

# CRS Report for Congress

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## **Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress**

**Updated January 24, 2006**

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# Latin America and the Caribbean: Issues for the 109<sup>th</sup> 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, it rebounded in 2004, with a growth rate of 5.9%, and preliminary estimates for 2005 show a growth rate of 4.3%. Nevertheless, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, increasing crime, and the rise of radical populism in several Latin American countries.

Legislative and oversight attention to Latin America and the Caribbean in the second session of the 109<sup>th</sup> Congress will likely focus on continued counter-narcotics efforts in the Andean region; trade issues, including the possible consideration of implementing legislation for one or more free trade agreements; potential challenges to democracy in Venezuela and Bolivia; ongoing efforts to bring political stability and ameliorate poverty in Haiti; efforts to foster change in Cuba; and cooperation on border security, migration, and anti-terrorism measures, especially with Mexico.

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. In the first session, the 109<sup>th</sup> Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years, and the second session will be considering the FY2007 request for ACI funding.

In the trade arena, Congress approved legislation in 2005 (P.L. 109-53) implementing the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) that had been completed in 2004. The second session of the 109<sup>th</sup> Congress may also consider additional free trade agreements, including one completed recently with Peru, and others currently being negotiated with Colombia, Ecuador, and Panama.

With regard to democracy, Congress will likely focus on continued support to Haiti, the hemisphere's poorest nation that has hopes of electing a new government in early 2006. Venezuela will likely remain a congressional concern because of fears that President Hugo Chávez may be using his political power to push toward authoritarian rule. In Bolivia, the future government of newly elected president Evo Morales, a former leader of the coca growers union, could complicate U.S. relations in part because of his criticism of U.S. counternarcotics policy. 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.

This report, which will be updated bimonthly, 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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# Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress

## 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, increasing crime, and the rise of radical populism in several Latin American countries. In 2006, numerous presidential elections are scheduled in the region: Costa Rica and Haiti in February, Peru in April, Colombia in May, Mexico in July, Brazil and Ecuador in October, Nicaragua in November, and Venezuela in December. St. Lucia is also due to hold parliamentary elections by the end of the year.

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 nearly 6% 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 more than 4% for the year. Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004. Preliminary estimates for 2005 show the region having a growth rate of 4.3%, with Argentina and Venezuela registering the strongest growth rates.<sup>1</sup>

The Andean region still faces considerable challenges, including the rise of a radical form of populism in several countries. 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 has experienced political unrest over the last few years, including the resignation of its president in 2003, and its interim president in June 2005. The election of indigenous leader Evo Morales as president in December 2005 could complicate U.S. relations given his vow to decriminalize coca growing. Ecuadorian President Lucio Gutierrez was removed from office in April 2005 following weeks of popular protests related to his replacement of judges. Current President Alfredo Palacio, a political independent, will also face significant challenges in governing within Ecuador's politically fragmented and unstable political environment. In Peru, President Alejandro Toledo remains extremely

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<sup>1</sup> U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Preliminary Overview of the Economies of Latin America and the Caribbean 2005," December 2005.

unpopular, but the economy has continued to grow at high levels. Presidential elections are scheduled for April 2006 with a retired army officer who espouses a populist platform leading the polls. 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 and after his supporters swept legislative elections in December 2005 after the opposition withdrew from the race. Windfall oil profits have bolstered his government's revenue and economic growth.

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. 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 Nicaragua, tensions among current President Enrique Bolaños, the Sandinista party, and allies of former President Arnoldo Aleman were threatening the country's political stability in 2005, but were eased by October. It is expected that Bolaños will fill out the remainder of his term until January 2007.

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. New elections planned for 2005 were not held because of continued violence and significant technical difficulties. Elections are now scheduled for February 2006. Cuba remains a hardline communist state under Fidel Castro with a human rights situation that has deteriorated significantly since 2003. Several Caribbean nations, especially Grenada, Haiti, and Jamaica, were hard hit by several devastating storms in 2004, and in 2005 hurricanes again caused significant damage in several island nations, especially Cuba and Haiti. 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 second session of the 109<sup>th</sup> Congress will likely focus on continued counter-narcotics efforts in the Andean region; trade issues, including the possible consideration of implementing legislation for one or more free trade agreements (FTAs) in the region; potential challenges to democracy in Venezuela and Bolivia; ongoing efforts to bring political stability and ameliorate poverty in Haiti; efforts to foster political change in Cuba; and cooperation on border security, migration and anti-terrorism measures, especially with Mexico.

