



Costa Rica: An Overview

Costa Rica historically has been a bastion of political and economic stability in an often-turbulent region. The United States has worked closely with Costa Rica to address challenges in Central America and to advance shared values, such as democracy and human rights, worldwide.

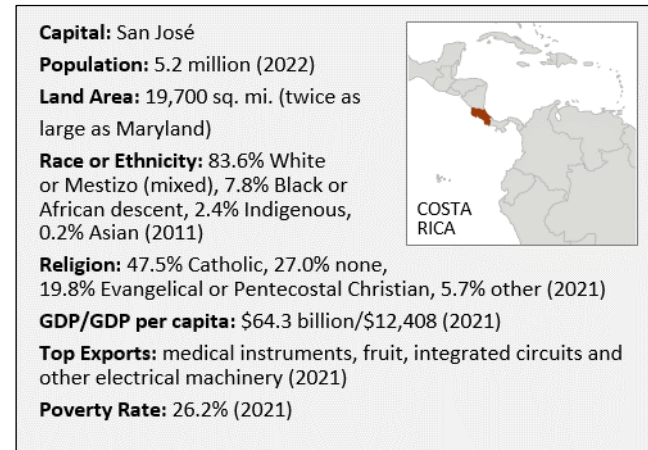
Political Situation

Costa Rica has sustained civilian democratic governance since 1949, when the country adopted a new constitution in the aftermath of a short civil war. The center-left (now centrist) National Liberation Party (PLN) and a center-right opposition that ultimately became the Social Christian Unity Party (PUSC) dominated post-war politics. The two-party system has collapsed over the past 20 years, however, as many discontented Costa Ricans 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 won the 2014 and 2018 presidential elections, and President Rodrigo Chaves's center-right Social Democratic Progress Party (PPSD). It also has contributed to legislative fragmentation, making governance more challenging.

Chaves, a former Costa Rican finance minister and World Bank official, began his four-year presidential term in May 2022. He surprised many observers by finishing second in Costa Rica's February 2022 first-round election, with about 17% of the vote, and defeating former President José María Figueres (1994-1998) of the PLN, 53%-47%, in an April 2022 runoff. President Carlos Alvarado of the PAC (2018-2022) was constitutionally ineligible to seek reelection. Some 43% of the population abstained from the runoff vote after an acrimonious campaign in which Chaves harshly criticized the traditional political class as corrupt and ineffectual while personally facing allegations of sexual harassment and campaign finance irregularities.

In his inauguration speech, Chaves promised to "rebuild" the nation and laid out his major priorities, which include reducing the cost of living, generating increased employment, and combatting corruption and crime. To those ends, he has issued decrees to reduce import tariffs on rice, authorize the importation of medications approved for use in certain other countries, and relax the country's fiscal rule to allow increased expenditures on administration priorities. He also has proposed a fuel price cap and the sale of two public banks and a minority stake in the public insurance company to reduce public debt. Some of those measures may face opposition in the unicameral Legislative Assembly, in which Chaves's PPSD holds 10 of 57 seats. Chaves's initial months in office included several confrontations with legislators and the press; nevertheless, 79% of Costa Ricans rated his performance as "good" or "very good" in an August 2022 University of Costa Rica poll.

Figure 1. Costa Rica at a Glance



Sources: CRS Graphics, Instituto Nacional de Estadística y Censos; Universidad de Costa Rica, Centro de Investigación y Estudios Políticos; International Monetary Fund; Trade Data Monitor.

Economic and Social Conditions

Costa Rica pursued state-led economic development throughout much of the 20th century but began to adopt a more market-oriented economic strategy in the 1980s. Since that time, Costa Rica has attracted a cluster of high-tech manufacturers, including medical device companies, and has developed a dynamic tourism sector, contributing to the diversification of the country's once predominantly agricultural economy. These newer industries provide higher wages, but many Costa Ricans remain employed in traditional industries, which struggle to compete with imports and provide lower pay and precarious working conditions. This divergence has reinforced Costa Rica's relatively high level of income inequality. It also has contributed to rising levels of unemployment and informal employment, eroding the tax base necessary to sustain Costa Rica's extensive social welfare system.

Socioeconomic conditions deteriorated in Costa Rica in 2020 due to the Coronavirus Disease 2019 (COVID-19) pandemic. Although the Costa Rican government enacted emergency support measures for businesses and households, the economy contracted by 4.1% and the poverty rate increased from 23.9% in 2019 to 30.0% in 2020. The pandemic-driven economic downturn also exacerbated Costa Rica's fiscal challenges, as the budget deficit widened to 8.4% of GDP in 2020.

Costa Rica's economy began to recover in 2021, registering a 7.8% GDP growth rate and a four-percentage-point reduction in the poverty rate to 26.2%. The International Monetary Fund (IMF) forecasts 3.3% economic growth for Costa Rica in 2022, aided by widespread COVID-19 vaccination and sustained exports. According to the Pan American Health Organization, 81.8% of Costa Rica's

population was fully vaccinated as of September 23, 2022. Widespread vaccination also has reduced mortality rates, but Costa Rica has recorded more than 8,900 COVID-19 deaths (175 per 100,000 people) since the pandemic began.

