

Dealing with Anchor Investors

Intel in Costa Rica

Case Study

Workshop

**“Attracting and Retaining Investments - The Role of
Investment Climate and Incentives”**

[plse add sponsors, venues and dates]

Objectives of the case study

1. To think through what to do if a major "anchor" investor expresses an interest in a country and to put the granting of fiscal incentives in a larger context for promoting investment
2. To become aware of what impact such a huge investment might have on the economy
3. To discuss how to deal with such an investment on the longer term

First Objective

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Questions to consider

- What were the most important requirements for Intel to locate an assembly and test plant [ATP]?
- What were the key factors that made Intel to decide for Costa Rica?
- What tax incentives were granted to Intel? Were they special to the Intel investment project? How important do you think they were compared to other factors determining the Intel decision?
- For each one of the concessions the Government granted to Intel, please indicate whether you agree with it or not, and why. If you don't agree with a concession, what would you have done instead?

Intel's Main Selection Criteria

Stage One: Pre-Qualification

- **Stable economic and political conditions**
- **Human resources - labor conditions**
- **Operational cost structure**
- **A “Pro-Business” environment**
- **Logistics and manufacturing lead-time**
- **“Fast-Track” permit process**

Stage One: Pre-Qualification

The Long List: China, India, ASEAN and LAC

China

Argentina

India

Brazil

Indonesia

Chile

Singapore

Costa Rica

Thailand

Mexico

Strategic Considerations for Site Selection

Stage One: Pre-Qualification

- **Expand with a green field investment**
- **Regional Risk**
- **Regional Diversification**

Stage One: Pre-Qualification

The Short List: LAC only



Why Intel Decided for Costa Rica?

- Political and Social Stability
- Economic Openness and Liberalization
- Costa Rica's commitment to the Electronic Sector
- Receptive Investment Environment
- Government's High-level, Effective Dealing with Intel

What did Costa Rica agree to deliver?

- Intel registered as a free trade zone [FTZ] project to benefit from FTZ generous incentives.
- Eliminate 1% tax on assets for all FTZ firms
- Increased international cargo service at the airport, and accelerated plans to construct a new cargo terminal.
- New heavy user industrial rate for electricity
- “Fast track” construction and environmental permits.
- Commitment to enhance technical curricula and training facilities for electronics sector.

Attracting “Anchor” Investment - Lessons Learned

- Pro-Investment Country Characteristics
- Positive View of Investor Community
- Effective Investment Promotion Strategy and Execution
- Concessions Need not be Firm-Specific

