

CRS Report for Congress

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Latin America and the Caribbean: Issues for the 109th Congress

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Latin America and the Caribbean: Issues for the 109th Congress

Summary

The Latin America and Caribbean region has made enormous strides over the past two decades in terms of political and economic development. While the region overall experienced an economic setback in 2002-2003, by the end of 2004, it had rebounded with an estimated growth rate of 5.5% for the year, surpassing even the most optimistic predictions. Nevertheless, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

Legislative and oversight attention to Latin America and the Caribbean in the 109th Congress will likely focus on continued counter-narcotics efforts; potential consideration of several free trade agreements; threats to democracy; efforts to foster political change in Cuba; and cooperation on border security, migration and anti-terrorism measures.

Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The 109th Congress will likely review ACI progress in response to an anticipated Administration request to continue such assistance after FY2005.

In the trade arena, Congress could potentially consider legislation to implement the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) completed in 2004, as well as two additional free trade agreements currently being negotiated with Panama and with Colombia, Ecuador, and Peru. Congressional consideration of the DR-CAFTA could prove controversial because of opposition from labor advocates and some industry groups.

With regard to democracy, Congress will likely focus on continued support to Haiti, which is suffering continued political instability despite the presence of a United Nations peacekeeping force. Venezuela — a major supplier of oil to the United States — will also remain a congressional concern because of fears among some observers that President Hugo Chavez will use his political power to push toward authoritarian rule. With regard to U.S. policy toward communist Cuba, Congress will likely continue to debate economic sanctions, especially restrictions on travel.

Congress will likely maintain an active interest in neighboring Mexico, focusing especially on border security and migration issues.

This report, which will be updated periodically, provides an overview of issues in U.S. relations with Latin America and the Caribbean, focusing especially on the role of Congress and congressional concerns. For further information, see the CRS products listed after each topic.

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Conditions in the Region

The Latin America and Caribbean region has made enormous strides over the past two decades in political development, with all countries but Cuba having regular free and fair elections for head of state. Despite this democratic progress, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

While the region overall experienced a gross domestic product (GDP) decline of 0.6% in 2002 and only a modest growth rate of 1.5% in 2003, by the end of 2004, the region had rebounded with an estimated growth rate of 5.5% for the year, surpassing even the most optimistic predictions. Every country in the region, with the exception of Haiti, experienced positive economic growth, and even per capita income for the region as a whole increased by an estimated 4% for the year.¹ Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004.

In South America, the Andean region still faces considerable challenges. Colombia continues to be threatened by drug trafficking organizations and by two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, have been responsible for thousands of deaths each year. Bolivia, Ecuador, and Peru have all faced varying levels of political instability in the past two years. Venezuela under President Hugo Chávez has been plagued by several years of political polarization, although Chávez's rule was strengthened after he survived a recall referendum in August 2004. While Argentina has emerged from its 2001-2002 economic and political crisis, the government of President Néstor Kirchner faces the challenge of negotiating a debt restructuring accord for over \$100 billion in defaulted bond debt.

In Central America, countries such as El Salvador, Honduras, and Nicaragua emerged from the turbulent 1980s and 1990s with democratic institutions more firmly entrenched, yet violent crime is a major problem in all countries. Honduras and Nicaragua are among the poorest countries in the hemisphere. While Guatemala has made significant progress in improving the government's human rights policy, significant problems remain. Former Guatemalan dictator Rios Montt (1982-1983) is being investigated for his role in the killing of thousands in a counter-insurgency

¹ U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Preliminary Overview of the Economies of Latin America and the Caribbean," December 15, 2004.

campaign against leftist guerrillas during his rule. Anti-corruption efforts have gained momentum in the region as several Central American governments — Costa Rica, Guatemala, Nicaragua, and Panama — have taken action to either prosecute or investigate former leaders on corruption charges.

In the Caribbean, Haiti — the hemisphere's poorest nation — continues to be plagued by violence and political instability. In the aftermath of President Aristide's departure in February 2004, Haiti's interim government is being supported by a U.N. Stabilization Mission attempting to ensure a secure and stable environment and to restore the rule of law. The goal of new elections in 2005 could prove illusive amid continued violence. Cuba remains a hardline communist state under Fidel Castro with a human rights situation that has deteriorated significantly since 2003. Several Caribbean nations were hard hit by several devastating storms in 2004, including Haiti, Grenada, Jamaica, and the Bahamas. The AIDS epidemic in the Caribbean, where infection rates are among the highest outside of sub-Saharan Africa, has also been a major challenge for the region.

U.S. Policy Overview

Legislative and oversight attention to Latin America and the Caribbean in the 109th Congress will likely focus on continued counter-narcotics efforts, especially in the Andean region; trade issues, including potential consideration of several free trade agreements (FTAs); threats to democracy in such nations as Haiti and Venezuela; efforts to foster political change in Cuba; and cooperation on border security, migration and anti-terrorism measures.

Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The ACI has also provided interdiction and development support to six of Colombia's neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. The 109th Congress will likely review ACI progress in response to an anticipated Administration request to continue such assistance after FY2005. Human rights and the environmental consequences of aerial fumigation will likely continue to be the issues of contention during congressional debate.

In the trade arena, Congress could potentially consider legislation to implement the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) completed in 2004 as well as two additional free trade agreements currently being negotiated with Panama and with Colombia, Ecuador, and Peru. The Bush Administration views such trade agreements as a way for the region to help create jobs, attract foreign investment, and advance good governance. Congressional consideration of the DR-CAFTA could prove controversial because of opposition from labor advocates and some industry groups. Congress will also likely monitor negotiations for the region-wide Free Trade Area of the Americas (FTAA).

With regard to democracy, Congress will focus on continued support to Haiti, which is suffering continued political instability despite the presence of a United Nations peacekeeping force. Venezuela — a major supplier of oil to the United States — will also remain a congressional concern because of the belief among some

observers that President Hugo Chavez will use his political power to push toward authoritarian rule. With regard to U.S. policy toward communist Cuba, Congress will likely continue to debate whether loosening or tightening the U.S. embargo will encourage political change.

Congress will likely maintain an active interest in neighboring Mexico, focusing especially on border security and migration issues. The issues for attention include proposals on identity documents and border fencing carried over from the intelligence reform passed last year, President Bush's January 2004 immigration reform and expected congressional proposals, and the social security totalization agreement with Mexico that would eliminate dual social security taxation and fill gaps in benefit protection for affected employees who work in both countries.

Congressional consideration of the annual foreign operations appropriations legislation that funds foreign aid is an important way for Congress to influence U.S. policy toward the region. U.S. foreign aid is largely administered by the U.S. Agency for International Development (USAID). The agency supports such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counter-narcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. Overall U.S. foreign aid to the Latin America region amounted to \$862 million in FY2001, \$1.5 billion in FY2002, \$1.7 billion in FY2003; about \$1.6 billion in FY2004; and a similar amount requested for FY2005. In the aftermath of several devastating storms in 2004, the United States provided disaster and reconstruction assistance to several Caribbean nations. The Millennium Challenge Account (MCA), could also significantly increase U.S. aid to three Latin American nations — Bolivia, Honduras, and Nicaragua.

CRS Products:

CRS Report RL32160, *Caribbean Region: Issues in U.S. Relations*, by Mark P. Sullivan.

CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections*, by Mark P. Sullivan.

