



The Belt and Road Initiative Enhances Cooperation Opportunities for Costa Rica and Brings Development Strategies for SMEs

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8.1 INTRODUCTION

In the late 1970s, during Deng Xiao Ping's *opening up* policies and economic reforms, the concept of *socialism with Chinese characteristics* was born. The People's Republic of China (China) gradually introduced changes in important areas such as agriculture, foreign/private businesses, and investment, and the installation of special economic zones. Everything was carefully planned and, strategically, the reforms were firstly tried on local levels and extended over all the country when proven successful. Since those times, China has focused on promoting and increasing economic development and, subsequently, according to the World Economic Forum, became the second-biggest economy and first major exporter of the world.

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Meticulous planning has been one of China's main strategies to reach development, and since 1953, it has been implemented through successive *five-year plans for economic and social development*. Local governments work in coordination with central policymakers by writing their plans and incorporating national objectives. Binding targets are enforced through administrative action, but decentralized actors are free to choose specific steps.

The year 2019 marked the 70th anniversary of the founding of the People's Republic of China. Xi Jinping's leadership has encouraged China to pursue a systematic reform in a more holistic and coordinated way. A "*New Era of Chinese Socialism*" has begun. Along with it, China aims to build a moderately prosperous society by improving living standards and quality of life. Likewise, China also seeks to achieve high-quality and innovation-driven development, to have law-based governance, to build a stronger military, to sustain a medium-high growth rate, to establish environment preservation as a priority, to focus on lifting people under the poverty line, and to ensure that all institutions become more mature and better established.

This new era intends to build a new model of the international community with shared benefits for humanity, by enhancing connectivity among countries and creating new spaces for interconnected development and global growth. President Xi Jinping first introduced China's "*One Belt, One Road (OBOR)*" initiative (BRI) in 2013. The "Silk Road Economic Belt" and the "twenty-first Century Maritime Silk Road" are the foundation of this initiative. After 40 years of reform and opening up, BRI's goals are based on peace and cooperation, openness and inclusiveness, mutual learning, mutual benefit, extensive consultation, and joint contribution. As Xi Jinping has stated in his public speeches, BRI is an open platform for cooperation, guided by the principle of consultation and collaboration. It does not target anyone, and it does not exclude anyone.

BRI initially started with five main routes traversing Asia and Eastern Europe. Furthermore, it has evolved into a geographically inclusive and comprehensive cooperation platform, including all world regions. In January 2018, China and the Community of Latin America and Caribbean States (CELAC) jointly issued a special declaration on BRI, which marked the formal extension of the BRI to Latin America and the Caribbean region. To this date, more than 15 countries of Latin America and the Caribbean region have signed cooperation agreements with China under BRI.

According to the “China Top Think Tanks Report Series” published in April 2019, total trade between China and BRI countries has grown steadily, increasing from US\$1.04 trillion in 2013 to US\$1.27 trillion by 2018. At the same time, Chinese outbound direct investment in BRI countries from 2013 to 2018 has surpassed US\$90 billion in non-financial sectors, with an average annual growth of 6.2%. By the end of 2018, 82 special zones of economic and commercial cooperation were established, representing a total investment of US\$28.9 billion.

Nevertheless, BRI is not limited to trade liberalization, investment facilitation, or economic partnerships. The initiative seeks to promote integration in value-added supply chains, exchanges, and mutual learning between civilizations and industries, increasing of living conditions, and achieving world peace and sustainable development. For Latin American countries, BRI mainly focuses on projects that could reduce poverty and reach social and human equality.

The Government of the Republic of Costa Rica (Costa Rica) and China signed the “*Memorandum of Understanding (MOU) on Cooperation to jointly promote the Economic Belt of the Silk Road and the Maritime Silk Road Initiative of the twenty-first Century*” on September 3rd, 2018. During the signing ceremony, Chinese Ambassador to Costa Rica, Mr. Tang Heng, quoted Chinese President Xi Jinping when assuring that “OBOR origins are in China, but it belongs to the world; it is rooted in the past, but embraces the future.”

Due to BRI, Costa Rica and China will promote bilateral cooperation to improve exchanges of goods, technology, capital, and personnel through mutual connectivity and mutual learning. One of the main targets is achieving coordinated development and common progress in economy, society, environment, and cultural aspects. Both countries are also willing to work together to create a synergy between the two economies, enhance policy coordination, and deepen cooperation.

Ambassador Tang assured that “China highly appreciates Costa Rica’s priority in strengthening bilateral relations” and stated that “the decision to become part of BRI is equivalent to installing a new high potency motor to boost the relationship when entering the second decade of diplomatic relations and friendship between both countries” (Ministry of Foreign Affairs and Worship 2018).

Costa Rica is confident in the fact that the country can remain a strategic partner to China. Its latest Ambassador to China, Ms. Patricia

Rodríguez, has stated that to understand Chinese government motivations to promote BRI, occidental countries need to realize that *Confucian Culture*¹ is part of Chinese DNA. Ms. Rodríguez emphasizes that China does not entirely define BRI. Still, the world is called to collaborate by proposing dialogue and discussion, creating an international environment that favors multilateralism and globalization. According to Ms. Rodríguez, BRI is a way to achieve world peace, because in her opinion, the most efficient weapon to decrease world violence is by creating development opportunities for everyone.

8.2 COSTA RICA AS CHINA'S FIRST STRATEGIC PARTNER IN CENTRAL AMERICA

8.2.1 *Political Ties*

After almost 60 years of estrangement, in 2007, Costa Rica became the first Central American country to establish diplomatic relations with China. This event favored the process of building stronger political, cultural, and economic ties between both countries. In the following year, Costa Rican president at the time, Oscar Arias, lead the first presidential visit to China, and just one month later, Chinese former president, Hu Jintao, visited Costa Rica; this stood the first visit of a Chinese leader to Central America.

