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INDUSTRIAL DEVELOPMENT STRATEGY AND POLICIES:  
THE EXPERIENCE OF COSTA RICA, 1950-1972 <sup>1/</sup>

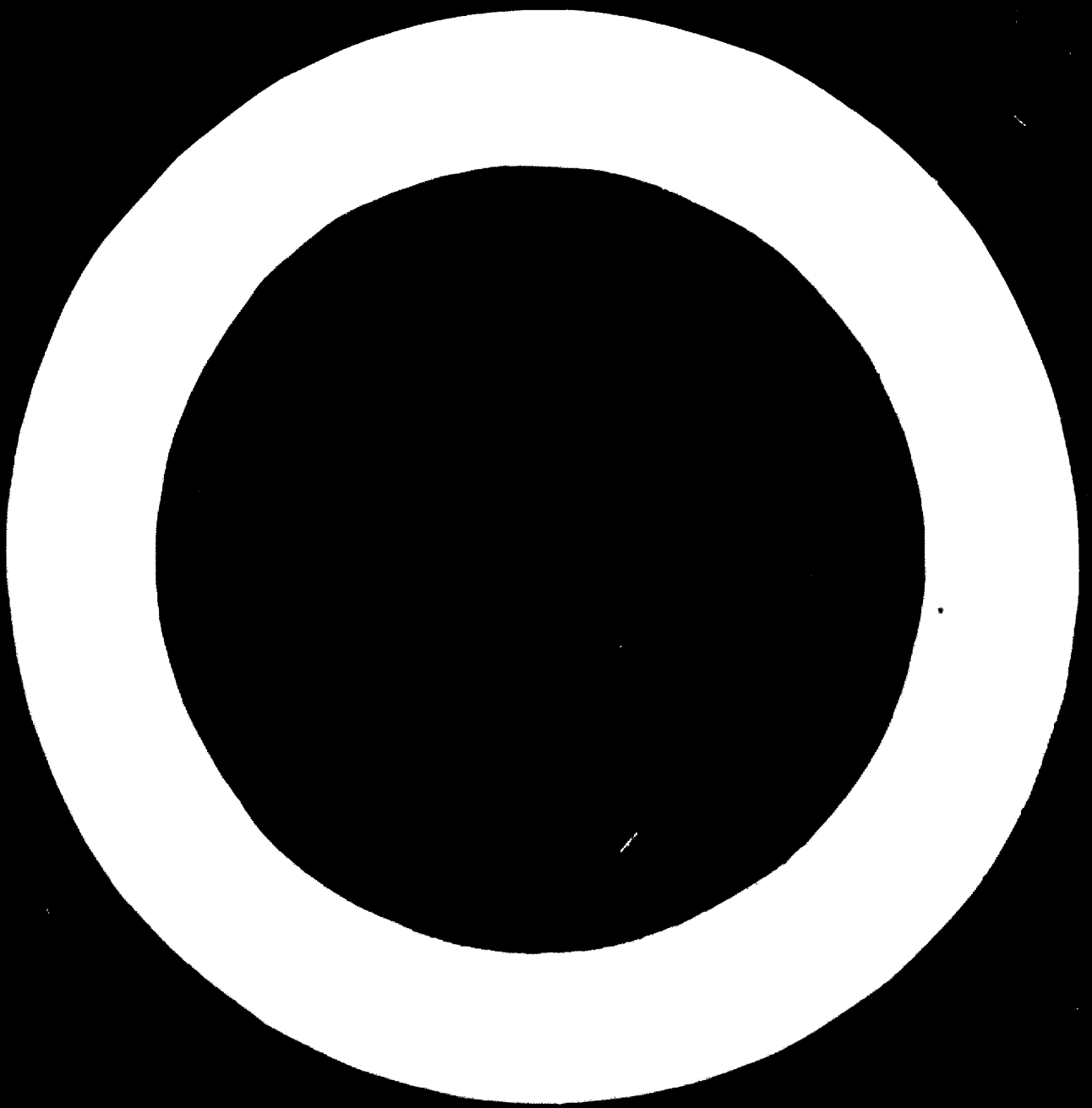
by

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<sup>1/</sup> The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.

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## I. PRE-CONDITIONS FOR INDUSTRIALIZATION

### A. The market

According to information supplied by the General Directorate for Statistics and Censuses, in 1950, the population of Costa Rica was slightly more than 812,000 inhabitants. This, together with the fact that the per capita gross domestic product was only \$257.20 (see table 1), sharply limited the domestic market and its ability to support the establishment of new industries in the country.

One of the most salient characteristics of the Costa Rican economy in the 1950s was its relatively small purchasing power. This, together with the fact that domestic demand was spread over a wide range of products, meant that the local market was barely adequate economically to justify the installation and operation of a few activities.

The smallness of the market, for its part, in addition to acting as a constraint to transforming the structure of manufacturing activities into one more capable of ensuring better economic and social development, has noticeably affected the costs of many production units, especially in the manufacturing sector. The smallness of the market was also the cause of large amounts of idle capacity, which were partially eliminated when a larger market was open when Costa Rica joined the process of Central American economic integration; this made it possible at the same time to reduce the unit costs of some enterprises.

The liberalization of trade beginning in 1962 meant for Costa Rica an accelerated import-substitution process. The progress made in integration up to the present time shows that the increase in industrial activity has been achieved primarily through increased utilization of idle capacity, and the operation of industries which, while requiring a market larger than the domestic one to operate with satisfactory costs, are not among those which require the market of the zone. It can therefore be concluded that the domestic market is not at present large enough to make some industries which have been set up in recent years economical, and the size of the domestic market limits the development of basic industries producing intermediate and capital goods, as well as some consumer goods industries which require the whole Central American market for economic operation; Costa Rica and Central America as a whole therefore consider the process of regional integration to be a necessary prerequisite for satisfactory growth.

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Despite the existence of a market larger than the domestic market, demand is inadequate for many industrial activities which could well develop in the country. Therefore, the country must make unflagging efforts to achieve diversification of exports outside the area. This would at once make it possible to overcome the country's small capacity to import and place at its disposal greater resources for servicing purchases from abroad.

#### B. Transport

The country's rate of growth with regard to investment in transport during the 1950s was quite high, and increased as much as tenfold between the beginning and the end of the decade.<sup>1/</sup> None the less, it cannot be said that the country's transport and communications system was adequately developed in the 1950s to provide new industrial enterprises with easy access to markets throughout the country.

The structure of Costa Rican transports must be considered, albeit briefly, to determine whether or not the country has had and has an integrated and efficient transport and communications system, guaranteeing an adequate flow of persons, goods and services to all areas of the country, and whether, in keeping with requirements, the system facilitates trade, which helps to increase the national wealth.

The socio-economic phenomenon which has had and continues to have a considerable influence on the structure and process of transports in Costa Rica is the higher degree of economic development of the central area of the country, commonly referred to as the Meseta Central, which is largely devoted to coffee production, although other export and general consumption articles are also produced, and is much more densely populated than the peripheral areas.

San José, the capital, has the highest population density, and the heaviest traffic in the country circulates in the Metropolitan area, which comprises the city and neighbouring localities.

As regards means of communication, the most highly developed are highways and land communication links connecting various towns and cities with the area of greatest density.

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<sup>1/</sup> Características de la Economía de Costa Rica, 1950-1962 (Characteristics of the Costa Rican Economy, 1950-1962), Planning Office, September 1965, page 157.



A brief consideration of the distribution of land links shows that as they get further from the area of greatest population density, they become more inadequate, to the point that there are areas, mainly agricultural ones, which have no means of land communication with the remainder of the country. The fact that the density of population and means of communication is greater in the central area of the country, and especially in the Metropolitan area of San José, meant that responsibility for the industrial development of the country rested with this area during the 1950s and even more so after 1963, when Costa Rica adhered to the Central American free trade treaties.

Since the whole country did not at the outset have adequate impetus for investment in this type of infrastructure, possibilities for accelerating the process of geographical decentralization of industry during the 1960s were limited, and the economic exploitation and efficient utilization of rich industrial raw material producing areas was hampered. In addition to the network of land links, the country has other means of transport such as those provided by two railway enterprises, which provide daily service to Puntarenas and Limón, the main Pacific and Atlantic ports, respectively. There are also a number of airline routes connecting and serving various important areas of the country. This shows that Costa Rican industry now has a national system or service for the distribution of its products which is efficient in some degree.

### C. Power and water

#### Electric power

When the Costa Rican Electricity Institute (ICE) was set up in 1949, the State started to play an active and important part in solving the electricity problem at the national level. It was possible, by taking advantage of the favourable economic situation in the early years of the 1950s, to give financial support to the Institute. The existing manpower potential in the technical and administrative fields was also put to work and, after appropriate preparation, has been in charge of developing and implementing the most important electrification programmes in the country.

In 1972, when it had been in existence for 23 years, ICE had built most (78.8 per cent) of the generating capacity installed in the country through public service enterprises, and had also acquired control of the Compañía Nacional de Fuerza y Luz, which during the same year served 105,980 consumers, or 53.3 per cent of the total number of consumers served by the public service electricity enterprises in the country.<sup>2/</sup>

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<sup>2/</sup> Electricity statistics, National Electricity Service, 1972.

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In the period 1962-1972, the installed electricity generating capacity of public service enterprises grew at an annual rate of 11.5 per cent, increasing from 105,870 kw in 1962 to 281,838 kw in 1972. This favourable development in electric power generation made it possible not only satisfactorily to meet the demand of industry existing at the beginning of the current period of expansion (1962), but also to cope with increases in demand arising from the installation and starting up of large new industrial plants in the country.

As can be seen, the country has made an intensive effort in recent years to produce the electric power required to meet the growing demand necessarily arising out of its development. According to information from the National Electricity Service, sales of electric current grew by 646.4 million kw between 1962 and 1970, increasing from 395.3 million kwh in 1962 to 1,041.7 million kwh in 1972.<sup>3/</sup>

Demand from the manufacturing sector increased, and this sector absorbed a large share of the increases in electric current generation, coming to be the second largest consumer. In 1972, 295.1 million kwh, or 28.3 per cent of the total, were destined for this sector, comparing favourably with 10.5 per cent in 1962.

It is also important to point out that Costa Rica, which has the highest per capita consumption of electric power in Central America, has been able to establish the lowest tariffs in the area (\$0.0215 - average price per kwh in 1972) for all service, and has even lower tariffs for industrial consumption: \$0.0192 per kwh also in 1972. This has favoured the industrial development of the country. Another factor which has encouraged the development of productive activities in the country, and in particular manufacturing industry, is the fact that, of the total gross electric power generation in the country (1,266.4 million kwh in 1972), more than 95 per cent was accounted for by public service enterprises, and the remainder by small enterprises far from the major population centres and other large enterprises such as the Pacific Electric Railway and several large ranches which would appear to find it profitable to generate electric power for their productive activities.

#### Water

The situation is a little different as regards the supply of water for industry. Before 1961, administration of the existing water mains was the responsibility of the individual municipalities in the country and, with only a few exceptions, the

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<sup>3/</sup> Electricity statistics, National Electricity Service, 1972.

systems were not adequate to meet the requirements of the growing population and efficiently cope with the expansion of productive activities in the country, especially new industries. In order to operate efficiently, many of these industries therefore had to install their own water supply systems, resulting in increases in industrial costs.

In 1961, the Servicio Nacional de Acueductos y Alcantarillado (National Water Mains and Sewers Service) (SNAA), a semi-autonomous body responsible for meeting nationwide requirements for drinking water and sewer facilities, was set up. At present, nearly all the cities in the country have water mains systems. The SNAA has prepared aggressive programmes for improving the quality of these systems, some of which, such as the one known as the "five cities programme", are already being implemented. Studies are being carried out for the "fourteen cities programme" and considerable progress has been made in solving the problem of water supply in rural areas by implementing a specific water mains programme for these areas. Studies will also be continued to determine what demand there will be for water mains in the next few years. Construction of the metropolitan water mains system, which will supply the most densely populated area of the country where the largest number of industries are concentrated, will be continued.

#### D. Industrial sites

Costa Rican industry is highly concentrated in the Meseta Central, where the greatest density of population and financial and commercial activities are found. This area comprises the main urban centres of the provinces of Cartago, Heredia, Alajuela and San José. A study carried out by the University of Costa Rica indicates that in the mid-1950s, around 80 per cent of all industrial establishments were located in this area and that San José accounted for 46.5 per cent of the total for the country.<sup>4/</sup> None the less, appropriate industrial sites were not found in locations duly selected for the purpose. On the contrary, industrial enterprises were set up in a disorderly way, first of all in the centre of the capital city and then around its periphery and in the provincial capitals, without properly designed siting plan providing for common services and circumventing the problems of crowding of persons and enterprises, poor health conditions and social disturbances.

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<sup>4/</sup> Características de la Economía de Costa Rica, 1950-1962, Planning Office, September 1965.

Efforts have been made to solve some of the basic problems of Costa Rican industry. For example, for several years the Central American countries have been interested in developing industrial estates. In Costa Rica, both the Housing and Town Planning Institute (INVU) and the Planning Office (OFIPLAN) have carried out investigations along these lines with technical assistance from international agencies. As a result of these investigations, a comprehensive programme for an industrial estate in the province of Alajuela and a preliminary one for Pavas have been prepared.

The basic objectives of the industrial estates are:

1. To spread industry over the territory in order to avoid concentration in a few focal points;
2. To offer cheap and well located land to entrepreneurs establishing themselves in the estates;
3. To organize common services and thereby achieve external economies;
4. To afford long-term and low-interest credit for the purchase of buildings and land.

The results of these efforts were finally focussed on Pavas and an industrial area which has been under intensive development in the province of Heredia. In this way, some of the objectives listed above such as improved and more appropriate geographical distribution of industry and credit facilities for the purchase of land have been partially realized. As regards the existence of common services, we can single out only those originating in the supply of power and water and means of communication.

In the rest of the country, programmes directed at developing industrial zones or estates have not borne fruit. The necessity of regulations in this sphere is obvious. Industrial plants often produce noise, heat, smoke, fumes, odours, wastes, congestion of transport, etc. which become more acute as time passes. In order to solve the problems raised by population growth and the process of urbanization and industrialization, the Legislative Assembly approved the Town Planning Law in August 1968.

#### E. Local raw materials

According to information provided by the General Directorate for Statistics and Censuses,<sup>5/</sup> of the total raw materials and packaging used by domestic industry<sup>6/</sup> during 1956-1957, 75.8 per cent was calculated to be of domestic origin. Six years later, in 1962-1963, this proportion had dropped to 65.8 per cent.<sup>7/</sup>

<sup>5/</sup> Second Industrial Census in Costa Rica, 1958.

<sup>6/</sup> Third Census of Manufacturing Industries, 1964, Republic of Costa Rica.

<sup>7/</sup> Including the most traditional sectors such as coffee and cocoa milling.

This is explained by the fact that during the 1950s more than 80 per cent<sup>8/</sup> of the value generated in industry was accounted for by the traditional industries, especially those producing foodstuffs, beverages, tobacco, footwear and clothing, wood and furniture and leather and leather products.

Most of these industries supplied themselves with local raw materials, although not in quantities and qualities adequate to make it possible for them to pretend to be highly efficient and competitive industries. Even today, some of these drawbacks persist in certain industrial activities such as the footwear industry. It is thought that through improvements in and mechanization of the industry, progress can be made in this connexion.

