



# Costa Rica: Background and U.S. Relations

**Peter J. Meyer**

Analyst in Latin American Affairs

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## Summary

Costa Rica is a politically stable Central American nation with a relatively well-developed economy. Former president (1986-1990) and Nobel-laureate Oscar Arias of the historically center-left National Liberation Party was elected President in 2006. Throughout his term, Arias has advanced so-called “third-way” policies, embracing his party’s traditional support for social welfare programs while rejecting state-led development in favor of market-oriented economic policies. Considerable economic growth and social protection programs have provided Costa Rica’s citizens with a relatively high standard of living, however, conditions have deteriorated recently as a result of the global financial crisis and U.S. recession. Although Costa Rica’s economy contracted and poverty increased in 2009, analysts believe President Arias’ ambitious fiscal stimulus and social protection plan and improving global economic conditions should aid recovery in 2010.

On February 7, 2010, former Vice President Laura Chinchilla (2006-2008) of the ruling National Liberation Party was elected president, easily defeating her competitors. Chinchilla, who is closely tied to President Arias and the centrist faction of her party, will be Costa Rica’s first female president. Throughout the campaign, Chinchilla pledged to maintain the Arias Administration’s economic and social welfare policies while improving public security. She will need to form cross-party alliances to implement her policy agenda, however, as her party will lack a majority in Costa Rica’s unicameral National Assembly. Chinchilla and the new legislature are scheduled to take office in May 2010.

Successive Costa Rican administrations have sought to address extensive deforestation and environmental degradation that resulted from decades of logging and agricultural expansion. The country’s strong conservation system and innovative policies have done much to restore Costa Rica’s environment and ecotourism has provided a significant source of economic growth. Costa Rica’s efforts also have led many observers to recognize it as a world leader in environmental protection and have enabled the country to play an outsized role in the formulation of global environmental policies. Nonetheless, some maintain that a number of environmental problems in Costa Rica remain unaddressed.

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 President Arias’ efforts to secure ratification and implementation of CAFTA-DR. On April 28, 2009, the House of Representatives passed H.Res. 76 (Burton), which mourns the loss of life in Costa Rica and Guatemala that resulted from natural disasters that occurred in January 2009. The resolution also expresses the senses of the House, that the U.S. government should continue providing technical assistance relating to disaster preparedness to Central American governments.

This report examines recent political and economic developments in Costa Rica as well as issues in U.S.-Costa Rica relations. For additional information, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck and CRS Report R40135, *Mérida Initiative for Mexico and Central America: Funding and Policy Issues*, by Clare Ribando Seelke.

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Figure 1. Map of Costa Rica



Source: Map Resources. Adapted by CRS Graphics.

## Political and Economic Situation

### Background

Costa Rica is a politically stable Central American country of 4.3 million people with a relatively well-developed economy. 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 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 Costa Rica pursued state-led development throughout much of the 20<sup>th</sup> century, over the past several decades, it has implemented market-oriented economic policies designed to attract foreign direct investment (FDI), develop the country's export sector, and

diversify what was once a predominantly agricultural economy.<sup>1</sup> The World Bank now classifies Costa Rica as an upper-middle-income country with a 2008 per capita income of \$6,060.<sup>2</sup>

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 traditionally center-left National Liberation Party (PLN). This disillusionment has contributed to a rise in voter abstention, from just 19% in 1994 to 35% in 2006. It has also contributed to a fragmentation of Costa Rica's political party system. The PUSC has collapsed and newer parties—such as the conservative Libertarian Movement (ML) and the center-left Citizen Action Party (PAC)—have grown considerably.<sup>3</sup>