Acknowledging that both countries have had commercial exchanges since the early 1990s and that bilateral commerce was growing steadily since China's incorporation to the World Trade Organization (WTO) in 2001, the presidential visits incentivized a start of negotiations to sign a Free Trade Agreement (FTA), which was concluded on April 2010 after six rounds of negotiations and entered into effect on August 1st, 2011.

In August 2012, on the 5th anniversary of the establishment of diplomatic relations between both countries, the Costa Rican president at the time, Laura Chinchilla, met with Chinese President Hu Jintao and

¹Confucius said that an individual cannot be successful if his family is not successful, that a family cannot prosper if its community does not prosper, a community cannot develop if the entire city is not developed, the city's welfare cannot flourish if the country where it is located does not flourish, a country cannot reach success if the region that surrounds cannot reach success, and this mindset applies successively until the entire world can thrive.

then Vice-president and president-to-be Xi Jinping in Beijing. Both countries emphasized the importance of political trust and successful economy by boosting bilateral cooperation and promoting deeper relationships, commercial, cultural, and human exchanges in order to enhance friendship and mutual understanding. Chinese president, Xi Jinping, returned President Chinchilla's visit as Head of State in June 2013, three months after having taken office, during his first official trip to Latin America.

The last presidential meeting recorded between China and Costa Rica was held in the year 2015. Former President Luis Guillermo Solís, visited China. During his visit, a Costa Rica-China strategic association agreement was established as a partnership of equality, mutual trust, and win-win cooperation (Embassy of the People's Republic of China in the United States of America 2015).

In March 2016, as a proof of the countries' commitment toward investment, the Agreement for the Promotion and Protection of Investments was signed between China and Costa Rican to benefit investors in developing their businesses equally.

8.2.2 *Commercial and Economic Exchanges*

Since the ratification of the free trade agreement (FTA), trade between Costa Rica and China has grown at an annual average rate of 8.9%. Exports rose at an annual rate of 16.1%, while annual growth rate of imports reached 10.2%. As seen in the table below, by 2018, exports from Costa Rica to China represented a total of US\$200 million, while imports reached US\$1.500 million (Table 8.1).

Table 8.1 Costa rican commercial exchange with china 2010–2018 Value is in million USD

<i>Year</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Exports	41.7	37.8	56.3	60	78.1	57	46.3	111.4	200.8
Imports	981.1	1.281.6	1.427.2	1.583.7	1.700.6	1.934.4	2.085.3	2.086.6	1.590.2
Total	1.022.8	1.319.4	1.483.5	1.643.7	1.778.7	1.991.4	2.131.6	2.198	1.791

Source Export Promotion Agency (PROCOMER 2018)

Table 8.2 Top 5 imported products from China to Costa Rican and top 5 exported products from Costa Rica To China year 2018, value is in Million USD

<i>Main imported products</i>	<i>Value</i>	<i>Main exported products</i>	<i>Value</i>
Tires	37.4	Prosthesis for medical use	57
Projectors	38.7	Sugar	35.8
Footwear	41.5	Beef	22.3
Electronic equipment	42.6	Ethyl alcohol	10.4
Laminated product	48.3	Cooper waste	10.1

Source Export promotion agency (PROCOMER 2018)

By the year 2017, Costa Rican exports to Asia were almost US\$700 million. China is the second major market for Costa Rican exports in Asia,² amassing 24% of the total and amounting to over US\$111 million.

The supply of Chinese products in the Costa Rican market is very diverse; the main products range from industrial goods and electronics to personal items, clothing, and footwear. On the other hand, Costa Rica's primary exports to China are medical devices, tropical products, sugar, beef, computers, and mobile devices (Table 8.2).

China's economic development created several business opportunities for foreign partners due to the increase of its population's purchasing power and changes in consumption habits. It is clear for Costa Rica that China, with a population of over 1.3 billion people, represents a potential market for national production and services.

By the year 2018, Costa Rican volume of trade with China exceeded US\$2.1 billion for a second consecutive year. It is also important to remark that over one hundred Costa Rican companies are exporting to the Asian country, and 41% of the total export value is comprised of small and medium enterprises (SMEs).

Asia is the final destination of only 4% of Costa Rican exports worldwide, and the Chinese market receives 1.8% of the country's total exports. Therefore, Costa Rica needs to work in consolidating access for new products, finding and taking advantage of different market niches in which Costa Rican producers and suppliers could specialize. Figures show that

²The major market in Asia for Costa Rican products is Japan, with a participation of 37% of total exports to Asian Continent.

there is a lot of room for more Costa Rican companies to access the Chinese market, especially small and medium-sized enterprises that could be successful in niche areas.

In the next five years, China is expected to import products and services for a total value exceeding US\$10 billion, which represents great opportunities for Costa Rica (Gilbert 2018). Aware of the favorable circumstances, the Costa Rican government has motivated the business community to participate in several commerce fairs and permanent exhibitions held in China.

Furthermore, there has been significant progress in terms of investment. The bilateral investment treaty (BIT) signed in 2016 became a valuable tool for creating sources of investment to both countries providing predictability, security, and transparency to companies. In a year-to-year comparison, in 2017, Chinese investment in Costa Rica almost doubled that of the previous year, reaching US\$1.4 million distributed in different sectors as follows: agricultural (42.7%), financial (34.5%), and housing (22.7%) (COMEX 2017).

Both countries have joined efforts to promote investment in different economic sectors and boost better opportunities for those enterprises that wish to enter and compete in the market. Ambassador Tang has assured that the Chinese government is incentivizing China's prestigious and powerful companies to invest in Costa Rica.