CRS Report RS21700, *Special Summit of the Americas — Monterrey, Mexico, January 2004: Background and Objectives*, by Clare Ribando.

CRS Report RL32427, *Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative*, by Larry Nowels.

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean*, coordinated by Connie Veillette.

Regional Issues

U.S. Foreign Assistance

The United States maintains a variety of foreign assistance programs in Latin America and the Caribbean, including security assistance, counternarcotics, economic development, and trade capacity building programs. Aid to the region increased during the 1960s with the Alliance for Progress and during the 1980s with aid to Central America. Since 2000, aid levels have again increased, especially in the Andean region as the focus has shifted from Cold War issues to counternarcotics and security assistance. Current aid levels to Latin America and the Caribbean comprise 11.4% of the worldwide aid budget, representing an increase over levels ten years ago of 8.2%. Current aid levels to the region could increase further as the Millennium Challenge Account is implemented.

The annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for, and sets conditions on foreign assistance programs. On November 18, 2004, Congress approved the conference report to the FY2005 omnibus appropriations measure, which included funding for foreign operations (Division D of P.L. 108-447). For FY2004, U.S. assistance to Latin America and the Caribbean amounted to an estimated \$1.58 billion, the largest portion of which, \$978 million, was allocated to the Andean region. Mexico and Central America received \$289 million, while the Caribbean received \$154 million. Brazil and the Southern Cone of South America received an estimated \$59 million. The United States also maintains programs of a regional nature that totaled an estimated \$98 million in FY2004. For FY2005, the Administration, requested about \$1.6 billion for the region.

Aid programs are designed to achieve a variety of goals, from poverty reduction to economic growth. Child Survival and Health (CSH) funds focus on combating infectious diseases and promoting child and maternal health. Development Assistance (DA) funds improvements in key areas — such as trade, agriculture, education, the environment, and democracy — in order to foster sustainable economic growth. Economic Support Funds (ESF) assist countries of strategic importance to the United States, and fund programs relating to justice sector reforms, local governance, anti-corruption, and respect for human rights. P.L. 480 food assistance is provided to countries facing emergency situations, such as natural disasters. Counternarcotics programs seek to assist countries to reduce drug production, to interdict trafficking, and to promote alternative crop development. Foreign Military Financing (FMF) provides grants to nations for the purchase of U.S. defense equipment, services and training.

The Millennium Challenge Account (MCA) is a new initiative that provides sizable aid grants to a few low-income nations that have been determined, through a competitive process, to have the strongest policy reform records and where new investments are most likely to achieve their intended development results. In Latin America, Bolivia, Honduras, and Nicaragua were deemed eligible to participate; other Latin American or Caribbean nations could be eligible to receive assistance in future years. U.S. support to counter the HIV/AIDS epidemic in the region is

provided through programs administered by several U.S. agencies, although the U.S. Agency for International Development (USAID) is the lead agency in the international fight against AIDS. The United States also provides contributions to multilateral efforts, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

CRS Products:

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean*, coordinated by Connie Veillette.

Colombia and the Andean Counterdrug Initiative

The Andean Counterdrug Initiative (ACI) is the primary U.S. program that supports Plan Colombia, a six-year plan developed by the Colombian government in 1999 to combat drug trafficking and related guerrilla activity. Because Plan Colombia was developed as a six year plan, the 109th Congress will most likely review its progress in response to an anticipated Administration request to continue U.S. assistance after FY2005. Such consideration could provoke a broader debate on the effectiveness of U.S. counternarcotics policy in the region. U.S. support for Plan Colombia began in 2000, when Congress passed legislation providing \$1.3 billion in interdiction and development assistance (P.L. 106-246) for Colombia and six regional neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. Funding for ACI from FY2000 through FY2005 totals approximately \$4.2 billion.

Colombia produces 80% of the world's supply of cocaine and increasing amounts of high quality heroin. Illegally armed groups of both the left and right are believed to participate in the drug trade. In addition to the basic debate over what role the United States should play in Colombia's struggle against drug trafficking and illegally armed groups, Congress has repeatedly expressed concern with a number of related issues. These include continuing allegations of human rights abuses; the expansion of U.S. assistance for counterterrorism and infrastructure protection; the health and environmental consequences of aerial fumigation of drug crops; the progress of alternative development to replace drug crops; the level of risk to U.S. personnel in Colombia, including the continued captivity of three American hostages by the Revolutionary Armed Forces of Colombia (FARC); and the current demobilization talks between the Colombian government and paramilitaries.

The 108th Congress considered assistance for Plan Colombia during the annual appropriations process, providing \$731 million for the region in the FY2005 Consolidated Appropriations Act (P.L. 108-447). The FY2005 Ronald W. Reagan National Defense Authorization Act (P.L. 108-375) raised the cap on military personnel allowed to be deployed in Colombia in support of Plan Colombia from 400 to 800 for military personnel, and from 400 to 600 for civilian contractors. Since FY2002, the Congress has authorized support for a unified campaign against narcotics trafficking and activities of organizations designated as terrorist organizations by the Department of State.

According to U.S. and Colombian officials, coca cultivation dropped 15% in Colombia during 2002 and 21% in 2003. This marked the first reduction in acreage devoted to coca cultivation in Colombia. Poppy cultivation was reduced by 24% in 2002 and 10% in 2003. It is believed that the Plan Colombia goal of spraying 50% of the country's coca crop by the end of 2005 may have been accomplished two years ahead of schedule. It should be noted that spraying does not prevent, although it may discourage, the replanting of illicit crops. However, according to the Administration, during 2002 and 2003, coca cultivation picked up in Bolivia, reversing a declining trend there. Peru's coca cultivation in 2003 decreased by 15%.

Critics of U.S. policy contend that winning the war against drugs is a losing proposition as long as demand continues. They argue that despite the successes in eradicating illicit crops, the amount of drugs entering the United States has not declined, and prices have remained stable. Critics contend that U.S. policy should focus on the "demand side" in the United States. The Bush Administration has, however, recast the debate, arguing that the United States faces not only a threat from drug trafficking, but also from the increasing instability brought on by insurgent guerrilla organizations that are fueled by the drug trade. Supporters of U.S. policy argue that assistance to Colombia is necessary to help a democratic government besieged by drug-supported leftist and rightist armed groups. Assistance to Colombia's neighbors, according to supporters, is merited because of an increasing threat from the spillover of violence and drug production from Colombia.

While some critics agree with this assessment, they argue that U.S. assistance overemphasizes military and counter-drug assistance and provides inadequate support for protecting human rights and encouraging a peace process in Colombia. In particular, they express concern that current military assistance is strengthening the Colombian military which, they charge, has substantial ties to rightist paramilitary groups who have committed gross violations of human rights. Critics also assert that U.S. assistance is disproportionately targeted to eradication of crops and military training rather than to alternative development projects that could provide alternative livelihoods for growers who voluntarily give up illicit crops.

CRS Products:

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.

CRS Report RL32250, *Colombia: Issues for Congress*, by Connie Veillette.