## Arias Administration

Oscar Arias, a former president (1986-1990) and Nobel-laureate, was elected president in February 2006.<sup>4</sup> Arias won 41% of the vote to narrowly defeat his closest rival, the PAC's Ottón Solís, who had served as Minister for National Planning and Economic Policy during Arias' first administration.<sup>5</sup> Throughout his term, President Arias has advanced so-called "third-way" policies, embracing his party's traditional support for social welfare programs while rejecting state-led development in favor of market-oriented economic policies. Arias also has pursued an active foreign policy. Although Arias' PLN is the largest of the nine parties represented in the unicameral National Assembly, it holds just 25 of the 57 seats, which has made cross-party alliances necessary to pass legislation.<sup>6</sup>

## Economic and Social Welfare Policies

President Arias has maintained the market-friendly economic policies that Costa Rican administrations from both traditional governing parties have pursued since the 1980s. Between 2006 and 2008, economic growth averaged 6.5%, fueled in large part by export growth and increased investment.<sup>7</sup> Export earnings grew over 36% between 2005 and 2008 to \$9.7 billion

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<sup>1</sup> A regional recession in the 1980s 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, which required the country to implement structural adjustment programs that liberalized the country's economy and privatized the majority of its state-owned enterprises. Tom Barry, *Costa Rica: A Country Guide* (Albuquerque, NM: Inter-Hemispheric Education Resource Center, 1991).

<sup>2</sup> World Bank, *World Development Report*, 2010.

<sup>3</sup> "Costa Rica: Elections end in dead heat," *Oxford Analytica*, February 8, 2006. "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

<sup>4</sup> In 2003, a controversial ruling by Costa Rica's Supreme Court annulled the country's prohibition on presidential reelection. The ruling allows former leaders to run for a second term after eight years out of office. "Costa Rican court says ex-presidents can seek re-election," *Associated Press*, April 4, 2003.

<sup>5</sup> "Costa Rica: Arias Finally Wins It," *Latin American Regional Report: Caribbean & Central America*, March 2006.

<sup>6</sup> "Costa Rica: Elections end in dead heat," *Oxford Analytica*, February 8, 2006; "Costa Rica: Arias Finally Wins It," *Latin American Regional Report: Caribbean & Central America*, March 2006; "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

<sup>7</sup> "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

while FDI grew over 134% to \$2 billion during the same time period.<sup>8</sup> Much of the FDI has been invested in high technology sectors, often located in free trade zones. High-tech products—such as integrated circuits and medical equipment—now account for 45% of Costa Rican exports.<sup>9</sup> Arias also has pursued a number of free trade agreements (FTAs) during his current term. He won ratification of CAFTA-DR through a national referendum in 2007 and secured its implementation in January 2009 despite strong opposition from the PAC and labor unions.<sup>10</sup> Additionally, he concluded an agreement with Panama, has completed FTA negotiations with China and Singapore, and is engaged in ongoing FTA talks with the European Union along with the other member nations of the Central American Integration System (SICA).

Arias has sought to complement Costa Rica's considerable economic growth with moderate social welfare programs. He has doubled welfare pensions, created new centers for primary healthcare services, and increased education funding.<sup>11</sup> President Arias 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.<sup>12</sup> *Avancemos* is modeled after successful social protection programs that have been implemented elsewhere in Latin America, such as *Oportunidades* in Mexico and *Bolsa Familia* in Brazil, and is designed to alleviate poverty in the near-term while fostering long-term reductions in the poverty rate through increased educational attainment. Costa Rica now invests the equivalent of 17.3% of its gross domestic product (GDP) in public health, education, and social welfare, the highest percentage of any nation in Central America and the fifth highest in all of Latin America.<sup>13</sup> These social investments, combined with substantial economic growth, have provided Costa Rica's citizens with a relatively high standard of living. According to the United Nations' 2009 Human Development Report, Costa Rica has the highest level of human development in Central America with a life expectancy at birth of 79 years and an adult literacy rate of 96%.

