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

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### Summary

Honduras faces significant challenges in the areas of crime and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. In November 2005, Hondurans elected Manuel Zelaya of the Liberal Party as president in an election marred by technical difficulties that delayed the official count. The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a U.S. military presence in the country, and cooperation on a range of transnational issues. Honduras is a party to the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), which was approved by the Honduran Congress in March 2005 and by the U.S. Congress in July 2005 (P.L. 109-53). The agreement entered into force with Honduras on April 1, 2006. In February 2006, the Department of Homeland Security announced the extension of Temporary Protected Status (TPS) for some 75,000 eligible Hondurans in the United States until July 5, 2007; TPS had been scheduled to expire on July 5, 2006. For additional information, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*; CRS Report RS20844, *Temporary Protected Status: Current Immigration Policy and Issues*; and CRS Report RS22141, *Gangs in Central America*.

### Political and Economic Situation

A Central American nation with a population of about 7.1 million, Honduras has enjoyed uninterrupted civilian democratic rule since the military relinquished power in 1982 after free and fair elections. In the November 27, 2005, elections, Liberal Party candidate Manuel Zelaya, a lumber industrialist and former head of the Honduran Social Investment Fund, defeated his National Party rival Porfirio Lobo Sosa, the head of the Honduran Congress, in a close presidential race. Because of a delay in the official vote count caused by technical difficulties, Lobo waited to concede defeat until December 7, when 90% of the votes had been tallied and showed Zelaya leading 49.9% to 46.17%.

The Liberal and National parties traditionally have been the country's two dominant political parties. Both are considered center-right parties, and there appear to be few major ideological differences between the two. During the campaign, both candidates broadly supported the direction of the country's market-oriented economic policy, but they emphasized different approaches in dealing with crime perpetrated by youth gangs. Lobo called for tougher action against gangs by re-introducing the death penalty (which was abolished in 1957) and increasing the prison sentence of juvenile delinquents, whereas Zelaya opposed death penalty and emphasized a more comprehensive approach that would include job creation and training. Zelaya also campaigned for more citizen involvement and transparency in government and promised to increase social programs by cutting government spending and combating corruption.

Inaugurated to a four-year term on January 27, 2006, Zelaya succeeded President Ricardo Maduro of the National Party, who had been elected in 2001. During his tenure, President Maduro 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, challenges that Zelaya is also facing. In the 2005 legislative elections, Zelaya's Liberal Party won 62 seats in the 128-member Congress, just short of a majority, which has made it difficult for the Zelaya government to enact its legislative agenda. Moreover, public protests have increased under the new government. Indigenous communities and environmental groups are protesting unrestricted mining operations. In August 2006, protests by teachers ultimately led to an agreement by the Zelaya government to restore benefits for teachers that had been curtailed under the Maduro administration.<sup>1</sup>

**Crime and Human Rights.** 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. Although the crackdown reduced crime (for example, an 80% decline in kidnaping and a 60% decline in youth gang violence<sup>2</sup>) and was popular with the public, some human rights groups expressed concerns about abuses and the effect of the crackdown on civil liberties. There were also concerns that the crackdown would exacerbate already poor prison conditions.

The Zelaya government — in a move to replace the Maduro government's zero-tolerance policy — initially announced measures to use dialogue and other outreach techniques to convince gang members to give up violence and re-integrate into society,

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<sup>1</sup> "Honduras Country Report," Economist Intelligence Unit (EIU), October 2006.

<sup>2</sup> John Authers and Sara Silver, "Death of Son Persuades Honduran to Take Political Stage," *Financial Times*, Aug. 11, 2004.

but has more recently taken action to crack down on the gangs.<sup>3</sup> In early September 2006, the government arrested more than 1,200 gang members. The Zelaya government has been criticized by human rights organizations for proposing reforms to the national police force law that would include the creation of a Special Forces Battalion; these groups fear that such a move could lead to the “militarization” of the police.<sup>4</sup>

**Economic Challenges.** 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 \$1,030 (2004, World Bank estimate), Honduras remains one of the poorest 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.<sup>5</sup> 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. Since then, however, economic growth has rebounded, with 3.5% growth in 2003, 5% in 2004, 4.2% in 2005, and estimated 5.2% growth in 2006.<sup>6</sup>

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 of 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. At times, street demonstrations against economic reforms have made it politically costly for the government. The government has faced the dilemma of balancing the IMF’s calls for reducing public expenditures and the public’s demands for increased spending.

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<sup>3</sup> “Honduran Government Reaches Out to Rehabilitate Gangs,” *ACAN-EFE*, Jan. 30, 2006.

<sup>4</sup> “Honduras: Police Reform Suffers Serious Setbacks,” *Central America Report*, Sept. 1, 2006.

<sup>5</sup> U.S. Agency for International Development. Budget Justification to the Congress, Fiscal Year 2006, p. 427.

<sup>6</sup> “Honduras Country Report,” Economist Intelligence Unit, October 2006.

