2000 Country Reports on Economic Policy and Trade Practices
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COSTA RICA

Key Economic Indicators 1/

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 /1
Income, Production and Employment:			
Nominal GDP 2/	13,889	15,404	16,500
Real GDP Growth (pct) 3/	8.0	8.0	4.7
GDP by Sector (pct):			
Agriculture	11.4	11.0	10.8
Industry	22.4	26.0	26.0
Services	43.1	39.9	40.2
General Government	23.1	23.1	23.0
Per Capita GDP (US$)	3,769	3,856	3,950
Labor Force (000s)	1,377	1,383	1,400
Unemployment Rate (pct)	5.6	6.0	6.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.5	16.4	16.0
Consumer Price Index	12.4	10.1	11.0
Exchange Rate (Colones/US$ annual average)			
Official	None	None	None
Parallel	267.1	282.0	309.0
Balance of Payments and Trade:			
Total Exports FOB 4/	5,523.3	6,648.5	6,450.0
Exports to U.S. 4/	2,551.0	3,452.0	3,350.0
Total Imports CIF 4/	6,238.7	6,350.7	6,450.0
Imports from U.S. 4/	3,464.0	3,577.0	3,400.0
Trade Balance 4/	-739.3	230.5	0.0
Balance with U.S. 4/	-913.0	-125.0	-50.0
External Public Debt	2,872.4	3,057.0	3,350.0
Fiscal Deficit of Public Sector/GDP (pct)	2.0	3.3	3.0
Current Account Deficit/GDP (pct)	3.6	3.2	3.2
Foreign Debt Service Payments/GDP (pct)	0.3	0.5	0.6
Gold and Foreign Exchange Reserves	991.3	1,471.4	1,300.0
Aid from U.S.	0	9.0	0
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 figures are all estimates based on available monthly data in September.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade. U.S. trade date figures are lower for U.S. exports to Costa Rica ($2,296 million in 1998 and $2,381 million in 1999) compared to Costa Rica's data for imports from the U.S. largely due to country of origin accounting for INTEL trade.

1. General Policy Framework

The Costa Rican economy is based on a free market system and relatively open trading regime. There are, however, several large public sector monopolies in electricity transmission and distribution, telecommunications, petroleum distillation and distribution and insurance. The Costa Rican economy performed well in 1998 and 1999, with eight percent real GDP growth each year. Growth has been led by foreign investments, notably Intel Corporation, in free trade zones, and by a fast-growing tourism industry. Traditional agricultural activities such as banana, coffee, beef and dairy production have fared less well in an atmosphere of increased global competition and low agricultural commodity prices.

Costa Rica's most pressing economic problem is the fiscal deficits of the central government and the combined public sector. The fiscal deficit of the combined public sector was equivalent to 3.3 percent of GDP in 1999, and the cost of servicing the interest on the accumulated public sector debt equals approximately 30 percent of the government's total revenues. The deficit and debt-financing requirement limit the government's access to resources for needed infrastructure improvements. Moreover, most of the debt is financed in domestic capital markets, placing upward pressure on interest rates.

The Rodriguez Administration, inaugurated in May 1998, initially proposed selling state monopolies that control key parts of the country's infrastructure. However, it has been unable to achieve a political consensus on the appropriate roles of the public and private sectors in fields such as telecommunications, energy and insurance. In place of privatization, concessions to build and manage public works are being pursued by the government. A consortium led by a U.S. firm signed a contract on October 18, 2000 to manage the Juan Santamaria International Airport in San Jose after winning an open bidding process in 1999. A request for offers to rebuild and operate the country's railroads is expected before the end of 2000. Concessions to operate prisons and the country's principal Pacific seaport are expected follow.

Costa Rica has reduced most tariff rates for imported goods to 15 percent or lower in unison with its Central American neighbors. Costa Rica has a free trade agreement with Mexico and is pursuing new agreements with Chile, the Dominican Republic, Trinidad and Tobago, Panama and Canada. Costa Rica joined the so-called Cairns Group of agricultural free traders at the beginning of 2000. These market-opening initiatives are consistent with the global economic outlook of the Rodriguez administration and its predecessor, which have viewed the attraction of foreign investment in export-oriented, high-technology industry as source of the country's future economic growth. Costa Rica's exports per capita are now among the highest in Latin America and the Caribbean. However, elements of the traditional agricultural sector are resisting further market opening and are seeking to slow the pace of reform within the Legislative Assembly.