Economic and social conditions have deteriorated recently, however, as a result of the global financial crisis and U.S. recession. The Costa Rican economy grew by just 2.6% in 2008 and experienced its first contraction in 27 years in 2009. GDP contracted by 1.3% as investment, export demand, and tourism declined.<sup>14</sup> Likewise, the poverty rate climbed nearly two points over the course of 2008 and 2009 to 18.5%, and unemployment increased almost three points in 2009 alone to 7.8%.<sup>15</sup> President Arias has sought to counter the economic downturn with a \$2.5 billion (8% of GDP) economic stimulus and social protection plan known as *Plan Escudo*. Among other provisions, the plan recapitalizes state banks, provides support to small and medium-sized enterprises, increases labor flexibility, invests in infrastructure projects, provides grants to

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<sup>8</sup> Costa Rican National Institute of Statistics and Census trade data presented by *Global Trade Atlas*, 2009; U.N. Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin American and the Caribbean*, 2008, July 2009.

<sup>9</sup> "Economic Overview: Costa Rica," *Latin American Regional Report: Caribbean & Central America*, October 2009.

<sup>10</sup> For additional information on CAFTA-DR, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck.

<sup>11</sup> "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

<sup>12</sup> Gillian Gillers, "Dr.'s Visit Now Required To Get Cash Benefits," *Tico Times*, February 1, 2008.

<sup>13</sup> Costa Rica trails Argentina, Brazil, Chile, and Uruguay in social expenditure as a percentage of GDP. "Costa Rica: Signs of a Pick Up," *Latin American Economy & Business*, July 2009.

<sup>14</sup> "Country Report: Costa Rica," *Economist Intelligence Unit*, December 2009; "Costa Rica economy suffers first contraction in 27 Yrs," *Reuters*, January 28, 2010.

<sup>15</sup> "Pobreza y el desempleo siguen agobiando en Costa Rica (sondeo oficial)," *Agence France Presse*, October 29, 2009.

workers in the worst-affected sectors, and increases the number of students eligible for the *Avancemos* program. The majority of *Plan Escudo* is financed through new loans from international financial institutions. Analysts assert that Costa Rica's economy showed signs of recovery in late 2009, and expect the country to rebound in 2010 with GDP growth of 3.3%.<sup>16</sup>

## Foreign Policy

President Arias has pursued an active foreign policy throughout his term. He established diplomatic ties with China in 2007, ending Costa Rica's 60-year relationship with Taiwan.<sup>17</sup> Arias also established formal ties with the Palestinians, recognizing Palestine as an independent state in February 2008. Costa Rica had previously moved its embassy in Israel from Jerusalem to Tel Aviv.<sup>18</sup> In March 2009, Arias reestablished diplomatic relations with Cuba, 48 years after Costa Rica suspended ties with the nation. Costa Rica was one of the last countries in Latin America to reestablish ties with Cuba.<sup>19</sup>

Arias also has sought to reassume the leadership role that he held in Latin America during his first administration when he received the Nobel Peace Prize (1987) for his efforts to end the conflicts in Central America. Following the June 2009 ouster of Honduran President Manuel Zelaya, Arias offered to mediate between the parties involved. The so-called "San José Accord" that Arias proposed provided the framework for several rounds of negotiations to end the political crisis in Honduras, though it ultimately failed to restore Zelaya to office.<sup>20</sup> Arias has seized on the Honduran crisis to reiterate his long-held belief that Latin America possesses a dangerous combination of powerful militaries and fragile democracies. He maintains that countries in the region should focus their resources on economic development and democratic institutions rather than military expenditures.<sup>21</sup>

## 2010 Elections

### Results

Elections for the presidency and all 57 seats in the unicameral National Assembly were held in Costa Rica on February 7, 2010. Former Vice President and Minister of Justice Laura Chinchilla (2006-2008) of the ruling PLN was elected president with 46.9% of the vote, well above the 40% needed to avoid a second-round runoff. Chinchilla easily defeated her closest competitors Ottón Solís of the center-left PAC and Otto Guevara of the right-wing ML, who took 25.1% and 20.9% of the vote, respectively.<sup>22</sup> In legislative elections, Chinchilla's PLN won a plurality with 23 seats.

