SUMMARY

1. Costa Rica is an upper middle-income country that presents positive human development indicators. In 2012-18, per capita GDP at current prices increased by 20% to reach USD 12,017 in 2018. Real GDP also increased to an annual average rate of 3.5%, in tandem with its potential growth, and was sustained mainly by the rise in internal demand, especially by final household consumption. Net exports of goods and services also made a positive net contribution to GDP, due largely to the good performance of service exports. Nevertheless, the unemployment rate remained relatively high during the period under review, and stood at between 9% and 10% (annual average).

2. One of the major challenges facing Costa Rica is how to achieve healthy public finances. The Central Government's deficit has remained above 5% of GDP since 2013 and has resulted in a significant rise in the debt/GDP ratio. To deal with this deterioration of public accounts, in 2018 the Law on the Strengthening of Public Finances was passed, introducing a series of changes, notably income tax reform; the introduction of a value-added tax to replace the general sales tax; the adoption of measures to contain growing expenditure; and the establishment of a fiscal rule. This rule limits current expenditure and links it to the level of Central Government debt as a percentage of GDP, and to average growth of nominal GDP.

3. With a view to administering its monetary policy, Costa Rica gradually implemented a flexible inflation-targeting scheme that was fully adopted in 2018. At that point, the long-term inflation target of 3% ± 1 percentage point was also approved. In the period under review, inflation remained within or under the target range. Active interest rates remained high due to an insufficient supply of financial resources for the private sector and high credit demand. Costa Rica maintained an exchange rate band until January 2015, when it adopted a managed floating exchange rate system.

4. Costa Rica has a structural savings-investment gap that is reflected in a relatively high deficit for the balance-of-payments current account, due in large measure to a high fiscal deficit. In the period under review, the current account deficit as share of GDP decreased, falling from 5.2% of GDP in 2012 to 3.1% in 2018. This is partly due to a lower deficit in the balance of trade in goods, but above all to the increase in the balance of services surplus. Since 2015, the surplus of net services exports has been higher than the balance of goods deficit, which helped to improve the current account balance. The income balance has traditionally seen a deficit, due primarily to the fact that outflows under the heading of utilities of foreign firms operating in the country are higher than inflows of family remittances.

5. In the period under review, Costa Rica's foreign trade growth rate slowed down, mainly due to lower growth of imports. Manufactured products still account for the bulk of goods exports, i.e. 75% of the total in 2018. During the review period, the major manufactured goods for export were medical devices, followed by chemicals, electronics, tyres, paper articles and rubber. One of the most significant changes to the composition of exports has been medical instruments and devices produced by companies located in free zones. These have become the leading export product and represented 28.9% of total exports of goods in 2018 (16.9% in 2012). However, agricultural products continue to feature among the leading export products: bananas are the main agricultural export (9.1% of the total in 2018), followed by pineapples (8.9%) and coffee (2.7%). The United States is Costa Rica's main export market, having absorbed 40.6% of its exported goods in 2018, followed by the European Union with 20.8% and the countries of the Central American Common Market (CACM) with 16%. Imports are composed mainly of manufactured products, which represented over three quarters of the total amount in 2018. Imports continue to come mainly from the United States, accounting for 39.1% of total imports, followed by China (23.1%) and the EU (9.6%).

6. Costa Rica is a net recipient of foreign direct investment (FDI). From 2012 to 2018, the FDI stock rose by 93% to USD 43,100 million (71.7% of GDP); the annual flow of FDI was on average USD 2,600 million. FDI in the manufacturing sector increased, especially in high technology segments, such as medical equipment produced in free areas, and amounted to 53.2% of total FDI in 2018. The United States continues to be the leading source of FDI, accounting for 62.2% of the total in 2018, followed by the Netherlands, Panama and Mexico.

7. The goals of Costa Rica's trade policy are listed in the National Development Plan. In accordance with the latest Plan (2019-2022), foreign trade should be a tool for promoting the

country's socio-economic development. The main objective of the country's foreign trade policy is to foster greater openness to trade and economic internalization in order to ensure more efficient resource allocation and thus create more sources of employment while reducing poverty and inequality. To this end, Costa Rica is using three strategies: the negotiation, implementation and administration of trade agreements; the development and promotion of exports of goods and services; and the attraction of foreign direct investment.

