



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.

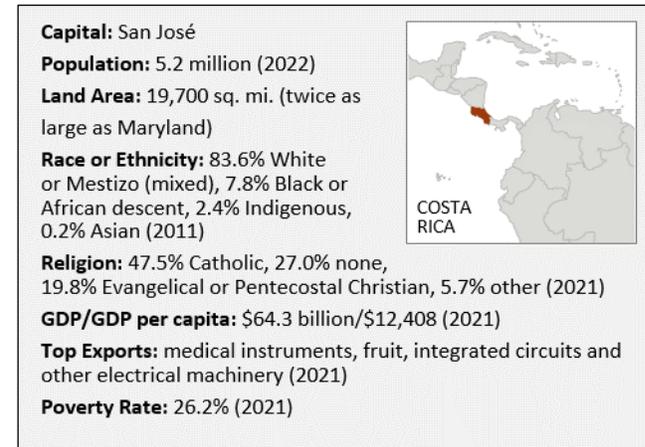
Political Situation

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 the center-right Social Democratic Progress Party (PPSD), which won the 2022 presidential election. It also has contributed to legislative fragmentation, making governance more challenging.

Carlos Alvarado of the PAC served as president from May 2018 to May 2022. During his term, Costa Rica legalized same-sex marriage, enacted structural reforms to join the Organization for Economic Cooperation and Development (OECD) in 2021, and began to implement a plan to reduce net carbon emissions to zero by 2050. Other portions of Alvarado's agenda stalled due to fiscal constraints, the Coronavirus Disease 2019 (COVID-19) pandemic, and a lack of support in the unicameral Legislative Assembly. Costa Ricans generally expressed low levels of approval for Alvarado throughout his presidency; a March 2022 University of Costa Rica poll found that 18% of Costa Ricans viewed his presidency favorably.

Rodrigo Chaves, a former Costa Rican finance minister and World Bank official, was elected to succeed Alvarado, securing 53% of the vote in an April 2022 runoff election against former President José María Figueres (1994-1998) of the PLN. Some 43% of the population abstained from the 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. Chaves promised to "rebuild" the nation in his May 2022 inauguration speech, indicating his major priorities include reviving the economy, streamlining government operations, reducing the cost of living, and combatting corruption and crime. The new president may struggle to move his agenda through the Legislative Assembly, in which his PPSD holds 10 of 57 seats. Although Chaves has asserted that he could bypass the legislature with popular referenda, the constitution prohibits such initiatives from addressing budget, tax, pension, or security policies.

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 social welfare system.

Socioeconomic and public health conditions deteriorated in Costa Rica in 2020 due to the COVID-19 pandemic but have begun to recover. Although the Costa Rican government enacted emergency measures to support businesses and households through the pandemic, the economy contracted by 4.1% and the poverty rate increased from 24% in 2019 to 30% in 2020. Costa Rica registered a 7.6% economic growth rate in 2021, which helped reduce the poverty rate to 26%. According to Johns Hopkins University, as of May 27, 2022, Costa Rica had recorded nearly 8,500 COVID-19 deaths (167 per 100,000 people) and more than 81% of the population was fully vaccinated.

The pandemic-driven economic downturn also exacerbated Costa Rica's fiscal challenges, as the budget deficit widened to 8.4% of GDP in 2020. The Alvarado administration negotiated a three-year, \$1.8 billion

financing arrangement with the International Monetary Fund (IMF) intended to support Costa Rica's economic recovery while stabilizing the country's debt burden. The budget deficit fell to 5.1% of GDP in 2021, and IMF officials agreed to extend the arrangement by five months (until July 2024) in March 2022. Chaves has vowed to renegotiate the terms of the IMF agreement to reflect changing global dynamics and his policy priorities.

The IMF forecasts 3.3% economic growth for Costa Rica in 2022, aided by widespread vaccination and sustained exports. The effects of Russia's invasion of Ukraine could slow Costa Rica's recovery, however, by contributing to rising fuel prices and tighter global financial conditions.

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—an informal arrangement among Costa Rica, Panama, and the Dominican Republic intended to accelerate post-pandemic economic recovery, foster sustainable development, and defend democracy and human rights throughout the region. The United States has donated 1.5 million COVID-19 vaccine doses and more than \$4 million in other pandemic-related aid to Costa Rica.

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 billion in 2020, with 45% invested in the manufacturing sector.

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. For FY2023, the Biden Administration has requested \$600,000 to train Costa Rican security forces. In May 2022, the State Department offered a \$10 million reward for information on leaders of Conti, a Russian hacking group that has carried out a far-reaching cyberattack against the Costa Rican government.

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. According to the U.N. Refugee Agency, more than 150,000 Nicaraguans have sought asylum in Costa Rica. 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.

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