Costa Rica Trade Brief

Trade Policy

Overall, Costa Rica has been improving access to its market (particularly with respect to goods) since 1995, when it joined the Central American Common Market and agreed to standardize its import tariffs.[1] Its highly open trade policy is reflected in the latest MFN Tariff Trade Restrictiveness Index (TTRI)[2], on which it is ranked 16th out of 125 countries and scores 3.5 percent. When compared to the trade regime of an average Latin America and Caribbean (LAC) or upper-middle-income country (with TTRIs of 7.8 and 6.2 percent, respectively), Costa Rica's trade regime is very liberal. Although its tariffs on agricultural products are much higher than those in manufactured goods (9.4 and 3.0 percent, respectively), they are still lower than the regional or income group averages. The 2008 simple average MFN applied tariff is low at 6.4 percent, as is the simple average applied tariff including preferences. Costa Rica decreased its maximum tariff (excluding alcohol and tobacco) to 93.5 percent in 2008 from 112.5 percent the year before. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), fell slightly to 36.4 percent in 2007. Regarding the extent of its commitment to trade liberalization in services, Costa Rica ranked 138th out of 148 countries according to the GATS Commitment Index. Restrictions remain in several services sectors as the government still retains monopoly rights on insurance and energy distribution. However the passage of framework legislation over the course of 2008 to permit the liberalization of telecom and insurance markets represents a major step forward.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

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External Environment

According to the Market Access TTRI[3] (including preferences), on which it is ranked 45th (out of 125), Costa Rica's exports enjoy relatively low tariffs barriers (1.8 percent), especially when compared to its LAC and upper-middle-income comparators (2.0 and 2.7 percent, respectively). The 2008 rest of the world simple average applied tariff (including preferences) on Costa Rica's exports is 9.8 percent, compared to 5.6 percent in 2007. But, when the country's trade flows are taken into account, the tariff is 1.4 percent, with agricultural exports facing 3.6 percent and manufactured exports 0.5 percent tariffs.

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA), which was signed in 2004, went into effect for Costa Rica at the start of 2009.[4] In addition, negotiations with China on a comprehensive FTA began in November 2008 on the occasion of the Chinese President's visit to Costa Rica.[5] Finally, negotiations with Singapore on a comprehensive FTA began in March 2009. The first round of negotiations took place in April and the second round in August 2009. The real effective exchange rate of the Costa Rican currency, the colón, appreciated 5.3 percent over the course of 2008, making exporters less competitive abroad.

Behind the Border Constraints

Costa Rica ranked 121st in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. Trade facilitation, port inefficiency, limited capacity, and poor-quality roadways are significant constraints to the country's trade activity. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Costa Rica at 2.55 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.85 for countries in the upper-middle-income group. It ranked 72nd in the world and 15th in the LAC region (with Chile leading the regional group). The area in which it performed the best was domestic transportation costs and it needs most improvement in increasing the quality of transport, information technology (IT) infrastructure and logistic competence. In this context, in July 2009, the World Bank proposed three general actions to improve

logistics performance in response to the factors that are causing the main problems.[6] These included reorganizing ports, improving private sector involvement, and strengthening public institutions.

Trade Outcomes

Costa Rica's real growth (in constant 2000 U.S. dollars) in total trade of goods and services decelerated slightly to 7.3 percent in 2007, and continued to slow down in 2008, reaching 2.1 percent. This was due to a drop in the growth rate of Costa Rica's real exports, which grew by 10 percent in 2007, but then slowed, shrinking by 0.9 percent in 2008. Imports of goods and services grew by 5.5 percent in 2008. Both exports and imports are expected to shrink in 2009 by 1.8 percent and 1.9 percent, respectively.

The nominal growth rate of the U.S. dollar value of total trade shrank from 14.8 percent in 2007 to an estimated 11.7 percent in 2008. Export growth is estimated at 8.9 percent in 2008, having fallen by 8.9 percent in nominal U.S. dollar terms in the last quarter.[7] Costa Rica's top exports include microcircuits, bananas, coffee, machine parts, and medical instruments. Tourism also accounts for an important share of trade. The country's main export markets are the United States, China (to which over 90 percent are microcircuits), the Netherlands, and Guatemala.[8] Due to decreases in forecast demand, exports are expected to fall by a total of 1 percent in 2009 and have already fallen by 14.9 percent in the first quarter year-on-year. Coffee exports in particular have slumped, having fallen by 46 percent in July 2009 over their 2008 value.[9] Nominal imports grew by an estimated 14.1 percent in 2008. They are expected to fall by 6.9 percent in 2009, although in the first quarter they plummeted. FDI inflows accounted for 7.2 percent of GDP in 2007.

Notes

1. Office of the United States Trade Representative, 2009.
2. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
4. Office of the United States Trade Representative, 2009.
5. Council on Hemispheric Affairs, 2009.
6. World Bank, 2009a; 2009b.
7. All quarterly data is from IMF, 2009.
8. EIU, 2009.
9. Dow Jones Newswires, 2009.

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