



Costa Rica: Background and U.S. Relations

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Summary

Costa Rica is a relatively politically stable and economically developed nation with a long tradition of civilian democracy. Former president (1986-1990) and Nobel-laureate Oscar Arias of the National Liberation Party was elected President in 2006. Throughout his term, Arias has focused on expanding the country's social safety net and increasing free trade. He faced strong opposition to the country's inclusion in the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), but eventually secured its ratification and implementation. Arias has also been active in foreign affairs, establishing diplomatic relations with China and Cuba after decades without formal ties.

Once a predominantly agricultural nation, Costa Rica has established a diversified economy with a strong export sector. Under President Arias, the country has increased its social investment, experienced significant economic growth, and seen a reduction in poverty. The global financial crisis and economic downturn, however, threatens to erase these gains. President Arias has responded to the crisis with an ambitious fiscal stimulus and social protection plan. While the plan may do much to mitigate the social impacts of the crisis, analysts believe it will be unable to prevent Costa Rica's economy from slowing considerably in 2009.

In recent years, many have begun to recognize Costa Rica as a world leader in environmental protection. Successive Costa Rican administrations have sought to address the extensive deforestation and environmental degradation that resulted from decades of logging and agricultural expansion. The country's innovative policies, strong conservation system, and commitment to alternative energy have done much to restore Costa Rica's environment. Costa Rica is also party to a variety of international treaties and has committed to becoming carbon neutral by 2021. This commitment to environmental protection has been a significant source of economic growth for the country as Costa Rica is now a top destination for ecotourism.

The United States and Costa Rica have long enjoyed close relations as a result of the countries' shared commitments to strengthening democracy, improving human rights, and advancing free trade. The countries have also maintained strong commercial ties, which are likely to become even more extensive as a result of the implementation of CAFTA-DR. Costa Rica and the United States have worked together on a number of other issues as well, such as conserving Costa Rica's tropical forests and combating narcotics trafficking.

For additional information see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck, CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke, and CRS Report R40135, *Mérida Initiative for Mexico and Central America: Funding and Policy Issues*, by Clare Ribando Seelke and June S. Beittel.

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Political Situation

Background

Costa Rica is a relatively politically stable and economically developed country of 4.3 million people. The country gained its independence from Spain in 1821 as a part of the Central American Union, and became a sovereign nation following the union's dissolution in 1838. Costa Rica has a history of stable governance and has enjoyed continuous civilian democratic rule since the end of a 1948 civil war, the longest period of unbroken democracy in Latin America. The civil war led to the creation of a new constitution, the abolition of the military, and the foundation of one of the first welfare states in the region. Although the 1949 constitution forbids the creation of a standing army, the country has a coast guard and a 9,900-strong police force that is controlled by the Ministry for Public Safety and the Interior. Costa Rica is a presidential democracy with a unicameral legislature. Presidential and legislative terms last four years, with consecutive terms prohibited by the constitution.¹ Costa Rica also possesses an independent judiciary, which includes a Supreme Court with a Constitutional Chamber that has extensive powers to review the constitutionality of legislation.²

Public fatigue with politics has grown in recent years as a result of corruption scandals that have implicated three former presidents from the two traditional ruling parties: Rafael Angel Calderón (1990-1994) and Miguel Angel Rodríguez (1998-2002) of the center-right Social Christian Unity Party (PUSC) and José María Figueres (1994-1998) of the center-left National Liberation Party (PLN). This disillusionment has led to high voter abstention rates and increased support for newer parties, such as the leftist Citizens' Action Party (PAC) and the conservative Libertarian Movement Party (PML).³

2006 Elections

Presidential and legislative elections were held in February 2006, though the presidential election was so close that the Supreme Electoral Tribunal (TSE) did not announce the final results until March 2006, following a manual recount. Former president (1986-1990) and Nobel-laureate Oscar Arias of the PLN defeated the PAC's Ottón Solís—a former PLN deputy and Minister for National Planning and Economic Policy during Arias' first administration—40.92% to 39.8%, a difference of just 18,167 votes. The PLN also won a plurality in the National Assembly with 25 of the 57 seats. The PAC won 17 seats, surpassing the PUSC, which won just five National Assembly seats and 3.5% of the presidential vote. Voter abstention continued to be high, with 35% of the population not voting, a 4% increase from 2002.⁴ The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) was one of the most prominent issues of the campaign. Arias supported ratification of the agreement while Solís maintained that it should be renegotiated.

