1999 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)

	1997	1998	1999 /5
Income, Production and Employment:			
Nominal GDP 2/	9,727.9	10,482.8	11,000.0
Real GDP Growth (pct) 3/	3.8	6.2	8.2
GDP by Sector (pct):			
Agriculture	18.0	18.0	16.0
Industry	21.5	21.5	23.0
Services	53.1	53.3	54.0
General Government	7.4	7.2	7.0
Per Capita GDP (US$)	2,790.0	2,944.0	3,062
Labor Force (000s)	1,330	1,400	1,480
Unemployment Rate (pct)	5.7	5.6	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.0	15.0	17.0
Consumer Price Index	12.0	12.4	10.0
Exchange Rate (Colones/US$ annual average)			
Official	None	None	None
Parallel	232.37	257.14	282.00
Balance of Payments and Trade:			
Total Exports FOB 4/	4,335.0	5,528.0	6,634.0
Exports to U.S. 4/	1,266.0	2,674.0	3,200.0
Total Imports CIF 4/	4,953.0	6,230.0	6,541.0
Imports from U.S. 4/	1,534.0	1,784.0	2,000.0
Trade Balance 4/	-618.0	-702.0	93.0
Balance with U.S. 4/	-268.0	890.0	1,200.0
External Public Debt	2,640.2	2,872.4	3,042.0
Fiscal Deficit of Public Sector/GDP (pct)	3.3	2.7	3.3
Current Account Deficit/GDP (pct)	2.2	4.4	3.0
Foreign Debt Service Payments/GDP (pct)	6.1	5.0	4.9
Gold and Foreign Exchange Reserves	1,141.3	991.3	1,200.0

Aid from U.S.	5.0	18.0	15.0
Aid from All Other Sources	N/A	N/A	N/A

1/ 1999 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.
5/ FY 1999 figures estimated.

1. General Policy Framework

The Costa Rican economy is performing moderately well, continuing to recover from the 1996 contraction caused by anti-inflationary public sector spending reductions, increased taxation and credit tightening. The government forecasts GDP growth of 8.2 percent for 1999, not quite the impressive growth of 6.2 percent in 1998, the highest in Latin America, but still considerable considering the government's worsening fiscal picture. 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 Rodriguez Administration, inaugurated in May 1998, initially proposed selling some state monopolies. 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 an U.S. firm recently won the concession to manage the San Jose international airport in 1999.

The most serious problem facing the Costa Rican economy is the fiscal deficits of the central government and the combined public sector. The reduction of these deficits is a prerequisite for improving the overall fiscal health of the public sector. The fiscal deficit of the combined public sector was $282 million in 1998, equivalent to 2.7 percent of GDP. It is expected by the Government of Costa Rica to reach $360 million, about 3.3 percent of GDP, by the end of 1999. The deficit is financed by issuing bonds, the service of which is not only impinging on government finances, but is also an important cause of high interest rates, low investment and continued double digit inflation. The internal (bond) debt service requires approximately a third of the Government’s ordinary income.

The government has discarded the alternatives of increasing tax revenue significantly, firing large numbers of public sector employees and selling state assets to foreign investors. A partial solution has been the refinancing of internal debt with lower-cost dollar-denominated foreign debt. This is convenient for the current government and should help ease upward pressure on domestic interest rates. However, it increases the risk of balance of payments problems for future governments.

Impressive growth in export revenues, due in large measure to exports by Intel Corporation, brought about a merchandise trade surplus during the first nine months of 1999. This was the first trade surplus in decades. New tourist facilities continue to be built, and tourist income continues to grow. Together, new exports and tourist income allow a reasonable expectation of continued moderate growth.

2. Exchange Rate Policy

The current exchange rate policy, originally devised in 1993, is of the "crawling peg" variety employing small daily changes. 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 private business is transacted at the same rate. All foreign transactions by state institutions are channeled through the Central Bank at that rate. Commercial banks are free to negotiate foreign exchange prices, but must liquidate their foreign exchange positions daily with the Central Bank.

The colon-to-US dollar exchange rate varied 10.7 percent during 1998, a rate similar to the change in the aggregate price level. This maintained a foreign trade-neutral exchange rate. The Government has projected a devaluation of about 10.8 percent and a CPI increase of 10 percent for 1999. Thus, the rate of exchange of the colon with respect to the US dollar should not have a significant impact on the importation of US goods and services.