Second Objective

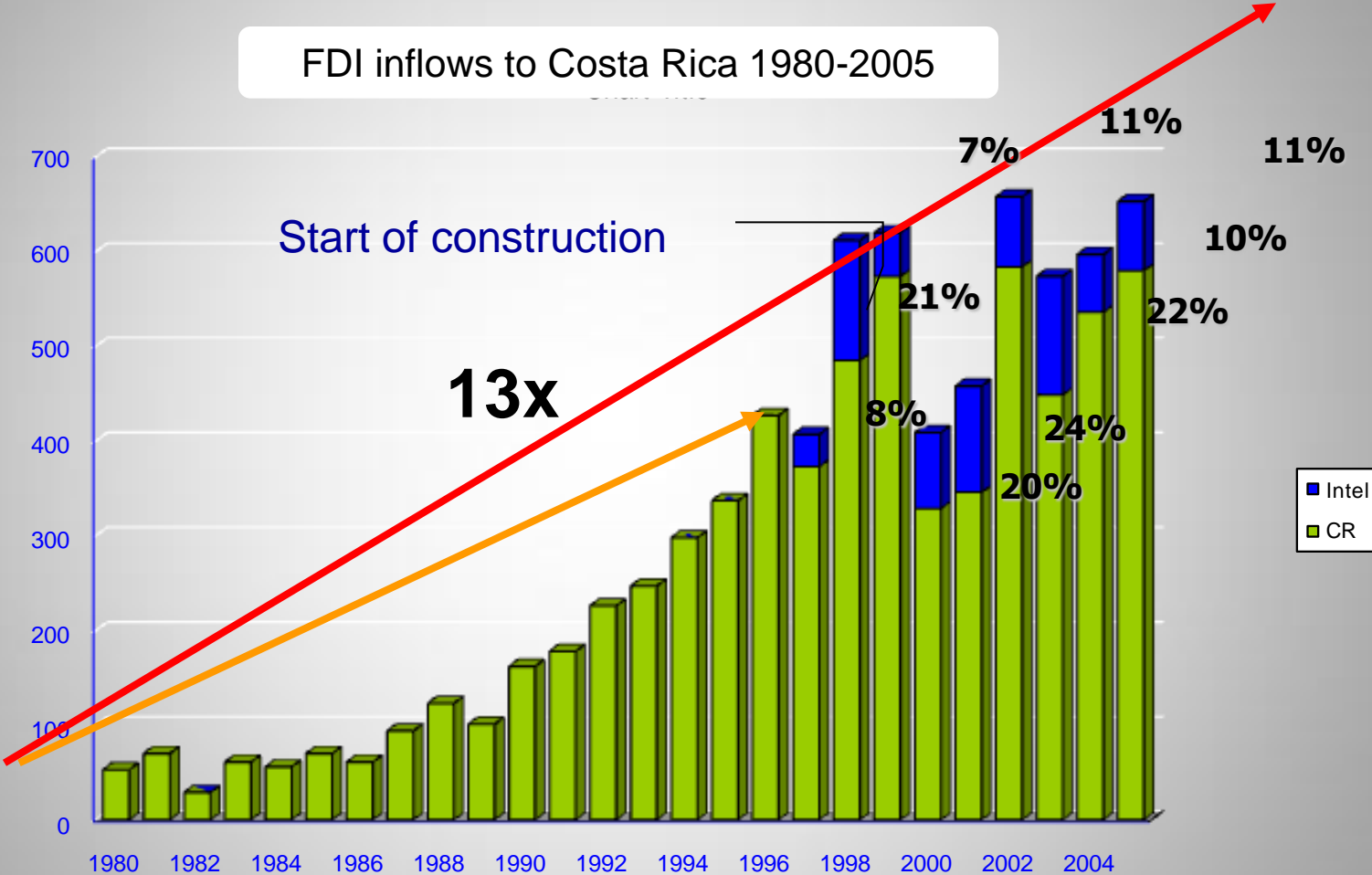
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IMPACT ON COSTA RICAN ECONOMY

Intel in CR- What Happened?