¹ As a result of an April 2003 constitutional change, presidents may be reelected after two terms out of office.

² "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

³ "Costa Rica: Elections end in dead heat," *Oxford Analytica*, February 8, 2006. The PML first participated in presidential elections in 1998 and the PAC in 2002.

⁴ "Costa Rica: Arias Finally Wins It," *Latin American Regional Report Caribbean & Central America*, March 2006.

Arias Administration

President Arias has spent much of his administration expanding Costa Rica's social safety net and advancing free trade. Despite some minor scandals that led to several Cabinet members' resignations, President Arias has enjoyed considerable public support throughout much of his term. In April 2009, the Arias Administration had a 53% approval rating, the highest rating for a president in the third year of his term in Costa Rican history.⁵

President Arias has done much to expand and modernize Costa Rica's social safety net since his election in 2006. In his first year alone, Arias doubled welfare pensions, created 16 new centers for primary healthcare services, and increased funding for education by 26%.⁶ The Arias Administration also introduced *Avancemos*, a conditional cash transfer program that provides monthly stipends to the families of 140,000 poor students, as long as the children remain in school and receive annual medical care.⁷ The program aims to reduce poverty in the short run while fostering long-term poverty alleviation through increased educational attainment. Social spending accounted for 41.1% of the budget in 2008 and will likely exceed 45% of the budget in 2009.⁸ Although these policies combined with strong economic growth helped reduce poverty in Costa Rica, the onset of the global financial crisis has threatened to erase the social gains made in recent years.

Arias has had more difficulty implementing his priorities on the trade front. Ratification and implementation of CAFTA-DR took much longer than expected. Although Costa Rica signed the agreement in 2004, the country did not ratify it until a national referendum in 2007, and the implementation did not take place until January 2009. Nonetheless, the Arias Administration has continued to push for more free trade agreements, ratifying an agreement with Panama and beginning trade talks with the European Union, Singapore, and China. President Arias established diplomatic ties with China in 2007, ending its 60 year relationship with Taiwan. Arias also reestablished diplomatic relations with Cuba in March 2009, 48 years after Costa Rica suspended ties with the nation.

2010 Elections

The political scene in Costa Rica has become increasingly focused on the February 2010 presidential and legislative elections. Given the popularity of the current administration, some analysts believe that whoever the ruling center-left PLN nominates will be the favorite to succeed President Arias.⁹ Support for the PLN could dissolve, however, should the Costa Rican economy continue to deteriorate despite President Arias' economic stimulus package. The PLN is to hold its primaries in June 2009 and the top two candidates are former Vice President Laura Chinchilla and former mayor of San José Johnny Araya. The leftist PAC is likely to once again be the PLN's main opposition. The PAC's 2006 presidential candidate, Ottón Solís, won the party's nomination with 71% of the vote in a May 2009 primary. Former President Rafael Angel Calderón (1990-

⁵ "Country Report: Costa Rica," *Economist Intelligence Unit*, May 2009.

⁶ "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

⁷ Gillian Gillers, "Dr.'s Visit Now Required To Get Cash Benefits," *Tico Times*, February 1, 2008.

⁸ "Corruption Impedes Flow of Aid to Poor in Costa Rica," *Latin America Data Base NotiCen*, September 18, 2008.

⁹ "Costa Rica still inclined towards PLN," *Latin American Caribbean & Central America Report*, February 2009.