2. Exchange Rate Policy

Costa Rica's exchange rate has followed a "crawling peg" of small daily changes since 1993. The rate of devaluation, indirectly set by the Central Bank, is driven by the market and is adjusted by the Central Bank through its sale or purchase of foreign currency. Virtually all public and private business is transacted at the same rate. Commercial banks are free to negotiate foreign exchange prices but must liquidate their foreign exchange positions daily with the Central Bank. There are no controls on holding or remitting foreign exchange.

The colon-to-dollar exchange rate rose 9.9 percent during 1999, a rate similar to the change in the aggregate price level. Depreciation was running at an annual rate of approximately 6 percent through September 2000, less than projected 11 percent inflation for the year. The slower pace of daily devaluation has been a component of the Central Bank's policy to rein in inflation, but that policy may have been overshadowed by rapidly rising energy prices.

3. Structural Policies

Prices are set by the market, except in sectors controlled by the state (e.g., fuel, electricity, and telecommunications). Government procurement is generally by open public tender in which foreign suppliers are free to compete. Antitrust legislation and rules protect consumers against product misrepresentation and price fixing.

Tax collection is approximately 40 percent from customs duties and 20 percent each from income tax, the value-added tax, and other sources. Companies in free trade zones benefit from income tax holidays and duty exoneration on imported inputs that are subsequently re-exported. There have been no recent tax modifications that affect the import of U.S. goods and services.

Regulatory policies do not discriminate against U.S. exports.

4. Debt Management Policies

Costa Rica's foreign official debt totaled $3.057 billion on December 31, 1999. This was equivalent to 19.8 percent of GDP. Costa Rica placed dollar-denominated bonds for $200 million in April 1998, $300 million in April 1999, and $250 million in July 2000 to take advantage of relatively low interest rates available in the Eurodollar market, reduce the government's debt servicing burden, and take upward pressure off of domestic interest rates. The domestically financed portion of public sector debt was equivalent to $5.354 billion at the end of 1999, placing total public sector debt at 34.8 percent of GDP.

Costa Rica's July 2000 placement of $250 million of bonds in the international market benefited from Moody's decision to upgrade Costa Rica's foreign official debt from stable to positive, a step away from investment grade. Standard & Poor's followed suit shortly after the bonds were placed with a twenty-year maturity and 9.99 percent interest rate.

Costa Rica does not have IMF or World Bank adjustment programs and has not been to the Paris Club for debt rescheduling in recent years.

5. Aid

The U.S. Agency for International Development does not have a permanent bilateral relationship with Costa Rica. U.S. government agencies provided a combined $9 million of assistance in fiscal years 1999 and 2000 to assist Costa Rica with the effects of Hurricane Mitch and the flow of refugees from other countries that followed. Costa Rica abolished its military forces in 1948. The United States provides some financial assistance to Costa Rican Coast Guard and civilian police programs that cooperate with U.S. law enforcement agencies engaged in combating narcotics trafficking.

6. Significant Barriers to U.S. Exports

Costa Rica replaced all import licenses and permits when it joined the WTO in 1994. The Central Bank now monitors imports for statistical purposes only. The current tariff on most goods is between one and fifteen percent of the CIF price, with a few items such as poultry and automobiles taxed at higher levels. Solvents and chemical precursors used in the elaboration of illegal drugs are carefully regulated. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. All food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs must be registered and certified by the Ministry of Health prior to sale.

Foreign companies and persons may legally own real estate and equity in Costa Rican companies, including companies engaged in most service businesses. Individual or firms seeking concessions for beachfront land, which by law belongs to local governments, must be Costa Rican or meet certain residency requirements. Foreign individuals may establish businesses once they are legal residents of Costa Rica. However, several activities are reserved for the state, including telecommunications, the transmission and distribution of electricity, hydrocarbon and radioactive mineral extraction and refining, insurance underwriting, and the construction and operation of ports and airports. Representatives or distributors of foreign products must have resided in Costa Rica for at least ten years. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers and other professionals must be members of local guilds, which stipulate residency, examination and apprenticeship requirements that cannot be met by newcomers.

