Costa Rica's Trade Deficit Grows As CAFTA Looms

By Mike Godfrey
November 25, 2005

While Costa Rica’s legislature agonizes over ratification of CAFTA (the Central American Free Trade Area), the country's trade deficit for the first 10 months of the year rose to $2.13 billion from $1.97 billion for the whole of 2004 despite a 10% rise in exports during the same period to $5.83 billion.

The electrical components and microprocessor industry topped the list of exporters, accounting for 20% of all goods leaving the country. The trade deficit for the same period last year was $1.07 billion.

Costa Rica's government wants to move towards freer trade with the country's partners, but legislators and the unions are not so sure. President Abel Pacheco submitted the CAFTA to the Legislative Assembly in late October, in the face of threatened strikes. The legislative process is expected to take up to six months, but the outcome is seen as likely to be positive.

The business community had been demanding that Pacheco send the agreement to the assembly, saying that by waiting, Costa Rica could lose business opportunities, foreign investment and jobs. With the approval of CAFTA last week in Nicaragua, Costa Rica remains the only signatory country that has not ratified the agreement.

Meanwhile, Kenneth Valley, Trinidad & Tobago's trade minister, and Manuel Gonzalez Sanz, his Costa Rican counterpart, have signed a comprehensive bilateral free trade deal which will eventually eliminate tariffs on all goods traded between the two nations. The deal will remove tariffs on 90% on goods traded between the two nations immediately, while tariffs on all remaining goods will be removed over the coming four years.

"This agreement with Costa Rica is a pioneering effort providing the opportunity for us to develop access, investment, and dispute settlement among others," minister Valley observed. The deal will provide Costa Rica with access to the Caribbean Community (Caricom), which is in the process of establishing a free market, and of which Trinidad was one of the first participants. "We export more to the Caribbean than all of South America and look forward to Trinidad & Tobago influencing other countries to get on board," Mr Gonzalez Sanz stated.

Trade between Costa Rica and Caricom reached US$200 million in 2003.

The Costa Rican economy has traditionally been based on tourism and the export of agricultural products such as bananas and coffee; low prices for these two commodities have caused problems for the country since 1999. Its Pacific and Caribbean coastlands are lined with luxury hotel resorts. The introduction of a free trade zone fiscal regime has however resulted in a major national economic transformation with non-traditional goods now accounting for 68% of exports and agriculture representing only 17% of GDP.

In 2004 growth was an estimated 3.9%, down from 5.4% in 2003; inflation increased to 11.5% from just over 9% in 2003; and unemployment grew to 6.6% from 6.3% in 2003. However, some economic sectors complain of skill shortages. GDP per head is $9,600 at purchasing power parity, according to an estimate for 2004. Costa Rican labour costs are relatively high for the area, but it attracts inward investment due to its skilled labour force, absence of labour problems, political and economic stability, and the attractive fiscal regime.