



Costa Rica: Management Challenges for the Rain-Forested Central American Country

Jay Nathan

nathanj@stjohns.edu

Tobin College of Business

St. John's University, Queens, New York

Abstract

Costa Rica is a Central American country, which has coastlines on the Caribbean and Pacific—and for about 300 years, it was a colony of Spain, and today's culture has Spanish influence. Costa Rica, among the Latin American countries, has embraced democracy since independence in 1821. The country is exporting coffee and has recently promoting cruise tourism. This research looks at the possibilities for international business, by addressing the management challenges that exists in present-day Costa Rica.



History, Demographics, and Geography

Costa Rica was first founded on September 18, 1502 by Spanish explorer Christopher Columbus. Costa Rica's name came arose from the Carib Indians that had inhabited the island prior to Columbus' arrival. "The gold bands that the region's inhabitants wore in their noses and ears would inspire the Spaniard Gil Gonzalez Davila to name the country *Costa Rica*, or Rich Coast."¹ After his forces overcame the indigenous people on the island, Columbus claimed the territory as a province of New Spain in 1524. For the next 300 years, Costa Rica was a colony of Spain and, as a result of this, Costa Rica's culture was heavily influenced by the culture of Spain.

Pre-Columbian Era (1200 BC – 1501 A.D.)

Prior to Columbus' arrival, there are historical beliefs about the inhabitants that lived there. "The American Continent was settled by migrating people coming from the Bering Straits about 15-

¹ <http://www.geographia.com/costa-rica/history.htm>



35'000 years ago. Some of these hunting and gathering nomadic tribes settled in Costa Rica between 1200-8000 BC.”²

Around 1000 BC, the inhabitants started cultivating the lands to grow beans, corn and tomatoes – as in most of Central America. They also began fashioning items such as necklaces, ceramics, ocarinas and the famous mutates (sculpted stones for grinding crops).

Small hierarchies began to develop during the first centuries after Christ. Villages were united under a cacicazgo (chieftainship), with the cacique (chief) on top of the hierarchy. However, due to their increasing developments, there were often wars between small tribes with slaves often being obtained (prisoners of war).

1502 – 1600: Discovery by the Spaniards

At the time that Columbus arrived at Costa Rica, “there were four major indigenous tribes living in Costa Rica. The east coast was the realm of the Caribs, while the Borucas, Chibchas, and Diquis resided in the southwest. Only a few hundred thousand strong to begin with, none of these peoples lasted long after the dawn of Spanish colonialism. Some fled, while many others perished from the deadly smallpox brought by the Spaniards. Having decimated the indigenous labor force, the Spanish followed a common policy and brought in African slaves to work the land.”³ By the sixteenth century, around 400,000 indigenous people inhabited Costa Rica, with the numbers dwindling severely over the years. By 1569, the Spaniards has established themselves in the country with 120,000 indigenous still remaining on the island. By 1611, there were only around 10,000 left mostly due to epidemics such as smallpox, measles, influenza and typhus.

Although slavery was common at the time, the Spanish crown considered the American natives as subjects, enforcing that they were not to be enslaved (although this did not exclude forced labor). However, “a method of “hidden slavery” was established with the encomienda system: the regional conquistadores were assigned between 30-40 natives for compulsory labor. But because the indigenous “slaves” were not paid for, they were treated badly and many of them died.”⁴

Independence

Central America attained its independence from Spain on September 15th, 1821. Although this was a major change, it had little immediate effect, due to the fact that “Costa Rica had required only minimal government during the colonial era and had long gone its own way. In fact, the country was so out of touch that the news that independence had been granted reached Costa Rica a full month after the event.”⁵

Timeline of Historical Events

² <http://www.travelcostarica.nu/history>

³ <http://www.geographia.com/costa-rica/history.htm>

⁴ <http://www.travelcostarica.nu/history>

⁵ <http://www.centralamerica.com/cr/moon/mohistory.htm>



“Except for the military dictatorship of Tomás Guardia from 1870 to 1882, Costa Rica has enjoyed one of the most democratic governments in Latin America.