Some of the most important industrial enterprises established at the end of the 1950s and during the 1960s such as a petroleum refinery, a wheat mill, a tyre factory, a fertilizer plant and several chemical and pharmaceutical plants supply themselves primarily with imported raw materials. So the relationship between industry and its input requirements appears to indicate that the industrialization which has thus far taken place has gone hand in hand with a greater trend towards supply from foreign sources, and it will not be easy to change this trend until industry itself and other sectors of the country's economy have achieved a greater degree of integration of their productive structure.

In the 1960s, some protected industries were established to provide new sources of domestic raw materials. One of these is the cement factory, and full import-substitution has been achieved in respect of cement. In addition, beginning in 1960, when the export market for sugar and processed meats emerged, new sources of production of sugar cane and livestock were established and started operating. These sectors are now strong foreign exchange earners for the country.

None the less, many sources of local raw materials for industry, especially those of agricultural and mineral origin, have been unable to develop owing to the lack of programmes of research and evaluation of the relevant natural resources and to the lack of adequate legislation in this field.

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<sup>8/</sup> Estudio del desarrollo industrial costarricense (Study on Costa Rican Industrial Development), preliminary version, Planning Office, June 1964.

Since the early 1950s, when the Law on New Industries was promulgated, Costa Rican industry has enjoyed exemption from customs duties on imports of raw materials which are not locally produced. The Customs Tariff of 1964 empowered the central Government to reimburse customs duties paid on raw materials used in the production of articles intended for export. In 1959, the Law on the Protection and Development of Industry, which greatly increased the amount and broadened the nature of exemptions from customs duties for industry, entered into force.

The Central American Agreement on Fiscal Incentives to Industrial Development was signed in 1962. It entered into force in April 1969. This instrument established a graduated exemption from customs duties and related charges, including consular fees, on the import of raw materials, semi-finished products and packaging ranging from 100 per cent in the first five years to 60 per cent in the three following years and 40 per cent in the subsequent two years for new industries producing raw materials, capital goods or consumer goods, packaging or semi-finished products, provided that at least 50 per cent of the total raw materials, packaging and semi-finished products used were of Central American origin. There is a classification for the other types of industry and the incentives granted on the basis of their importance.

In order to ensure, inter alia, the supply of imports, the Industrial Law and, more recently, the Central American Agreement on Fiscal Incentives to Industrial Development empower the central Government to sign contracts with entrepreneurs. None the less, provisions governing currency exchange laid down by the Central Bank have sometimes affected or temporarily interrupted the normal machinery of imports of raw materials for industry by reducing or delaying the provision of official foreign exchange owing to a weakening of the country's international currency reserves.

#### F. Human skills

At the outset, domestic industry - which was, it is true, very rudimentary - was fed with manpower trained in vocational schools or through working under skilled workers. These training schools were initially genuine trade schools. Then they developed, and intermediate-level and vocational training were combined in them. In this way, it was possible to improve the quality of the education they provided. However, by its very design, the system was unable to meet the need for skilled workers, supervisors, accountants, middle management, senior management and engineers, and this placed real checks on the industrialization of the country, above all in the early years of the 1950s.

When the country undertook systematic industrial development, the manufacturing sector changed radically. More complex industrial enterprises were set up and existing ones were expanded, giving rise to the need for greater specialization of manpower.

According to information from the General Directorate for Statistics and Censuses, in 1950, the labour force in the industrial and artisanal sector of the country comprised 43,102 persons,<sup>2/</sup> or 15.8 per cent of the economically active population of the country (see table 2). This figure had risen to 75,164 persons by 1963 and to 85,378 by 1967. This means that, of the total economically active population of the country in those years, 18.4 and 18.7 per cent respectively were employed in the industrial sector.

The relative share accounted for by artisans and workers in total industrial manpower dropped considerably during the period from 1950 to 1967, decreasing from 83.0 per cent in 1950 to 48.5 per cent in 1967, with a corresponding increase in other categories such as professionals (engineers, economists, accountants), technicians, managers and administrators, clerical employees and sales personnel, who made a contribution of some importance to Costa Rica's industrial development (see table 3).

When the change took place in the manufacturing sector, the University of Costa Rica had already been in existence for several years and was able, by expanding its sphere of influence through the creation of new major fields to supply professionals at some of the fundamental levels of industry. However, owing to the shortage of medium-level technicians, this educational institution has been compelled to take on functions typical of a technological institute without, however, completely adapting to the characteristics of such an institute.

The lack of an institute of technology has been felt for many years in the Costa Rican educational system. One was recently set up, and it is hoped that it will meet a much felt need in the industrial development of the country.

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<sup>2/</sup> Including artisans and workers in industry, building and other sectors.

In order to meet the need for skilled labour for industry, Law No. 3506 of 21 May 1965 set up the National Institute of Apprenticeship (INA). In order to fulfil its task, INA uses various types of training:

- (a) Vocational training: turns common labourers or "peons" (unskilled workers) into skilled workers;
- (b) Supplementary training: turns workers with incomplete knowledge of their trade into skilled workers;
- (c) Further training up-grading courses: given to semi-skilled, skilled and highly skilled workers with the object of preparing them for jobs at higher levels, including supervisory posts;
- (d) Specialization: Intended for skilled and highly skilled workers who require comprehensive and thorough knowledge of a specific technique in their trade, for the purpose of training specialized workers and technicians in the preparation and control of production;
- (e) Apprenticeship: Means of comprehensive training. Intended for youngsters and designed to train workers able to exercise skilled vocations requiring manual skill and technical knowledge which can be acquired only in relatively long periods of time and in contact with the actual job.

The effort which the country has been and is making in vocational training speaks for itself. During the 1960s, it was possible not only to reduce the shortage of professional skills for industry, but also to lay the foundations on which the country can base a systematic training of skilled labour.

#### G. Available financing

There is no doubt that financing plays a strategic role in under-developed countries such as ours. The low levels of savings characteristic of these countries are reflected in an acute and chronic shortage of the funds for investment needs which they have for use in their development efforts. Costa Rica has not been an exception to the rule, and during the 1950s, not only was there a shortage of resources for industry, but adequate mechanisms were not created for the collection and mobilization of the internal resources required to accelerate the country's industrialization.

The inadequacy of funds encouraged their use in speculative activities in the nature of commercial capitalism rather than in industry, since the former were more lucrative and less risky than the latter. This same situation has impeded the formation of an entrepreneurial class in our country. In the final analysis, it



has been preferable to finance commerce or to take out national bonds than to set up industrial enterprises. It is therefore necessary that the country should grant major incentives to industrial investment, that there should be supplementary participation by the public sector through credit mechanisms and that a climate favourable to foreign investment should be promoted.

The national banking system in Costa Rica, using its own resources and foreign loans, especially from the Inter-American Development Bank and the World Bank, has done the most in financing fixed and operating capital in industry, as can be seen by the increase in allocations in the last few years (see table 4).

This is an excellent policy, considering that other activities such as agriculture and stock breeding, which are essential for the development of our economy and require large investments must be financed.<sup>10/</sup>

At the regional level, the main source of credit has been the Central American Bank for Economic Integration (BCIE), and in the private sector, the Costa Rican Industrial Finance Corporation (COFISA), which has been operating using its own resources and loans from the Agency for International Development (AID).

At the end of 1965, loans to industry amounted to 227.1 million colones, according to figures from the Co-ordinating Commission, while those to COFISA amounted to 30.6 million colones, and those to the Central American Bank for Economic Integration to 9.0 million colones. These figures have increased considerably in the last few years, owing not only to the efforts of the commercial banks, which can be appreciated in table 4, but also to a greater inclination by international finance agencies to grant loans for industry under increasingly favourable terms.

The Law on the Protection and Development of Industry (at the national level) and the Agreement on Fiscal Incentives to Industry in Central America are instruments which have encouraged a high degree of investment in industry, since they contain provisions for exemption from customs' duties on the import of industrial machinery, for periods of up to ten years in respect of enterprises producing raw materials and capital goods. As far as the Government is concerned, in its eagerness to

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<sup>10/</sup> Plan Operativo Industrial para el año 1969 (Industrial Plan of Operation for 1969), Planning Office, September 1968, San José, Costa Rica, page 35.

encourage the industrial development of the country, it has made generous provision for granting the permits and foreign exchange required to import needed machinery. When there has been a shortage of foreign exchange or it has become necessary to establish a system of double exchange rates, both raw materials and industrial machinery have received preferential classification for obtaining the foreign exchange required to ensure uninterrupted imports.

#### H. Entrepreneurial initiative

Personal forms of ownership have always been the predominant forms of organization of capital ownership in the country.

The figures produced by the industrial censuses of 1958 and 1964 indicate that 88.8 per cent and 83.9 per cent, respectively, of the number of commercial establishments operating in those years showed personal (individual) forms of organization (see table 5).

Table 5 also indicates a shift from personal forms of organization towards others such as limited liability companies, joint stock companies, silent partnerships and co-operatives, which increased their share by approximately 6 per cent between 1958 and 1964.

The large proportion accounted for by the group of traditional industries has contributed to the predominance of personal forms of organization of ownership. It is probable that, from 1964 to the present, the proportion accounted for by joint stock and limited liability companies has substantially increased owing to the establishment of new enterprises belonging to groups which are more dynamic than the traditional ones.

The fact that there are so few corporations in Costa Rican industry traces back partly to a preference for financing enterprises through small groups of investors, which are generally family groups. This has reduced the possibilities for financing large-scale enterprises by taking advantage of the mobilization and transfer of the resources of saving sectors to investing sectors.

Although in the last twenty years, there has been a substantial and constant increase in the number of entrepreneurs and investors involved in Costa Rica's industrial development, it has not been possible domestically to start up an appropriate mechanisms for collecting and mobilizing the domestic savings required to achieve a greater degree of real participation by the country in its own economic and social development.

Recently (on 16 November 1972), the Law establishing the Costa Rican Development Corporation (CODESA), an institution which will be responsible, inter alia, for collecting and mobilizing domestic savings for the productive sectors of the country, was promulgated.

## II. INDUSTRIALIZATION ACHIEVEMENTS IN THE PERIOD 1950-1972

### A. A brief review

#### 1. Industrial production

The gross industrial product grew during the period 1950-1972 at an annual rate of 10.2 per cent. If for purposes of analysis we break this period down into shorter periods, it can be seen that from 1950 to 1960 the growth rate was 10.1 per cent,<sup>11/</sup> while from 1960 to 1972, it was 11.3 per cent (see table 6 and 7).<sup>12/</sup> This reveals a substantial increase in the production capacity of the sector and also indicates that the production goals proposed in the Medium-Term Industrial Plan for 1955-1968 were exceeded with a fair margin, while the growth rate estimated in volume 1 of Las Previsiones del Desarrollo Económico y Social 1969-1972 y Planes del Sector Público (Forecasts of Economic and Social Development for 1969-1972 and Public Sector Plans), which estimated the annual growth rate for the industrial sector at 9.6 per cent, was also surpassed.

The products of large new industrial plants established in the country, e.g. fertilizers, cement, textiles, tyres, wheat flour, petroleum derivatives, foodstuffs, electrical products and metal parts and structures, and also by the expansion of existing plants have been largely responsible for the favourable developments in 1960-1972. Table 8 covers some of the most important industrial enterprises established in Costa Rica in the last ten years which have played an important part in broadening the country's industrial base.

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11/ The method used originally by OFIPLAN to calculate the gross value of production and value added in industry, which was subsequently used by the Central Bank of Costa Rica, is described in the attached annex.

12/ The information which appears in tables 6 and 7 on the gross industrial product differs from that appearing in table 1 owing to the fact that the latter includes exploitation of mines and quarries and construction.

As regards the economic composition of the gross industrial product (see table 6), it should be noted that in 1950-1972, capital goods accounted for a relatively small proportion, but one which underwent significant growth, from 3.3 per cent in 1950 to 6.5 per cent in 1972. And in intermediate goods, there was an even greater increase. The increase in intermediate goods and capital goods taken together balances out the relative decrease in consumer goods. It should be pointed out that the increase in intermediate and capital goods at the expense of consumer goods is considerable, if it is taken into account that the differences are measured as percentages of the gross industrial product.

However, the centre of gravity of industrial development has tended to lie more in the vigorous growth of the traditional industries, which generally produce consumer goods, such as foodstuffs (sausages and processed meat, sugar, powdered milk, fruit juices and tomato juice), beverages, tobacco, textiles, footwear and wood products (see table 7), which use raw materials obtained from Costa Rica's main source of wealth, the agricultural and stock breeding sector. Consequently, these industries not only exploit domestic natural resources, but also exercise an integrating action on the various sectors which is desirable from the point of view of better economic development of the country.

In the non-metallic mineral products branch, the main factor of expansion is the cement industry, which largely exploits domestic raw materials and has made it possible completely to forgo former imports of cement into the country. Diatomite, which after appropriate processing can be used as a coating agent for fertilizers, a filtering material, an abrasive, etc., also belongs to the non-metallic mineral products branch and is one of the country's own natural resources.

In addition to cement production, other related activities which supply the building and housing industry have taken an up-turn. Examples of these are traditional concrete products and new fibro-cement products, which mainly use local raw materials.

As offshoots of the rapid growth of the construction and housing industry in the 1960s, other important manufacturing activities were also able to develop, e.g. the production of veneer and plywood, iron bars for construction and galvanized iron sheet for roofs, which not only supply local construction and housing work, but are also exported to other Central American countries.

## 2. Degree of domestic supply

In 1950, 1960, 1970 and 1972, the proportions of total supply of manufactured products accounted for by Costa Rican industry were 55.8 per cent, 58.6 per cent, 55.7 per cent and 57.2 per cent respectively (see table 9). The above data reveal the importance of domestic industry in the domestic supply of manufactured products. There was a decrease in the relative importance of domestic production in the domestic supply of manufactured products in 1970 as compared with 1960, with a tendency towards recovery in 1972. An analysis of table 9 indicates that demand for industrial products was much stronger in 1970 than in 1960 (3,133.1 million colones), and in other words grew at an annual rate of 11.4 per cent during the period in question. This explains why, despite the fact that Costa Rican industrial production increased considerably - by more than 10 per cent a year - in 1950-1970, amounting in absolute figures to 1,697 million colones, it was necessary to supplement it with substantial imports in order to supply the domestic market with manufactured goods.

On the other hand, the fact that, in order to develop, around 1970, a larger proportion of industrial enterprises found it necessary to import large amounts of intermediate and capital goods than had been the case around 1960, to a large degree explains why purchases abroad accounted for so great a share of the supply of manufactured products in 1970, as compared with 1960.

## 3. Industrial exports

The foreign trade figures show that, in addition to sugar and processed meats, for which there is a large foreign market and which earn considerable amounts of foreign exchange for the country,<sup>13/</sup> there are a large number of industries which have achieved satisfactory exports of manufactured goods such as medicinal and pharmaceutical products, manufactured fertilizers, tyres and inner tubes for vehicles, synthetic textiles, outer garments and underwear, margarine and butter, batteries, insecticides and fungicides and transmitters and radio transmitters, exports of which amounted to more than \$1 million in 1972 (see table 10).

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<sup>13/</sup> In 1971, exports of sugar and processed meats earned \$12.9 million and \$21.1 million, respectively. (Anuario de comercio exterior 1971) (Foreign Trade Yearbook, 1971), General Directorate for Statistics and Censuses).

