The North-South Institute, Trade, Protectionism and Industrial Adjustment: Three North American case studies, Ottawa, September 1989, p. 33.

I.7b. US Import Market Shares for Non-knitted Clothing (HTS 62), 1990-95



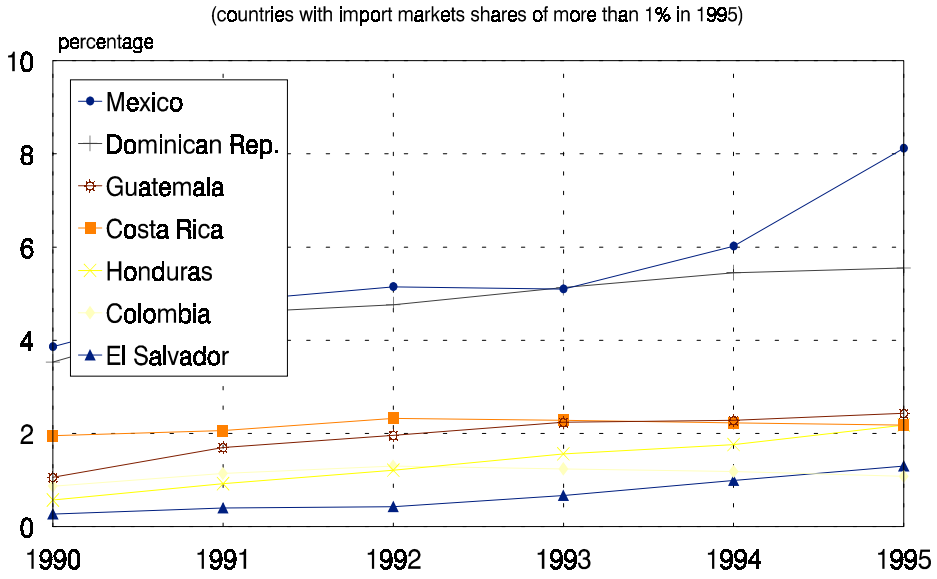
Source: based on the MAGIC computer program of ECLAC [cr7-US62.prs]

I.8a. Latin America: US Import Market Shares for Knitted Clothing (HTS 61), 1990-95



Source: based on the MAGIC computer program of ECLAC [cr8-la61.prs]

I.8b. Latin America: US Import Market Shares of Non-knitted Clothing (HTS 62), 1990-95



Source: based on the MAGIC program of ECLAC [cr8-la62.prs]

Only a few Latin American countries were able to participate fully in this process. The principal benefits for them were the dramatic increase in the volume of their clothing exports to the United States market, the sharp rise in foreign exchange earnings and new jobs created in the clothing industry. This phenomenon also produced costs for these countries. As competition among investment sites intensified, companies began to migrate, seeking out ever-cheaper labour and ever-greater incentives. The negotiation capacity of these companies with regard to local governments and suppliers was strong: some were so mobile that they could change investment sites and suppliers frequently and easily.

Perhaps the most important cost to these countries was related to their inability to create or reinforce a national integrated textile industry (i.e., from fibres to assembled clothing). The United States legislation offered reduced-duty market access only to clothing assembled from United States components, in the context of HTS 9802.00.80. This drove a wedge between the achievements in improved international competitiveness and the national processes of industrialization and development.[42]

[42] M. Mortimore, "Paths towards international competitiveness: A CANalysis", Desarrollo Productivo, No. 25, ECLAC/UNCTAD, LC/G.1869, Santiago, June 1995; A. Calderon, M. Mortimore, and W. Peres, "Mexico: Foreign investment as a source of international competitiveness" in J.H. Dunning and R. Narula (eds.), Foreign Direct Investment and Governments: Catalysts for economic restructuring, Routledge Studies in International Business and the World Economy, London, 1996; M. Mortimore, "Transforming sitting ducks into flying geese: The Mexican automobile industry", Desarrollo Productivo, No. 26, LC/G.1865, October

3. The competitive situation of the Costa Rican clothing industry

Strong export growth characterized the economic performance of the Costa Rican clothing industry during 1980-1995. Using different versions of the CAN and MAGIC computer programmes of ECLAC, it is possible to analyse the export growth in terms of market shares in the OECD, North American and United States markets, as well as in terms of the structure of Costa Rican exports. This analysis offers a better understanding of the competitive situation of this industry and the challenges facing it.

(a) Dimensions

Table I.7 indicates the competitive situation in the OECD market in terms of the import market shares of clothing, providing information at two, three and four digits of the Standard International Trade Classification (SITC), second revision. The market share of the Costa Rican apparel and clothing accessories industry grew from 0.13% in 1980 to 0.53% in 1995. While only one industrial group--SITC 846--had a notable market share (at 0.60%) in 1980, by 1995 three possessed such: 846 knitted or crocheted under garments (1.31%); 842, men's and boys' outer garments of textile fabrics (0.94%); and 844, other than knitted or crocheted under garments of textile fabrics (0.87%). Only SITC 843 (women's, girls' and infants' outer garments of textile fabrics) saw a decline in market share between 1990 and 1995. In other words, the export performance of the Costa Rican industry measured in terms of OECD market shares was impressive.

An examination of the ten principal export products, measured in terms of their OECD market shares at four digits of SITC, indicates that the leader is, and has been, brassieres, with about 4% of the market in 1994. The growth of this item was concentrated in 1980-1985 unlike most of the other products in this list. With the exception of corsets, corset-belts and brassieres (SITC 8465), all the other principal export items started from zero or close to zero during this period. The external projection and international acceptance of products such as men's and boys' trousers of textile fabrics (8423), men's and boys' suits (8422), men's and boys' under garments (8442), cotton under garments (8462), men's and boys' jackets (8424) and men's and boys' cotton shirts (8441), speaks well of the competitive situation of the Costa Rican clothing industry, even though half of these ten items lost market share in 1995.

Table I.8 demonstrates the market shares of this industry in the North American (United States and Canada) market at two and three digits of SITC. This information confirms that the Costa Rican clothing industry has attained an overall market share of somewhat less than 2% and that it more than tripled over the 1980-1995 period. It also reiterates that it is the knitted and crocheted under garments (846) and men's and boys' outer garments of textile fabrics (842) where Costa Rica has the largest market shares (4.94% and 3.48%, respectively). As in the OECD market, women's, girls' and infants' outer garments of textile fabrics (843) began to decline in 1990. The dimension of the market shares shows that the North American market is the principal one for the Costa Rican clothing industry.

1995; and M. Mortimore, H. Duthoo, and J.A. Guerrero, "Informe sobre la competitividad internacional de las zonas francas en la República Dominicana", Desarrollo Productivo, Num. 22, LC/G.1866, August 1995.

The single most important national element of the North American market is that of the United States. Table I.9 offers very detailed information on the competitive situation of the Costa Rican clothing industry in terms of the United States market. This information is provided in the Harmonized Tariff System classification, as it is generated from the MAGIC computer programme which operates on the basis of data provided by the United States Department of Commerce. It offers more detail (six digits) and is more up to date (1996), but it covers a shorter period of time (1990-1996).

The data in table 1.9 confirms that the market share of the Costa Rican clothing industry is about 2%. It grew considerably between 1990 and 1992 and stabilized thereafter, before declining as of 1996. Not knitted or crocheted articles of apparel and clothing accessories (HTS 62) were more important than knitted and crocheted items (HTS 61) over the 1990-1996 period, but the latter was more dynamic.

Taken together, the 25 most important Costa Rican clothing products in the United States market are found to possess a market share of 7% in 1996, about double that of 1990. Products which enjoy a United States market share of 10% or more in the base year (1994) include the following: slips and petticoats of man-made fibres (HTS 610811), briefs and panties of man-made fibres (610822), briefs and panties cotton (610821), men's and boys' cotton singles, underpants and briefs (620711), babies' garments and clothing accessories of synthetic fibres (611130), men's or boys' suits, jackets and blazers or synthetic fibres (620333), brassieres, whether or not knitted or crocheted (621210) and men's and boys' cotton trousers (610342). With the exception of brassieres and cotton trousers, all of these principal products have improved their markets shares notably over the 1990-1994 period. In 1995-1996, three fell below the 10% threshold (men's and boys' cotton trousers 610324; men’s or boy’s cotton underwear, 620711; and brassieres, 621210), but these were replaced by two other items (other cotton panty hose, 611592, and corselettes, 621230). Other products which demonstrated significant dynamism in 1995-1996 are slips and petticoats (610811) and brassieres and corsets (621230).

Table I.7

COSTA RICA: MARKET SHARES OF OECD CLOTHING IMPORTS, 1980-1995
(in percentages)

SITC	DESCRIPTION	1980	1985	1990	1994	1995
84	Articles of apparel and clothing accessories	0.13	0.24	0.41	0.58	0.53
842	Outer garments, men's and boys', of textile fabrics	0.04	0.32	0.69	1.09	0.94
843	Outer garments, women's, girl's and infants', of textile fabrics	0.15	0.28	0.30	0.26	0.19
844	Under garments of textile fabrics, not knitted or crocheted	0.01	0.43	0.52	0.79	0.87
845	Outer garments and other articles, knitted or crocheted	0.02	0.03	0.16	0.25	0.24
846	Under garments, knitted or crocheted	0.60	0.62	1.08	1.44	1.31
847	Clothing accessories, of textile fabrics, n.e.s.	-	0.05	0.10	0.33	0.36
848	Articles of apparel and clothing accessories of other than textile fabrics	-	0.01	0.07	0.08	0.05
	Ten most important products (4 digits of SITC)	0.19	0.42	0.76	1.17	1.17
8465	Brassieres, corsets, corset-belts, suspenders, garters, etc.	2.99	4.04	3.85	3.77	3.46
8423	Trousers, breeches, etc., men's & boys', textile fabrics, not knitted	0.08	0.56	1.09	1.85	1.73
8442	Under garments, men's & boys', of textile fabrics, not knitted	-	0.03	0.73	1.47	2.18
8462	Under garments, of cotton, knitted or crocheted, not elastic	0.07	0.20	0.74	1.29	1.34
8422	Suits, men's & boys', of textile fabrics, not knitted or crocheted	-	-	0.69	1.04	0.86
8424	Jackets, blazers, etc., men's & boys', of textile fabrics, not knitted	-	0.12	0.71	0.86	0.77
8441	Shirts, men's & boys', of textile fabrics, not knitted or crocheted	0.01	0.43	0.53	0.78	0.80
8459	Other outer garments & clothing accessories, knitted or crocheted	0.08	0.10	0.25	0.48	0.52
8471	Clothing accessories, of textile fabrics, not knitted or crocheted	-	0.01	0.13	0.46	0.46
8484	Headgear and fittings therefor, n.e.s.	-	0.10	0.56	0.40	0.27

Source: ECLAC, on the basis of the CAN computer programme (versions 2.1 and CANPLUS).

Table I.8

COSTA RICA: MARKET SHARES OF NORTH AMERICAN CLOTHING IMPORTS, 1980-1995

(in percentages)

SITC	DESCRIPTION	1980	1985	1990	1994	1995
84	Articles of apparel and clothing accessories	0.50	0.61	1.36	1.75	1.76
842	Outer garments, men's and boys', of textile fabrics	0.20	1.02	2.69	3.75	3.48
843	Outer garments, women's, girls' and infants', of textile fabrics	0.52	0.63	0.95	0.72	0.59
844	Under garments of textile fabrics, not knitted or crocheted	0.03	0.85	1.47	1.94	2.32
845	Outer garments and other articles, knitted or crocheted	0.10	0.10	0.49	0.79	0.81
846	Under garments, knitted or crocheted	1.82	1.35	4.80	5.44	4.94
847	Clothing accessories, of textile fabrics, n.e.s.	-	0.02	0.44	1.52	1.97
848	Articles of apparel and clothing accessories of other than textile fabrics	-	0.03	0.21	0.19	0.14

Source: ECLAC, on the basis of the CANPLUS computer programme.
Note: Includes Canada and the United States

Clothing products which have lost dynamism are briefs and panties (610822 and 610821), men's or boy's cotton underwear (620711**),** men's or boy's cotton overcoats (620113), girdles and panty-girdles (621220), men's or boys' trousers of synthetic fibres (610343) and jackets (620331 and 620339).

Turning now to the structure of Costa Rican clothing exports, that is, the importance of clothing exports in Costa Rica's total exports to OECD, North America and the United States, it is evident that the success at gaining markets shares is reflected in a sharp change in the structure of Costa Rica's exports during 1980-1995.

Table I.10 indicates that in the case of exports to **OECD**, clothing exports jumped from 4.7% of the total in 1980 to 24.5% in 1995. In the process, exports of men's and boys' outer garments of textile fabrics (SITC 842) slipped ahead of knitted and crocheted under garments (846) both with about 8% of total exports. Three industrial groups each accounted for 2% to 3% of total exports: women's girls' and infants' outer garments of textile fabrics (843), knitted or crocheted outer garments and other articles (845) and not knitted or crocheted under garments of textile fabrics (844).

Table I.9
COSTA RICA: MARKET SHARES IN UNITED STATES CLOTHING IMPORTS, 1990-1996
(in percentages)

HTS	Description	1990	1991	1992	1993	1994	1995	1995
	Clothing industry (2 digits, 61 and 62)	1.64	1.82	2.05	2.12	2.05	2.09	1.85
61	Articles of apparel and clothing accessories, knitted or crocheted	1.13	1.43	1.58	1.82	1.73	1.94	1.80
62	Articles of apparel and clothing accessories, not knitted or crocheted	1.95	2.06	2.32	2.28	2.23	2.18	1.88
	25 most important products* (6 digits, group of 25)	3.98	5.14	6.12	6.89	6.56	7.7	7.0
610811	Women's or girls' slips and petticoats, of man-made fibres	0	0	0	5.16	26.15	32.26	38.40
610822	Women's or girls' briefs and panties, of man-made fibres	14.33	22.82	21.43	26.1	21.08	19.47	17.47
610821	Women's or girls' briefs and panties, of cotton	15.32	19.41	21	23.13	19.7	16.81	12.92
620711	Men's or boys', underpants and briefs, of cotton	2.76	0.29	1.17	9.09	16.97	19.25	8.09
611130	Babies' garments and clothing accessories, of synthetic fibres	2.48	5.21	10.22	13.78	15.33	16.81	15.13
620333	Men's or boys' suits, jackets and blazers, of synthetic fibres	11.43	10.15	7.4	12.03	13.33	8.82	10.03
621210	Brassieres, whether or not knitted or crocheted	16.4	14.29	15.41	12.77	10.62	9.75	7.79
610342	Men's or boys' trousers, of cotton	10.68	11.9	13.86	12.81	10.27	2.74	2.11
611592	Other panty hose and tights, of cotton	0.16	1.43	0.93	3.35	9.56	12.97	13.49
621290	Other brassieres, girdles, whether or not knitted or crocheted	6.52	3.9	8.32	9.46	9.42	8.48	5.33
621510	Ties, bow ties and cravats, of silk or silk waste	1.28	3.41	4.35	5.25	8.49	6.44	7.01
610711	Men's or boys' underpants and briefs, of cotton	0.03	2.53	7.18	6.78	7.96	6.19	3.19
620113	Men's or boys' overcoats, car-coats, of man-made fibres	1.27	4.42	5.66	8.52	7.1	4.76	1.27
620342	Men's or boys' trousers, of cotton	4.77	5.64	6.59	7.41	7.06	5.81	5.09
621230	Corselettes, whether or not knitted or crocheted	0.44	9.18	11.47	18.1	7.01	17.18	19.06
621040	Other men's or boys' garments	0.67	1.48	2.06	4.57	5.84	5.42	1.24
610722	Men's or boys' nightshirts and pajamas, of man-made fibres	0	0.35	1.36	6.15	5.32	5.1	9.09
620312	Men's or boys' suits of synthetic fibres	3.2	6.4	2.42	2.87	5.02	3.34	5.68
620343	Men's or boys' trousers, of synthetic fibres	2.68	2.95	4.75	5.03	4.18	4.61	3.95
620331	Men's or boys' suits, jackets and blazers, of wool or fine animal hair	6.92	5.63	5.33	5.31	3.97	3.79	2.10
620112	Men's or boys' overcoats, of cotton	1.7	4.06	2.45	3.71	3.71	6.15	4.34
621220	Girdles and panty-girdles	3.42	2.64	6.3	4.32	3.51	6.56	5.82
610343	Men's or boys' suits, trousers, of synthetic fibres	0.23	0.72	0.21	0.42	3.48	6.62	1.42
620311	Men's or boys' suits, of wool or fine animal hair	3.65	3.56	4.08	4.29	3.31	2.89	2.04
620339	Men's or boys' suits, jackets and blazers, of other textile materials	3.32	5.45	4.77	2.61	3.06	1.83	1.47

Source: ECLAC, on the basis of the MAGIC computer programme. * Ordered by 1994 market share values.

Table I.10
COSTA RICA: STRUCTURE OF CLOTHING AND APPAREL EXPORTS TO THE OECD, 1980-1995
(in percentages)

SITC	DESCRIPTION	1980	1985	1990	1994	1995
84	Articles of apparel and clothing accessories	4.7	10.7	20.9	25.5	24.5
842	Outer garments, men's and boys', of textile fabrics	0.3	2.3	6.1	8.3	7.5
843	Outer garments, women's, girls' and infants', of textile fabrics	1.4	3.4	4.3	3.1	2.3
844	Under garments of textile fabrics, not knitted or crocheted	...	1.3	1.8	2.7	2.9
845	Outer garments and other articles, knitted or crocheted	0.2	0.4	2.0	2.7	2.6
846	Under garments, knitted or crocheted	2.8	3.2	6.3	8.0	8.3
847	Clothing accessories of textile fabrics, n.e.s.	-	0.1	0.2	0.6	0.7
848	Articles of apparel and clothing accessories of other than textile fabrics	-	0.01	0.4	0.3	0.2
	Ten most important products (5 digits of SITC)	3.0	3.3	16.7	21.3	20.8
8423	Trousers, breeches, men's and boys', of textile fabrics	0.3	-	4.4	6.1	5.8
8462	Other under garments, knitted or crocheted, of cotton	0.2	0.1	2.6	4.7	4.7
8465	Brassieres	2.0	2.3	2.9	3.2	3.1
8441	Shirts, men's and boys', of textile fabrics	...	0.9	1.6	2.2	2.2
8459	Other outer garments and clothing accessories	0.1	-	1.0	1.8	1.8
8439	Other outer garments, women's girls' and infants', of textile fabrics	-	-	2.6	1.7	1.6
8451	Jerseys, pullovers, slipovers, twinsets and cardigans, knitted or crocheted	-	-	0.8	0.8	-
8424	Jackets, blazers and the like, men's and boys', of textile fabrics	-	-	0.7	0.7	0.6
8442	Men's underwear	-	-	0.2	0.5	0.6
8422	Suits, men's and boys', of wool or fine animal hair	-	-	0.6	0.5	0.4

Source: ECLAC, on the basis of the CAN computer programme (versions 2.2 and CANPLUS).

The ten principal clothing exports to OECD, measured by their weight in total exports, accounted for 21.3% of Costa Rica's total OECD exports in 1994. This indicates that Costa Rica's clothing exports to OECD are almost completely accounted for by the ten products listed in table I.10. Excepting brassieres (SITC 8465), all the other principal clothing exports, hardly existed previous to the 1985-1994 period. The accelerated growth of several items is shown in the table, such as men's and boys' trousers of textile fabrics (8423), other knitted or crocheted under garments of cotton (8462), men's and boys' shirts of textile fabrics (8441), other textile fabric outer garments for women, girls' and infants' (8439), other outer garments and clothing accessories (8459) and knitted or crocheted jerseys (8451). These items represented the cutting edge of Costa Rican clothing exports to OECD, in terms of their weight in the country's basket of total exports to that market. During 1995, several of these items suffered major (8451) or minor (8423, 8465, 8439, 8424, 8422) setbacks.

Table I.11 demonstrates that Costa Rica's clothing exports to the North American market grew from less than 9% of the total in 1980 to almost 38% in 1995. Exports of men's and boys' outer garments of textile fabrics (842) slightly exceeded those of knitted or crocheted under garments (846), both with about 12% of the total.

Table I.11
COSTA RICA: STRUCTURE OF EXPORTS OF CLOTHING INDUSTRY TO NORTH AMERICA, 1980-1995
(in percentages)

SITC	DESCRIPTION	1980	1985	1990	1994	1995
84	Articles of apparel and clothing accessories	8.6	16.8	33.2	38.2	37.7
842	Outer garments, men's and boys', of textile fabrics	0.5	3.7	9.7	12.4	11.6
843	Outer garments, women's, girls' and infants, of textile fabrics	2.6	5.4	6.8	4.6	3.5
844	Under garments of textile fabrics, not knitted or crocheted	0.1	2.0	2.9	4.0	4.6
845	Outer garments and other articles, knitted or crocheted	0.3	0.6	3.1	4.0	4.0
846	Under garments, knitted or crocheted	5.2	5.0	9.9	11.9	12.6
847	Clothing accessories of textile fabrics, n.e.s.	-	...	0.3	0.8	1.1
848	Articles of apparel and clothing accessories of other than textile fabrics	-	0.1	0.6	0.4	0.3

Source: ECLAC, on the basis of the CANPLUS computer programme.

During this period, one industrial group (846) consolidated its exports to the North American market, doubling its share in total exports from 5.2% to 12.6%. Three other industrial groups (842, 845 and 844) began to export and by 1995 became significant elements in Costa Rica's exports, with 12.4%, 4.0% and 4.6%, respectively.

Table I.12 points out the structure of Costa Rican clothing exports to the United States market during 1990-1996. Over 41% of Costa Rican exports to the United States were clothing, mostly of the not knitted or not crocheted variety. (HTS 62

represented 22% in 1996). These exports of clothing grew appreciably during 1990-1992 then lost their dynamism. Knitted and crocheted items experienced the greatest relative advance.