Up to 2019, around 20 Chinese companies have made significant investments in Costa Rica. There are multiple advantages that the country can offer to Chinese companies, including political ties and strong friendship with China, institutional advantages and law instruments signed between countries that laid the foundation for economic and trade exchanges, geographic position in an strategic point in the middle of the Americas with access to the Pacific and Atlantic oceans, strong commercial ties leading Costa Rica to sign 12 Free Trade Agreements with countries and regions that provide access to multiple international markets, and educational and cultural advantages for Costa Rica, a country with a 100% literacy rate, trained workforce and increasing number of Chinese language schools or institutes being installed.

Some of the main fields where Chinese companies have invested in Costa Rica are telecommunications, digital TV, mobile network and optic fiber (Huawei, ZTE, China Energy Construction Guangdong Institute, and Guilin Siqi Communication Equipment), infrastructure planning, consulting, designing, technical assistance and operation of projects

like hydropower stations and highways (China Hydropower and China Harbour consulting and engineering groups), machinery suppliers and engineering (Shandong Huatong Petrochemical Engineering Construction), trade, business development and market research (China Aviation Technology International Holding, Linyi Tianxi Industrial, Shandong Recycling Investment, Jiangsu Meida Equipment Engineering, China Jilin International Economic and Technical Cooperation), hotel and real estate (Tianjin Kaidelong Trading Co., Ltd.), and manufacturing (Feiluo Audio, a subsidiary of Shanghai Yidian Group—Sylvania Group).

8.2.3 *China's Key Role in Costa Rica's Cooperation Scheme*

Cooperation for international development started as part of the aftermath of World War II in the early 1960s and, since then, it has become a key factor of global development. International cooperation schemes are historically known for being adaptable to the world's changing conditions. By the end of the 1990s, Costa Rica started revising its cooperation framework seeking to update channels and mechanisms, as well as searching for the multidimensional contribution of cooperation and redefining targets and objectives to achieve higher development.

Costa Rica has joined efforts to simplify and harmonize cooperation policies, primarily through the Ministry of National Planning and Economic Policy (MIDEPLAN) and the Ministry of Foreign Affairs and Worship. As a result of those efforts, the country has a revised legal framework that establishes a process to obtain international cooperation. Another important achievement reached is the technical and political viability of cooperation projects before being launched. Besides, a significant number of public institutions have strategic plans that help define cooperation priorities.

The world has held various *high-level forums on aid effectiveness* organized by the Organization for Economic Cooperation and Development (OECD) and the World Bank throughout the progression of the aid efficacy and efficiency. The last forum, held in 2011, marked a turning point in cooperation when its participants concluded that the most effective way to reach development was by taking complementary actions and prioritizing civil society and private enterprises in their effort to achieve further development. South-South cooperation and alliances between developing countries like BRIC were also recognized as crucial actors that could complement the traditional donors' actions.

China became one of the most important protagonists of international cooperation as part of the new cooperation roles. In the first *China's Policy Paper*³ on Latin America, published by the Chinese government in 2008, a comprehensive and cooperative partnership featuring equality, mutual benefits, and common development with the region was proposed. After the first Community of Latin American and Caribbean States (CELAC) Forum was founded in 2014, Chinese President Xi met separately with all CELAC leaders. They began to develop strong bonds and to look toward win-win cooperation in the economy, mutual culture learning, close coordination on international affairs, sustainable development that would help establish mechanisms of long-term supply of energy and resources, cooperation on environmental protection, climate change, and disaster reduction. All that, adhering to the *Five Principles of Peaceful Coexistence*⁴ and aiming for equality and sincere mutual support among the parties involved (The State Council of the People's Republic of China 2016).

Chinese contribution was particularly outstanding in Costa Rica, because diplomatic relations were established in 2007. Within four years, China became the principal donor of technical cooperation and non-reimbursable financial aid to Costa Rica, with US\$140 million between 2006 and 2011, and US\$40 million toward reimbursable cooperation during the same period. Chinese cooperation was constructive as technical cooperation and non-reimbursable financial aid had decreased. In fact, since 1993 Costa Rica had not received more than US\$100 million in a year under this category.

China has developed several specific projects in Costa Rica. In 2007, both countries signed a Memorandum of Understanding for the Establishment of a Mechanism for Political Consultation and an Inter-institutional Agreement for Technical and Scientific Cooperation.

³ Chinese Policy papers are a *blueprint* of their action plan toward a specific region and based on previous experiences and new initiatives including specific targets, proposals, and comprehensive strategies. Their main purpose is to strengthen China's international relations and broaden cooperation focused on development.

⁴ Established in 1954 in the *Panchsheel Treaty*, signed between China and India, set forth the *Five Principles of Peaceful Coexistence* as major pillars in China's modern foreign policy. They outline China's vision of world peace, security, and development: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference on each other's internal affairs, equality, and mutual benefit and peaceful co-existence.

A year later, in 2008, China bought US\$300 million in Costa Rican bonds and donated a National Stadium, with a capacity to hold events of 35,000 people and a value of US\$100 million. The stadium was finished in March 2011.

It is relevant to mention that one of Costa Ricás primary concerns is environmental preservation.⁵ China has become a great partner in terms of environmental protection. In 2010, both countries signed an Environment Cooperation Agreement that aims to improve environmental management systems, including evaluation of environmental impact, ecological repair, and protected areas. Both countries agreed on developing exchanges in sustainable technologies that focus on water management, waste disposal, air pollution, and contamination control in maritime and coastal areas.

Furthermore, Costa Rica and China aim to improve environmental awareness and fight global warming and climate change through conservation, by implementing environmental legislation, and improving governmental support. Additionally, both countries signed a Cooperation Memorandum on Hydraulic Resources with the desire to achieve better management and results for this valuable resource.