Table 11 shows that between 1966 and 1972, the country's total exports increased at an annual rate of 12.5 per cent, rising from US\$135.5 million in 1966 to US\$274.0 million in 1972, in other words by US\$138.5 million. During the same period, industrial exports grew by \$60.5 million. Therefore, a large proportion (43.7 per cent) of the increase in the country's total exports was attributable to industrial products. Table 11 also shows that the share of the country's total exports accounted for by industrial products increased from 31.8 per cent in 1966 to 37.8 per cent in 1972.

These figures indicate a considerable increase in the share of sales abroad accounted for by Costa Rican industry, which has helped to check to some degree the deficit in the country's commercial balance in recent years. In addition, table 12 shows that the proportion of manufacturing production intended for export has increased significantly, from 17.2 per cent in 1966 to 20.7 per cent in 1972. It is also interesting to note that, of the total increase in industrial production between 1966 and 1972 (1,659.4 million colones), 24.1 per cent, or 400.5 million colones, was accounted for by industrial exports to the Central American Common Market and the rest of the world.

Most of the main industries set up in the country in recent years have been intended to supply the Central American Common Market, which Costa Rica joined in July 1962, when it signed the General Treaty on Central American Economic Integration.

Through this instrument and other agreements signed at the regional level such as the Central American Agreement on Fiscal Incentives to Industrial Development and the Central American Agreement on Equalization of Import Duties, the country has ensured preferential access for its export industries to the markets of the other countries in the region.

## B. Statistical indicators of industrial development progress

### 1. Importance of industry in the Costa Rican economy

The share accounted for by manufacturing industry in the generation of the Gross Domestic Product of the Costa Rican economy increased from 14.2 per cent in 1950 to 19.4 per cent in 1972 (see table 1). Introducing the contribution of the farming and livestock breeding sector into the analysis, we observe that its share in the Gross Domestic Product, in relative terms, dropped sharply from 41.3 per cent in 1950

to 21.6 per cent in 1972. It can therefore be affirmed that the productive structure of the country has improved, although slowly, to the extent that manufacturing industry has taken over part of the relative share in the Gross Domestic Product originally accounted for by the agricultural and stock breeding sector without the latter demonstrating a slump or stagnation.

2. Industrial production, number of establishments and personnel employed in industry

The information from industrial censuses given in table 13 shows that a large share of the country's industrial production (45.4 per cent in 1958 and 43.1 per cent in 1964) originated in enterprises which employed from 10 to 69 persons. These were followed in importance by a small number of enterprises (42 in 1958 and 55 in 1964) which employed more than 69 persons and accounted for more than 30 per cent of the total production of the country. The remainder, slightly more than 20 per cent of the industrial production of the country in the years concerned, originated in establishments which employed fewer than 10 persons. This group comprises the very small industrial enterprises and cottage or artisan enterprises and accounts for more than 90 per cent of the number of establishments registered in the relevant industrial censuses.

Like other developing countries, Costa Rica has a manufacturing sector in which artisan industries account for a high percentage of the number of establishments (80 per cent).<sup>14/</sup> The share accounted for by the artisanal enterprises is smaller from the point of view of number of employees (32 per cent), and its contribution to the gross product of the sector is smaller still (12 per cent).<sup>15/</sup>

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<sup>14/</sup> Under the criterion applied in Central America, enterprises with fewer than five employees are classified in the category of small-scale industry.

<sup>15/</sup> The percentages were calculated on the basis of data from the industrial census of 1964 (General Directorate for Statistics and Censuses).

3. Origin of manufacturing production by type of enterprise

Since it has been impossible to obtain statistics on the proportion of the country's manufacturing output accounted for by enterprises in the private sector, enterprises in the public sector and enterprises with mixed ownership, we are here giving approximate figures, taking into account the figures for industrial production and information on some important State-owned industries such as the Fábrica Nacional de Licores, the Imprenta Nacional, the Talleres del Ferrocarril Eléctrico al Pacífico, etc., and some enterprises with mixed ownership such as the Refinadora Constarricense de Petróleo and the Cooperativa de Servicios Aeroindustriales R.L. (COOPESA). These would indicate that around 10 per cent of the country's manufacturing output is accounted for by enterprises in the public sector, 5 per cent by enterprises with mixed ownership and the remainder (85 per cent) by enterprises in the private sector.

4. Contribution of industry to full employment in the economy

As shown in the data given in table 2, in 1972, the economically active population amounted to 538,200 persons, of which 19.6 per cent were accounted for by the industrial sector which, in other words, employed 105,500 persons;<sup>16/</sup> in 1950, the economically active population amounted to 272,000 persons, of which 15.8 per cent was accounted for by employment in industry (i.e. 43,100 persons employed). The increase in the economically active population between 1950 and 1972 corresponds to a cumulative annual rate of 3.2 per cent, or an average of 11,600 persons a year. The cumulative annual growth rate in employment in industry was 4.2 per cent, in other words an average of 2,700 persons more were employed each year in the sector. The above figures indicate that the industrial sector was able by itself to absorb an average of 23.3 per cent a year of the total working force of the country, when the annual growth rate of the sector in terms of value added during the same period was 10.2 per cent (see table 7).

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<sup>16/</sup> Including artisans and workers in industry, building, etc.



Although the growth rate for employment in industry was higher than the growth rate for the whole economically active population, the rate of absorption of labour by industry is very low, not only in comparison with the rate of growth of industry itself, but also in light of the fact that Costa Rica is a country with a rapidly growing total population in which forms of under-employment may exist in some sectors.

Another factor related to the capacity of industry to absorb labour is the technical and economic nature of enterprises.

It is possible that, in order to secure better competitive, customs protection or monopoly situations, or simply owing to lack of advice or information, entrepreneurs have opted for combinations of capital and labour which do not at all further the basic objective of increasing employment in the country.

### III. THE STRATEGY OF INDUSTRIALIZATION, 1950-1972

#### A. Selection of priority industries

It was not until 1963, when Law No. 3087 was promulgated, that the Planning Office was set up as a means of institutionalizing the planning of the country's economic and social development. In the years before 1963, there was no planning instrument to prepare programmes and plan means and action to realize the objectives and goals of industrial development in a coherent and feasible manner.

There have been statements of industrial policy embodied in laws and regulations or in policy programmes or international agreements. These have laid down as objectives improvement in the balance of payments through import-substitution or increase in and diversification of exports, the creation of new jobs, an increase in national income, and others which are the normal concern of developing countries. The selection of industries in the country during the 1950s was largely dictated by the desire to achieve these objectives.

The Law on the Protection and Development of Industry, which entered into force in 1959, answered the need felt in the industrial field for a group of tax incentives of some scope, both qualitatively and quantitatively. This Law can be looked upon as an important effort to systematize and bring under the roof of one criterion the promotion and development of industry, giving preference to industries intended to

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produce new manufactured goods in the country. The Law affords established industries a type of protection which encourages their plans for modernization and expansion. In addition, it provides that whenever it is to be applied, an evaluation must be carried out taking into account the effects of the project on national income, the balance of payments, employment of labour and the use of local raw materials.

In the Programme for the Manufacturing Industry, 1955-1968, the first industrial development programme prepared by the Costa Rican Government, the first general quantitative goals relating to the manufacturing sector of the country were laid down. The goals for production and investment proposed in the Industrial Plan were more or less achieved with regard to production and were easily achieved with regard to investment.<sup>17/</sup>

In a document published by the Planning Office in August 1968,<sup>18/</sup> the following comment is made: "For reasons of the experience and information available, the Plan for 1965-1968 had necessarily to be of an overall type with specific general guidelines, but without concrete projects". However, the Industrial Programme for 1965-1968 did lay down some important guidelines regarding the subsequent job of translating the macro-economic production goals into specific projects and indicated some concrete industrial activities which should be stressed in order to achieve not only the increase in industrial production provided for, but also changes in the productive structure of the sector which would further its degree of integration so that the relative proportion accounted for by industry producing intermediate and capital goods would increase at the expense of the industries producing consumer goods.

The Industrial Plan for 1969-1972, which is contained in part four of the document entitled "Previsiones del Desarrollo Económico y Social 1969-1972 y Planes del Sector Público" (Forecasts of Economic and Social Development for 1969-1972 and Public Sector Plans), published by the Planning Office in March 1970, sets forth in

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<sup>17/</sup> Growth rates: Industrial production: Plan - 11.3 per cent; Real - 11.2 per cent. Investment in industrial sector: Plan - minus 1.5 per cent; Real - 8.9 per cent. Source: Observaciones a la Ejecución del Plan Nacional de Desarrollo 1965-1968, (Comments on the Implementation of the National Development Plan, 1965-1968), OFIPLAN, 1968.

<sup>18/</sup> Observaciones a la Ejecución del Plan Nacional de Desarrollo 1965-1968 (Comments on the Implementation of the National Development Plan, 1965-1968), OFIPLAN, August 1968.

addition to medium-term (1969-1972) goals and forecasts for production, investment, imports, demand and employment in the industrial sector, a list of projects which it might be possible to implement during the period concerned. Most of the projects were selected because they would use raw materials of domestic origin in their production. Some of these projects relate to condensed and evaporated milk, fish meal, maize derivatives (starch, glucose), fine spirits, cigars ("puros" for export), cotton yarns, wood veneer, iron sheet for roofs, black and galvanized steel tubes, pieces of wood for furniture (for export) and products derived from sulphur winning. It is also indicated that, in order to start up many of these projects, various problems would have to be solved, e.g. industrial financing, interpretation and execution of laws in force, legislative approval and above all the preparation of specific agricultural and mining development programmes for the supply of raw materials to industry (cotton, maize, tobacco, sulphur, etc.).

If the growth rate provided for in the Industrial Plan for 1969-1972, which was 9.6 per cent a year, is compared with the most recent growth rate (11.4 per cent) obtained for this period from information supplied by the Central Bank of Costa Rica,<sup>19/</sup> it can be seen that the quantitative production goals provided for in the Plan were in fact easily exceeded.

The Industrial Plan for 1969-1972, in the context of orientation of industrial development policy, offers the country three options with regard to industrial investment.

The first option involves investments to increase installed capacity and the efficiency of existing industry in order to meet the demands of the domestic market to an increasing degree. The second involves investment in new, basically export-oriented, industries which utilize and develop domestic resources. The third involves investment in new plants producing intermediate and capital goods to replace imports and, eventually, supply foreign markets.

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<sup>19/</sup> Algunos Indicadores Económicos del Sector Industrial 1972 (Some Economic Indicators for the Industrial Sector, 1972), Department of Economic Studies of the Central Bank of Costa Rica.

The Industrial Plan for 1969-1972 also states that "it is of interest to stimulate the growth rate of the economy and of employment by making more efficient use of the country's own resources, wherever this is appropriate; however, it should be endeavoured at the same time to solve development finance problems under conditions ensuring maximum stability".

Further on, the Plan adds: "As regards industrial policy measures and machinery for implementing them, the constraints arising out of participation in a common market must always be borne in mind, and therefore many of these measures must be adopted, if they are to be effective, at the regional level. Consequently, efforts should be made to promote a Central American industrial policy which promotes enterprise efficiency and eliminates the negative repercussions on sound development financing of indiscriminate industrial promotion".

As can be seen, the country's industrial development plans in recent years have contained not only guidelines for the selection of priority industries, but also a number of industrial policy measures and actions directed towards promoting the best development of the sector. However, since development plans and programmes in Costa Rica are not "compulsory", but rather "indicative" or "orientative" for the private sector, it is difficult to evaluate the degree to which the industries established in recent years or the institutions administering incentives or granting credit have acted in response to the priorities and policies laid down in the industrial development plans. None the less, the effort made by the country in this connexion has been worthwhile, in view of the variety and number of large industrial enterprises which have been established in the country in the last ten years (see table 8), many of which use raw materials and other inputs of domestic origin in their products.

It is also important to call attention to the existence of some institutional procedures which have been used in the last 20 years to select industries and evaluate - albeit partially - the benefits and costs to the country of large new industrial projects executed in the country, their dependence on customs protection and their technical, economic and commercial viability. As a rule, this type of action has been carried out in advance. It has not as yet been possible to set up an appropriate machinery to determine, through evaluation after execution of a project, the nature and magnitude of the positive and negative repercussions of the specific projects on the industrial development of the country.

In 1951, the Standards Committee was set up with specific terms of reference in the field of standardization and quality control. In 1952, the Technical Customs Commission was established as a specialized body to study and evaluate foreign trade tariffs. In 1956, the Centre for Technical Co-operation in Industry was established under the programme of technical assistance and promotion for industry at the national level, and in 1957, the Central American Research Institute for Industry (ICAITI) started operating at the Central American regional level as a service agency for economic and technological research.

In 1959, the Consultative and Co-ordinating Commission for Industrial Development was set up to provide advisory services in respect of the selection of industrial projects subject to tax incentives from the public sector, especially those contemplated in Law No. 2426 on the Protection and Development of Industry.

In 1962, the country adhered to the General Treaty on Central American Economic Integration. From then on, there were new regional instruments for promotion of the country's industrial development:

- (a) Agreement on the Régime for Central American Integration Industries;
- (b) Special System for the Promotion of Production;
- (c) Central American Agreement on Fiscal Incentives to Industrial Development;
- (d) Central American Agreement on Equalization of Import Duties.

#### B. Implementation of industrial projects

The policy regarding the promotion and realization of specific industries which the country has been applying in the last 20 years has on the whole been confined to the selection of a certain type of project which it was thought could be of great value for the economy by way of replacing products which are now imported or producing goods intended for export markets. The lack of specific studies and programmes with the amount and quality of information required for the development of certain industrial activities has placed a constraint not only on the implementation of plans for the improvement and mechanization of established industries, but also on the implementation of important projects in new fields of industrial activity. Although government policy in recent years concerning the implementation of industrial projects has not comprised precise indications of the projects which are to be implemented by the public sector, the private sector or foreign investors, it does not discriminate and, on the contrary, affords equal treatment to foreign and Costa Rican investors.

In order to supplement the country's scant domestic development resources and in order to impart technology, an effort has been made to attract foreign capital in the form either of direct investment or of credit.

However, the Medium-term Industrial Programme for 1965-1968 and the declaration by Central American Ministers of Economic Affairs of 21 June 1965 made some recommendations concerning foreign investment. These drew attention to the advisability of foreign capital being channelled towards industries producing goods which are currently being imported or articles for which there are openings in export markets, since it is considered that, if this is done, these investments better fulfil their industrial development mission.

On the whole, it can be said that there is a favourable attitude in the country towards joint investment, in other words domestic enterprises associating with foreigners to meet the challenge of industrial development. It is felt that domestic participation should be at least 50 per cent.

The Medium-Term Industrial Programmes for both 1965-1968 and 1969-1972 were prepared as part of national development plans and set forth policy measures and machinery for their implementation, but owing to the non-compulsory nature of the plans and the constraints which have arisen as a result of membership in the Central American Common Market, on a number of occasions government policy has had to undergo radical and frequent changes, sometimes to promote the level of investment and sometimes to delay or defer the implementation of important industrial projects owing to conflicts at either the national or the regional level.

Examples of the latter situation are, at the national level, the installation of the first cement plant in the country, which took more than 10 years to carry out; and at the regional level, the delay of several years in the installation of a vehicle tyre plant and the complete abandonment of the possibility of installing an iron and steel plant in the country because this privilege had been granted to another Central American country.

