

Striving for Developed Status: Costa Rica and the United States' 21st Century Engagement

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Fifty years ago, Costa Rica, like most of its Latin neighbors, was a developing country struggling for political stability and economic development. Today, we find Latin America as a whole, more stable, prosperous and democratic, with Costa Rica recognized as one of the most stable democracies in the Americas.

Evaluated country by country, however, Costa Rica and the rest of Central America, and its Southern neighbors are less homogenous today, both economically and politically. Indeed, *The Economist* recently reported that Latin America's diversity today defies generalizations: from Brazil, with one of the largest economies in the world and a global political player with membership in the G-20 among other organizations; to Nicaragua, the second poorest economy in the hemisphere, after Haiti.

In calibrating US foreign policy engagement and investment, though, generalizations or categories can provide a helpful focus. Costa Rica is typically categorized geographically with its Central American neighbors, with US foreign policy engagement focused on combating illicit drug and other contraband trafficking in Central America under the Central American Regional Security Initiative (CARSI) and on advancing a robust regional Central American trading zone under the US Central America-Dominican Republic Free Trade Agreement (CAFTA-DR).

This article considers another category for focusing and framing US foreign policy engagement with Costa Rica. Costa Rica, along with a group of other Latin American countries such as Uruguay, Chile, and Panama, comprise a category of Latin American countries that are beyond the basics of a developing country, but are not yet—or just recently—graduated into the ranks of developed countries.

These countries, like Costa Rica, have certain assets that have fostered their success, including: an emphasis on investing in education and producing higher levels of literacy; a well-educated and more globally connected leadership in government and civil society; a more stable, democratic political system; or a more diversified economy with structural support for entrepreneurialism.

Such “developing-but-not-yet-developed” countries, however, lag in key resources necessary to achieve their goals of becoming developed countries. For example, there may be insufficient governmental expertise in specialized, sophisticated governmental functions; e.g., having expertise with complex transactions—like concessions—or with complex legal procedures such as money laundering cases. Other challenges typically include: a low tax burden and inadequate political will or capacity to implement necessary

and effective fiscal reform; and limited access for public and private organizations to resource networks readily available in developed countries.

From the US foreign policy perspective, there is another similarity among most of the countries in this category, and that is the trajectory of US assistance programs in these countries. Nearly 50 years ago, President Kennedy unveiled the Alliance for Progress, a program to intensify the development of democracy and free markets in Latin America where, at that time, democratically-elected governments were struggling and at least 40 percent of all households in the region lived below the poverty line. Programmatically, this included the creation of the US Agency for International Development (USAID). At that time, the Alliance for Progress and USAID were proactive economic and political responses designed to demonstrate that open economies and pluralistic political systems reduce poverty and empower marginalized populations better than Soviet models of centrally planned one-party states.

To appreciate the impact of such US engagement under these programs, Costa Rica can be a case study. From the 1960s to 1996, the US government, through USAID, invested over \$1.7 billion in economic development assistance in Costa Rica, with an embassy staff in San Jose (including USAID staff) at least twice as large as the current Mission. USAID and its partners allocated the largest portion of their assistance to promoting economic development, helping Costa Rica—at various stages—make the costly adjustments necessary for growth in its financial and institutional trade policies. USAID also focused on investing in education for spreading the benefits of future economic growth.

In 1996, however, Costa Rica graduated from USAID assistance—which for Costa Rica was both good and bad news. The bad news was the \$1.7 billion funding stream in economic development assistance programs—the very programs that drove our engagement in Costa Rica and leveraged US influence in supporting Costa Rica’s drive to developed country status—would now be turned off.

The good news was that Costa Rica was now a more stable and prosperous country. Costa Rica’s transformation from an economy based largely on traditional agriculture to today’s more diversified market economy—where technology tops the list of exports—is a proven success. Today, Costa Rica enjoys the region’s highest standard of living with a per capita income of about US \$10,500, and an unemployment rate of about 7.3 percent.

How does Costa Rica’s graduation from USAID assistance and the advancement of Costa Rica on the “Developing/Developed Country Spectrum”—as well as that of similarly situated countries—affect the focus of our foreign policy engagement?

One of the most obvious and dramatic changes impacting our engagement is US resources available to advance our interests in countries like Costa Rica. With the withdrawal of USAID operations, our embassy does not have substantial development funds to invest, and the staff has been commensurately downsized. Now, we have to be

lean and leveraged to advance US interests—and recognize that our staff time is our most important asset for investment.