1994)—who is currently on trial for corruption—may be the candidate of the PUSC while Otto Guevara will likely once again be the candidate of the PML.

Economic Situation

Costa Rica pursued state-led development throughout much of the 20th century. A regional recession in the 1980s, however, led Costa Rica to borrow heavily and eventually default on its foreign debt in 1983. Following the economic collapse, Costa Rica sought assistance from the International Monetary Fund (IMF) and other international financial institutions. In order to receive funds, Costa Rica was required to implement structural adjustment programs that liberalized the country's economy and privatized the majority of its state-owned enterprises.¹⁰

In recent decades, Costa Rica has continued to pursue market-oriented policies, making considerable efforts to attract foreign direct investment (FDI), develop its export sector, and diversify its once predominantly agriculture-based economy. Costa Rica's economic policies, stable democracy, and well educated population have led a number of analysts to consider Costa Rica one of the most attractive investment environments in Central America.¹¹ The creation of free trade zones (FTZs) over the past two decades has attracted a number of businesses in electronics and other high-tech industries, including Intel, which operates a microprocessor assembly plant in the country. These new industries have been an important source of employment and have strengthened the country's export sector. In 2007, Costa Rica attracted \$1.9 billion in FDI, of which \$1 billion originated in the United States.¹² Between 2005 and 2007, exports grew by 34%, with microprocessors and other electrical machinery accounting for roughly 21% of all export earnings in the period. Other important exports are edible fruit and nuts; machinery parts and mechanical devices; and optical and medical instruments, which respectively accounted for 14%, 12%, and 8% of export earnings in 2007.¹³ The economy grew by 8.8% in 2006 and 7.8% in 2007, fueled in large part by export growth and increased investment.¹⁴

Global Financial Crisis

The global financial crisis has significantly affected the Costa Rican economy as the U.S. recession has significantly weakened demand in one of Costa Rica's major export markets. Exports increased by just 1.83% in 2008, real gross domestic product (GDP) growth in 2008 slowed to 2.9%, and Costa Rica's monthly economic activity index (IMAE) recorded year-on-year falls of 5.6% in January 2009 and 5.7% in February 2009.¹⁵ The country is expected to face

¹⁰ CAFTA-DR further liberalizes the Costa Rican economy by opening up the telecommunications and insurance sectors.

¹¹ "IHS Global Insight Report: Costa Rica (Country Intelligence)," *IHS Global Insight Inc.*, 2009.

¹² U.N. Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin American and the Caribbean*, 2007.

¹³ U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, 2009.

¹⁴ "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

¹⁵ "Country Report: Costa Rica," *Economist Intelligence Unit*, April 2009. "Costa Rica: The crisis bites," *Latin American Caribbean & Central America Report*, April 2009.

continued declines in important sectors like manufacturing and tourism, leading the IMF to predict that the Costa Rican economy will grow only 0.5% in 2009 and 1.5% in 2010.¹⁶

In order to boost economic growth as well as protect the social gains that have been made in recent years, President Arias announced a \$2.5 billion (8% of GDP) economic stimulus and social protection plan known as *Plan Escudo* in February 2009. Among other provisions, the plan recapitalizes state banks, provides support to small and medium-sized enterprises and the agricultural sector, increases labor flexibility, invests \$1.43 billion (5% of GDP) in infrastructure projects, provides grants to workers in the worst-affected sectors, increases the number of students eligible for the *Avancemos* program, and creates a new food program for pre-school children and their families. Around \$1.9 billion of the plan will be financed through new multilateral debt—including \$1.3 billion from the Inter-American Development Bank (IDB)—with the rest coming from domestic sources.¹⁷ In April 2009, Costa Rica also received approval for a \$735 million stand-by loan from the IMF and a \$500 million credit line from the World Bank should it need additional funds to weather the crisis.¹⁸ Although the Arias Administration has made the stimulus plan a priority, the National Assembly has been slow to pass the necessary implementing legislation.¹⁹