In 2013, during one of the presidential visits, China lent more than US\$400 million to Costa Rica. Firstly, a US\$296 million loan to help fund the extension and modernization project of route 32, which connects the capital city with the country's two main shipping port terminals in the Caribbean (this highway is expected to improve transportation capacity and efficiency, and spur local economy in general); secondly, a loan for US\$101 million which aims to allow Costa Rica to replace some 16,000 public transportation vehicles; thirdly, a donation of US\$16.3 million for the Costa Rican Police Academy.

In the same year, Costa Rica and China agreed on promoting cooperation in agricultural science and technology to facilitate exchange programs for researchers, increase scholarships for agriculture students, promote

⁵In less than three decades, the country experienced a drastic change going from only 21% of forest coverage in 1987 to 53% now; and 26% of the territory is protected land. Current Costa Rican president, Carlos Alvarado, has announced the plan to become a carbon-neutral country by 2050. Encouragingly, 2018 was the fourth consecutive year in which 98% of Costa Ricás electric power was obtained from renewable resources, which has allowed for electricity to outcome of 72 times less CO₂ emissions than the world's average.

information exchange and research on animals, plant genetics, environmental preservation, pest and disease control and also to enhance agricultural economy and to promote rural development.

In 2016, both nations signed the “Joint Action Plan for Cooperation between the Republic of Costa Rica and the People’s Republic of China 2016–2020”. This plan includes cooperation on several issues: political, economic, commercial, agricultural, science-technology and innovation (they recognize the active role played by innovation and technology to support development, increase living conditions and raise competitiveness), environmental, cultural, educational, tourism and sports.

In 2017, the Costa Rican National Institute of Innovation and Technology Transference in topics related to Agriculture and Livestock (INTA), which operates under the Ministry of Agriculture and Livestock (MAG), signed a technical cooperation agreement⁶ with the Chinese company *Anhui Jianghai Horticulture Seeds Co. Ltd.* Both countries are also evaluating the creation of a high-technology experimental model farm for agriculture in Costa Rica. The country’s abundant biodiversity and vegetative material could contribute to the improvement of seeds and high consumption crops, which are extremely important for the China’s economy and human feeding.

Likewise, this Joint Action Plan identified numerous areas for cooperation on infrastructure projects such as ports, roads, railways, electricity, and communications. This plan includes financial cooperation through the China-Latin America and the Caribbean Investment Fund, for increasing manufacturing capacity to assure Costa Rica’s sustainable socio-economic development, together with the exchange of experiences in the construction of industrial parks, industrial cooperation and equipment manufacturing, and training of scientific-technological personnel. Both parties agreed to stimulate exchange and cooperation between small and medium enterprises (SMEs), supporting companies to participate in expositions, fairs, and other relevant events organized by the other party.

In the year 2017, an agreement of economic and technical cooperation was also signed between both countries. It established the provision of non-reimbursable resources of approximately US\$15 million with the

⁶The agreement focuses on research of seeds and germplasm in horticultural crops in two specific regions in Costa Rica (Chorotega and Central Pacific). The radius of the study is expected to expand from this country to other regions in Latin America.

objective of financing joint projects between both countries. There was also a donation of two Y-12E aircrafts and the training courses (Trejos Montero 2009).

8.3 SMALL AND MEDIUM ENTERPRISES (SMEs) IN COSTA RICA: NATIONAL POLICY AND DEVELOPING LEVELS

The Costa Rican Ministry of Economy and Commerce (MEIC) recognizes that socio-economic development is one of the main indicators of a society's well-being. If a country seeks to empower those people who are willing to improve their living conditions, then it will promote the creation and strengthening of micro, small and medium-sized enterprises as they contribute to development as a source for new jobs and a way to improve profit distribution as well as the country's competitiveness.

In addition, entrepreneurship promotes dynamism and innovation, which help the country's economy and can eventually contribute with other existing companies by encouraging them to change their structures and use new tools (technology and /or innovation for example) in order not to avoid falling behind and to provide better services and products for their customers.

SMEs are of great importance for the Costa Rican economy and the country's production. According to the Central Bank, in the year 2018, 97.5% of the domestic enterprises were SMEs, 6.8% more than five years before, in 2013. SMEs are the country's major service provider, especially in areas such as healthcare, potable water treatment and supply, and hospitality and food services. Additionally, these enterprises play a vital role in professional, scientific, and technical activities and are the main contributors of the local manufacturing industry (Fig. 8.1).

Costa Rica's Law 8262 on the Strengthening of Small and Medium-sized Enterprises creates a regulatory framework to promote an integrated and strategic long-term development system for SMEs by increasing their production and dynamism and placing them as protagonists in the country's social and economic development process.

The law suggests that development shall be promoted according to each enterprise's possibilities for job creation and according to the country's economic democratization and regional development, as well as Costa Rica's entrepreneurship capacity. Article 2 of the Law also

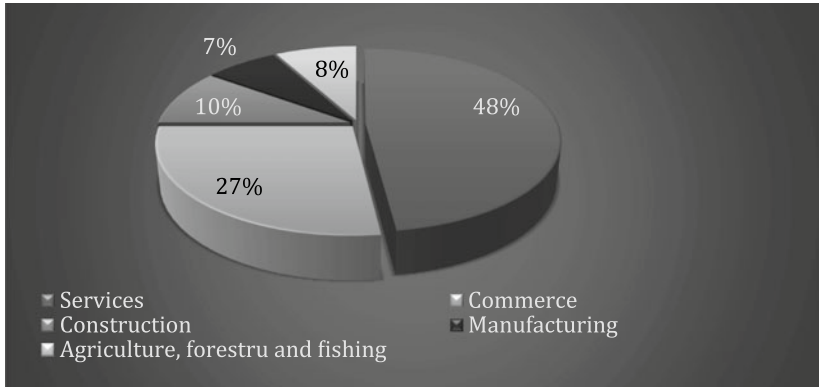


Fig. 8.1 Costa Rican Smes distribution by Economic sector, 2018 (*Source* III national survey of micro, small, and medium enterprises, Costa Rica)

encourages the creation of economic sector clusters and the use of small capital.