8. Costa Rica, as a founding Member of the WTO, supports the inclusion of new trade-related issues in the negotiations. In 2017, Costa Rica ratified and approved the Protocol on the Trade Facilitation Agreement (TFA) and notified that it would implement immediately almost all the provisions of the Agreement, except specific provisions related to import/export and transit. Between 2012 and 2015, Costa Rica also participated in negotiations to increase the coverage of the Information Technology Agreement, to which it is signatory. Since 2015, Costa Rica has been an observer to the Committee established under the plurilateral Agreement on Government Procurement. Since its previous review in 2013, Costa Rica has regularly submitted notifications under various WTO Agreements. With regard to dispute settlement, Costa Rica has not participated in any dispute either as a complainant or a third party. However, in 2017 the first and only complaint was brought against Costa Rica. Costa Rica's trade policies have been reviewed four times by the WTO.

9. Costa Rica attaches a great deal of importance to regional integration and, for that reason, has negotiated several trade agreements. These include the Central American Common Market (CACM) agreement and the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA–DR). Since its previous trade policy review in 2013, Costa Rica has started to apply trade agreements signed with the European Free Trade Association (EFTA) States and Colombia, Mexico, Peru, Singapore and the EU, and has deepened existing agreements. Moreover, in 2018, it signed a free trade agreement with the Republic of Korea.

10. The foreign investment regime did not experience any major changes in the period under review. Foreign investors do not require prior authorization to invest. However, some restrictions do exist. Costa Rica does not impose exchange rate restrictions or limits on the repatriation of profits or capital, but remittances are subject to a tax. Foreign investment is granted national treatment, but some activities are reserved for the State or for national investors. State monopolies exist for: the provision of public fixed-line telephone services; the import, refinement and wholesale distribution of petroleum and petroleum by-products; the manufacturing and marketing of liqueurs; and lotteries and bingo. The Constitution provides that certain activities must remain under State ownership. However, national or foreign private investment in these activities, except for opencast mining and the exploration and exploitation of oil fields, is permitted.

11. Since its previous review, Costa Rica has adopted various trade facilitation measures. It has continued to develop the Single Window for Foreign Trade (VUCE 2.0) to enable the use of an e-payment and digital signature system, which will gradually include new functions. It has also made progress on certification processes for authorized economic operators (AEO). Furthermore, in 2017, the National Trade Facilitation Council (CONAFAC) was established to implement the Trade Facilitation Agreement (TFA). Despite the trade facilitation measures, the involvement of a customs broker continues to be necessary for most customs operations. Customs declarations are subject to a selective and random process for determining whether or not goods need to be inspected. In 2018, over 90% of imports were allowed in without inspection.

12. In 2013, the Regulations on the Implementation of Customs Reference Values were repealed. Reference prices are therefore not used currently. Costa Rica uses the customs valuation methods set out in the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994. Costa Rica uses databases of values of goods for risk assessment purposes.

13. Costa Rica's tariffs are based on the Central American Tariff System (SAC), barring a few exceptions. The MFN tariff consists of the import tariff duty plus a levy of 1% that is applied to virtually all imports. In 2019, the tariff contained 10,434 12-digit tariff lines of the HS 2017. Costa Rica only applies *ad valorem* tariffs. The MFN tariff is made up of 14 rates that vary between 0% and 151%. The simple average of applied MFN duties did not change significantly between 2013 and 2019 and remains about 7%. The average tariff for agricultural goods (WTO definition) was 14.1% in 2019, considerably higher than for non-agricultural products (5.6%). The products with the highest average tariffs are dairy products (53.8%), followed by animals and animal products

(28.8%), sugar and confectionery (17.4%) and clothing (14.8%). Costa Rica bound all its tariff at rates that vary between 0% and 233.07%; 77.6% of lines were bound at a rate of 45%.

14. Costa Rica gives preferential treatment to imports from countries with which it has preferential agreements. The majority of imports from the CACM enter tariff-free, with the exception of sugar and coffee. Similarly, tariff preferences granted under various agreements (CAFTA-DR, Canada, Chile, Dominican Republic, Mexico and Panama) exceed 95% of the tariff universe. The average preferential tariff under the agreements negotiated by Costa Rica is, in any case, much lower than the average MFN tariff. Preferential tariffs vary between 0.3% and 3.9%, and are lower for non-agricultural products, ranging from 0% to 2.1%.

15. Costa Rica applies taxes and *ad valorem* or specific charges that generally affect both domestic products and imports. The only tax that is applied solely to imports is the tax on imported beer, which is used to fund the Institute for Municipal Promotion and Support (IFAM). Costa Rica continues to tax banana, coffee and live cattle exports.

16. Costa Rica prohibits or restricts imports and exports of specific products with a view to protecting the environment, species, archaeological heritage and health, as well as in the interest of public safety. For these reasons, certain goods require a permit or authorization (non-automatic licence) for import and export purposes.