Since 2000, the United States has provided more than \$4 billion for the Andean Counterdrug Initiative (ACI), 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 109<sup>th</sup> Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years, and in the second session will consider FY2007 ACI funding. Human rights and the environmental consequences of aerial fumigation remain issues in the congressional debate. The future of continued assistance to Bolivia could become an issue with the election of a president who has strongly criticized U.S. counternarcotics policy toward the region.

In the trade arena, Congress approved legislation in July 2005 (P.L. 109-53, signed into law August 2, 2005) implementing the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) that had been completed in 2004. The Bush Administration views the agreement as a way for the region to help create jobs, attract foreign investment, and advance good governance. As reflected in the narrow passage in the House, congressional consideration of the DR-CAFTA was controversial, with opposition from labor advocates and some industry groups. In December 2005, the United States and Peru announced that they had completed negotiations for a free trade agreement. Colombia and Ecuador, originally part of negotiations for a U.S.-Andean FTA, will continue negotiations with the United States in 2006, and negotiations are continuing for a U.S.-Panama FTA. If any of these agreements are signed, Congress could consider implementing legislation in the second session of the 109<sup>th</sup> Congress.

With regard to democracy and political stability, Congress will likely focus on continued support to Haiti, the hemisphere's poorest nation that has hopes of electing a new government in early 2006. Venezuela — a major supplier of oil to the United States — will also remain a congressional concern because of fears that President Hugo Chávez may be using his political power to push toward authoritarian rule and to support leftist groups in other Latin American countries. In Bolivia, the future government of newly elected president Evo Morales, a former leader of the coca growers union, could complicate U.S. relations not only because of his criticism of U.S. counternarcotics policy but also because of his leftist orientation and close relations with Venezuela's Hugo Chávez and Cuba's Fidel Castro. With regard to U.S. policy toward Communist Cuba, Congress will likely continue to focus on the poor human rights situation and to debate whether loosening or tightening the U.S. embargo will encourage political change.

Congress has maintained an active interest in neighboring Mexico, focusing especially on border security and migration issues. In May 2005, Congress approved legislation (as part of P.L. 109-13, the FY2005 Emergency Supplemental Appropriations Act) that established identity card standards for the issuance of drivers' licenses, waived laws to facilitate the construction of a border fence, and required a pilot test of ground surveillance technologies at the border. Congress will likely maintain an active interest in Mexico as it approaches presidential and legislative elections in 2006.

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. In the aftermath of several devastating storms in 2004, the United States provided disaster and reconstruction assistance to several Caribbean nations. 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; an estimated \$1.8 billion in FY2005; and an estimated \$1.7 billion in FY2006. The Millennium Challenge Account (MCA), could also significantly increase U.S. aid to several Latin American nations. In May 2005, the Millennium Challenge Corporation approved a five-year \$215 million compact for Honduras, and in July it approved a \$175 million five-year compact with Nicaragua.

**CRS Products:**

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

CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh and Mark P. Sullivan.

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

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

CRS Report RS22095, *Organization of American States: A Primer*, by Clare Ribando.

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

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 about 9% 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 more countries are deemed eligible for Millennium Challenge Account grants.

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 14, 2005, the President signed into law the FY2006 Foreign Operations Appropriations Act (H.R. 3057, P.L. 109-102), fulling funding several accounts from which Latin American and Caribbean countries benefit. The FY2006 request included about \$1.7 billion for the region. For FY2005, U.S. assistance to Latin America and the Caribbean amounted to an estimated \$1.8 billion, the largest portion of which, \$947 million, was allocated to the Andean region. Mexico and Central America received \$311 million, while the Caribbean received \$370 million, largely reflecting assistance for hurricane and flood damage. Brazil and the Southern Cone of South America received an estimated \$52 million. The United States also maintains programs of a regional nature that totaled an estimated \$110 million in FY2005.