Freely traded dollars from tourism and capital investment continue to flow into Costa Rica. The free and sufficient supply of foreign currency allowed imports to continue to grow during 1998 and 1999.

3. Structural Policies

The elimination of "consumer protection" regulations that controlled prices and prohibited price speculation in January 1995 permitted an increase in the availability of imported goods. Antitrust legislation and rules protecting consumers against product misrepresentation and price fixing were enacted at the same time.

Purchases by state institutions must follow detailed laws and regulations on public bidding. Local suppliers are not subsidized and enjoy no special advantages over foreign suppliers. U.S. companies often succeed in supplying pharmaceuticals, machinery, electrical and transportation equipment to public sector purchasers. There have been no recent tax modifications that affect the import of U.S. goods and services. Corruption was a major theme in the last political campaign, and several important cases are being tried in the courts.

4. Debt Management Policies

Costa Rica's foreign official debt totaled $2.872 billion on December 31, 1998. This is an amount equivalent to 27.4 percent of GDP, and an increase of $232 million from year-end 1997. This is also a reversal in the previous decline in the size and importance of the foreign official debt with relation to GDP. Costa Rica placed dollar-denominated bonds for $200 million in April 1998 and another $300 million April 1999, taking advantage of relatively low interest rates available in the Eurodollar market. The government used the proceeds to retire equivalent amounts of its more expensive, colon-denominated debt, thus reducing the cost of servicing the public debt. The Ministry of Finance plans to place an additional $200 million every two years, or $1,200 million within the next 12 years. The savings to the government from using dollar-denominated bonds instead of the internal capital market are about five percentage points at present rates of interest.

Costa Rica paid $430 million in foreign official debt service in 1998, equivalent to 4.1 percent of GDP and 7.7 percent of merchandise exports. Costa Rica paid $268.3 million in debt service during the first semester of 1999, $189 million for amortization of principal, and $79.3 million in interest payments. The Central Bank projects that it will pay $595.5 million during calendar year 2000, including $393.1 million of principal and $202.4 million in interest payments. The more pressing concern is the size of the large internally-financed public debt, which amounted to $3.026 billion at the end of 1998. The government spends a third of central government budget revenues on interest on outstanding bonds, an amount second only to salaries for public employees. This problem is compounded by the Central Bank's anti-inflationary monetary policy, which results in high interest rates and high debt service costs for the Ministry of Finance.

5. Aid

U.S. Government agencies provided an estimated $18 million of assistance during fiscal year 1998, of which $13 million was for the Screworm Eradication Program. Total assistance from U.S. military programs was $3.2 million. Costa Rica abolished its military forces in 1948, but the United States provides assistance to Costa Rica's civilian police.

6. Significant Barriers to U.S. Exports

Costa Rica replaced all import licenses or permits with tariffs as a condition for joining the WTO in 1994. The Central Bank now monitors imports for statistical purposes only. The current tariff on most goods is 15 percent of the CIF price, with a few items such as poultry and automobiles taxed in excess of 40 percent. 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 equity in Costa Rican companies, including real estate. However, several activities are reserved to the state, including telecommunications, insurance, the transmission and distribution of electricity, hydrocarbon and radioactive mineral extraction and refining, and the 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 close to 90 percent of country's demand deposits.

An electricity co-generation law enacted in 1996 allowed some private-sector participation in the production of electricity, but not in its transmission. This law has since been modified to permit the private construction and operation of plants under BOT (build-operate-transfer) and BLT (build-lease-transfer) mechanisms, but the operator must have at least 35 percent Costa Rican equity. There are legislative proposals to open the electricity, telecommunications, and insurance sectors to foreign investment and competition, but it is difficult to predict when this legislation might be passed.

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 on certain agricultural products significantly constrain imports of some 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.

