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Honduras: Political and Economic Situation and U.S. Relations

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Summary

Honduras faces enormous challenges in the areas of crime and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. 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. Honduras signed the original U.S.-Central America Free Trade Agreement (CAFTA) in May 2004 and an expanded U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) in August 2004. The Honduran Congress approved the agreement on March 3, 2005, by a vote of 124-4. 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. For additional information, see CRS Report RL31870, *The Dominican Republic.-Central America-United States Free Trade Agreement (DR-CAFTA)*; and CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*.

Political and Economic Situation

A Central American nation with a population of about 6.8 million, Honduras has enjoyed uninterrupted civilian democratic rule since the military relinquished power in 1982 after free and fair elections. In the November 2001 presidential elections, National Party candidate Ricardo Maduro defeated his Liberal Party rival Rafael Pineda Ponce 52-44%, a wider margin than some had anticipated, although neither of the two major parties gained a majority in the 128-member unicameral Congress. For most of this century, the Liberal and National parties have been the two dominant political parties. Both are considered center-right parties, and there appear to be few major ideological differences between the two. In the electoral campaign, Maduro, a Stanford University-educated economist and businessman, ran on a strong anti-crime platform, which appealed to many

Hondurans concerned about the dramatic increase in gang violence in the country over the past several years. Maduro's own son was kidnaped and murdered in 1997.

When he was inaugurated to a four-year term in January 2002, Maduro became the 6th elected president since the country's return to civilian rule. After more than three years in office, President Maduro has faced enormous challenges in the areas of crime, human rights, and improving overall economic and living conditions in one of the hemisphere's poorest countries. The next national elections are scheduled for November 2005, but the campaign has been underway for some time. Political parties held primaries on February 20, 2005, with the National Party nominating Porfirio Lobo, the current head of the Honduran Congress, and the Liberal Party nominating Manuel Zelaya, a rancher and former head of the Honduran Social Investment Fund. President Maduro will not be a candidate because under the Honduran Constitution, anyone who has served as president may not be re-elected.

Crime and Human Rights. Upon taking office, crime and related human rights issues were some of the most important challenges for President Maduro. Kidnaping and murder had become common in major cities, particularly in the northern part of the country. Youth gangs known as *maras* terrorized many urban residents, while corresponding vigilantism increased to combat the crime, with extrajudicial killings increasing. Honduras, along with neighboring El Salvador and Guatemala, has become fertile ground for gangs, which have been fueled by poverty, unemployment, leftover weapons from the 1980s, and the U.S. deportation of criminals to the region. President Maduro, who campaigned on a zero-tolerance platform, increased the number of police officers and cracked down on delinquency. The government signed legislation in July 2003 making *maras* illegal and making membership in the gangs punishable with 12 years in prison. While the crackdown has reduced crime significantly (for example, an 80% decline in kidnaping and a 60% decline in youth gang violence¹) and is popular with the public, some human rights groups have expressed concerns about abuses and the effect of the crackdown on civil liberties. There also have been concerns that the crackdown will exacerbate already poor prison conditions. In May 2004, 104 inmates, predominately gang members, were killed in a fire in an overcrowded San Pedro Sula prison.

On December 23, 2004, a massacre of 28 people on a public bus in San Pedro Sula shocked the Honduran nation. The Mara Salvatrucha gang was reportedly responsible for the killings, and a number of arrests have been made. President Maduro maintains that the massacre was potentially a gang response to the government's zero-tolerance policy. Another theory is that Mara Salvatrucha carried out the killings on the turf of a rival gang known as M-18.

Economic Challenges. President Maduro also has faced significant challenges in improving living conditions and the overall state of the Honduran economy. Traditional agriculture exports of coffee and bananas are still important for the Honduran economy, but nontraditional sectors, such as shrimp farming and the maquiladora, or export-processing industry, have grown significantly over the past decade. With a per capita income of \$970 (2003, World Bank estimate), Honduras remains one of the poorest

¹ John Authers and Sara Silver, "Death of Son Persuades Honduran to Take Political Stage," *Financial Times*, Aug. 11, 2004.

countries in the hemisphere. Among the country's development challenges are an estimated poverty rate of 64%; an infant mortality rate of 34 per 1,000; chronic malnutrition (33% of children under five years); an average adult education level of 5.3 years; and rapid deterioration of water and forest resources, according to the U.S. Agency for International Development.² Honduras also has a significant HIV/AIDS crisis, with an adult infection rate of 1.8%. The Garifuna community (descendants of freed black slaves and indigenous Caribs from St. Vincent) concentrated in northern coastal areas has been especially hard hit by the epidemic.