As the United States' programmatic engagement evolves with Costa Rica's development status, there are also certain factors at play ("21st Century Factors") that have to be taken into account as the United States focuses our engagement. A flatter world, politically, is certainly one challenge. President Obama is still the most popular political figure in Latin America, but there is no question that the United States no longer has center stage. Even in Costa Rica, there is significant investment and a growing influence from the European Union, China, South Korea and even Brazil.

A flatter world in trade is another challenge. For example, for Costa Rica to adopt the US-Central American Free Trade Agreement, it took several years and a very contentious referendum to pass by 50.2 percent of the vote. However, Costa Rica has spent less than one year negotiating and adopting a free trade agreement with China, passed by a vote in the legislature of 42 to 11, and a free trade agreement with Korea and a similar agreement with the European Union are expected to follow soon.

Another 21st Century Factor is the rapid pace of technological advances. From iPads and smart phones to smart grids and even IBM's Watson computer that recently won "Jeopardy!" against human opponents, an ever-changing world of technology is a particular challenge to a country like Costa Rica that has advanced historically towards developed country status with time-consuming, incremental change. Costa Rica's opportunity to compete and advance now comes if it can leap frog to tomorrow's advanced technology.

Thus, the challenge for US foreign policy in a more advanced developing country, such as Costa Rica, is how to focus our programmatic engagement when we have a much leaner operation that is working with the host country to advance more complex outcomes and where we must accomplish our goals in a context of greater competition, both politically and economically, while taking account of the 21st Century Factors.

At Embassy San Jose, one approach we are taking to this challenge is to focus the resources we have to invest (both money and staff time) on programs, initiatives, or agencies where the host government is invested. If the host government has committed its own resources, there is greater buy-in and self-interest from the host government to move the program/initiative forward and a greater likelihood of sustainable success. One example where we are making this type of investment at Embassy San Jose is in working with Costa Rica to build its capacity to address money laundering. The Costa Rican legislature passed new money laundering legislation in 2009. As financial legislators are working to implement the law, the US government has provided a US Treasury expert to assist with customized training programs.

Another opportunity emerging from these challenges is leveraging public-private partnerships with Costa Rica. The obvious benefit of this approach is to leverage the limited funds and time available to advance sophisticated and complex programs and outcomes. A more important rationale is that, as science, technology, and communications

advance at a pace never before experienced, governments are not designed to be the forward actors on this stage. Yet governments must design and advance regulatory frameworks and economic incentives to ensure these opportunities benefit all economic groups. The Pathways to Prosperity program and its regionally-focused initiatives are calibrated to be effective in advancing these opportunities. And public and private partnerships can be a key component to such initiatives. At Embassy San Jose we are spotlighting the development of a plasma rocket by a former NASA astronaut and Costa Rican-US dual national Franklin Chang-Diaz, and supporting efforts to attract more clean technology businesses to the Guanacaste area of Costa Rica.

Another way that we are moving forward in Costa Rica is to focus our foreign policy engagement on innovation, by investing in clean energy, science and technology. In supporting Costa Rica's interest in new solutions for clean energy and energy efficiency, the US government recently awarded two grants under the Energy and Climate Partnership of the Americas to the National Biodiversity Institute of Costa Rica (INBio) and to EARTH University to develop functioning smart grid models that will further the innovation for secure and reliable renewable energy. The United States also continues our long-term involvement in science and technology education exchanges, including the US Fulbright Program. And, the United States is also fostering innovation in governance. An outstanding example is the US government's recent award of over \$400,000 to the Government of Costa Rica for a national e-government system. This will allow Costa Rican government entities to share resources online, promote e-commerce, and improve citizen access to information. Moreover, it is our hope that this program can drive opportunity for further innovation in the way Costa Rica does business.

Looking to the future, Embassy San Jose has initiated discussions with the Government of Costa Rica and the Organization for Economic Cooperation and Development (OECD) to consider programmatic opportunities where the embassy can support the interest and efforts of the Government of Costa Rica to benchmark specific economic programs with a multilateral organization like the OECD. Investing in this approach allows the embassy to advance programs promoted by the host government and backed by the cutting-edge research of an organization like OECD.

In conclusion, during his State of the Union address, President Obama said, "...the world has changed. But this shouldn't discourage us. It should challenge us." At US Embassy San Jose, we accept that challenge. We look to history for context and understanding of what has been successful program investments in Costa Rica. We look forward to our continued partnership with Costa Rica to leverage the opportunities that new ideas, technologies, and initiatives present as Costa Rica reaches for developed country status.