Free Trade Agreements

The Dominican Republic-Central America-United States FTA. On May 28, 2004, the United States, Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica signed the U.S.-Central America Free Trade Agreement (CAFTA). On August 5, 2004, the Dominican Republic, having completed separate negotiations with the United States, was added to the agreement (the DR-CAFTA) in a subsequent signing by all parties. In the United States, the DR-CAFTA has been controversial,

with concerns over 1) allegations of weak enforcement of labor standards in some countries, and 2) the economic effects on all countries of liberalizing trade of the region's major export sectors: agriculture, textiles, and apparel. The DR-CAFTA ran into problems when the United States Trade Representative (USTR) threatened to exclude the Dominican Republic because of a 25% tax on beverages containing high fructose corn syrup that was passed in the fall of 2004. This tax was repealed in January 2005, but another issue arose with a December 2004 law passed in Guatemala that could be interpreted to be in violation of data protection (on research resulting in product with patent possibilities) commitments in the DR-CAFTA. The USTR may again decline to move forward with the FTA if this law is not repealed or changed, although the Guatemalans note that the DR-CAFTA would supercede this law were it to take affect, so this law is technically not a problem.

U.S.-Panama FTA. On November 16, 2003, President Bush formally notified Congress of his intention to negotiate a bilateral FTA with Panama. Negotiations commenced in April 2004 and may be concluded in early 2005, perhaps at the close of the seventh round taking place during the week of January 10-14. Panama is a services-based economy, which distinguishes it, and the trade negotiations, from those of its Central American neighbors. Agriculture, services, and maritime concerns have been the most challenging issues to negotiate. The United States also seeks to loosen Panamanian rules limiting activities of foreign professionals, and is focused intently on government procurement provisions given Panama's plan to invest some \$8 billion in the Panama Canal expansion project. Unlike the DR-CAFTA, there is little textile and apparel trade and labor issues have not taken on the same importance. Implementing legislation for the proposed U.S.-Panama FTA may be considered in the 109th Congress, and conceivably ahead of the DR-CAFTA, if it is delayed.

U.S.-Andean FTA. On May 18-19, 2004, the United States began free-trade negotiations with Colombia, Peru, and Ecuador. Bolivia has participated as an observer. Six rounds have been held thus far, and at least two more rounds are expected in 2005. In a letter notifying Congress of the intent to begin negotiations, the U.S. Trade Representative said that an FTA would not only reduce barriers to trade between the Andean countries and the United States, but would "...also enhance our efforts to strengthen democracy and support for fundamental values in the region...."²

An FTA could eliminate tariff and nontariff barriers to trade among the countries, but there are some difficult issues in the on-going negotiations. The United States insists that disputes involving U.S. investments in Ecuador and Peru be resolved before reaching an FTA. It also wants the elimination of agricultural trade barriers such as the price band mechanism, which controls the price of imports through fluctuating tariffs. U.S. labor groups are protesting against the worker rights records of Ecuador and Colombia. In general, the Andean countries want a long-term commitment that they will be able to export duty-free to the U.S. market, since their current trade preferences expire in 2006. They are also seeking protections for

² Office of the USTR. USTR Notifies Congress of Intent to Initiate Free Trade Talks with Andean Countries. November 18, 2003. Available at [<http://www.ustr.gov>].

“traditional knowledge” under provisions on intellectual property rights and easier entry into the United States for business people.

Free Trade Area of the Americas. The proposed Free Trade Area of the Americas (FTAA) was originally conceived ten years ago as a regional (presumably WTO-plus) trade agreement that would include 34 nations of the Western Hemisphere. Since then, three drafts of the agreement have been released, but the original January 2005 date for signing it has been postponed. It also appears unlikely that the year-end 2005 deadline for enacting it will be met. At the center of the delay are deep differences between the United States and Brazil, the co-chairs of the Trade Negotiating Committee, which have competing visions over how the FTAA should operate. The result may be a less than fully comprehensive agreement. In the meantime, both countries are courting other Latin American countries to join them in sub-regional trade agreements. Until Brazil and the United States come to some agreement over how to proceed, it appears that the region will continue to follow a path of integration based on bilateral and sub-regional trade arrangements, which most economists argue is far inferior to a region-wide FTA.

CRS Products:

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RS21868, *U.S.-Dominican Republic Free Trade Agreement*, by Lenore Sek.

Terrorism Issues

In the aftermath of the September 2001 terrorist attacks on New York and Washington, D.C., U.S. attention to terrorism in Latin America intensified, with an increase in bilateral and regional cooperation. Latin American nations strongly condemned the attacks, and took action through the Organization of American States to strengthen hemispheric cooperation. In June 2002, OAS members signed an Inter-American Convention Against Terrorism in order to improve regional cooperation, including a commitment by parties to deny safe haven to suspected terrorists. President Bush submitted the convention to the Senate in mid-November 2002 for its advice and consent, and it was referred to the Senate Foreign Relations Committee (Treaty Doc. 107-18). The committee held a hearing on the treaty on June 17, 2004,

but no action was taken by the end of the 108th Congress. In the aftermath of 9/11, the OAS also reinvigorated the Inter-American Committee on Terrorism (CICTE), which cooperated on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence.

In October 2003, the OAS held a Special Conference on Security in Mexico City that focused on identifying new threats, concerns, and challenges facing the hemisphere, and agreed on a cooperative approach toward addressing them. Among the threats identified in the adopted Declaration on Security in the Americas were “terrorism, transnational organized crime, the global drug problem, corruption, asset laundering, illicit trafficking in weapons and the connections among these activities.”³

The State Department, in its annual report on worldwide terrorism (*Patterns of Global Terrorism*, April 2004), highlights terrorist threats in Colombia, Peru, and the tri-border region of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fundraising activities. Cuba also has been listed as a state sponsor of terrorism since 1982. In the aftermath of 9/11, U.S. attention focused on potential links in the region to the Al Qaeda terrorist network, but the *Patterns* report maintained that reports of an Al Qaeda presence in the tri-border region remained “uncorroborated by intelligence and law-enforcement officials.” There were increased concerns in 2004 by some Central American officials about potential Al Qaeda threats in the region, although U.S. officials maintained that there was no evidence supporting such concerns.⁴

Through the State Department, the United States provides Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is generally provided through the annual foreign operations appropriations measure. In FY2002, a total of \$27.5 million was provided for the region, with \$25 million for an anti-kidnapping program in Colombia (appropriated through an FY2002 supplemental appropriations measure, P.L. 107-206) and \$2.5 million for the regular Western Hemisphere program. For FY2003, \$3.6 million in ATA assistance was provided for the region, with \$3.3 million of that for Colombia. For FY2004, an estimated \$2.6 million in ATA assistance was provided for the Western Hemisphere, while the Administration requested \$5.2 million for FY2005, including \$1 million for the tri-border region of Argentina, Brazil, and Paraguay, and \$3.9 million for Colombia.

The 108th Congress called for two reports from the Administration regarding terrorist activities in Latin America. The FY2005 Ronald W. Reagan National Defense Authorization Act (P.L. 108-375), enacted into law October 28, 2004, required: a report within 180 days from the Secretary of Defense on the activities of

³ Organization of American States. Declaration on Security in the Americas. Oct. 28, 2003.

⁴ “U.S. Officials Dispute Al Qaeda Role in Hemisphere,” *Homeland Security Monitor* (Intellibridge), September 30, 2004; Jerry Seper, “Al Qaeda Seeks Tie to Local Gangs.” *Washington Times*, September 28, 2004.

Al Qaeda and associated groups in Latin America and the Caribbean (Section 1047); and a report within 60 days from the Secretary of State regarding any relationships between foreign governments or organizations and terrorist groups in Colombia (Section 1021).