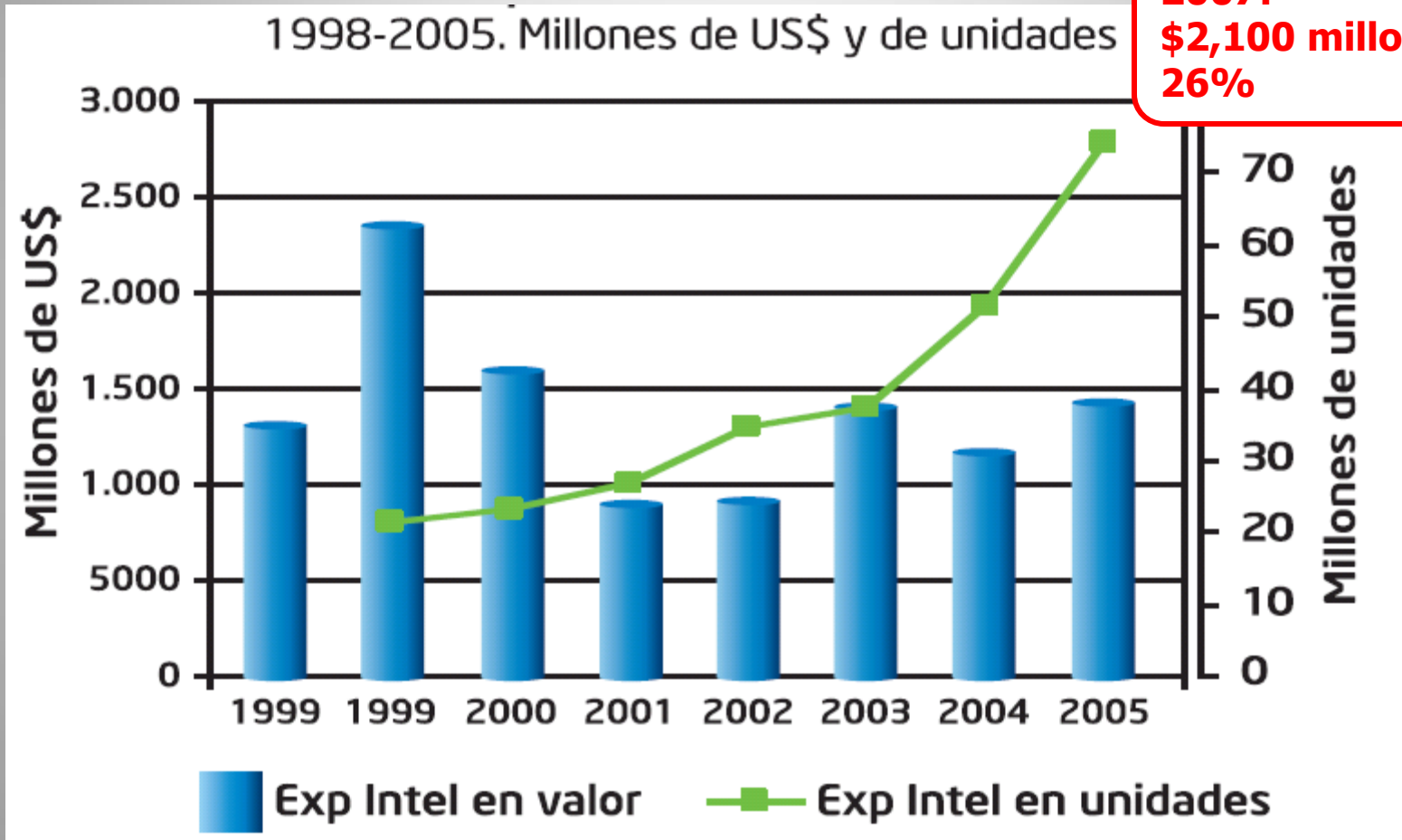
- By 2010, Intel invested a total of US\$ one billion
 - Original ATF facility plus another plant
 - Shared services center [800 jobs; covering Intel's operations in the Americas]
 - Chip design [50 engineers]
- Direct employment of over 4,000; additional 2,500+ indirect
- Electronics is now Costa Rica's largest sector, exports of \$1.65 billion, employing 12,000
- Local support industry reflects a base of 460 suppliers and \$450-150 million in local goods and services purchases/year