Legislation approved in October 1995 allowed private banks to offer demand deposits. However, private banks must be incorporated locally; branches of foreign banks are not permitted. The three state-owned commercial banks still account for well over half of the country's demand deposits.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions and high tariffs significantly constrain imports of some agricultural products. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs and pesticides, and the same items must be legally available in the exporting country.

National treatment is granted for most investments. Exceptions include power generation for sale to the national grid, where 35 percent Costa Rican equity is required, and radio and television broadcasting, where Costa Rican majority ownership is required. Costa Rican laws have encouraged the development of tourism and nontraditional exports, but incentive programs have been eliminated or scaled back in recent years. Export performance requirements are limited to free trade zones, where companies must be engaged in export industries to qualify for an income tax holiday. Income tax holidays are scheduled to end in 2003 due to Costa Rica's WTO commitments. There are no local content requirements. The Labor Code ordinarily limits the percentage of foreign workers that can work in an enterprise to 10 percent of the total work force. Foreigners may account for no more than 15 percent of the total payroll. Permits for foreign participation in management are routinely granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

The government and other state institutions procure goods and services through open public tenders. However, the General Law on Financial Administration allows private tenders and direct contracting of goods and services in relatively small quantities or, in case of emergency, with the consent of the Controller General (General Accounting Office). Public bidding is complicated and highly regulated, with the result that foreign bidders are frequently disqualified for failure to comply exactly with the required procedures. Appeals of contract awards are common, lengthy and costly. No special requirements apply to foreign suppliers, and U.S. companies regularly win public contracts. However, foreign suppliers without a legal representative in Costa Rica are disadvantaged in dealing with the government procurement process.

Past government expropriation policies have created problems for some U.S. investors. The government has expropriated large amounts of land for national parks and for ecological and indigenous reserves, but compensation was rarely, if ever, prompt. Some unpaid expropriation claims date back over 25 years. New legislation in 1995 improved the situation by requiring compensation as a prior condition for effecting an expropriation. Resolution of investment disputes remains difficult, however. The courts take an average of eight years to resolve civil suits. Recourse to international arbitration is possible through the International Center for the Settlement of Investment Disputes (ICSID) as of 1993, and several domestic arbitration bodies have been established, but in practice there has been little recourse to arbitration by parties to investment disputes. Landowners in Costa Rica also run the risk of losing their property to squatters, who are often organized and sometimes violent. A U.S. citizen and long-term resident of Costa Rica was killed in November 1997 in a dispute over an ocean front land concession granted by a municipal government. Squatters enjoy certain rights under Costa Rican land tenure laws and can eventually receive title to the land they occupy if the occupation is left unchallenged by the landowners. Police protection of landowners in rural areas is often inadequate.

Customs procedures are often costly and complex, but they do not discriminate between Costa Ricans and foreign traders. Most large firms have customs specialists on the payroll, in addition to contracting the mandatory services of customs brokers. Customs brokers must be Costa Rican nationals.

7. Export Subsidies Policies

The Export Processing Law of 1981 permits companies in designated free trade zones to be exempted from paying duties on imported inputs that are incorporated into exported products. It also provides holidays on income and remittance taxes that are to be phased out in 2003 as called for by the WTO. The Active Processing Regime of 1997 offers similar duty-free entry for imported inputs but does not provide tax holidays.

8. The Protection of U.S. Intellectual Property

Costa Rica belongs to the WTO and the World Intellectual Property Organization (WIPO). Costa Rica is also a signatory to the Paris Convention, Bern Convention, Lisbon Agreement, Rome Convention, Phonograms Convention and the Universal Copyright Convention and the 1996 WIPO copyright and phonograms treaties. Costa Rica is on the "Special 301" Watch List for 2000, due to widespread copyright and trademark piracy.

Significant weaknesses continue to exist in copyright and trademark enforcement. The Legislative Assembly passed eight new laws in 2000 to bring domestic legislation into compliance with WTO TRIPS Agreement, finishing with the law on enforcement passed in October 2000. Representatives of industries affected by copyright piracy have expressed concern that penalties and enforcement procedures codified by the new legislation are inadequate.