Social Conditions

Costa Rica's citizens enjoy a relatively high standard of living as a result of the country's comparatively well-developed economy and devotion of considerable government resources to social services. The World Bank classifies Costa Rica as an upper-middle-income developing country with a Gross National Income (GNI) of \$24.8 billion and a per capita GNI of \$5,560 in 2007.²⁰ Costa Rica invests 6.6% of GDP in public health and 6% of GDP in education, some of the highest rates in the developing world. According to the United Nations' 2007/2008 Human Development Report, Costa Rica has the highest level of human development in Central America and the fourth highest in all of Latin America with a life expectancy at birth of 78.5 years and a literacy rate of 95%. Costa Rica's poverty rate has declined in recent years, falling nearly 4% since Arias took office to just 16.7%. Analysts attribute the reduction in poverty to strong economic growth and social programs such as *Avancemos*.²¹ Many of these social gains potentially are at risk due to the global economic downturn.

Environmental Policy

Although the country has long been admired for its tropical forests, it is only relatively recently that Costa Rica began to be seen as a world leader in environmental protection. While approximately 75% of Costa Rican territory was forest covered in the 1940s, just 21% remained

¹⁶ International Monetary Fund "World Economic Outlook: Crisis and Recovery," April 2009.

¹⁷ "Country Report: Costa Rica," *Economist Intelligence Unit*, February 2009.

¹⁸ "IMF approves \$735 mn stand-by loan for Costa Rica," *EFE News Service*, April 13, 2009; "Costa Rica: Growth falls despite expansionary policies," *Oxford Analytica*, April 15, 2009.

¹⁹ "Country Report: Costa Rica," *Economist Intelligence Unit*, April 2009.

²⁰ World Bank, *World Development Report*, 2009.

²¹ "Costa Rica Sees Accelerated Poverty Reductions," *Latin America Data Base NotiCen*, November 15, 2007; "Corruption Impedes Flow of Aid to Poor in Costa Rica," *Latin America Data Base NotiCen*, September 18, 2008.

covered in 1987 as a result of logging and agricultural expansion.²² Alarmed at the pace of deforestation and the extent of environmental degradation, the Costa Rican government began implementing a variety of environmental protections during the 1960s. Among these protections is the National System of Conservation Areas (SINAC), which currently provides formal protection for over 26% of Costa Rica's land and 16.5% of its waters.²³ Costa Rica has also imposed a 3.5% "carbon tax" on fossil fuels since 1997. The funds generated go to a national forest fund that pays indigenous and other communities to practice sustainable development and protect their forests.²⁴ As a result of these efforts, over 50% of Costa Rican territory is now under forest cover.²⁵

Costa Rica has introduced a number of other innovative environmental policies as well. The country imposes a tax on major water users—such as hydro-electric dams, farmers and drinking water providers—to pay communities upstream to keep the water clean. It has also begun taxing companies that pollute rivers, using the funds to improve the water treatment system, monitor pollution, and promote environmentally friendly practices. Costa Rica has invested heavily in renewable energy sources as well. It currently generates more than 95% of its energy from hydro-electric, geo-thermal and wind power, and has refused to exploit its discovered oil reserves in order to maintain incentives to develop alternative energies.²⁶ These environmental policies are critical since Costa Rica is home to a disproportionately high percentage of the earth's biological diversity with 5% of the planet's plant and animal species.²⁷ Environmental protection has also been a significant source of economic growth for Costa Rica as the country has become one of the premier destinations for ecotourism. Uncontrolled development and the overuse of some protected areas, however, have drawn criticism from environmentalists.²⁸

