



Ministry of Foreign Affairs

# ***Semiconductor Supply Chain Opportunities Costa Rica***

*Commissioned by the Netherlands Enterprise Agency*

*>> Sustainable. Agricultural. Innovative.  
International.*

**Facts and figures: Costa Rica**



Costa Rica has a population of 5,1 million people and USD \$70,2 billion in GDP, **economic growth** forecast for the country is **5,1%** in 2023 after a COVID-19 rebound of 4,3% in 2022 and 7,6% in 2021.

The major economic pillars are medical instruments, agriculture, computer chips and tourism, although the service sector and industrial sector are growing in Costa Rica.

Costa Rica is one of the world's oldest and most stable democracies with no armed forces. Costa Rica's location, democratic stability, good infrastructure, high standard of living, and educated workforce makes it a preferred near shoring destination for Foreign Direct Investments.

The United States and European Union are the main commercial partners and both have bilateral free trade agreement (FTA) with Costa Rica known as CAFTA-DR and Association Agreement with Europe.

For further information about the Embassy of the Kingdom of the Netherlands in Costa Rica, please refer to our website and Facebook: <https://www.nederlandwereldwijd.nl/landen/costa-rica> [www.facebook.com/embajada.holanda.cr](https://www.facebook.com/embajada.holanda.cr)

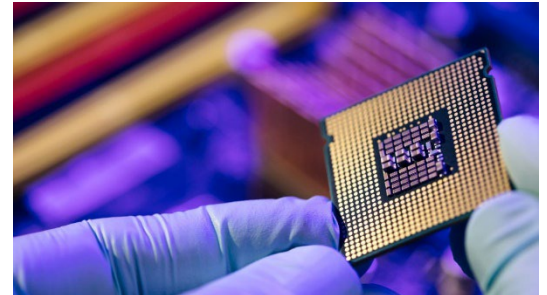
**Unveiling Costa Rica's Lucrative Semiconductor Supply Chain Opportunities: A Potential Winner in the US-China 'Chip War'**

**Costa Rica: A Magnet for Foreign Investment and a Springboard to Thriving US Markets**

Costa Rica is garnering attention as a promising hub for semiconductor manufacturers worldwide, who are grappling with a widespread shortage triggered by factors like the Covid-19 pandemic and the ongoing US-China trade war, and continued Taiwan's isolation. As our world advances into cutting-edge realms encompassing AI, autonomous cars, quantum computing, and an ever-growing reliance on faster wireless connectivity, semiconductors have become the linchpin for a smarter future. Meeting global priorities, ramping up production, and securing supply chains have become imperative. Amidst this scenario, major producers, especially in the US, are urgently exploring alternative locations that possess the necessary expertise, experience, infrastructure, and a conducive geographical and cultural proximity. In this regard, Costa Rica is increasingly becoming a site of interest for some of the largest semiconductor manufacturers worldwide.

**US - Costa Rica Partnership Explores Semiconductor Supply Chain Opportunities**

The State Department has joined forces with the Government of Costa Rica to explore and enhance the global semiconductor ecosystem. Through the International Technology Security and Innovation Fund ("ITSI" Fund) established by the CHIPS Act of 2022, this partnership aims to foster a more resilient, secure, and sustainable semiconductor value chain.



Recognizing the vital role semiconductors play in today's economy, encompassing products like vehicles and medical devices, the United States considers Costa Rica an essential partner in advancing the semiconductor supply chain amidst the ongoing digital transformation. By collaborating, both nations stand to benefit significantly from the expansion of the semiconductor industry in Costa Rica.

The CHIPS Act's ITSI Fund allocates \$500 million (\$100 million annually for five years, starting in Fiscal Year 2023) to support global semiconductor manufacturing, secure supply chains, and develop secure and trustworthy Information and Communications Technology (ICT) networks and services in collaboration with allies and partners.

*"The United States views Costa Rica as a partner in ensuring the semiconductor supply chain can keep pace with the digital transformation underway,"* stated Cynthia Telles, U.S. Ambassador to Costa Rica.

**INTEL in Costa Rica: Redefining Regional Assembly and Test Operations**

Costa Rica hosts Intel's sole assembly and test operations plant in the Western Hemisphere, marking a significant shift from the US government's efforts to reduce reliance on Asia for these critical components. After relocating its manufacturing operations to Asia in 2015 due to logistic costs and final assembly of servers, which accounted for 20% of Costa Rican exports, Intel revived the plant in 2020 with an initial investment of \$350 million. However, the

commitment quickly escalated to \$1 billion, leading to a remarkable 60% expansion in staff, reaching nearly 4,000 workers by 2022. Moreover, Intel Costa Rica's Government Relations Manager, Timothy Scott, revealed ambitious plans for further expansion in the future.

