2001 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)

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP 2/	15,732	15,884	16,303
Real GDP Growth (pct) 3/	8.3	1.7	0.5
GDP by Sector (pct):			
Agriculture	8.8	8.8	7.0
Industry	24.3	21.0	20.0
Services	39.9	40.2	43.5
General Government	7.5	7.6	7.4
Per Capita GDP (US$)	3,856	3,950	3,800
Labor Force (000s)	1,383	1,391	1,400
Unemployment Rate (pct)	6.0	5.2	6.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.4	20.0	18.0
Consumer Price Index	10.1	11.0	12.0
Exchange Rate (Colones/US$ annual average)			
Parallel	282.0	308.7	336.5
Balance of Payments and Trade:			
Total Exports FOB	6,641.0	5,880.0	5,132.0
Exports to United States	3,452.0	3,083.0	2,670.0
Total Imports CIF	6,350.7	6,380.0	6,400.0
Imports from United States 4/	3,581.0	3,388.0	3,390.0
Trade Balance	290.3	500.0	1,268.0
Balance with United States	-129.0	-305.0	-720.0
External Public Debt 5/	3,057.0	3,150.6	3,171.0
Fiscal Deficit of Public Sector/GDP (pct)	3.2	3.8	4.0
Current Account Deficit/GDP (pct)	0.7	1.0	1.9
Foreign Debt Service Payments/GDP (pct)	0.5	0.6	0.8
Gold and Foreign Exchange Reserves (December 31)	1,471.4	1,300.0	1,200.0
Aid from United States 6/	10.2	1.3	2.8
Aid from All Other Sources	N/A	N/A	N/A

1/ 2001 figures are all estimates based on available monthly data in October.

2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ U.S. government trade data figures are significantly lower for U.S. exports to Costa Rica ($2,381 million in 1999 and $2,445 million in 2000) compared to Costa Rica's data for imports from the U.S. This difference is largely due to country of origin accounting for INTEL trade.
5/ June 2001 estimate by the Central Bank of Costa Rica.
6/ The United States provides some financial assistance to the Costa Rican Coast Guard and civilian police programs that cooperate with U.S. law enforcement agencies engaged in combating narcotics trafficking. This aid totaled approximately $3 million in 2001.

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 refining and distribution, and insurance. Costa Rica's gross domestic product (GDP) in 2000 grew only 1.7 percent after strong growth of 8.3 percent in 1999. The Central Bank projects a GDP growth rate of 0.5 percent in 2001, though this figure may be revised downward following the negative economic impact of the September 11 terrorist attacks. Economic growth in recent years has been led by foreign investments in the free trade zones and a fast-growing tourism industry. While foreign direct investment has not reached the levels achieved during 1998-1999 resulting from the major investment by INTEL, FDI remains an important element for Costa Rica's economy, totaling an estimated US$ 457 million in 2001. Traditional agricultural activities such as banana, coffee, beef, and dairy production have fared less well in an atmosphere of increased global competition and low world agricultural commodity prices. Some non-traditional exports, such as ornamental plants and cut flowers, are also expected to suffer as a result of declining world demand and the rising cost of air transportation.

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 grew from 3.2 percent of GDP in 1999 to 3.8 percent of GDP in 2000. Servicing the interest expense on the accumulated public sector debt accounts for over 30 percent of the government budget. The majority of the debt is financed in domestic capital markets, placing upward pressure on interest rates. The growing costs of Costa Rica's extensive social services, coupled with poor performance in collecting taxes, limits the government's ability to address needed infrastructure improvements and to contain the fiscal deficit.

The Rodriguez Administration, inaugurated in May 1998, has been unable to achieve a political consensus on an appropriate mechanism to allow private sector participation 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 Bechtel signed a contract on October 18, 2000, to manage the Juan Santamaria International Airport in San Jose. Additional concessions are being considered to operate prisons, the country's principal Pacific seaport, and the railroads. The Costa Rican government is either reviewing or will soon review the bids for these three concessions.

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 signed Free Trade Agreements with Canada, Mexico, the Central American Common Market, the Dominican Republic, and Chile. The agreement with Canada remains to be ratified by both countries. The agreement with the Dominican Republic has not entered into force because of Dominican concerns about the quotas contained in the agreement for chicken and powdered milk.   Similar trade agreements are being negotiated with Panama and Trinidad and Tobago. There are also Bilateral Investment Treaties (BIT) that provide some trade preferences to Canada, Venezuela, Paraguay, Chile, Argentina, Great Britain, the Netherlands, Germany, Switzerland, Taiwan, and the Czech Republic.   BITs with Korea and Switzerland require ratification by the Legislative Assembly. Costa Rica joined the 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 which has viewed the attraction of foreign investment in export-oriented, high-technology industries and services as an important source for 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 1983. 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 exchange rate. Commercial banks are free to negotiate foreign exchange rates 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 6.7 percent during 2000, while the consumer price index (CPI) changed 10.3 percent. The exchange rate rose 3.2 percent during the first semester of 2001, while the Consumer Price Index increased 6.6 percent. The Central Bank's policy of not devaluing the colon at the rate of inflation may negatively impact Costa Rica's trade competitiveness.

