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The marathon floundering of the Central America Free Trade Agreement (CAFTA) in the Costa Rican legislature cannot be taken to mean the country is tepid on trade; it is intrepid. The US has not decided whether it is in recession, but Costa Rica has noted a decline in transactions, reporting that exports to the US were down 0.1%, or US$2 million, during the last year.

The US has long ceased to be the basket in which Costa Rica wants all its eggs; it needs, say officials, to improve its balance of trade. The central bank (Banco Central de Costa Rica) reported the trade deficit expanded almost 95% from May 2007 to May 2008, from US$1.2 billion to US$2.3 billion. This imbalance came even with an export increase of 7.8%, the Ministry of Foreign Trade reported. During the May 2007-May 2008 period, Costa Rica exported US$4.2 billion of its wares. The major reason for the tip toward more buying than selling was oil.

In May 2007, the country took in US448.5 million in fuel. This May, it cost US$843.1 million to fill the national tank. Another big reason was the textile industry, whose foreign sales were 21% weaker than last May. Foreign Trade Minister Marco Vinicio Ruiz has turned toward what the government regards as greener pastures in China and with the Southern Cone Common Market (MERCOSUR). "We have just finished a feasibility study with the People's Republic of China, and it is very probable that we will momentarily be able to announce negotiations. We will probably start next year, if conditions permit," Ruiz said in July.

Feasibility was very probably built into the re-establishment of relations between the two countries and the simultaneous cutting of the cord between Costa Rica and Taiwan (see NotiCen, 2007-06-14). At the time, President Oscar Arias made clear that the switch was economically motivated, saying the China relationship would "bring greater well-being and development for Costa Rica, which cannot remain static in a changing world." Inevitably, in mid-August, the results of the feasibility study were disclosed, and, summing up its five chapters and 199 pages of conclusions, Foreign Trade Minister Fernando Ocampo told the media, "What we have seen is that there is a great complementarity between the economies." He enumerated opportunities in agriculture and industrial products but emphasized that what most interested China was Chinese investment in opportunities to "take advantage of this platform of free-trade agreements (FTAs) we have to export to other countries."

One among many CAFTA aside, Costa Rica has FTAs with Mexico, the Dominican Republic, Chile, Canada, Panama, and the Caribbean Community (CARICOM). It is also part of the Central American Common Market (Mercado Comun Centroamericano, MCCA) and is actively engaged in the ongoing association-agreement negotiations (see NotiCen, 2008-08-07) with the European Union (EU). The feasibility study, by a Costa Rica-China joint task force, singled out some high-quality value-added Costa Rican electronic products that have already proved competitive in US and European markets. Ocampo spoke enthusiastically of the boost small business and manufacturing people would have to expand into a Chinese market so vast that, without a trade agreement, Costa Rica would be just another one of 169 countries that have China trade relations.

During the past decade, without a trade agreement or even diplomatic ties, Costa Rica's exports to China grew from US$34 million in 1998 to US$848 million in 2007, while imports from China grew from US$122 million to US$763 million. However, year-on-year, the May-May figures reported by China's General Administration on Customs shows a decrease bilaterally of 5.6%, while Costa Rica's exports to China slipped 12.8%. Costa Rica is hardly unique in seeking better commerce with China, whose growth in Latin America has been enormous. President Hu Jintao's goal of US$100 billion in trade with the region by 2010 was surpassed in 2007, when trade increased 42.6% from the previous year to hit US$103.6 billion.

Foreign direct investment (FDI), however, has been less than stellar at US$22 billion in 2007 for the region as a whole. Almost a quarter of Chinese FDI goes to Latin America, but the amount is dwarfed by the US, which invested US$350 billion. Though US capacity is responding to recession while China continues to boom, the US does not entirely view the Chinese presence in a negative light. Researcher Daniel Erikson, quoted in a report from the Council on Hemispheric Affairs (COHA), noted, "To the extent that China's involvement is sparking economic growth in Latin America, it may contribute to economic stability and well-being in a manner that suits the US desire to see a prosperous and healthy neighborhood."

If anyone is troubled by the surge, it could be the Latin American manufacturing sector, Costa Rica and Central America included. Textiles and footwear, a regional mainstay, are exported from China at less than one-third of what it costs the region to produce them. The Central American countries have already lost a significant amount of that business and now compete on the basis of proximity to the US market, with shorter delivery times and lower transportation cost being the comparative advantages.

Taking a panoramic view eastward Costa Rica's market diversification strategy takes full advantage of China's policy of outbidding Taiwan to lessen the probability of Taiwanese recognition by the UN, but that does not mean all eggs in the Chinese basket either. Costa Rica is looking toward Singapore, South Korea, Japan, and more. Trade Minister Ruiz has spoken of increased trade with New Zealand as a gateway to the Pacific. In his view, an agreement with China would serve as a base from which to pursue and expand to Asia. He already has an active trade section at the Costa Rican Embassy in Beijing, a separate trade office of the Promotora del Comercio Exterior (Procomer) there, and another one in Shenshen, in southern China.

A key to some of the Asian countries for Costa Rica would be membership in Asia-Pacific Economic Cooperation (APEC). The organization's 21 member economies, as the organization calls them, include all of Costa Rica's target countries. The only Latin American members are Chile, Mexico, and Peru. Ruiz particularly has his heart set on wooing Singapore with its US$60,000 per capita income, reputation as a provider of investment capital, and strength in digital technology, an area that Costa Rica very much wants to develop. It is this investment potential, rather than a market for goods, that the Central American country finds so attractive about the Asian city-state.

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Becoming a member of APEC will take some doing. The organization has been an exclusive club for a decade. In 1997 a ten-year moratorium was placed on new memberships. In 2007, the moratorium was extended to 2010. Costa Rica gained observer status in 2004 and expected to get full membership in 2007, but the extended ban shut the door. Chile is in Costa Rica's corner on this, however, and is reportedly doing what it can to facilitate membership. The two countries are scheduled to sign an association agreement in October, and Chile reiterated its intention to back Costa Rica's application during a July meeting of the binational commission working on the agreement.

Chile is not just being a pal on the APEC issue. The association agreement is part of a joint strategy to enter the Asian markets, and APEC credentials for the Central American partner would help grease the rails. Chile also provides Costa Rica with preferred access to the P4, the Trans-Pacific Economic Partnership between New Zealand, Singapore, Brunei, and Chile. Like Chile, Costa Rica wants to leave poverty in the dust, and, if not genuinely, at least conceptually, this is an opportunity. Said Carlos Furche, director general of economic relations for the Chilean Foreign Relations Ministry, "Chile and Costa Rica are part of the extensive middle class of the world, and to make a great developmental leap we need to integrate ourselves into this global world."

The immediate neighborhood will have to wait

Closer to home, Ruiz said the government is seeking an accord with MERCOSUR as part of MERCOSUR-Central America negotiations projected for 2009. He seemed unhurried on this front, however. "I don't see this in the short term because in Central America we are in the middle of several important negotiations," he said during a July trip to Brazil. He said formal talks would not start for a year between the countries of MERCOSUR Argentina, Brazil, Paraguay, Uruguay, and Venezuela and those of the isthmus united as the Sistema de Integracion Centroamericano (SICA). Ruiz said the isthmus would need about a year during which there would be "a program of activities to get to know those markets." SICA would also have to agree on a tariff structure, since one aspect of the agreement would be tariff-matching between the two blocs. In the meantime, Costa Rica will pursue unilateral trade improvements with Brazil.

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