Regardless of future developments, the prospects are promising for the country where Intel laid its foundation in 1997. The recent law signed by President Biden may primarily target the United States, but its geographical proximity and existing capacities could trigger a positive ripple effect for Costa Rica. With research and global services centers already thriving in the region, the potential for expansion seems evident, as highlighted by Scott.

Costa Rica's role in the semiconductor production chain involves assembly and testing operations, which follow Intel's wafer manufacturing efforts in Ohio. This integration further solidifies the country's position in the semiconductor industry and presents a favorable outlook for its economy.

### **US-Costa Rica collaboration**

The US-Costa Rica collaboration is a significant stride towards advancing the global semiconductor ecosystem. Utilizing the ITSI Fund, both nations will drive economic growth, job opportunities, and technological advancements while strengthening the security and sustainability of the semiconductor value chain. The US remains the world's largest global market for semiconductors – and Costa Rica's free trade agreements are crucial to improving the cost-efficiency and security of Intel's global semiconductor supply chain.

Costa Rica's dedication to improving its capabilities showcases its readiness to become a key player in the semiconductor industry. Through the joint efforts of the United States and Costa Rica, the global semiconductor landscape is poised to experience remarkable growth and resilience to meet the ever-changing technological demands.

### **Costa Rica is a magnet for foreign investment in Central America**

Foreign direct investment (FDI) inflows to Costa Rica reached \$3.7 billion in 2022; in 2021, the figure was \$3.5 billion according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Reinvestments of existing companies and the medical device sector played a substantial role in this growth in FDI. Costa Rica established itself as Central America's primary recipient of foreign investment. The country has reached the highest flow in the region for three consecutive years.

### **Costa Rica secures #1 spot for Foreign Direct Investment overachievers for 2nd consecutive year**

Costa Rica has once again secured the top spot as the country attracting the highest volume of Foreign Direct Investment (FDI) relative to its gross domestic product (GDP) for the second consecutive year. With a score of 12.7, Costa Rica has surpassed expectations by receiving over 12 times the projected number of investment projects based on its economy's size. This achievement places Costa Rica ahead of countries such as North Macedonia, United Arab Emirates, Serbia, and Georgia, solidifying its position as a premier destination for high-tech companies worldwide.

Over the past three years, from April 2020 onwards, Costa Rica has attracted a total of 394 FDI projects, marking an impressive increase of approximately 80% since before the Covid-19 pandemic, according to the Financial Times. Notably, the technology sector accounts for about a quarter of these projects, while Costa Rica has also emerged as the second-leading country globally in attracting medical device projects since the onset of the pandemic, with a substantial count of 63 projects in this field.

### **Why nearshoring operations in Costa Rica can be beneficial for Dutch companies - What are the keys to success?**

**Highly Skilled Workforce:** Costa Rica has made significant investments in education and boasts a highly skilled workforce, particularly in areas such as information technology (IT), software development, engineering, and business process outsourcing (BPO). The country is known for its high-quality education system and produces a large number of graduates in technical and STEM fields. Dutch companies can tap into this talent pool, accessing skilled professionals who are proficient in English, Spanish, and often possess a good understanding of other European languages.

**Stable Business Environment:** Costa Rica has a stable political and economic environment, making it an attractive destination for Dutch companies seeking a reliable nearshoring partner. The country has a long history of democracy and political stability, with a strong commitment to social and environmental sustainability. Costa Rica also boasts a well-developed infrastructure, including reliable telecommunications networks, advanced technology parks, and a favorable business climate. Additionally, the country has a robust legal framework that protects intellectual property rights, providing an added level of security for Dutch companies.

Fiscal benefits: Costa Rica through its Free Zone Legislation offers fiscal benefits such as: 100% exemption on import duties on raw materials, components and capital goods, 100% exemption on corporate income tax, 100% exemption on export taxes, local sales and excise taxes, 100% exemption on capital taxes, no restrictions on capital/profit repatriation or foreign currency management and expedited on-site Customs clearance.

Highly educated, motivated and productive young workforce at very competitive wages makes Costa Rica a very interesting place to near shore production and services for larger nearby markets such as US.

These factors make Costa Rica an appealing nearshoring destination for Dutch companies, offering proximity to the largest United States consumer market including free trade access, a skilled workforce, and a stable business environment to support their operations effectively.

Cited by the Economist Intelligence Unit as one of the countries best-placed to compete with Asia as a key link in the global supply chain, Costa Rica promotes a triple bottom line in its efforts help the world's most sophisticated manufacturers meet the world's ever-growing hunger for semiconductors: "People, Planet, and Prosperity". As companies seek to consolidate operations and bring manufacturing closer to US and European markets, Costa Rica looks likely to play a key strategic role.

#### **Economic diplomacy**

Our Dutch embassy in San José, together with our consulates in the rest of Central America, would like to support you. We have broad knowledge and extensive networks, both in politics and in business. We know the market, bridge language and culture barriers and have access to local authorities and companies.

I hope that the above information may be of service to you. If you have any questions or would like advice, please let us know. We are happy to help you!

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