17. The main change relating to trade defence that occurred during the review period was the introduction in 2017 of a regulation enabling the authorities to conduct anti-circumvention investigations. Costa Rica does not regularly use trade defence measures. During the review period, two anti-dumping investigations were initiated, one concerning white sugar and the other steel drums. Only the first resulted in the imposition of a measure. Similarly, Costa Rica did not initiate any investigation into subsidies, nor did it impose any countervailing or anti-circumvention measure, but it did notify the WTO that it had initiated two safeguard investigations relating to pounded rice and steel bars. However, only one measure was applied affecting pounded rice: a tariff surcharge of 24.88% on the applied tariff of 35%. This measure was adopted in 2015 for a four-year period with a phasing-out period.

18. In 2017, Costa Rica notified the WTO of two subsidy-related programmes: the Free Zone Regime and the Inward Processing Regime. Through the first, fiscal incentives are offered to domestic and foreign investors so long as they meet specific investment, employment and national value-added criteria. Starting from 2016, they were given a certain leeway to meet these criteria. Similarly, on 1 January 2016, the income tax exoneration for export processing firms was eliminated unless these became "processing companies that produce, process, or assemble goods, irrespective of whether or not they export". In addition to these programmes, Costa Rica grants other fiscal and financial incentives to support MSMEs, promote the green economy and assist women entrepreneurs, as well as to specific sectors. Costa Rica does not have official export funding programmes nor export credit insurance programmes.

19. The process for formulating Costa Rican technical regulations was modified significantly in 2015 with a view to making it more streamlined. The country's technical regulations were not the subject of specific trade concerns within the WTO's Committee on Technical Barriers to Trade during the review period. The plant and animal health policy does not appear to have changed much during the review period, and Costa Rica continues to attach great importance to it, having traditionally been an exporter of agricultural products. During the review period, the Members questioned three plant and animal health measures notified by Costa Rica. One of them, the suspension of the issuing of forms on phytosanitary requirements for the import of avocados resulted in a complaint brought against Costa Rica under the dispute settlement system.

20. All economic operators, both public and private, whether or not they are established in Costa Rica, are subject to the Competition Law when their actions take effect in the country. However, certain sectors are not subject to the provisions of this Law. Absolute monopolistic practices, deemed null and void, are prohibited, as are relative monopolistic practices. Economic mergers should be notified and are subject to control when the shares or the total income of the economic agents involved exceed a specific threshold. The principle of favourable presumption is used in analysing mergers. Vertical agreements and mergers may be authorized even when they

distort competition if they have a positive impact on the market. A draft law was recently proposed to reform the competition framework.

21. The State plays a pivotal role in the Costa Rican economy. There are 62 public enterprises in Costa Rica, all fully state-owned, and 50 non-state public entities. The majority of these operate in the services sector, especially the financial sector - both banking and insurance - and in the communications and energy sectors. Some of these entities have their own public procurement systems. Costa Rica notified five trading enterprises consistent with the definition under Article XVII of the GATT: LAICA (sugar); RECOPE (hydrocarbons); CORFOGA (cattle); ICAFE (coffee); and CONARROZ (rice).

22. The Government Procurement Law governs the purchases of public entities, except for non-state public entities financed over 50% with own capital, public entities whose capital stock is owned mainly by individuals, and activities subject by law to a special procurement system. This Law was modified in 2016 to give way to a digital and unified public procurement system, which is still not being used by all institutions, and again in 2018 to allow SME consortia to participate in the procurement process. In accordance with the Law, the participation of foreigners is based on the principle of reciprocity, although in practice they are given national treatment. Nevertheless, any public purchase gives preference to products manufactured domestically. Ordinary procurement procedures (and modalities) exist, as well as exceptions. Ordinary procedures include competitive bidding (open and abbreviated) and auctions. Direct award of contracts, while an exception to the normal procedures, is the most widely used procedure. Use of these procedures, including the direct award of contracts, is determined by thresholds that vary depending on each institution's budget. That is why there is not a single threshold per procedure.

23. Costa Rica's intellectual property rights are protected by the Constitution and by legislation that did not change significantly during the review period, except for the 2014 revision of the Regulations implementing the Law on Patents, Industrial Designs and Utility Models. Costa Rica has signed various WIPO agreements, including the Marrakesh Treaty, which entered into force during the review period. With a view to accelerating the patent application process, Costa Rica has, since 2016, participated in the System of Cooperation on Aspects of Operational Information and Industrial Property. The National Customs Service (SNA) may automatically suspend customs clearance, in the absence of a formal request by the right-holder, when it believes or suspects that goods violate intellectual property rights.

