



Costa Rica: An Overview

Costa Rica, a Central American nation of 4.9 million people, historically has been an outpost of political and economic stability in an often turbulent region. The United States has worked closely with the country to address challenges in Central America and to advance shared values, such as democracy and human rights, worldwide.

Political Situation

Costa Rica has sustained continuous civilian democratic governance since 1949, when the country adopted a new constitution in the aftermath of a short but violent civil war. Postwar politics were dominated by the center-left (now centrist) National Liberation Party (PLN) and a center-right opposition that ultimately became the Social Christian Unity Party (PUSC). The two-party system has collapsed over the past 20 years, however, as many Costa Ricans have grown disenchanted with the country's political class and have abandoned the traditional parties. This shift has allowed newer political forces to contest power, such as the center-left Citizens' Action Party (PAC), which has won the past two presidential elections. It also has made governance more challenging, as party fragmentation in the Legislative Assembly has led to increased gridlock.

Carlos Alvarado of the ruling PAC was elected president with nearly 61% of the vote in a second-round runoff election on April 1, 2018. He defeated Fabricio Alvarado of the conservative National Restoration Party (PRN), who had surged to a first place finish in the first-round election after he called for Costa Rica to withdraw from the Inter-American Court of Human Rights in response to the court's advisory opinion that Costa Rica should legalize same-sex marriage. President Alvarado is a 38-year-old author who previously served as Minister of Human Development and Social Inclusion and as Minister of Labor and Social Security under President Luis Guillermo Solís (2014-2018). Solís was constitutionally ineligible to seek reelection.

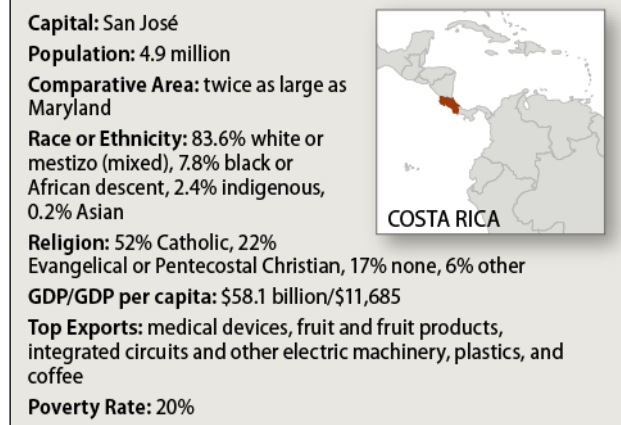
Following his May 8, 2018, inauguration to a four-year term, President Alvarado pledged to strengthen the education and health systems, improve citizen security, invest in infrastructure, generate increased employment, reduce the fiscal deficit, and foster a transition to clean energy. Alvarado also appointed a multiparty Cabinet that includes several PUSC and PLN ministers, recognizing that he will need to forge broad coalitions to pass his policy agenda. The PAC holds 10 of 57 seats in the unicameral Legislative Assembly; the PLN holds 17 seats, the PRN holds 14, and the PUSC holds 9. The remaining seven seats are divided among three other parties.

Economic and Social Conditions

Costa Rica pursued state-led development throughout much of the 20th century, but since the 1980s it has implemented market-oriented economic policies. In the post-civil war

period, the Costa Rican government increased public-sector employment, established one of the most comprehensive social safety nets in Latin America, and supported local producers with subsidies and trade barriers. Those policies contributed to a rapid expansion of the economy; however, a deep recession from 1980 to 1982 led Costa Rica to adopt a new economic strategy. The country privatized the majority of its state-owned enterprises, adopted free-trade zones to attract investment, and gradually opened the domestic market to foreign competition.

Figure 1. Costa Rica at a Glance



Sources: CRS Graphics, Instituto Nacional de Estadística y Censos; Centro de Investigación y Estudios Políticos; International Monetary Fund; Global Trade Atlas.

Costa Rica has experienced considerable growth since adopting the more outward-oriented economic strategy, but many Costa Ricans are dissatisfied with the economy. The country's labor market has grown increasingly divided between those involved in newer sectors—such as high-tech manufacturing, tourism, and business services—that provide higher pay and rising wages and those involved in more traditional sectors that struggle to compete with imports and provide lower pay and more precarious employment conditions. Government statistics indicate that about 10% of Costa Ricans are unemployed and nearly 45% lack job protections and benefits because they work in the untaxed and unregulated informal sector. Moreover, 20% of Costa Rican households live below the poverty line. Costa Rica's extensive social welfare expenditures—equivalent to 23% of gross domestic product (GDP)—have helped alleviate these challenges, but higher levels of unemployment and informality have eroded the tax base necessary to sustain the social safety net.

President Alvarado has called for a variety of public investments to foster economic growth and improve social welfare in the rural and coastal regions of Costa Rica that have benefitted the least from changes in the economy.