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. For FY2006, the Administration proposed funding for a Transition Initiative (TI) that is designed to support stabilization efforts in fragile states, and formerly funded from the Development Assistance account. Of the four nations chosen to receive TI funding, the Administration proposed spending \$30 million in Haiti. The FY2006 Foreign Operations Appropriations Act provided \$30 million for Haiti from DA funds, instead of an expanded Transition Initiative account. In the Foreign Operations spending measure, Congress maintained funding for these activities in the DA account.

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 in the first round; El Salvador became eligible for FY2006. On May 20, 2005, the Millennium Challenge Corporation (MCC) approved a five-year \$215 million compact with Honduras, and on June 14, 2005, it approved a five-year \$175 million compact with Nicaragua. 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.



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.

**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 109<sup>th</sup> Congress has been reviewing its progress in response to an Administration request to continue U.S. assistance in FY2006. 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. For FY2006, the Administration requested \$734.5 million, of which \$40 million was proposed for a new Critical Flight Safety Program, to upgrade aging aircraft. Another \$21 million was proposed for the Air Bridge Denial program, an air interdiction program in operation over Colombia. In the FY2006 Foreign Operations Appropriations Act (H.R. 3057, P.L. 109-102) Congress provided the Administration's request for \$734.5 million, but reduced the amounts for some of its components. The Critical Flight Safety Program would receive \$30 million instead of \$40 million, and the Air Bridge denial program would receive \$14 million rather than \$21 million.

It is estimated that Colombia produces between 56% and 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. In 2004, Congress 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. (FY2005 Ronald W. Reagan National Defense Authorization Act, P.L. 108-375) 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 spraying goals are ahead of schedule. The spraying does not prevent, although it may discourage, the replanting of illicit crops. The Office of National Drug Control Policy (ONDCP) reported that there was no net reduction in coca cultivation in Colombia in 2004, while the U.N. Office on Drugs and Crime reported a small decrease in Colombia but modest increases in both Bolivia and Peru. In November 2005, ONDCP announced that prices for cocaine and heroin had increased during 2005, indicating a decline in supplies.

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 largely 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 RL32774, *Plan Colombia: A Progress Report*, by Connie Veillette.

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.

CRS Report RL33162, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Caroline Navarette-Frias.

## Free Trade Agreements

**Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA).** On August 5, 2004, the United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic signed the DR-CAFTA. Nearly one year later, it faced a contentious debate and close vote in both houses of Congress. The Senate passed implementing legislation by a vote of 54 to 45 on June 30, 2005. The House did the same on July 28, 2005, by a vote of 217 to 215. President Bush signed the legislation into law on August 2, 2005 (P.L. 109-53, 119 STAT. 462). In addition to the United States, all countries except Costa Rica have ratified the agreement. The DR-CAFTA was expected to take effect on January 1, 2006, but none of the countries were able to make the necessary legal and regulatory changes in time. All of the five ratifying countries are expected to do so by summer of 2006, and the agreement will take effect on a rolling basis when each country fulfills its obligations.

The DR-CAFTA is a regional agreement in which all parties are subject to “the same set of obligations and commitments,” although each country negotiated a separate market access schedule. It is a comprehensive and reciprocal trade agreement, which distinguishes it from, and will eventually replace, commitments the United States has made under unilateral preferential trade arrangements — the Caribbean Basin Initiative (CBI), the Caribbean Basin Trade Partnership Act (CBTPA), and the Generalized System of Preferences (GSP). The DR-CAFTA covers market access of goods, services trade, government procurement, intellectual property, investment, labor, and environment, among other issues.

The DR-CAFTA was controversial. Supporters saw it as part of a policy foundation that can lead to improved intraregional trade, as well as long-term social, political, and economic development in an area of strategic importance to the United States. Opponents were especially concerned over some of the countries’ poor labor standards, the perception of inadequate labor laws, and lax enforcement, arguing that DR-CAFTA’s labor provisions should have included suspension of trade benefits language similar to that found in the CBI and GSP. The investor-state and pharmaceutical data protection sections were also repeatedly criticized as inadequate. With added concerns from select industry groups (e.g. sugar and textiles), the politics of DR-CAFTA led to the very narrow margin of approval.

**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, with the ninth and most recent round occurring in Washington, D.C. January 17-20, 2006. The agreement has still not been completed, with a few contentious agricultural issues to be resolved. The timetable for completion has not been set.