Again, these clothing exports are quite concentrated: the 25 principal products accounted 31% (of a total of 36%) of Costa Rican exports to the United State in 1996. Men's and boys' cotton trousers (HTS 620342) was, by far, the principal export item, with over 7% of total exports. Products, which represented more than 2% of exports in 1994 included brassieres (621210), cotton briefs or panties (610821), men's or boys' cotton shirts (620520) and man-made fibers briefs and panties (610822). Products, which showed dynamism in 1995-1996, were panty hose (611592), babies' garments and accessories (611120), cotton knitted or crocheted shirts for men (610510) and cotton T-shirts (610910). Products which experienced a severe loss of dynamism included women's and girls' cotton trousers (620462), men's and boys' jackets and blazers of synthetic fibers (620333) men's and boys' knitted and crocheted cotton trousers (610342), brassieres (621210) and panties (610821).

The nature of the export success of the Costa Rican clothing industry can be better appreciated by taking a closer look at the ten principal clothing exports to the United State market. Costa Rica's competitive situation is clearer when viewed in terms of the principal competitors in that market. (See Tables I.13 through I.22).

Developing of Asian and Caribbean Basin countries dominate United States Import in these ten product market. Their combined share of total imports for these ten items increased from 80.46%, in 1990 to 85.33 % in 1996. The distribution of market shares shifted forcefully in favour of Mexico and the Caribbean Basin countries, which gained an average of 18.9 points, while Asian competitors lost, on average, 14.03 points. By 1995, the Caribbean Basin and Mexico held average market shares of 46% in these ten products. The Asian countries, as a group, lost market share in each and every one of these ten products, while the Caribbean Basin countries and Mexico gained market share in each and every one.

Within the category of Asian competitors, relative newcomers tended to replace the Asian Tigers (i.e. Hong Kong, Singapore, South Korea and Taiwan province of China) in these product markets. In other words, these ten principal United States product markets for the Costa Rican clothing industry aptly reflect the general situation in the United State market, in which competitors from the Caribbean Basin and Mexico are replacing the dominant Asian competitors in competition with other Asian relative newcomers.

In general, the Caribbean Basin countries and Mexico won United States market share from the Asian competitors. While Mexico and the Dominican Republic led this initiative, Costa Rica played an important role. With regard to the ten principal exports represented in tables I.13 through I.22, Costa Rica increase its average market share from 6.42% in 1990 to 9.76% in 1995. Costa Rica enjoyed a market share of more than 10% in women's or girls' briefs and panties, of man-made fibres (HTS 610822); women's or girls' cotton briefs and panties (610821); men's or boys' cotton underpants and briefs (620711); and babies' garments and clothing accessories, of synthetic fibres (611130). These four categories represented some of the principal product markets in which Caribbean Basin competitors won market shares from the Asian countries.

Table I.12
COSTA RICA: STRUCTURE OF CLOTHING EXPORTS TO THE UNITED STATES, 1990-1996
(in percentages)

HTS	Description	1990	1991	1992	1993	1994	1995	1996
	Clothing industry (2 digits, the sum of 61 and 62)	37.5	37.6	41.1	41.9	41.3	40.9	35.5
61	Articles of apparel and clothing accessories, knitted or crocheted	9.6	10.9	11.6	12.5	12.8	14.6	13.7
62	Articles of apparel and clothing accessories, not knitted or crocheted	27.8	26.6	29.5	29.3	28.6	26.3	21.8
	25 most important products* (6 digits, sum of 25 products)	29.5	30.3	34.8	36.7	37	35.9	30.8
620342	Men's or boys' trousers, of cotton	6.3	7	8.2	9.2	9.2	8.3	7.4
621210	Brassieres, whether or not knitted or crocheted	5.3	5	5.6	4.8	4.4	4.5	3.1
610821	Women's or girls' briefs and panties, of cotton	1.7	2.6	3	3.7	3.6	3.4	2.7
620520	Men's or boys' shirts, of cotton	2.3	2.3	2.7	3.2	3.4	3.5	2.2
620462	Women's or girls' trousers, of cotton	3	2	3.3	2.7	2.8	1.5	2.0
610822	Women's or girls' briefs and panties, of man-made fibres	1.4	2.1	1.7	2.4	2.4	2.5	2.0
611130	Babies' garments and clothing accessories, of synthetic fibres	0.4	0.6	0.9	1.2	1.3	1.4	1.3
611020	Jerseys, pullovers, cardigans and waistcoats, of cotton	1.2	1.5	1.6	1.3	1.3	1	1.2
620343	Men's or boys' trousers, of synthetic fibres	1.3	1.2	1.5	1.3	1.2	1.3	1.2
620711	Men's or Boy's underpants and briefs, of cotton	0.1	0	0	0.3	0.8	1.2	0.6
620333	Men's or boys' jackets and blazers, of synthetic fibres	0.6	0.5	0.4	0.6	0.8	0.4	0.5
621510	Ties, bow ties and cravats, of silk or silk waste	0.1	0.4	0.4	0.5	0.7	0.5	0.6
610711	Men's or boys' underpants and briefs, of cotton	0	0.1	0.5	0.5	0.7	0.8	0.5
620311	Men's or boys' suits, of wool or fine animal hair	0.8	0.7	0.9	0.8	0.7	0.6	0.5

Table 12 (concl.)

610342	Men's or boys' trousers of cotton	0.4	0.6	0.9	0.8	0.5	0.2	0.1
621040	Other men's or boys' garments	0.1	0.1	0.1	0.3	0.4	0.3	0.1
620331	Men's or boys' suits, jackets and blazers, of wool or fine animal hair	0.5	0.4	0.4	0.4	0.4	0.4	0.2
620640	Women's and girls' blouses and shirts, of man-made fibres	0.6	0.6	0.7	0.5	0.3	0.2	0.3
620530	Men's or boys' shirts, of man-made fibres	0.5	0.5	0.4	0.4	0.3	0.4	0.3
611592	Panty hose, tights, other, of cotton	0	0	0	0.1	0.3	0.6	0.7
611120	Babies' garments and clothing accessories, of cotton	0	0.1	0.1	0.2	0.3	0.5	0.6
610510	Men's or boys' shirts, knitted or crocheted, of cotton	0.7	0.5	0.3	0.3	0.3	0.8	1.5
620463	Women's or girls' trousers, bib and brace overalls, of synthetic fibres	0.2	0.3	0.4	0.5	0.3	0.2	0.3
610910	T-shirts, singlets, tank tops and similar garments, of cotton	1.6	0.9	0.5	0.5	0.3	1.2	0.8
610462	Women's or girls' trousers, of cotton	0.4	0.3	0.3	0.2	0.3	0.2	0.1

Ordered by 1994 market share values.
Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.13
COMPETITIVE SITUATION IN UNITED STATES MARKET FOR MEN'S AND BOYS' COTTON TROUSERS (HTS 620342), 1990-1996
(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	53.88	42.06	33.51	31.24	30.32
Hong Kong	16.12	12.51	10.79	8.97	8.29
Republic of China	10.82	8.87	5.32	5.23	4.18
Philippines	6.97	2.85	3.29	2.85	3.18
Bangladesh	2.38	2.88	3.15	3.49	3.63
Indonesia	4.06	3.52	2.14	2.84	3.89
Sri Lanka	2.76	1.72	2.03	1.65	2.06
Taiwan (Province of China)	4.02	2.98	1.98	1.61	1.61
Macao	1.87	1.74	1.37	1.03	0.91
Singapore	2.86	2.57	1.27	1.06	0.58
Thailand	0.98	1.29	1.10	1.28	1.15
Malaysia	1.04	1.13	1.07	1.23	0.84
B. Caribbean Basin and Mexico	29.20	40.99	50.18	52.65	52.65
Mexico	8.37	12.62	17.29	22.43	26.09
Dominican Republic	12.06	13.65	16.72	14.84	11.21
Costa Rica	4.77	6.59	7.06	5.81	5.09
Honduras	1.64	4.37	4.17	4.23	4.21
Guatemala	1.70	2.49	3.50	3.83	4.06
Colombia	0.66	1.27	1.44	1.51	1.99

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.14

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR BRASSIERES, WHETHER OR NOT KNITTED OR CROCHETED (HTS 621210), 1990-1996 (selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	32.16	34.34	31.41	27.68	29.62
Philippines	17.99	16.63	10.59	8.29	8.26
Republic of China	5.40	5.91	7.11	5.31	6.76
Thailand	1.33	2.19	4.09	3.20	3.23
Hong Kong	2.75	3.91	3.80	3.33	2.46
Indonesia	2.81	3.47	2.77	3.11	2.89
Sri Lanka	0.61	1.05	1.94	2.63	4.12
Macao	1.27	1.18	1.11	1.81	1.90
B. Caribbean Basin and Mexico	56.12	57.58	61.37	64.31	60.70
Dominican Republic	17.98	16.46	19.45	19.93	16.96
Mexico	13.54	16.63	18.54	20.11	22.43
Costa Rica	16.40	15.41	10.62	9.75	7.79
Honduras	4.08	4.11	7.60	9.20	8.42
Jamaica	3.82	3.16	2.89	2.06	1.58
Colombia	0.27	1.37	1.28	1.35	0.64
El Salvador	0.03	0.44	0.99	1.91	2.88

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.15

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR WOMEN'S OR GIRL'S BRIEFS AND PANTIES, OF COTTON (HTS 610821), 1990-1996

(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	37.08	31.79	30.4	25.05	21.75
Hong Kong	28.14	18.28	15.18	8.52	9.62
Bangladesh	5.12	9.14	9.62	9.46	7.21
Thailand	0.80	1.67	1.60	1.09	0.93
Sri Lanka	2.73	1.89	1.51	1.13	1.14
Bahrain	0.01	0.45	1.35	1.61	1.30
Macao	0.28	0.36	1.14	3.24	1.55
B. Caribbean Basin and Mexico	44.27	55.3	54.72	55.91	55.69
Costa Rica	15.32	21.00	19.70	16.81	12.92
Dominican Republic	16.28	10.30	9.20	7.32	8.34
Jamaica	7.55	11.99	9.01	9.34	7.81
Honduras	0.79	1.88	5.59	8.87	9.32
El Salvador	0.00	1.85	4.92	4.81	8.40
Mexico	3.08	7.33	4.91	7.08	5.74
Colombia	1.25	0.95	1.39	1.68	3.16

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.16
COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR MEN'S OR BOYS' SHIRTS, OF COTTON (HTS 620520), 1990-1996
(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	76.47	72.67	62.59	58.40	61.00
Hong Kong	22.07	17.43	14.24	12.56	13.64
Bangladesh	4.84	7.11	6.73	6.16	7.58
India	6.80	6.04	6.31	7.12	7.66
Malaysia	5.89	7.04	6.22	6.02	5.88
Taiwan (Province of China)	8.05	7.22	5.95	4.36	5.23
Indonesia	2.94	3.99	4.72	5.05	5.90
Philippines	3.52	3.97	3.86	3.03	2.81
Singapore	6.79	5.03	3.75	2.77	1.43
Republic of China	6.57	4.50	3.32	2.80	3.00
Sri Lanka	3.48	4.20	2.57	3.42	3.17
Republic of Korea	3.33	3.32	2.05	2.37	2.14
Macao	1.57	1.64	1.48	1.57	1.31
Pakistan	0.62	1.18	1.39	1.17	1.25
B. Caribbean Basin and Mexico	10.72	14.15	17.53	20.21	19.28
Guatemala	1.81	3.65	4.12	4.58	3.85
Honduras	1.72	2.97	3.95	4.60	4.48
Costa Rica	2.25	2.37	2.63	2.71	2.06
El Salvador	0.17	0.07	2.24	3.25	3.28
Dominican Republic	2.76	2.81	1.77	1.93	1.97
Jamaica	0.94	1.20	1.65	1.50	1.33
Mexico	1.07	1.08	1.17	1.64	2.31

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.17

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR WOMEN'S OR GIRLS' TROUSERS, OF COTTON (HTS 620462), 1990-1996

(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	54.9	53.76	45.26	44.94	45.32
Hong Kong	26.62	24.73	19.92	20.18	19.50
Republic of China	6.33	7.64	5.63	5.92	7.38
Philippines	3.70	3.39	4.04	4.00	2.93
Sri Lanka	1.98	1.72	2.84	3.01	2.93
Bangladesh	2.68	2.88	2.79	2.47	2.57
Indonesia	2.28	2.29	2.48	2.40	3.64
Taiwan (Province of China)	5.70	4.63	2.18	2.02	1.82
Singapore	2.75	2.56	1.95	1.33	0.68
Thailand	0.72	1.49	1.07	1.59	1.55
Macao	1.21	1.09	1.32	1.09	1.57
Oman	0.93	1.34	1.04	0.98	0.75
B. Caribbean Basin and Mexico	17.51	25.51	33.38	37.08	38.34
Mexico	6.36	9.51	12.88	18.69	22.06
Dominican Republic	3.14	5.27	6.43	5.47	5.63
Guatemala	2.72	3.05	4.13	3.19	3.64
Colombia	2.29	3.47	3.22	1.68	1.47
Costa Rica	2.34	2.73	2.65	1.58	1.95
Honduras	0.23	0.72	2.28	2.36	2.63
El Salvador	0.43	0.76	1.79	1.75	0.96

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.18

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR WOMEN'S OR GIRL'S BRIEFS AND PANTIES, OF MAN-MADE FIBRES (HTS 610822), 1990-1996

(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	32.57	22.22	16.70	18.39	16.25
Republic of China	5.18	2.53	5.54	6.80	5.17
Hong Kong	19.09	9.10	4.77	3.76	3.03
Philippines	6.23	6.68	3.05	2.98	2.28
Taiwan (Province of China)	2.02	2.71	1.17	0.83	0.61
Bangladesh	0.00	1.13	1.09	0.58	0.44
Sri Lanka	0.05	0.07	1.08	3.44	4.72
B. Caribbean Basin and Mexico	52.91	64.95	77.98	75.88	74.02
Costa Rica	14.33	21.43	21.08	19.47	17.47
Mexico	17.62	16.39	20.60	19.11	26.24
Dominican Republic	14.20	14.35	16.20	14.12	11.87
Colombia	1.44	2.79	7.09	7.50	3.49
Honduras	1.16	4.45	6.72	6.48	10.82
El Salvador	3.15	1.94	4.15	7.34	2.51
Jamaica	0.75	2.73	1.16	0.83	0.40
Panama	0.26	0.87	0.98	1.03	1.22

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.19

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR BABIES' GARMENTS AND CLOTHING ACCESSORIES, OF SYNTHETIC FIBERS, (HTS 611130), 1990-1996

(Selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	68.05	58.83	50.03	43.15	59.50
Taiwan (Province of China)	26.97	28.90	24.90	22.58	19.69
Philippines	32.28	22.19	19.42	14.57	13.36
Thailand	0.75	1.43	2.54	2.72	2.31
Republic of Korea	5.76	3.52	1.90	1.72	1.71
Malaysia	2.29	2.79	1.27	1.56	1.64
B. Caribbean Basin and Mexico	13.47	28.13	43.44	45.43	46.37
Costa Rica	2.48	10.22	15.33	16.81	15.13
Dominican Republic	4.95	8.75	10.46	9.57	10.45
Mexico	2.48	5.55	8.78	6.87	5.97
Guatemala	0.08	0.75	3.61	4.90	8.76
Colombia	0.31	0.77	2.72	3.65	3.42
Jamaica	3.17	2.00	1.49	1.58	0.71
El Salvador	0.00	0.09	1.05	2.05	1.93

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.20
COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR JERSEYS, PULLOVERS, CARDIGANS AND WAISTCOATS, OF COTTON (HTS 611020), 1990-1996
(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	68.19	61.96	58.62	55.95	54.16
Hong Kong	18.34	16.81	14.03	12.51	11.27
Republic of China	8.87	5.78	6.19	5.22	6.05
Macao	5.90	4.69	4.66	3.87	3.77
Pakistan	3.66	5.39	4.55	4.91	4.19
India	1.09	2.46	4.23	4.47	4.00
Thailand	4.40	4.97	3.59	3.53	2.93
Philippines	3.67	3.29	3.55	4.02	3.90
Republic of Korea	6.06	4.14	3.47	3.86	3.57
Indonesia	2.98	3.65	3.38	3.05	3.70
Malaysia	3.03	2.56	3.38	2.72	2.97
Taiwan (Province of China)	5.33	3.67	2.80	3.07	3.04
Singapore	2.38	2.45	2.50	2.29	2.34
Sri Lanka	2.48	2.10	2.29	2.43	2.43
B. Caribbean Basin and Mexico	4.23	9.54	13.29	16.59	17.78
Honduras	0.1	2.19	4.12	5.20	6.14
Dominican Republic	2.05	2.27	2.14	2.04	1.86
Mexico	0.36	0.44	2.07	4.55	4.77
El Salvador	0.18	1.10	1.95	2.64	2.60
Guatemala	0.63	2.18	1.91	1.33	1.42
Costa Rica	0.91	1.36	1.10	0.83	0.99

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I. 21

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR MEN'S OR BOYS' TROUSERS, OF SYNTHETIC FIBRES, (HTS 620343), 1990-1996

(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	70.76	57.90	54.96	53.86	52.54
Republic of China	13.71	12.20	15.41	17.11	15.46
Taiwan (Province of China)	21.85	13.88	9.95	7.63	8.37
Indonesia	4.16	6.16	8.11	7.51	5.59
Bangladesh	4.68	4.69	4.48	5.93	5.72
Thailand	2.17	2.30	3.59	3.32	4.65
Hong Kong	5.38	3.81	3.48	3.02	2.82
Republic of Korea	7.93	4.61	3.01	2.69	2.32
Sri Lanka	3.94	4.24	2.89	1.96	2.94
Malaysia	2.56	3.31	2.45	2.59	2.85
Philippines	4.38	2.70	1.59	2.10	1.82
B. Caribbean Basin and Mexico	17.93	33.36	39.09	38.57	38.11
Dominican Republic	5.56	15.97	21.55	18.77	16.15
Mexico	8.66	9.80	9.56	10.68	13.37
Costa Rica	2.68	4.75	4.18	4.61	3.95
Honduras	0.58	1.70	2.80	3.72	3.94
Colombia	0.45	1.14	1.00	0.79	0.70

Source: ECLAC, on the basis of the MAGIC computer programme.

Table I.22

COMPETITIVE SITUATION IN THE UNITED STATES MARKET FOR MEN'S OR BOYS' UNDERPANTS AND BRIEFS, OF COTTON (HTS 620711), 1990-1995

(selected countries with market shares > 1% in 1994)

Country	1990	1992	1994	1995	1996
A. Developing Asia	43.92	55.62	51.26	39.00	35.86
Hong Kong	32.45	30.03	24.53	12.24	9.20
Thailand	0.15	2.89	7.99	4.74	1.02
Philippines	0.10	5.15	4.45	4.74	5.36
Bangladesh	0.59	1.01	3.40	3.39	1.97
Indonesia	0.00	0.00	2.87	4.54	4.47
Sri Lanka	0.00	2.38	2.59	1.96	1.89
Republic of China	10.60	13.31	2.29	1.33	5.39
Macao	0.00	0.50	1.85	5.35	5.87
Malaysia	0.03	0.35	1.29	0.55	0.69
B. Caribbean Basin and Mexico	20.25	27.58	40.06	48.94	50.33
Costa Rica	2.76	1.17	16.97	19.25	8.09
Honduras	16.78	18.03	7.93	10.89	13.65
Jamaica	0.00	0.27	4.32	5.86	5.55
El Salvador	0.00	0.00	4.29	5.25	15.35
Guatemala	0.00	4.28	3.60	5.22	5.33
Dominican Republic	0.71	3.83	2.95	2.47	2.36

Source: ECLAC, on the basis of the MAGIC computer programme.

However, there also existed a subregional dynamic within the Caribbean Basin, one in which Costa Rica faced ever-stronger competition from other Central American countries, such as, Honduras, El Salvador and Guatemala. In fact, during 1996 Costa Rica lost market share in eight of these items.

(b) Analysis

Costa Rica's success in exporting clothing and apparel derives from numerous factors. This section defines these factors in order to understand the sense and nature of the challenges now facing the Costa Rican clothing industry.

International market factors have played a very significant role in Costa Rica's emergence as a clothing supplier to the United States market. In particular, the Asian challenge in that market provoked the restructuring of the clothing industry on the part of the United States firms interested in defending their national market shares.

That response took the form of new **corporate strategies** by which these firms attempted to improve their ability to compete against the Asian challenge in their own market by engaging in certain offshore assembly activities. Thus, they began assembling basic garments characterized by standardized production runs, low-skilled tasks, few styling changes, and reasonably predictable consumer demand at sites close to the United States market which were eligible for United States trade preferences and where cheaper manpower was available. The huge devaluation implemented by many Latin American countries in the context of the international debt crisis of the 1980s coincided with that trend. In this fashion, international market factors and new corporate strategies combined to improve the attractiveness of many Latin American countries as possible offshore sites for the assembly of clothing for the United States market.

This alternative was facilitated by **national policies**. On the one hand, the United States Government facilitated this process by way of the production sharing mechanism (TSUS 807, later HTS 9802) in the context of agreements permitting special access to the United States market for offshore assemblers i.g.the Caribbean Basin Initiative, NAFTA and the Andean Community. Bilateral agreements in the context of the Multifibre Arrangement put the brake on Asian clothing imports and constituted a legal framework for offshore assembly operations based on domestically made components, mainly cloth. On the other hand, the countries where the offshore assembly took place facilitated these activities through tax and trade incentives in the form of EPZs, and other regimes for assembling imported inputs for export.

In the particular case of Costa Rica, the country did not already possess a significant international market share the clothing industry. The existing industrial policy was based on an inward-looking import substitution format in which the priority was to promote industrial production, which later would be converted into more export-intensive activities. The increase in textile and clothing production was based on the promotion of exports for the regional Central American market.

The Costa Rican textile and clothing industry took advantage of the expanded regional market, which enjoyed substantial common external tariff protection, and consequently, severely limited external competition. The crisis of the Central American Common Market coupled with Costa Rican decisions to diverge from import substation policies toward a more open economy meant that, in principle, the textile and clothing industry, like others, was obliged to improve its international competitiveness and seek out external markets.

In 1983, the Government created the export and investment programme of the Office of the President, which provided strong political support for the promotion of

exports of new products to new markets. The aim was to lay the legal foundation to implement incentives for a new export-based development strategy.

This was reflected in the Law for Financial Equilibrium of the Public Sector in 1984 by which the export contract mechanism was created and the temporary admission regime was modified.