In view of the fact that adequate statistics are not available, it has not been possible to determine the exact source of initiative for the execution of the projects which have given impetus to the industrialization of the country. None the less, most of the projects implemented in the 1950s fell in the category of

traditional industries, generally those producing consumer goods. These were usually under the initiative of the local private sector. During the 1960s, the situation became even more complex. Many foreign industrial enterprises, either alone or hand-in-hand with Costa Rican entrepreneurs, established themselves in the country as a result of the opening of the Central American Common Market. Analysis of the data in table 8 shows that, of a total of 49 major industrial enterprises set up in the country between 1960 and 1970, the initiative and capital of national private entrepreneurs accounted for 40.8 per cent, while the initiative and capital of foreign investors accounted for 16.3 per cent and the remaining 42.9 per cent were established in the form of joint investments, of which more than 50 per cent derived from the initiative of national entrepreneurs. This form of finance, as has already been pointed out, gained popularity in the 1960s and is now, under certain conditions,<sup>20/</sup> considered desirable since it makes it possible to supplement the scanty domestic resources available to the country for its development and to import technology.

C. Promoting exports of manufactured goods

The Costa Rican economy, like the economies of many other developing countries, has undergone "externalizing" growth. The institutional structure of its export policy can be considered appropriate as regards the promotion of exports of primary goods. However, in recent years the fluctuations in international markets for these products have seriously affected the national economy. The aim of the export policy has been, in addition to maintaining and promoting traditional industrial exports, to introduce new, more highly sophisticated, manufactured goods into the flow of products into foreign markets.

The Central American Common Market has made it possible to more than double industrial exports in the period 1966-1972, with an increase from \$43.1 million in 1966 to \$103.6 million in 1972 (see table 11). These figures indicate a substantial increase in sales abroad of products manufactured in Costa Rica. A number of circumstances have played a part in increasing the country's industrial exports.

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<sup>20/</sup> One of the basic conditions is that the participation of national entrepreneurs should be at least 50 per cent.

Some of these are the stimulus of a larger market, improved finance opportunities and the tax incentives policy. In order to meet the credit needs for the marketing of manufactured goods arising as a result of the country's entry into the Central American Common Market, in December 1963, the Central Bank of Costa Rica approved a series of measures for financing sales of these products in foreign and local markets.<sup>21/</sup>

One of the operational instruments of export policy with regard to industry has been the exemption with only a few exceptions, of exports from customs charges. There has also been reimbursement of the customs duties paid on imported raw materials and packaging incorporated into products intended for export outside the Central American area.<sup>22/</sup>

On 26 February 1968, the Centre for Export and Investment Promotion was set up by Law No. 4081, with the purpose, *inter alia*, of encouraging all activities aimed at promoting exports and investment. Some of the functions specified for fulfilling the objective of promoting exports are:

- (i) Identification of new exportable products;
- (ii) Technical assistance to exporters;
- (iii) Co-ordination of the public and private sectors in matters relating to exports;
- (iv) Maintenance of representation in export-promotion institutions at both the regional and sub-regional levels to co-ordinate work at those levels when this is suitable;
- (v) Recommendation of incentives to exports outside the Central American area;
- (vi) Carrying out of research to open up new markets to national exports, etc.

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<sup>21/</sup> In order to promote the development of exports, the Board of Directors of the Central Bank of Costa Rica later (1968) approved the following provisions: (a) empowerment of the national banking system to give priority, for purposes of financing of industrial sales, to enterprises which can demonstrate that they are able to export at least 30 per cent of their production and (b) empowerment of the national banking system to apply no ceiling to the financing of industrial exports.

<sup>22/</sup> The practical difficulties in this procedure have made it necessary to replace it by "temporary import", which consists in temporarily exempting from customs duties imported raw materials, packaging and semi-finished products which are then incorporated into products intended for export. Once these products are exported, the exemption is confirmed (article 11, Law No. 5162 of 22 December 1972 on Export Promotion).



Recently, through Executive Decree No. 5152 of 22 December 1972, the Export-Promotion Law was promulgated with the purpose of promoting non-traditional exports produced or processed in Costa Rica. Among the incentives afforded by this Law to individuals or legal entities fulfilling the conditions laid down in it is the granting of a Tax Credit Certificate (CAT) in the value of 15 per cent of the FOB value, at the port of shipment, of the exports. The Tax Credit Certificates are bearer documents, freely negotiable, exempt from all types of tax and bearing no interest.

In this way, together with the foreign trade agreements and treaties signed, the above provisions and laws have helped to promote the export of new lines of manufactures to countries outside the Central American Common Market, e.g. fertilizers to Mexico, television sets and radios to Colombia and Venezuela and pineapple and underwear and outer garments to the United States of America.

It is hoped that, with special measures such as the recently approved Export Promotion Law whose enforcement is administered by the Centre for Export and Investment Promotion, it will be possible to penetrate much further into international export markets.

D. Promoting employment and training labour

As regards employment in industry, in addition to the comments made in chapter I, point F and in chapter II, point 4 - B of this study, it should be pointed out that, in recent years, laws such as the one on the protection and development of industry<sup>23/</sup> have been promulgated, laying down standards which encourage the up-grading and training of labour for industry. For example, article 9 of the Law on the Protection and Development of Industry states:

"The Government of the Republic shall promote the establishment of industrial, technical and trade training schools. For this purpose, it shall give economic support to existing vocational schools and to any established in future. Industrial enterprises applying to enjoy the benefits of this Law shall be required to secure training of their personnel in these institutions and to give preference in their enterprises to pupils who have graduated from these schools and hold certificates from them."

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<sup>23/</sup> Law No. 2426 of 3 September 1959.

The regulations governing implementation of article 9 of the Industrial Law are contained in Executive Decree No. 4 of 18 May 1960. Article 1 of this Decree states:

"The Ministries of Agriculture and Industry, Public Education (Vocational Training Department) and Labour and Social Welfare (Social Training and Apprenticeship Office) shall, through the National Vocational Training Council, promote worker training in the industrial field and shall select the basic occupations considered to be of the greatest social and economic importance in view of the needs of industry in order to share out economic support in harmony with the various education programmes."

From the above, it can be seen that the responsibility for promoting employment in industry rested for a number of years almost exclusively in the hands of the Ministry of Public Education and the Ministry of Labour and Social Insurance (now known as the Ministry of Labour and Social Welfare).

Then, Law No. 3506 of 21 May 1965 set up the National Institute of Apprenticeship (INA) to contribute to the economic development and improvement of the living conditions of the people of Costa Rica through the training of workers for industry, mining, agriculture, stock breeding, trades and services and of clerical workers and officials of the State and its autonomous and semi-autonomous institutions. To achieve all this, INA has, inter alia, established a national system of apprenticeships, worker up-grading and vocational training, which has been introduced by stages in accordance with the Institute's economic possibilities and the requirements of productive activities in the country.

Information recently supplied by the Costa Rican Institute of Technology,<sup>24/</sup> shows that the occupational pyramid in the technological field has a broad base of persons with a high degree of manual skill (skilled workers) and tapers off towards the apex, which is occupied by a small group of persons with outstanding intellectual capacities (scientists).

In between the two, there are two levels of middle management, namely near the bottom, medium-level technicians; and near the apex, engineers.

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<sup>24/</sup> Solicitud de Préstamo al Banco Interamericano de Desarrollo (Application for a loan from the Inter-American Development Bank), 23 November 1972. The Costa Rican Institute of Technology was set up by Law No. 4777 of 10 July 1971.

Costa Rica has striven to develop the base of the pyramid (skilled workers) and many of the branches of engineering. At the same time, however, there has been a lag in the training of medium-level technicians. The need being felt for technicians of this type for the generation and development of technology resulted in the establishment of the Costa Rican Institute of Technology, which will be responsible not only for this very important area, but also for offering pupils who have been trained the opportunity to carry on with studies at a higher level, and for establishing a technological research centre with appropriate personnel and equipment to make possible indigenous development of technology.

This new dimension in the effort to up-grade and train personnel for industry has grown in importance and has spread to many selected industrial activities. As far as skilled workers are concerned, some of these are textiles, engineering, ready-made clothing and wood and wood products. As regards medium-level technicians, short vocational training courses are offered at the intermediate level in such branches as construction, industrial maintenance and industrial production.

The criteria for the promotion of employment do not appear to have been underpinned by comprehensive studies,<sup>25/</sup> e.g. by determining the ratio between the cost of labour and the cost of capital in order to promote labour-intensive production processes which in other words economize on capital. The approach in this connexion has been rather to study priority industrial activities with a view to making adequate use of available resources.

E. Location of industries in new centres and rural areas

As was indicated in chapter I, in Costa Rica, both the National Institute of Housing and Town Planning (INVU) and the Planning Office (OFIPLAN) have, with technical assistance from international agencies, carried out studies focussing on greater geographical decentralization of industry.

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<sup>25/</sup> However, INA, using various scientific methods, is carrying out the field studies necessary to determine real needs in respect of trained labour throughout the country. Memoria de Labores (Report on Activities), 1965-1967, INA, San José, Costa Rica, page 49.

As a result of these studies, a programme was prepared for setting up one industrial estate in Alajuela and another one in the location known as Pavas. The former one did not come to fruition, and the latter one has developed weakly, almost through the initiative of the entrepreneurs themselves, who have been buying their land and setting up their enterprises without having common facilities and services and despite the disadvantage that the industrial area has remained hemmed in by a large residential area - a situation which is hardly to be recommended from the point of view of proper and orderly industrial development.

On the initiative of the Municipality of Heredia and of individual entrepreneurs, an industrial zone has been vigorously developing in that province. The zone presents a number of conditions conducive to industrial development such as adequate means of communication, electric power, abundant water and a distance of approximately 10 kilometres from the capital city.

In view of the completion of a modern roadway between the international airport of Juan Santamaría and the city of San Ramón through the central valley and of the establishment of a Regional Apprenticeship Centre in the city of Naranjo by the National Institute of Apprenticeship (INA), the idea recently emerged of promoting the establishment of new industrial centres in various rural areas of the country, the first of which would be set up in the Canton of Naranjo at the initiative of its Municipality and would be used to good advantage by a national consortium to establish a textile factory employing several hundred workers from the area.

#### F. Development of manufacturing technology

In 1946, by promulgation of Law No. 837 on income tax, a provision was laid down which helps to facilitate the purchase of technology by permitting industrial enterprises to deduct, for income tax purposes, the amount paid for the use of patents, formulas and trade marks and royalties, etc. This was, if not the first, then at least one of the first measures adopted by the Government of Costa Rica to make it easier to obtain foreign technology.

In 1951, the Committee on Standards and Industrial Technical Assistance was set up. This national agency has played an important role in the adaptation and improvement of the manufacturing processes and product design of industrial enterprises in the country, since specific functions are conferred on it by law in the field of standardization and quality control.

At the regional level, in 1957 the Central American Research Institute for Industry (ICAITI)<sup>26/</sup> started operating as a service institution for economic and technological research. ICAITI is pursuing, inter alia, the following basic objectives:

- To provide advice to private initiative in all phases of studies and execution of industrial projects;
- To provide advice to enterprises for solving practical production problems which may arise in their factories;
- To carry out technological research on the use of regional raw materials, development of manufacturing processes, processing of new products and adoption of modern manufacturing techniques;
- To promote the application and adaptation to Central American industry of technology and modern methods of improving productivity;
- To provide advice to public or private institutions concerned with industrial and economic development or interested in industrial development;
- To prepare Central American standards.

Apart from the efforts at the national and regional level described above, the country has not in the past been able to establish a machinery making it possible to regulate both the type of technology selected and the amounts paid for it. Another matter which has been of deep concern to the country is the lack of machinery making it possible through systematic research to improve the process of transfer of technology.

In order to promote the development of the sciences and technology for peaceful purposes, the National Council for Scientific and Technological Research was established on 9 August 1972 by Law No. 5048. The Council will also provide the Government of the Republic with the scientific and technical advice it requires on all aspects of policies relating to creative research or work.

In addition to the establishment of the Council, a feasibility project for the long-term planning of scientific and technological education in Costa Rica is being implemented under the joint sponsorship of Cornell University and the University of Costa Rica. The purposes of the project may be summarized as follows:

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<sup>26/</sup> Established in Guatemala in January 1956 by the five Central American Governments with United Nations assistance as an autonomous non-profit agency fully devoted to promoting the Central American industrial sector.

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- To diagnose the situation with regard to scientific and technological education in the country (sciences, engineering, agriculture and health), with special attention to the intermediate and higher levels;
- Through the above diagnosis of the situation in the system for scientific and technological education, to identify the critical bottlenecks at which the institutional system needs to be reviewed, continuity of studies through the system and the need for studies on manpower potential in science and technology as compared with the country's economic and social development needs and finance requirements and systems for their integration, as well as advances which could be made available to the country to meet higher development goals in these fields.

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#### IV. INDUSTRIAL POLICIES AND MEASURES, 1950-1972

##### A. Project evaluation procedures.

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Some of the measures and procedures used by the Government of the Republic to ascertain the technical and commercial viability of industrial projects - whether public or private, domestic or foreign - applying for industrial development incentives are laid down in Law No. 2426 on the Protection and Development of Industry and its regulations. Article 17 of the Law lays down the procedure and minimum standards for ascertaining the technical and commercial viability of the projects under study. In article 17, the Law states: "The benefits of this Law and the period of time during which they shall be granted to an industrial plant shall be determined taking into account the following factors, in both degree and number:

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- (a) Contribution to national income and the way in which this contribution will be distributed among the factors of production;
- (b) The domestic raw materials or finished or semi-finished products used and also the raw materials whose future production in the country would be promoted;
- (c) The guaranteed market for an agricultural activity;
- (d) The effect on the balance of payments;
- (e) The financial plan, magnitude of investment and its distribution, and the participation of Costa Rican capital in the enterprise;
- (f) Efficiency of equipment, market to be supplied, repercussions on employment, and any other factors having a bearing on the economic and social desirability of the enterprise;
- (g) Location of the enterprise: facilities afforded by the zone in which the enterprise will be located and, in particular, the provision of electric current directly by the Costa Rican Institute of Electricity and municipal agencies.

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In order to guarantee commercial or market viability, the Law lays down (article 33), inter alia, that: "The incentives granted to one or more industrial plants for the initiation or expansion of a given branch of industry shall be granted under the same terms to all plants which produce or intend to produce the same or similar goods, provided that it is demonstrated that the size of the market makes possible the economic operation of several plants, and that the same obligations obtain for new applicants as for established plants".

Similar procedures have been used since 1969, when the Central American Agreement on Fiscal Incentives to Industrial Development entered into force. Article 30 of this instrument states that the applicant must submit to the national administrative authority a technical and economic study containing at least the following information:

- (a) Market conditions for the industry concerned, particularly with regard to production capacity already installed, current imports and the repercussions of the new production on the balance of payments;
- (b) The economic suitability of the investment to the type of industry and enterprise concerned;
- (c) The amount of labour to be employed;
- (d) Raw materials which will be used, indicating, where these are foreign, their sources and possibilities for replacing them by raw materials produced in Central America, and also the value added in the industrial process;
- (e) Value, quality and type of installations, machinery and equipment which will have to be used and, in general, efficiency of the manufacturing processes which will be used;
- (f) The uses, characteristics and estimated cost and price of the end product; and
- (g) The ability of enterprises to operate economically after the period of incentives has elapsed.

In a few instances, there has been a committee responsible for studying and evaluating the relevant applications in accordance with established procedures and advising the Ministry of Economic Affairs, Industry and Trade on the application of the Law or Agreement, as relevant.