Panama is largely a services-based economy, which distinguishes it and the trade negotiations with the United States from those of its Central American neighbors. After nine rounds, virtually all issues have been resolved, including difficult ones such as defining government procurement rules for the Panama Canal Authority and market access for U.S. retailers. Unlike the DR-CAFTA, there is little textile and apparel trade, and labor issues so far have been far less controversial. The treatment of sensitive agricultural products are the last issues to be resolved. In particular, the United States and Panama are at odds over a sanitary and phytosanitary (SPS) issue with respect to a U.S. demand that Panama accept USDA standards in certain cases. In addition, market access rules for many sensitive products, although reportedly close to being finalized, have not been completed. Sugar will be dealt with separately and likely last.

**U.S.-Andean FTA.** On May 18-19, 2004, the United States began free-trade negotiations with Colombia, Peru, and Ecuador. The first round of negotiations was held with Colombia, Peru, and Ecuador (with Bolivia participating as an observer) in Cartagena, Colombia, in May 2004. The last round of negotiations (thirteenth round) in which all countries participated was held in Washington, D.C. in November 2005. This round was expected to be the last, but the talks ended without an agreement. Prior to the November talks, Presidents Alejandro Toledo of Peru, Alvaro Uribe of Colombia, and Alfredo Palacio of Ecuador had sent President Bush a letter in October 2005, urging the United States “to be more flexible in negotiations.”<sup>2</sup> Colombia and Ecuador stepped out of the negotiations because they said they could not accept the U.S. position on patent protections and agriculture, while Peru decided to move forward alone in negotiations with the United States.<sup>3</sup>

On December 7, 2005, the United States and Peru announced that they had successfully completed a bilateral free trade agreement. On January 6, 2006, President Bush notified Congress of the United States’ intention to enter into a free trade agreement with Peru. Colombia and Ecuador are continuing trade negotiations with the United States this year. Talks with Colombia are scheduled to take place January 25-31, 2006, while talks with Ecuador are expected to resume sometime in February 2006. Negotiators from Colombia and Ecuador have expressed hope to conclude the talks in their next set of meetings. If the two countries reach an agreement with the United States, it is unclear whether they would join with Peru to form a U.S.-Andean FTA or whether the U.S.-Peru FTA would be considered as a separate agreement.

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<sup>2</sup> Ibid.

<sup>3</sup> Drajem, Mark, “U.S. and Andean Nations Fail to Reach Free Trade Deal, *Bloomberg.com*, November 23, 2005.

A U.S.-Andean free trade agreement would eliminate tariff and non-tariff barriers to trade among the countries, but there have been some difficult issues in the negotiations. 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 at the end of 2006. Intellectual property rights (IPR) protection and agriculture have been the most sensitive issues in the negotiations, though negotiators have stated that progress in the IPR issue has been made.

**Free Trade Area of the Americas.** The proposed Free Trade Area of the Americas (FTAA) was originally conceived 10 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 passed. At the center of the delay are deep differences dividing the United States and Brazil, the co-chairs of the Trade Negotiating Committee, which is charged with defining the framework under which the FTAA negotiations can continue. In particular, Brazilian insistence on a reduction of U.S. agricultural subsidies has been central to the debate. The United States and Brazil agreed at the November 2003 Miami Ministerial to a two-tier approach that would include a set of “common rights and obligations” to which all countries would agree, augmented by optional plurilateral arrangements for countries wishing to make deeper reciprocal commitments. To date, the United States and Brazil have been unable to define how this two-tier concept would work, and the United States has rebuffed Brazil’s offer to move ahead with the “4+1” market access talks with the Mercosur (Southern Common Market) countries (Brazil, Argentina, Uruguay, and Paraguay).

The breadth of an emerging resistance to the FTAA became clearer at the fourth Summit of the Americas held on November 4-5, 2005, in Mar del Plata, Argentina. Amidst dramatic and sometimes violent protests against President George W. Bush and the FTAA, which was not scheduled as the major topic of this summit, it was evident that Latin America was divided over how to proceed. A total of 29 countries supported restarting negotiations, and the United States pushed to set a specific date in 2006. The Mercosur countries rejected this idea, arguing that the conditions for a balanced and equitable FTAA did not yet exist. Venezuela lobbied independently to end any further effort on the FTAA and called for a unified resistance against U.S. policies and presence in Latin America.