Law 8262 creates an advisory committee for SMEs and a specific program to strengthen innovation and technical development. Following efforts and targets on SMEs development and market access facilitation, the Costa Rican Ministry of Economy and Commerce (MEIC) created the Costa Rican Business Information System (SIEC).

To access specific SME's benefits given by law, Costa Rica's SMEs shall first register in MEIC, and are required to pay social security and pay taxes in accordance with labor law. According to recent data, more than 10,000 SMEs are actively registered in the country.

Costa Rica categorizes SMEs as micro, small or medium enterprises according to the number of employees, value of annual gross sales, and the value of assets. According to the results of the latest national survey of micro, small, and medium enterprises in Costa Rica by 2018, 78.4% of enterprises were classified as micro, 17.1% were small companies, and 4.5% medium-sized companies.

Besides size, Costa Rica classifies SMEs according to their performed economic activities. The 2018 SMEs national survey shows that 47.9% of the country's SMEs are service enterprises, 27.3% work on vehicle commerce and repair, 9.4% belonged to the construction field, 8% are

dedicated to agriculture, forestry and fishing activities, 6.8% are manufacturing companies, 0.4% focus on electricity-related business and water and waste management supplies, and 0.2% corresponds to the sector of mines and quarries (UCR 2018).

SMEs are of great importance for the Costa Rican economy and the country’s production. In 2012, SMEs accounted for 34.5% of the national employment rate by hiring 320,767 employees, while in 2017 SMEs hired 344,390 people, an increase of 4.7% in a year-to-year comparison. In 2017, SMEs in the service sector created 56% of the total of jobs, commercial SMEs were responsible for 19.5% of job creation, industrial SMEs followed with 14.5%, and agricultural producers reported a share of 9.8% of job generation. SMEs accounted for 35.73% of Costa Rica’s total gross domestic product in 2018 (Fig 8.2) (Table 8.3).

Unfortunately, SMEs’ presence in foreign markets is not as relevant as their business in the domestic market. The participation of SMEs in the country’s exports has registered a downward trend since 2012. In 2016, total SMEs exports increased slightly but only to reach 14.83% (US\$1.390, 4 million) of the country’s total exports (FOB value) (MEIC 2017). Costa Rican SMEs’ foreign trade has decreased over the years. Within bitty international trade among SMEs, medium-sized enterprises

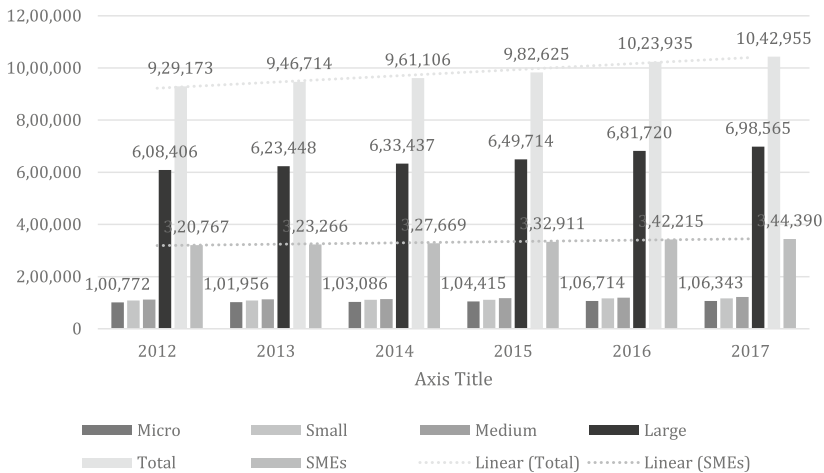


Fig. 8.2 Quantity of workers per enterprise size, 2012–2017 (Source MEIC, based on data provided by BCCR, 2019)

Table 8.3 Percentage of contribution to GDP, by Enterprises per size, period of 2012–2017

SIZE	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)
Micro	13.20	12.98	12.45	12.73	11.75	11.40
Small	12.36	12.17	11.92	12.25	12,39	12.50
Medium	11.39	11.26	11,56	11,92	11,86	11,83
SMEs	36.94	36.42	35,93	36,90	36,00	35,73
Large	63.06	63.58	64.07	63.10	64.00	64.27
Total	100.00	100.00	100.00	100.00	100.00	100.00
SMEs + self-owned companies	44.69	44.75	44.39	45.64	44.70	44.26
Large	55.31	55.25	55.61	54.36	55.30	55.74

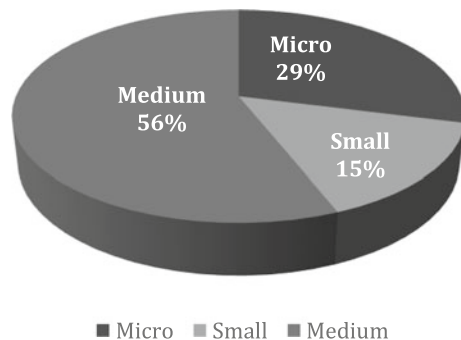
Source MEIC, based on data provided by BCCR, 2019

represent more than 50% of total SMEs exports. Services, manufacturing and technology are the three main exports of medium enterprises (Fig. 8.3).

Another fact is that around 40% of the local SMEs that carry out businesses in foreign countries tend to use courier services to export their products. Finally, it should be noted that the major markets for SMEs exports are the United States and Latin America.

Connectivity and technological access have proven to be very important for SMEs development. According to a national survey on SMEs, only 82% of Costa Rican SMEs have access to computers connected to the internet, and 77.5% use free software. When analyzing the use that

Fig. 8.3 Costa rican smes fob exports by size distribution, 2016
(Source Self-made based on information taken from MEIC)



they give to technology, only 36% of the SMEs sell their products through apps, 17% conduct sales by using social media, and only 21% of the SMEs use smart telephones to perform financial transactions (UCR 2018).