Honduras was devastated by Hurricane Mitch in October 1998, which killed more than 5,000 people and caused billions of dollars in damage. Gross domestic product declined by 1.4% in 1999, and the country felt the effects of the storm for several years, with roads and bridges broken, the agricultural sector hard hit, and scores of orphaned children, many of whom joined criminal gangs. Nevertheless, the economy rebounded by 6% in 2000, spurred on by substantial U.S. assistance for recovery. Economic growth in 2001 and 2002 declined to 2.5% and 2.6% respectively because of a drought in western Honduras, flooding in the north caused by a tropical storm, and low coffee prices that reduced the value of Honduran coffee exports. In the last two years, however, economic growth has rebounded, with 3.5% growth in 2003 and estimated 5% growth in 2004.³

Amid the country's hurricane reconstruction efforts, Honduras signed a poverty reduction and growth facility (PRGF) agreement with the International Monetary Fund (IMF) in 1999 that was extended through 2002. The agreement imposed fiscal and monetary conditions requiring Honduras to maintain firm macroeconomic discipline and to develop a comprehensive poverty reduction strategy. In February 2004, Honduras signed a three-year PRGF agreement with the IMF that, as in April 2005, made Honduras eligible for about \$1 billion in debt relief under the IMF and World Bank's Highly Indebted Poor Countries (HIPC) Initiative. The IMF acknowledged that broad public support for the PRGF program is crucial for its success. At times, street demonstrations against economic reforms have made it politically costly for the government. In late August 2003, some 12,000 protestors blocked entrances to the capital and forced their way into Congress. The government has faced the dilemma of balancing the IMF's calls for reducing public expenditures and the public's demands for increased spending.

In April 2005, the IMF acknowledged that Honduras' successful implementation of sound macroeconomic policies and structural reforms had led to improved economic conditions. At the same time, the IMF maintained that the government faces such challenges as making further progress in containing public sector wages, modernizing tax administration and the central bank, and implementing judicial, electoral, and administrative reforms.⁴

² U.S. Agency for International Development. Budget Justification to the Congress, Fiscal Year 2006, p. 427.

³ "Honduras Country Report," Economist Intelligence Unit, February 2005.

⁴ International Monetary Fund, "IMF Concludes 2005 Article IV Consultation with Honduras," Public Information Notice, April 13, 2005.

U.S. Relations

The United States has had close relations with Honduras over the years, characterized by significant foreign assistance, an important trade relationship, a military presence in the country, and cooperation on a range of transnational issues, including counternarcotics efforts, environmental protection, and most recently the fight against terrorism. The bilateral relationship became especially close in the 1980s when Honduras returned to democratic rule and became the lynchpin for U.S. policy in Central America. At that time, the country became a staging area for U.S.-supported excursions into Nicaragua by anti-Sandinista opponents known as the contras. Today, overall U.S. policy goals for Honduras include a strengthened democracy with an effective justice system that protects human rights and promotes the rule of law, and the promotion of sustainable economic growth with a more open economy and improved living conditions. If approved, DR-CAFTA would lead to increased U.S.-Honduran economic linkages. 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, although critics fear that an agreement without enforceable environmental and labor provisions would do nothing to spur reforms.

U.S. Foreign Aid. The United States has provided considerable foreign assistance to Honduras over the past two decades. In the 1980s, the United States provided about \$1.6 billion in economic and military aid to Honduras as the country struggled amid the region's civil conflicts. In the 1990s, U.S. assistance to Honduras began to wane as regional conflicts subsided and competing foreign assistance needs grew in other parts of the world. Hurricane Mitch changed that trend as the United States provided almost \$300 million in assistance to help the country recover from the devastation of the storm. As a result of the new influx of aid, U.S. assistance to Honduras for the 1990s amounted to around \$1 billion.

With Hurricane Mitch funds expended by the end of 2001, U.S. foreign aid levels to Honduras declined but will rise once again because of assistance under the Millennium Challenge Account (MCA). Foreign aid funding amounted to \$41 million for FY2002, \$53 million for FY2003, \$43 million for FY2004, and an estimated \$41 million for FY2005. The Bush Administration requested almost \$37 million for FY2006. These amounts include support for a variety of development assistance projects, HIV/AIDS assistance, food aid, and a large Peace Corps presence with over 250 volunteers. In 2004, Honduras became eligible to compete for MCA funding, and on May 20, 2005, the Millennium Challenge Corporation (MCC) approved a five-year \$215 million compact for the country. The MCC compact with Honduras was signed on June 13, 2005, with assistance targeted for rural development, with the objectives of 1) increasing the productivity and business skills of farmers operating small and medium-size farms; and 2) reducing transportation costs through a highway and secondary road project.

Military Issues. The United States maintains a troop presence of about 550 military personnel known as Joint Task Force (JTF) Bravo at Soto Cano Air Base. JTF Bravo was first established in 1983 with about 1,200 troops, who were involved in military training exercises and in supporting U.S. counterinsurgency and intelligence operations in the region. Today, U.S. troops in Honduras support such activities as disaster relief, medical and humanitarian assistance, counternarcotics exercises, and search and rescue operations that benefit Honduras and other Central American countries.

Regional exercises and deployments involving active and reserve components provide training opportunities for thousands of U.S. troops. In the aftermath of the Hurricane Mitch in 1998, U.S. troops provided extensive assistance in the relief and reconstruction effort and were involved in delivering relief supplies, repairing bridges and roads, rebuilding schools, and operating medical clinics.