The IMF, in its December 2005 review of Honduras' PRGF agreement, maintained that the government's implementation of sound macroeconomic policies and progress with structural reforms have continued to produce positive results.<sup>7</sup> One of the country's remaining challenges is a reduction in high poverty levels, where two-thirds of Hondurans live in poverty. IMF Managing Director Rodrigo de Rato maintains that the IMF strongly supports the Zelaya government's commitments to fight poverty.<sup>8</sup> The IMF's fourth review of the PRGF, begun in May 2006, is examining the government's efforts to deal with the financial situation of two public-sector enterprises. The IMF also reportedly has concerns over the effect of public sector salary increases and public subsidies on the government's fiscal situation.<sup>9</sup>

## 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 U.S. 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. 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 will do nothing to spur reforms. In March 2006, U.S. officials announced the inclusion of the largest port in Honduras, Puerto Cortes, in the U.S. Container Security Initiative (CSI), becoming the first port in Central America under the CSI. This should allow Honduras to speed the export of its products to the United States, and could increase U.S. investment in the country.

**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 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 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

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<sup>7</sup> IMF, "IMF Executive Board Completes Third Program and Financing Assurances Reviews under Honduras' PRGF Arrangement," Press Release No. 05/280, Dec. 16, 2005.

<sup>8</sup> Rodrigo de Rato, "Honduras Has a New Historic Opportunity," *La Tribuna* (Honduras), Mar. 1, 2006.

<sup>9</sup> "Honduras Country Report," Economist Intelligence Unit, October 2006.

Mitch funds expended by the end of 2001, U.S. foreign aid levels to Honduras began to decline.

Recent foreign aid funding to Honduras amounted to almost \$54 million in FY2005 and an estimated \$47.7 million in FY2006. The Bush Administration requested about \$46.8 million for FY2007. These amounts include support for a variety of development assistance projects (including trade capacity building), HIV/AIDS assistance, food aid, and a large Peace Corps presence with over 230 volunteers. In 2004, Honduras became eligible to compete for MCA funding, and in May 2005, the Millennium Challenge Corporation (MCC) approved a five-year \$215 million compact for the country. The MCC compact with Honduras was signed in June 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. In June 2006, President Zelaya announced that Honduras is seeking to convert Soto Cano into a commercial air cargo terminal, and in July, a Honduran military official announced that the government is looking to build a new military aircraft refueling facility — with U.S. support — in the Mosquito Coast region for anti-drug operations.<sup>10</sup>

**Migration Issues.** A significant issue in bilateral relations has been the migration status of some 75,000 Hondurans living in the United States. In the aftermath of Hurricane Mitch in 1998, the United States provided temporary protected status (TPS) to undocumented Hondurans in the United States, 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 the eligible Hondurans has been extended five times — most recently on February 23, 2006 — and is now scheduled to expire July 5, 2007. Hondurans living in the United States send back millions of dollars annually in remittances to their families in Honduras.

**U.S. Trade and DR-CAFTA.** U.S. trade linkages with Honduras have increased since the early 1980s, and will likely increase further with DR-CAFTA. 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

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<sup>10</sup> “Honduras: Zelaya Asks Bush for Special Forces in Mosquitia,” *Latin American Weekly Report*, June 13, 2006; “Honduras: U.S. to Assist with New Military Base,” *Latin American Regional Reports, Caribbean & Central America*, July 2006; “U.S. to Help Build Military Base in Honduras,” *Associated Press*, July 16, 2006.

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, 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. Honduras signed the original CAFTA in May 2004 and DR-CAFTA in August 2004. The Honduran Congress approved DR-CAFTA on March 3, 2005, by a final vote of 124-4, demonstrating broad support by both major parties. The agreement entered into force between the United States and Honduras on April 1, 2006.

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 2005, U.S. exports to Honduras amounted to about \$3.2 billion, with knit and woven apparel inputs accounting for a substantial portion. U.S. imports from Honduras amounted to about \$3.8 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 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 the DR-CAFTA as an important tool in helping transform the country's agricultural sector. Nevertheless, there are concerns about the adverse effects of 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 in the DR-CAFTA debate was how labor provisions would be handled. The agreement has provisions that provide for the enforcement of domestic laws, establish a cooperative approach with the International Labor Organization (ILO) to improve working conditions, and build local capacity to improve labor rights. Opponents argue that the agreement should have had 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. In March 2006, the U.S. Department of Labor announced that it would be providing \$5 million in support of an International Labor Organization program to promote labor justice under DR-CAFTA and evaluate its progress.<sup>11</sup> Honduras has received criticism for its poor labor conditions. According to the State Department's March 2006 human rights report, there is credible evidence that blacklisting has occurred in the maquiladoras because of employees' union activities.

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<sup>11</sup> "ILO Awarded \$5 Million for CAFTA-DR Labor Program," *International Trade Reporter*, Mar. 23, 2006.