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<sup>16</sup> "Clearer signs of recovery in Costa Rica – IMF," *Reuters*, November 12, 2009; "Country Report: Costa Rica," *Economist Intelligence Unit*, February 2009 & December 2009.

<sup>17</sup> "China y Costa Rica establecen relaciones diplomáticas a nivel de embajador," *Xinhua*, June 7, 2007.

<sup>18</sup> "Costa Rica se alfa a Palestina," *La Nación* (Costa Rica), February 6, 2008.

<sup>19</sup> "Costa Rica reopens formal relations with Cuba," *Reuters*, March 18, 2009.

<sup>20</sup> Álvaro Murillo, "Arias sigue como mediador en Honduras," *La Nación* (Costa Rica), September 23, 2009. For more information on the political crisis in Honduras, see CRS Report RL34027, *Honduran-U.S. Relations*.

<sup>21</sup> Oscar Arias, "Fuel for a Coup; The Perils of Latin America's Oversized Militaries," *Washington Post*, July 9, 2009.

<sup>22</sup> "Final Count in Costa Rica," *Latin News Daily*, February 22, 2010.

The PAC will be the principal opposition party with 12 seats, followed by the ML with 9 seats, the PUSC with 6 seats, and several smaller parties with a combined 7 seats.<sup>23</sup>

According to many analysts, Chinchilla benefitted the fragmentation of Costa Rica's political party system. They assert that Costa Ricans view the PLN as the country's only credible governing party due to the PUSC's effective collapse as a result of corruption scandals, the PAC's lack of direction after failing to block CAFTA-DR, and the ML's recent history outside the mainstream of Costa Rican politics.<sup>24</sup> Consequently, Chinchilla won by over 20 points despite a considerable decline in public support for the Arias Administration and late polling that showed Guevara forcing Chinchilla into a close second-round runoff vote.<sup>25</sup>

### Prospects for the Chinchilla Administration

Chinchilla is closely tied to President Arias' centrist faction of the PLN and is expected to largely continue the Arias Administration's policies. She will likely maintain Costa Rica's market-oriented economic policies, pushing for ratification of pending free trade agreements with China and Singapore, while strengthening the country's social welfare programs. Throughout much of the electoral campaign, Chinchilla focused on improving public security. Among other policies, she proposed increasing the size of the police force, improving protection and support for victims and witnesses, and increasing government security spending by as much as 50% (currently 0.6% of GDP). Moreover, analysts expect Chinchilla to implement policies designed to meet President Arias' goal of making Costa Rica carbon neutral by 2021 and take socially conservative stands on issues such as abortion, homosexual marriage, and church-state relations.<sup>26</sup>

Costa Rica's unicameral National Assembly will present Chinchilla with considerable challenges in implementing her policy agenda. Chinchilla's PLN will control just 23 of the 57 seats, making cross-party alliances necessary to pass any legislation. The PLN will likely form ad hoc alliances with varying parties dependent on the issue.<sup>27</sup> Even if Chinchilla and the PLN are able to cobble together a working majority, however, a group of 10 members of the National Assembly may appeal the constitutionality of any bill to the Supreme Court and significantly slow legislative progress.<sup>28</sup>

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<sup>23</sup> "Chinchilla wins in the first round," *Latin American Regional Report: Caribbean & Central America*, February 2010.

<sup>24</sup> Manuel D. Arias, "En Costa Rica: ni el PRI ni Chávez," *La Nación* (Costa Rica), October 17, 2009; Eduardo Ulibarri, "Nueva década, ¿nueva política?" *La Nación* (Costa Rica), January 10, 2010.

<sup>25</sup> Carlos A. Villalobos, "Confianza en el Gobierno desciende a su peor nivel," *La Nación* (Costa Rica), January 19, 2010; Carlos A. Villalobos, "Chinchilla y Guevara obtendrían empate técnico en 2.a ronda," *La Nación* (Costa Rica), January 17, 2010.