Migration Issues. A significant issue in bilateral relations has been the migration status of some 82,000 undocumented Hondurans living in the United States. In the aftermath of Hurricane Mitch in 1998, the United States provided temporary protected status (TPS) to the undocumented Hondurans, protecting them from deportation, because the Honduran government would not be able to cope with their return. Originally slated to expire in July 2000, TPS status for undocumented Hondurans has been extended four times — most recently on November 1, 2004 — and is now scheduled to expire July 5, 2006. The undocumented Hondurans send back millions of dollars annually in remittances to their families in Honduras. (For more on TPS, see CRS Report RS20844, *Temporary Protected Status: Current Immigration Policy and Issues*, by Ruth Ellen Wasem and Karma Ester.)

U.S. Trade and DR-CAFTA. U.S. trade linkages with Honduras have increased since the early 1980s. In 1984, Honduras became one of the first beneficiaries of the Caribbean Basin Initiative, the one-way U.S. preferential trade arrangement providing duty-free importation for many goods from the region. In the late 1980s, Honduras benefitted from production-sharing arrangements with U.S. apparel companies for duty-free entry into the United States of certain apparel products assembled in Honduras. As a result of these production-sharing arrangements, maquiladoras or export-assembly companies flourished, most concentrated in the north coast region. The passage of the Caribbean Basin Trade Partnership Act in 2000 (CBTPA), which provides Caribbean Basin nations with NAFTA-like preferential tariff treatment, further boosted Honduran maquiladoras.

The United States is by far Honduras' major trading partner, and is the destination of about two-thirds of Honduran exports and the origin of about half of its imports. Honduras is the third largest exporter of apparel to the United States after Mexico and China. In 2004, U.S. exports to Honduras amounted to about \$3.1 billion, with knit and woven apparel inputs accounting for a substantial portion. U.S. imports from Honduras amounted to about \$3.6 billion, with knit and woven apparel (assembled products from the maquiladora sector) accounting for the lion's share. Other Honduran exports to the United States include bananas, seafood, electrical wiring, gold, tobacco, and coffee.

Honduras signed the original CAFTA in May 2004 and the expanded DR-CAFTA in August 2004. The Honduran Congress approved the DR-CAFTA agreement on March 3, 2005, by a final vote of 124-4, demonstrating broad support for the agreement by both the Liberal and National parties. Only members of the small leftist Party of Democratic Unity (PUD) voted against the agreement.⁵ Active opponents of the agreement included some government sector employees. The Popular Block and National Coordinator of Popular Resistance (CNRP), consisting of workers, teachers, and peasants, and the Civic

⁵ Information provided by telephone, U.S. Department of State, Desk Officer for Honduras, March 4, 2005.

Council of Honduran Popular and Indigenous Organizations (COPINH) organized protests against the agreement. Some environmental groups also actively opposed the agreement, such as the Environmental Movement of Olancho, led by Father José Andrés Tamayo, who has campaigned against uncontrolled commercial logging. Other environmental groups, however, such as the Honduran Ecologist Network for Sustainable Development, supported the agreement.

Honduras views DR-CAFTA as a way to make the country more attractive for investment and as a way to protect its existing U.S. preferential trade arrangement. CBTPA benefits are scheduled to expire in 2008, and Honduran officials also have fears of not being able to compete with China and other Asia apparel producers after the January 2005 phaseout of quotas under the WTO Agreement on Textiles and Clothing. Honduran officials also view CAFTA as an important tool in helping transform the country's agricultural sector. Nevertheless, there are concerns about the adverse effects of DR-CAFTA in opening the Honduran market to U.S. agricultural products, especially for several sensitive products such as corn, rice, beef, poultry, and pork. Most significantly, Honduran officials are concerned about the loss of jobs, which could lead to social unrest if not addressed properly through long-term investment in the agricultural sector.

One of the controversial issues regarding DR-CAFTA is how labor provisions will be handled. The agreement has provisions that would provide for the enforcement of domestic laws and would establish a cooperative approach to improve working conditions that would involve working with the International Labor Organization (ILO) and building local capacity to improve labor rights. Opponents argue that the agreement should have provisions enforcing international standards, maintaining that Central American countries have a history of non-enforcement of inadequate domestic laws. In April 2005, Honduras and other Central American countries endorsed a work plan with the goals of strengthening enforcement of labor laws in the region.

Honduras has received criticism for its poor labor conditions. According to the State Department's February 2005 human rights report, there is credible evidence that blacklisting has occurred in the maquiladoras because of employees' union activities. Over 350,000 children work illegally in Honduras, occurring frequently in rural areas and in small companies, although only occurring in isolated cases in the maquiladora sector, according to the Department of State. In December 2004, two labor groups submitted a petition to USTR to review Honduran labor practices regarding its eligibility for General System of Preferences (GSP) trade benefits. The groups alleged that Honduras has done nothing since 2000 to fully implement a 1995 agreement with USTR regarding improvement of its labor practices.⁶

⁶ "Labor Groups Petition USTR to Review FTA Partners' GSP Eligibility," *Inside U.S. Trade*, December 24, 2004.