Although Costa Rica is a relatively small country in terms of size and population, its leadership has allowed it to play a larger role in formulating global environmental policies. It is a party to a wide variety of international environmental agreements, including the U.N. Convention on Biological Diversity, the Montreal Protocol on Substances that Deplete the Ozone Layer, and the U.N. Framework Convention on Climate Change and its Kyoto Protocol. Costa Rica has also participated in the Kyoto Protocol's Clean Development Mechanism (CDM), which allows industrialized countries to partially meet their mandated emission reduction targets by funding emission reduction projects in developing countries. Costa Rica has developed six such projects, preventing 21,226 tons of carbon dioxide from being released into the atmosphere.²⁹ In 2008, President Arias announced Costa Rica's intention to become carbon-neutral by 2021, making it the first developing nation to make such a pledge. The announcement reflected Costa Rica's view that developing nations must cut their greenhouse gas emissions now, rather than waiting until

²² "Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

²³ Ministerio Del Ambiente y Energia, "Sistema Nacional de Áreas Protegidas," available at <http://www.sinac.go.cr/planificacion.asp.php>.

²⁴ Thomas L. Friedman, "(No) Drill, Baby, Drill," *New York Times*, April 12, 2009.

²⁵ "Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

²⁶ Esteban A. Mata, "Óscar Arias se opone a exploración petrolera," *La Nación* (Costa Rica), March 24, 2009; Thomas L. Friedman, "(No) Drill, Baby, Drill," *New York Times*, April 12, 2009.

²⁷ "Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

²⁸ *Ibid.*

²⁹ United Nations Framework Convention on Climate Change, "CDM Statistics," May 2009.

developed nations make significant cuts. In 2004, Costa Rica emitted just 1.4 tons of carbon dioxide per capita, one of the lowest per capita emissions in Latin America and the world.³⁰

U.S. Relations

Relations between the United States and Costa Rica traditionally have been strong as a result of common commitments to democracy, free trade, and human rights. U.S. intervention in Central America during the 1980s, however, slightly strained the relationship. President Arias responded to the various conflicts in the region by crafting a peace plan during his first administration, which excluded the involvement of extra-regional powers. As a result of his efforts, Arias was awarded the Nobel Peace Prize in 1987. U.S. policy in Iraq has also strained relations between Costa Rica and the United States. Although then President Pacheco (2002-2006) supported the U.S. invasion, Costa Rica's Constitutional Court ruled that listing the country as a member of the so-called "coalition of the willing" violated the country's constitutionally mandated neutrality. President Arias has questioned the priorities of the United States for continuing to spend substantial funds in Iraq while allocating comparatively little to assist allies in Central America.³¹

Current relations between the United States and Costa Rica could be characterized as friendly. Costa Rica finally implemented CAFTA-DR in January 2009. The agreement will likely strengthen Costa-Rica's already significant trade relationship with the United States. Vice President Biden visited Costa Rica during his first trip to Central America, leading the Arias Administration to describe the meeting as "a clear recognition of the trajectory of Costa Rica as the United States' strategic partner in the region."³² Additionally, President Arias criticized the anti-Americanism of some of his fellow Latin American leaders at the Fifth Summit of the Americas, calling on the region to take responsibility for its problems rather than blaming the United States.³³

U.S. Assistance

For more than a decade, Costa Rica has not been a large recipient of U.S. assistance as a result of its relatively high level of development, although this is likely to change somewhat as a result of the Mérida Initiative. The Peace Corps has been operating in Costa Rica since 1963 and generally has been the largest source of U.S. assistance to the country since the U.S. Agency for International Development (USAID) Mission closed in 1996. Costa Rica also receives International Military Education and Training (IMET) assistance. Costa Rica received \$1.7 million in U.S. assistance in FY2006 and \$2.3 million in FY2007. In FY2008, Costa Rica was scheduled to receive \$2.4 million in regular U.S. assistance and an additional \$4.3 million in supplemental assistance through the Mérida Initiative. In FY2009, Costa Rica could receive \$2.9

³⁰ "Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

³¹ Oscar Arias, "Region's real enemies: poverty and ignorance," *Miami Herald*, August 19, 2008.