<sup>26</sup> "Costa Rica: Chinchilla win consolidates PLN power," *Oxford Analytica*, February 9, 2010; Tim Padgett, "Costa Rica's Generational and Gender Changes," *Time*, February 10, 2010; Alex Leff, "Costa Ricans Choose Chinchilla and Continuity," *Americas Quarterly*, February 11, 2010; "Chinchilla wins in the first round," *Latin American Regional Report: Caribbean & Central America*, February 2010.

<sup>27</sup> "Costa Ricans elect Latin America's fifth female president," *Latin American Weekly Report*, February 11, 2010.

<sup>28</sup> Nicholas Casey, "Costa Rica Victor Girds for Gridlock," *Wall Street Journal*, February 9, 2010.

## Environmental Leadership

Successive Costa Rican administrations have sought to address extensive deforestation and environmental degradation that resulted from decades of logging and agricultural expansion. The country's strong conservation system and innovative policies have done much to restore Costa Rica's environment and ecotourism has provided a significant source of economic growth. Costa Rica's efforts also have led many observers to recognize it as a world leader in environmental protection and have enabled the country to play an outsized role in the formulation of global environmental policies. Despite these accomplishments, some maintain that there are a number of environmental problems that must still be addressed by the country.

## Environmental Policies

Although observers have long admired the country's tropical forests, it is only relatively recently that Costa Rica has placed much emphasis on environmental protection. Approximately 75% of Costa Rican territory was forest covered in the 1940s, however, just 21% remained covered in 1987 as a result of logging and agricultural expansion.<sup>29</sup> Alarmed at the pace of deforestation and the extent of environmental degradation, the Costa Rican government began implementing a variety of conservation programs. Among these programs is the National System of Conservation Areas (SINAC), which was founded in the 1960s but has been significantly expanded in recent decades. SINAC now provides formal protection for over 26% of Costa Rica's land and 16.5% of its waters.<sup>30</sup>

Costa Rica has built upon the success of SINAC with a number of innovative environmental protection policies. Since 1997, Costa Rica has imposed a 3.5% "carbon tax" on fossil fuels. A portion of the funds generated by the tax are directed to the so-called "Payment for Environmental Services" (PSA) program, which pays private property owners to practice sustainable development and forest conservation.<sup>31</sup> Some 11% of Costa Rica's national territory is protected by the program.<sup>32</sup> Costa Rica also imposes a tax on water pollution to penalize homes and businesses that dump sewage, agricultural chemicals, and other pollutants into waterways. In 2009, the government expected the water pollution tax to generate some \$8 million, which was to be used to improve the water treatment system, monitor pollution, and promote environmentally-friendly practices.<sup>33</sup> Moreover, Costa Rica generates 76% of its energy from hydro, geo-thermal, and wind power,<sup>34</sup> and President Arias has opposed exploitation of the country's discovered oil reserves in order to maintain incentives to further develop alternative energies.<sup>35</sup>

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<sup>29</sup> "Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

<sup>30</sup> Ministerio Del Ambiente y Energia, "Sistema Nacional de Áreas Protegidas," available at <http://www.sinac.go.cr/planificacion.asp>.

<sup>31</sup> "Costa Rica: Expertos alertan sobre riesgo de incumplir objetivos ambientales," *Agence France Presse*, October 8, 2009.

<sup>32</sup> Alejandra Vargas, "Costa Rica irá a cumbre de Copenhague a dar su ejemplo," *La Nación* (Costa Rica), December 2, 2009.

<sup>33</sup> "Costa Rica taxing firms that dump wastewater into rivers," *EFE News Service*, April 7, 2009.

<sup>34</sup> Alejandra Vargas, "Costa Rica irá a cumbre de Copenhague a dar su ejemplo," *La Nación* (Costa Rica), December 2, 2009.

<sup>35</sup> Esteban A. Mata, "Óscar Arias se opone a exploración petrolera," *La Nación* (Costa Rica), March 24, 2009.