Costa Rican laws encourage the development of tourism and nontraditional exports, and provides incentives for foreign investment. The law does not restrict foreign equity participation, with very few exceptions, as noted above. The Labor Code ordinarily limits the percentage of foreign workers that can work in an enterprise to 10 percent of the total workforce. 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 bidding. 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, sometimes leading to losses when market prices change and bid prices remain fixed. No special requirements apply to foreign suppliers, and U.S. companies regularly win public contracts. Competition is fierce among foreign suppliers, and frequently the winner must propose comprehensive packages that include performance guarantees and financing. Foreign suppliers must have a legal representative in Costa Rica in order to sell goods or services to public entities. A 1996 law simplified government procurement procedures, but the process is still complex.

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. The government is automating and simplifying the customs system and has established a one-stop window to speed it up.

The government expropriation policy has 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 is rarely, if ever, prompt. Some unpaid expropriation claims date back over 25 years. It is possible to obtain compensation through the court system, but the time, effort and costs involved can greatly diminish the net value of any settlement. Claimants also have recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID) as of 1993. Submission of the first expropriation case to ICSID continues in a case involving the government and a prominent group of U.S. investors. Local arbitration has been employed since 1991. 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. The government has in some cases expropriated property taken over by squatters in order to resolve property conflicts, but it has not always compensated adequately those from whom the land was originally taken.

7. Export Subsidies Policies

Nontraditional exports to destinations outside of Central America and Panama qualified for negotiable tax rebate certificates (CATS) under the Export Promotion Law of 1972. This program is being phased out and will be completely terminated by December 31, 1999. 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. 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 World Trade Organization (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. The U.S. Trade Representative placed Costa Rica on the "Special 301" Watch List in 1995, and each year since then, because of deficient patent legislation and widespread copyright and trademark piracy.

Significant weaknesses exist in copyright and trademark enforcement and in the duration of patent protection. The government has submitted several bills to the Legislative Assembly in order to implement required modifications to ensure that the country is in compliance with its IPR obligations under the WTO TRIPS Agreement by the January 1, 2000 deadline. It is not certain that all the issues will be resolved in time, but the bills appear to include all the required modifications and are currently under consideration.

Patents: The new legislation is expected to resolve the following problems in the area of patents. Patents have been granted for non-extendible, 12-year terms, less than the 20 years required by the TRIPS Agreement. Coverage has been for only one year for products deemed "in the public interest," such as pharmaceuticals, chemicals and agrochemicals, and all beverage and food products. No patent protection has been available for plant or animal varieties, or for any biological or microbiological process or products, but 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). Costa Rica also has had broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally.

Trademarks: Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for 10-year periods. However, there are enforcement problems similar to those encountered with copyrights, particularly in the area of designer clothing (e.g., jeans). There is also a problem in the registration of famous marks by speculators, who demand to be bought out when the legitimate trademark owner comes to Costa Rica. Litigation to establish trademark ownership can be expensive.

Copyright: Costa Rica's copyright laws are generally adequate, and market access for legitimate copyrighted goods is not restricted by anything other than the unfair price advantage enjoyed by pirated goods. The Government issued regulations that provide better protection and mandate police participation in developing criminal cases against pirates on May 24, 1994. The main problem is enforcement, particularly against videocassette and business software pirates. The cable television industry now operates almost entirely under agreements with foreign producers. The major public universities recently contracted to use copyrighted software. However, some hotels continue to pirate satellite transmission signals. Pirated videocassettes, usually duplicated domestically, are widely available and constitute at least 90 percent of the market. An authorized distributor of videocassettes has successfully begun enforcement efforts to regularize the videocassette market, and licensed products are becoming more widely available in rental outlets.

Existing laws protect trade secrets, and Article 24 of the Constitution protects the confidentiality of communications. A new bill before the legislature updates existing law in accordance with TRIPS standards. The penal code stipulates prison sentences for divulging trade, employment, or other secrets, and doubles the punishment for public servants. Some existing laws also stipulate criminal and civil penalties for divulging trade secrets. The burden of proof is on the affected party.

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.

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 recent challenged in the Supreme Court, which will rule on this issue sometime in the year 2000. The Constitutional Chamber of the Supreme Court ruled in 1998 that public sector workers, except those performing essential services, have the right to strike.

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 issued some waivers to this provision, 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 for the private and public sectors 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 export processing 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 **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		28
Total Manufacturing		371
Food & Kindred Products	102	
Chemicals & Allied Products	137	
Primary & Fabricated Metals	20	
Industrial Machinery and Equipment	-17	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,126

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).

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