24. Costa Rica's agricultural sector has a dual structure, with a dynamic export sub-sector that has developed alongside a sub-sector of traditional crops intended mainly for the domestic market, with lower productivity. The sector is facing some challenges, such as the need to increase productivity and enhance services provided to agriculture, while capitalizing on the transition offered by tariff liberalization negotiated under free trade agreements. To tackle these challenges, better integration in international markets is being sought, as well as a stronger domestic market, enhanced agro-business management, and modernization of agencies entrusted with implementing agricultural policy.

25. The agricultural sector has traditionally benefited from greater tariff protection. During the review period, various requests were made to initiate preliminary safeguard investigations relating especially to rice. However, only one measure was applied to pounded rice. Furthermore, in 2017 and 2018, Costa Rica imposed a special agricultural safeguard measure that affected brown rice. The protection afforded to certain products has reduced market competition. This is the case of rice, which, in addition to benefiting from tariff protection and safeguard measures, has also benefited from other measures. The price of rice is still subject to intervention; tariff quotas for rice in the husk are only used when there are shortages on the domestic market, and participation in the import quota is subject to a requirement to purchase domestically grown rice.

26. Costa Rica notified the WTO that during the period 2013-17 it did not grant any export subsidies for agricultural products and that domestic support provided to agriculture included: research, extension and advisory services; pest and disease control programmes; marketing and promotion services; and environmental programmes. Only the last of these offers economic compensation.

27. Mineral resources and hydrocarbons are the property of the State and may be exploited directly or through the granting of operating permits and concessions, both to nationals and foreigners. State company RECOPE still has the monopoly on the import, refining, transportation and wholesale distribution of petroleum and petroleum by-products. The price at which fuel is sold to the public is set using the international price as a benchmark, and is the same at all service stations throughout the country. In the electricity sector, public operators may participate in the generation, transmission and distribution/marketing of electricity, while private companies may only participate in electricity generation. Foreign firms must be domiciled in Costa Rica to operate a generation plant and their investment is limited to 65% of the capital. The state-owned Costa Rican Electricity institute (ICE) continues to be the largest generator and distributor/marketer of electric energy. It is also responsible for administering and operating the national transmission grid. ICE has exclusive rights to participate in the purchase and sale of electricity on the regional market.

28. The manufacturing sector is composed of export-oriented high-tech industries, as well as less competitive industries oriented mainly towards the domestic market. During the period under review, the main export products were medical, surgical, dental and veterinary instruments, as well as orthopaedic items and apparatus, produced mainly by companies located in free zones.

29. The State's involvement in the banking and insurance sector continues to be significant. In 2018, State banks held 52% of the total assets of the banking sector and 47% of the total assets of the national financial system. State banks enjoy certain advantages over private banks. For example, deposits are fully guaranteed, while private commercial banks do not offer this type of guarantee. Also, unlike private commercial banks, in order to attract current account deposits, State banks do not need to use a specific percentage of their current account deposits to grant preferential loans, whether through the Development Bank or directly; nor do they need to meet other financial penetration requirements. Furthermore, State banks have the monopoly on deposits of public entities. The preferential treatment given to State banks may have an impact on resource allocation. Foreign private banks may set up subsidiaries in Costa Rica, but not branch offices. Since 2013, banking performance has been good in terms of solvency, albeit with relatively narrow profit margins, and particularly so in the case of State banks. Moreover, the low level of competition in the banking sector leads to high intermediation margins. In the insurance market, notwithstanding liberalization, the state-owned National Insurance Institute remains the primary provider. Foreign companies may establish branches and representative offices in Costa Rica. There are no limits on the number or type of transactions they conduct.

30. In the telecommunications sector there are both public and private operators. However, State enterprise ICE continues to hold the monopoly on traditional basic fixed-line telephone services and captures the majority of the mobile telephony market, although its share of this market has dropped since 2013. This is due to the fact that during the review period, the sector came under review with a view to identifying those markets in which competition should be permitted.

31. International air services are governed by agreements/memoranda signed by Costa Rica or, failing that, by the principle of reciprocity. This principle also applies to international maritime transport services. Involvement of foreigners in the provision of cabotage services is limited. The State owns public ports and airports, whose construction, operation and administration may be handled through concessions.

32. Tourism is one of the most dynamic sectors in the Costa Rican economy and has become a significant generator of foreign currency. Costa Rica promotes sustainable, innovative and inclusive tourism. Foreigners may provide any kind of tourism service in Costa Rica.