The country's environmental policies have been relatively successful, both in ecological and economic terms. Costa Rica has experienced a substantial increase in forest conservation and reforestation. Since 1997, the percentage of the nation covered by forest has expanded an average of 0.66% annually,<sup>36</sup> and over 50% of Costa Rican territory now falls under forest cover.<sup>37</sup> This has provided crucial habitat, as 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.<sup>38</sup> Environmental protection has also been a significant source of economic growth for Costa Rica, which is now one of the world's premier destinations for ecotourism. More than one million people visit Costa Rica's environmental attractions each year, generating \$1.1 billion in foreign exchange.<sup>39</sup>

## Global Role

Costa Rica's domestic success has allowed it to play an outsized role in formulating global environmental policies. In the lead up to the 2009 United Nations Climate Change Conference in Copenhagen, Denmark, President Arias asserted that developed nations, which "achieved their development poisoning the environment," should be most responsible for reducing global greenhouse gasses.<sup>40</sup> He proposed that such countries cut their carbon emissions by 45%.<sup>41</sup> Arias also pushed for technological exchange, financial assistance for mitigation and adaptation programs, and "debt-for-nature" swaps.<sup>42</sup> Nonetheless, Arias has asserted that developing nations must reduce their green house gas emissions as well. In 2008, Costa Rica announced its intention to become carbon-neutral by 2021, the first developing nation to make such a pledge. Additionally, Costa Rica has sought to export its successful environmental policies—such as the PSA program—to other developing nations.<sup>43</sup>

## Criticism

Despite its considerable achievements and global recognition, some observers assert there are still a number of environmental problems that Costa Rica must address. According to a recent SINAC study, Costa Rica lacks adequate protection for coastal and marine biological diversity. The study of 35 sites of ecological importance found that less than 10% of the areas examined are currently protected.<sup>44</sup> Another recent study, conducted by the country's state universities with support from private and public institutions, highlighted a number of other environmental problems in Costa Rica, including continued water pollution, overexploitation of marine resources, and a notable

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<sup>36</sup> Alejandra Vargas, "Costa Rica irá a cumbre de Copenhague a dar su ejemplo," *La Nación* (Costa Rica), December 2, 2009.

<sup>37</sup> Costa Rica: Government seeks green credentials," *Oxford Analytica*, October 21, 2008.

<sup>38</sup> *Ibid.*

<sup>39</sup> Alejandra Vargas, "Costa Rica irá a cumbre de Copenhague a dar su ejemplo," *La Nación* (Costa Rica), December 2, 2009.

<sup>40</sup> Alvaro Murillo, "Arias pide cambiar deuda por reforestación," *La Nación* (Costa Rica), September 23, 2009.

<sup>41</sup> "Costa Rica: Nation Seeks Big Emissions Cut," *Latin America Data Base NotiCen*, December 17, 2009.

<sup>42</sup> *Ibid.*; Alvaro Murillo, "Arias pide cambiar deuda por reforestación," *La Nación* (Costa Rica), September 23, 2009.

<sup>43</sup> Alejandra Vargas, "Costa Rica irá a cumbre de Copenhague a dar su ejemplo," *La Nación* (Costa Rica), December 2, 2009.

<sup>44</sup> Ana Cristina Camacho Sandoval, "Zonas costeras y marinas necesitan esquemas de conservación," *La Nación* (Costa Rica), November 18, 2009.

decline in the rate of reforestation.<sup>45</sup> The U.N. Ozone Secretariat has also highlighted environmental shortcomings in Costa Rica, noting that the country has led Latin America in per capita importation of ozone depleting substances since 2004.<sup>46</sup>

## U.S.-Costa Rican 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 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 "coalition of the willing" violated the country's constitutionally mandated neutrality. President Arias has questioned the priorities of the United States for spending substantial funds in Iraq while allocating comparatively little to assist allies in Central America.<sup>47</sup>

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."<sup>48</sup> Additionally, President Arias criticized the anti-Americanism of some of his fellow Latin American leaders at the Fifth Summit of the Americas, and the United States strongly supported President Arias' role as mediator in the political crisis in Honduras.<sup>49</sup>

## 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; however, this is likely to change somewhat as a result of the "Mérida Initiative" and its successor program, the Central America Regional Security Initiative (CARSI). The Peace Corps has been operating in Costa Rica since 1963 and generally

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<sup>45</sup> Oscar Núñez Olivas, "Costa Rica, 'paraíso ecológico', arrastra graves problemas ambientales," *Agence France Presse*, November 12, 2009.