3. Structural Policies

Prices are set by the market, except in sectors controlled by the state (e.g., gasoline, electricity, telecommunications, and insurance). 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 revenue is largely derived from sales and value-added taxes, with lesser amounts obtained from customs and income taxes. Companies in free trade zones benefit from income tax holidays and duty exoneration on imported inputs that are subsequently re-exported. Costa Rica must phase-out its tax incentives for companies operating in the free trade zones by January 1, 2003, to be in compliance with its commitments under the WTO Agreement on Subsidies and Countervailing Measures. The Costa Rican government is considering various alternative tax proposals, such as a flat tax of 15 percent or less for all companies operating in Costa Rica, but no decision has yet been made. There have been no recent tax modifications that affect the import of U.S. goods and services. There are no export taxes.

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

4. Debt Management Policies

Costa Rica's foreign official debt totaled $3,150 million on December 31, 2000. This was equivalent to 20.3 percent of GDP. In addition, there was an outstanding domestic debt equivalent to USD 5,508 million, equivalent to 35.4 percent of GDP, on December 31, 2000. The Ministry of Finance has been retiring domestic debt, which is denominated in higher interest local currency, and replacing it with lower interest U.S. dollar denominated foreign debt, in an attempt to reduce the public sector deficit which was equivalent to 3.8 percent of GDP on December 31, 2000.

Costa Rica does not have IMF or World Bank adjustment programs. Costa Rica agreed to IMF Standby Programs in 1993 and 1995 but made no withdrawals. Costa Rica last went to the Paris Club for debt rescheduling in 1993.

5. 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 1 and 15 percent of the CIF price, with a few items such as poultry, milk 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. Individuals or firms seeking concessions for beach front land, which by law are public and administered by local governments, must be Costa Rican or meet certain residency requirements. Foreigners may establish businesses once they are legal residents of Costa Rica. 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 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 are difficult to meet 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 unless they are also registered in Costa Rica. The three state-owned commercial banks account for well over two-thirds of the country's demand deposits. Private banks are required to place 17 percent of their demand deposits with state-owned banks which pay minimal interest rates.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. All used cars imported into Costa Rica must have emission control certificates issued by the country from where the vehicle is exported (not the country of manufacture, if different). This requirement has proven difficult to meet by importers because such certificates are not always available. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions and high tariffs significantly constrain imports of some agricultural products. These restrictions have been used to limit the importation of U.S. chicken products in 2001. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs, herbicides 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 TRIMS 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 be paid 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 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 often not provided and was rarely prompt. Some unpaid expropriation claims date back to the early-1970s. 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. Several domestic arbitration bodies also 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 oceanfront 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. The Government of Costa Rica removed hundreds of squatters that seized property belonging to a large U.S. agricultural company in 2001, although the threat of a new “invasion” on this land remains.

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.

6. 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.

7. 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, Berne Convention, Lisbon Agreement, Rome Convention, Phonograms Convention and the Universal Copyright Convention and the 1996 WIPO copyright and phonograms treaties. Costa Rica was raised from the Special 301 Watch List to the Priority Watch List in 2001 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 commitments, including the law on enforcement passed in October 2000. Representatives of industries affected by copyright piracy have expressed concern that penalties and enforcement procedures in the new legislation are inadequate. The Government of Costa Rica has responded in the second half of 2001 with an increase in enforcement actions and raids against those violating intellectual property rights.

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.

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. Some enforcement actions have been taken in 2001 against companies importing or producing counterfeit jeans.

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 can 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 about $20 million in 2000 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.

8. 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. 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, low-interest loans, health clinics, recreation centers, and other benefits. 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 and there are no solidarity associations. 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. The Labor Code enacted in 1993 provides protection from dismissal for union organizers and members and requires employers found guilty of discrimination to reinstate workers fired for union activities. Costa Rica approved a law in June 2001 permitting public employees to participate in collective bargaining, except in circumstances that would violate existing bylaws or when an employee occupies a managerial position.

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 and establish age limitations. The government enforces this prohibition.

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 Constitution provides special employment protection for women and youth. Adolescents between the ages of 15 and 18 can work a maximum of 6 hours daily and 36 hours weekly with special permission from the Government. Children under age 15 cannot work legally.

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 and rural economies because of poverty and insufficient resources for the state to enforce compliance.

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 have occurred 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 -- 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		31
Total Manufacturing		764
Food & Kindred Products	116	
Chemicals & Allied Products	166	
Primary & Fabricated Metals	28	
Industrial Machinery and Equipment	301	
Electric & Electronic Equipment	96	
Transportation Equipment	0	
Other Manufacturing	56	
Wholesale Trade		1,147
Banking		0
Finance/Insurance/Real Estate		2
Services		-2
Other Industries		41
TOTAL ALL INDUSTRIES		1,983

Source: U.S. Department of Commerce, Bureau of Economic Analysis.