Intel: Catalyzer for FDI in Costa Rica

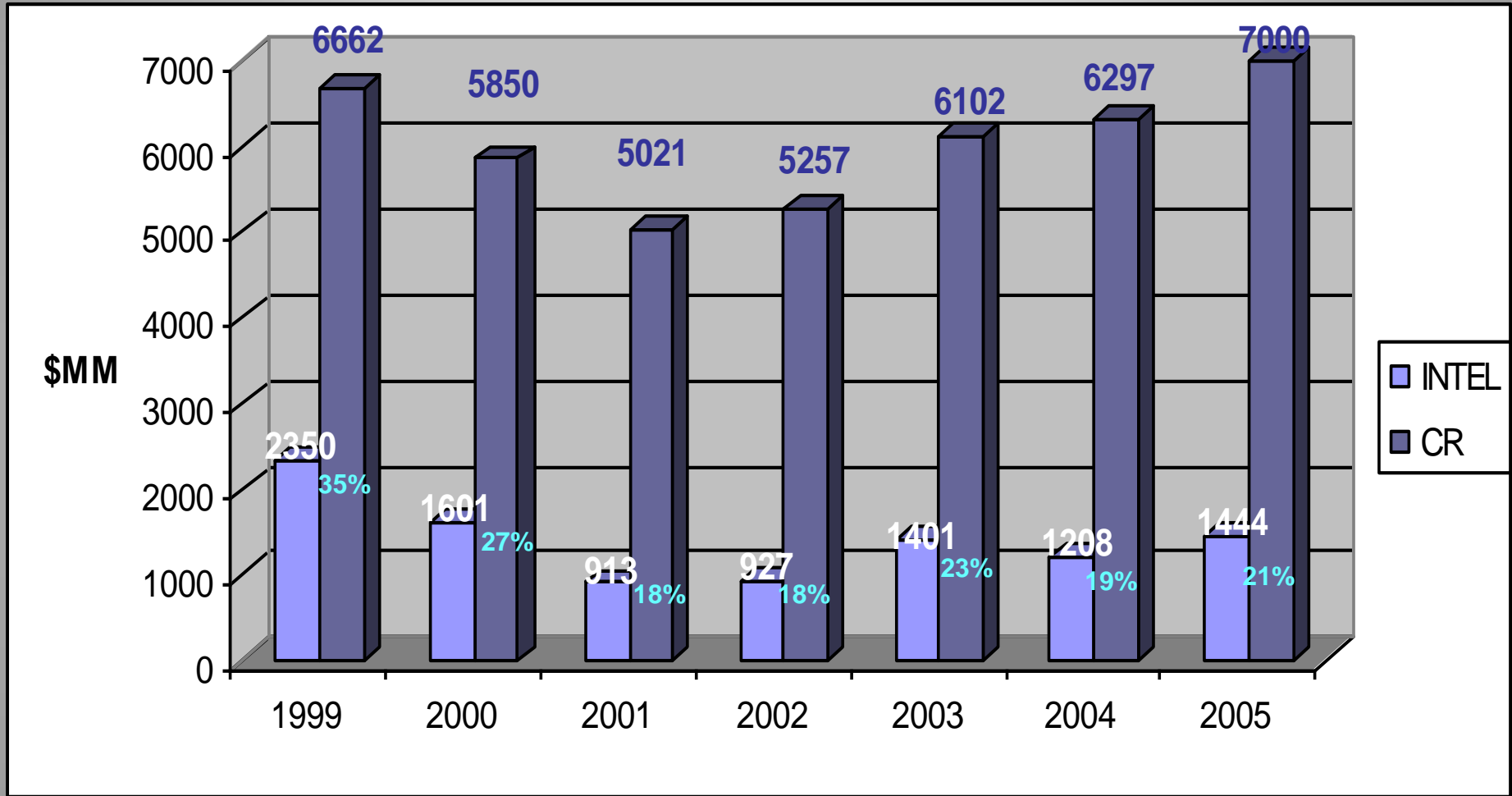


Source: Infinitum, BCCR, Intel

Exports by Intel



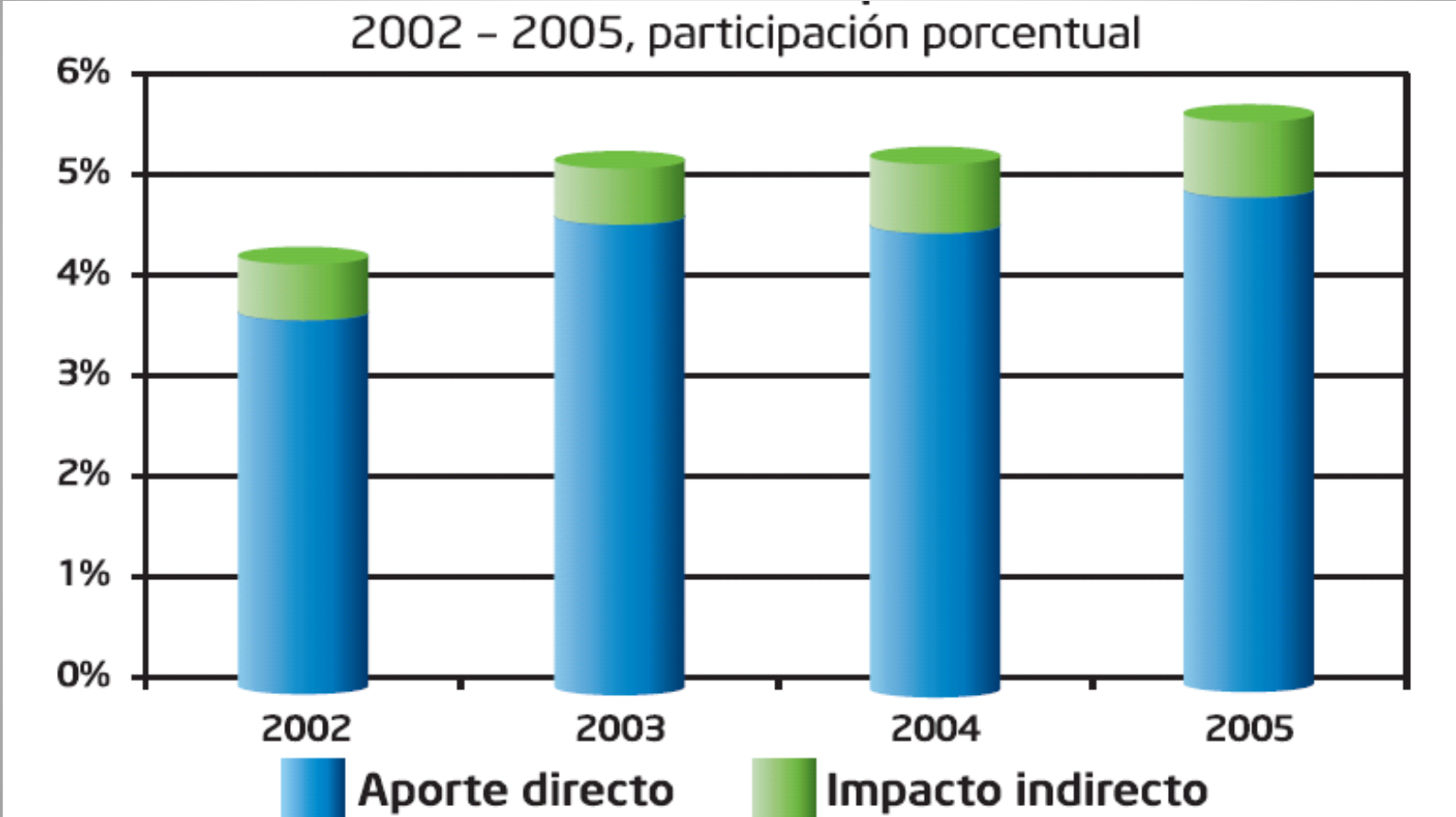
Exports from Costa Rica



Fuentes: Infinitum, INTEL, PROCOMER, BCCR

Derechos reservados

Direct and Indirect Effects of Intel CR to real GDP



Fuente: CEFSIA-Intel, BCCR

Derechos reservados

Costa Rica's GDP and GDP per Capita

	GDP Market prices in US\$ million	GDP per Capita Market prices in US\$
1995	11,722	3,378
1996	11,843	3,322
1997	12,812	3,508
1998	14,096	3,762
1999	15,797	4,116
2000	15,946	4,062
2001	16,394	4,090
2002	16,818	4,112
2003	17,429	4,180