Both chambers in the 108th Congress also expressed concern regarding the continuing investigation into the July 1994 bombing of the Argentine-Israeli Mutual Association (AMIA) in Buenos Aires that killed 86 people. Allegations have linked Hizballah, the radical Lebanon-based Islamic group, to the 1994 bombing as well as to the 1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people. Both the House and the Senate approved similar resolutions — H.Con.Res. 469 (Ros-Lehtinen) and S.Con.Res. 126 (Coleman) — on July 22, 2004, that, among other provisions, urged Argentina to provide resources to investigate all areas of the AMIA case, encouraged U.S. law enforcement support, and suggested the establishment of an OAS task force to assist in the investigation.

CRS Products:

CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

AIDS in the Caribbean and Central America

The AIDS epidemic in the Caribbean and Central America has begun to have negative consequences for economic and social development, and continued increases in infection rates threaten future development prospects. In contrast to other parts of Latin America, the mode of transmission in several Caribbean and Central American countries has been primarily through heterosexual contact, making the disease difficult to contain because it affects the general population. The Caribbean countries with the highest prevalence or infection rates are Haiti, with a rate of 5.6%; Trinidad and Tobago, with a rate of 3.2%; the Bahamas, with a rate of 3%; Guyana, with a rate of 2.5%; and Belize, with a rate of 2.4%. (Belize and Guyana are considered Caribbean nations because of their extensive linkages.) Four other Caribbean countries — the Dominican Republic, Suriname, Barbados, and Jamaica — have rates over 1%. In Central America, Honduras has the highest prevalence rate of 1.8%, while Guatemala has a rate over 1%.

The response to the AIDS epidemic in the Caribbean and Central America has involved a mix of support by governments in the region, bilateral donors (such as the United States, Canada, and European nations), regional and multilateral organizations, and nongovernmental organizations (NGOs). The World Bank, the Inter-American Development Bank, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria have funded numerous HIV/AIDS projects in the Caribbean and Central America. Many countries in the region have national AIDS programs that are supported through these efforts.

The U.S. Agency for International Development (USAID) has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for

HIV/AIDS in Central America and the Caribbean region rose from \$11.2 million in FY2000 to \$33.8 million in FY2003. In May 2003, Congress approved the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. 108-25), which authorized \$3 billion per year for FY2003 through FY2008 to fight the three diseases worldwide. The legislation and the President's Emergency Plan for AIDS Relief (PEPFAR) focus on assisting 12 African countries plus Guyana and Haiti, although the legislation notes that other countries may be designated by the President. Because of the inclusion of Guyana and Haiti in PEPFAR, FY2004 U.S. assistance to the region for HIV/AIDS increased to an estimated \$56.6 million in FY2004, and the FY2005 request increased to an estimated \$86 million. PEPFAR also has included increased funding for Caribbean and Central America regional programs as well as for Honduras.

In the 108th Congress, some Members of Congress wanted to expand the list of Caribbean countries in the 2003 HIV/AIDS legislation. Both the House-passed FY2004-FY2005 Foreign Relations Authorization Act, H.R. 1950 (Section 1818), and the Senate Foreign Relations Committee's reported FY2005 Foreign Relations Authorization Act, S. 2144 (Section 2518), had provisions that would have added 14 Caribbean countries to those listed in the May 2003 legislation, but no final action was taken on these measures.

CRS Products:

CRS Report RL32001, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

Afro-Latinos

In recent years, people of African descent in the Spanish and Portuguese-speaking nations of Latin America — also known as “Afro-Latinos” — have been pushing for increased rights and representation. Afro-Latinos comprise some 150 million of the region's 540 million total population, and, along with women and indigenous populations, are among the poorest, most marginalized groups in the region. Afro-Latinos have begun forming groups that, with the help of international organizations, are seeking political representation, human rights protection, land rights, and greater social and economic rights and benefits.

Improvement in the status of Afro-Latinos could be difficult and contentious, however, depending on the size and circumstances of the Afro-descendant populations in each country. Afro-Latinos are, generally, descendants of the millions of West African slaves brought to the Americas by European traders during the colonial period. Afro-Latinos tend to reside in coastal areas, although in many countries they have migrated to large cities in search of employment. Afro-Latinos comprise a majority of the population in Cuba and the Dominican Republic, while in Brazil, Colombia, Panama, Venezuela, Ecuador, and Nicaragua, they form a significant minority.

Afro-Latinos have sought assistance from international organizations, such as the World Bank and the Inter-American Development Bank (IDB), and have forged partnerships with some African-American business and political leaders. Afro-Latinos, as with indigenous groups, have presented some demands, such as legal and environmental protection of land rights, that may conflict with entrenched interests in their respective countries.

Assisting Afro-Latinos has not been a primary stated U.S. foreign policy objective, although a number of foreign aid programs exist that benefit Afro-Latino populations. Those programs are funded through the U.S. Agency for International Development (USAID), the Inter-American Foundation (IAF), the Peace Corps, and the National Endowment for Democracy (NED). They include agricultural, micro-credit, health, grassroots organizing, and bilingual education programs.

Congress has expressed some concern in recent years about the status of Afro-Latinos in Latin America. Some observers assert that the United States has an interest in improving the condition of Afro-Latinos in Latin America. Assisting vulnerable peoples fits into larger U.S. policy goals for the region: promoting democracy, encouraging economic growth and poverty reduction, and protecting human rights. Others disagree, however, as to whether U.S. foreign aid should be specifically targeted towards Afro-Latinos (as it has in the case of some indigenous groups), or be distributed broadly through efforts to support marginalized populations. Skeptics question whether increasing assistance to Afro-Latinos is feasible in a time when limited development assistance is being allocated to Latin America. Still others caution that the United States should be careful when intervening in the sensitive racial politics of other countries.

CRS Products:

CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando.

Country Issues

Argentina

Although Argentina has emerged from its 2001-2002 economic and political crisis, the current administration of President Néstor Kirchner faces considerable challenges. These include the ability to build the political consensus needed in order to ensure sustainable economic growth and financial stability, and the ability to negotiate a debt restructuring deal for over \$100 billion in defaulted bond debt. A member of the center-left Peronist Party (Justicialist Party or PJ), Kirchner emerged from a crowded April 2003 presidential race with 22% of the vote and was inaugurated to a four-year term on May 25, 2003. He succeeded another Peronist, Eduardo Duhalde, who had become President in January 2002 in the aftermath of the resignation of President Fernando de la Rúa of the Radical Civic Union (UCR). Social protests over deteriorating economic conditions had led to De la Rúa's resignation. Although the country was under considerable stress in 2001 and 2002, the democratic political system weathered the crisis, and economic growth resumed from a decline of almost 11% in 2002 to an estimated increase of over 7% in 2003. The forecast for 2004 is for an economic growth rate of almost 8%.⁵

President Kirchner's bold policy moves in the areas of human rights, institutional reform, and economic policy have helped restore Argentines' faith in government. He vowed to prosecute military officials responsible for past human rights violations during the last era of military rule (1976-1983). He supported the successful congressional annulment of amnesty laws from the 1980s that had blocked prosecution for crimes committed during the period of military rule. In the economic arena, the Kirchner government reached a three-year stand-by agreement with the International Monetary Fund (IMF) in September 2003, after several months of tough negotiations, that provided a credit line of about \$12.5 billion. However, Argentina suspended its IMF loan program in mid-August 2004 because of IMF pressure on completion of debt negotiations with bondholders and on Argentine progress in implementing key economic reforms. Argentina expects to renew talks with the IMF in early 2005, after it makes progress in restructuring its \$100 billion in defaulted bond debt. The bondholders had strongly criticized the terms of Argentina's initial restructuring proposal in September 2003, which included a 75% "haircut" or debt reduction. A new Argentine proposal in early June 2004 included an agreement to pay billions in unpaid interest, but the proposal again was criticized by many bondholders. A formal launching of the proposal is expected on January 14, 2005.