#### B. Tariff policy

The first important change made with respect to tariffs in the 1950s was the promulgation of a new customs tariff which entered into force on 10 October 1951, at precisely the same time as the exchange surcharges provided for in the Law on the Control of International Transactions were revoked. In comparison with the previous

tariff, there were only changes in duties, but no alterations in the classification of items. The new tariff provided for both specific and ad valorem duties, but in addition to serving the purpose of consolidating the duties and surcharges which were more or less scattered, its basic purpose was to compensate the central government for possible losses occasioned by the annulation of the exchange surcharges provided for by the Law on the Control of International Transactions,<sup>27/</sup> more than to promote industrial development. The tariff burden proved to be moderate, and very little heavier than that up to 1946, and therefore did not afford the protection required by incipient industry.

In April 1954, a new customs tariff with substantial changes in the tariff structure which could be regarded as favourable to industrial development entered into force. The import and export tariff was based on the Standard International Trade Classification (SITC) and then on its off-shoots at the Central American level, NAUCA and NUECA.<sup>28/</sup> This classification is considered to have advantages over the previous tariffs because it facilitates economic analysis and the adoption of foreign trade practices and policies. The tariff provides for specific and ad valorem duties, with the latter predominating. In general, the structure and implications of the duties can be looked upon as favourable to industry since raw materials are subject to moderate duties and capital and basic consumer goods to even lower duties.

On the other hand, luxury consumer articles are subject to high duties, and manufactured products which might compete with domestic products are subject to high or low duties, depending on what is considered advisable at the time of establishment of the duty<sup>29/</sup> for promoting the expansion of industry.

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<sup>27/</sup> Law No. 1148 of 28 March 1950, promulgated in order to improve the difficult balance of payments situation which the country was facing at that time.

<sup>28/</sup> NAUCA (Standard Central American Customs Nomenclature) is used in the foreign trade yearbooks for classifying imports.

NUECA (Standard Central American Export Nomenclature) was used until 1964 for the classification of exports. Since 1965, NAUCA has also been used in foreign trade yearbooks for classifying exports.

<sup>29/</sup> Some industries, such as textiles, received special protection. The duties on the import of cotton textiles amounted to 80 per cent ad valorem, and those on synthetic textile products to more than 100 per cent.



It is also worthwhile pointing out that, when the Law on the protection and development of industry was passed, new tariff policy elements were introduced into the system of protection of new industrial activities. Some of these were:

- (a) Adequate tariff protection for industries whose activity was considered beneficial for the country on the basis of their contribution to national income, employment of labour, effect on the balance of payments, volume of investment and profitability in entrepreneurial terms;
- (b) As a consequence of the above principle, a low level of duties for raw materials and packaging and high duties for goods which were identical to or could be substituted for goods produced locally;
- (c) Preference for domestic producers in purchasing by organs in the public sector under conditions of comparable quality and prices equal to or lower than those of imported products;
- (d) Provisions to counteract unfair trading practices, in particular dumping.

The general protective system for industry contemplated by points (a) and (b), above, is applied in practice through the powers conferred on the Executive Branch by the Law,<sup>30/</sup> of which it is important to mention the following:

- Power to establish a tax equal to three times the customs duty on the import of foreign goods similar to domestic goods (article 12 of the Law);<sup>30/</sup>
- Power to grant duty-free entry for the import of building materials, raw materials, packaging materials and capital goods;<sup>31/</sup>
- Power to grant exemption from export charges on manufactured goods, and reimbursement of customs duties on raw materials and packaging used in the production of goods for export markets (see article 48 of Law No. 2425).

In September 1961, Laws Nos. 2801, 2802, 2803 and 2804 entered into force, arising out of the plan submitted by the Central Bank of Costa Rica to alleviate the difficult balance of payments and national budget situation confronting the country. These laws brought about important customs tariff changes.

Law No. 2801, provided for the preparation of lists of imported articles classified according to the degree to which each one was essential to the country's economy. List A included the most essential goods, which were completely free of customs surcharges; for the goods included in Lists B and C, in addition to the duty which the customs tariff specified at that time, customs duties of 15 per cent and 30 per cent, respectively, calculated on their cif import value had to be paid.

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<sup>30/</sup> Law No. 2426 of 3 September 1959.

<sup>31/</sup> Article 19 of Law No. 2426. For new industries 99 per cent and for established industries 90 per cent.

Under these same laws, a single rate of exchange was established,<sup>32/</sup> thereby automatically making many imported articles, especially those which had been enjoying preferential treatment under the double exchange rate, more expensive owing to the higher cost of foreign exchange. In order to prevent the higher prices of these essential articles from affecting the cost of living of low-income classes, Law No. 2804 was passed at the same time, amending the customs tariff by reducing or eliminating duties on a large number of items. In this way, the benefits to the consumer arising out of the exchange rate advantages were transferred to the customs tariff.

In April 1964, the Agreement on the Equalization of Import Duties entered into force in Costa Rica. In the three years from the signature of the basic agreement in September 1959 to the signature of the San José Protocol in July 1962, 92 per cent of the tariff equalization (1,419 headings out of a total of 1,548) had been achieved. The remaining 5.9 per cent, which brought the level of equalization up to the 98 per cent (1,511 headings) at which it now stands, was achieved in the following five years.<sup>33/</sup>

The percentages of equalization achieved which are cited in the preceding paragraph relate to theoretical equalization, since full implementation (real equalization), which is taken as meaning application of the standard tariffs in the five countries, has been achieved only with rather considerable delay. This is due to the fact that, between signing of the instruments and full implementation, periods of from more than two years in the speediest case up to four years and one month in the slowest case - that of the Agreement itself - elapsed. It should also be pointed out that three of the nine equalization instruments signed are not in force in one country (Honduras), and another one is not in force in two countries (Honduras and El Salvador). This means that there are no standard tariffs in these

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<sup>32/</sup> At that time, the country had a double exchange rate, namely 5.67 colones to a dollar for the official exchange market (which was very small), and 6.65 colones for the free market. Establishment of a single rate consisted in maintaining the rate of 6.65 colones to a dollar for all transactions.

<sup>33/</sup> Revista de la Integración Centroamericana (Central American Integration Review) No. 3, Central American Bank for Economic Integration, Tegucigalpa, Honduras, Central America.

cases, and some countries are continuing to apply their domestic tariffs. The lack of real equalization negatively influences the operation of the common market by affecting competitive factors.<sup>34/</sup>

In order to achieve the desired end, a general tax was established on goods coming from third countries. This tax, known as the economic stabilization tax, is distinct from the taxes established by the Central American Agreement on the Equalization of Import Duties and its protocols or any other tariff provision.

This tax will be applied for a period of five years beginning from the date of the entry into force of the Protocol and will be calculated on the basis of the customs duties in force on the date of acceptance of the relevant import permit. The economic stabilization tax amounts to 30 per cent of the sum of the relevant customs duties.

From the point of view of industrial development, this tariff provision has proved unfavourable, since the imports enjoying exemption from or reduction in customs duties under a contract or industrial classification agreement or decree on the basis of national industrial development laws or the Central American Agreement on Fiscal Incentives to Industrial Development, are subject to payment of the tax.

None the less, annex I of the Protocol contains a list of essential goods which are exempt from the economic stabilization tax. In addition, in order to reduce the adverse effects of the new tariff structure on the operation of new industries, article 1 of the Protocol provides that the executive authority or organ of each contracting State may totally or partially exempt from payment of the economic stabilization tax capital goods, raw materials, semi-finished products and packaging, and also fuels and lubricants intended exclusively for industrial purposes (except gasoline) used by enterprises belonging to new industries of special interest for the economic development of Central America.<sup>35/</sup> This exemption or reduction will not be granted when the above-mentioned goods are being produced in Central America under acceptable conditions of quantity, quality and price.

### C. Investment incentives

Until 1972, Law No. 837 on Income Tax, which dates from 1946, provided a graduated scale for the calculation of income tax which ranged from 1 per cent a year for the first 3,000 colones of taxable net income up to 30 per cent on amounts in excess of 500,000 colones, applicable both to individuals and to legal entities.

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<sup>34/</sup> Ibid.

<sup>35/</sup> The Protocol defines "new industries" as those which produce packaging or semi-finished products, provided that at least 50 per cent of the total value of the raw materials, packaging and semi-finished products used is of Central American origin, or give rise to substantial net surpluses in the balance of payments and a high degree of value added in the industrial process.

This scale was amended by Law No. 4961 of 1 May 1972, which established a scale applicable only to individuals ranging from 5 per cent on amounts up to 5,000 colones to 50 per cent on amounts in excess of 350,000 colones and another, more favourable one applicable to temporary or formally constituted companies, laying down taxes ranging from 5 per cent on the first 50,000 colones to 40 per cent on amounts in excess of 1 million colones of taxable net income.

For the purpose of counteracting the unfavourable effects which tax laws of this type might have had on the establishment of new industries, a number of incentives to investment in addition to the tariff incentives already described relating to exemption from import duties on raw materials, capital goods, etc. have been established and are implemented through the tax exemptions or rebates provided for by the Income Tax Law and its reforms, the Law on the Protection and Development of Industry and the Central American Agreement on Fiscal Incentives to Industrial Development.

For purposes of calculation of income tax, article 8, paragraph 12 of the Income Tax Law provides that 50 per cent of the net profit realized during the preceding period and invested in capital goods may be deducted by agricultural and industrial enterprises.

The Law also indicates that the Office for Direct Taxation shall determine in which cases this deduction, which may under no circumstances exceed 100,000 colones a year, shall be made. Thus, since 1946, the concept of reinvestment of profits has been embodied in Costa Rican legislation.

Furthermore, paragraph 13 of the same article 8 of the Income Tax Law provides that when an exclusively agricultural or industrial enterprise registers losses in a tax period, the Tax Office will permit 20 per cent a year of the total loss to be taken as a deduction over the next five periods in which profits are realized. Thus, a very special type of incentive to investment is established which to some extent helps to consolidate the situation of some enterprises during the first - and most difficult - years of their existence.

Article 19 of the Law on the Protection and Development of Industry, which we have several times referred to, grants a number of incentives to industrial plants classified as new. Of these, the ones set forth in sub-paragraphs (f), (g), (e) and (i) of the said article may be regarded as the incentives most directly linked

with investment. The first of these, sub-paragraph (f), provides for exemption from land tax for five years and states that there may be exemption from municipal taxes collected on industrial installations if the municipality of the place in which the enterprise is established agrees in advance. The second, sub-paragraph (g), provides for exemption from taxes on capital invested and profits earned by the plant to the extent of 100 per cent during the first half, and 50 per cent during the second half, of the period during which the industrial plant enjoys the remaining benefits granted by this Law. The third and last one, sub-paragraph (i), covers exemption from income taxes payable on that proportion of profits which the enterprise re-invests in improvements, both in the plant itself and in housing for its workers. Here again, the concept of re-investment of profits appears, but in this case in a broadened form.

In Costa Rica, there are no property taxes or taxes on invested capital, and therefore the exemption covered by sub-paragraph (f) cited above does not now apply to Costa Rica.

Lastly, the Central American Agreement on Fiscal Incentives to Industrial Development grants tax incentives for the establishment or expansion of manufacturing industries. Specifically, article 8, point II, contemplates the exemption of the enterprise and the partners in it from income and profit tax in respect of revenues derived from qualifying activities. As a fiscal incentive, point III of the same article provides for exemption from taxes on assets and property to which the enterprise or its owners or share-holders are liable in respect of qualifying activities.

In addition, article 9 of the Agreement on Fiscal Incentives provides that any enterprise which has qualified under the terms of the Agreement shall be entitled, as long as the Agreement remains in force, to deduct from its profits subject to income or profit tax the amount re-invested in machinery or equipment enhancing the productivity or production capacity of the enterprise and the branch of industry concerned in the Central American area.

Quite apart from the result of application of these incentives, we can certainly say that they have been real or potential resources for incentive and protection for the country's industrial activities. However, one of the weak points in the industrialization process has been precisely the failure to apply the incentive policy strictly, largely owing to the lack of a standard practice for the application of industrial incentives at the regional level, which has resulted in an indiscriminate promotion of industries, many of which use high proportions of imported raw materials -

a negative factor in net import-substitution, which has been reflected in the country's adverse balance of payments. In this respect, it is of interest to quote the comments on the subject found on page 28 of the Industrial Plan of Operations for 1969 published by the Planning Office in September 1968:

"Liberality in respect of exemptions arising not only out of equalization at the Central American level, but also out of a casual evaluation of projects, has prevented the tax incentive from corresponding to an effort by industry to improve its efficiency. The factors of cost and quality, which are essential as far as market and price are concerned, in the final analysis are decisive for competitive and export potential. These factors are also important as regards the future of enterprises, when they will have to operate without the protectionism which they now enjoy. There are great dangers involved in failing to correct the policy described above. This might compel the State to grant perpetual subsidies to deficient industries or to bring about their failure. In either case, the national economy will suffer."

#### D. Policy on foreign investment

As was explained in chapter III, point B, above, government policy with respect to the investment of foreign capital in industry has been guided by the desire to facilitate and attract foreign investment, since this is necessary in order to supplement the scant domestic resources available to the country for its development, and at the same time to import technology.

There are no special regulations or laws governing foreign investment in industry in Costa Rica. The development and installation of this type of industry is governed by existing company law in the country. The Law mentioned above<sup>36/</sup> and the Central American Agreement on Fiscal Incentives to Industrial Development currently provide for equal treatment for foreign and domestic investment as far as obtaining industrial development incentives is concerned.

None the less, at both the national level (Medium-Term Industrial Programme for 1965-1968) and the regional level (Declaration by Ministers of Economic Affairs of 21 July 1965), some recommendations have been made concerning foreign investments, pointing to the advisability that foreign capital should be channelled towards industries producing goods which are at present imported or articles for which there is an opening in export markets. It is considered that foreign investment performs its industrial development task better in this way.

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<sup>36/</sup> Law No. 2426 of 3 September 1959 on the Protection and Development of Industry.

In Costa Rica, there are provisions favouring joint investment, in other words, association between domestic and foreign enterprises to undertake industrial development, and it is also considered advisable that domestic participation should be at least 50 per cent.

The idea that foreign investment will be welcomed as long as it helps to develop and improve our technology, gives impetus to the development of dynamic industries and produces non-traditional goods intended for export markets outside the Central American area also continues to be held.

The fact that there has been no legislation regulating and orienting foreign investment has on many occasions resulted in the entry of this investment into fields or activities which are hardly desirable because domestic capital is displaced by foreign capital and because the industrial activities concerned generally relate to the production of consumer goods,<sup>37/</sup> with respect to which domestic entrepreneurs are quite familiar with the relevant operation and technology.

It is in order to avoid situations such as this that the regulation of foreign investments is an obvious necessity. The lack of regulation in this respect has also resulted in the displacement of domestic capital by foreign capital in joint investment situations with respect to different types of industry, and this displacement has in some cases for various reasons been almost complete.<sup>38/</sup>

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<sup>37/</sup> Vegetable oils and fats; biscuits and confectionery; bread and spaghetti, macaroni, noodles, etc.; baby food; canned fruit pulp and juice; sausages and processed meats; etc.

<sup>38/</sup> Industrial enterprises producing chemical fertilizers and plastics and textile products are among those in this situation.

## V. INSTITUTIONS AND INDUSTRIALIZATION, 1950-1972

### A. Bodies responsible for formulating the broad strategy of industrialization

During the 1950s, the country had no planning agency to formulate programmes and plan measures and action for realizing the objectives and goals of industrial development in a systematic and realistic way. However, the country's industrial policy was embodied in laws, regulations, programmes, policies and international agreements<sup>39/</sup> resulting from the initiative of various agencies of the central government and some autonomous institutions which were in some way involved in aspects of the country's industrial development.