<sup>46</sup> The most current U.N. data reflects importation rates from 2007. An international agreement that Costa Rica has signed would prevent the country from importing ozone depleting substances as of this year (2010). Jairo Villegas, "País lidera compra per cápita de contaminantes de ozono," *La Nación* (Costa Rica), April 26, 2009.

<sup>47</sup> Oscar Arias, "Region's real enemies: poverty and ignorance," *Miami Herald*, August 19, 2008.

<sup>48</sup> 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.

<sup>49</sup> Andres Oppenheimer, "Arias' brilliant response to anti-American leaders," *Miami Herald*, May 3, 2009; Hillary Rodham Clinton, Secretary of State, "Remarks at the Top of the Daily Press Briefing," July 7, 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*. For more information on the 2009 political crisis in Honduras, see CRS Report R41064, *Honduran Political Crisis, June 2009-January 2010*.

has been the largest source of U.S. assistance to the country since the U.S. Agency for International Development mission closed in 1996. In recent years, Costa Rica has also received U.S. assistance through the “International Narcotics Control and Law Enforcement” (INCLE), “International Military Education and Training” (IMET), and “Foreign Military Financing” (FMF) accounts. Costa Rica received \$364,000 in regular U.S. assistance in FY2009 and is scheduled to receive an estimated \$705,000 in FY2010. The Obama Administration has requested \$750,000 for Costa Rica for FY2011.

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.<sup>50</sup>

### **Mérida Initiative & Central America Regional Security Initiative (CARSI)<sup>51</sup>**

Costa Rica historically has not experienced significant problems as a result of the regional drug trade, however, crime and violence have surged in recent years as Colombian and Mexican cartels have increased their operations throughout Central America.<sup>52</sup> Costa Rica’s murder rate nearly doubled between 2004 and 2008, from 6 per 100,000 to 11 per 100,000 residents.<sup>53</sup> Although Costa Rica’s murder rate remains significantly lower than those of the “northern triangle” countries of Guatemala, El Salvador, and Honduras, the surge in organized crime has presented the Costa Rican government with a considerable security challenge.

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. Congress appropriated some \$165 million for Central America under the Mérida Initiative—a portion of which was to go to Costa Rica—through the FY2008 Supplemental Appropriations Act (P.L. 110-252) and the F2009 Omnibus Appropriations Act (P.L. 111-8). The FY2010 Consolidated Appropriations Act (P.L. 111-117) split Central America from the Mérida Initiative, and appropriated \$83 million under a new Central America Regional Security Initiative (CARSI). The Obama Administration has requested \$100 million for CARSI in FY2011.

Costa Rica received an initial \$1.1 million in Mérida/CARSI funds in June 2009, after Costa Rica and the United States signed a letter of agreement implementing the initiative. The initial funds

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<sup>50</sup> 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. Sheikh.

<sup>51</sup> 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.

<sup>52</sup> Dulue Mbachu, “Costa Rica, Panama in the Crossfire,” *International Relations and Security Network (ISN)*, October 7, 2009.

<sup>53</sup> “Chinchilla wins in the first round,” *Latin American Regional Report: Caribbean & Central America*, February 2010.

were to be used to finance the Central American Fingerprint Exchange, improved policing and equipment, improved prison management, maritime interdiction support, border assistance and inspection equipment, and a number of regional training programs.<sup>54</sup> President Arias has praised the security initiative as a “step in the right direction,”<sup>55</sup> but maintains that the U.S. funding of the program in Central America—and Costa Rica in particular—is “insufficient.”<sup>56</sup>

## 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.<sup>57</sup> Costa Rica began receiving IMET funds again in FY2007.