The characteristics of these incentives are summarized in the following table:

Incentive	Export Contract Zone	Temporary Admission	Export Processing
Tariffs on primary materials and capital goods	Exemption proportional to export sales	Exemption: 100%	Exemption: 100%
Export Taxes	Exemption: 100%	Exemption: 100%	Exemption: 100%
Income Tax	Exemption proportional to export sales	Exemption: 100%	Exemption: 100%
Profit Tax	Exemption proportional to export sales	Exemption: 100%	Exemption: 6 years; thereafter 4 years at 50%
Profit Repatriation Tax	Tax: 15%	Tax: 15%	Exemption: 100%
Capital Repatriation Tax	Guaranteed for 4 years	Guaranteed after 4 years	Not applicable
Foreign Exchange Access	By way of Central Bank	By way of Central Bank	Independent
Customs Service	Early processing	Early processing	Expedite
Tax Credit Certificate	Percent of FOB value of exports	Not applicable	Not applicable
Local Market Sales	No restriction	Not allowed	Up to 49% production
Duration of Incentives	Some expire 1996; others 1999	5 years; renewable	10 years; renewable
US Market Access Eligibility Criteria	Minimum Costa Rican value added: 35%	TSUS 807 and 806.30; now HTS 9802	Product should undergo substantial transformation

The export contract is designed primarily for national companies to take advantage of the General System of Preferences (GSP), which requires a minimum

Costa Rican value added of 35% of the value of the apparel exported to the United States. Such companies have access to Costa Rican tax credit certificates, that is, export subsidies.

The temporary admission and EPZ regimes are two variants aimed primarily at firms whose apparel exports enter the United States under the production sharing programme (HTS 9802.00.80). The operational element of that programme is that the clothing must be made from fabric formed and cut in the United States. In the Costa Rican legislation, the benefits are primarily tax and duty relief or exemptions, which further facilitated these assembly operations.

In 1994, about 700 companies were operating in the Costa Rican textile and apparel industry and they represented about 15% of all companies in the manufacturing sector. Of these 700 firms, 138 were registered as exporters. These companies adhered to the following regimes:

61 (44.2%) qualified under the temporary admission regime; 30 (21.7%) were located in EPZs; 25 (18.1%) operated under an export contract; and 22 (16.0%) did not receive any of these incentives. In other words, 91 of the 138 exporters (66%) were directly related to preferential access to the United States market under HTS 9802.00.08.

In 1993, 90% of United States apparel imports from Mexico and 80% of those from the Caribbean Basin countries took place via HTS 9802.00.80. In the case of Costa Rica 84% of apparel exports to the United States entered by way of HTS 9802.00.80. In other words, special access to the United States market, was the principal factor behind the export boom in the Costa Rican apparel industry in which the value added to apparel exports, including via the temporary admission regime, jumped from less than $10 million in 1985 to $160 million in 1995. Costa Rican national policy simply facilitated that phenomenon.

The following section assesses the challenges facing the Costa Rican clothing industry. Above and beyond its export success, this industry is important for other reasons: it directly employs about 40,000, people which is equivalent to almost a third of employment in manufacturing, and it accounts for 5%of industrial production.

(c) Challenges

First and most important, challenge has to do with the national integration of the industry. This is a problem of industrial growth and development.[43] Unfortunately, the explosion of exports emanating from the industry did not correspond to its consolidation as a competitive integrated industry stretching from natural and/or synthetic textile fibres through textile yarns and fabric to articles of apparel and clothing accessories. The success of the industry is concentrated almost solely in the assembly of apparel from United States components, which have privileged access to the United States market. The Costa Rican textile and clothing industry has not achieved integrated development base on competitive advantages (i.e., qualified labour, the generation and innovation of technologies and designs, high quality natural resource inputs, etc.).

In spite of the efforts aimed at a significant structural adjustment of the Costa Rican economy to reveal its fundamental comparative advantages, the clothing industry has been converted into a "cost centre" by mainly foreign companies whose competitive advantages lie in low wages, fiscal incentives and privileged export market access.

[43] Rodriguez, E., "Costa Rica: A development path in the 1990s", The North-South Institute, Ottawa, 1993, mimeo, pp.27 and 33.

While the use of the EPZs made sense as instrument to generate exports, create economic activity and attract foreign direct investment during the debt crisis of the 1980s, it would appear that the national clothing industry has stagnated. Costa Rica has not been able to use these EPZs to obtain results similar to the Asian experience by targeting foreign technology and boosting national companies, many developing Asian countries slowly converted their national industries into significant global competitors; national policy could then focus on more profound industrial pursuits, related to more sophisticated instruments like science and technology parks, with less emphasis on EPZs.[44] The Asian companies could rely on a national strategy for deepening the industrialization process in order to articulate an integrated industry characterized by strong competitive advantages over the long term.

A second challenge has to do with the present situation in which the Costa Rican apparel export industry is losing competitiveness in comparison to other assemblers in the Caribbean Basin, because of rising wages in Costa Rica. Labour costs are one of the central determinants for atracting and maintaining foreign investment in this industry. In Costa Rica, labour costs are about 30% of the total cost of production for textile products, and the prevailing hourly wage does not make Costa Rica particularly attractive in an area of high demand in the international market (See table 1.23).

Table I.23 makes clear that the hourly wages in Costa Rica in 1994 were about double those in Honduras, more than 50% more than those of El Salvador, and about a 20% more than those of Mexico (before the 1995 devaluation). Costa Rica is losing international competitiveness in an industry in which this factor is fundamental.

Table I.23
CARIBBEAN BASIN: HOURLY WAGE RATES IN APPAREL ASSEMBLY, 1994

Country	Hourly wage rates in US$
Costa Rica	2.22
Mexico	1.88
Jamaica	1.54
El Salvador	1.47
Dominican Republic	1.46
Guatemala	1.27
Honduras	1.14

Source: CATECO, Costa Rica.

A related problem has to do with the particular advantages enjoyed by the Mexican clothing industry within the ambit of the North American Free Trade Agreement (NAFTA). Clothing assembled in Mexico enters the United States market duty free, while those assembled in Costa Rica (and other participating Caribbean Basin countries) face an effective tariff about of 6% on the value added outside North America. [45] The countries of the Caribbean Basin have solicited equal treatment with Mexico in this industry. United States Congress has not been willing to provide it, however.

In addition to this tariff advantage, Mexico is not subject to quotas in the United States market as are the Caribbean Basin countries. Mexico's exports to that

[44] ESCAP/UNCTAD, Transnational Corporations and Technology in Export Processing Zones and Science Parks, United Nations, ST/ESCAP/1410, New York, 1994.

[45] US International Trade Commission, USITC Publication 2886, Washington, D.C., May 1995, pp. 3-8 to 3-13.

market are governed by the NAFTA rules of origin.[46] This advantage, like the previous one, could easily produce a diversion of FDI from the Caribbean Basin countries to Mexico.[47] Some of the principal apparel assemblers operating in Costa Rica, such as Warnaco and Sara Lee, have opened new plants in Mexico.[48]

Differential wage rates unfavourable to Costa Rica and the advantages of Mexico within NAFTA were undoubtedly manifest in the new phenomenon evident in Tables I.13 to I.22: that Costa Rica's competitors in Mexico and the Caribbean Basin recently are gaining market shares in many of Costa Rica's principal apparel exports to the United States. These elements were also present in the study cited in the Introduction.[49]

A third challenge facing the Costa Rican clothing industry has to do with the United States, its principal trade partner. One of the prickliest areas in that relationship concerns the application by the United States Government of unilateral restrictions on access to the United States market, in the form of quotas and "calls". In 1994, over one half of Costa Rican apparel exports to the United States were subject to quotas, and that figure rose to almost two thirds in 1995 due to the calls applied to under garments and pajamas. These import quotas, which are implemented for a period of two years by the United States Government, arose from complaints by a domestic apparel companies operating in the United States that "market disruption" i.e., unduly rapid import expansion was taking place. They represent new limits on exports, which are administrated by the National Council for Textile and Apparel Quotas established in Costa Rica in 1988.

The 1995 calls were applied to many of the most important clothing export items of Costa Rica (See table 1.24). In the case of underwear, the limit imposed was 14.4 million dozen. It represented a direct challenge to the future expansion of this part of the clothing industry.

[46] G. Bannister, G. and P. Low, "Textiles and Apparel in NAFTA: a case of constrained liberalization", Working Paper WPS 994, The World Bank, Washington, D.C., October, 1992.

[47] S. Lande and N. Crigler, “The Caribbean and NAFTA: Oportunities and Challenges”, working papers on Trade in the Western Hemisphere, WP-TWH-51, ECLAC/IDB, Washington D.C., July 1993, P.3; and ECLAC. “Centrooamérica y el TLC: efectos inmediatos e implicancias futuras”, LC/MEX/R.494(SEM.68/3), 14 October 1994, p. 73.

[48] "NAFTA and Caribbean Textiles", Latin American Economy and Business, May 1995, p. 11.

[49] R. Buitelaar, “La competitividad auténtica en América Central y el Tratado de Libre Comercio de América del Norte: llueve sobre mojado?”, p.8.

Table I.24

COSTA RICA: CATEGORIES OF CLOTHING SUBJECT TO QUOTAS

Category	Description
340-640	Men's cotton and synthetic fibre shirts
342-642	Cotton and synthetic fibre slips
347-348	Cotton trousers and shorts for men and women
443	Men's wool suits
447	Men's wool pants
352-632*	Cotton and synthetic fibre under garments
351-651*	Cotton and synthetic fibre pajamas

* Calls made in March, 1995
Source: Office of Textile Quotas

The Costa Rican response to the United States calls, unlike that of the other affected countries, was a combative one. It decide to take the conflict to the WTO, where it represented the first case for textiles. In June 1995, the United States implemented the limits they had threatened. In July, the WTO Textile Monitoring Body, which oversees disputes in this sector during the transition phase of the implementation of the Agreement on Textiles and Clothing (to 2005), decided by a 9-0 vote that the United States had not proved that such Costa Rican imports represented a serious damage to the United States industry. However, this body could not reach consensus on whether it represented a threat of such. In a revealing vote, developing countries (India, Indonesia, Pakistan, Brazil, and South Korea) voted that it did not, while industrialized countries (Canada, the European Union, Japan and Norway) voted that it did.

The affected parties were advised to continue bilateral negotiations. While Honduras came to a separate agreement with the United States in this area (and saw its limits lifted), Costa Rica notified the WTO in December 1995 that its negotiations had failed and requested that a formal dispute settlement panel be formed. The Costa Rican goal, apparently, was that the WTO recommend duty-free, unconditional access to the United States market for its underwear exports. The panel's decision, in September 1996 went in Costa Rica’s favour.

In conclusion, the competitive situation of the Costa Rican clothing and apparel industry improved enormously over the 1980-1995 period and served an important purpose in terms of generating foreign exchange during the debt crisis and fastening an export orientation onto the developmental strategy. Costa Rica was one of the principal "winners" in the United States clothing market which succeeded in gaining market share from the Asian tigers. Nevertheless, those successes apparently did not have a solid base, and, Costa Rica has seen its competitive situation in that market begin to erode as other Central American assemblers gain market share.

The challenge to Costa Rican competitiveness in this industry has at least three dimensions. The first concerns the quandary that the export success of the apparel assembly business seems to have taken place at the expense of a vertically integrated textile and clothing industry. Short-term gains, in a crisis framework, might have been at the cost of long-term industrialization needs.

The second dimension has to do with the loss of relative international competitiveness within the Caribbean Basin and Mexico. Costa Rican wage rates appear to be pricing the country out of the assembly market.

Third, the United States apparel assembly business depends more than anything else on trade preferences in the United States market, and the United States has proved a difficult partner that likes to have its own way. In the case of underwear imports, the conflict arising from the United States position had to be resolved in WTO.

Given the complex and challenging competitive situation of the Costa Rican clothing industry, it was decided to administer a detailed questionnaire to a representative group of companies operating there in order to gain greater insights into the phenomena. The following chapter summarizes the results.

CHAPTER II

RESULTS OF THE QUESTIONNAIRE ADMINISTERED TO CLOTHING FIRMS IN COSTA RICA

This chapter presents the results of a questionnaire administered to a representative group of clothing companies operating in Costa Rica. The idea is, on the one hand, to examine their contribution to the competitive situation of the Costa Rican apparel industry and, on the other hand, to better appreciate the principal factors which have influenced the behavior and performance of these firms in the context of their particular competitive situations.

1. The sample

In April 1995, 22-page questionnaire containing 72 questions was administered to 16 clothing firms in Costa Rica. It consisted of four sections: each company's evaluation of the international competitiveness of Costa Rica during 1985-1989 and 1990-1995; an analysis of the corporate strategies of these companies and their headquarters; detailed information on the competitive situation of each firm in the context of the global restructuring of the industry; and quantitative information necessary to construct a profile of each company. The sample of firms interviewed was very representative and has, for the most part, accounted for the major changes in the competitive situation of that industry.

(a) Characteristics of the sample

The principal criteria for the selection of a sample of firms from the universe of clothing firms operating in Costa Rica was that their principal activity be the production or assembly of clothing, that they be important exporters, that they include firms using one of the major export regimes (temporary admission, EPZs and export contracts) and that both foreign and national firms be represented. Table II.1 presents the basic information of this sample in terms of the major analytical factors.

The 1995 information on the analytical factors permits three kinds of statistical distribution: the total number of firms (16); the percentage distribution of the gross value (including imported components) of their total exports (about US$150 million); and the percentage distribution of the total number of employees (about 13,000). They correspond to about 23% of all clothing exports and about one-third of the total employment of the industry. These distributions represent distinct manners of viewing the sample.

Table II.1

COSTA RICA: ANALYTICAL FACTORS OF THE SAMPLE OF CLOTHING FIRMS

Analytic Factor	Number of Companies	Exports %	Employees %
1. Principal activity: total	16	100	100
SITC 846	5	62	63
SITC 842	5	14	20
other SITC 84 categories	6	24	17
2. Firm size (exports/employees): total	16	100	100
large	5	62	63
medium	5	27	20
small	6	11	18
3. Year established: total	16	100	100
before 1983 ("old firms")	8	43	62
1983 or after ("new firms")	8	57	38
4. Type of firm: total	16	100	100
foreign firms	12	93	91
national firms	4	7	9
5. Source of FDI: total	16	100	100
North America	10	79	81
Asia	2	14	11
no FDI	4	7	9
6. Export regime: total	16	100	100
temporary admission	7	41	51
export processing zone	6	55	44
export contract	3	4	5
7. Principal export market: tpta;	16	100	100
United States	15	99	99
other	1	1	1
8. United States market access instrument: total	16	100	100
HTS 9802	13	96	95
other	3	4	5
9. United States market access restrictions: total	16	100	100
quotas	6	21	22
"calls" in 1995	5	62	63
none	5	17	15
10. Competitive situation, 1990-5:	16	100	100
improved	11	81	81
not improved	5	19	19

Source: Company interviews.

In the first instance, this information indicates that the sample of firms corresponds very well to the principal activities of the Costa Rican clothing industry, that is, mainly SITC chapters 846 (knitted or crocheted undergarments), 842 (men's and boys' outer garments of textile fibers) and others. Five of the 16 firms produce under garments, which accounts for over 60% of both the total exports and the total employment of the sample. Five others produce men and boys' outer clothing, which accounts for 14% of total exports and one-fifth of the total employment of the sample.

The six remaining firms carry out other clothing activities, which correspond to about one-quarter of the exports of this group of companies and 17% of total employment.

The enterprises were categorized by size using a compound measure based on export values and employment. The five largest firms, all of which assemble under garments, contributed over 60% of both exports and employment of the sample. The five medium-sized companies account for 27% of the exports and one-fifth of the employment of the group. The six small enterprises represent 11% of exports and 18% of employment. Large firms dedicated to under garment assembly are particularly prominent in the sample.

With regard to their age, the companies are evenly divided between old firms (which initiated activities in Costa Rica before 1983) and new ones (those that started up in 1983 or later). The old companies began under the import substitution regime, while the new ones started operations during the Costa Rican economy adjustment to a more open trading environment. The eight old companies account for less than one half (43%) of total exports but more than one-half (62%) of total employment. The eight new firms correspond to more than one-half (57 percent) of total exports but much less than one-half (38 percent) of total employment. In other words, the new firms tend to be much less labour-intensive than the old ones of the sample.

With regard to the type of company, twelve are foreign owned and four are national firms. The foreign enterprises account for over 90% of total exports and employment of the group. In other words, foreign firms, dominate this sample, as is the case for the Costa Rican clothing industry itself.

Referring to their source of FDI, ten of the twelve foreign companies are North American, and they contribute about 80% of exports and employment. Two Asian firms account for 14% of exports and 11% of employment. The four national companies, as mentioned, produce less than 10% of total exports and employment of the sample.

In terms of the Costa Rican export regime, seven companies use the temporary admission regime; they contribute less than one-half (41%) of all the exports of this group but more than one-half of employment (51%). The six firms adhering to the EPZ regime produce more than one-half (55%) of all exports but less than one-half (44%) of total employment. Three national firms using the export contract mechanism account for about 5% of total exports and employment. The foreign companies located in the EPZ are less labour intensive than the enterprises using the temporary admission regime.

Fully 15 of the 16 companies have North America as their principal export destination. The one small national firm which exports principally to Central America which accounts for about 1% of the exports and employment of the sample. Thus, the sample exports almost exclusively to the dynamic United States market, as is the case for the Costa Rican clothing industry as a whole. The Central American market is increasingly marginal.

The primary market access instrument in the United States market is the United States production sharing mechanism (HTS 9802), which is used by 13 enterprises. These companies account for about 95% of total exports and employment. Three national firms using other instruments contribute about 5% of exports and employment.

In terms of restrictions faced in the United States market, six firms producing in SITC category 842 face quotas; they account for about one-fifth of total exports and employment. Five firms producing in SITC category 846 faced calls in 1995; they contribute the lion's share of exports and employment (over 60%). Five firms, which face no restrictions in the United States market, make 17% of the exports and employ 15% of the workforce of the sample.

Finally, with regard to the competitive situation of these companies in 1990-1995, 11 improved the international market share for their principal product, and they contribute about 80% of the exports and employment. Five others experienced no change in their international market shares or saw them diminish. These are mostly producers of SITC 842 items carrying quotas; the correspond to one-fifth of exports and employment.

(b) Three distinct situations

The careful examination of these analytical factors allows one to classify the sample into three separate groups of companies, each of which share certain essential characteristics. A first group consists of five large foreign companies which assemble under garments (SITC 846) for the United States market (and, thus, face calls) and which access that market by way of HTS 9802. All improved their market share during 1990-1995. This homogeneous group of enterprises completely share eight of the ten analytical factors. The factors not shared are age (3 old, 2 new) and export regime (3 export processing zone, 2 temporary admission). These five companies account for almost two-thirds of the exports and employment of the sample as a whole.

The other two groups are not as homogeneous, as they completely share only three of the ten analytical factors. The second group is comprised of the other seven foreign firms which service the United States market by way of HTS 9802. These firms also mostly share other characteristics: six of them are new enterprises and five are based on United States FDI. (Two are Asian.) Certain diversity was encountered with regard to the other analytic factors: activity (3 for SITC 842, 4 other), size (4 medium, 3 small), export regime (4 temporary admission, 3 export processing zone), US market restrictions (4 with quotas, 3 with no restrictions) and market share (4 not improved, 3 improved). These smaller foreign firms which are less labour intensive, account for 31% of the exports and 28% of the employment of the sample. They have not been as successful as the firms in group I.

The third group is composed of the four old national firms. These companies are mostly small (3 of 4), use the export contract regime to service the United States market by non-HTS means (3 of 4) and have improved their market share (3 of 4). Two enterprises produce SITC 842 goods and thus face quotas in the United States market, while two do not. These four firms account for only 7% of the sample's exports and 9% of total employment.

These three groups can be identified as follows:

Group I: large subsidiaries of United States transnational corporations (TNCs) assembling under garments for export to the United States market via HTS 9802. They faced calls in 1995, but all improved their international market shares considerably during the 1990-1995 period. An indicator of their success, aside from their domination of Costa Rican clothing exports, is that their employment doubled between 1985 and 1990 and doubled again between 1990 and 1995.

roup II: other, mostly new, foreign subsidiaries which assemble mainly clothing subject to quotas in the United States market, which they access via HTS 9802. They had a less successful performance in general during 1990-1995. This group accounts for an appreciable portion of Costa Rican clothing exports, and the employment of this group grew by 50% between 1985 and 1990 and by about 40% between 1990 and 1995. These employers are smaller and less dynamic than Group I companies.

Group III: old mostly small national firms which use the export contract regime and which access the United States market via non-HTS mechanisms. They had some

success improving their international market shares in 1990-1995. Their exports are not significant in the context of the Costa Rican clothing industry. While the employment of these companies doubled between 1985 and 1990, it fell by one-third between 1990 and 1995. Their national market shares have been collapsing because of increased import competition.

These three groups will be used in the following sections to analyse several relevant aspects of the Costa Rican clothing industry.

2. Questionnaire results

One of the most interesting aspects of the questionnaire administered to these sixteen companies of the Costa Rican clothing industry was their opinions on how three sets of factors affected their international competitiveness.

These three sets of factors are international market factors (e.g. the effects of the restructuring of the global industry, new technological advances, the arrival of new competitors), corporate strategies (i.e., the manner in which the companies tried to use international market factors and national policy to gain international market shares) and national policy (i.e., the effect of Costa Rica's efforts to establish a competitive environment, both in general and within the clothing industry, in particular). These elements provide the framework for the present chapter, which examines the international market challenge, corporate strategies (including a detailed analysis of the companies' competitiveness) and the impact of national policy.

(a) International market challenges

The firms were asked to rank, from most important to least important, the above three groups of factors as they influence international competitiveness. The results can be found in table II.2. In general, the enterprises feel that international market factors are most important (40.6% of total replies), corporate strategies are the second most important (34.4%) and national policy is the least important (25%). The fact that international market factors was ranked first suggests that these firms give primary importance to the changes taking place in the industry, such as the restructuring process taking place in the global clothing industry. The companies react by way of their corporate strategies to the severe international market challenges, and they feel that national policy in Costa Rica is not backing up their corporate strategies to the extent that they consider necessary. In this sense, they feel that they are mostly on their own in facing up to the competitive challenge of the international clothing market.