8.4 BRI AS A COOPERATION PLATFORM FOR COSTA RICA AND ITS SMEs

Within the last six years, more than 150 countries and international organizations have signed the BRI agreement with China. Costa Rica is one of those countries which have joined the initiative and wish to rely on a framework that would allow global interoperability and would help deepen pragmatic cooperation among all actors.

Costa Rica's internationalization process started in the early 1980s when this country opened up to international trade and attracted foreign direct investment (FDI), evolving from a rural and agriculture-based economy to become more diversified and integrated in global value chains. As a result, Costa Rica's per capita GDP has grown steadily in recent decades. Likewise, Costa Rica maintains universal coverage of healthcare services, high literacy rates, low poverty figures and other remarkable economic and social achievements that allow the country to stand out in the Latin American region.

Costa Rica has also taken good care of natural resources, protected its unique biodiversity, and supported significant use of renewable energy sources. This country seeks eco-friendly development; therefore, it has become known internationally as a green lab, featuring eco-tourism with a green trademark and aiming to also become a carbon-neutral country in the near future.

Despite Costa Rica's progress, important challenges in policy and structure need to be addressed in order avoid compromising its future competitiveness. Those challenges include, among others: improving infrastructure for transportation and logistics, increasing innovation and digitalization, narrowing the existing gap in productivity between the export-oriented sector, mainly driven by multinational enterprises (MNEs), and the non-exporting sector, mostly composed of domestic business (primarily SMEs). FDI is also weakly connected to local firms.

The latest MOU signed between China and Costa Rica established specific areas of cooperation for which the BRI could help Costa Rica increase SMEs growth. Cooperation objectives in the MOU are not

written precisely for SMEs, but in a nation where more than 97% of the domestic enterprises are SMEs, the growth of the country means inevitable development for SMEs and vice versa.

8.4.1 *Policy Coordination*

Costa Rica establishes national development plans every four years under the lead of MIDEPLAN. These plans help the country define objectives, assign resources, and follow up policies to face the main challenges and improve the country's overall performance in the best way possible.

The central government, under the primary coordination of MEIC, has also been working on designing public policy for businesses and entrepreneurship. The Ministry has created plans to be applied during the next ten years and to be promoted throughout the life cycle of the companies. MEIC's main objectives are to reduce current structural gaps among SMEs and improve their competitiveness with a mid-term vision, creating national value, improving productivity, and creating a better business climate with special emphasis on rural regions and periphery territories.

MEIC wants SMEs' development to be consistent with national economic, environmental and social sustainability, emphasizing inclusiveness and gender equality, territorial development, and sustainable production. For the 2019–2022 administrative period, MIDEPLAN has also established the promotion of policies which favor business development, productive chains, and building infrastructure that can improve the competitiveness of peripheral regions. The government recently announced strategies to increase competitiveness by improving digitalization⁷ among public institutions and the facilitation⁸ of procedures in the public sector.

In accordance with these efforts, Costa Rica shall recognize that creating policy to increase development is a field in which China has much experience and has proved to be successful. Therefore, Costa Rica could benefit from China's knowledge by creating ties with Chinese institutions like the Silk-road Planning Research Center (S-PRC), for example,

⁷For 54% of the requests received by the National Environmental Technical Secretary (SETENA, as per its Spanish acronym) the procedures will be reduced from 3 months to only minutes due to the institution digitalization processes..

⁸The government has issued a decree that bans the inclusion of any new process or requirement in the public administration until 2022.

which is a professional think tank that serves the BRI and is affiliated to the general office of the Chinese People's Political Consultative Conference (CPPCC), founded by China Development Bank (CDB), Tsinghua University, Silk Road Fund, China Association for the Promotion of Development Financing, and China Finance 40 Forum. S-PRC is devoted to strategic research, policy proposals, personnel cultivation, media guidance and public communication.

8.4.2 *Technology Access and Exchanges*

Costa Rican SME's do not have sufficient access to digital resources or computer tools, neither have they found the best way of using technology to improve businesses, a situation which undoubtedly affects their competitiveness. Overall, the country needs to strengthen its commitment to science, technology, and innovation for it to be able to overcome socio-economic challenges. Costa Rica can achieve these goals by increasing funding and reforming policies and institutions accordingly. These efforts shall be led by the Ministry of Science, Technology and Telecommunications (MICIT, as per its Spanish acronym).

Meanwhile, China has created the State Council Leading Group on Science, Technology, and Education, which involves representatives from major ministries and government offices, such as the Ministry of Finance (MOF), National Development and Reform Commission (NDRC), Ministry of Science and Technology (MOST), Ministry of Industry and Information Technology (MIIT), Ministry of Commerce, and the Chinese Academy of Social Sciences. This Group is responsible for assessing and approving major policies and strategies on science and technology. It is also in charge of finding the best way of using "big data" for decision making in the corporative and governmental world, create information systems, and generate indicators that could increase market transparency.

BRI not only includes, but also relies on "the digital (online) silk road", by understanding that technology must be seen as a channel for social inclusion and a way to help develop emerging markets. Finding ways to cooperate with the Chinese State Council Leading Group on Science, Technology and Education under BRI could allow Costa Rica to improve digitalization and technology access within the country and among SMEs.

According to the globally recognized Chinese entrepreneur, Jack Ma, “the driving force of China’s new economy is the electronic cross-bordering commerce (e-commerce)”. China’s e-commerce is estimated at US\$1.13 trillion, and that number is forecasted to rise to US\$1.62 trillion by 2020. Chinese consumers already use mobile devices to buy everything from daily use products to luxury and financial services. Analysts expect that 85% of all online shopping will be done on mobile devices by 2021 in Asia.