The principal agency in executing industrial policy measures between 1953 and 1960, which substantially helped to lay down the broad lines of the country's industrialization during this period was the General Directorate for Industry, part of the Ministry of Agriculture and Industry. At the end of 1960, the Directorate was turned into the Ministry of Industry and Trade<sup>40/</sup> by means of budgetary separation, with the primary objectives of promoting industrial development to diversify the economy; channelling both domestic savings and foreign investment into industry in order to promote the economic stability of the country; enforcing the Law on the protection and development of industry; promoting the economic development of the country; co-ordinating the Central American economic integration programme and regulating the domestic and foreign trade of the country. As was pointed out in chapter III, above, it was only beginning in 1963 with the promulgation of Law No. 3087 of 31 January 1963 that the Planning Office was set up to promote Costa Rica's economic and social development through planning at the national level.

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<sup>39/</sup> Among the most important laws were: the Law of 1940 on New Industries, which remained in force until 1959, and Law No. 2426 of 3 September 1959 on the Protection and Development of Industry.

<sup>40/</sup> The Ministry of Industry and Trade was set up as a legal entity by promulgation of Law No. 3644 of December 1965, which reformed decree No. 72 of 8 July 1944, which had established the Secretariat for Agriculture and Industry.



In this way, it was also possible to institutionalize the country's overall industrial development planning. Although a Sectoral Planning Unit was established in 1965 under the Ministry of Industry and Trade to prepare alternative plans and suggest the most appropriate machinery for implementing them, the Unit, primarily for reasons relating to technical personnel and budget, never functioned as it should, and the National Planning Office took charge of the preparation of industrial development plans and programmes. The Ministry of Industry and Trade<sup>41/</sup> is responsible for implementing industrial policy, primarily with reference to the promotion of industry, in other words for providing technical assistance to industry, formulating and promoting industrial projects or initiatives and evaluating projects for which the incentives embodied in the Law on the Protection and Development of Industry and those provided for in the Central American Agreement on Fiscal Incentives to Industrial Development are requested.

On the whole, the Ministry of Economic Affairs, Industry and Trade is now the body responsible for co-ordinating and implementing the country's industrial policy, since, although there are other institutions such as the Central Bank, the Promotion Centre, etc. which formulate and execute measures<sup>42/</sup> aimed at promoting industrial development in one way or another, the Ministry of Economic Affairs, Industry and Trade is also duly represented in the Boards of Directors of these institutions, and from that position is able to encourage or discourage the measures or mechanisms of industrial promotion proposed depending on whether or not they are in the general interests of the country.

B. Bodies responsible for implementing incentives and other measures to promote investment

In 1953-1960, the General Directorate for Industry was in charge of industrial promotion initiatives, first as part of the Ministry of Agriculture and Industry and later on as part of the Ministry of Industry and Trade. Subsequently, and up to 1968, the Promotion Department of the Ministry of Industry and Trade was in charge of this work, with technical assistance from the Department of Industrial Engineering, the Chemical Laboratory and the Directorate for Geology, Mining and Petroleum of the same Ministry and the Industrial Section of the Agency for International Development (AID) in Costa Rica.

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<sup>41/</sup> Currently known as the Ministry of Economic Affairs, Industry and Trade.

<sup>42/</sup> Some of these are the measures adopted by the Central Bank for the financing of industrial sales and granting of tax incentives for the export of non-traditional products to export markets outside the free-trade area in Central America.

Until about the third quarter of 1965, the Promotion Department operated as an independent unit. Then, when the Ministry was re-organized, it was attached to the General Directorate for Industry.

As has been pointed out in previous paragraphs, the Ministry of Industry and Trade has been responsible not only for providing technical assistance and formulating and promoting industrial projects or initiatives, but also has been the institution basically responsible for the administration and application of investment incentives. Therefore, it is the task of the Ministry to evaluate projects for which application is made to benefit from the provisions of the Law on the Protection and Development of Industry or of the Central American Agreement on Fiscal Incentives to Industrial Development. The Ministry of Industry and Trade was made responsible both for all administrative tasks pertaining to the application of the Law on the Protection and Development of Industry and the Central American Agreement on Fiscal Incentives to Industrial Development, and also for technical and promotion functions proper to an industrial promotion entity. It was therefore unable to acquit itself well of all these functions. The repeated efforts to re-organize the Ministry of Industry and Trade so as to realize a type of promotion in keeping with the industrial development needs of the country proved ineffective.<sup>43/</sup>

In February 1968, Law No. 4081 was promulgated, setting up the Centre for Export and Investment Promotion as a semi-autonomous body under the Ministry of Industry and Trade with the purpose of developing a policy of methodical and continuous project

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<sup>43/</sup> "Una Institución de Fomento para Fomentar el Desarrollo Industrial" (A Promotion Institution for the Promotion of Industrial Development), January 1966, Charles O. Thompson.

"Comentario Sobre la Corporación de Inversiones" (Comments on the Investment Corporation), 17 March 1965, Dr. Otto Stern.

"Observaciones realizadas en los Departamentos de Ingeniería y Promoción del Ministerio de Industria y Comercio y Recomendaciones para un Futuro Procedimiento" (Observations made in Departments of Engineering and Promotion of the Ministry of Industry and Trade and Recommendations for Future Procedure), 15 August 1966, Robert A. Grey.

"Consideraciones sobre medidas de política industrial" (Considerations on Industrial Policy Measures), 1966, Joint Programming Mission for Central America.

promotion. At the present time, this agency is responsible for the administration and application of Law No. 5162 on Export Promotion, which grants **as an incentive** to exporting industries tax credit certificates (CAT) for 15 per cent of the fob port of departure value of exports, which can be applied for by individuals and legal entities exporting non-traditional goods to countries outside the Central American Common Market. Co-ordination with the Ministry of Economic Affairs, Industry and Trade is established through the Governing Committee, whose chairman is the Minister of Economic Affairs. In accordance with this Law, responsibility for application of the incentives granted is shared, with the Promotion Centre considering applications and **making** recommendations and the Ministry of Economic Affairs, Industry and Trade taking the final decisions. The application of the incentives to investment is more or less centralized in the Ministry of Economic Affairs, Industry and Trade.

C. Industrial financing institutions

From the institutional point of view, during the 1950s and 1960s, the responsibility for industrial financing in the country at the national level lay primarily with the national banking system, which, by using its own resources and foreign loans - especially from the Inter-American Development Bank and the World Bank - was able to make a considerable effort in the financing of fixed and working capital for industry. None the less, these institutions usually operated along the lines of traditional commercial banks, in other words they confined themselves to purely financial banking transactions and therefore, an appropriate mechanism for identifying, evaluating and promoting projects necessary for sound industrial development was not created.

At the regional level, as was indicated in chapter 1, above, the main source of credit has been the Central American Bank for Economic Integration (BCIE), which was set up under the relevant agreement on 13 December 1960 by the Republics of Guatemala, El Salvador, Honduras and Nicaragua<sup>44/</sup>.

The Agreement setting up the Bank indicates that the Bank's objective shall be to promote balanced economic integration and development of the member countries. For the realization of this objective, areas or sectors of investment are singled out, some of which, such as those appearing in sub-paragraphs (b) and (d) of article 2 of the Agreement, which are more directly related to industrial development, are described below.

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<sup>44/</sup> Costa Rica adhered to the Agreement setting up the Central American Bank for Economic Integration on 23 July 1962.

- "Long-term investment projects in regional industries or industries of interest for the Central American market which would help to increase the goods available for trade in Central America or for this trade and the export sector as well. Investment in industries of an essentially local nature shall remain outside the scope of the Bank's activities."
- "Projects for the financing of enterprises which need to expand their operations, modernize their processes or change the structure of their production in order to improve their efficiency and competitive capacity in the Common Market so as to facilitate Central American free trade."

Although there are a number of private finance enterprises in Costa Rica, only the Corporación Costarricense de Financiamiento Industrial S.A. (Costa Rican Industrial Finance Corporation) (COFISA)<sup>45/</sup>, which has been operating with its own resources and with loans from the Agency for International Development (AID) has, owing to its characteristics, been looked upon as a source of industrial credit for the private sector.

As regards the way in which COFISA has been operating, the document entitled "Nuevos Mecanismos de Financiación para la Industria y las Exportaciones" (New Financing Machinery for Industry and Exports)<sup>46/</sup>, on pages 36 and 37, indicates the following:

"In the particular case of COFISA, many of the characteristics attributed in this report to commercial banks are shared by COFISA, possibly for the same reason. Where local credit is limited to levels which fall far short of meeting the real demand for all purposes, the banker, who must demonstrate optimum results to his share-holders, will selectively invest his funds in the most profitable and safest areas, which do not always coincide in the short term with development purposes."

Although the country has had a nationalized banking system and some other sources at the national and regional level which have made it possible to channel resources into industrial development, no flexible and dynamic machinery like an investment corporation has in the past been created to encourage and promote the establishment of new manufacturing activities genuinely beneficial to the country.

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<sup>45/</sup> For practical purposes, the remaining enterprises fall outside the development credit field because of the high cost of the funds they loan and the short-term nature of their allocations.

<sup>46/</sup> Subscribed by Arthur D. Little, Inc. and published by the Centre for Export and Investment Promotion in San José, Costa Rica, January 1970.

The importance of taking a decision in this respect was stressed on many occasions, inter alia, by the Department of Economic Studies of the Central Bank of Costa Rica and by the Planning Office<sup>47/</sup>, and more recently in the document already referred to on new financing machinery for industry and exports published by the Centre for Export and Investment Promotion in January 1970.

On 16 November 1972, by Law No. 5122, the Costa Rican Development Corporation (CODESA), an enterprise with mixed State and private capital<sup>48/</sup> directed towards promoting the economic development of the country by strengthening Costa Rican private enterprises in the context of the national mixed economy system was set up.

In order that the Corporation may fulfil its objectives, it has been assigned the following functions:

- Preparation and implementation of specific economic development programmes and projects of regional or national natures;
- Participation in international or multi-national programmes and projects;
- Establishment and promotion of the establishment of new enterprises;
- Supervision, consolidation and provision of technical assistance to established enterprises;
- Granting of loans to new or established enterprises, giving preference to enterprises which hold shares in the Corporation, provided there is equality of conditions with non-share-holding enterprises;
- Granting of guarantee certificates for credit transactions being negotiated by new and established enterprises with other domestic or foreign institutions;
- Systematic and constant promotion of the development of the domestic capital market
- Export promotion.

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<sup>47/</sup> - Documents EE/1205 of 17 August 1969 and EE/1239 of 22 September 1967, Central Bank of Costa Rica.

- Industrial plan of operations for 1969, September 1968, pages 90 and 91, Planning Office, San José, Costa Rica.

<sup>48/</sup> The Government of the Republic holds 67 per cent of the shares, and the private sector holds the remainder, or 33 per cent.

The Law assigns a number of functions to the Corporation, ranging from the provision of technical assistance to enterprises and the preparation or arrangement for preparation of projects to the guaranteeing and negotiating of resources for development of manufacturing activities in the country. In this way, the Corporation can and should play a major role in the field of promotion, defining the latter as the identification, preparation, financing and implementation of industrial projects which are very desirable for the economic development of the country.

D. Institutions for training labour for industry

In May 1965, the National Institute of Apprenticeship (INA) was established by Law No. 3506. This is a specialized training institution which the Government of the Republic established to improve the supply and quality of skilled labour for industry, mining, agriculture, stock breeding, trade and services, etc. This institution is financed primarily through annual contributions by the central Government and through the contribution of 1 per cent of the total amount of payrolls payable monthly by all private enterprises in industrial, commercial, mining and service activities, which have a capital of at least 50,000 colones or employ at least ten workers, and through the contribution of 1 per cent of the total amount of payrolls payable monthly by autonomous and semi-autonomous State institutions.

The organization and development of the vocational training system being carried out by INA is one of the most outstanding experiments in this field in Central America in recent years. For the first time, an institution is being methodically organized to contribute to economic development and the improvement of the Costa Rican people's living conditions through apprenticeship and the training of workers for industry and other productive activities in the country.

INA's report on its work for 1965-1967 contained two important remarks on the Institute's operation which deserve to be quoted because they reflect aspects of that work which are of great benefit to the country in general and to the industrial and commercial sectors in particular:

"The first relates to the extremely important work being carried out by the Manpower Section, which, within the Institute, is in charge of carrying out the required field studies, using various scientific methods, to determine what the real needs with respect to skilled labour are throughout the country. Through these studies, INA plans the resources which it should provide, adjusting itself to the real demand which has been ascertained."

"The second aspect which deserves to be pointed out is the in-plant training programme. INA workers go to the plant and train co-ordinators there who then repeat the courses for their own colleagues."

"In this way, the Institute's training capacity is multiplied."<sup>49/</sup>

In addition, as was explained in chapter I, part F, above, INA uses several means of vocational training to carry out its task: training, supplementary training, upgrading, specialization and apprenticeship.

The forerunner of INA, from 1960 until the Institute's establishment in 1965, was the Social Training and Apprenticeship Office, attached to the Ministry of Labour and Social Welfare.

Despite the economic, technical and personnel limitations, its activities penetrated to many parts of the country. This preliminary work was terminated with the establishment of INA, which absorbed the Office.

More recently, on 10 June 1971, the Costa Rican Institute of Technology was set up under Law No. 4777. It will be responsible for technological and related scientific education oriented towards meeting the needs of industry, mining and agriculture, and those branches which are necessary for increased production and the socio-economic development of the country.

The Institute will have schools for training medium-level technicians, schools of higher and professional studies in the various technical disciplines, schools for graduates and a research centre. Thus, it will be responsible not only for training medium-level technicians to meet the industrial development needs of the country, but also for affording the pupils trained an opportunity to continue with advanced studies and to develop indigenous technology through the establishment of a technological research centre.

In April 1963, in order to achieve greater efficiency in the administration, production and sale of industrial enterprises, the National Productivity Centre (CENPRO) was established by the Government of the Republic with the assistance of the

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<sup>49/</sup> National Institute of Apprenticeship (INA), Memoria de Labores (Report on Work), 1965-1967, San José, Costa Rica, page 49.

International Labour Organisation (ILO). At the outset it received assistance from the Chamber of Industry, which temporarily provided premises and furnishings. Until around 1969, it supported itself out of the resources obtained in payment for its services. CENPRO's work was basically oriented towards the development of programmes for middle and operational management of private and public enterprises. This appears to have been the greatest effort made in the country with regard to training managerial personnel for industrial enterprises.

At the regional level, the Central American Enterprise Administration Institute (INCAE) has been operating since 1964 as a multi-national agency devoted to training, research and consultancy in the fields of enterprise administration.

INCAE was set up with formal assistance from the Harvard Business School, which has had a considerable influence on the design of its educational programmes and on the training of its teaching staff. The two institutions maintain close contact through faculty exchanges and joint research and development programmes relating to individual cases.

INCAE works in close association with the entrepreneurial community of Central and South America through an active associates programme, short seminars and annual high-level management programmes for high executives.

The high-level management programme has been organized annually since 1964, and there are now 644 graduates, <sup>50/</sup> of whom 12.1 per cent, or 78 graduates, are from Costa Rica.

INCAE represents an additional effort towards filling out the training of the management personnel required for the adequate development of industrial enterprises in the country.