The Summit declaration called for a time to reflect on the problems of the FTAA process while awaiting the outcome of the upcoming WTO Doha Round ministerial. At this juncture, there is no unified vision on how to proceed with the proposed FTAA, but at a minimum, it appears that it will depend on how much progress, if any, is made on agricultural issues in the WTO, and whether the United States and Brazil can come to a mutual understanding on how to proceed. In the meantime, both Brazil and the United States are courting other Latin American countries to join them in subregional trade pacts, a model of economic integration that most economists argue is far inferior to a region-wide FTAA.

**CRS Products:**

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

CRS Report RL32110, *Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement*, by Remy Jurenas.

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 RS22164, *DR-CAFTA, Regional Issues*, by Clare Ribando.

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

CRS Report RL32770, *Andean-U.S. Free-Trade Agreement Negotiations*, by Angeles Villarreal

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

**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, and on July 28, 2005, the committee favorably reported the treaty (Senate Exec. Rept. 109-3). On October 7, 2005, the Senate agreed to the resolution of advice and consent on the convention, and the United States deposited its instruments of ratification for the convention on November 15, 2005.

In the aftermath of 9/11, the OAS also reinvigorated the Inter-American Committee on Terrorism (CICTE), which was first established in 1999 to cooperate in preventing, combating, and eliminating terrorist acts and activities. The CICTE has programs on cyber security, port security, airport security, legislation against terrorism, customs and border protection, terrorist financing, and terrorism policy engagement exercises.

The State Department, in its annual report on worldwide terrorism (*Country Reports on Terrorism 2004*, April 2005), highlights terrorist threats in Colombia,

Peru, and the tri-border area (TBA) of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fundraising activities. The 2004 report noted that persons suspected of ties to terrorist groups have been spotted in the TBA, but that no operational activities of terrorism have been detected. 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 State Department's 2002 report on terrorism maintained that "there was no confirmed credible information" of an Al Qaeda presence in Latin America. The 2003 State Department report on terrorism maintained that reports of an Al Qaeda presence in the TBA 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.<sup>4</sup> The State Department's 2004 report on terrorism maintains that there were "widespread, unfounded media reports alleging formal links between transnational criminal gangs and Islamic extremists" in Central America.

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. For FY2003, \$3.6 million in ATA assistance was provided for the region, with \$3.3 million of that for Colombia. For FY2004, \$5.3 million in ATA assistance was provided for the region. For FY2005, an estimated \$11.1 million in ATA is being provided for the region, with \$3.9 million for Colombia and \$0.5 million for the TBA of Argentina, Brazil, and Paraguay. The FY2006 ATA request for Latin America was \$9.7 million, with \$3.9 million for Colombia and the TBA.

**CRS Products:**

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

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<sup>4</sup> "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.

## Gangs in Central America

In the past year, there has been increasing attention by the press and policymakers on the effects of crime and gang violence in Central America, and its spillover effects on the United States. The February 2005 arrest of some 103 members of the violent Mara Salvatrucha (MS-13) gang in several cities across the United States — including a man charged in connection with a December 2004 bus massacre in Honduras that killed 28 people — raised concerns about the transnational activities of Central American gangs. Citizens in several Central American countries have identified crime and gang violence among the top issues of popular concern, and Honduras and El Salvador have recently enacted tough anti-gang legislation. Gang violence may threaten political stability, inhibit social development, and discourage foreign investment in Central America.

Many analysts predict that illicit gang activities may accelerate illegal immigration, drug smuggling, and trafficking in persons and weapons to the United States. Some analysts maintain that contact between gang members in both regions is increasing, and that this tendency may serve to increase gang-related violent crime in the United States. Others assert that unless the root causes of gang violence, which include poverty, joblessness, and the social exclusion of at-risk youth, are addressed in a holistic manner, the problem will continue to escalate.