Table II.2
QUESTIONNAIRE: RANKING OF COMPETITIVE FACTORS

All companies (%)	Competitive factors	Group I %	Group II %	Group III %
40.6	International market	43.3	40.5	37.5
34.4	Corporate strategies	30.0	31.0	45.8
25.0	National policy	26.7	28.6	16.7

Source: company interviews

While all feel threatened in some way, the three different competitive situations analysed previously are clearly present in this evaluation. A first notable observation is that Group III firms (i.e. national companies) give more importance to corporate

strategies (45.8%) than to international market factors (37.5%). They also give much less importance to national policy (16.7%). This undoubtedly reflects the fact that these firms generally have no influence on international prices and compete for contracts from large United States buyers. They possess no international corporate network as do the foreign firms, and they feel abandoned by national policy, which they believe does not correct any of the central competitive disadvantages that they have in comparison to the foreign companies. All have experienced difficulties in their national market shares, as, they are facing stiff competition from imports.[50] Their competitive situation is considerably distinct from that of the foreign subsidiaries operating in Costa Rica.

The foreign firms in Group I (i.e., large under garment assemblers) and Group II (i.e., small and medium-sized assemblers of other clothing items) both consider corporate strategies (30-31%) to be less important than international market factors; there was a degree of difference, however, in the importance given the latter by Group I enterprises (43.3%) and Group II firms (40.5%). Concomitantly, Group I firms give somewhat less importance to national policy (26.7%) than do Group II companies (28.6%). These differences stem from many aspects. Group I companies are more specialized in terms of products, pertain to much more extensive United States corporate networks with significant operations in other Caribbean Basin countries and export almost exclusively to their parent company. In contrast, Group II firms correspond to much smaller corporate networks, are less specialized and have begun to export more to non-associated companies.

It is interesting to note that the Group II enterprises are generally newer and possess a much more focused view as to what is the central function of the Costa Rican subsidiary, and that is to take advantage of cheap labour and HTS 9802 access to the United States market.

roup II companies appear to experience much more severe competitive pressures in the international market and to be much more aware of the specific competitive advantages which Costa Rica does or does not offer them. Like national firms, Group II foreign companies identify their principal competitors in terms of assemblers operating in other Caribbean Basin countries and exporting to the United States, whereas Group I firms identify their principal competitors in terms of major US firms in the United States market. They have tended to define their own competitive advantages and those of their rivals more in terms of labour costs and competitive prices than in terms of corporate flexibility, as is the case for Group I. Tables II.3 and II.4 provide complete information on the competitive advantages of these firms.

Table II.3 contains information on the competitive advantages of all the companies, comparing the situation 1985-1989 with that in 1990-1995. First, the opinions for the recent period, 1990-1995, are stronger than those for the previous period, 1985-1989, in that four elements account for over one-half of all responses. In general, the two periods do not show major changes: product quality and competitive prices figure in the lists of principal competitive advantages for both periods. Within this context, certain differences should be noted. In the first period, these businessmen felt that their four primary advantages--product quality, low wages, access to international markets and competitive prices--had about equal importance. In the more recent period, product quality had become by far the major advantage. In addition, while competitive

[50] An important component of this competition comes from contraband, under-invoicing practices and used clothing. See G. Fernandez, La industria textíl y de confección en Costa Rica, Cámara Textíl de Confección, (CATECO), San José, 1994.

prices are still important, the top four advantages now include rapid delivery and flexible production. In other words, the principal competitive advantages of these firms are roughly similar, but they have increased in sophistication over time.

Table II.3
QUESTIONNAIRE: COMPETITIVE ADVANTAGES FOR ALL COMPANIES, 1985-1989 AND 1990-1995

Responses (%)	Competitive advantages
48.0	1985-1989: All firms
13.5	Product quality
11.5	Low wages
11.5	Access to international markets
11.5	Competitive prices
58.3	1990-1995: All firms
21.9	Product quality
13.5	Competitive prices
12.5	Rapid delivery
10.4	Flexible production process

Source: Company interviews.

Table II.4 demonstrates that there is considerable diversity by group. First, the opinions of the Group III national firms (in which four factors account for over three-quarters of their total replies) and those for the Group I large assemblers of under garment (over two-thirds) are considerably stronger than the Group II newer foreign assemblers of other clothing (less than one-half). With regard to the opinions of the Group III national firms, it can be said that their world of competition has been vastly transformed. In 1985-1989, that world consisted of producing cheaply and gaining access to the United States market (accounting for over 58% of their total responses); quality did not appear as a principal competitive advantage. In 1990-1995, however cost concerns were superseded by concerns for quality and service (i.e., rapid delivery), which now account for one-half of their responses to this question. This undoubtedly reflects their need to compete for contracts from major United States buyers in order to compensate for the increased difficulty in maintaining their national market shares. Purchased process technology is another important new ingredient in their competitive advantages, reflecting their lack of an international corporate network which could provide such.

Table II.4
QUESTIONNAIRE: COMPETITIVE ADVANTAGES, BY GROUP, 1985-1989 AND 1990-1995

Responses %	Competitive advantages 1985-1989	Responses %	Competitive advantages 1990-1995
	1985-9		1990-5
69.9	Group I	66.6	Group I
23.3	Product quality	26.7	Product quality
23.3	Flexible production process	13.3	Competitive prices
13.3	Low wages	13.3	Fewer defects
10.0	Access to international markets	13.3	Flexible production process
42.8	Group II	50.2	Group II
16.7	Low wages	16.7	Product quality
9.5	High productivity	11.9	High productivity
9.5	Product quality	11.9	Rapid delivery
7.1	Access to international markets	9.5	Competitive prices
58.3	Group III	83.3	Group III
37.5	Competitive prices	25.0	Product quality
20.8	Access to international markets	25.0	Rapid delivery
	3 with 8.3% each	20.8	Competitive prices
		12.5	Process technology

Source: Company interviews.

The competitive advantages of Group II (i.e., newer foreign assemblers of other clothing) were firmly based on wage and productivity concerns during the 1985-1989 period, with product quality and market access playing secondary roles. By 1990-1995, product quality had become the principal advantage, and rapid delivery had also become

significant. The competition faced by these firms has intensified considerably. This probably reflects (with the exception of the two Asian firms) the role of these subsidiaries as relatively large production components of relatively small United States companies facing extremely fierce foreign competition in their home markets.

Finally, the competitive advantages of Group I (i.e., large United States assemblers of under garments) suffered less disruption. Quality and a flexible production process were already among their principal competitive advantages in 1985-1989 and they continued to be so during the following period. Low wages and market access became less important and were replaced by competitive prices and fewer defects. In other words, the evolution of the competitive advantages of these companies was largely to improve on existing ones or replace those that were no longer sustainable. As mentioned above, these large subsidiaries of major United States under garment producers sell almost exclusively to their parent companies, and they form part of a relatively extensive corporate network in the Caribbean Basin. They possess the capability to add or close assembly lines according to the relative competitive situations of their various operations. This represents international competitiveness in a corporate framework.

The competitive advantages of the three different groups of companies change in accordance with the competitive situations they face in the international market. The national firms face more severe challenges than do the foreign ones. Within the category of foreign firm, the large assemblers of under garments have experienced fewer difficulties than the newer assemblers of other clothing (especially those with quotas in the United States market). How these companies have taken on the international market challenges is reflected in their corporate strategies.

(b) General corporate strategies

The corporate strategies of these clothing companies operating in Costa Rica during 1990-1995 capture central aspects of their responses to the new competitive situation. Ten of the firms classify their corporate strategies as expansive, four view them as neutral and two see them as defensive. In general, these firms have taken an aggressive attitude toward the international market challenges that they face. More revealing is the distribution of this information by group, as table II.5 attests. All of the Group I firms have expansive strategies. The Group II has a more mixed experience, with the majority of firms (4) possessing neutral strategies and the minority (3) expansive ones. Group III is split between two firms with expansive strategies and two with defensive ones. The managers' opinions on their corporate strategies square well with their opinions on their competitive situation during 1990-1995, that is, changes in the international market shares of their principal product.

The principal elements of the international strategies of the companies operating in Costa Rica and those of their parent firms (where pertinent) are largely the same. Table II.6 indicates that improving quality, improving production efficiency and expanding operations in Costa Rica figure as three of the four elements in both cases. The only difference is that the parent corporations give greater emphasis to quality, while the subsidiaries in Costa Rica give more to efficiency. Furthermore, the latter mention the need for more specialization, while the parent companies give greater priority to increasing international market share.

Table II.5
QUESTIONNAIRE: INTERNATIONAL CORPORATE STRATEGIES, 1990-1995

All firms	International strategy	Group I	Group II	Group III
10	Expansive	5	3	2
4	Neutral	-	4	-
2	Defensive	-	-	2
16	Total	5	7	4

Source: Company interviews.

Table II.6
QUESTIONNAIRE: PRINCIPAL ELEMENTS OF INTERNATIONAL STRATEGIES, 1990-1995

Responses %	International Strategy Elements
38.5	Parent Corporations
12.5	Improve quality
9.4	Improve efficiency of production
8.3	Expand operations in Costa Rica
8.3	Increase international market shares
(25.0)	National firms (not applicable)
48.0	Subsidiaries in Costa Rica
17.7	Improve efficiency of production
11.5	Improve product quality
9.4	Expand operations in Costa Rica
9.4	Increase specialization

Source: Company interviews.

Table II.7 distinguishes the different groups of companies with regard to the parent corporations. It can be assumed that the international strategy elements represent indications of where these parent corporations feel they must improve their performance. The elements mentioned by the parent corporations of the Group I firms emphasize improved production efficiency (20% of responses), more specialization (20%) and increased international market share (16.7%). These would appear to represent incremental improvements on their already good performance.

The parent corporations of the Group II firms emphasize first and foremost improving quality (23.8%), followed by improving the production process (11.9% for rationalization it and 9.5% for modernization). These considerations do not indicate an incremental improvement of existing practices, but rather a new beginning or a major overhaul.

Table II.7
QUESTIONNAIRE: PRINCIPAL ELEMENTS OF INTERNATIONAL STRATEGY OF PARENT CORPORATION, BY GROUP, 1990-1995

Responses %	International strategy element
56.7	Group I parent corporations
20.0	Improve efficiency of production
20.0	Increase specialization
16.7	Increase international market share
54.7	Group II parent corporations
23.8	Improve quality
11.9	Rationalize production by cost reduction
9.5	Expand operations in Costa Rica
9.5	Modernize production process
100	Group III (national firms)
100	Not applicable

Source: Company interviews.

These parent corporations specifically refer to expanding operations in Costa Rica, an indication of the greater relative importance of the country in the Group II international production network.

The views of the Costa Rican subsidiaries on the principal elements of their international strategies are found in table II.8. The first three elements of the international strategy of Group I firms are identical to those ascribed to their parent corporations. More emphasis is given to improving production efficiency (30% of responses) and somewhat less given to increasing international market share (13.3%). However, the major difference is the inclusion of expanding operations in Costa Rica (13.3%). This suggests that those operations are important but not fundamental for the parent corporations, as they possess similar operations in other Caribbean Basin countries.

Group II firms, on the other hand, demonstrate certain differences in their international strategies as compared with those of their parent corporations. Modernizing the production process is considered of equal importance (16.7% of responses) as improving quality, for example, and improving the efficiency of production (11.9%) figures in the subsidiaries' list but not in that of the parent firms. The expansion of operations in Costa Rica is of greater importance (11.9%) for them than for their parent corporations. These subsidiaries feel responsible for improving the overall corporate production process, in which they represent a relatively larger component.

Group III national enterprises do not have parent corporations their own international strategy must therefore compensate for that fact. These firms stress the need to specialize their disperse national operations (20.8%), and to acquire what a parent corporation would normally provide, namely world class technology (16.7%) and product quality (16.7%).

Table II.8

QUESTIONNAIRE: PRINCIPAL ELEMENTS OF INTERNATIONAL STRATEGY OF OPERATIONS IN COSTA RICAN, BY GROUP, 1990-1995

Responses %	International strategy element
76.6	Group I
30.0	Improve efficiency of production
20.0	Increase specialization
13.3	Increase international market share
13.3	Expand operations in Costa Rica
69.1	Group II
16.7	Improve product quality
16.7	Modernize production process
11.9	Improve efficiency of production
11.9	Expand operations in Costa Rica
11.9	Rationalize production by cost reduction
54.2	Group III
20.8	Increase specialization
16.7	Acquire world-class technology
16.7	Improve product quality

Source: Company interviews.

The influence of the parent corporation in the operations of the Costa Rican subsidiaries is demonstrated in table II.9. Generally, all foreign companies feel that influence in two principal areas: the setting of production targets and product marketing. Group I and Group II differ with regard to the selection of technology (21.4% in the case of Group II firms) and quality control (16.7% in the case of Group I enterprises).

Quality control is more important to Group I firms because they assemble more sophisticated products in which quality, design and fashion are essential aspects in buyer preferences. Group II firms put greater emphasis on technology because they are under particularly intense pressure to reduce production costs. Furthermore, they place somewhat less importance on marketing the product (14.3%) as a parent corporation function since some of them sell directly to clients in the United States market, whereas all the Group I firms ship their goods to the parent corporation, which then markets them.

Table II.9
QUESTIONNAIRE: PARENT CORPORATION INFLUENCE IN OPERATIONS OF COSTA RICAN SUBSIDIARY, 1990-1995

Responses (%)	Nature of influence
38.7	All firms
14.6	Setting of production targets
12.6	Technology selection (incl. capital goods)
11.5	Product marketing
(25.0)	Not applicable (national firms)
53.4	Group I
20.0	Setting of production targets
16.7	Quality control
16.7	Product marketing
54.7	Group II
21.4	Technology selection (incl. capital goods)
19.0	Setting of production targets
14.3	Product marketing
100	Group III (national firms)
100	Not applicable

Source: Company interviews.

Table II.10 indicates the managers' opinions on the advantages of being part of an international corporate network. They generally stress the same aspects--product quality and access to international markets--but with different emphasis. Product quality is the most important for all foreign companies, but Group II firms emphasize it much more (33.3%) than do Group I enterprises (23.3%). At the same time, Group I companies give more weight (20%) to international market access than do Group II firms (11.9%). For Group II enterprises, high productivity and flexible production process are more important. Group I companies include increased specialization (16.7%) alongside product quality and international market access. These opinions probably reflect the fact that Group I companies have already achieved a higher level of product quality than have Group II firms. Aside from their greater need for improved quality, the Group II companies portray more of a "cost centre" mentality than do Group I enterprises.

It will be recalled from table II.6 that improving the efficiency of production is the principal element of the international strategy of these clothing firms operating in Costa Rica. Table II.11 elabourates on the means used to achieve it. All companies identify three principal means: improving labour by way of incentive-based productivity increases (26%) or more training (18.8%), acquiring better technology (22.9%) and applying foreign organizational practices (16.7%). The emphasis changes considerably by group. The foreign companies stress improving labour and acquiring technology but in different ways. Group I firms put their maximum effort into improving the performance of labour through training (33.3%) and incentives (26.7%). Group II firms put labour incentives in first place (31%), but technology (23.8%) and organizational practices

(23.8%) taken together are more important. Finally, the Group III national enterprises rank the attainment of foreign inputs, such as technology (29.2%) and organizational practices (25%), ahead of improving labour by way of incentives (16.7%) or training (16.7%). This reflects the national firms' lack of a transnational network.

Table II.10
QUESTIONNAIRE: ADVANTAGES OF PERTAINING TO A TRANSNATIONAL NETWORK, 1990-1995

Responses %	Advantages of transnational network
49.0	All firms
21.9	Product quality
11.5	Access to international markets
8.3	Flexible production process
7.3	Increased specialization
25.0	Not applicable (national firms)
60.0	Group I
23.3	Product quality
20.0	Access to international markets
16.7	Increased specialization
71.4	Group II
33.3	Product quality
14.3	High productivity
11.9	Flexible production process
11.9	Access to international markets

Source: company interviews.

This section on corporate strategies has effectively shown that these strategies are important, but they vary considerably according to the international market challenge or competitive situation faced by the different companies.

The large United States assemblers of under garments employ expansive strategies. The foreign assemblers of other clothing are divided between those with neutral and those with expansive strategies. The national firms are split between those with expansive and those with defensive strategies. These distinct situations are evident in all aspects of their corporate strategies, including the principal elements of parent corporations and local firms, the parent corporations' influence in the subsidiaries' operations, the advantages of transnational networks and the means of improving the efficiency of production. The next section analyses the differences in the competitive advantages of these distinct groups of companies.

Table II.11

QUESTIONNAIRE: MEANS OF IMPROVING THE EFFICIENCY OF PRODUCTION, 1990-1995

Responses %	Means used
84.4	All firms
26.0	Better labour productivity via incentives
22.9	Better technology
18.8	Better labour productivity via training
16.7	Foreign organizational practices
76.7	Group I
33.3	Better labour productivity via training
26.7	Better labour productivity via incentives
16.7	Better technology
78.6	Group II
31.0	Better labour productivity via incentives
23.8	Better technology
23.8	Foreign organizational practices
87.6	Group III
29.2	Better technology
25.0	Foreign organizational practices
16.7	Better labour productivity via incentives
16.7	Better labour productivity via training

Source: Company interviews.

(c) Detailed aspects of corporate strategies

This part of the study provides a more detailed analysis of certain aspects of the international competitiveness of these firms, namely human resources, work organization, technology, procurement and market access. These factors permit an even better appreciation of the nature of the corporate strategies of these firms and some of the difficulties they face in specific areas.

The companies in the study clearly consider the improvement of **human resources** as a central element in their strategy to become more efficient. Table II.12 outlines what they consider to be the problems in this area. In general, the three difficulties most often cited are high rotation of personnel (28.1% of total responses), the lack of skilled workers (21.9%) and the high cost of social security (20.8%). The different groups of companies view in somewhat different ways their principal problems with regard to human resources.

Table II.12
QUESTIONNAIRE: THE DEFINITION OF HUMAN RESOURCE PROBLEMS, BY GROUP, 1990-1995

Responses %	Human resource problems
70.8	All firms
28.1	High rotation of personnel
21.9	Lack of skilled workers
20.8	High cost of social security
80.0	Group I
43.3	High rotation of personnel
16.7	Lack of skilled workers
10.0	High cost of social security
10.0	Resistance to modernization
78.5	Group II
33.3	High cost of social security
21.4	High rotation of personnel
11.9	Lack of skilled workers
11.9	Impact of labour laws
79.1	Group III
45.8	Lack of skilled workers
20.8	High rotation of personnel
12.5	Cost of social security

Source: company interviews.

The large United States assemblers of under garments in Group I see the high rotation of workers (43.3%) as the primary problem, with the lack of skilled workers (16.7%), the cost of social security (10%) and labour resistance to modernization (10 percent) playing much smaller roles. The Group II foreign assemblers of other clothing complain most about the cost of social security (33.3%), while the high rotation of personnel (21.4%), the lack of skilled workers (11.9%) and the impact of labour laws (11.9%) are of secondary importance. Finally, the Group III national enterprises focus on the lack of skilled workers (45.8%), while other factors such the high rotation of personnel (20.8%) and the high cost of social security (12.5%) carry much less weight. In other words, each group of companies has a very particular view as to the central problem with human resources: for Group I, it is the high rotation of personnel; for Group II, it is the high cost of social security; and for Group III, it is the lack of skilled workers.

The use of incentives to increase labour productivity is clearly one means of addressing the principal problem, of the high rotation of personnel. This problem affects all firms, but it is especially difficult for those with intensive labour practices, notably the large Group I companies.

In Table II.11, training and foreign organizational practices are also mentioned as means to deal with these problems. With regard to **training**, it comes as a surprise that few of the companies (five of sixteen) invest the equivalent of more than 1% of their sales in training, and almost all of the training which takes place is in-house, such that

existing staff does not receive any kind of formal training in educational institutions. This is also reflected in the fact that there has been no perceptible change in the structure of employment of these firms, in which 85% the work-force are workers. More serious still, there has been no alteration in the proportion of skilled and unskilled workers. In other words, the training that takes place seems to be almost exclusively the short-term preparation of newly contracted personnel. The constant rotation of personnel in search of higher wages is a strong disincentive here.

With regard to **work organization**, automation does not play any significant role in dealing with the existing human resources problems. Only three firms have any appreciable level of automation in their operations, and they are mainly in the receivables and shipping departments, not in production itself. Major innovations in production have been limited to the use of programmemable sewing machines, which is rather widespread. Little in the form of numerically controlled machinery, robots or programmemable transport equipment is found in these enterprises. Thus, automation is not a means used by these companies to increase efficiency and thereby improve international competitiveness.

The principal change in the companies' work organization has come from the application of foreign organizational practices, as shown in table II.13. In general, these changes involve making the production line more flexible (21.9%), forming work teams (15.6%), implementing statistical control processes (14.6%) and adopting just-in-time (JIT) inventory controls (11.5%). These factors vary according to group. For example, the more labour-intensive Group I companies stress factors such as statistical control processes (20%), training labour to peform multiple tasks (16.7%) and the use of work teams (16.7%) in their efforts to improve efficiency. The Group II firms give similar weight several factors, including making the production line more flexible (19%), forming work teams (16.7%), implementing JIT inventory controls (14.3%) and statistical control processes (14.3%), while the Group III enterprises center all efforts on making the production line more flexible (41.7%). The national firms have also implemented quality control circles (16.7%). Fifteen of the sixteen companies have made major innovations in the work organization of their firm; significant differences by group are apparent.

The results obtained from these innovations in work organization are presented in table II.14. For all firms taken together the principal benefits are found in improved quality (22.9%), increased productivity (16.7%) and faster delivery (13.5%). Improved quality is the principal benefit for foreign firms in general, although the other benefits display important differences.

The Group I companies also benefit from reduced non-production costs (13.3%) and better labour relations (10%), while the Group II enterprises have attained faster delivery (19%) and higher productivity (16.7%). The benefits obtained by the group III firms are concentrated in increased productivity (33.3%), better quality (25%) and lower labour costs (16.7%). For all firms, work organization innovations have led to improved quality (the principal element of the parent corporations' international strategy mentioned in table II.6) and distinct aspects of the efficiency of their production; (the principal element of the subsidiaries' international strategy).