E. Other institutions concerned with production and industrial development

Under Law No. 4081 of 26 February 1968, the Centre for Export and Investment Promotion was set up to further all activities aimed at the promotion of exports and investment.

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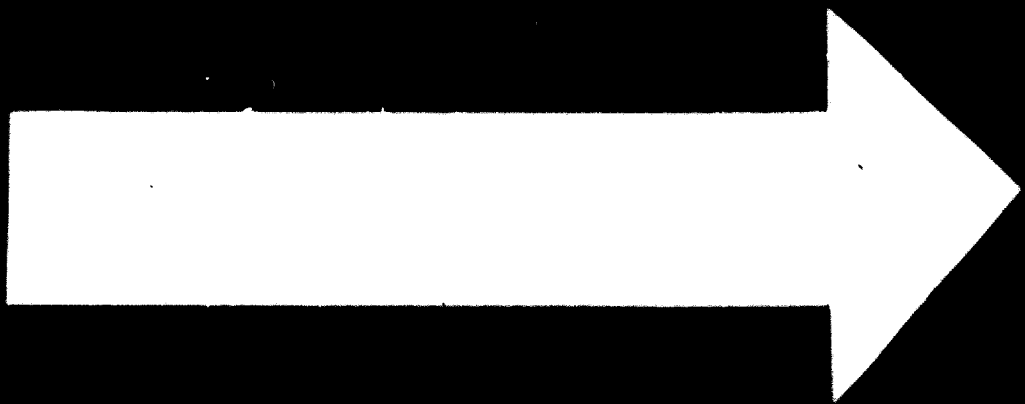
<sup>50/</sup> (Instituto Centroamericano de Administración de Empresas (INCAE) Cuatro Años de Progreso: 1968-1972, Informe del Rector, (c) Programa de Alta Gerencia)  
(Central American Enterprise Administration Institute (INCAE) Four Years of Progress: 1968-1972, Report by the Rector, (c) High-Level Management Programme).



In order to fulfil these objectives, the Centre is to carry out, inter alia, the following functions:

1. To promote exports:
  - (a) Identification of new exportable products;
  - (b) Provision of technical assistance to exporters;
  - (c) Co-ordination of the private and public sectors in matters relating to exports;
  - (d) Research work for opening up new markets to domestic exports;
  - (e) Recommendation of incentives to exports of products outside the Central American area;
  - (f) Training with respect to exports with assistance from international agencies.
2. To promote investments:
  - (a) Identification of industrial and agricultural investment opportunities directed especially towards new lines of exportable production or such lines as would result in economies of foreign exchange through import-substitution;
  - (b) Taking of an interest in the carrying out of feasibility studies for new investments;
  - (c) Broadest possible dissemination of information on these opportunities among individual investors;
  - (d) Maintenance of an up-to-date fund of general information of interest to investors such as:
    - Regulations relating to new investments,
    - Tax and other incentives for industry,
    - Regulations governing companies and enterprises,
    - Availability and cost of labour,
    - Appropriate location for the establishment of new agricultural and industrial activities, etc.;
  - (e) All other measures considered appropriate to promote investment here, including collection of information on markets outside the Central American area.

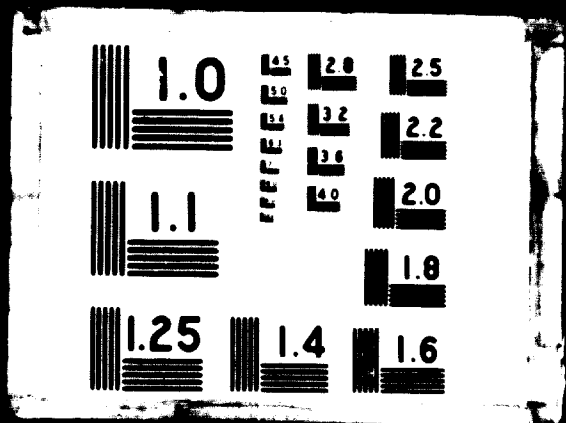
The Centre is now a promotion agency which effectively and directly contributes - through investment promotion and the development of exportable products - to the development of industrial activities in the country. The Central American Export Promotion Programme (PROMECA), which originated in a recommendation by the first joint meeting of the Economic Council, the Monetary Council and the Treasury Ministers of Central America held in Managua, Nicaragua in November 1967, has been operating at the regional level.



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The programme established at the outset had the following objectives:

- Co-operation in the formulation of a policy for the development of non-traditional exports in the context of Central American economic integration and in the development of an appropriate infrastructure for its implementation;
- Identification and promotion of specific projects for the export of non-traditional products outside the region.

So that it might fulfil these objectives, PROMECA was assigned the following functions:

1. To serve as a specialized information and consultancy agency to the Economic Council and the Executive Council of the General Treaty on Central American Economic Integration with respect to commercial policy and export-promotion;
2. To co-operate with the Central American Bank for Economic Integration in making the best use of its policy for financing projects for the export of non-traditional products outside the region, and with the Secretariat of the General Treaty on Central American Integration (SIECA) in fields related to trade policy and export promotion;
3. To co-ordinate and identify fields of action of mutual interest for the programme and for national export-promotion bodies;<sup>51/</sup>
4. At the regional level, to co-ordinate and channel technical assistance and relationships with international agencies concerned with export-promotion;
5. To co-operate with other regional or national bodies in the public and private sector in activities related to export-promotion;
6. To provide information, consultancy and technical assistance to groups or associations of producers and exporters, when these so request.

The Central American Export Promotion Programme (PROMECA) has been technically and administratively organized into three working units which operate under the co-ordination of a director. These units cover information, research and promotion.

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<sup>51/</sup> These are: The National Export-Promotion Centre of Guatemala (QUATEXPRO), the National Export-Promotion Centre of El Salvador (CENAFE), the General Directorate of Economic Affairs and Trade of Honduras, the Nicaraguan Export-Promotion Centre (EXPORTEMOS) and the Costa Rican Centre for Export and Investment Promotion (PROMOCENTRO).

PROMECA's work constitutes a genuine effort in the promotion of exports from the Central American area. As a result of the efforts made by the Central American Bank and the Secretariat of the General Treaty on Central American Economic Integration (SIECA) through PROMECA, we are able to say that Central America has started exporting non-traditional products outside the area.<sup>52/</sup>

PROMECA's action in the field of the country's industrial development has primarily made itself felt through the co-operation and technical assistance which the Programme has been providing to national entrepreneurs and industrialists through the Centre for Export and Investment Promotion.

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<sup>52/</sup> Evaluación del Programa centroamericano para el fomento de las exportaciones (PROMECA) (Evaluation of the Central American Export Promotion Programme (PROMECA)), Central American Bank for Economic Integration, January 1973.

TABLE 1

**COSTA RICA: COMPOSITION OF THE TOTAL AND PER CAPITA GROSS DOMESTIC PRODUCTS,  
BY ECONOMIC SECTOR, WITH SECTORAL BREAKDOWN, AT MARKET PRICES**

1950, 1960, 1970 and 1972

(Millions of current colones)

Economic Sector	1950 <sup>1/</sup>	%	1960	%	1970	%	1972*	%
<b>TOTAL</b>	<u>1,304.9<sup>2/</sup></u>	<u>100.0</u>	<u>2,766.7</u>	<u>100.0</u>	<u>6,269.4</u>	<u>100.0</u>	<u>7,726.7</u>	<u>100.0</u>
I. Agriculture, forestry, hunting and fishing, etc.	538.5	41.3	672.6	24.3	1,447.7	23.1	1,670.9	21.6
II. Manufacturing industries, exploitation of mines and quarries etc.	185.3	14.2	476.8	17.2	1,210.7	19.3	1,499.9	19.4
III. Other sectors (services)	581.1	44.5	1,617.3	58.5	3,611.0	57.6	4,555.9	59.0
PER CAPITA DOMESTIC PRODUCT								
- Population as at 1 July of each year <sup>3/</sup> (thousands of inhabitants)	812.1		1,254.1		1,737.4		1,842.8	
- Per capita GDP (in colones)	1,607.0		2,206.0		3,608.0		4,192.9	
- Per capita GDP (in dollars)	257.2		361.9		543.8		633.4	
- Weighted exchange rate <sup>2/</sup>	6.249		6.036		6.095		6.62	

<sup>1/</sup> The GDP figures for 1950 are not compatible with those for the more recent years since, beginning in 1957, the Central Bank revised the statistical series, with a change in methodology.

<sup>2/</sup> Calculations by OFIPLAN; 1972 official exchange rate.

<sup>3/</sup> General Directorate for Statistics and Censuses.

\* Tentative estimate.

Source: Central Bank of Costa Rica and OFIPLAN.

TABLE 2

**COSTA RICA: NUMBER OF PERSONS ACTIVELY EMPLOYED IN THE ECONOMY,  
BY ECONOMIC SECTOR, WITH SECTORAL BREAKDOWN**

1950, 1963, 1967 and 1972  
(Thousands of persons)

Economic sector	1950		1963		1967		1972 <sup>1/</sup>	
	absolute	%	absolute	%	absolute	%	absolute	%
TOTAL	272.0	100.0	407.8	100.0	456.7	100.0	538.2	100.0
I. Agriculture, etc.	149.6	55.0	201.6	49.4	209.3	45.8	228.7	42.5
II. Industry <sup>2/</sup> , etc.	43.1	15.8	75.2	18.4	85.4	18.7	105.5	19.6
III. Services (other)	79.3	29.2	131.0	32.2	162.0	35.5	204.0	37.9

<sup>1/</sup> Estimate, hypothesis 1. Previsiones del Desarrollo Económico y Social de Costa Rica 1969-1972 (Forecasts of the Economic and Social Development of Costa Rica, 1969-1972).

<sup>2/</sup> Includes artisans and workers in industry, construction, etc.

Source: 1950 and 1963 censuses, unadjusted,  
Survey of households, 1967,  
General Directorate for Statistics and Censuses.

**TABLE 3**  
**COSTA RICA: INDUSTRIAL LABOUR, BY OCCUPATIONAL GROUPS**  
**1950, 1963 and 1967<sup>1/</sup>**  
 (Absolute and relative figures)

Occupational groups	1950		1963		1967	
	absolute	%	absolute	%	absolute	%
<b>TOTAL</b>	<b>43,102</b>	<b>100.0</b>	<b>75,164</b>	<b>100.0</b>	<b>85,378</b>	<b>100.0</b>
Professionals, technicians, etc. ....	335	0.8	1,227	1.6	1,361	1.6
Managers; administrators and administration .....	803	1.9	1,372	1.8	3,162	3.7
Clerical workers, etc. ....	1,132	2.6	3,512	4.7	5,100	6.0
Sales personnel, etc. ....	-	-	1,421	1.9	2,018	2.4
Farmers, stock breeders, lumbermen, etc.	-	-	1,541	2.1	3,045	3.6
Miners, quarrymen, etc. ....	-	-	228	0.3	161	0.2
Transport drivers, etc.	320	0.7	1,350	1.8	2,216	2.6
Artisans and workers in industry and construction .....	35,755	83.0	39,538	52.6	41,476	48.5
Other artisans and workers .....	-	-	10,709	14.2	12,283	14.4
Labourers .....	4,199	9.7	8,203	10.9	10,157	11.9
Workers in personal services, etc. ....	558	1.3	1,427	1.9	1,883	2.2
Other workers, n.e.s., etc. ....	-	-	4,636	6.2	2,516	2.9

<sup>1/</sup> Includes artisans and workers in industry, construction, etc.  
 Source: General Directorate for Statistics and Censuses.



**TABLE 4**  
**COSTA RICA: CREDITS MADE AVAILABLE BY COMMERCIAL BANKS FOR FIXED**  
**AND WORKING CAPITAL FOR INDUSTRY**  
 1963 - 1971  
 (millions of colones)

YEAR	INVESTMENT	OPERATION <sup>1/</sup>	TOTAL
1963	72.3	55.8	128.1
1964	86.8	72.6	159.4
1965	97.7	87.7	185.4
1966	93.2	83.9	177.1
1967	108.9	101.8	210.7
1968	110.9	109.3	220.2
1969	117.4	133.6	251.0
1970	131.7	169.2	300.9
1971	146.1	208.8	354.9
Growth rate, 1963-1971	9.2%	18.0%	13.6%

<sup>1/</sup> Working capital.

Source: Central Bank of Costa Rica.

TABLE 5  
 COSTA RICA: STRUCTURE OF THE TYPES OF ORGANIZATION OF CAPITAL OWNERSHIP  
 1957 and 1963

TYPE OF COMPANY	1957 %	1963 %
<u>Total establishments</u>	<u>100.0</u>	<u>100.0</u>
Individual	88.8	83.9
General partnership	2.2	0.3
Limited liability and joint stock	8.0	10.6
Admitted partnership, co-operative, etc.	1.0	5.2

Source: General Directorate for Statistics and Censuses, industrial censuses of 1957 and 1963.

**TABLE 6**  
**COSTA RICA: INDUSTRIAL GROSS DOMESTIC PRODUCT BY TYPE OF GOODS,**  
**WITH BREAKDOWN OF TYPES**  
**1950, 1960, 1970 and 1972**  
**(millions of current colones)**

TYPE OF GOODS	Growth rates						
	1950	1960	1970	1972	1950-72	1950-60	1960-72
<b>TOTAL</b>	<u>168.6</u>	<u>440.2</u>	<u>1,145.1</u>	<u>1,433.0</u>	<u>10.2</u>	<u>10.1</u>	<u>11.3</u>
Consumer goods	128.8	319.3	739.2	905.2	9.3	9.5	9.1
Intermediate goods	34.2	103.6	338.7	435.4	12.3	11.7	12.7
Capital goods	5.6	17.3	67.2	92.5	13.6	11.9	15.0
			<u>BREAKDOWN, %</u>				
<b>TOTAL</b>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>			
Consumer goods	76.4	72.6	64.6	63.1			
Intermediate goods	20.3	23.5	29.6	30.4			
Capital goods	3.3	3.9	5.8	6.5			

Source: Planning Office.

TABLE 7

## COSTA RICA: INDUSTRIAL GROSS PRODUCT BY BRANCHES OF ACTIVITY

1950, 1960, 1970 and 1972<sup>1/</sup>

(millions of current colones)

BRANCH OF INDUSTRY	Growth rates						
	1950	1960	1970	1972 <sup>2/</sup>	1950-72	1950-60	1960-72
<b>TOTAL</b>	<u>168.6</u>	<u>440.2</u>	<u>1,145.1</u>	<u>1,432.0</u>	<u>10.2</u>	<u>10.1</u>	<u>11.2</u>
20 Food products <sup>3/</sup>	55.6	153.0	329.1	384.9	9.2	10.7	8.0
21 Beverages	26.2	67.1	145.1	196.2	9.2	9.1	9.4
22 Tobacco	10.4	21.6	54.5	62.3	8.5	7.6	9.2
23 Textiles	4.2	17.6	46.5	59.5	12.8	15.4	10.7
24 Footwear and garments	20.9	36.1	56.1	74.6	6.0	5.6	6.2
25 Wood	15.2	38.9	70.6	86.0	8.2	9.8	6.2
26 Furniture	6.5	17.7	32.5	39.4	8.7	10.2	6.9
27 Paper and paper products	0.4	1.2	13.6	17.5	18.7	11.6	25.0
28 Printing and publishing	5.0	12.4	32.9	37.2	9.5	9.5	9.6
29 Leather and leather goods	4.4	6.0	7.0	9.0	3.3	3.1	3.4
30 Rubber products	0.4	3.9	23.1	32.5	22.0	26.0	19.2
31 Chemical products	6.9	23.5	103.0	140.6	14.7	13.0	16.1
32 Petroleum derivatives	-	-	25.3	34.5	-	-	-
33 Non-metallic mineral products	3.4	12.9	55.2	66.1	14.6	14.3	14.9
34 Basic metal industries	-	-	-	-	-	-	-
35 Manufacture of metal products	0.1	4.7	31.1	37.7	17.9	16.7	19.0
36 Machinery, not electric	1.3	2.6	22.4	30.6	15.4	7.2	23.9
37 Electrical machinery and equipment	0.1	2.5	19.8	24.5	15.6	9.0	21.0
38 Transport equipment	4.3	14.7	44.8	61.9	12.9	13.1	12.7
39 Miscellaneous manufacturing industries	1.5	3.8	32.5	35.4	15.4	9.7	20.0

<sup>1/</sup> Excludes branches 14 and 19: extraction of sand, etc., and exploitation of quarries.<sup>2/</sup> Preliminary figures. Excludes the figure of 60.4 million colones, which reflects the estimated gross industrial product arising out of coffee milling, based on information supplied by the Coffee Board.<sup>3/</sup> Excludes coffee milling.