³² Tim Rogers, Central American leaders to vie for Obama's ear; Nicaragua and Costa Rica are jockeying for leadership roles at the Summit of the Americas in Trinidad and Tobago," *Miami Herald*, March 25, 2009.

³³ Andres Oppenheimer, "Arias' brilliant response to anti-American leaders," *Miami Herald*, May 3, 2009; For additional information on the Fifth Summit of the Americas, see CRS Report R40074, *Fifth Summit of the Americas, Port of Spain, Trinidad and Tobago, April 2009: Background, Expectations, and Results*, by Peter J. Meyer.

million in regular foreign aid funding and an additional \$9.5 million for the continuation of the Mérida Initiative.³⁴

In 2007, Costa Rica signed one of the largest ever debt-for-nature swaps with the U.S. government. Authorized by the Tropical Forest Conservation Act of 1998 (P.L. 105-214), the agreement reduced Costa Rica's debt payments by \$26 million over 16 years. In exchange, the Costa Rican Central Bank agreed to use the funds to support grants to non-governmental organizations and other groups committed to protecting and restoring the country's tropical forests. In order to fund the agreement, the U.S. government contributed \$12.6 million and Conservation International and the Nature Conservancy contributed a combined donation of more than \$2.5 million.³⁵

Mérida Initiative³⁶

In October 2007, the United States and Mexico announced the Mérida Initiative, a multi-year proposal to provide U.S. assistance to Mexico and Central America aimed at combating drug trafficking and organized crime. Costa Rica was scheduled to receive an estimated \$4.3 million of the \$60 million in funding for the Mérida Initiative appropriated for Central America, Haiti, and the Dominican Republic in the FY2008 supplemental appropriations legislation (P.L. 110-252). Costa Rica likely will receive additional FY2008 Mérida Initiative funding from a \$24.9 million regional program for Central America. For FY2009, Costa Rica could receive \$9.5 million of the \$105 million appropriated for Central America under the Mérida Initiative in the Omnibus Appropriations Act of 2009 (P.L. 111-8). President Arias has praised the Mérida Initiative as a "step in the right direction,"³⁷ but maintains that the U.S. funding of the program in Central America—and Costa Rica in particular—is "insufficient."³⁸

International Military Education and Training

Although Costa Rica has no military, it receives IMET assistance to train its public security forces. These funds have been used to improve the counterdrug, rule of law, and military operations capabilities of the Costa Rican Coast Guard and law enforcement services. Costa Rica was prohibited from receiving IMET assistance in FY2004, FY2005, and FY2006 as a result of its refusal to sign an Article 98 agreement exempting U.S. personnel from the jurisdiction of the International Criminal Court. In October 2006, President Bush waived FY2006 IMET restrictions for a number of countries—including Costa Rica—and signed the John Warner National Defense Authorization Act for Fiscal Year 2007 into law (P.L. 109-364), a provision of which ended Article 98 sanctions on IMET funds.³⁹ Costa Rica began receiving IMET funds again in FY2007.

³⁴ U.S. Department of State, Congressional Budget Justification, Foreign Operations, FY2007, FY2008, and FY2009; Peace Corps, Congressional Budget Justification, FY2006-2009.

³⁵ U.S. Department of State, Office of the Spokesman, "Debt for Nature Agreement to Conserve Costa Rica's Forests," October 17, 2007. For more information on the Tropical Forest Conservation Act, see CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheik.

³⁶ For more information on the Mérida Initiative, see CRS Report R40135, *Mérida Initiative for Mexico and Central America: Funding and Policy Issues*, by Clare Ribando Seelke and June S. Beittel.

³⁷ Oscar Arias, "Region's real enemies: poverty and ignorance," *Miami Herald*, August 19, 2008.

³⁸ "Costa Rican president says Merida Plan funds 'insufficient,'" *British Broadcasting Corporation*, March 31, 2009.

