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Fiche ELANBiz: Investing in Costa Rica

General environment for foreign investment

There are more than 250 high-tech multinationals operating in Costa Rica. Only in 2014, there were more than 40 new investment projects in high technology that confirmed their decision to establish operations in the country. According to the magazine Site Selection (2013), Costa Rica is ranked among the "Top 10" best countries in the world to invest.

The economic, political and social stability, are some of the characteristics that have distinguished Costa Rica, giving way to successful achievement in attracting foreign investors. In Central America, Costa Rica is one of the largest recipients of foreign direct investment (FDI). In 2014, Costa Rica in foreign direct investment was \$ 2.2 million, almost 5% of GDP.

Costa Rica: Total FDI



Source: CINDE based on information from Central Bank, 2015

The government of Costa Rica has introduced a variety of incentives in an effort to promote foreign investment including Law No. 7210 of Free Trade Zones enacted in 1990. The law and its consecutive reforms provide significant tax exemptions and incentives for companies operating in export-related activities. Tax incentives, including 100% exemption of virtually all taxes and government finances for employee training,



are available for companies that meet the investment requirements and employment established by law. The investment incentives include constitutional guarantees of equal treatment and direct foreign investment. Other incentives are: export contract, the free zone and temporary admission system, which include full or partial exemptions from taxes and streamline customs clearance services including simplified operational aspects.

According to the latest ranking of the publication "Doing Business" of the World Bank, Costa Rica ranks 83 globally and in 7th position in the Latin American region for the index Ease of Doing Business.

Index	Ranking
Starting a business	118
Dealing with construction permits	52
Getting electricity	46
Registering property	47
Getting credit	89
Protecting minority investors	181
Paying taxes	121
Trading across borders	47
Enforcing contracts	129
Resolving insolvency	89

Source: Banco Mundial, <http://www.doingbusiness.org/rankings>, 2015

Investment opportunities

Foreign investment is concentrated in the advanced and light manufacturing (45%) and agriculture (25% primarily bananas and coffee) and other investments (railroads, tobacco, telecommunications, airlines, government bonds and real estate).

Some sectors that will continue to play a substantial role in the strategy for attracting investment are the high technology, such as the medical device industry, advanced manufacturing and corporate services. Projects outside the metropolitan area and projects from diverse backgrounds will be crucial in the coming years.

Costa Rica is a country that has received the most FDI in Latin America in manufacturing and services. FDI coming to Costa Rica is looking for efficiency rather than market or access to natural resources. The sectors are broken down in the following table:



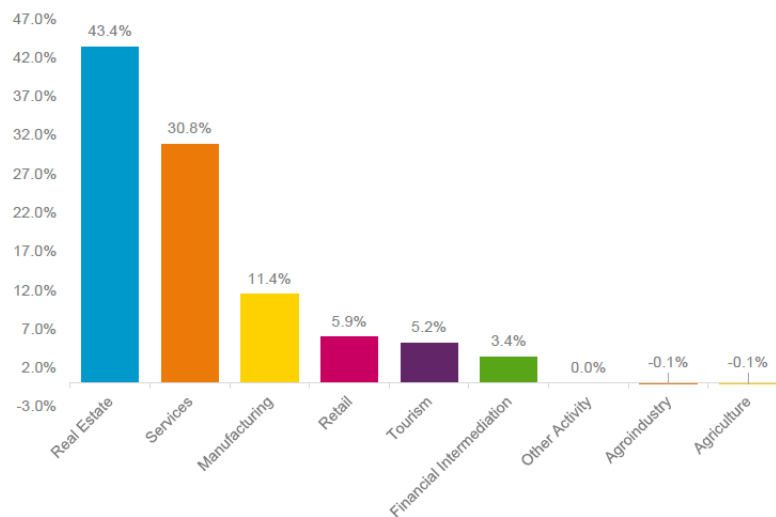
FDI in Costa Rica, 2014

Sector	FDI, US\$	Percentage over total FDI
Real estate	954m	43.4%
Services	677m	30.8%
Manufacturing (light and advanced)	251m	11.4%

Source: CINDE, Frequently Asked Questions, 2014

The following graph displays a percentage breakdown by sector:

Costa Rica: FDI Breakdown by sector 2013



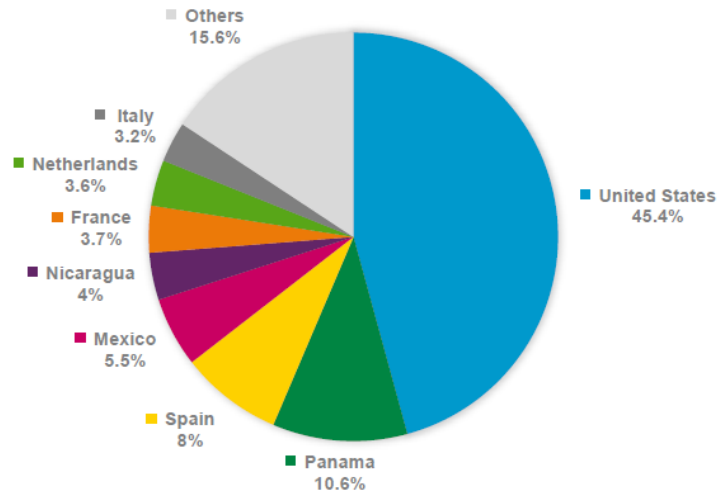
Source: CINDE based on information from the Central Bank, 2013.

Origin of foreign investment

The origin of foreign investment is mainly from the United States of America, followed by Panama, Spain and Mexico. The European Union, as a whole, is the second largest foreign investor after the United States. The main investors in 2013 were the United States (US \$ 1,241 million), Panama (US \$ 284 million), Spain (US \$ 214 million), France (US \$ 95 million), Netherlands (US \$ 89 million) and Italy (US \$ 85 million) as shown in the following graph.



COSTA RICA: FDI Inflows by Country of origin



Source: CINDE based on information from the Central Bank, 2013.

European investment and the Association Agreement with Central America (AACUE)

As its regional partners, Costa Rica has ratified the Association Agreement between Central America and the EU, which has entered into force in October 2013 for the trade provisions. Costa Rica has great importance in this Agreement, as it is the country that holds 50% of trade in Central America with the European Union.

The additional AACUE pillars for the political dialogue and cooperation are expected to enter into force once all Member States of the European Union have ratified. This will foster a high influx of foreign professionals in the country.

By means of AACUE, Costa Rica provides new business opportunities for European companies, particularly in the priority sectors suggested by the Costa Rican government investment:

- Services sector (Call Center, digital technologies, shared services and back office)
- Life sciences (biotechnology, medical devices, clinical trials)
- Green technology (wind and solar)
- Advanced Manufacturing (aerospace and electronics)
- Infrastructure (roads, ports and airports)



The Agreement contains a chapter in which the parties commit to facilitate temporary entry in their territories for short-term business visits as well as for service providers who have been contracted to provide a service in the European Union to a final consumer (architecture, engineering, medical, research and design, market research, trade shows, tourism), which will benefit the free movement of services, investment and facilities.

Consumers in Costa Rica are sophisticating the demand, influenced by the marketing of international companies, by the increasing presence of foreigners residing in the country, as well as the result of an aggressive strategy to attract foreign investment by Costa Rica and retirees (originating from Canada, USA and Europe).

Links of interest

- **CINDE:** Costa Rican investment promotion agency (Coalición Costarricense de Iniciativas para el Desarrollo), a private nonprofit organization that assists and guides investors and companies in establishing operations in Costa Rica.
<http://www.cinde.org/>
- **PWC Guide on doing business in Costa Rica**
<http://www.pwc.com/ia/es/publicaciones/assets/doing-business/doing-business-2015-costa-rica-e.pdf>
- **Ministry of National Planning and Economic Policies (Ministerio de Planificación Nacional y Política Económica - MIDEPLAN): Evolution of Foreign Direct Investment in Costa Rica, 2014**
https://documentos.mideplan.go.cr/alfresco/d/d/workspace/SpacesStore/374e64cb-83b9-4cad-b2db-1a2e696d1c83/Boletin_evolucion_inversion_extranjera_directa_2014.pdf?quest=true

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