Table II.13
QUESTIONNAIRE: CHANGES IN WORK ORGANIZATION, BY GROUP, 1990-1995

Percent	Changes Implemented
63.6	All firms
21.9	Production line flexibility
15.6	Work teams
14.6	Statistical process control
11.5	Just-in-time inventory control
53.4	Group I
20.0	Statistical process control
16.7	Multiple tasking
16.7	Work teams
64.3	Group II
19.0	Production line flexibility
16.7	Work teams
14.3	Just-in-time inventory control
14.3	Statistical control process
75.1	Group III
41.7	Production line flexibility
16.7	Just-in-time inventory control
16.7	Quality control circles

Source: company interviews.

Table II.14
QUESTIONNAIRE: RESULTS FROM CHANGES IN WORK ORGANIZATION, BY GROUP, 1990-1995

Responses	Results from changes in work organization
53.1	All firms
22.9	Improved quality
16.7	Increased productivity
13.5	Faster delivery
43.3	Group I
20.0	Improved quality
13.3	Reduced non-production costs
10.0	Better labour relations
59.5	Group II
23.8	Improved quality
19	Faster delivery
16.7	Higher productivity
75.0	Group III
33.3	Higher productivity
25.0	Improved quality
16.7	Lower labour costs

Source: company interviews.

Better **technology** is the second most important means of improving the efficiency of production mentioned by these companies in table II.11. Thirteen of these sixteen firms also feel that technology is fundamental for their international competitiveness. In terms of the level of their technology, fourteen of these clothing enterprises consider that their technology is as good as, or better than, their principal competitors. Twelve of them even consider their technology to be "world class". Technology, then, is an important competitive advantage for these companies.

Given the importance of technology for these companies, it is particularly relevant that the source of technology for all the foreign companies is their parent corporation. National firms, obtain their technology from unrelated foreign producers and other sources, such as suppliers and international fairs. The function of the foreign companies is to apply the process and product technology. Only four firms have adapted the technology in any significant way, and all four are Group II foreign assemblers of other clothing. Only four firms of the sixteen, two of them national, make a discernible effort in terms of research and development. Thirteen of the sixteen companies feel that their principal product improved during 1990-1995, mainly in terms of design, quality, fashion, etc., and these changes are directly linked to the technology used.

Table II.15 lists the reasons for the selection of the technology employed. In general, as has been indicated, the technology employed primarily results from decisions by the parent corporations of the foreign companies. This occurs much more frecuently in the case of Group II (42.9%) than Group I (30%) companies. Other reasons for choosing technology have to do with quality (13.5%), price (7.3%) and technical aspects (7.3%). Foreign companies also consider technical assistance to be significant. For national enterprises, which have to select technology in a more independent fashion, quality (25%), the reputation of the technology (12.5 percent) and its acceptance in international markets (12.5%) determine their choice. The groups of companies thus display clear differences, with national firms representing a qualitatively distinct situation.

For the sixteen enterprises taken together, the principal benefits of the selected technology are improved international competitiveness (20.8%), reduced production costs (17.7%) and increased production capacity (14.6%) (see table II.16). The distribution of factors by group, however, demonstrated certain significant differences.

For national companies, the principal benefit, by far, of the technology selected was improved international competitiveness (45.8%). This factor is of equal importance with reduced production costs (21.4% each) for Group II. Group I, in contrast does not mention improved competitiveness among the principal benefits, which are instead centered on production cost factors. Moreover, the selection of technology by national firms included benefits which the foreign companies considered to come from being part of a transnational network, such as access to markets and the incorporation of new products.

This information on technology as a competitive advantage offers considerable insight into the distinct operating conditions and competitive situations of these three groups of clothing companies in Costa Rica.

Table II.15
Questionnaire: reasons for technology selection, by group, 1990-1995

Responses %	Reasons for selecting this technology
56.2	All firms
28.1	Instructions of parent corporation
13.5	Quality
7.3	Price
7.3	Technical aspects
63.3	Group I
30.0	Instructions of parent corporation
13.3	Technical aspects
10.0	Reputation of technology
10.0	Technical assistance included
71.4	Group II
42.9	Instructions of parent corporation
14.3	Quality
7.1	Price
7.1	Technical assistance included
50.0	Group III
25.0	Quality
12.5	Reputation of technology
12.5	Acceptance in international market

Source: Company interviews.

Table II.16
QUESTIONNAIRE: BENEFITS FROM USE OF TECHNOLOGY, BY GROUP, 1990-1995

Responses %	Benefits
53.1	All firms
20.8	International competitiveness
17.7	Reduced production costs
14.6	Increased production capacity
63.3	Group I
26.7	Reduced production costs
23.3	Increased production capacity
13.3	Improved labour performance
61.8	Group II
21.4	International competitiveness
21.4	Reduced production costs
19.0	Improved labour performance
91.6	Group III
45.8	International competitiveness
20.8	Access to specific markets
12.5	Increased production capacity
12.5	Incorporation of new products

Source: Company interviews.

The Group I subsidiaries operate in a more mature setting in which a relatively small number of large United States companies have long since restructured their industry by way of offshore production. These companies operate in various production sites simultaneously. For them, world-class technology is important for attaining international competitiveness, but, all of them possess it. The international competitiveness of these companies depends as much on quality and service as on production efficiency and specialization. A significant degree of competition takes place among the distinct production sites of the same corporation.

At the other extreme are the national companies. Possessing no parent corporation and pertaining to no transnational network, they look to foreign technology as one of the principal means of attaining international competitiveness and acceptance. Technology is a central feature in their ability to survive.

The Group II foreign producers of other clothing are found in an intermediate position. With the exception of the two Asian firms they have smaller, less well-positioned parent corporations. They have established their off-shore production sites more recently than the large producers of under garment and they operate in industry segments in which technology is crucial to their international competitiveness. Thus, technology is far more important to them and the Group III national firms than to the Group I companies.

Evidently, these companies relate their international competitiveness primarily to human resources, work organization and technology. They were also consulted about other competitive factors, such as local procurement and international market access. The lack of importance attributed to these factors needs to be explained.

In 1990-1995 only four of the 16 companies increased their level of **local physical inputs,** and these included two national firms, one foreign assembler of under garments and one foreign assembler of other clothing. Put the other way around, four of five Group I companies, six of seven Group II enterprises and two of four national companies did not increase local procurement during that period. On average, the Group I and II companies sourced over 95% of their physical inputs in-house, whereas two national companies locally sourced about 30% of their physical inputs. The foreign companies do not feel that they could improve their international competitiveness through local sourcing.

The little national sourcing that takes place is mostly in the form of purchases of inputs, such as packaging materials, thread or buttons, from local suppliers. Very little subcontracting is registered for foreign companies. Two national firms have appreciable levels of such, which they explain in terms of reducing costs by way of further specialization. The reasons that these clothing enterprises do not subcontract more are contained in table II.17. According to these managers, local subcontractors are not competitive with regard to quality control (22.9%), price (11.5%) or punctual delivery (11.5%). Most national firms and some Group II companies also cite the fact that local subcontractors do not possess the necessary technology. Only a few national companies subcontract to a significant degree, and it is not clear that doing so actually improves their international competitiveness.

Table II.17
QUESTIONNAIRE: PERCEIVED IMPEDIMENTS TO SUBCONTRACTING IN COSTA RICA, 1990-1995

Responses %	Impediments: local subcontractors are not...
45.9	All Firms
22.9	Competitive in quality control
11.5	Price competitive
11.5	Trustworthy for punctual delivery
60.0	Group I
33.3	Competitive in quality control
20.0	Price competitive
6.7	Trustworthy for punctual delivery
38.1	Group II
14.3	Competitive in quality control
11.9	Price competitive
11.9	In possession of the necessary technology
58.4	Group III
25.0	Competitive in quality control
16.7	In possession of the necessary technology
16.7	Trustworthy for punctual delivery

Source: Company interviews.

With regard to international **market access**, all of these clothing firms feel that they possess preferential access to the United States market. Thirteen define that access in terms of the HTS 9802 production sharing mechanism, while three national firms cite other instruments, such as the Caribbean Basin Initiative (CBI) and Guaranteed Access Levels (GAL). It might be recalled from tables II.9 and II.10 that the principal influences of the parent corporations and the advantages of pertaining to a transnational network include market access and the marketing of the subsidiaries' output. For this reason, the foreign subsidiaries operating in Costa Rica do not attribute much importance to market access as a factor in their international competitiveness. National firms were in a distinct situation.

With regard to possible changes in the nature of their market access, the national firms are generally more knowledgeable than the foreign subsidiaries the Interim Trade Programme for phasing out the Multifibre Arrangement. As to the foreseeable impact of NAFTA, which gives certain advantages to assemblers located in Mexico, the foreign firms perceive more clearly that it could endanger their subsidiary (but not necessarily their parent corporation, as many have assembly facilities in Mexico). Seven of the foreign companies think that it will cause their parent corporations to postpone further investments in Costa Rica.

The companies surveyed do not consider **market access restrictions** to be a significant aspect of international competitiveness. When asked about limits on further exports from their Costa Rican operations, these companies stress not quotas and calls, but unfavourable tendencies in local costs; and the fact that the parent corporations make those decisions. Table II.18 indicates the nature of their responses. The principal

limits on further exports are the overvalued local currency (16.7%), noncompetitive local salaries and the nature of the parent corporation decisions (12.5 percent). The foreign companies, both Group I and Group II, stress these three factors (in different order).

Table II.18
QUESTIONNAIRE: CONSTRAINTS ON INCREASING EXPORTS, BY GROUP, 1990-1995

Responses %	Constraints on increasing exports
34.8	All Firms
16.7	Overvalued local currency
15.6	Noncompetitive wage rates
12.5	Parent corporation decision
60.0	Group I
23.3	Overvalued local currency
20.0	Parent corporation decision
16.7	Noncompetitive wage rates
45.2	Group II
21.4	Noncompetitive wage rates
14.3	Parent corporation decision
9.5	Overvalued local currency
79.1	Group III
37.5	Lack or high cost of local capital
20.8	Overvalued local currency
12.5	Lack of export financing
8.3	High duties on imported inputs

Source: Company interviews

The national firms, however, have quite different opinions as to the limits they face: the lack or high cost of local capital (37.5%), the overvalued local currency (20.8%), the lack of export financing (12.5%) and the high duties on imported inputs (8.3%). This again draws attention to the distinct competitive situation of national firms.

Overall, in terms of the particular aspects of production efficiency and international competitiveness, these companies strongly emphasize human resources, work organization and technology. Local sourcing (via suppliers or subcontracting) is of secondary importance, as are preoccupations with market access or restrictions. Nevertheless, foreign and national companies face distinct operational conditions and competitive situations. Within the category of foreign firms, the large assemblers of under garments demonstrate several important differences in comparison to the assemblers of other clothing in Costa Rica.

(d) The impact of national policy

Of the three major sets of factors affecting the international competitiveness of these firms (i.e., international market factors, corporate strategies, and national policy), National policy was considered the least important. This does not mean that national policy is unimportant, only that it is less important to these enterprises than the other two sets of factors.

Using the categories of The World Competitiveness Report, the companies were asked to indicate which had the most influence on the systemic international competitiveness of Costa Rica. Their opinions demonstrate with no degree of doubt that human resources is by far the most important element, (with 31.3% of the responses for 1990-1995). Other factors such as the internal economic situation of the country (12.5 percent) and the role of Government (12.5%) are secondary to human resources. Furthermore, the factors selected, their order and their values changed little from 1985-1989 to with 1990-1995. All groups of companies put human resources in first place, well ahead of other factors, and there were no major differences across groups or over time (see table II.19).

Another indication of the central importance of human resources to Costa Rica's systemic international competitiveness and the key role it plays in the operations of these clothing firms is manifest in their replies concerning what would motivate the transfer of their plants in Costa Rica to competitor countries in the Caribbean Basin. Eight of the sixteen companies gave a single reply: cheaper labour.

The companies pointed out that Costa Rica possessed many salient competitive advantages over the other Caribbean Basin (especially Central American) competitors in the 1980s because many of those countries were experiencing great social turmoil and political instability and their labour forces were less educated and less disciplined. By the mid-1990s, Costa Rican production costs (especially wages and social security contributions) had become less competitive, and the competitor countries had narrowed the gap with regard to political stability. These managers give the clear message that in their opinion, Costa Rica's systemic international competitiveness has weakened, although the principal competitive advantage remains the same.

These enterprises have clear views about which policies favoured and which policies undermined their operations in 1990-1995 (see table II.20). In general, favourable policies were related to the opening up of the economy (16.7% of responses), trade policy (10.4%) and exchange rate policy (10.4%).

The Group II companies hold basically the same opinions as the sample as a whole. The Group I and Group III national firms, however, display notable differences. The former mostly cite very specific policies, such as human resources policy (16.7%) and FDI policy (13.3%), while the latter refer to quite general policies, such as foreign policy (25%) and macroeconomic policy (12.5%).

The companies display considerable diversity with regard the national policies which undermined their operations. For national firms, lack of credit is the principal problem. For the large United States assemblers of under garments, production cost factors manifest in the exchange rate and labour costs are foremost. The other foreign assemblers mention shortcomings in the areas of transport, communications and infrastructure. Thus, there were significant differences among these groups of companies with regard to the national policies that affected them, both favourably and negatively.

Table II.19
QUESTIONNAIRE: THE SYSTEMIC COMPETITIVENESS OF COSTA RICA, BY GROUP, 1985-1995

Responses %	1990-1995	Percent responses	1985-1989
68.8	All firms	72.9	All firms
31.3	Human resources	29.2	Human resources
12.5	Internal economic situation	15.6	Internal economic situation
12.5	Internationalization	14.6	Internationalization
12.5	Government	13.5	Government
70.0	Group I	80.0	Group I
33.3	Human resources	30.0	Human resources
20.0	Internal economic situation	26.7	Government
16.7	Government	23.3	Internal economic situation
59.6	Group II	59.6	Group II
26.2	Human resources	28.6	Human resources
16.7	Government	16.7	Internationalization
16.7	Science and technology	14.3	Administration
70.8	Group III	79.2	Group III
37.5	Human resources	29.2	Human resources
20.8	Internationalization	25.0	Internationalization
12.5	Internal economic situation	25.0	Internal economic situation

Source: Company interviews.

The companies' opinions as to the national policy elements that have been consequential in the increase in their exports over the 1985-1995 period are found in table II.21. The sample as a whole identifies three principle factors: the EPZ and temporary admission export regimes (17.7% in 1985-1989) and 19.8% in 1990-1995), the exchange rate (16.7% and 11.5%), and tax incentives (13.5% and 11.5%). In general, there is little variation over time, and the policies identified have to due with duty free importation, tax advantages and the exchange rate.

More diversity is evident when the responses are viewed in terms of the distinct groups of companies. Foreign enterprises obviously appreciate the advantages that they enjoy, but which are unavailable to national companies. Within the group of foreign firms, they emphasized the same policy inputs but in a distinct order. Group II put much greater emphasis on the export regimes in 1990-1995 (33.3%) than did Group I. The groups of companies demonstrated relatively little change in their opinions over time.

Table II.20

QUESTIONNAIRE: NATIONAL POLICIES THAT, FAVOURED OR UNDERMINED, BY GROUP, 1990-1995

Responses %	Policies that favoured	Responses %	Policies that undermined
37.5	All firms	35.5	All firms
16.7	Opening up the economy	14.6	Credit policy
10.4	Trade policy	11.5	16.7
10.4	Exchange rate policy	9.4	Infrastructure policy
43.3	Group I	43.3	Group I
16.7	Human resource policy	13.3	Exchange rate policy
13.3	Foreign direct investment policy	10.0	Labour policy
13.3	Opening up the economy	10.0	Social security policy
		10.0	Fiscal policy
66.7	Group II	47.6	Group II
23.8	Opening up the economy	19.0	Transport/communications
14.3	Trade policy	14.3	Infrastructure policy
14.3	Exchange rate policy	14.3	Exchange rate policy
14.3	Export promotion policy		
50.0	Group III	66.6	Group III
25.0	Foreign policy	50.0	Credit policy
12.5	Exchange rate policy	8.3	Infrastructure policy
12.5	Macroeconomic policy	8.3	Labour policy

Source: Company interviews.

Table II.21

QUESTIONNAIRE: NATIONAL POLICIES THAT PROMOTED INCREASED EXPORTS, BY GROUP, 1985-1995

Responses %	1990-1995	Responses %	1985-1989
54.3	All firms	47.9	All firms
19.8	EPZ/TA regimes a/	17.7	EPZ/TA regimes a/
11.5	Exchange rate	16.7	Exchange rate
11.5	Tax incentives	13.5	Tax incentives
11.5	Liberal trade policies		
66.8	Group I	70.1	Group I
16.7	Exchange rate	26.7	Exchange rate
16.7	Tax incentives	26.7	EPZ/TA regimes a/
16.7	EPZ/TA regimes a/	16.7	Tax incentives
16.7	Liberal trade policies		
52.3	Group II	38.0	Group II
33.3	EPZ/TA regimes a/	21.4	EPZ/TA regimes a/
11.9	Exchange rate	9.5	Exchange rate
7.1	Tax incentives	7.1	Tax incentives
54.2	Group III	70.9	Group III
25.0	Liberal trade policies	29.2	Liberal trade policies
16.7	Tax incentives	25.0	Tax incentives
12.5	Exchange rate	16.7	Exchange rate

Source: Company interviews.
a/ Export processing zone (EPZ) and temporary admission (TA) export regimes.

Their views on the benefits of the FDI policy, found in table II.22, are similar: tax advantages Are by far the most prominent element (26%), followed by the right of entry and establishment (13.5%), and several other factors (6.3% each) mostly related to fair and just treatment or national treatment. Few FDI policy elements undermine their operations; these are mostly minor irritants related to the authorizations required and a few operational restrictions. FDI policy, like other national policies, is viewed primarily in terms of the incentives and advantages they offer.

One particularly interesting aspect of the opinions of these clothing enterprises has to do with their evaluation of Costa Rica as a host for FDI (see table II.23). Their opinions are ranked from excellent (a score of 5) to very bad (a score of 1). In general, their view of Costa Rica as an FDI host is favourable, although it declined from good in 1985-1989 to average in 1990-1995.

Table II.22
QUESTIONNAIRE: BENEFITS OF FOREIGN DIRECT INVESTMENT (FDI) POLICY, 1990-1995

Responses %	FDI policy benefits
58.4	Total- All firms
26.0	Tax advantages
13.5	Entry and establishment
6.3	Property and control
6.3	National treatment
6.3	Fair and just treatment
25.0	national firms (not applicable)

Source: Company interviews.

Table II.23
QUESTIONNAIRE: COSTA RICA AS HOST FOR FOREIGN DIRECT INVESTMENT, BY GROUP OF COMPANIES, 1985-1995

	1990-1995	1985-1989
All firms	3.5	4.0
Group I	3.6	4.5
Group II	3.5	3.8
Group III	3.2	3.7

Source: Company interviews.

Two observations are relevant here. First, Group I gives the most favourable evaluation of Costa Rica as a host for FDI for the period 1985-1989 but that evaluation falls to about average for 1990-1995. Second, the national firms have the least favourable opinion of Costa Rica as a FDI host, and their opinion has also fallen. The perspective that Costa Rica's position as a FDI host has deteriorated over 1985-1995 is shared by all firms, in a very forceful way.

National policy is considered to be less important than international market factors and corporate strategies in defining the international competitiveness of these companies, but it is far from unimportant. For these enterprises, Costa Rica's principal advantage is its labour force, primarily in the form of relatively cheap labour. National policies which assist these firms are, in general, the opening up of the economy and the cheap local currency, coupled with specific national policies in the form of trade advantages (i.e., the EPZ and temporary admission regimes) and fiscal incentives. FDI policy is also considered beneficial for the same reason the tax incentives. Policies which hinder these firms vary according to group. Group I mentions policies affecting production costs; Group II emphasizes infrastructural deficiencies; and Group III focuses on the lack of credit. Interestingly, all groups share the view that Costa Rica's competitive advantages are deteriorating, as is its stature as an FDI host.

3. Analysis

The aim of carrying out a detailed questionnaire of representative clothing companies in Costa Rica was to examine the nature of their contribution to the successes of that industry, identify future challenges and better understand the factors influencing the firms' behavior. The sample corresponds to about 33% of the total employment and about 20% of the exports of the Costa Rican clothing industry. It aptly reflects the importance of firms producing under garments (SITC 846) and men's and boys' outer wear (SITC 842) because this group of companies is responsible for the major changes which have taken place in the industry. Thus, the sample can be considered important, the information gathered is revealing and the analytical factors proved extremely meaningful.

In particular, the analysis indicates that the interplay of three groups of factors relating to international competitiveness--the international market, corporate strategies and national policies--defines the principal elements of three distinct competitive situations of the sample: the homogeneous group of large United States assemblers of under garments (Group I), the group of national firms producing primarily men's and boys' outer wear (Group III), and the other foreign assemblers of similar outer wear and other clothing products (Group II). The definition of these separate competitive situations brings to light a significant coherence in the opinions of the companies of the sample, resulting in a useful analytical instrument to comprehend the changes which have taken place and the challenges which the companies must face in the future. Each competitive situation has a certain inner logic to it.

The very homogeneous **Group I** firms (i.e., the large United States assemblers of under garments) operate in a well defined competitive situation. In terms of the international market, the parent companies of these subsidiaries faced a severe challenge from Asian competitors in the United States market more than a decade ago. They responded by establishing off-shore assembly operations in nearby Latin America, making use of cheap labour in the context of the specific incentives offered by those countries (mostly duty free import facilities and tax free status) and privileged access to the United States market (via the HTS 9802 production sharing mechanism). They were thus able to meet the Asian challenge head-on. The exports of under garments from the Caribbean Basin, especially Mexico, the Dominican Republic and Costa Rica, grew exponentially, and these United States producers were better able to defend their United States market shares.

Interestingly, these companies have established widespread assembly networks in the Caribbean Basin. They tend to have several assembly operations in a number of countries, which gives them a great capability to respond to changes in the competitive situation of each cost center. Each individual assembly plant is a relatively small part of a large organization. With similar assembly operations in several countries, they are able to add or drop production lines according to the efficiency displayed by each plant, and only in extreme conditions must they completely abandon any particular site. International competitiveness for the plant is mainly an internal corporate affair. Today, most of these firms consider other United States companies, to be their principal competitors. These strategic elements have produced significant security for the integrated production system of the parent corporation. They vanquished the Asian challenge.