In the 1970s, rising oil prices, falling international commodity prices, and inflation hurt the economy. Efforts have since been made to reduce reliance on coffee, banana, and beef exports, with tourism now a major business. Óscar Arias Sánchez worked to simultaneously heal his country's economic woes and foster peace in Central America.”⁶

In 1994, José María Figueres Olsen of the National Liberation Party became president. He opposed economic suggestions made by the International Monetary Fund, instead favoring greater government intervention in the economy, which led to the World Bank subsequently withholding \$100 million of financing.

In 1998, Miguel Ángel Rodríguez of the Social Christian Unity Party became president, pledging economic reforms, such as privatization.

In 2000, Costa Rica and Nicaragua resolved a long-standing dispute over navigation of the San Juan River, which forms their shared border.

A psychiatrist, Abel Pacheco, also of the Social Christian Unity Party, won the presidency in elections held in April 2002.

In May 2003, several national strikes took place, by energy and telecommunications workers over privatization and by teachers over their salaries.

Weather and Climate

“In Mexico, and Central America in general, the temperature of the air and the amount of rain vary enormously from place to place. In short distances one can travel from hot, humid lowlands to cool, dry highlands. The windward side (*barlovento*) of a mountain may be drenched with rain; the leeward side (*sotavento*), possibly only 30 km. distant, may be semiarid. Dry northwestern Mexico, parts of which receive less than 100 mm. of rain yearly, contrasts with the Caribbean coast of Central America, where in places of over 6000 mm. of rain annually.”⁷ The diversity of temperature and precipitation tend to reflect in the country's culture, agriculture, shelter, and even in religion.

Coffee

Coffee is one of the major agricultural aspects of Northern Latin America. Although it is not realized by most, coffee has more than one use. According to Perfecto's article, “shaded coffee as a reservoir of biodiversity and as a high quality matrix can provide ecological and socioeconomic stability to rainforest areas.” This is said due to the fact that shaded coffee plantations in these regions tend to have a high diversity of vertebrates, invertebrates and plants.

⁶ <http://www.infoplease.com/country/costa-rica.html>

⁷ Escoto, V., & Antonio, J. (2014). Weather and climate of Mexico and Central America. *Handbook of Middle American Indians, 1*.



Another touched-upon topic mentioned in the article was about the welfare and effects that have attributed from the ever-growing agricultural system. “Functions and services such as pest control, pollination, enhanced soil fertility and carbon sequestration have been shown to be diminished with the intensification of the agroecosystem. Small farmers in Latin America rely on these ecosystem services provided by biodiversity more than large resource-rich farmers who may substitute some biological functions with agrochemicals. Therefore, the maintenance of biodiversity and its associated functions is important for the ecological stability of the coffee growing regions of Latin America where most of the farmers own/manage less than 5 hectares. Likewise, coffee certification programs that encourage environmental protection and biodiversity conservation and provide a premium price can improve farmer’s livelihoods increasing socioeconomic stability within the coffee growing regions of Latin America.”⁸

“Farmers choose the mix of species they want to associate with cocoa trees according to their strategies and their choice does not affect the overall productivity of the system.”⁹

Rapid Diversification of Rainforest Trees from Central into South America

According to the Erkens, “Guatteria (Annonaceae) is, with 265 species, the third largest genus of Neotropical trees after Inga (Fabaceae) and Ocotea (Lauraceae), and its widespread distribution and frequent occurrence makes the genus an excellent model taxon to study diversification patterns.”