Source: Department of Economic Studies of the Central Bank of Costa Rica and OFIPLAN.

TABLE 8

COSTA RICA: SOME OF THE MAIN INDUSTRIAL PROJECTS EXECUTED BETWEEN 1960 AND 1970  
(thousands of colones)<sup>1/</sup>

PRODUCT	Date of establishment	Capital invested <sup>2/</sup>	Annual sales <sup>2/</sup>	Cost of imported supplies <sup>2/</sup>	Customers per section	Comments <sup>3/</sup>
Crown bottle caps . . . . .	Feb. 1960	600	2,045	1,597	90%	D
Dayon fabric and synthetic fibre plant . . . . .	Sep. 1962	1,210	1,108	834	90%	D + F
Footpaste, soap . . . . .	1961	1,300	2,440	707	90%	F
Processing of fruits for nectar and juices . . . . .	Jul. 1962	573	4,634	143	90%	D
Corrugated board packaging (banana exports) . . . . .	Feb. 1962	1,610	6,050	-	90%	D
Synthetic detergent . . . . .	Nov. 1962	1,325	1,170	132	90%	D
Iron sections, angle irons and iron bars . . . . .	Jul. 1962	1,685	8,761	3,075	90%	F + D
Processing of hard woods . . . . .	Jun. 1963	1,660	4,745	1,150	90%	F
Chemical fertilizers (EFATICA) . . . . .	Oct. 1963	59,762	80,000	41,083	90%	D + F
Paints, enamels, varnishes . . . . .	Apr. 1963	334	2,678	1,064	90%	D
Toilet soaps, synthetic detergents . . . . .	Apr. 1963	1,300	5,650	2,704	90%	D + F
Processing of stone: marble, granite . . . . .	Dec. 1963	432	1,181	350	90%	F
Galvanized iron plate and sheet, etc. . . . .	Oct. 1963	6,600	11,332	8,050	90%	F + D
Manufacture of television sets . . . . .	Nov. 1963	1,000	1,000	1,000	90%	D + F
Paper clips, pins and staples . . . . .	Oct. 1963	2,450	3,200	1,100	90%	D
Processed and frozen meat . . . . .	Dec. 1964	12,000	10,974	307	90%	D + F
Pineapple processing and packing . . . . .	Jul. 1964	700	1,000	200	90%	D
Refining of animal and vegetable fats . . . . .	1964	405	2,716	16	90%	D + F
Alasaa, omega globulin, etc. . . . .	Oct. 1964	810	5,490	2,600	90%	D
Portland cement . . . . .	Oct. 1964	19,392	10,005	307	90%	D
Asbestos cement sheets . . . . .	Dec. 1964	4,502	5,810	1,237	90%	D + F
Corrugated sheet (cellulose fibre) . . . . .	Nov. 1964	3,325	10,700	1,542	90%	D + F
Prestressed girders, concrete posts . . . . .	Jan. 1964	1,765	3,950	820	90%	D
Exploitation and packaging of diatomite . . . . .	1964	2,450	3,370	1,170	90%	D
Refrigerators, freezers, etc. . . . .	Mar. 1964	543	7,002	3,333	90%	D
Motor vehicle assembly plant . . . . .	Oct. 1964	1,230	2,434	9,202	90%	D
Printer's and lithographic ink . . . . .	Jun. 1965	565	2,886	1,100	90%	D
Rolling of steel products (bars, etc.) . . . . .	1965	1,000	5,775	4,161	90%	D + D
Electronic products, radios and televisions . . . . .	Jun. 1965	1,600	7,245	2,193	90%	F
Processed meats, tort meal, etc. . . . .	Sept. 1966	3,627	12,662	105	90%	D
Reconstituted wood boards . . . . .	Jan. 1966	4,000	3,201	1,000	90%	D
Plywood . . . . .	1966	1,922	3,000	100	90%	D

PRODUCT	Date of establishment	Capital invested	Annual sales	Cost of imported supplies	Customs protection	Comments
Dry batteries	Apr. 1966	6,623	9,468	4,450	10%	F + D
Wheat flour mill	Jan. 1967	72,780	60,144	47,589	95%	D + F
Cane sugar refinery	Mar. 1967	3,325	5,000	55	90%	D
Textile products (weaving)	Jan. 1967	18,793	16,600	4,500	95%	F + D
Fabrics and fabric finishing	Sept. 1967	6,949	25,267	6,500	90%	F + D
Lyne factory	May 1967	38,059	26,877	14,575	95%	F
Petroleum refinery	July 1967	43,307	69,010	28,370	90%	F + D
Baby food, conicultural and stock raising products	Aug. 1968	4,000	3,300	1,733	95%	F
Acrylic and other carpets	Jan. 1968	1,500	9,950	6,000	95%	F + D
Wooden barrel staves	Mar. 1968	3,221	4,660	-	95%	F + D
Feed for hives (Tannerina)	Feb. 1969	1,009	3,006	562	90%	D
Alcoholic beverages, rum, etc.	- 1969	10,000	29,119	4,236	90%	D + F
Texturized yarns	Dec. 1969	1,037	3,600	2,570	95%	D
Alkyls, polyester and urea-formaldehyde	Mar. 1969	3,532	4,201	2,905	95%	D + F
Pharmaceutical products for human use	- 1969	6,000	15,142	8,061	95%	F
Artificial and synthetic fibre yarns	Dec. 1970	10,640	11,795	6,677	95%	F
Resistors and accessories for cinema and tanks	- 1970	600	1,304	610	90%	D + F

- Information not available.

1/ New plants and new lines of production.

2/ Information contained in the projects.

3/ D = domestic initiative and capital;

F = foreign initiative and capital;

D + F = joint investment, majority domestic initiative;

F + D = joint investment, majority foreign initiative.

Source: Inventory of industrial projects, OFIPLAN.

**TABLE 9**  
**COSTA RICA: INDEXES OF DOMESTIC SUPPLY OF THE INDUSTRIAL SECTOR**  
**1950, 1960, 1970 and 1972**  
 (millions of colones)

Year	Total supply	Origin		Degree of domestic supply (%)
		Domestic	Imported	
1950	645.9	360.3	285.6	55.8
1960	1,620.8	950.3	670.5	58.6
1970	4,753.9	2,647.3	2,106.6	55.7
1972	5,794.5	3,315.0	2,479.5 <sup>1/</sup>	57.2

<sup>1/</sup> Estimate.

Source: Planning Office.

TABLE 10  
 COSTA RICA: SOME OF THE MAIN INDUSTRIES WITH EXPORTS VALUED AT  
 MORE THAN \$1 MILLION IN 1972  
 (thousands of dollars)

PRODUCTS	1968	1970	1972 (a)
<b>TOTAL</b>	<u>22,009.5</u>	<u>29,011.2</u>	<u>30,541.7</u>
Medicinal and pharmaceutical products . . . . .	1,323.9	4,359.3	6,400.3
Manufactured fertilizers . . . . .	4,432.0	2,409.6	6,097.9
Tyres and inner tubes for all types of vehicles . . . . .	1,430.2	1,904.9	3,101.3
Refrigerators and freezers, coolers . . . . .	1,158.9	1,775.7	2,762.2
Artificial or synthetic fibre and fibre glass fabrics . . . . .	313.5	2,112.7	2,300.9
Underwear and outer garments . . . . .	2,049.9	2,273.8	2,568.1
Margarine and butter . . . . .	1,770.1	1,457.4	2,096.2
Articles made of plastics, n.e.s. . . . .	643.9	1,044.0	2,021.7
Electric dry cells and batteries . . . . .	1,300.3	1,717.0	1,974.4
Plates and sheets, coated . . . . .	1,850.5	1,507.9	1,776.0
Metal containers for transport and storage . . . . .	1,048.1	1,554.0	1,734.5
Veneer and plywood (triple) . . . . .	1,246.0	1,161.2	1,658.7
Concentrates for the preparation of non-alcoholic beverages . . . . .	1,306.1	2,272.3	1,500.4
Insecticides, fungicides, etc. . . . .	437.7	560.7	1,177.1
Pulp, paper and paper board articles, n.e.s. . . . .	28.5	1,115.0	1,316.7
Transmitters and radio receivers . . . . .	1,180.8	1,369.1	1,210.0
Brassieres . . . . .	422.3	396.6	1,012.3

(a) Preliminary figures.

Source: General Directorate for Statistics and Censuses.



TABLE 11  
**COSTA RICA: RATIO OF INDUSTRIAL EXPORTS TO TOTAL EXPORTS**  
 1966, 1968, 1970 and 1972  
 (millions of current dollars)

Year	1 Total exports	2 Industrial exports	3 Ratio 2 : 1
1966	135.5	43.1	31.8%
1968	170.8	63.2 *	37.0%
1970	231.2 *	87.0 *	37.6%
1972	274.0 *	103.6 *	37.8%
Increase, 1966-1972	138.5	60.5	43.7%
Growth rate, 1966-1972	12.5%	15.7%	

\* Preliminary figures.

Source: Foreign trade year books and OFIPLAN.

**TABLE 12**  
**COSTA RICA: RATIO OF INDUSTRIAL EXPORTS TO THE PRODUCTION**  
**OF MANUFACTURED GOODS**  
 1966, 1968 and 1972  
 (millions of colones)

Year	1 Gross value of industrial production	2 Industrial exports	3 Ratio 2 : 1
1966	1,655.6	285.3	17.2%
1968	2,168.8	418.4	19.3%
1972	3,315.0	685.8	20.7%
Increase, 1966-72	1,659.4	400.5	24.1%

Source: Planning Office.

TABLE 13

COSTA RICA: PRODUCTION, NUMBER OF ESTABLISHMENTS AND  
PERSONNEL EMPLOYED IN INDUSTRY  
1958 and 1964

	Industrial census 1958	(%)	Industrial census 1964	(%)
<b><u>Totals (A+B+C)</u></b>				
Number of enterprises	5,976		5,808	
Number of employees	32,071		33,254	
Gross value of production (thousands of colones)	771,812	100.0	1,271,138	100.0
<b>A. Enterprises employing more than 69 persons</b>				
Number of enterprises	42		55	
Number of employees	5,556		7,330	
Gross value of production (thousands of colones)	264,881	34.3	420,969	33.1
<b>B. Enterprises employing between 10 and 69 persons</b>				
Number of enterprises	411		487	
Number of employees	11,142		11,356	
Gross value of production (thousands of colones)	350,339	45.4	548,363	43.1
<b>C. Enterprises employing fewer than 10 persons</b>				
Number of enterprises	5,523		5,266	
Number of employees	15,373		14,568	
Gross value of production (thousands of colones)	156,622	20.3	301,806	23.8

**Source:** Industrial censuses of 1958 and 1964, General Directorate for Statistics and Censuses.

ANNEX

COSTA RICA: METHODS USED IN CALCULATING THE GROSS  
VALUE OF PRODUCTION AND VALUE ADDED IN INDUSTRY

Classification

1. In order to have data for industrial production which are comparable at the international, and in particular at the Central American, levels, it was decided to use the United Nations International Standard Industrial Classification in computing this variable for 1950-1962. Although the figures for gross value of production are rounded in all tables, greater detail was used in calculating them so as to obtain more reliable figures. In other words, the rounded figures for production shown were obtained as the sum of figures worked out in greater detail. In this work, the figures for production and value added relating to coffee mills, cotton gins and cocoa mills are disregarded because these are not considered to belong to the manufacturing industries.

In view of the impossibility of obtaining real figures making it possible to construct the series of figures for industrial production and value added, it was necessary to use indirect methods enabling approximate figures to be obtained for these. In summary, the steps followed in the calculations for which these methods were used can be outlined as follows:

- (1) Calculation of the gross value of production for 1950-1962, based on the 1957 census;
- (2) Calculation of the value added at market prices on the basis of the figures for the gross value of production and a coefficient of value added for each industrial activity.

Base year

2. The most recent real figures for production available were those for the gross value of production from the 1957 census and the relevant reports on value added.

It was therefore necessary to ascertain with the highest possible degree of certainty the gross value of industrial production in 1957, which was going to be used as the base year for calculating the gross value of production in the period to be covered.

3. It was observed that the figures from the 1957 industrial census were not able to meet requirements, and therefore adjustments were made in the gross value of production as shown in the census. The most important of these related to uncontrolled production. Some of the adjustments to the value of industrial production were based on work carried out along the same lines under the Economic Development Research Project of the University of Costa Rica, and others were important adjustments which the Planning Office considered advisable.

4. The value of production in the base year was expressed in current colones. Since it was necessary to express the values in the series of figures for production expressed in 1962 colones, price indexes had to be established, making it possible to value 1957 production in terms of 1962 colones.

#### Quantum indexes

5. Once the value of 1957 production expressed in terms of 1962 colones had been established, quantum indexes had to be prepared to make it possible to shift this value of 1957 production in order to obtain the series of figures for production for the remaining years in the period between 1950 and 1962.

The quantum indexes were obtained using three main criteria:

- (a) Volume of physical production,
- (b) Inputs of raw materials,
- (c) Volume of sales.

The limitations of each of these as indicators of the behaviour of industrial production were constantly borne in mind, and there was full awareness of the possible distortions which each indicator might embody.

In the case of figures for sales (in money terms) used in preparing the quantum indexes, the figures were deflated by using the appropriate price indexes in order to eliminate distortions arising out of price fluctuations. Most of the information for the period 1950-1957 for preparing the quantum indexes was drawn from the files of the Costa Rican Economic Development Research Project.

Value added at market prices

6. On the basis of the data in the replies to the 1957 industrial census, the verification and adjustment calculations carried out under the Costa Rican Economic Development Research Project relating to the findings of the census and other guidelines for corrections given by the Planning Office, the table of ratios between value added and gross value of production was prepared. These ratios were applied to the series of figures for gross value of production to obtain the series of figures for value added (value of production minus raw materials, indirect materials, energy and fuel).

It should be pointed out that the coefficients for value added refer primarily to 1957 technology.

Verification of calculations

7. The Joint Programming Mission for Central America was consulted concerning the details of methods for calculating industrial production and its value added in order to ensure the comparability of the calculations at the Central American level. Also, the values of production broken down by three-digit ISIC groups for 1962 were revised in the light of the findings of the Industrial Survey of 1962, which was carried out by the above-mentioned Mission in the Central American countries using sampling.

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