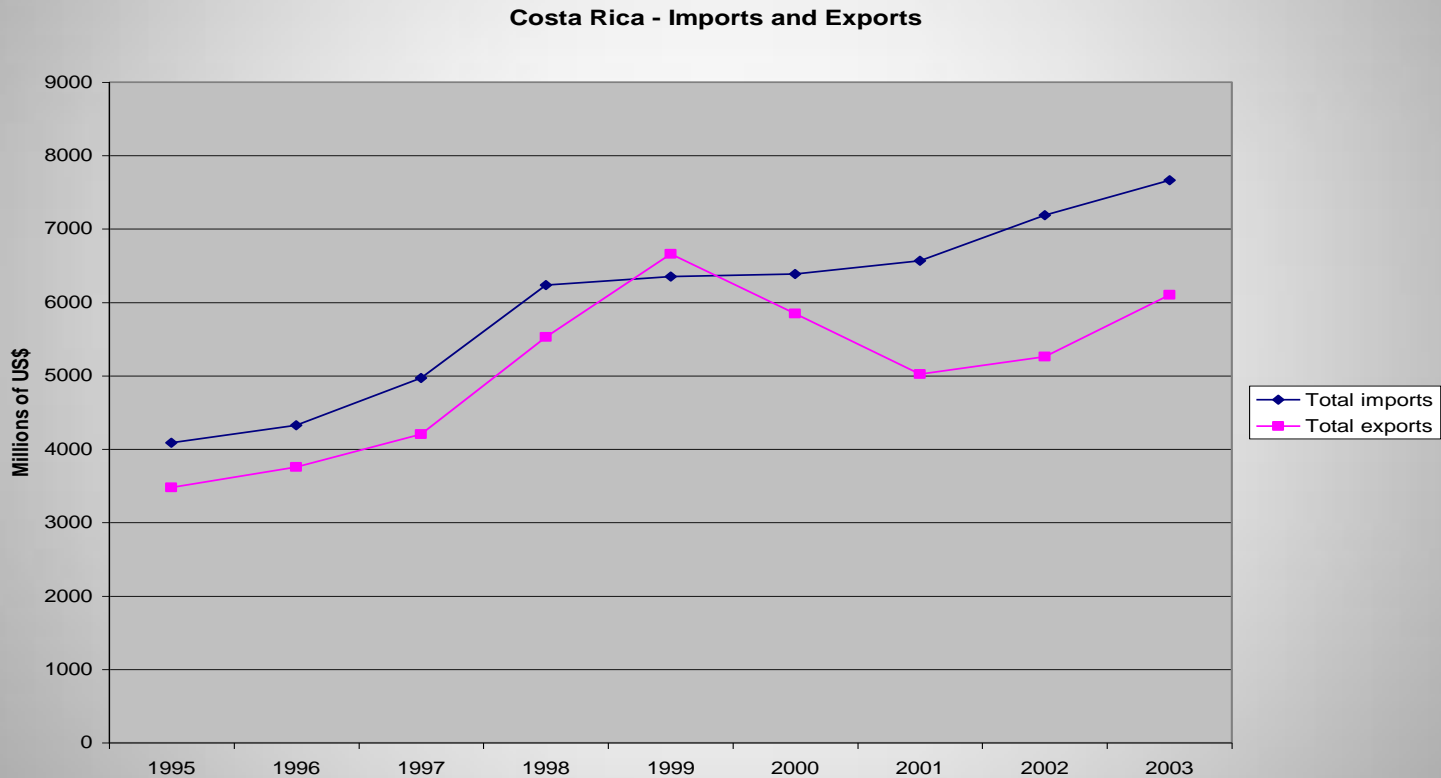
Source: Central Bank of Costa Rica

Growth of Selected Indicators (%)

	1999		2000		2001	
	Total	w/o Intel	Total	w/o Intel	Total	w/o Intel
GDP real	8.4	3.0	1.4	3.0	4.6	4.1
Exports	20.6	3.3	-11.2	4.3	5.6	2.5
Imports	1.9	NA	1.4	3.8	5.0	5.5