Patents: The new legislation passed in 2000 provides for 20-year patents, replacing shorter periods in the previous legislation. There is some concern that the transition from one-year patents for pharmaceuticals and agricultural chemicals to twenty-year patents will leave some products, in use before the new law was published but not registered with Costa Rica's patent office, vulnerable to piracy. No patent protection has been available for plant or animal varieties or for any biological or microbiological process or products. However, the government is working on a legislative proposal that would protect such products within the framework of the Convention for the Protection of New Varieties of Plants (UPOV).

Trademarks: Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for 10-year periods. Counterfeit goods, particularly designer jeans and sportswear, are widely available. Enforcement has been difficult due to the lack of adequate legislation specifying the nature of a trademark violation and the penalties associated with the violation. Affected companies believe the new enforcement legislation will make effective criminal prosecution of violators possible, but the law has yet to be tested.

Copyright: Costa Rica's copyright laws are generally adequate, though some industries believe that there is insufficient protection against parallel imports of copyrighted goods into markets with exclusive distribution rights. Software, audio and other industries vulnerable to copyright violations are also concerned that the new enforcement legislation is inadequate because it: 1) requires the party whose copyright is violated to file a complaint before a case will be prosecuted criminally; and 2) provides lesser penalties against violators than copyright owners requested.

Costa Rica enacted new legislation in 2000 providing protection to integrated circuit designs. Satellite signal piracy exists, particularly in rural areas, but major metropolitan cable television operators carry programming that is, in most part, legally acquired.

The International Intellectual Property Association estimates losses of $14.4 million in 1999 due to illegal copying of business software, motion pictures and sound recordings. Estimates of losses are not available for the illegal copying of entertainment software or counterfeit sportswear, which are known problems in Costa Rica.

9. Worker Rights

a. *The Right of Association:* Costa Rican law specifies the right of workers to join labor unions of their choosing without prior authorization. Nevertheless, some barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Many Costa Rican workers join solidarity associations, under which employers provide easy access to saving plans, loans, recreation centers, and other benefits in return for their agreement to employ non-confrontational methods to settle disputes. Both solidarity associations and labor unions coexist at some workplaces, primarily in the public sector. Business groups claim that solidarity associations provide for better working conditions and labor relations than in firms where workers are represented by unions. However, labor unions allege that private businesses use solidarity associations to prevent union organization in contravention of International Labor Organization rules.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right to organize. Reforms to the Labor Code enacted in 1993 provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Costa Rica has no restrictions on the right of private sector employees to strike or engage in collective bargaining. The constitutionality of public sector collective bargaining agreements was recently challenged in the Supreme Court, which ruled that public workers were covered by the Civil Service Code and could not bargain for benefits not encompassed by that law.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor and requires employers to provide adequate wages to workers in accordance with minimum wage and salary standards. Laws prohibit forced and bonded labor by children. The government enforces this prohibition effectively.

d. *Minimum Age for Employment of Children:* The Children's Code enacted in 1992 prohibits the employment of children under 15 years of age. The Ministry of Labor can issue waivers to this provision in cases where children under 15 already depend on jobs for their livelihood, with the goal of moving gradually toward the elimination of child labor. The constitution provides special employment protection for women and youth. Children between 15 and 18 can work a maximum of seven hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of five hours daily and 30 hours weekly. The National Children's Institute, in cooperation with the Ministry of Labor, enforces these regulations in the formal sector, but child labor remains an integral part of the informal economy.

e. *Acceptable Conditions of Work:* The Constitution provides for a minimum wage, and a national wage council sets minimum wage and salary levels every six months. Workers may work a maximum of eight hours during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Industrial, agricultural and commercial firms with ten or more workers must establish management-labor committees and allow government workplace inspections. Workplace enforcement is less effective outside the San Jose area.

f. *Rights in Sectors with U.S. Investment:* Labor regulations apply throughout Costa Rica, including in the country's free trade zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. ownership and management. Abuses occur more frequently at plants operated by investors based outside the United States.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		30
Total Manufacturing		663
Food & Kindred Products	111	
Chemicals & Allied Products	158	
Primary & Fabricated Metals	24	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	85	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		867
Banking		0
Finance/Insurance/Real Estate		4
Services		-2

Other Industries	83
TOTAL ALL INDUSTRIES	1,646

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.