U.S.-Argentine relations have been strong since the country's return to democracy in 1983 and were especially close during the Menem presidency (1989-1999). U.S. officials have urged the Kirchner government and its private creditors to move expeditiously to work out a fair and mutually acceptable debt restructuring agreement, which they believe is critical to ensuring Argentina's continued economic recovery. The State Department also has highlighted concerns about the tri-border area (TBA) of Argentina, Brazil, and Paraguay because of activities of the radical Lebanon-based Islamic group Hizballah (Party of God) and the Sunni Muslim

⁵ "Argentina: Country Report," Economist Intelligence Unit, December 2004, pp. 10-11.

Palestinian group Hamas (Islamic Resistance Movement). The 108th Congress expressed concern regarding Argentina's investigation into the July 1994 bombing in Buenos Aires of the Argentine-Israeli Mutual Association (AMIA) that killed 86 people. Allegations have linked Hizballah to the AMIA bombing as well as to a 1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people. (Also see *Terrorism Issues* section above.)

CRS Products:

CRS Report RS21113, *Argentina: Political Conditions and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32637, *Argentina's Sovereign Debt Restructuring*, by J.F. Hornbeck.

CRS Report RS21072, *The Financial Crisis in Argentina*, by J. F. Hornbeck.

CRS Report RL31582, *The Argentine Financial Crisis: A Chronology of Events*, by J. F. Hornbeck.

Brazil

Luis Inácio Lula da Silva of the leftist Workers' Party (PT) was inaugurated President of Brazil on January 1, 2003. He won the October 2002 elections decisively, with the support of leftist parties and a variety of centrist elements. During his first two years in office, President Lula da Silva has pursued cautious economic policies and, after securing \$20 billion in International Monetary Fund (IMF) funds in November 2003, helped Brazil meet and even surpass the IMF's fiscal targets. As a result of President Lula da Silva's economic policies, the country has experienced lower inflation, a strengthening of the currency, a dramatic lowering of Brazil's credit risk rating, and an estimated 5% growth rate in 2004. In 2003, President Lula da Silva reformed the social security system to make it more self-sustaining and modified the tax system to make it more effective and fair. In 2004, his government enacted new laws to reduce the length of legal proceedings and to allow more private investment in public infrastructure projects.

In the second half of his four-year term, President Lula da Silva, though still enjoying popular support, may struggle to find allies in the Brazilian Congress to support his reformist agenda. Although the PT survived the October 2004 municipal elections relatively well, its strongest opponent — the Brazilian Social Democratic Party (PSDB) — strengthened its position by winning control of some traditional PT strongholds, including São Paulo. President Lula da Silva may also be increasingly unable to rely on centrist parties such as the Brazilian Democratic Movement Party (PMDB), whose leaders pulled out of the PT's ruling coalition in December 2004 in order to post their own candidates for the 2006 presidential elections. Finally, President Lula da Silva is likely to face increasing demands from within his own PT party, the media, and civil society for more effective social programs, and for solutions to the persistent problems of land distribution and crime.

Relations with the United States have been generally positive, although President Lula da Silva has made relations with the neighboring countries in the Southern Common Market (Mercosur) his first priority, and has been seeking to strengthen ties with the European Union and with other non-traditional partners, including India and China. On June 20, 2003, President Lula da Silva made an official visit to Washington, D.C., and the countries' leaders resolved "to create a closer and qualitatively stronger [bilateral] relationship." On October 4-6, 2004, Secretary of State Colin Powell visited Brazil for high level discussions on international trade, hunger, and security matters, as well as Brazil's leading role in the U.N.-sanctioned peacekeeping force in Haiti.

Lower level U.S. officials have visited Brazil on many occasions, with much of the discussion relating to the Free Trade Area of the Americas (FTAA) since Brazil and the United States are co-chairs of the FTAA Trade Negotiation Committee. Brazil asserts that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties, while the United States has argued that these issues should be resolved in the Doha round of WTO talks. In September 2003, the WTO talks held in Cancun, Mexico, stalled as Brazil led a group of developing countries called the G-20 that insisted that developed countries agree to reduce agricultural subsidies as part of any settlement. However, the talks were revived in early 2004, and a series of meetings led to a July 31, 2004 agreement on a framework for completing the multilateral talks.

FTAA talks appeared to be in jeopardy as Brazil and the United States expressed their divergent positions at the November 2003 Ministerial Meeting in Miami, Florida. They finally agreed on a formula for the FTAA, called by some an "FTAA light." Under the formula, subsequently adopted by the Ministers, all of the countries would agree to a set of core obligations, while countries which favored a more ambitious agreement would negotiate plurilateral agreements. When the Trade Negotiations Committee (TNC) met in Puebla, Mexico, in early February 2004, the delegates were unable to agree on the FTAA common obligations, and the TNC was suspended. Despite four separate efforts in March, April, and May 2004, the co-chairs were unable to agree upon a framework for the FTAA negotiations, and it became increasingly clear that negotiations would not be completed by the scheduled deadline of January 2005.

On other trade issues, Brazil won a WTO dispute resolution case in 2004 against the United States for subsidizing the U.S. cotton industry. The United States will appeal the dispute settlement decision.

CRS Products:

CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

CRS Report RS21905, *The Agriculture Framework in the WTO Doha Round*, by Charles Hanrahan.

CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by K. Larry Storrs.

Cuba

Cuba under Fidel Castro remains a hard-line communist state, with a poor record on human rights that has deteriorated significantly since 2003. With the cutoff of assistance from the former Soviet Union, Cuba experienced severe economic deterioration from 1989 to 1993. While there has been some improvement since 1994 as Cuba has implemented limited reforms, the economy remains in poor shape.

Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. The Bush Administration has further tightened restrictions on travel and remittances to Cuba significantly. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba (Radio and TV Marti). While there appears to be broad agreement on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island — there are several schools of thought on how to achieve that objective. Some advocate maximum pressure on the Cuban government until reforms are enacted, others argue for lifting some U.S. sanctions that they believe are hurting the Cuban people, and still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo. There was considerable public reaction to the Bush Administration's June 2004 tightening of restrictions for family visits and other categories of travel.

Congress continued its high level of interest in Cuba in the 108th Congress with a variety of legislative initiatives regarding human rights and sanctions. Congress demonstrated concern about the poor human rights situation by approving four resolutions: S.Res. 97, H.Res. 179, S.Res. 62, and S.Res. 328. Several FY2005 appropriations measures had provisions that would have eased Cuba sanctions, but ultimately these were not included in the FY2005 omnibus appropriations measure (P.L. 108-447, H.Rept. 108-792). The House-passed version of the FY2005 Commerce, Justice, and State appropriations bill, H.R. 4754, would have prohibited funds to implement, administer, or enforce recent restrictions on gift parcels and on baggage for travelers. The House-passed version of the FY2005 Transportation / Treasury appropriations bill, H.R. 5025, had three Cuba provisions that would have eased sanctions on family travel, travel for educational activities, and private commercial sales of agricultural and medical products.