With regard to the operational aspects of the corporate strategies, these companies tend to be increasingly specialized in their production, sophisticated in terms

of quality and, at the same time, more labour intensive than the rest of the sample in Costa Rica.

They are more aggressive in terms of corporate strategy and more "corporate" in their outlook, because they understand their specific role in the integrated international production system of their parent corporation. Quality is especially important because they export to their headquarters, which then markets the product. Thus, quality is as important as production costs in the competition among subsidiaries of a single corporation.

In their labour-intensive operations, the major problem is the rotation of personnel. Because they strive for increased efficiency, they focus particularly on labour productivity, which they improve through training and monetary incentives. They have implemented sophisticated initiatives in terms of work organization, including statistical control processes, multitasking and work teams. The high rotation means the loss of some of their investments in training. The companies claim that these initiatives result in improved quality and better labour relations. In other words, these companies improve their ability to compete by way of labour productivity, quality and service. The gains in labour productivity presumably help to offset the increased costs of labour (i.e. wages and social security), especially in view of the appreciating national currency. Also notable is the fact that technology is viewed as a "given" within the corporate context, and it is not adapted to the local situation. The labour force is trained to meet corporate standards of performance. Virtually no local physical inputs (via local sourcing or component subcontracting) enter into the production process. Each assembly plant is a self-contained element of the corporate network, producing a small range of identical items in a highly competitive manner.

This situation has produced very significant results in Costa Rica. The under garment industry has become the principal source of clothing exports from Costa Rica to the United States. It includes three operations established before 1982 and two other operations established in the late 1980s, all corresponding to what we have defined as Group I firms. These enterprises account for over 60% of the exports and total employment of the sample. Measured by the number of employees, their operations doubled during 1985-1989 and doubled again during 1990-1995. They have been extremely successful with their expansive corporate strategies.

A glance at the ten principal Costa Rican clothing exports to the United States in 1994 (as shown in table I.12) reveals that four of those items fall into the under garments category: brassieres (HTS 621210), cotton panties (610821), synthetic fiber panties (610822) and cotton underpants (620711). The corresponding tables of the United States market shares for these items indicate that in each and every case, the Asian market shares fell (on average from 36% to 27.5%) and Latin American shares increased (on average from 43% to 65.5%) during the 1990-1995 interim. At the same time, these tables indicate that Costa Rica lost market share for these products in 1995, except in the case of cotton underpants. Other Latin American countries were gaining significant market shares in these items (for brassieres, the Dominican Republic and Mexico; for cotton panties, Honduras and Mexico; and for synthetic fibre panties, Colombia, Honduras and El Salvador). In other words, these and other assemblers of under garments have accelerated their use of off-shore operations in the Caribbean Basin in the context of the mentioned corporate strategy.

A cloud on their horizon and that of Costa Rican under garment exports is that the sharp increase in the United States imports provoked complaints by domestic producers. United States authorities responded by imposing calls in 1995, something

which will undoubtedly dampen the further expansion of these operations even considering the favourable WTO ruling.

At the other extreme within the sample is the competitive situation of the four national companies, which we have labeled the Group III enterprises. This is a homogeneous group of mostly small, old producers of men's and boys' outer wear (SITC 842) and other clothing, they operate via the export contract regime in order to export to the United States market, where some of their goods face quotas. These companies were created during the import substitution phase. Since the policy reorientation of the 1980s, they have experienced collapsing national market shares because of import penetration and have been obliged to adapt by seeking out contracts with foreign buyers, mainly large department stores or trademarked clothing producers. They compete with the rest of the world for relatively short-term contracts in which price is the principal determinant. They have none of the advantages of the transnational corporations (TNCs) which assemble in Costa Rica. Distinct from the foreign firms, corporate strategies are more central to their competitiveness than international market factors. They tend to adopt defensive stances and have experienced mixed results. One national firm in this group went bankrupt in 1996.

It is of considerable relevance to point out the disadvantages of these national companies compared to the TNCs. First, the transnational network allows better programmeming of individual plant capacities to accommodate sporadic and changing demand for their relatively more specialized products. In this way, it is much more flexible. Second, the parent company in the transnational network takes care of many aspects of the operations, including the selection and purchase of technology, marketing, acquiring new organizational practices and quality standards. Third, the network possesses more mobility because it can easily add new production lines in more competitive sites or, if necessary, migrate to them. Fourth, the TNCs have the financial capacity to offer or guarantee loans for local expansion or adaptation. Considering that the national firms define their principle competitors as foreign firms with assembly operations in the Caribbean Basin, they are in a very difficult situation.

Their opinions on national policy are also relevant. These enterprises hold that national policy is considerably less importance to their competitiveness than it is for foreign firms, even though it could conceivably level some of the disadvantages they face vis-à-vis their foreign competitors, which are mainly installed in EPZs in the Caribbean Basin. They view their single most important impediment to further exports to be the lack of local financing and its high cost which they identify as the principal failure of national policy. Several feel abandoned by their own Government.

The operational aspects of their corporate strategies reflect the lack of both a transnational network and an accommodating national policy. These companies generally, are less specialized, less sophisticated in terms of quality and, at the same time, less willing to improve on their principal advantage. Cognizant of the fact that cheap labour is their principal comparative advantage, they bemoan the lack of skilled labour but do little to create it through training. Rather, they see their international competitiveness as dependent mainly on the acquisition of foreign technology, which they select on the basis of quality, reputation and acceptance in the United States market but which they have to adapt to their local operations.

Efficiency is improved primarily by way of foreign technology and the use of foreign organizational practices. These practices help make their production lines more flexible, improve quality and lower labour costs. Some of these enterprises possess high levels of local procurement, but they do not considered this to be basic to their international competitiveness. Other companies feel that they must look to foreign

sources to resolve the mounting problems they encounter in terms of productions costs. They appear to be trying to acquire the means to make significant improvements in quality to compensate for rising deficiencies in competitive pricing. With regard to their exports, these firms can be characterized as relatively low cost producers of mostly short runs of simple, standardized clothing items for international contractors.

This second group of companies plays a relatively minor role in the context of the sample. They correspond to less than 10% of employment and exports. In 1985-1989, these companies were as successful as the Group I firms: both groups doubled their labour forces. During the 1990-1995 interim, however, the Group III firms down sized by one-third. Moreover, their national market shares fell in the face of import liberalization. As mentioned, this group has had mixed success.

The cloud on their horizon is that they have all their marbles in Costa Rica, an assembly site which seems to be losing its cheap labour advantage to other Caribbean Basin countries.

The third competitive situation in this analysis concerns all the remaining foreign companies in the sample, referred to as **Group II**. This is a less homogeneous group than the others. Generally, it consists of new, smaller, foreign (5 United States, 2 Asian) assemblers of men's and boys' outer clothing (SITC 842) and other clothing which export to the United States using EPZs, the temporary admission regime the HTS 9802 mechanism. Many of their products face quotas. These enterprises are found in a competitive situation located between that of the Group I large United States assemblers of under garments and that of the Group III national firms, and they share elements of both.

Like the Group I companies, they possess a corporate network with many advantages, but they generally represent bigger, less specialized components of smaller, less extensive corporate networks. They identify their competitors and their competitive situation more like the national firms: their competitors are other assembly operations in the Caribbean Basin, and the nature of the competition is cut-throat price competition for contracts or defending the flagging market shares of their parent corporations. They have a more stark cost centre mentality. Five of the seven enterprises state that their principal motive for leaving Costa Rica, if the situation were to arise, would be to obtain cheaper labour elsewhere. One Asian company shifted from being a supplier to its corporate sales network in the United States to being a relatively independent competitor for contracts with unrelated major buyers.

More than half of these companies have neutral corporate strategies, although, none have defensive ones like some national firms. The essence of their corporate strategy in Costa Rica is similar to that of the national firms, solidly based on cheap labour with a recent preoccupation for quality. Also like national companies, they face a harsh renewal in which the modernization and rationalization of production are crucial.

This can be appreciated in certain of their operational aspects. They seek to improve efficiency in the same fashion as national companies, using monetary incentives for labour and the acquisition and implementation of foreign technologies and organizational practices. Although their principal human resources problem (i.e., the high cost of social security) is somewhat different from that of national firms, they seek the same work organization improvements: a more flexible production line. Moreover, the results have been the same as for national firms: lower production costs and higher quality.

Like the large United States assemblers in Group I, these companies receive their technology from the parent corporation; like the national companies, however, they adapt it to the local setting. They also mention rapid delivery as one of their competitive

advantages, again similar to national firms, but they feel that productivity is an advantage which derives from their corporate network. Three of the seven companies complain that their principal competitors have access to cheaper labour than they do, which the Group I companies also mention.

These enterprises are important, and they represented over 30% of the exports and the employment of the sample. They have not done nearly as well as the Group I foreign firms in terms of expanding their employment in 1990-1995, which increased by one-half; nevertheless, that figure is appreciably better than the performance of the Group III national firms. In terms of international market share, three companies improved during 1990-1995 and four did not. Major export items which tended to lose some of their dynamism in 1995 include men's and boys' suits, men's and boys' pants and women's pants.

Quotas in the United States market on many of their products is a constant cloud on their horizon because it permits only a moderate and measured expansion of exports. In addition, NAFTA represents a new challenge for these companies. Given that few of these corporate networks include operations in Mexico, the operations of competitors in that country are considered to have significant advantages. The uncertainty surrounding the impact of NAFTA could significantly limit further investments on their part in Costa Rica.

In sum, the analysis of the successes of challenges to the Costa Rican clothing industry is facilitated by examining the three distinct competitive situations of different groups of companies which operate there.

CHAPTER III

CONCLUSIONS AND POLICY OPTIONS

1. Conclusions

Costa Rica constitutes one of the few countries of Latin America that in some way took advantage of the opportunities available in international trade in 1980-1995. It adapted relatively well to the important changes which occurred in the international market. That adaptation took two forms: first, Costa Rica radically altered the structure of its exports to OECD in favour of manufactures, and second within the category of manufactures Costa Rica increased its market share in several of the more dynamic categories.

Costa Rica's success in exporting clothing derives from numerous factors, most notably the international market, corporate strategies and national policy elements. Each of these areas has been important in some manner.

The international market has played a very significant role in Costa Rica's emergence as a clothing supplier to the United States market. After all, it was the Asian challenge in that market which provoked a strong response in terms of restructuring on the part of the United States firms interested in defending their own faltering national market shares.

That response took the form of new corporate strategies by which United States firms attempted to improve their ability to compete against the Asian challenge in their own market by engaging in certain offshore assembly activities. These activities generally involved assembling basic garments characterized by standardized production runs, low-skilled tasks, few styling changes and reasonably predictable consumer demand, choosing sites close to the United States market which were eligible for United States trade preferences and where cheaper manpower was available. For both the large United States companies assembling garments for their parent corporations and the small national firms, other factors also influenced their corporate strategies.

The general reaction was very much facilitated by national policies. For its part, the United States Government contributed to this process through the production sharing mechanism (TSUS 807, later HTS 9802) in the context of bilateral agreements permitting special access to the United States market for offshore assemblers. At the same time, the Governments of the host countries in which the offshore assembly took place promoted these activities through tax and trade incentives in the form of EPZs and other regimes for assembling imported inputs for export.

Thus, international market factors, new corporate strategies and national policies were causal elements in the vast improvement of the international competitiveness of the Caribbean Basin clothing industry.

As a result, Costa Rica became one of the principal "winners" in the United States clothing import market, gaining market share even from the Asian tigers. Nevertheless, those successes perhaps were not founded on a solid base, and, Costa Rica has recently seen its competitive situation in that market begin to erode as other Central American assemblers gain market shares.

The challenge to Costa Rican competitiveness in this industry has at least three dimensions. The first concerns the affirmation that the export success of the apparel assembly business seems to have occurred at the expense of an integrated textile and

clothing industry. Short-term gains, in the framework of the debt crisis of the 1980s, might have been at the cost of longer-term industrialization requirements.

The second has to do with the loss of relative international competitiveness within the Caribbean Basin and Mexico. Costa Rican wage rates and social security expenses appear to be pricing the country out of the garment assembly market.

Third, this apparel assembly business depends more than anything else on preferential access to the United States market, and the United States has proved a difficult partner. In spite of its commitment to use "as sparingly as possible" the traditional safeguard provisions of the Uruguay Round Agreement on Textiles and Clothing and not to impose new quantitative restrictions, it has done just that in the case of underwear and pyjama imports. Its attempt to pressure exporters into accepting "voluntary restraints" met opposition in Costa Rica; the case went before the WTO Textiles Monitoring Body, which ruled in favour of Costa Rica. Thus, the Costa Rican clothing industry faces a complex and multifaceted set of challenges.

The aim of carrying out a detailed questionnaire of representative clothing companies in Costa Rica was to examine the nature of their contribution to the successes of that industry, identify future challenges and better comprehend the factors influencing their behavior. In particular, the analysis defines the principal elements of three distinct competitive situations: the homogeneous group of large United States assemblers of under garments (Group I), the group of national firms producing primarily men's and boys' outer wear (Group III) and the other foreign assemblers of similar outer wear and other clothing products (Group II).

The Group I firms operate in a well defined competitive situation. In terms of the international market, the parent companies of these subsidiaries faced a severe challenge in the United States market more than a decade ago. Manufacturers responded by establishing off-shore assembly operations in nearby Latin America, making use of cheap labour in the context of the specific incentives offered by those countries and privileged access to the United States market. Interestingly, these companies have established more widespread assembly networks in the Caribbean Basin. They tend to have several assembly operations in a number of countries, which gives them a great capability to respond to changes in the competitive situation of each cost centre.

These Group I enterprises tend to be highly specialized in their production, sophisticated in terms of quality, and, at the same time, more labour intensive than the rest of the sample in Costa Rica. They apply more aggressive corporate strategy and are more "corporate" in their outlook, because, they understand their specific role in the integrated international production system of their parent corporation. Quality is especially important because they export to their headquarters, which then market the product.

They improve their ability to compete by way of increases in labour productivity, quality and service. The gains in labour productivity, presumably, help to offset the increased costs of labour (i.e. wages and social security), especially in viewed in appreciating national currency. Also notable is the fact that technology is viewed as a "given" within the international market context, and it is not adapted to the local situation. The labour force is trained to meet corporate standards of performance. Virtually no local physical inputs (via local sourcing or component subcontracting) enter into the production process. Each assembly plant is a self-contained element of the corporate network, producing a small range of identical items in a highly competitive manner.

At the other extreme, the companies in Group III were created for the most part during the import substitution period. Since the reorientation of macroeconomic policy in the 1980s, they have experienced collapsing national market shares because of import penetration and have been obliged to adapt by seeking out contracts with foreign buyers, mainly large department stores or trade marked apparel companies in the United States. They compete with the rest of the world for relatively short-term contracts in which price is the principal determinant. Distinct from the foreign firms, their own corporate strategies are considered more central to their competitiveness than international market factors. They tend to adopt defensive stances and have experienced mixed results.

It is of considerable relevance to point out their disadvantages compared to the TNCs. First, the transnational network allows better programming of individual plant capacities to accommodate sporadic and changing demand for their relatively more specialized products. In this way, it is much more flexible. Second, the parent company in the transnational network takes care of many aspects of the operations, including the selection and purchase of technology, marketing, acquiring new organizational practices and quality standards. Third, the network possesses more mobility because it can easily add new production lines in more competitive sites or, if necessary, migrate to them. Fourth, the TNC have the financial capacity to invest in or guarantee local plant expansion or adaptation. Considering that the national firms define their principle competitors as foreign firms with assembly operations in the Caribbean Basin, they are in a very difficult situation.

These companies hold that national policy is considerably less important to their competitiveness than it is for foreign firms, even though it could conceivably level some of the disadvantages they face vis-à-vis their foreign competitors, which are mainly installed in EPZs in the Caribbean Basin. They view their single most important impediment to further exports to be the lack of or high cost of local financing, which they identify as the principal failure of national policy.

Generally, these companies are less specialized, less sophisticated in terms of quality and, at the same time, less willing to invest in what can clearly be considered their principal comparative advantage: cheap labour. Rather, they see their international competitiveness as more dependent on the acquisition of foreign technology, which they select on the basis of quality, reputation and acceptance in the United States market but which they have to adapt to their local operations.

They seek to improve their efficiency primarily through foreign technology and the use of foreign organizational practices. These practices help make their production lines more flexible, improve quality and lower labour costs. Some of these enterprises possess high levels of local procurement, but they do not consider this to be basic to their international competitiveness. They are trying to acquire the means to make significant improvements in quality to compensate for increasing shortfalls in competitive pricing. With regard to their exports, these firms can be characterized as relatively low-cost producers of mostly short runs of simple, standardized clothing items for international contractors.

The Group II enterprises represent the middle ground. They are bigger, less specialized components of smaller, less extensive corporate networks. Their competitors are other assembly operations in the Caribbean Basin, and the nature of the competition is cut-throat price competition for contracts or defending the flagging market shares of their parent corporations. They moved off-shore more recently than the Group I firms. They have a more stark cost-center mentality. The essence of their corporate strategy in Costa Rica is similar to that of the national firms, solidly based on cheap labour with an

emerging preoccupation for quality. Also like national companies, they face a harsh renewal in which the modernization and rationalization of production are central aspects of their corporate strategies.

They seek to improve efficiency in the same fashion as national firms, using monetary incentives for labour and the acquisition and implementation of foreign technologies and organizational practices. Although their principal human resources problem (i.e., the high cost of social security) is somewhat different from that of national firms, they seek the same work organization improvements: a more flexible production line. These companies receive their technology from the parent corporation; like the national companies, however, they adapt it to the local setting. They also mention rapid delivery as one of their competitive advantages, again similar to national firms, but they feel that productivity is an advantage which derives primarily from inputs from their corporate network.

Thus, it can be appreciated that the problems of the Costa Rican garment industry do not affect all firms equally. Corporate strategies allow for different reactions to the various challenges faced by the industry.

The large subsidiaries of the generally well-known TNCs which make up the Group I companies already possessed an integrated international production system, so they can adapt to changing competitive situations by expanding a production line in one country and reducing another in a second country. They do not have to physically shift production from one location to another. The Group II subsidiaries of smaller, less well-known TNCs do not have those advantages. Also they often do not produce for direct sale to their parent corporation but rather for international buyers, usually the big department stores or specialist clothing companies. They face a more direct competitive situation, in general, and a growing cost differential among distinct production sites can result in the physical transfer of plant and equipment to another location. Finally, the Group III national firms possess neither the integrated international production system of the former nor the footloose capabilities of the latter. Born for the most part during the import substitution era, they have seen their national market shares collapse in the face of new imports and have been forced to compete for assembly-based export contracts. This has the effect of truncating their vertical integration and weakening the underpinnings of the Costa Rican industrialization process.

Costa Rican national policy makers thus face certain challenges at the national, sectoral and company levels with regard to the clothing industry.

2. Policy options

The Costa Rican authorities face three important decisions with regard to the clothing industry. The first decision is whether to do something about the competitive situation of the industry or to do nothing, leaving it to slowly disintegrate as Costa Rica's low wage competitive advantages degenerate. If they decide to do something, a second decision concerns what to do, and finally how to do it.

Rather than taking a hurried decision based on conjectural, extraordinary or ideological factors, the situation of the garment industry requires contemplation. One must look toward the future in taking these decisions. In less than ten years, the international situation may be considerably distinct: formal import quotas in the major importing markets could be eliminated, as could the formal incentives for assembly-type activities in the form of EPZs and the like. Thereafter, import market shares should come to reflect basic competitive advantages, such as efficiency and innovation.

In the case of Costa Rica, existing advantages in terms of low wages are diminishing. This suggests that the foreign firms under the most competitive stress, such as those of the Group II companies operating in Costa Rica, may find, the country increasingly less attractive. Nevertheless, the apparel industry in Costa Rica will probably still contain a large number of enterprises and a lot of manpower, depending on the extent of the impact of the disappearance of the national export contract regime. The industry is too important to let it slowly disintegrate, and something be done about it by way of national policy. This situation can be looked at as an opportunity rather than as a disaster.

A do-something policy can be outlined according to its national, sectoral and company level components. At the national level policy should promote systemic international competitiveness. This implies a coordinated policy package with concrete targets, such as establishing macroeconomic stability, improving existing infrastructure (i.e., road, ports, airports, telecommunications, energy sources, etc.) and increasing the efficiency and workability of national institutions and the regulatory framework. Other priority areas concern the renovation of the whole educational system for the purpose of raising the level and results of the labour force. A very serious decision has to be taken with regards to the role of the manufacturing industry in the national economy, but that question escapes the limits of the present analysis.

These systemic factors are important determinants of foreign direct investment inflows. The national FDI policy should move away from incentives, except to the extent that it might be desirable to channel FDI to very capital-intensive activities such as high technical mining, tourism or infrastructure.[51] In this regard, the privatization policy should be aimed at improving systemic competitiveness, not at resolving the financial problems of the Central Government.

The size of the task facing policy makers is reflected in Table III.1. If one presumes that an internationally competitive economy will export mostly the same products to all markets, then Costa Rica suffers extreme deficiencies, except perhaps in respect to its comparative advantages in natural resources (which are not very dynamic in foreign trade). Examining the import market shares of Costa Rica in four separate regional markets (plus the OECD total), it is apparent that in 1994 only in the North American and Latin American markets was Costa Rica's share in any way significant, with greater than one-tenth of 1% of the total imports of those markets.

Costa Rica's principal market shares are in natural resources, where it has doubled its shares in the North American (to 0.61%), Western European (to 0.25%) and Latin American (to 0.26%) markets, but does not export much to Japan (0.02%). Its market shares in manufacturing, on the other hand, have increased fivefold and are concentrated totally in the North American (0.16%) and Latin American (0.17%) markets. Within the manufacturing sector, the clothing industry is very dynamic, but only in one market – North America. Although Latin America is promising, clothing is not among the top ten products exported to that market. Only in the case of the North American market does this industry figure prominently, as shown in table III.1. In other words, the clothing industry cannot be considered systemically competitive.