Chinese e-commerce platforms and giants in the field of internet-related services include companies such as Alibaba Group (including Aliexpress, Taobao, Tmall, Alipay, etc.), Tencent Holdings (including qq, Wechat and its digital payment methods, among others), Jingdong (360Buy) and Kaola, among others. This has placed China as the world leader in this field. Alibaba Group and Tencent Holdings are no longer “just” online commercial platforms, but rather they have developed into offering logistic and financial services, doing analysis of “big data” and researching artificial intelligence.

Digital development has also led to the creation of projects like China’s Cross-border E-commerce Comprehensive Pilot Area located in Hangzhou, which incorporates a number of services into the digital economy, driven innovation, industrial chains, international manufacturing and fueling SME’s development. China’s capital, Beijing, is also home to what is known as “China’s Silicon Valley” in Zhongguancun zone, a great development model for national use.

BRI is a great opportunity to improve Costa Rican SMEs access to Chinese e-commerce platforms. This will increase their opportunities to buy and sell their products and services in the Chinese market, guarantee risk-free transactions, allow the possibility of direct negotiations, and relax product storage and distribution in China.

Costa Rica’s national state-owned post company (Correos de Costa Rica, in Spanish) has created a platform that allows entrepreneurs to increase their national market and distribution methods, incorporating already 2500 SMEs (5870 people into the workforce). Between 2018 and 2019, the number of distributed packages increased by 200%, climbing from 27,000 to 80,000. This growth motivated Correos de Costa Rica to build a new platform, called “Market Place” that would include new payment methods, better logistics for distribution and returns, the implementation of new marketing strategies and the use of QR codes for the SMEs.

Costa Rica should learn from China's success story and find new strategic alliances among Chinese online shopping companies to achieve the "know-how" to develop e-commerce platforms, use of QR codes, and online payment methods, among others, that could help reinforce current initiatives and even help them become international platforms.

Furthermore, learning from Big Data or Artificial intelligence research centers, as well as obtaining technology transference from China in the form of technical assistance and software development, is necessary to boost the Costa Rican national production.

8.4.3 Promoting the Establishment of Industrial Parks or Economic and Commercial Cooperation Zones

Costa Rica acknowledges the importance of reaching the outer provinces when promoting business, as well as supporting entrepreneurship projects in rural areas. A country with an extensive territory like China has learned that the most effective way to promote progress and bring development to specific places is the creation of Special Economic Zones (SEZs) in those geographical areas.

SEZs were first developed in 1980 as part of Deng Xiaoping's drive to open up China to the rest of the world. Today's newer zones are known as Economic and Technological Development Zones (ETDZ), which are generally smaller than SEZs and place a larger emphasis on specific industries, particularly on developing high-tech research and development.

The natural step for China, following SEZs, was the creation of Free Trade Zones (FTZ). By the end of 2013, Shanghai was the first city to create a Pilot Free Trade Zone (PFTZ) in the Pudong area to promote institutional innovation strategy targeted at investment management, trade facilitation, financial services, and transformation of government functions. By the end of 2018, 12 PFTZs were applying more than 150 new practices on trade, investment, and finance throughout the country.

In 2014, the CDB, in cooperation with the Chinese and Costa Rican governments, proposed the establishment of a SEZ in Costa Rica. Today, under the BRI new framework, Costa Rica could learn specific lessons from the Chinese model, such as China's results after implementing preferential policies in certain geographical areas, fomenting proactive

participation of governments and public-private partnerships and encouraging business value chains. These processes must be accompanied by well-established goals, constant monitoring, as well as continuous technology upgrades. SEZs can contribute to SMEs by creating value-added products, obtaining quality certifications and improving the production capacity.

8.4.4 *Facilities Connectivity*

As President Xi Jinping stated in his speech during the most recent BRI Summit in April 2019 at Beijing, infrastructure connectivity is a priority area for implementing the BRI. *“Infrastructure is the cornerstone of interconnection and the bottleneck of development in many countries. The construction of high-quality, sustainable, risk-resistant, reasonable price and inclusive infrastructure will help countries give full play to their resource endowments, better integrate into the global supply chain, industrial chain and value chain, and achieve linkage development”*.

China currently has more than 1200 infrastructure projects around the world and over a hundred developed in Latin American countries, which represent an investment of US\$60 billion. In mid-2017, Chinese Premier, Mr. Li Keqiang, proposed a “3 × 3” model for boosting China-Latin collaboration on production capacity in new fields such as logistics, infrastructure, energy, and information. From 2013 to 2018, the value of new Chinese infrastructure projects in BRI countries rose from \$71.94 billion to \$125.78 billion, at an annual growth pace of 11.8%. Overseas projects contracted by Chinese companies mainly cover areas such as transportation (ports and roads), pipelines, and electric power and engineering construction.

Costa Rica shall prioritize attracting infrastructure projects which aim to respond to its economic and social development needs. Costa Rica must consider the importance of connecting the Great Metropolitan Area (GMA, center of consumption and production) with the outer provinces, taking into consideration that the economic success of periphery regions depends mainly on the positive development of SMEs based in those rural areas and their possibilities to easily access the commercial infrastructure.

Some major connectivity projects of the current government administration include building a fast-electric train for passengers among GMA,

a produce train that connects to the main ports, sectorizing public transportation and allowing electronic payment as a way to incentivize the use of public means of transportation, improving port infrastructure and main highways and gas distribution infrastructure. Costa Rica is focusing on infrastructure projects that will also limit carbon emissions and favor sustainable energy development, but also inclusive connectivity, a target that is closely related to China's desire to make green the background to protect the common home of humanity.