The Senate committee version of the FY2005 Transportation/ Treasury appropriations bill, S. 2806, had a provision that would have prohibited funds from administering or enforcing restrictions on Cuba travel. The Senate committee version of the FY2005 Agriculture appropriation bill, S. 2803, would have allowed travel to Cuba without having to apply to the Treasury Department for a license if the travel was related to the commercial sale of agricultural and medical products. The Administration had threatened to veto both the Transportation/Treasury and Agriculture appropriations measures if they had provisions weakening Cuba sanctions. Numerous other legislative proposals were introduced that would have eased sanctions on Cuba, but no action was taken on these initiatives. Cuba will likely remain an issue of concern and contention in the 109th Congress.

CRS Products:

CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark P. Sullivan.

CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives*, by Mark P. Sullivan.

CRS Report RL32251, *Cuba and the State Sponsors of Terrorism List*, by Mark P. Sullivan.

CRS Report RS20468, *Cuban Migration Policy and Issues*, by Ruth Ellen Wasem.

CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

CRS Report RS21764, *Restricting Trademark Rights of Cubans: WTO Decision and Congressional Response*, by Margaret Mikyung Lee.

Dominican Republic

President Leonel Fernández of the Dominican Liberation Party (PLD), who served as president previously (1996-2000), took office on August 16, 2004. Fernández is charged with helping the Dominican Republic recover from a deep economic crisis that occurred primarily as the result of three major banking failures and bailouts in 2003. Since August 2004, the Dominican currency has risen 30% against the U.S. dollar and inflation has declined dramatically. President Fernández has passed tax measures and cut some extraneous public sector jobs. He has also launched a plan to fight corruption. The Fernández administration has struggled, however, to cope with rising crime rates and persistent electricity shortages. In addition, President Fernández has yet to secure a new IMF agreement that could bring \$600 million to \$1 billion in financing to the country.

A controversial issue in U.S.-Dominican relations has been the Dominican tax on drinks containing high fructose corn syrup (HCFS), a major U.S. product. The HCFS tax appears to be a measure to protect Dominican sugar producers. Enacted in September 2004 as part of a fiscal bill containing reforms necessary to restart the suspended IMF agreement, the HCFS tax threatened the country's chances of being included in the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 27, 2004, the Dominican Chamber of Deputies voted to repeal the tax after a unanimous vote against the tax in the Senate. President Fernández signed the measure into law on December 28, 2004. The Dominican government must now find a way to appease the country's sugar producers without jeopardizing the country's finances.

CRS Products:

CRS Report RS21718, *Dominican Republic: Political and Economic Conditions and U.S. Relations*, by Clare Ribando.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

CRS Report RS21868, *U.S.-Dominican Republic Free Trade Agreement*, by Lenore Sek.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the U.S.-Central America Free Trade Agreement (CAFTA)*, coordinated by K. Larry Storrs.

Ecuador

In January 2003, Lucio Gutierrez, a former army Colonel who was part of the junta that toppled the government of Jamil Mahuad in January 2000, became the country's sixth president in seven years. Upon assuming the presidency, Gutierrez abandoned his populist rhetoric and adopted economic reform and good governance policies in order to secure support from the United States and the International Monetary Fund (IMF). Despite rapid economic growth driven by high oil prices, President Gutierrez's power has been limited by legislative gridlock, protests organized by indigenous groups that at once formed part of his governing coalition, and allegations of corruption within his administration. Gutierrez's party, the Patriotic Society Party (PSP), won barely 5% of the vote in the regional and municipal elections held on October 17, 2004. Since that time, President Gutierrez has formed new alliances with mid-size parties, including that of exiled President Abdalá Bucaram, in order to stave off impeachment proceedings and shore up support for his government. Gutierrez has been under criticism recently for using his new legislative coalition to pack Ecuador's courts with his political allies.

Despite some recent disagreements, Ecuador continues to cooperate with the U.S. counter-narcotics program and has mobilized its military and police forces to help control spillover effects from the conflict in Colombia along its northern border. Ecuador and the United States possess a significant trade and investment relationship that has been enhanced since 1992 by the Andean Trade Preference Act. The United States has concluded six rounds of negotiations with Ecuador, along with Colombia and Peru, for an Andean Free Trade Agreement. Ecuador was placed on the State Department's 2004 Tier 3 List of countries that had not adequately combated trafficking in persons, but avoided U.S. sanctions by making progress on that issue between June and September 2004.

CRS Products:

CRS Report RS21687, *Ecuador: Political and Economic Situation and U.S. Relations*, by Clare Ribando.

El Salvador

On March 21, 2004, businessmen Tony Saca of the conservative National Republican Alliance (ARENA) party soundly defeated his nearest rival, Shafick Handal, a former guerrilla and Communist Party member, of the Farabundo Marti National Liberation Front (FMLN) to win the Salvadoran presidential elections. Mr. Saca took office on June 1, 2004, alongside Ana Vilma de Escobar, who became the first Salvadoran woman to serve as vice president. The new administration is facing a divided legislature, in which the FMLN continues to hold 31 of 84 seats. President Saca scored a number of early legislative triumphs, such as the approval of the 2004 budget and tough legislation to combat gang violence. Although 60% of Salvadorans approve of his overall job performance, 73% disapprove of his August 2004 decision to send a new contingent of 380 Salvadoran soldiers to Iraq. The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, possibly through the proposed United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 17, 2004, despite the opposition of the FMLN, El Salvador became the first country in Central America to ratify DR-CAFTA. On January 6, 2005, the U.S. government extended the Temporary Protected Status (TPS) of an estimated 290,000 undocumented Salvadoran migrants living in the United States until September 9, 2006.

CRS Products:

CRS Report RS21655, *El Salvador: Political and Economic Conditions and Relations with the United States*, by Clare Ribando.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

Haiti

The main issue for U.S.-Haiti policy during the 109th Congress will likely be how to contain Haiti's growing instability. Ongoing violence and the lack of a functioning infrastructure make it difficult to pursue other U.S. goals in Haiti, such as decreasing narcotics trafficking, promoting democracy and respect for human rights, and alleviating poverty. A further Administration goal, of limiting illegal immigration, has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers. Since armed rebellions led to the departure of President Jean-Bertrand Aristide in February 2004, an interim government has taken over, but security conditions are so tenuous that observers are calling Haiti a failed state in danger of descending into civil war, anarchy, or a criminal state. The Haitian National Police are considered understaffed and under equipped to maintain order. The UN Stabilization Mission in Haiti (MINUSTAH) has also been

understaffed, as member governments have been slow to send the 6,700 troops and 1,622 civilian police that were authorized. MINUSTAH's ability to carry out its mandate to establish law and order is further hampered by the diversion of its resources to help protect and deliver emergency assistance following natural disasters which left thousands dead or homeless.