The central purpose of the sectoral level policy should be to make the clothing industry systemically competitive, which means converting the sector's somewhat spurious international competitiveness into something more authentic. This entails

[51] Presently in Costa Rica, the 1% tax on assets operates as a distinct disincentive to foreign investors in capital-intensive activities.

relying less on the previous framework, which consists of low wages, general export incentives, and United States market preferences and more on modernizing the clothing industry in order to face up the competitive challenges. The phasing out of the Multifibre Arrangement provides a huge opportunity for the developing countries prepared to "invest" in it. This is a formidable task and, as is apparent, the Asians possess a considerable head start.

A first priority is to link the export performance of the industry to the national industrialization process. The intention of such policy would be to improve on the production process not simply to increase sales. This entails, where feasible, conditioning export incentives to increases and improvements in national value-added, improving labour through training, increasing and diffusing the use of world-class technology and applying international standards of quality, among other things. In this sense, Costa Rican incentives must now be united in a "third generation" of incentives based on improving the international competitiveness of Costa Rican garment production.

Aside from linking incentives to factors improving the national production process and not simply to increasing exports, much can be done to improve the competitive situation of national producers. For example, contraband and dumping in the national market must be controlled if national producers are to have a reasonable opportunity to supply their own market. National firms must have at least the same competitive conditions as foreign companies operating in Costa Rica in terms of facilities to import inputs and export finish products.

The same general situation holds for the financial aspects of their operations, specifically taxes. To the extent possible, all garment firms (national and foreign) should be pre-qualified for financial incentives or tax relief insofar as they reach policy goals in terms of national value added, labour training, access to technology and quality standards which imply qualitative, as well as quantitative, advances in the national productive base for garments.

One might also contemplate concrete cooperation to link the activities of Group I and Group III enterprises. One such programme might establish centres for training labour, and for advancing quality, design and technology transfer. If Costa Rica is to take advantage of the existing industry and adapt it to the foreseeable new international competitive situation, it must be prepared to invest in its restructuring and upgrading. This could also form the basis of technical assistance programmes from donor countries which purchase Costa Rican garments.

Finally, at the company level, the role of Costa Rican policy comes down to one element: the promotion of excellence. Such a policy necessarily requires the combining of horizontal aspects affecting all firms in the industry with selective, time-bound subsidies for certain companies, mainly in Group III. These subsidies will finance the restructuring and upgrading of operations so that companies can approximate world standards over a reasonable period of transition. The training centres and design, technology transfer and quality centres could play important roles as catalysts in this field if they attain a closer working relationship between Group III and Group I enterprises. Mutual benefits are clearly possible in this area, particularly if Costa Rica eventually forms part of any extension of NAFTA and the rules of origin work in its favour. That would be more feasible if NAFTA-based firms were more clearly aware of the authentic competitive advantages available in Costa Rica. That is an important responsibility of Government policy.

Table III.1
COSTA RICA'S EXPORT PERFORMANCE IN INTERNATIONAL MARKETS, 1980 AND 1995
(percentages)

	OECD		North America		Western Europe		Japan		Latin America	
	1980	1995	1980	1995	1980	1995	1980	1995	1980	1995
Market Share	0.07	0.09	0.15	0.23	0.05	0.05	0.01	0.01	0.09	0.18
Nat. Res.	0.14	0.25	0.31	0.6	0.11	0.25	0.01	0.02	0.08	0.26
Manuf.	0.01	0.04	0.03	0.16	0.00	0.00	0.00	0.00	0.10	0.17
Export Structure	100	100	100	100	100	100	100	100	100	100
Nat. Res.	91.2	60.4	85.2	41.8	97.8	93.8	98.7	87.9	25.0	26.6
Manuf.	8.0	38.5	13.5	56.6	1.8	6.2	0.5	11.4	75.0	73.2
Others	0.8	1.1	1.3	1.6	0.4	0	0.8	0.8	0	0.2
Ten Top Exports 1994	SITC	% 78.1	SITC	% 72.6	SITC	% 95.8	SITC	% 91.5	SITC	% 41.1
	057	33.6	057	24.3	057	51.8	071	38.2	541	9.1
	071	12.5	846	12.6	071	26.8	037	23.3	642	4.4
	846	8.3	842	11.6	292	9.2	292	15.6	562	4.3
	842	7.5	844	4.6	792	2.3	291	3.0	893	4.2
	292	4.7	071	4.1	792	1.9	057	2.7	098	4.1
	844	2.9	845	4.0	036	1.1	845	2.2	424	3.8
	845	2.6	843	3.5	037	0.9	553	2.0	625	3.1
	843	2.3	897	2.7	772	0.6	058	1.7	665	2.8
	058	1.9	011	2.6	424	0.6	846	1.4	583	2.8
	054	1.8	054	2.5	611	0.6	072	1.4	591	2.5

Source: based on the CAN PLUS computer programme

STATISTICAL TABLES

Table 1
INTERNATIONAL TRADE IN GOODS: THE 50 MOST DYNAMIC GROUPS IN OECD IMPORTS, 1980-1995

SITC	Group	Contribution of the sector		Variation 1980-1995	
		1980	1995	In terms of contribution	In terms of growth
	I. COMPUTER INDUSTRY	1.4	5.3	3.6	276.2
752	Automatic data processing machines and units thereof	0.9	3.3	2.3	284.8
759	Parts, n.e.s. of and accessories for groups 751 or 752	0.5	2.0	1.3	262.5
	II. OTHER ELECTRICAL MACH. AND ELECTRONIC EQPT.	4.1	9.1	5.0	123.2
776	Thermionic, cold cathode and photo-cathode valves	0.8	2.7	0.9	236.3
773	Equipment for distributing electricity	0.2	0.5	0.3	194.6
771	Electrical apparatus and parts	0.1	0.4	0.3	149.6
764	Telecommunications equipment, parts and accessories	0.8	1.9	1.1	123.4
778	Electrical machinery and apparatus	0.8	1.4	0.6	89.1
772	Electrical apparatus for making and breaking electrical circuits	0.6	1.1	0.5	84.8
761	Television receivers	0.3	0.4	0.1	51.0
775	Household type equipment	0.5	0.7	0.2	41.7
	III. CLOTHING	2.0	3.4	1.4	71.4
846	Under garments, knitted or crocheted	0.3	0.6	0.3	87.3
843	Outer garments, for women, girls and infants, of textile fibers	0.6	1.1	0.5	75.2
845	Outer garments and accessories, knitted or crocheted	0.6	1.0	0.4	74.5
842	Outer garments, for men and boys, of textile fibers	0.5	0.7	0.2	52.6
	IV. CHEMICALS AND PHARMACEUTICALS	3.8	6.3	2.5	67.5
553	Perfumery, cosmetics and toilet preparations	0.1	0.4	0.2	181.7
541	Medical and pharmaceutical products	0.7	1.6	0.9	126.3
514	Nitrogen-function compounds	0.3	0.7	0.4	92.1
533	Pigments, paints, varnishes and related materials	0.2	0.3	0.1	65.8
513	Carboxylic acids and their derivations	0.2	0.4	0.2	46.5
583	Polymerization and copolymerization products	0.9	1.2	0.3	43.8
515	Organic-inorganic and heterocyclic compounds	0.3	0.5	0.1	39.7
598	Other chemical products	0.5	0.7	0.2	37.8
582	Condensation, polycondensation and polyaddition prod.	0.4	0.6	0.2	37.4
	V. AUTOMOBILESS	6.6	9.8	3.2	48.6
781	Passenger vehicles	3.8	5.9	2.1	53.0
713	Internal combustion piston engines and parts	0.8	1.2	0.4	49.2
784	Parts and accessories n.e.s. of motor vehicles	2.0	2.7	0.8	39.7

Table 1 (concl.)

	VI. NON-ELECTRICAL MACHINERY AND EQUIPMENT	3.5	5.0	1.5	42.5
714	Non-electric engines and motors and their parts	0.4	0.7	0.3	60.8
741	Heating and cooling equipment and their parts	0.3	0.5	0.2	55.7
716	Rotating electric plant and parts	0.3	0.4	0.1	49.7
743	Pumps and compressors, fans and blowers, etc.	0.4	0.6	0.2	48.4
749	Non-electric parts and accessories of machinery	0.8	1.1	0.3	37.5
742	Pumps for liquids and liquid elevators	0.3	0.3	0.1	36.4
728	Other specialized machinery for particular ind.	0.6	0.8	0.2	33.2
744	Mechanical handling equipment, and parts	0.4	0.6	0.2	30.4
	SUB TOTAL	21.3	38.9	17.5	82.6
	VII. OTHER	6.8	12.0	5.1	75.3
931	Special transactions and commodities not classif. by kind	0.9	2.2	1.3	143.3
898	Musical instruments and parts and accessories	0.3	0.7	0.4	141.0
872	Medical instruments and appliances	0.2	0.4	0.2	130.3
893	Articles of plastics and resins (Division 58)	0.5	1.0	0.5	107.3
812	Sanitary, plumbing, heating and lighting fixtures	0.2	0.3	0.2	87.2
831	Travel goods, shopping bags, handbags, etc.	0.2	0.4	0.2	87.0
894	Games, sporting goods, toys and baby carriages	0.6	1.1	0.6	85.2
821	Furniture and parts	0.7	1.1	0.5	68.9
897	Jewelry, goldsmiths' and silversmiths' wares	0.3	0.4	0.2	59.4
642	Articles of paper and paperboard	0.3	0.4	0.1	54.1
899	Other miscellaneous manufactured articles	0.3	0.4	0.1	50.0
036	Crustaceans and mollusks, fresh	0.3	0.5	0.2	47.1
672	Ingots and other primary forms of iron or steel	0.3	0.4	0.2	45.0
034	Fresh fish, chilled or frozen	0.4	0.6	0.2	43.2
874	Measuring, checking, analyzing instruments	0.8	1.1	0.3	39.2
684	Aluminum	0.7	1.0	0.3	31.0
	TOTAL	28.1	50.8	22.7	80.6

Source: ECLAC, on the basis of the CANPLUS computer programme.

Table 2
ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD): ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**65.81**	**72.33**	**75.72**	**72.71**
Natural Resources 1/ + 2/ + 3/			40.73	49.73	55.54	57.62
Agriculture 1/			65.88	66.26	70.63	69.24
Energy 2/			23.93	35.58	35.81	38.62
Textile fibers, minerals and metal mines			60.06	61.51	64.65	61.96
Manufactures 4/ + 5/			86.08	84.35	82.70	77.49
Based on natural resources 4/			70.25	68.77	67.91	61.53
Not based on natural resources 5/			87.89	85.61	83.85	78.60
Others 6/			60.48	69.03	72.88	60.85
II. Contribution (structure of its exports to			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			27.0	23.1	18.2	17.2
Agriculture 1/			14.4	12.0	11.3	11.5
Energy 2/			9.3	8.7	4.9	4.1
Textile fibers, minerals and metal mines			3.3	2.4	2.1	1.6
Manufactures 4/ + 5/			71.2	74.5	79.4	80.5
Based on natural resources 4/			6.0	4.5	4.7	4.2
Not based on natural resources 5/			65.3	70.0	74.8	76.3
Others 6/			1.7	2.4	2.3	2.3
III. 10 Principal exports to the OECD by	**a/**	**b/**	**19.3**	**25.3**	**25.0**	**28.0**
781 Passenger motor cars	*	-	5.8	7.7	7.6	7.8
784 Parts and accessories n.e.s. of motor	*	-	2.9	3.6	3.1	3.6
752 Automatic data processing machines	*	-	1.3	2.3	2.6	3.0
776 Thermonic, cold cathode and photo-	*	-	0.8	1.2	1.4	2.2
641 Paper and paperboard		-	1.8	1.9	2.1	2.1
541 Medical and pharmaceutical products	*	+	1.0	1.1	1.4	2.1
759 Parts for automatic data processing	*	-	0.8	1.5	1.7	1.9
764 Telecommunication equipment, parts	*	-	1.1	1.4	1.6	1.8
583 Polymerization and copolymerization	*	-	1.4	1.4	1.7	1.7
792 Aircraft and associated equipment, and		+	1.4	1.4	2.2	1.7

Source: ECLAC, on the basis of CANPLUS computer programme.
Groups based on the Standard International Trade Classification (SITC Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28.
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Sections 5, 6 (minus the divisions and groups mentioned in footnote 4), sections 7 and 8.
6/ Section 9.
a/ (*) Groups corresponding to the most dynamic ones, 1980-1995.
b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995.
OECD: Australia, Austria, Belgium and Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Holland, Iceland, Ireland, Italy, Japan, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United States, United Kingdom and Yugoslavia.

TABLE 3
JAPAN: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**4.86**	**8.16**	**7.40**	**7.05**
Natural Resources 1/ + 2/ + 3/			0.18	0.28	0.23	0.23
Agriculture 1/			0.41	0.53	0.31	0.24
Energy 2/			0.03	0.05	0.07	0.15
Textile fibers, minerals and metal mines 3/			0.38	0.58	0.48	0.50
Manufactures 4/ + 5/			8.74	12.53	9.99	9.18
Based on natural resources 4/			1.68	2.06	1.17	1.01
Not based on natural resources 5/			9.54	13.37	10.68	9.75
Others 6/			1.32	2.22	3.13	2.61
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			1.7	1.2	0.8	0.7
Agriculture 1/			1.2	0.8	0.5	0.4
Energy 2/			0.2	0.1	0.1	0.2
Textile fibers, minerals and metal mines 3/			0.3	0.2	0.2	0.1
Manufactures 4/ + 5/			97.8	98.2	98.2	98.3
Based on natural resources 4/			1.9	1.2	0.8	0.7
Not based on natural resources 5/			95.9	97.0	97.4	97.6
Others 6/			0.5	0.7	1.0	1.0
III. 10 Principal exports by contribution	**a/**	**b/**	**41.0**	**51.2**	**55.6**	**58.1**
781 Passenger motor cars	*	-	22.1	22.1	20.7	17.0
752 Automatic data processing machines and units thereof	*	+	0.7	3.7	6.6	7.9
776 Thermionic, cold cathode and photo-cathode valves and tubes	*	+	1.7	2.8	3.9	7.1
784 Parts and accessories n.e.s. of motor vehicles	*	+	2.8	2.9	4.5	5.3
764 Telecommunication equipment, parts and accessories	*	-	4.2	5.3	6.6	5.1
759 Parts for automatic data processing eqpt. and office machinery	*	+	0.8	2.7	3.7	4.6
778 Electrical machinery and apparatus, n.e.s.	*	+	1.6	2.0	2.8	3.6
713 Internal combustion	*	+	1.1	1.6	2.3	3.5
772 Electrical apparatus for making and breaking electrical circuits	*	+	0.9	1.0	1.5	2.0
763 Sound and video equipment		-	5.0	6.9	3.0	1.8

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (SITC Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28.
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Sections 5, 6 (minus the divisions and groups mentioned in footonote 4), 7 and 8.
6/ Section 9.
a/ Groups corresponding (*) to the most dynamic ones, 1980-1995
b/ Groups in which Japan increased (+) or decreased (-) its market share during 1980-1995.

Table 4
DEVELOPING ASIA: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**7.51**	**9.44**	**10.74**	**13.62**
Natural Resources 1/ + 2/ + 3/			7.71	9.04	8.60	9.16
Agriculture 1/			10.18	10.15	9.85	11.10
Energy 2/			6.43	8.46	7.23	6.49
Textile fibers, minerals and metal mines 3/			6.97	7.55	8.25	8.95
Manufactures 4/ + 5/			7.43	9.84	11.65	15.31
Based on natural resources 4/			7.90	8.69	9.24	11.42
Not based on natural resources 5/			7.38	9.93	11.83	15.57
Others 6/			5.23	4.74	5.31	5.21
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			44.8	32.2	19.9	15.3
Agriculture 1/			19.5	14.1	11.1	9.9
Energy 2/			22.0	15.8	7.0	4.1
Textile fibers, minerals and metal mines 3/			3.4	2.3	1.9	1.2
Manufactures 4/ + 5/			53.9	66.6	78.9	83.6
Based on natural resources 4/			5.9	4.4	4.5	3.9
Not based on natural resources 5/			48.0	62.2	74.4	79.7
Others 6/			1.3	1.2	1.2	1.1
III. 10 principal exports by contribution	**a/**	**b/**	**20.0**	**28.1**	**34.8**	**41.0**
752 Automatic data processing machines and units thereof	*	+	0.1	1.5	5.2	8.0
776 Thermionic, cold cathode and photo-cathode valves and tubes	*	+	3.4	4.3	4.3	7.3
759 Parts for automatic data processing eqpt. and office machinery	*	+	0.3	1.8	1.9	4.3
894 Games, sporting goods, toys and baby carriage	*	+	2.5	3.3	4.1	4.0
843 Outer garments, women's, girls and infants', of textile fabric	*	+	3.3	4.1	4.3	3.6
845 Outer garments, knitted or crocheted	*	+	2.5	3.5	4.0	3.4
851 Footwear		+	2.6	3.5	3.9	3.4
764 Telecommunication equipment, parts and accessories	*	+	1.3	2.2	2.6	3.2
762 Radio-broadcast receivers		+	1.9	1.6	2.1	2.0
842 Outer garments, men's and boys', of textile fabrics	*	+	2.1	2.2	2.3	1.9

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (SITC Rev. 22
Groups based on the Standard International Trade Classification (SITC Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3
3/ Groups 26, 27 and 28
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671
5/ Sections 5 and 6 (minus the divisions and groups mentioned in 4/), sections 7 and 8
6/ Section 9
a/ Groups which correspond to the 50 most dynamic ones, 1980-1995.
Developing Asia includes the Republic of Korea, Hong Kong, Taiwan (Province of China), Singapore, Burma, India, Indonesia, Malaysia, Pakistan, China, Thailand and the Philippines.

Table 5
THE FOUR ASIAN TIGERS: ASPECTS OF THEIR INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**3.48**	**5.30**	**5.76**	**5.84**
Natural Resources 1/ + 2/ + 3/			1.04	1.48	1.58	1.56
Agriculture 1/			1.88	2.38	2.31	2.04
Energy 2/			0.67	1.01	0.97	0.87
Textile fibers, minerals and metal mines 3/			0.67	0.80	1.14	1.39
Manufactures 4/ + 5/			5.40	7.39	7.25	7.16
Based on natural resources 4/			2.52	2.64	2.36	1.81
Not based on natural resources 5/			5.73	7.77	7.63	7.53
Others 6/			4.22	3.33	3.64	3.25
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			13.1	9.4	6.8	5.8
Agriculture 1/			7.4	5.6	4.6	4.2
Energy 2/			4.9	3.4	1.8	1.2
Textile fibers, minerals and metal mines 3/			0.7	0.4	0.5	0.5
Manufactures 4/ + 5/			84.6	89.0	91.6	92.6
Based on natural resources 4/			4.0	2.4	2.1	1.5
Not based on natural resources 5/			80.6	86.7	89.5	91.1
Others 6/			2.3	1.5	1.5	1.5
III. 10 Principal exports by contribution	**a/**	**b/**	**23.9**	**31.4**	**37.2**	**50.8**
752 Automatic data processing machines and units thereof	*	+	0.1	2.7	9.0	14.0
776 Thermionic, cold cathode and photo-cathode valves and tubes	*	+	3.8	3.9	5.0	11.3
759 Parts, n.e.s. for use solely of groups 751 or 752	*	+	0.7	3.1	3.1	8.0
845 Outer garments knitted or crocheted	*	-	4.8	5.1	4.7	3.5
764 Telecommunication equipment, parts and accessories	*	+	2.5	3.6	3.6	3.4
778 Electrical machinery and apparatus, n.e.s.	*	+	1.1	1.6	1.7	2.5
894 Games, sporting goods, toys and baby carriages	*	-	5.1	5.2	4.0	2.4
843 Outer garments, women's, girls' and infants', of textile fabrics	*	-	5.1	5.0	3.8	2.3
781 Passenger vehicles	*	+	0.0	0.5	1.2	1.9
772 Electrical apparatus for making and breaking electrical circuits	*	+	0.5	0.8	1.2	1.5

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (SITC Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671
5/ Sections 5, 6 (minus the divisions and groups mentioned in footnote 4), 7 and 8.
6/ Section 9.
a/ (*) Groups corresponding to the most dynamic ones, 1980-1995.
b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995
THE 4 ASIAN TIGERS are the Republic of Korea, Hong Kong, Singapore and Taiwan Province of China.

Table 6
THE ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN): ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**287.**	**2.54**	**2.51**	**3.58**
Natural Resources 1/ + 2/ + 3/			5.34	5.39	4.84	4.99
Agriculture 1/			6.55	5.71	5.37	5.66
Energy 2/			4.97	5.68	4.74	4.37
Textile fibers, minerals and metal mines 3/			3.20	2.10	2.64	3.35
Manufactures 4/ + 5/			0.96	1.10	1.76	3.24
Based on natural resources 4/			3.40	3.31	3.48	4.03
Not based on natural resources 5/			0.68	0.93	1.62	3.19
Others 6/			0.72	0.75	1.08	1.65
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			81.4	71.5	48.0	30.3
Agriculture 1/			32.8	29.5	25.9	19.0
Energy 2/			44.5	39.6	19.6	9.5
Textile fibers, minerals and metal mines 3/			4.0	2.4	2.5	1.8
Manufactures 4/ + 5/			18.2	27.8	51.0	68.4
Based on natural resources 4/			6.6	6.2	7.3	5.5
Not based on natural resources 5/			11.6	21.6	43.7	62.9
Others 6/			0.5	0.7	1.0	1.3
III. 10 Principal exports by contribution	**a/**	**b/**	**53.4**	**51.9**	**39.1**	**42.2**
776 Thermionic and similar semi-conductor devices	*	+	4.4	8.0	6.7	9.5
752 Automatic data processing machines and units	*	-	0.0	0.1	1.6	6.3
341 Gas, natural and manufactured		+	5.7	13.0	7.9	4.4
764 Telecommunications equipment, parts and accessories	*	+	0.2	0.4	1.9	3.6
333 Petroleum oils, crude, also from bituminous minerals		+	35.0	22.5	8.8	3.5
036 Crustaceans and mollusks	*	-	1.4	1.8	3.4	3.2
762 Radio-broadcast receivers		+	0.2	0.5	2.0	3.1
232 Natural rubber latex, natural rubber and similar natural gums		+	6.3	5.2	3.6	3.0
851 Footwear		+	0.3	0.3	2.1	2.8
763 Sound and video equipment		+	0.0	0.0	1.0	2.7

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (CUCI Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671
5/ Sections 5 and 6 (minus the divisions and groups mentioned in 4/), sections 7 and 8
6/ Section 9
a/ Groups which correspond to the 50 most dynamic ones, 1980-1995.
b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995.
ASEAN includes Indonesia, Malaysia, The Philippines, Singapore and Thailand.