8.4.5 *Capacity Building, Training and Innovation*

In 2016, the Inter-American Development Bank (IDB) published an article titled "Innovation, Productivity and Development of Costa Rica" which underlined the importance of strengthening the Costa Rican innovation ecosystem, by creating a national policy with closer links between SMEs and multinational companies, increasing the national value-added of the country's exports and reducing or eliminating the main obstacles for companies to develop (Monge 2016).

President Xi Jinping was very clear and direct during his BRI 2019 Summit speech. He embossed the importance of innovation for productivity saying, "*enterprises depend on it to be strong and the country depends on it to be prosperous*" and assured the importance of grasping "*development opportunities of digitalization, networking and intellectualization, explore new technologies, new formats and new modes, explore new growth momentum and development paths*".

The Minister of MEIC, Ms. Victoria Hernandez, participated in the 2019 BRI Summit in April and, in taking advantage of her visit to China, she had a meeting with TusStar Incubator and Tsinghua University in order to explore cooperation opportunities. TusStar started in 1999 and registered as TusPark Business Incubator Co., Ltd. in 2001. They introduced the concept of "incubation + investment" in China for innovation and entrepreneurship business and, currently, have incubated over 5000 firms, helping them connect to the government, industry giants, research institutes, finance agencies, trade and media partners, among others. On the other hand, Tsinghua University is one of the most prestigious schools in China and, since the mid-1980s, it has accumulated a great deal of experience in dealing with incubating technological projects, from the very beginning stages of selection to nurturing and finally to its exit. The university-funded Tsinghua Holdings, with a registered capital of

US\$376.8 million in September 2003, since then has developed several criteria for picking up targeted projects: they must have advanced technologies that should be leading in the industry, satisfy the social demands of the time and have a distinct business value. As a result, Tsinghua Holdings has commercialized more than 40 key national research achievements and made technological breakthroughs in more than 60 projects.

China leads the world in the number of business incubators and innovation areas. According to data from the Torch High Technology Industry Development Center of the Ministry of Science and Technology of China, by 2016, there were more than 7500 incubators of innovation projects and spaces, and China has created more than 223,000 SMEs in the country. China hopes to become an “innovative country” by 2020, an international leader in innovation by 2030, and a world power in scientific and technological innovation by 2050. For these reasons, the 13th Five-Year Plan for China’s Economic and Social Development (2016–2020) is the first to include accelerators in the national system of incubators.

Costa Rica aims to increase the total number of incubators, accelerators, and spaces of innovation to more than 10,000 nationally by 2020. In the same year, China plans to have 100 of these organizations operate overseas. It is estimated that these programs will generate three million employment opportunities and 2000 listed companies. In May, Beijing outlined its “Made in China 2025” strategy, a comprehensive plan to drive the Chinese economy’s transition away from low-end manufacturing toward high-tech, high-value-added sectors. Providing support for privately founded tech startups is seen as one way of furthering such economic progression. Innovation has become the most important element in the state’s development blueprint. Total investment in Research and Development (as a proportion of GDP) grew from 0.9% in 2000 to 2.0% in 2015 and is on track to reach a targeted 2.5% by 2020. The number of Ph.D-s in science and engineering graduating each year has grown dramatically.

Under BRI, Costa Rica can work together with China in building an innovation agency domestically to consolidate those innovation programs which are spread across different ministries. Also, China could share ideas on how to revise current legal and regulatory frameworks and articulate a national business innovation policy that can address domestic firm’s demands, their needs for catching up, new sources of growth, and the difficulties of global integration. Finally, both countries could

work together to strengthen technical education, improve the information base for science, technology, and innovation policymaking and their commitment toward public research and innovation.

8.5 CONCLUSIONS

China's launch of BRI, six years ago, was not a surprise for international analysts. On the other hand, analyzing Chinese development and its economic phenomenon, BRI is the clear result of all the reforms China has applied over the past 40 years, Confucianism's influence in China's development, and the Chinese well-planned strategy that includes clear objectives and result measurements. Therefore, BRI was born as an inclusive proposal, not only joined by many countries but also comprehending many topics and development objectives for China and the world.

Signing the MOU to join BRI in September 2018 was a great step for Costa Rica to reinforce its relations with China 11 years after becoming China's first strategic partnership in Central America and having several agreements in topics including trade, cooperation, investment and strategic partnership in force. Over the last decade, under the world's new models for international cooperation, China has been present in many projects in Costa Rica, helping this country develop in multiple areas.

SMEs play a crucial role in Costa Rica's development and domestic economy. To guarantee continuous growth, SMEs require, among other things, greater access to international markets and innovation and technology resources. Costa Rica knows that SMEs' comprehensive development can also be achieved by seeking regional development, promoting participation of different economic sectors in an integrated value chain, fomenting better uses for small capitals, improving SMEs' business abilities, reinforcing market competition, allowing broader market access for services and goods and establishing better conditions for the institutional setting where SMEs are created and operated.

Despite the very strong institutional and commercial structure established between Costa Rica and China and the trade-facilitating agreements signed between both countries, only around one hundred Costa Rican companies are currently exporting to China, a number which only represents 1.8% of Costa Rica's total exports to the world. SMEs only account for 40% of the total exported value from Costa Rica to China. These numbers, and the size and diversity of the Chinese market, show

that Costa Rica-China trade has excellent growth potential. The digital silk road and other elements of BRI could be the key points to increase Costa Rican SMEs presence in the Chinese market.

China can also assist Costa Rican SMEs by helping them develop their absorptive and innovative capacities to access and adopt new technologies and knowledge and, therefore, become advanced actors in cross-bordering commerce, technology, and innovation.

Likewise, a reinforced entrepreneurial policy agenda with a diversity of customized programs is needed to support Costa Rican SMEs growth. This Country should decide to implement these programs in certain areas in rural and peripheral cities and, when proven successful, expand them throughout the country, replicating SEZ experiences from China.

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