“It seems that the evolutionary history of Guatteria can be regarded as a three step process: (1) a trans-oceanic Miocene migration from Central into South America before the closing of the Isthmus of Panama, unhampered by the low altitude of the Andes; (2) a subsequent major diversification of tree species in South America; and (3) several small remigrations of South American lineages into Central America across the Andes and over the closed Panamanian land bridge.” It was concluded that “Guatteria is not an Amazonian centred-genus *sensu* Gentry but a recent major diversification after dispersal into South America.”¹⁰

Cruise Tourism

Cruise tourism is of small, but increasing, importance in Costa Rica.

“Cruise tourism is now the fastest growing part of the tourism sector (Klein, 2002; TIES, 2004). Cruise ships carried 500,000 passengers in 1970, some 8.5 million (6 million Americans) in 1997 (*The Economist*, 1998), and about 9.8 million passengers in 2003 (BREA, 2004). In North America, the number of people taking cruises doubled between 1990 and 2000, and Americans

⁸ Perfecto, I., Armbrecht, I., Philpott, S. M., Soto-Pinto, L., & Dietsch, T. V. (2007). Shaded coffee and the stability of rainforest margins in northern Latin America. In *Stability of Tropical Rainforest Margins* (pp. 225-261). Springer Berlin Heidelberg.

⁹ Deheuvels, O., Avelino, J., Somarriba, E., & Malezieux, E. (2012). Vegetation structure and productivity in cocoa-based agroforestry systems in Talamanca, Costa Rica. *Agriculture, Ecosystems & Environment*, 149, 181-188.

¹⁰ Erkens, R. H., Chatrou, L. W., Maas, J. W., van der Niet, T., & Savolainen, V. (2007). A rapid diversification of rainforest trees (Guatteria; Annonaceae) following dispersal from Central into South America. *Molecular phylogenetics and evolution*, 44(1), 399-411.



constitute some 72% of the global cruise market, although in recent years cruising is becoming more popular with Europeans (Kester, 2002).¹¹ The cruise industry is heavily concentrated in the Caribbean, Alaska and the Mexican Riviera with the majority of cruise revenue occurring in the winter months (October-March).

In Costa Rica, tourism, particularly ecological and cultural tourism, is strongly encouraged. Drawn by Costa Rica's natural beauty, an annual income of more than \$1 billion is attained from more than one million visitors annually. Although the vast majority of visitors enter via airline flights, many tourists also enter via cruise lines. With this in mind, although there are many factors that affect cruise lines and whether it can become prevalent or not, cruise tourism is still a vast opportunity for Costa Rica to generate income and increase its economic standpoint.