Table 7

CHINA: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**0.67**	**1.03**	**1.85**	**3.66**
Natural Resources 1/ + 2/ + 3/			0.89	1.47	1.60	1.87
Agriculture 1/			0.94	1.30	1.62	2.18
Energy 2/			0.76	1.43	1.35	1.18
Textile fibers, minerals and metal mines 3/			1.60	2.58	2.54	2.72
Manufactures 4/ + 5/			0.52	0.81	1.98	4.29
Based on natural resources 4/			0.43	0.38	0.86	2.32
Not based on natural resources 5/			0.53	0.84	2.07	4.42
Others 6/			0.18	0.50	0.46	0.67
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			57.6	48.4	21.5	11.1
Agriculture 1/			20.0	16.6	10.6	7.2
Energy 2/			29.0	24.6	7.6	2.5
Textile fibers, minerals and metal mines 3/			8.6	7.2	3.3	1.4
Manufactures 4/ + 5/			41.9	50.4	77.9	88.4
Based on natural resources 4/			3.5	1.8	2.4	3.1
Not based on natural resources 5/			38.4	48.7	75.5	85.3
Others 6/			0.5	1.2	0.6	0.5
III. 10 Principal exports by contribution	**a/**	**b/**	**10.2**	**20.0**	**42.5**	**45.4**
894 Games, sporting goods, toys and baby carriages	*	+	0.4	2.7	9.2	9.6
851 Footwear	*	+	1.2	1.3	5.2	7.5
843 Outer garments, women's, girls' and infants', of textile fabric	*	+	2.1	4.9	6.8	5.9
845 Outer garments, knitted or crocheted	*	+	1.3	3.0	4.9	4.6
831 Travel goods, shopping bags, handbags, etc.	*	+	0.3	1.6	3.8	3.8
842 Outer garments, men's and boys', of textile fabrics	*	+	2.1	3.3	3.9	3.4
764 Telecommunication equipment, parts and accessories	*	+	0.0	0.1	1.5	2.9
762 Radio-broadcast receivers		+	0.0	0.3	2.7	2.6
899 Other miscellaneous manufactured articles, n.e.s.	*	+	2.7	2.4	3.0	2.6
893 Articles of materials of the kind described in division 58	*	+	0.1	0.3	1.4	2.4

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (SITC Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28.
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Sections 5 and 6 (minus the divisions and groups mentioned in 4/), sections 7 and 8.
6/ Section 9
a/ Groups which correspond to the (*) 50 most dynamic ones, 1980-1995.

Table 8
LATIN AMERICA AND THE CARIBBEAN : ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**5.30**	**5.70**	**4.54**	**4.97**
Natural Resources 1/ + 2/ + 3/			9.37	11.46	9.89	10.30
Agriculture 1/			12.28	13.29	10.53	10.81
Energy 2/			6.98	9.72	8.43	8.62
Textile fibers, minerals and metal mines 3/			14.73	13.91	12.89	13.93
Manufactures 4/ + 5/			2.07	2.68	2.72	3.44
Based on natural resources 4/			7.22	7.95	7.57	7.24
Not based on natural resources 5/			1.48	2.25	2.34	3.18
Others 6/			4.30	5.30	4.44	4.89
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			77.2	67.7	54.1	45.0
Agriculture 1/			33.3	30.6	28.0	26.2
Energy 2/			33.8	30.2	19.2	13.5
Textile fibers, minerals and metal mines 3/			10.1	7.0	6.9	5.4
Manufactures 4/ + 5/			21.3	30.0	43.5	52.3
Based on natural resources 4/			7.6	6.6	8.7	7.1
Not based on natural resources 5/			13.7	23.4	34.8	45.1
Others 6/			1.5	2.3	2.4	2.7
III. 10 principal exports by contribution	**a/**	**b/**	**55.7**	**51.2**	**40.8**	**36.9**
333 Petroleum oils, crude, and crude oils from bituminous minerals		+	23.4	21.2	13.4	10.4
071 Coffee and coffee substitutes		-	11.0	9.5	4.9	4.1
057 Fruit and nuts, fresh or dried		+	3.0	3.4	4.6	4.1
781 Passenger vehicles	*	+	0.2	0.4	2.3	3.9
081 Animals feed		+	2.8	2.8	2.9	2.5
334 Petroleum products, refined		-	9.3	8.2	5.1	2.4
784 Parts and accessories n.e.s. of motor vehicles	*	+	0.6	1.2	1.9	2.2
773 Equipment for distributing electricity	*	+	0.3	0.8	1.6	2.2
287 Ores and concentrates of base metals		+	4.0	2.3	2.5	2.2
931 Special transactions and commodities not classified by kind	*	-	1.0	1.2	1.7	2.1

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (CUCI Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671
5/ Sections 5, 6 (minus the divisions and groups mentioned in footnote 4), sections 7 and 8.
6/ Section 9
a/ (*) Groups which correspond to the 50 most dynamic ones, 1980-1995.
b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995.
LATIN AMERICA: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica. Ecuador Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago and Venezuela.

Table 9

LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA): ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**4.41**	**5.01**	**4.02**	**4.39**
Natural resources 1/ + 2/ + 3/			7.64	9.94	8.62	8.95
Agriculture 1/			9.28	10.58	8.66	8.85
Energy 2/			6.20	9.19	8.08	8.39
Textiles fibers, minerals, etc. 3/			11.34	11.69	10.80	11.90
Manufactures 4/ + 5/			1.87	2.43	2.45	3.08
Based on natural resources 4/			6.71	7.41	7.10	6.81
Not based on natural resources 5/			1.32	2.03	2.09	2.82
Other 6/			3.02	4.37	3.85	4.28
II. Contribution (structure of its exports)			**100.0**	**100.0**	**100.0**	**100.0**
Natural resources 1/ + 2/ + 3/			75.6	66.8	53.3	44.4
Agriculture 1/			30.2	27.7	26.0	24.3
Energy 2/			36.1	32.4	20.8	14.9
Textiles fibers, minerals, etc. 3/			9.3	6.7	6.5	5.2
Manufactures 4/ + 5/			23.1	31.1	44.4	52.9
Based on natural resources 4/			8.5	7.0	9.2	7.6
Not based on natural resources 5/			14.6	24.0	35.1	45.3
Other 6/			1.3	2.1	2.3	2.7
III. 10 principal exports by contribution	**a/**	**b/**	**55.0**	**52.8**	**42.6**	**37.8**
333 Petroleum oils, crude, and crude oils from bituminous minerals		+	25.6	22.8	14.5	11.5
781 Passenger vehicles	*	+	0.2	0.5	2.6	4.4
071 Coffee and coffee substitutes		-	9.8	8.3	4.2	4.1
057 Fruit and nuts, fresh or dried		+	1.9	2.3	3.4	3.0
081 Animal feed		+	3.4	3.2	3.3	2.8
334 Petroleum products, refined		-	9.2	8.8	5.5	2.6
784 Parts and accessories n.e.s. of motor vehicles	*	+	0.7	1.4	2.1	2.5
773 Equipment for distributing electricity	*	+	0.3	0.9	1.8	2.5
682 Copper		-	3.2	2.2	3.2	2.2
713 Internal combustion piston engines and parts	*	+	0.7	2.4	2.1	2.2

Source: ECLAC, on the basis of CANPLUS computer programme.

Groups based on the Standard International Trade Classification (SITC Rev.2)

1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.

2/ Section 3.

3/ Divisions 26, 27 and 28.

4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671.

5/ Sections 5, 6 (minus the divisions and groups mentioned in footnote 4), 7 and 8.

6/ Section 9.

a/ (*) Groups corresponding to the 50 most dynamic ones, 1980-1995.

b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995. LAIA includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela

Table 10

CENTRAL AMERICA AND THE CARIBBEAN: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN THE OECD

			1980	1985	1990	1995
I. Market share			**0.88**	**0.69**	**0.52**	**0.58**
Natural resources 1/ + 2/ + 3/			1.72	1.52	1.26	1.35
Agriculture 1/			3.00	2.71	1.87	1.96
Energy 2/			0.77	0.53	0.36	0.23
Textile fibers, minerals, etc. 3/			3.39	2.22	2.09	2.02
Manufactures 4/ + 5/			0.20	0.24	0.26	0.36
Based on natural resources 4/			0.51	0.54	0.47	0.43
Not based on natural resources 5/			0.16	0.22	0.25	0.36
Others 6/			1.28	0.93	0.59	0.61
II. Contribution (structure of its exports)			**100.0**	**100.0**	**100.0**	**100.0**
Natural resources 1/ + 2/ + 3/			85.1	74.3	60.3	50.1
Agriculture 1/			48.7	51.5	43.5	40.3
Energy 2/			22.5	13.6	7.1	3.1
Textile fibers, minerals, etc. 3/			13.9	9.2	9.7	6.6
Manufactures 4/ + 5/			12.2	22.3	36.9	47.1
Based on natural resources 4/			3.2	3.7	4.8	3.6
Not based on natural resources 5/			9.0	18.6	32.2	43.4
Others 6/			2.7	3.3	2.7	2.9
III. 10 principal exports by contribution	**a/**	**b/**	**53.1**	**54.4**	**57.5**	**64.4**
057 Fruit and nuts, fresh or dried		-	8.9	11.9	14.2	12.4
071 Coffee and coffee substitutes		-	16.9	18.5	10.0	11.0
846 Under garments, knitted or crocheted	*	+	1.0	1.8	4.0	8.5
842 Outer garments, men's and boys'	*	+	0.3	1.3	4.0	6.3
287 Ores and concentrates of base metals		-	11.2	7.0	8.7	6.3
843 Outer garments, women's, girl's and infants' of textile fabrics.	*	+	0.7	1.9	4.2	5.6
845 Outer garments and accessories, knitted or crocheted	*	+	0.1	0.4	2.6	4.2
061 Sugar and honey		-	10.9	7.3	5.7	4.1
844 Under garments, of textile fabrics	*	+	0.3	0.7	1.3	3.2
036 Crustaceans and mollusks, fresh, whether in shell or not	*	-	2.9	3.6	2.8	2.9

Source: ECLAC, on the basis of CANPLUS computer programme.

Groups based on the Standard International Trade Classification (SITC Rev.2).

1/ Section 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.

2/ Section 3.

3/ Divisions 26, 27 and 28.

4/ Divisions, 61, 63 and 68; groups 661, 662, 663, 667 and 671.

5/ Divisions 5, 6 (minus the divisions and groups mentioned in footnote 4), 7 and 8.

6/ Section 9.

a/ (*) Groups which correspond to the 50 most dynamic ones, 1980-95.

b/ Groups in which these countries increased (+) or decreased (-) their market share during 1980-1995. Central America and the Caribbean includes Barbados, Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Suriname and Trinidad and Tobago.

Table 11
MEXICO: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**1.26**	**1.77**	**1.50**	**2.09**
Natural resources 1/ + 2/ + 3/			1.94	3.06	2.03	1.96
Agriculture 1/			1.13	1.30	1.27	1.38
Energy 2/			2.47	4.55	3.05	2.92
Textile fibers, minerals, etc. 3/			1.40	1.87	1.44	1.66
Manufactures 4/ + 5/			0.71	1.09	1.29	2.10
Based on natural resources 4/			1.24	1.25	0.98	1.07
Not based on natural resources 5/			0.65	1.08	1.31	2.17
Other 6/			1.49	1.63	2.45	2.80
II. Contribution (structure of its exports)			**100.0**	**100.0**	**100.0**	**100.0**
Natural resources 1/ + 2/ + 3/			67.2	58.2	33.6	20.4
Agriculture 1/			12.9	9.6	10.2	8.0
Energy 2/			50.3	45.6	21.1	10.9
Textile fibers, minerals, etc. 3/			4.0	3.0	2.3	1.5
Manufactures 4/ + 5/			30.6	39.5	62.4	75.9
Based on natural resources 4/			5.5	3.4	3.4	2.5
Not based on natural resources 5/			25.1	36.1	59.0	73.4
Other 6/			2.2	2.3	3.9	3.7
III. 10 Principals exports by contribution	**a/**	**b/**	**58.6**	**61.6**	**52.4**	**48.7**
333 Petroleum oils, crude, and crude oils from bituminous min.		+	46.1	42.0	19.9	10.2
781 Passenger motor cars	*	+	0.3	0.9	6.0	9.0
773 Equipment for distributing electricity	*	+	1.1	2.5	4.6	5.2
784 Parts and accessories n.e.s. of motor vehicles	*	+	1.3	2.6	4.3	4.3
761 Television receivers	*	+	0.0	0.5	2.5	3.8
764 Telecommunications equipment, parts and accessories	*	-	4.6	3.4	3.1	3.8
713 Internal combustion piston engines and parts thereof	*	+	0.6	4.6	3.6	3.6
931 Special transactions and commodities not classified by kind	*	+	2.2	2.2	3.6	3.5
772 Electrical apparatus for making/breaking electrical circuits	*	+	1.3	1.6	2.6	2.9
778 Electrical machinery and apparatus, n.e.s.	*	+	1.2	1.4	2.2	2.3

Source: ECLAC, on the basis CANPLUS computer programme.
Groups based on the Standard International Trade Classification SITC Rev.2)
1/ Section 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Divisions 26, 27 and 28.
4. Divisions, 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Divisions 5 and 6 (minus the divisions and groups mentioned in 4), 7 and 8.
6/ Section 9.
a/ Groups which correspond (*) to the 50 most dynamic ones, 1980-95.
b/ Groups in which Mexico increased (+) or decreased (-) its market share during 1980-1995.

Table 12
DOMINICAN REPUBLIC: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**0.08**	**0.09**	**0.09**	**0.12**
Natural resources 1/ + 2/ + 3/			0.11	0.12	0.08	0.08
Agriculture 1/			0.33	0.31	0.16	0.15
Energy 2/			0.00	0.00	0.00	0.00
Textile fibers, minerals, etc. 3/			0.06	0.01	0.01	0.01
Manufactures 4/ + 5/			0.04	0.06	0.09	0.13
Based on natural resources 4/			0.20	0.22	0.28	0.29
Not based on natural resources 5/			0.02	0.04	0.07	0.12
Others 6/			0.37	0.47	0.22	0.15
II. Contribution (structure of its exports)			**100.0**	**100.0**	**100.0**	**100.0**
Natural resources 1/ + 2/ + 3/			62.3	44.8	22.0	15.0
Agriculture 1/			59.4	44.6	21.6	14.7
Energy 2/			0.2	0.0	0.0	0.1
Textile fibers, minerals, etc. 3/			2.7	0.2	0.4	0.2
Manufactures 4/ + 5/			28.8	41.9	71.9	81.6
Based on natural resources 4/			14.1	12.0	16.8	12.1
Not based on natural resources 5/			14.7	29.8	55.1	69.5
Others 6/			8.9	13.3	6.0	3.5
III. 10 Principals exports to for contribution	**a/**	**b/**	**49.2**	**47.2**	**66.3**	**70.0**
842 Outer garments, men's and boys' of textile fabrics	*	+	0.9	4.9	12.0	15.8
846 Under garments, knitted or crocheted	*	+	3.9	0.8	4.3	11.4
843 Outer garments, women's, girls' and infants', of textile fabrics	*	+	1.8	5.2	9.1	9.8
872 Medical instruments and appliances, n.e.s.	*	+	0.1	0.0	3.8	6.0
612 Leather manufactures, artificial or regenerated		+	1.0	3.0	5.7	5.9
845 Outer garments, knitted or crocheted	*	+	0.6	0.8	4.3	5.1
671 Refined metal (nickel)		-	12.2	7.7	10.0	5.0
772 Electrical apparatus for making and breaking electrical circuits	*	+	0.6	1.1	3.5	3.7
061 Sugar and honey		-	28.0	16.0	6.4	3.6
897 Jewelry, goldsmiths' and silversmiths' ware	*	+	0.1	0.0	3.8	3.5

Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (CUCI Rev.2)
1/ Section 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Divisions 26, 27 and 28.
4. Divisions, 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Divisions 5, 6 (minus the divisions and groups mentioned in footnote 4), 7 and 8.
6/ Section 9.
a/ (*) Groups which correspond to the 50 most dynamic ones, 1980-95.
b/ Groups in which Dominican Republic increased (+) or decreased (-) its market share during 1980-1995.

Table 13

COSTA RICA: ASPECTS OF ITS INTERNATIONAL COMPETITIVENESS IN OECD

			1980	1985	1990	1995
I. Market share			**0.07**	**0.07**	**0.08**	**0.09**
Natural Resources 1/ + 2/ + 3/			0.14	0.17	0.20	0.25
Agriculture 1/			0.42	0.44	0.42	0.44
Energy 2/			0.00	0.00	0.00	0.00
Textile fibers, minerals and metal mines 3/			0.01	0.01	0.00	0.01
Manufactures 4/ + 5/			0.01	0.02	0.03	0.04
Based on natural resources 4/			0.01	0.01	0.02	0.02
Not based on natural resources 5/			0.01	0.02	0.04	0.05
Others 6/			0.03	0.02	0.03	0.03
II. Contribution (structure of its exports to the OECD)			**100.0**	**100.0**	**100.0**	**100.0**
Natural Resources 1/ + 2/ + 3/			91.2	81.0	66.6	60.4
Agriculture 1/			90.9	80.3	66.5	60.3
Energy 2/			0.0	0.3	0.0	0.0
Textile fibers, minerals and metal mines 3/			0.3	0.4	0.1	0.1
Manufactures 4/ + 5/			8.0	18.4	32.5	38.5
Based on natural resources 4/			0.9	0.9	1.4	1.1
Not based on natural resources 5/			7.1	17.6	31.1	37.4
Others 6/			0.8	0.6	0.9	1.1
III. 10 Principal exports by contribution	**a/**	**b/**	**78.2**	**77.8**	**79.4**	**78.1**
057 Fruit and nuts, fresh or dried		+	39.2	35.7	37.0	33.6
071 Coffee and coffee substitutes		+	32.3	27.5	14.7	12.5
846 Under garments, knitted or crocheted	*	+	2.8	3.2	6.3	8.3
842 Outer garments, men's and boy's, of textile fabrics	*	+	0.3	2.3	6.1	7.5
292 Crude vegetable materials		+	1.3	2.9	4.6	4.7
844 Under garments, of textile fabrics	*	+	0.0	1.3	1.8	2.9
845 Outer garment, knitted or crocheted	*	+	0.2	0.3	2.0	2.6
843 Outer garments, women's, girls' and infants', of textile fabrics	*	+	1.4	3.4	4.3	2.3
058 Fruit, preserved, and fruit preparation		+	0.3	0.5	1.4	1.9
054 Vegetables, fresh, chilled, frozen or preserved		+	0.5	0.7	1.2	1.8

Source: Source: ECLAC, on the basis of the CANPLUS computer programme.
Groups based on the Standard International Trade Classification (CUCI Rev.2).
1/ Sections 0, 1 and 4; divisions 21, 22, 23, 24, 25 and 29.
2/ Section 3.
3/ Groups 26, 27 and 28.
4/ Divisions 61, 63 and 68; groups 661, 662, 663, 667 and 671.
5/ Sections 5 and 6 (minus the divisions and groups mentioned in footnote4/), 7 and 8.
6/ Section 9.
a/ (*) Groups which correspond to the 50 most dynamic ones, 1980-1995.
b/ Groups in which Costa Rica increased (+) or decreased (-) its market share during 1980-

Table 14
LATIN AMERICA AND THE CARIBBEAN: ITS SHARE IN INTERNATIONAL TRADE OF THE MOST DYNAMIC INDUSTRIES, 1980 AND 1995

		1980	1995	Variation
I.	COMPUTERS	1.72	1.30	0.42
	Mexico	0.55	1.21	0.66
	Other countries	1.18	0.09	-1.09
II.	ELECTRIC MACHINERY & EQUIPMENT	3.68	4.82	1.14
	Mexico	3.05	4.55	1.50
	Dominican Republic	0.03	0.07	0.04
	Costa Rica	0.02	0.04	0.02
	Other countries	0.60	0.18	-0.42
III.	CLOTHING	2.22	6.56	4.34
	Mexico	0.79	1.95	1.16
	Dominican Republic	0.29	1.35	1.06
	Honduras	0.04	0.59	0.55
	Guatemala	-	0.47	0.47
	Costa Rica	0.15	0.55	0.40
	Jamaica	0.04	0.42	0.38
	Other countries	0.91	1.23	0.32
IV.	CHEMICALS AND PHARMACEUTICAL	0.54	0.74	0.20
	Mexico	0.16	0.43	0.27
	Brazil	0.19	0.20	0.01
	Other countries	0.19	0.11	-0.18
V.	AUTOMOBILE	1.09	3.49	2.40
	Mexico	0.43	3.08	2.65
	Venezuela	0.01	0.03	0.02
	Other countries	0.66	0.38	-0.28
VI.	NON-ELECTRIC MACHINERY	0.63	2.22	1.59
	Mexico	0.39	1.63	1.24
	Brazil	0.14	0.52	0.38
	Others	0.10	0.07	-0.03
VII.	16 OTHER INDUSTRIAL GROUPS	3.44	3.86	0.42
	Mexico	1.36	1.93	0.57
	Brazil	0.35	0.71	0.36
	Ecuador	0.10	0.19	0.09
	Dominican Republic	0.07	0.14	0.07
	Costa Rica	0.02	0.05	0.03
	Bolivia	0.00	0.03	0.03
	Peru	0.03	0.06	0.03
	Other countries	1.51	0.75	-0.76

Source: ECLAC, on the basis of the CANPLUS computer programme.

Table 15

ADAPTABILITY INDEX OF THE THREE EXCEPTIONS IN LATIN AMERICA AND THE CARIBBEAN, 1980 AND 1995

	Market Share	Export Structure
Dominican Republic		
1980	0.35	0.31
1995	1.46	4.35
Percent change	316.2	1304.9
Mexico		
1980	0.51	0.45
1995	1.35	4.01
Percent change	164.3	792.1
Costa Rica		
1980	0.15	0.13
1995	0.33	0.97
Percent change	120.8	645.2

Source: ECLAC, on the basis of the CAN PLUS computer programme.