Policymakers concerned about security in Haiti are debating how best to support the existing UN Mission, or whether to expand the UN's role, with some observers urging some sort of long-term international intervention, including the possibility of protectorate status for Haiti. Observers are also debating what role U.S. troops should play in enhancing Haitian security. Only six U.S. personnel are participating in MINUSTAH. The interim Haitian government requested that U.S. troops return to Haiti. Instead, the Department of Defense will conduct a humanitarian exercise beginning in February 2005 as a show of support for the interim government. About 250 U.S. military personnel will participate in a three-month long civic assistance program that will also help train U.S. military units in construction and medical care services. As political disarray continues, human rights violations are increasing, and elections scheduled for late 2005 are placed in greater jeopardy. The FY2005 foreign operations appropriations act (incorporated into the FY2005 Consolidated Appropriations Act, P.L.108-447) requires the Administration to provide Congress reports on a multi-year assistance strategy within 90 days, and on a reforestation strategy, including funding requirements, within 180 days of the bill's enactment. Supporters of trade preferences for Haiti have said they may bring them up for reconsideration in the new Congress.

CRS Products:

CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales.

CRS Report RS21349, *U.S. Immigration Policy on Haitian Migrants*, by Ruth Ellen Wasem.

CRS Report RS21839, *Haitian Textile Industry: Impact of Proposed Trade Assistance*, by Bernard A. Gelb.

CRS Web Page CA9005, *Haiti: Legislation in the 108th Congress*, by Andy Mendelson, available online at [<http://www.crs.gov/products/browse/officialsources/haitileg.shtml>].

Honduras

Honduras faces the enormous challenge of improving economic and living conditions in one of the hemisphere's poorest countries while at the same time dealing with a high crime rate perpetrated by youth gangs known as *maras*. Current President Ricardo Maduro — inaugurated to a four-year term in January 2002 — is the 6th elected president since the country's return to civilian rule.

The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a military presence in the country, and cooperation on a range of transnational issues, including anti-narcotics efforts and more recently the fight against terrorism. Honduras could become one of the first beneficiaries of increased U.S. foreign assistance under the Millennium Challenge Account (MCA). In 2004, it became eligible to compete for MCA funding and is expected to receive more than \$100 million under the program.

Honduras is a party to the U.S.-Central America Free Trade Agreement (CAFTA) signed on May 28, 2004, and the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) signed on August 5, 2004. The Bush Administration views DR-CAFTA as a means of solidifying democracy in Honduras and promoting safeguards for environmental protection and labor rights in the country; critics fear that an agreement without strong environmental and labor provisions would do nothing to spur reforms in the country. Honduras views the agreement as an important element of the country's economic development strategy that could spur additional foreign investment and non-traditional exports. Without such an agreement, the country fears that there would be disinvestment from its export assembly sector and that it would not be able to compete with China in textile and apparel exports to the U.S. market. As noted above (*U.S.-Latin American Trade Relations*), Congress did not consider implementing legislation for the DR-CAFTA by the end of the 108th Congress, but consideration by the 109th Congress is likely.

CRS Products:

CRS Report RS21103, *Honduras: Political and Economic Situation and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

Mexico

Congressional interest in Mexico generally focuses on trade, migration, and drug trafficking issues, but attention is expected to focus on immigration issues in 2005. President Bush and President Fox both expressed the desire shortly after President Bush's re-election to follow up on President Bush's earlier immigration proposal. President Bush called in January 2004 for an overhaul of the immigration system to permit the matching of willing foreign workers with willing U.S. employers when no Americans can be found to fill available jobs. Under his proposal, temporary legal status would be granted to new foreign workers who have work offers in the United States and to undocumented workers already employed in the United States for a term of three years that could be renewed but would end at some point. The proposal is in line with Fox-Bush pledges in 2001, subsequently stalled because of terrorism

concerns, to achieve more orderly and humane migration flows between the countries, and is similar to several congressional initiatives introduced in the 108th Congress with guest worker and/or amnesty provisions.

Congress is also expected to deal with immigration provisions that were left out of the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458), including provisions in the pre-conference House version that would have prohibited the acceptance of Mexican consular ID cards and the issuance of drivers' licenses to undocumented aliens, and that would have required the completion of a section of a wall along the border in California. Congress may also consider the June 2002 social security totalization agreement with Mexico that would eliminate dual social security taxation and fill gaps in benefit protections for affected employees who work in both countries.

On trade issues, Mexico is the United States' second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA), but there are various disputes between the countries. Mexico has complained, for example, that the United States is still failing to grant Mexican trucks access to U.S. highways, in part because of congressionally-imposed safety requirements. The United States has complained about Mexico's 20% tax on soft drinks made with high fructose corn syrup (HFCS), with devastating impact on HFCS sales. Under congressional pressure, the USTR is pursuing WTO dispute settlement procedures with Mexico, although producer groups are still hoping to achieve a negotiated settlement. Mexico banned beef imports from the United States in December 2003 following the discovery of mad cow disease in Washington state. In March and April 2004, following the announcement of new U.S. procedures, Mexico announced that it was resuming beef trade with the United States, but was retaining the ban on live cattle imports.

On drug trafficking issues, the State Department's March 2004 International Narcotics Control Strategy Report praised Mexico for the capture of major drug cartel figures, for the seizure of large quantities of illicit drugs, and for unprecedented levels of cooperation with the United States in counter-narcotics efforts. The State Department reported in April 2004, however, that marijuana and opium poppy cultivation increased significantly in Mexico in 2003. In recent law enforcement actions, on October 19, 2004, U.S. officials announced the dismantling of a major Mexican money-laundering and drug trafficking organization operating in the United States.

CRS Products:

CRS Report RL32724, *Mexico-U.S. Relations: Issues for the 109th Congress*, by K. Larry Storrs.

CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J.F. Hornbeck.

CRS Report RL32669, *Mexico's Counter-Narcotics Efforts Under Fox, December 2000 to October 2004*, by K. Larry Storrs.

CRS Report RL32038. *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Countries*, by K. Larry Storrs.

CRS Report RS21561, *Mexico's Congress and July 2003 Elections*, by K. Larry Storrs.

CRS Report RL32044, *Immigration: Policy Considerations Related to Guest Worker Programs*, by Andorra Bruno.

Panama

With four successive elected civilian governments, Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the military regime of General Manuel Antonio Noriega from power. The current President is Martin Torrijos of the Democratic Revolutionary Party (PRD) who was elected in May 2004 and inaugurated on September 1, 2004. Torrijos — the son of former populist leader General Omar Torrijos — won a decisive electoral victory with 47.5% of the vote in a four-man race. His electoral alliance also won a majority of seats in the unicameral Legislative Assembly. He succeeded President Mireya Moscoso of the Arnulfista Party (PA) who been elected in May 1999. The most significant challenges facing the new government include dealing with the funding deficits of the country's social security fund (Caja de Seguro Social), developing plans for the expansion of the Panama Canal, and combating poverty and unemployment.

The United States has close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts as well as U.S. assistance to help Panama assure the security of the Canal and the security of its border with Colombia. U.S. assistance to Panama has increased in the past several years with the country receiving assistance under the Bush Administration's Andean Regional Initiative to help Colombia and its neighbors combat drug trafficking.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. To date, six negotiating rounds have been held, with the most recent concluding in mid-December 2004. Reportedly significant progress has been made

and negotiators hope to conclude an agreement in early 2005. The most sensitive issues in the talks are differences over market access for certain agricultural products; for Panama, potatoes, onions, and vegetable oils are sensitive products, while sugar remains a sensitive product for the United States.⁶ Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law. Since Panama has a service-based economy, it traditionally has imported much more than it exports to the United States. In 2003, the U.S. trade surplus with Panama was \$1.5 billion, with Panama exporting \$301 million in goods and importing \$1.8 billion in merchandise. The stock of U.S. foreign investment in Panama was estimated at \$20 billion in 2002, surpassing the combined U.S. foreign investment in the five other Central American nations. (Also see *U.S.-Panama FTA* above.)