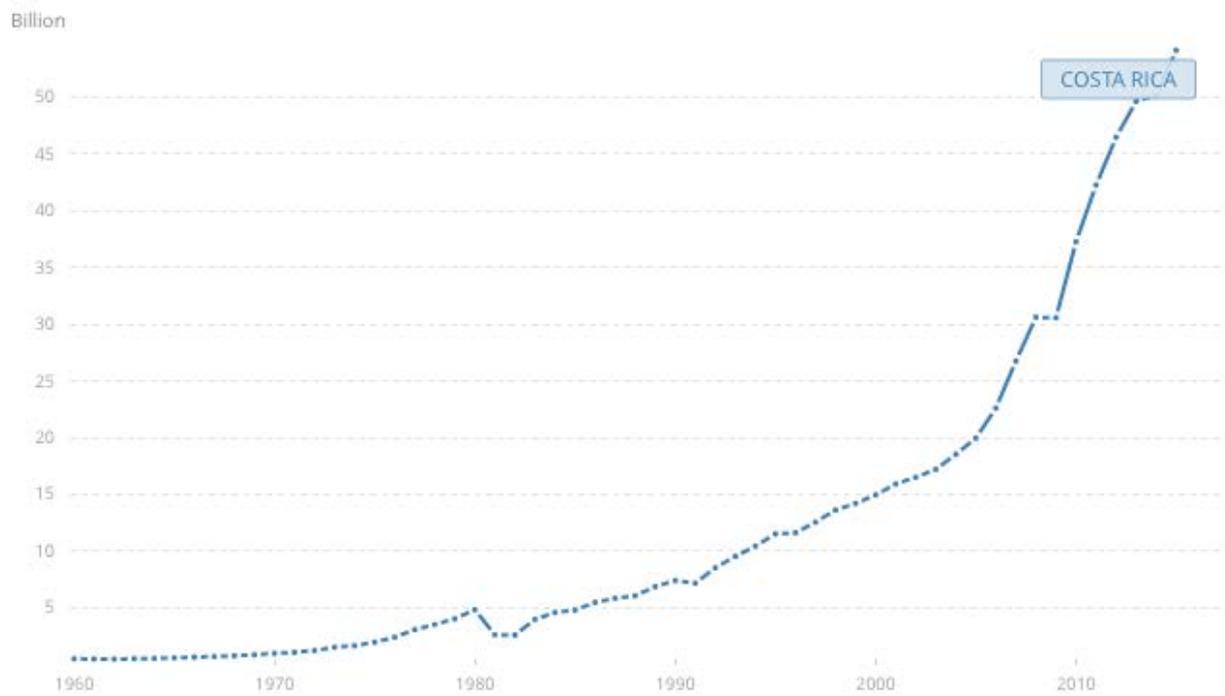
Costa Rica's Economy, an Overview

The population is about 4.8 million people. The Gross Domestic Product (GDP) is about \$74.9 billion, with an average growth of 3.7%--and the per capita income is around \$15,482. Unemployment rate is about 8.6%, with a low inflation rate of 0.8%. The country has a Foreign Direct Investment inflow of about \$2.8 billion.

¹¹ Seidl, A., Guiliano, F., & Pratt, L. (2007). Cruising for colones: cruise tourism economics in Costa Rica. *Tourism Economics*, 13(1), 67-85.