In the 109<sup>th</sup> Congress, legislation has been introduced — S. 853 (Lugar) and H.R. 2672 (Harris) the North American Cooperative Security Act — that includes provisions to increase cooperation among U.S., Mexican, and Central American officials in the tracking of gang activity and in the handling of deported gang members. On June 7, 2005, the OAS passed a resolution to hold conferences and workshops on the gang issue and to urge member states to support the creation of holistic solutions to the gang problem. Within the U.S. government, the Department of Justice has created an inter-agency task force to focus on dealing with international gang activity through diplomacy, law enforcement, transnational legal mechanisms, justice sector reform, increased information-sharing, and improved repatriation procedures. Efforts to deal with criminal gang activity on the international front must also be coordinated with domestic policies aimed at stiffening penalties for gang-related crime. In the second session of the 109<sup>th</sup> Congress, debate is likely to ensue as to what mix of preventive and suppressive policies can deal with the gangs on both fronts.

**CRS Products:**

CRS Report RS22141, *Gangs in Central America*, by Clare Ribando.



## 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 over 3%; the Bahamas, Guyana, and Trinidad and Tobago, with rates over 2%; and Barbados, Belize, the Dominican Republic, Jamaica, and Suriname, with 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). 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. Because of the inclusion of Guyana and Haiti as focus countries in the President's Emergency Plan for AIDS Relief (PEPFAR), U.S. assistance to the Caribbean and Central America for HIV/AIDS increased to \$47 million in FY2004 and an estimated \$76 million in FY2005. The FY2006 request was for almost \$91 million, with \$21 million for Guyana and \$47 million for Haiti.

In the first session of the 109<sup>th</sup> Congress, Congress approved H.R. 1409 (P.L. 109-95), which authorizes assistance for orphans and other vulnerable children in developing countries, including in the Caribbean. Pending legislative initiatives in the second session include S. 600, the Foreign Affairs Authorization Act, FY2006 and FY2007, which contains a provision (Section 2516) that would add 14 Caribbean countries to the list of focus countries targeted for increased HIV/AIDS assistance; H.R. 164, which would provide for the establishment of pediatric centers in developing countries, including Guyana, to provide treatment and care for children with HIV/AIDS; and S. 350 and H.R. 945, which would provide assistance to combat infectious diseases in Haiti, including HIV/AIDS. As in past years, FY2007 appropriations for HIV/AIDS assistance in the Caribbean and Central America will be funded through Foreign Operations appropriations legislation.

**CRS Products:**

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

CRS Report RS21181, *HIV/AIDS International Programs: Appropriations, FY2003-FY2006*, by Tiaji Salaam-Blyther.

## 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. As treated in this paper, 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.

Assisting Afro-Latinos has never been a primary 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.

Some 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 toward 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.

In the first session of the 109<sup>th</sup> Congress, the House passed H.Con.Res. 175, on July 18, 2005, recognizing the injustices suffered by African descendants of the transatlantic slave trade in all of the Americas and recommending that the United States and the international community work to improve the situation of Afro-descendant communities in Latin America and the Caribbean.

**CRS Products:**

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

## Trafficking in Persons in Latin America and the Caribbean

Trafficking in persons for sexual exploitation or forced labor, both within a country and across international borders, is a lucrative criminal activity that is of major concern to the United States and the international community. Trafficking in persons affects nearly every country and region in the world. While most trafficking victims still appear to originate from South and Southeast Asia or the former Soviet Union, human trafficking is a growing problem in Latin America and the Caribbean. Countries in Latin America serve as source, transit, and destination countries for trafficking victims. Latin America is also a primary source for the estimated 14,500 to 17,500 people that are trafficked to the United States each year.

In Latin America, trafficking in persons occurs both within countries and across borders as children and adults are trafficked for prostitution, forced labor, and domestic servitude. Traffickers take advantage of poor young people with minimal education in countries with political instability, high unemployment, and corruption. Trafficking is increasingly tied to organized criminal groups who exploit undocumented migrants, especially in the U.S.- Mexico border region.

Congress has taken a leading role in fighting human trafficking by passing the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) and the Trafficking Victims Protection Reauthorization Act of 2003 (P.L. 108-193). As a result of that legislation, the State Department and other U.S. agencies provided more than \$82 million in anti-trafficking assistance to foreign governments in FY2004.