Costa Rica's fiscal situation remains difficult, as gross public debt has risen to 69.9% of GDP and debt service costs are equivalent to 71.8% of total central government revenues, according to U.N. data. In 2021, the Alvarado administration negotiated a three-year, \$1.8 billion financing arrangement with the IMF intended to stabilize the country's debt burden while supporting Costa Rica's economic recovery. Chaves is seeking to renegotiate the terms of the IMF agreement to reflect his policy priorities and respond to changing global dynamics.

U.S.-Costa Rican Relations

The Biden Administration has sought to bolster ties with Costa Rica. In April 2022, the State Department congratulated Chaves on his election and expressed interest in working with the new government to advance common interests, including humane migration management and environmental protection. The Biden Administration also has expressed support for the Alliance for Development in Democracy (ADD)—an informal arrangement among Costa Rica, Panama, the Dominican Republic, and Ecuador intended to accelerate post-pandemic economic recovery, foster sustainable development, and defend democracy and human rights throughout the region.

Trade and Investment Ties

The United States and Costa Rica are parties to the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which was signed in 2004 and entered into force for Costa Rica in 2009. Bilateral trade more than doubled between 2008 and 2012 but declined 43% between 2012 and 2020, largely due to a steep drop in U.S. imports following Intel's 2014 closure of a microprocessor manufacturing plant in Costa Rica. U.S.-Costa Rican trade totaled \$13.8 billion in 2021, a 25% increase from 2020 levels. U.S. goods exports to Costa Rica amounted to \$7.3 billion and U.S. goods imports from Costa Rica amounted to \$6.5 billion in 2021, giving the United States a \$774 million trade surplus. Top U.S. exports to Costa Rica in 2021 included mineral fuels, electronic machinery and parts, and medical equipment; top U.S. imports from Costa Rica in 2021 included medical equipment, fruit, and electric machinery and parts.

CAFTA-DR includes a chapter on investment that is similar to a bilateral investment treaty. According to the U.S. Bureau of Economic Analysis, the accumulated stock of U.S. foreign direct investment in Costa Rica was \$2.8 billion in 2021, with 59% invested in the manufacturing sector. In July 2022, the United States, Costa Rica, and other ADD members signed a memorandum of understanding to establish a Joint Consultative Dialogue on Economic Growth and Supply Chain Partnerships. The agreement aims to advance supply chain resilience and mutually beneficial trade and investment flows.

Security Cooperation

Costa Rica's institutions have proven more resilient than those of its Central American neighbors, but the country has

experienced an increase in organized crime and violence over the past decade. Costa Rica recorded 588 homicides in 2021, giving it a homicide rate of 11.4 per 100,000 residents. Costa Rican authorities have linked much of the violence to drug trafficking organizations, which use the country as a transit and storage point for South American cocaine destined for the U.S. market. Drug trafficking organizations also have sought to infiltrate Costa Rican institutions, contributing to increased corruption in the justice sector, according to the U.S. State Department.

The United States provides foreign assistance to Costa Rica to help the country combat transnational crime and other security threats. In the Consolidated Appropriations Act, 2022 (P.L. 117-103), Congress appropriated \$40.7 million of security assistance for Costa Rica. That total includes \$8.2 million in bilateral aid and \$32.5 million provided through the Central America Regional Security Initiative. U.S. assistance has helped Costa Rica expand community-based crime prevention programs, train security and justice sector personnel, and acquire equipment. The FY2023 foreign aid appropriations bill reported in the House (H.R. 8282/H.Rept. 117-401) would once again provide \$40.7 million for Costa Rica; the bill introduced in the Senate (S. 4662) would not stipulate a specific amount for Costa Rica.

Migration and Refugee Flows

As a comparatively prosperous and stable country, Costa Rica has long served as a destination for migrants and asylum-seekers from other Latin American nations. The country has experienced a recent surge in asylum requests, however, primarily due to the ongoing political crisis in neighboring Nicaragua. Costa Rica's migration agency has received more than 166,000 asylum applications from Nicaraguans since 2018. Costa Rica also has experienced increasing inflows of migrants and asylum-seekers from Venezuela, El Salvador, and Honduras.

The Costa Rican government has sought to provide protection and humanitarian aid to those in need but has called on the international community for additional support. According to the U.S. Agency for International Development, the United States provided nearly \$14.2 million to humanitarian organizations in FY2021 to support migrants, asylum-seekers, and refugees in Costa Rica.

In addition to those who have sought refuge in Costa Rica, many migrants pass through Costa Rican territory on their way to the United States. In recent years, such transitory flows have included large numbers of Cubans and Haitians, as well as extra-regional migrants from Africa and Asia. Costa Rica has worked with the U.S. government to conduct background checks on those transiting the country and to identify and respond to potential security threats before they reach the U.S. border. During a March 2022 visit by U.S. Secretary of Homeland Security Alejandro Mayorkas, the United States and Costa Rica signed a migration collaboration agreement focused on combatting migrant smuggling and human trafficking and improving migrant integration and protection programs.

Peter J. Meyer, Specialist in Latin American and Canadian Affairs

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