GDP breakdown



Taken from

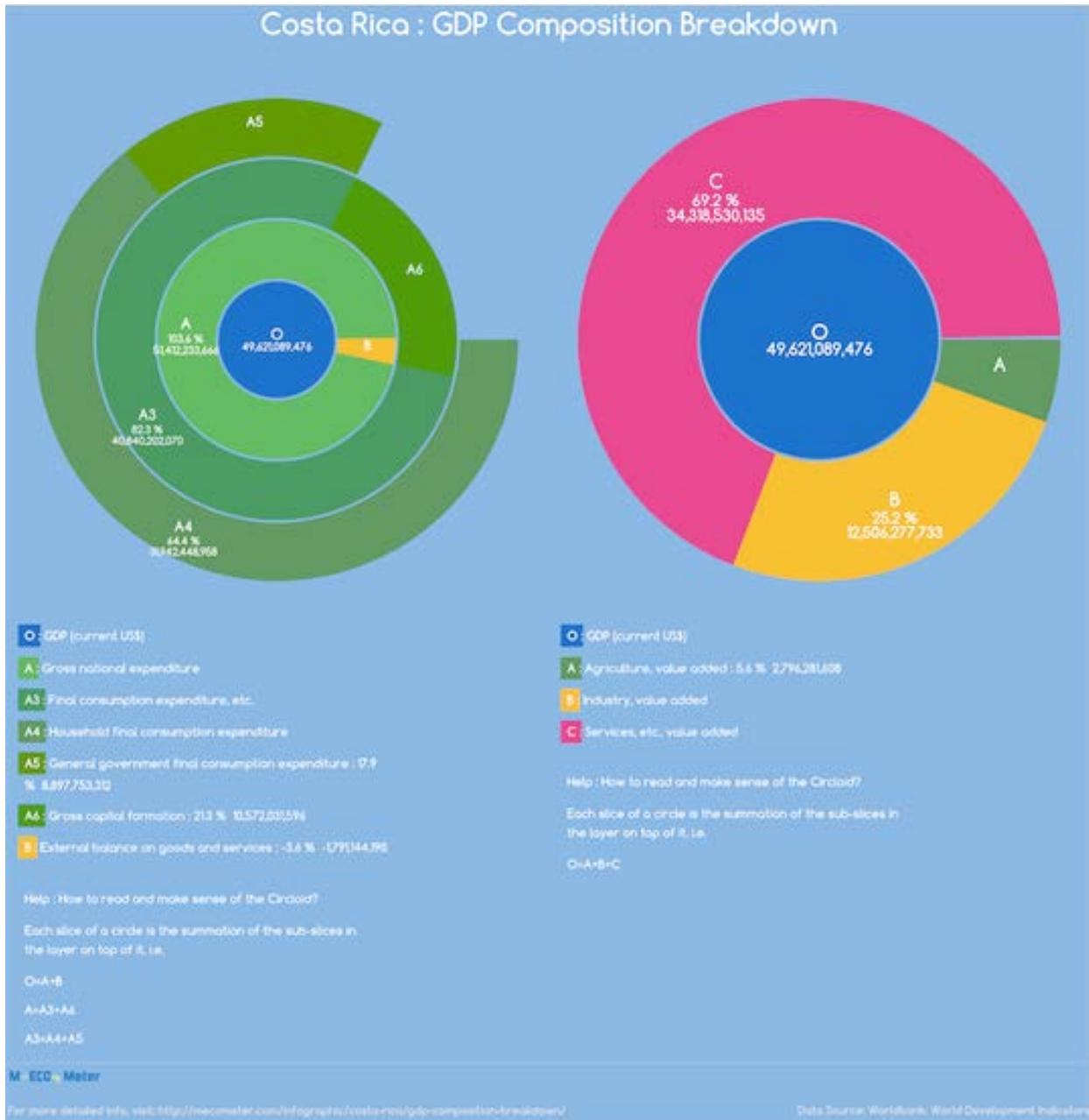
<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2015&locations=CR&start=1960&view=chart>

Based on the above chart, it can be seen that Costa Rica's GDP has been on a steady increase since 1960 to as late as 2015 (which is the last figure shown on the diagram). In 1960, Costa Rica's GDP stood at 507 million approximately, and as of 2015, has substantially increased to over 54 billion US\$.



Taken from <http://www.tradingeconomics.com/costa-rica/gdp>

The Gross Domestic Product (GDP) in Costa Rica was worth 54.14 billion US dollars in 2015. The GDP value of Costa Rica represents 0.09 percent of the world economy. GDP in Costa Rica averaged 12.06 USD Billion from 1960 until 2015, reaching an all time high of 54.14 USD Billion in 2015 and a record low of 0.48 USD Billion in 1962.



Taken from <http://mecometer.com/image/infographic/costa-rica/gdp-composition-breakdown.png>



The following tables show an analysis of the chart above:

Indicator Name	Value
GDP (current US\$)	45,127,292,711
Gross national expenditure (current US\$)	47,296,811,341
Final consumption expenditure, etc. (current US\$)	37,884,566,210
Household final consumption expenditure (current US\$)	34,374,587,017
General government final consumption expenditure (current US\$)	3,580,991,276
Gross capital formation (current US\$)	9,412,245,131
External balance on goods and services (current US\$)	-2,169,518,630

Indicator Name	Value
GDP (current US\$)	45,127,292,711
Agriculture, value added (% of GDP)	6.34
Industry, value added (% of GDP)	26.0
Services, etc., value added (% of GDP)	67.7

Summary

Costa Rica, compared to other Latin American countries, has enjoyed relative peace and democracy. It has rich bio-diversity, coffee is a major agricultural export, and recently cruise tourism is gaining traction. There are manufacturing industries, including the American Intel company's factories that contribute to about 5% of GDP. However, the country is slowly embracing privatization with emphasis on international business.



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