

## COSTA RICA

Costa Rica is a small country about the size of West Virginia with a population of 4.4 million, yet it is the second largest economy in Central America, after Guatemala, and the 11<sup>th</sup> largest in Latin America. It ranks third on the Latin American Globalization Index developed by Latin Business Chronicle taking into account six key indicators: exports of goods and services as a percent of GDP, imports of goods and services as a percent of GDP, foreign direct investment as a percent of GDP, tourism receipts as a percent of GDP, remittances as a percent of GDP and Internet penetration. It is the fastest growing and most diversified trader in Central America.

Costa Rica traditionally began exporting coffee, sugar, cocoa, bananas and beef, but over the past 20 years it has rapidly diversified its products and services and now these include flowers, fish, shrimp, wood, textiles and electronics. In the mid 80's the country made a concerted effort to diversify its exports and reduce its dependence on traditional and vulnerable commodities like coffee and bananas. It also sought Free Trade agreements with Mexico, Canada, Chile, Dominican Republic, Trinidad & Tobago and the CARICOM Nations. Today, nearly five of every six hectares are cultivated for export and over 3000 products represent 88% of exports with coffee and bananas making up a little over 10%. Of the \$8.2 billion the country exports, 40% go to the US and the Manufacturing industry currently poses the highest growth rate in the country (17.9%).

In 2005, the Economist Intelligence Unit's Livability Index ranked San José as one of the top Latin American cities in terms of quality of life and the BEST city in Latin America for business trips. Also in 2005 Costa Rica was chosen by Foreign Direct Investment as the first Central American Country of the Future.

Today, Costa Rica is popping up on the radar screen for at least 3 good reasons:

**# 1: A Tourism destination.** The country receives over 1.5 million tourists a year, nearly half from the US, who come to enjoy the gorgeous beaches, rainforests, volcanoes and wildlife. There's an amazing choice of hotels that run the gamut from one to five stars. In 2004 the country won the "Best Destination award" for Ecotourism and Adventure and in 2005 it won the Best Destination for Honeymoons! Tourism is a booming business these days and the country's #1 foreign currency earner in the service sector.

**#2: Costa Rica's ability to attract an extraordinary number of world class companies to establish operations.** No doubt the most famous of these is California based INTEL CORPORATION. The announcement back in 1996 that Intel was going to spend \$300 million dollars to set up a semiconductor assembly and testing plant in Costa Rica came as a shock to many. After an extensive global search why then did the giant chip maker choose Costa Rica over contenders like Brazil, Chile, Indonesia, Mexico, the Philippines and Thailand? To name just five reasons:

1. **Costa Rica is one the most stable and peaceful democracies in Latin America and the world.** Its high living standards, education and free health systems have earned it one of the highest ratings in the United Nations Human Development Indexes among developing nations. President Oscar Arias was awarded a Nobel Peace Prize for his efforts toward peace in the rest of the Central American region in the 80's and he has been re-elected to serve as President from 2006-2010.
2. **This nation is rich in the most essential raw material for an information based economy-- a highly educated, versatile and productive work force.** Costa Rica's education has set it aside from many countries, since it has been proclaimed free and mandatory since 1860, and it was given an important boost in the early 1940's with the founding of the Universidad de Costa Rica. Costa Rica abolished its armed forces in 1949. This freed resources that have been invested in education and health services for the population. The predominant role of the educational system is a vital component of the country's commitment to modernization, globalization and sustainable development. Costa Rica currently enjoys a 96% literacy rate, one of the highest in the World.

3. **The country's energetic approach to capturing foreign investment** began in the mid 80s with the creation of a series of free trade zones, bundled with financial and operational benefits designed to lower the hurdles for potential investors. In the 1990's its investment promotion strategy focused on attracting companies in the high technology sector. There are no performance requirements of minimum investment levels for foreign investors. Investment incentives are available for activities directly related to the export of services and or products from Costa Rica. There are no limitations on capital funds transfers associated with an investment, regardless of the currency. No restrictions are imposed on re-investments or on repatriation of earnings, royalties or capital. Contracts can be signed and paid in dollars, even with the Costa Rican government.
4. **The Government encourages foreign investment.** Foreigners investing in the country are subject to the same laws as Costa Ricans. Foreigners can legally own and control corporations and assets in all areas except for the telecommunications, energy and insurance sectors. Upon ratification and implementation of DR-CAFTA these sectors will also be open to foreign investment.
5. **Costa Rica boasts a strategic location in the center of the American continent with ports on both the Atlantic and Pacific Oceans and serves as an operation base for world markets.** Today there are over 200 US companies with offices or operations there. With a high level of technical knowledge and a substantial pool of bilingual workers, Costa Rica meshed well with the growing needs of companies seeking to compete globally. Taking advantage of the country's Central location and the availability of flights to the US and Latin America, many companies use Costa Rica as a regional office or platform for the rest of Central America and the northern part of South America

**#3 The third reason why Costa Rica is popping up the radar screen is that it's a great place to live!** Free trade agreements, incentives to attract foreign investment, immigration and the arrival of multinational companies have helped fuel the rising demand for residential and commercial real estate. Large numbers of North Americans and Europeans are buying and developing properties and building homes.

Additionally, because Costa Rica has excellent doctors, many trained in the US, North Americans and Europeans travel here for dental work and plastic surgery for a fraction of the price they would pay in the US or Europe. The Supermarkets and modern shopping malls are stocked with US products which helps to explain why 46% of the country's imports come from the US.

#### **Quick FAQs about Costa Rica:**

- Strong and stable democracy
- Costa Rica's GDP is roughly \$20 billion, and is only surpassed in the region by Guatemala (which has three times CR's population).
- Production growth rate for 2005-2006 was 7.9%, the highest in Central America.
- Ranking in the Human Development Index: 4<sup>th</sup> in Latin America, 47<sup>th</sup> in the world.
- Homes with drinking water: 99%
- Life expectancy at birth: 78 years
- Population covered by health services: 90.4%
- Number of Universities: 67 / 4 public, 63 private
- Labor force: 1.7 million
- Free Trade Agreements with: Canada, Central America, Chile, Mexico, Panama, Dominican Republic, OMC, Caricom
- Roughly 15 Free export zones, with 40,000 people working there
- Total exports: \$8.2 billion (of which 40% went to the US)
  - Manufacturing industry had the highest growth rate in 2006 (17.9%)
- Total imports: \$11.5 billion (of which 46% came from the US)
- Costa Rica's % share of Central America's export market: 47.1%
- Foreign Direct Investment in 2006: \$1.4 billion (ranked 9/10 in Latin America, #1 in DR CAFTA Region)

**Potential:**

- "Central American Country of the Future" FDI Magazine, 2005
- "3<sup>rd</sup> most competitive country of Latin America" World Economic Forum, 2006
- "5<sup>th</sup> High-Tech Exporter in the world" United Nations Human Development Report, 2005

**Problems:**

- Crumbling infrastructure
- Government monopolies in telecom, energy and insurance
- Bureaucracy
  - 11 steps to start a business, and it takes over 77 days on average
  - 19 steps and 119 days to complete the process of complying with licensing and permit requirements
- Sluggish judicial system
- Issues of transparency / Rules of the game
- Strong competition from other countries
- Powerful unions
- DR-Cafta still not approved (Referendum on October 7<sup>th</sup>, 2007)

For more information: [nvincent@amcham.co.cr](mailto:nvincent@amcham.co.cr) • (506) 220-2200