

An important strategic partner

By **MARCO VINICIO RUIZ GUTIÉRREZ**

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MARCO VINICIO RUIZ GUTIÉRREZ

is the Minister of Foreign Trade. A graduate of the University of Costa Rica, he also has a Masters Degree from New York University. Mr Ruiz has been President of the Costa Rican Chambers of Industry and of the Food Industries, and President of the Union of Chambers. He also became President of the Central American Federation of Chambers of Industry and participated in the trade negotiations for CAFTA, as well as agreements with Mexico, Chile and the Dominican Republic.

Costa Rica, a country located in Central America, is known for its democratic and pacifist tradition. Although a small country, the outstanding academic level of its population, the country's social and political stability and the active role that it has played in world trade, makes the country an attractive and strategic place for investing and doing business with the entire Western Hemisphere.

This assertion is confirmed by the 'World Trade Indicators 2008' report published by the World Bank, which positions Costa Rica highly in the areas of trade policy (first place in Latin America), trade performance (fifth place in Latin America) and external environment (sixth place in Latin America).

Furthermore, 'The Global Enabling Trade Report 2008', published by the World Economic Forum, places Costa Rica in 44th position among 118 countries, which makes it the second Latin American country best placed in the aforementioned ranking. Both reports confirm Costa Rica's excellent performance regarding its participation in world trade.

Costa Rica: 25 years of Trade Liberalisation

The country's decision to use international trade as a platform to enhance economic growth and increasing the well being of its citizens was achieved by carrying out a more aggressive foreign trade policy, focused on two parallel elements: a comprehensive commercial standing through active and consolidated participation in international markets and the attraction of foreign direct investment.

In the execution of this policy, the country promoted its integration in the world economy, removed trade barriers and strengthened its relationships with important trade partners. These factors explain why, in recent years, the external sector has been one of the most important engines of the Costa Rican economy, as shown below.

• Trade in Goods and Services

With regard to trade in goods, during the 2003-07 period, Costa Rican exports have grown at an average annual rate of 12.2 per cent. Thus, in 2003, exported goods per capita amounted to US\$1.467, this had increased to US\$2.069 by 2007, placing Costa Rica as the sixth highest per capita exporter in Latin America,

well ahead of Argentina and Brazil. Furthermore, during the last five years, imported and exported goods as a percentage of the country's production have risen from 78 per cent to over 85 per cent.

The growth of exports has been primarily propelled by industrial goods, which represent approximately 68 per cent of the total exports, while agricultural products account for 32 per cent.

The dynamism of the export sector is reflected not only in the registered amount of exports, but also in the diversification of markets and the range of exports. Currently, our products, more than 4,000 different items, are sold in more than 150 international markets. These products originate from all regions of the country, and more than 2,000 companies, 76 per cent of them being micro, small and medium-sized businesses, are involved in the process.

As regards trade in services, Costa Rica's exports have also shown a dramatic improvement, having grown from US\$467 per capita in 2002 to over US\$795 per capita in 2007. The contribution of this sector to the gross domestic product is approximately two thirds of the total; it also generates over 70 per cent of the country's total employment, which reflects its importance to the national economy.

• Foreign Investment

Foreign direct investment (FDI) has been a key part of the country's trade expansion. In this area, four sectors have been targeted through specific strategic plans: electronics, medical devices and services based on information technology and tourism. The strategy has boosted Costa Rica's development, generating growth in employment opportunities and the transfer of knowledge and technologies, which has enabled an increase in productivity. In 2007 alone, the country received approximately US\$1,885 million in foreign investment, amounting to 28 per cent growth in the year 2006. In per capita terms, this represents US\$219 of FDI, second only to Chile in Latin America or 48th in the worldwide ranking.

It is expected that in 2008, the country will surpass US\$2,000 million in foreign direct investments. In order to achieve this goal, the Ministry of Foreign Trade is committed to enhancing the business climate. Among the main activities undertaken, with support of other governmental agencies, the

Ministry's work has focused on improving special regimes such as the Active Finishing Regime and the Free Zone Regime.

Given these initiatives within the context of the country's commercial strategy and the twin elements – trade liberalisation and the attraction of foreign investment – over the last five years, Costa Rica has experienced an average annual growth rate of more than 6 per cent, and for the first time in its history the PPP – adjusted GDP per capita surpassed US\$10,000 in 2007.

Costa Rica's participation in world trade

The foreign trade policy objectives are implemented via our participation in three complementary fora: the multilateral trading system, the negotiation of bilateral and plurilateral trade and investment agreements and a regional integration process.

• World Trade Organisation (WTO)

As a small developing country, with an economy strongly connected to international trade, Costa Rica supports the multilateral trading system and the efforts to strengthen it. In fact, Costa Rica is an important player in the WTO, given its active role and its participation in different groups, including the Green Room.

• Trade and Investment Agreements

Costa Rica has free trade agreements with Canada, Chile, the Dominican Republic, the countries of the Caribbean Community (CARICOM) and Mexico. Also, the country has recently signed an agreement with Panama, deepening and formalising several commitments that were reached back in 1973.

In addition, Costa Rica has approved, and is in the final stages of implementing, a free trade agreement with its most important trade partner: the United States of America. Without doubt, this agreement is expected to boost exports and the country's overall economic climate. With this free trade agreement and those already in force, Costa Rican exports have preferential access to markets amounting to approximately 476 million consumers.

Costa Rica's Trade Liberalisation

- Trade in goods and services
- Foreign Investment
- Active role in WTO
- Trade and Investment Agreement
- Economic Regional Integration

Costa Rica is also involved in the negotiation of an Association Agreement, including the establishment of a free trade zone, with the European Union and the rest of the countries of Central America. This process, which is currently underway, has recently concluded its fourth round of negotiations. The agreement is viewed as a unique opportunity for the region to work with the European countries in the promotion of sustainable, fair and equitable economic development.

In addition, Costa Rica has initiated exploratory discussions with new potential trading partners in the Asia Pacific Region. These efforts have already proved successful, as a joint feasibility study for a free trade agreement with the People's Republic of China has been completed, and both countries are in the process of deciding whether to launch formal negotiations in the near future.

Lastly, there are 13 Agreements for the Reciprocal Promotion and Protection of Investments with: Germany, Argentina, Canada, Chile, Taiwan, Korea, Spain, France, Netherlands, Paraguay, Czech Republic, Switzerland and Venezuela. Also, the agreements with Ecuador, Bolivia, Finland, Belgium and Luxemburg, are in the process of receiving legislative approval.

• Economic Regional Integration

Costa Rica is also committed to active participation in the process of Central American economic regional integration, which was started during the 1960s. The efforts carried out to date have allowed the region to become one of the most integrated worldwide, providing an important additional number of consumers (approximately 35 million) that are being reached by our exports.

Within this process, Costa Rica is currently participating in negotiations aimed at consolidating a Central American Customs Union. To date, more than 90 per cent of all tariff lines have been harmonised and important progress has been achieved with the harmonisation of sanitary and phyto-sanitary regulations, rules of origin, safeguards, anti-dumping and countervailing measures and customs procedures, among others.

In short, Costa Rica has followed the path of trade liberalisation over the last 25 years, generating the opportunities that the country needed then and needs now. The growth in exports, the diversification of our products and markets, the increase in foreign investment and job creation, reflect the results of this policy. All these achievements, and the opportunities Costa Rica has to offer, turn this small Central American country into a strategic partner for any economy or business concern operating in the Western Hemisphere. **F**

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