CRS Products:

CRS Report RL30981, *Panama: Political and Economic Conditions and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J.F. Hornbeck.

Peru

Peru under President Alejandro Toledo has been characterized by two seemingly contradictory trends: high economic growth and extremely low popularity of the president. President Toledo has been criticized as having weak leadership skills, his image has been damaged by personal issues, and his administration tarnished by corruption charges. Toledo's public support has remained low for two years, and was at about 10% in December 2004. The scandals have proved damaging to Toledo, who came to office as a reformer. As the April 2006 presidential elections draw nearer, it seems less likely that the Peruvian Congress will pursue the politically risky route of impeaching a democratically elected president.

Toledo has presided over 37 consecutive months of economic growth, in contrast to four years of stagnation under his predecessors. Peru has been more stable economically than its neighbors. Under Toledo, Peru has exhibited one of the highest growth rates in Latin America, with an increased economic output of over 4% for 2003 and 2004, and similar rates expected for 2005-2006. Some 54% of the population lives in poverty, and 43% are underemployed. Responding to nearly constant, widespread protests by teachers, farmers, and others for higher wages, Toledo has declared several states of emergency. Opposition in Congress — where no party holds a majority — has also limited the President's ability to push through economic reforms.

⁶ "U.S. Looking to Wrap Up Free Trade Talks with Panama Early Next Year, Officials Say," *International Trade Reporter*, December 16, 2004.

Peru is a major illicit drug-producing and transit country. The United States and Peru signed a five-year cooperative agreement for 2002-2007 that links alternative development to coca eradication more directly than past programs have. After thousands of coca growers protested against forced coca eradication, the government and growers signed an agreement calling for the “gradual and fixed” reduction of coca leaf cultivation and restricted forced eradication. Peru is the second largest beneficiary, after Colombia, of the Andean Counterdrug Initiative. For FY2004, Peru was allocated \$66 million for interdiction, \$50 million for alternative development, and \$1.7 million in Foreign Military Financing (FMF). For FY2005, Congress allocated Peru \$62 million for interdiction, \$54.3 million for alternative development, and \$1 million for Foreign Military Financing funds in the FY2005 consolidated appropriations act (P.L.108-447). The act continues to prohibit resumption of a Peruvian air interdiction program until enhanced safeguards are in effect, with a 30 day notification to Congress required before resumption.

The FY2005 consolidated appropriations act also contained several other provisions regarding Peru. Under Economic Support Funds, \$8 million was earmarked for Peru, and \$3 million for the Peru-Ecuador Peace initiative. The act also included \$8 million to implement a regional strategy for conservation in the Amazon basin countries, including programs to improve the capacity of indigenous communities and local law enforcement agencies in indigenous reserves.

Support for democracy and human rights also is a U.S. concern in Peru. U.S. initiatives include the provision of \$50 million over five years to support consolidating democratic reform, as Peru’s Congress continues to investigate corruption and abuses under the government of former President Alberto Fujimori, who fled the country in the wake of scandals in 2000.

Peru, along with Colombia and Ecuador, is negotiating a U.S.-Andean free trade agreement. Some Members of Congress have expressed concern over unresolved trade disputes with Peru. The Bush Administration has warned that it may drop Peru (and Ecuador) from the agreement if those disputes are not resolved, rather than risk losing congressional approval of a trade agreement with Colombia.

The case of Lori Berenson, an American jailed in Peru, has been an ongoing issue in bilateral relations. The Inter-American Court of Human Rights announced on December 3, 2004, that it was upholding her conviction on charges of collaboration with terrorists. The ruling represents a reversal of a 2002 Inter-American Commission on Human Rights decision, which found Peru responsible for violations of the right to judicial guarantees, and recommended Peru make amends for violations of Berenson’s human rights. Her 20-year sentence will end in 2015.

CRS Products:

CRS Report RS20536, *Peruvian Elections in 2000: Congressional Concerns and Policy Approaches*, by Maureen Taft-Morales.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.

Venezuela

An oil-exporting South American nation with a population of about 25 million, Venezuela has been wracked by several years of political turmoil under the populist rule of President Hugo Chávez, who was first elected in 1998. Under Chávez, Venezuela has undergone enormous political changes, with a new constitution in place, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. Although Chávez remained widely popular until mid-2001, his popularity eroded considerably after that, amid concerns that he was imposing a leftist agenda on the country and that his government was ineffective in improving living conditions. In April 2002, massive opposition protests and pressure by the military led to the ouster of Chávez from power for a brief period. The military ultimately restored him to power, but political opposition to Chávez's rule continued. From December 2002 until February 2003, the opposition orchestrated a general strike that severely curtailed Venezuela's oil exports, but was unsuccessful in getting President Chávez to agree to new elections. After months of negotiations facilitated by the OAS and the Carter Center, the Chávez government and the political opposition signed an agreement in May 2003 that set forth mechanisms to resolve the political crisis. This led to an August 15, 2004 presidential recall referendum that Chávez won convincingly by a margin of 59.3% to 40.7%.

Chávez's rule was further strengthened when his allies won a majority of gubernatorial and municipal posts in elections held in late October 2004. The country's next presidential elections are set for late 2006, and there is a strong chance that Chávez could win another six-year term. The Chávez government has benefitted from the rise in world oil prices, which has increased government revenues, and sparked an estimated economic growth rate of 16% for 2004.

Some observers are concerned that Chávez will use his political strength to push toward authoritarian rule. Human Rights Watch, a U.S.-based human rights organization, maintains that the Chávez government has dealt a severe blow to judicial independence by packing the Supreme court under a new law that expands the court from 20 to 32 justices.⁷ Critics of Chávez also fear that a new media law enacted in early December will permit the government to censor news reports of protests or government crackdowns. Other observers assert that freedom of the press and assembly thrive in Venezuela and doubt that the Chávez government would censor the press. They also maintain that allegations of threats to Venezuelan judicial independence are grossly exaggerated.⁸

The United States has traditionally had close relations with Venezuela, but there has been friction in relations with the Chávez government. The Bush Administration expressed strong support for the work of the OAS in resolving the crisis, welcomed the May 2003 political accord, and supported its implementation. After the recall referendum, the Administration congratulated the Venezuelan people for their

⁷ "Venezuela: Chávez Allies Pack Supreme Court," Human Rights Watch, December 14, 2004.

⁸ Mark Weisbrot, "U.S. Criticism of Chávez Unfounded," *Miami Herald*, December 20, 2004.

commitment to democracy and commended the work of the OAS and Carter Center. At the same time, U.S. officials stressed the importance of reconciliation on the part of the government and the opposition in order to resolve their political differences peacefully. A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without taking sides in Venezuela's polarized political conflict. Since Venezuela is a major supplier of foreign oil to the United States (the fourth major foreign supplier in 2003, after Saudi Arabia, Canada, and Mexico), a key U.S. interest has been ensuring the continued flow of oil exports at a reasonable and stable price. Despite friction in U.S.-Venezuelan relations and despite past threats by President Chávez to stop selling oil to the United States, Venezuela has remained a steady supplier of oil to the United States.

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CRS Report RL32488, *Venezuela: Political Conditions and U.S. Policy*, by Mark P. Sullivan.