³⁹ For more information on Article 98 sanctions, see CRS Report RL33337, *Article 98 Agreements and Sanctions* (continued...)

In January 2009, Security Minister Janina del Vecchio revealed that Costa Rica would once again send police officers to the Western Hemisphere Institute for Security Cooperation (WHINSEC, formerly known as the School of the Americas) in Fort Benning, GA.⁴⁰ The decision to resume training came just a year and a half after President Arias, following a meeting with opponents of WHINSEC, announced that Costa Rica would withdraw its students from the school.⁴¹

WHINSEC, which has trained tens of thousands of military and police personnel from throughout Latin America—including 2,600 Costa Ricans, has been criticized for its curriculum and the human rights abuses committed by some of its graduates.⁴² Supporters of the school maintain that WHINSEC emphasizes democratic values and respect for human rights, develops camaraderie between U.S. military officers and military and police personnel from other countries in the hemisphere, and is crucial to developing military partners capable of effective combined operations.⁴³ A provision of the Omnibus Appropriations Act of 2009 (P.L. 111-8) directs the Department of State to provide a report of the names, ranks, countries of origin, and years of attendance of all students and instructors at WHINSEC for fiscal years 2005, 2006, and 2007.

Free Trade Agreement

In August 2004, the United States Trade Representative (USTR) and the trade ministers from the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).⁴⁴ CAFTA-DR liberalizes trade in goods, services, government procurement, intellectual property, and investment, immediately providing duty-free status to a number of commercial and farm goods while phasing out tariffs on other trade over five to twenty years. Prior to the agreement, the countries of Central America all had tariff-free access to the U.S. market on approximately three-quarters of their products through the Caribbean Basin Trade Partnership Act (P.L. 106-200, Title II).⁴⁵ The CAFTA-DR agreement makes the arrangement permanent and reciprocal. Although CAFTA-DR is a regional agreement under which all parties are subject to the same obligations and commitments, each country defines its own market access schedule with the United States.

Ratification

Following the August 2004 signature of CAFTA-DR, the agreement had to be approved by the legislatures of all of the countries involved. In Costa Rica, a qualified congressional majority (38

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on *U.S. Foreign Aid to Latin America*, by Clare Ribando Seelke.

⁴⁰ “Row over ‘abolished’ army,” *Latin American Security & Strategic Review*, January 2009.

⁴¹ Argentina, Bolivia, Uruguay, and Venezuela have stopped sending students to WHINSEC.

⁴² For more information on the School of the Americas and the Western Hemisphere Institute for Security Cooperation, see CRS Report RL30532, *U.S. Army School of the Americas: Background and Congressional Concerns*, by Richard F. Grimmett and Mark P. Sullivan and CRS Report RS20892, *Western Hemisphere Institute for Security Cooperation*, by Richard F. Grimmett.

⁴³ U.S. Southern Command, “Posture Statement of Admiral James G. Stavridis, United States Navy Commander, United States Southern Command, Before the 111th Congress Senate Armed Services Committee,” March 17, 2009.

⁴⁴ For more information on the Dominican Republic-Central America-United States Free Trade Agreement, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck.

⁴⁵ “Latin America Economy: What’s at Stake with CAFTA,” *Economist Intelligence Unit*, May 14, 2003.

of 57 legislators) was needed to ratify the agreement. Although Costa Rican leaders across the political spectrum support liberalized trade, there has been intense internal debate concerning the benefits of CAFTA-DR. While the Arias Administration was able to create a cross-party alliance of 38 deputies, the PAC opponents of the agreement were able to block ratification through various delaying tactics. In order to avoid missing the ratification deadline, President Arias asked the TSE for a binding referendum on CAFTA-DR.