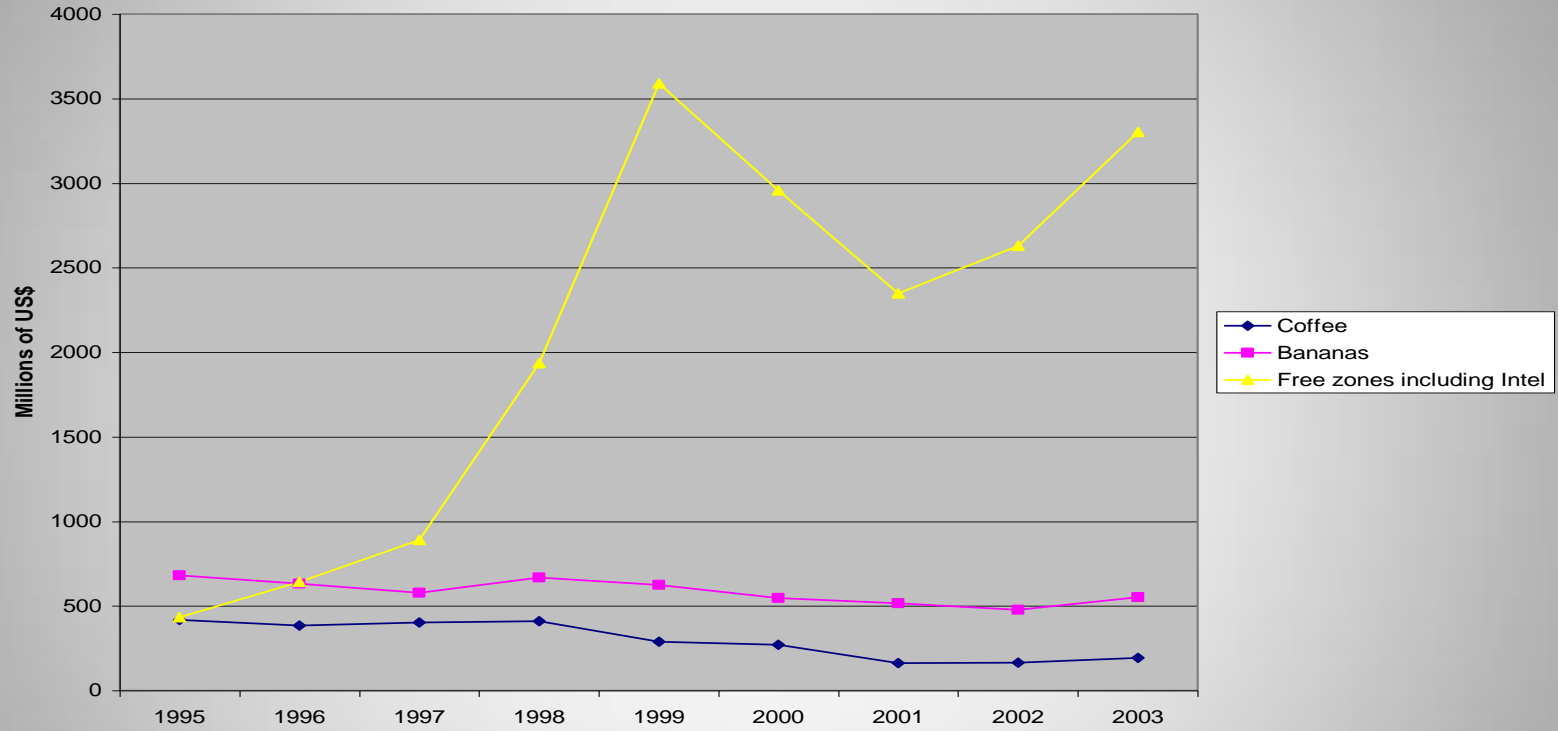
Source: Econanálisis, "What the Intel effect is all about"

Annual total imports and exports, 1995-2003 (US\$ millions)



Sources: Central Bank of Costa Rica, Customs, Export Promotion PROCOMER.

Costa Rica - top 3 exports



Source: Central Bank of Costa Rica, Customs, Export Promotion PROCOMER.

Intel's Impact – 12 Years Later

[Big Picture]

- About 5% contribution to GDP
- 18-20% of Costa Rica's foreign trade
- FDI flows – US\$ one billion

**SIGNIFICANT CHANGE IN BUSINESS
CULTURE**

Third Objective

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THANK YOU