Nevertheless, he has indicated that reducing the budget deficit is his top priority. The Costa Rican government has run large deficits since a 2009 recession, and interest payments on the debt have risen from 2% of GDP to 3.9% of GDP over the past five years. Alvarado has pledged to reduce the annual deficit by half over four years through a combination of expenditure cuts and tax changes. His efforts could be aided by stronger economic growth. The Economist Intelligence Unit expects Costa Rica's economy to grow by 3.7% in 2018 and 3.8% in 2019, fueled by strong domestic consumption and increased international demand for Costa Rican exports.

U.S.-Costa Rican Relations

U.S. policy in Costa Rica is guided by the U.S. Strategy for Engagement in Central America, which is intended to enhance security, promote good governance, and foster economic integration and prosperity in the region. In April 2018, the U.S. State Department congratulated President Alvarado on his election and asserted that the United States looks forward to building on its "long and enduring partnership with Costa Rica." Commercial and security ties are likely to remain close, but Alvarado could face some domestic pressure to limit cooperation with the Trump Administration given that 75% of Costa Ricans disapproved of President Trump in 2017, according to Gallup.

Trade and Investment Ties

The United States and Costa Rica were among the seven countries that signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) in 2004. The agreement did not enter into force for Costa Rica until January 2009, however, due to significant domestic opposition. CAFTA-DR has eliminated tariffs on consumer and industrial goods and is scheduled to phase out tariffs on most agricultural products by 2020.

Total trade in goods between the United States and Costa Rica more than doubled between 2008 and 2012 to reach a peak of \$19.3 billion. Bilateral trade has declined 44% over the past five years, however, falling to \$10.8 billion in 2017. The recent decline is largely attributable to a steep drop in U.S. imports resulting from Intel's 2014 decision to close a microprocessor manufacturing plant in Costa Rica. In 2017, U.S. exports to Costa Rica amounted to \$6.2 billion and U.S. imports from Costa Rica amounted to \$4.6 billion. The U.S. had annual trade deficits with Costa Rica from 2009 to 2014 but has run surpluses since 2015. Top U.S. exports to Costa Rica in 2017 included refined oil products, electric machinery and parts, heavy machinery, medical instruments and equipment, and plastics. Top U.S. imports from Costa Rica included medical instruments and equipment, fruit, electric machinery and parts, and coffee. The United States is Costa Rica's largest trading partner, accounting for 40% of the country's total trade in 2017.

CAFTA-DR includes a chapter on investment that is similar to a bilateral investment treaty. Nevertheless, the accumulated stock of U.S. foreign direct investment in Costa Rica has declined by 35% since CAFTA-DR entered into force, falling from \$2.4 billion in 2008 to \$1.6 billion

in 2016. According to the U.S. State Department, Costa Rica's investment climate has been generally favorable but is threatened by the country's high fiscal deficit, complex bureaucracy, and insufficient infrastructure.

Security Cooperation

Although Costa Rica's institutions have proven more resilient than those of its Central American neighbors, the country has experienced a significant increase in organized crime and related violence. Government statistics indicate that homicides have increased by 47% over the past four years, rising from 411 in 2013 to 603 in 2017 (a homicide rate of 12 per 100,000 residents). Costa Rican authorities have linked much of the violence to drug trafficking organizations, which have sought to use the country as a transit and storage point for South American cocaine destined for the U.S. market. According to the State Department, the Costa Rican government increased its security budget by 11% and hired 1,500 new police officers in 2017 in an effort to address those challenges. President Alvarado has pledged to expand crime prevention efforts, invest in security technology, strengthen interagency cooperation, and tighten gun control measures.

Costa Rica has had a counternarcotics cooperation agreement with the United States since 1999, which allows the U.S. Coast Guard, working with Costa Rican officials, to carry out drug interdiction measures in Costa Rican waters. These operations are a frequent subject of debate in Costa Rica's Legislative Assembly, which must vote every six months on whether to grant permission to U.S. vessels to dock, refuel, and resupply in Costa Rican territory. Many Costa Ricans are sensitive about the presence of foreign military personnel in the country, since Costa Rica abolished its standing military in 1949. Although some legislators have sought to prevent U.S. vessels from docking in Costa Rica, the Legislative Assembly has voted repeatedly to provide the necessary authorizations.

The United States also has sought to support Costa Rica's domestic security efforts. In 2016, for example, the U.S. government announced it would provide Costa Rica with a wide range of equipment, including several ships, aircraft, and armored vehicles, as well as training and maintenance support. The United States also trains Costa Rican police, prosecutors, and judges; supports a judicial wiretap intercept program; and provides educational and vocational opportunities for at-risk youth. Many of these efforts are funded through a foreign assistance program known as the Central America Regional Security Initiative (CARSI). In the Consolidated Appropriations Act, 2018 (P.L. 115-141), Congress appropriated \$319 million for CARSI, including at least \$25 million for Costa Rica. Congress also appropriated \$5.7 million in bilateral security aid for Costa Rica. The Trump Administration has requested \$400,000 in bilateral security assistance for Costa Rica and \$253 million for CARSI in FY2019.

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