The referendum was held in October 2007 and reflected the polarization of the issue among the Costa Rican electorate. Trade unions, students, a variety of social movements, and the PAC opposed the ratification of CAFTA-DR, while business groups and each of the other major political parties were in favor of the agreement. The referendum campaign was often contentious. Just two weeks before the vote, Arias' Second Vice President was forced to resign after authoring a memorandum recommending that the Administration link the anti-CAFTA-DR forces to Presidents Castro of Cuba and Chávez of Venezuela and play up the possible consequences of a failed referendum.⁴⁶ Then, days before the referendum, Costa Rican media published statements by members of the Bush Administration saying it was unlikely that the United States would renegotiate the agreement or maintain the unilateral trade preferences Costa Rica received under the Caribbean Basin Initiative should the country vote against CAFTA-DR.⁴⁷ In the end, 51.6% of Costa Ricans voted in favor of CAFTA-DR while 48.4% voted against the agreement. Referendum turnout was just over 60%, well above the 40% minimum necessary for it to be binding.⁴⁸

Implementation

After the approval of CAFTA-DR by referendum, the Costa Rican legislature still had to pass 13 laws in order to implement the agreement. These included a variety of intellectual property law reforms, an opening of the insurance and telecommunications sectors, reform of the criminal code, an anti-corruption law, and a law protecting agents of foreign firms.⁴⁹ Costa Rica's consensus-seeking tradition and the ability of PAC legislators to challenge the constitutionality of the proposed legislation in the Constitutional Chamber slowed the implementation of CAFTA-DR significantly. As of the original February 2008 deadline for implementation, Costa Rica had only passed five of the necessary reforms.⁵⁰ Then, prior to the extended deadline of October 2008, the Constitutional Chamber ruled that the intellectual property legislation was unconstitutional as a result of the Arias Administration's failure to meet with indigenous and tribal groups about the bill before sending it to the legislature.⁵¹ After obtaining a second extension, Costa Rica passed all of the necessary reforms and implemented CAFTA-DR on January 1, 2009.⁵²

Prior to the implementation of CAFTA-DR, the United States was already Costa Rica's largest trading partner as the destination of about 36% of Costa Rican exports and the origin of about

⁴⁶ "Scandal Topples Costa Rican Vice President, Clouds Outlook as CAFTA Referendum Nears," *Latin America Data Base NotiCen*, September 27, 2007.

⁴⁷ "Costa Rica: Arias is undermined despite 'yes' vote," *Oxford Analytica*, October 9, 2007.

⁴⁸ "Costa Rica: Arias sneaks Cafta-DR referendum," *Latin News Weekly Report*, October 11, 2007.

⁴⁹ "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

⁵⁰ "Costa Rica: Arias concedes defeat on Cafta-DR deadline," *Latin American Weekly Report*, February 7, 2008.

⁵¹ "Country Report: Costa Rica," *Economist Intelligence Unit*, October 2008.

⁵² "Bush firma decreto para que Costa Rica se una al CAFTA," *Reuters*, December 23, 2008.

38% of its imports in 2008. U.S. exports to Costa Rica amounted to about \$5.7 billion in 2008. Machinery parts, mechanical devices, oil, and plastics accounted for a majority of the exports. U.S. imports from Costa Rica amounted to about \$3.9 billion in 2008, with medical instruments, fruit, machinery, and electronic circuits accounting for a significant portion. Implementation of CAFTA-DR should increase U.S.-Costa Rican trade. Since implementing CAFTA-DR with El Salvador, Honduras, Nicaragua, and Guatemala in 2006, U.S. exports to those countries have increased an average of 24.7% while U.S. imports from those countries have increased an average of 12.5%.⁵³ Although Costa Rica's exports have fallen as a result of the global economic slowdown, President Arias maintains they would have fallen even further if the country had not begun to implement CAFTA-DR.⁵⁴

Figure I. Map of Costa Rica



Source: Map Resources. Adapted by CRS Graphics

⁵³ U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, 2009.

⁵⁴ John McPhaul, "Entrevista—Costa Rica está en recesión pero destaca Cafta: Arias," *Reuters*, May 13, 2009.

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