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.<sup>58</sup> 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.<sup>59</sup> 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 the human rights abuses committed by some of its graduates.<sup>60</sup> 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.<sup>61</sup>

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. The Latin American Military Training Review Act (H.R. 2567, McGovern), which was introduced in the House in May 2009, would suspend all operations at WHINSEC, establish a joint congressional task force

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<sup>54</sup> U.S. Department of State, Office of the Spokesman, “Letter of Agreement Signed with Costa Rica,” June 18, 2009.

<sup>55</sup> Oscar Arias, “Region’s real enemies: poverty and ignorance,” *Miami Herald*, August 19, 2008.

<sup>56</sup> “Costa Rican president says Merida Plan funds ‘insufficient,’” *BBC Monitoring*, March 31, 2009.

<sup>57</sup> For more information on Article 98 sanctions, see CRS Report RL33337, *Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America*, by Clare Ribando Seelke.

<sup>58</sup> “Row over ‘abolished’ army,” *Latin American Security & Strategic Review*, January 2009.

<sup>59</sup> Argentina, Bolivia, Uruguay, and Venezuela have stopped sending students to WHINSEC.

<sup>60</sup> 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.

<sup>61</sup> U.S. Southern Command, “Posture Statement of Admiral James G. Stavridis, United States Navy Commander, United States Southern Command, Before the 111<sup>th</sup> Congress Senate Armed Services Committee,” March 17, 2009.

to assess the types of training that are appropriate to provide Latin American militaries, and establish a commission to investigate activities at WHINSEC and its predecessor.

## 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).<sup>62</sup> 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).<sup>63</sup> 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 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.<sup>64</sup> 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.<sup>65</sup> In the end, 51.6% of

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<sup>62</sup> 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.

<sup>63</sup> "Latin America Economy: What's at Stake with CAFTA," *Economist Intelligence Unit*, May 14, 2003.

<sup>64</sup> "Scandal Topples Costa Rican Vice President, Clouds Outlook as CAFTA Referendum Nears," *Latin America Data Base NotiCen*, September 27, 2007.

<sup>65</sup> "Costa Rica: Arias is undermined despite 'yes' vote," *Oxford Analytica*, October 9, 2007.

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.<sup>66</sup>

## 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.<sup>67</sup> 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.<sup>68</sup> 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.<sup>69</sup> After obtaining a second extension, Costa Rica passed all of the necessary reforms and implemented CAFTA-DR on January 1, 2009.<sup>70</sup>

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 38% of its imports. Despite the global financial crisis and U.S. recession, U.S. trade with Costa Rica increased by over 7% in 2009. U.S. exports to Costa Rica amounted to about \$4.7 billion and U.S. imports from Costa Rica amounted to about \$5.6 billion. Electrical and heavy machinery and oil accounted for the majority of the exports while machinery parts, medical instruments, and fruit accounted for the majority of the imports.<sup>71</sup>

## Author Contact Information

Peter J. Meyer  
Analyst in Latin American Affairs  
pmeyer@crs.loc.gov, 7-5474

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<sup>66</sup> "Costa Rica: Arias sneaks Cafta-DR referendum," *Latin News Weekly Report*, October 11, 2007.

<sup>67</sup> "Country Profile: Costa Rica," *Economist Intelligence Unit*, 2008.

<sup>68</sup> "Costa Rica: Arias concedes defeat on CAFTA-DR deadline," *Latin American Weekly Report*, February 7, 2008.

<sup>69</sup> "Country Report: Costa Rica," *Economist Intelligence Unit*, October 2008.

<sup>70</sup> "Bush firma decreto para que Costa Rica se una al Cafta," *Reuters*, December 23, 2008.

<sup>71</sup> U.S. Department of Commerce data, as presented by *Global Trade Atlas*, February 2010.