On June 3, 2005, the State Department released its fifth annual report on human trafficking, *Trafficking in Persons Report* (TIP), dividing countries into four groups according to the efforts they were making to combat trafficking. Tier 3 countries are those that have not made an adequate effort to combat trafficking and are subject to sanctions. Latin America had a higher percentage of Tier 3 countries in both the 2004 and 2005 TIP reports than any other region. In 2005, Bolivia, Ecuador, Jamaica, Venezuela, and Cuba were placed on Tier 3, but only Venezuela and Cuba were subject to sanctions by the presidential determination announced in September 2005.

In the first session of the 109<sup>th</sup> Congress, the Senate approved the ratification of the United Nations Protocol to Prevent, Suppress, and Punish Trafficking in Persons. The United States became a party to the Protocol on December 3, 2005. Congress also passed the Trafficking Victims Reauthorization Act of 2005 (P.L. 109-164). This law will provide some \$361 million over the next two years to combat trafficking in persons. During the second session of the 109<sup>th</sup> Congress, issues of concern related to trafficking in persons are likely to include monitoring both U.S. and international efforts to fight human trafficking, especially in regions such as Latin America, where it is an emerging problem.

**CRS Products:**

CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando.

CRS Report RL30545, *Trafficking in Persons: The U.S. and the International Response*, by Francis Miko.

## Country Issues

### Argentina

With the restructuring of over \$100 billion in defaulted bond debt in June 2005, Argentina appears to have emerged from its economic and political crisis. Although the country was under considerable stress in 2001 and 2002, the democratic political system weathered the crisis. President Néstor Kirchner, elected in 2003, has made bold policy moves in the areas of human rights, institutional reform, and economic policy that have helped restore Argentines' faith in democracy. The October 2005 legislative elections demonstrated strong support for President Kirchner. Economic growth has rebounded, from a decline of almost 11% in 2002 to 8.8% in 2003, 9% in 2004, and over 8% in 2005. In January 2006, Argentina paid off its \$9.5 billion debt to the International Monetary Fund (IMF), a popular move, but one that critics have questioned for its economic wisdom.

Looking ahead, the government faces such challenges as controlling inflation, reducing poverty, and building the political consensus needed to ensure sustainable economic growth and financial stability. As the 109<sup>th</sup> Congress begins its second session, issues of concern to Congress will likely include continued cooperation with Argentina on counter-terrorism issues and progress in Argentina's investigation of the 1994 Argentine-Israeli Mutual Association bombing.

**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.

### Bolivia

In the last few years, Bolivia has experienced political unrest resulting in the resignation of its elected president in 2003 and an interim president in June 2005, and in continuing discord over issues relating to the exploitation of its natural resources, coca eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. Bolivia is one of the poorest countries in Latin America, with a sizeable and active indigenous population, a long history of coca cultivation, and weak political institutions. Despite these challenges, the country has made some social and economic progress over the last several decades. Coca cultivation has decreased from its peak production years

in the 1990s but is still a source of conflict between the government and coca growers. The country's weak political institutions have been unable to overcome the number of societal, economic, geographic, and ethnic cleavages that distinguish Bolivia.

U.S. interest in Bolivia centers on its role as a coca producer and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries in the Andes. Some observers have criticized this focus for neglecting economic and social development issues, but the State Department defends it as necessary to promote licit economic development and democracy. The other potential U.S. interest in Bolivia involves its natural gas reserves, which are the second-largest in Latin America, after Venezuela.

Bolivia has had five presidents since 2001 when Hugo Banzer handed the reins to Jorge Quiroga due to health reasons. Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, fifteen months after he was elected. Succeeding him as president was his former vice president, Carlos Mesa, a popular former television journalist, and political independent. President Mesa resigned in favor of Eduardo Rodríguez, head of the Supreme Court, in June 2005 in response to continuing street protests that at times paralyzed the country. The 2003 change in leadership came about after months of protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society. The final spark that immediately preceded Sánchez de Lozada's resignation was his plan to export natural gas via a port in Chile, a historic adversary of Bolivia.

On December 18, 2005 a record 85% of the Bolivian electorate voted in elections that were deemed to be free and fair. Evo Morales, an indigenous leader of the leftist Movement Toward Socialism (MAS) party, won a convincing victory in the presidential election with 54% of the votes as compared to 29% for former president Jorge Quiroga of the rightist Social and Democratic Power Party, and 8% for cement magnate Samuel Doria Medina of the center-right National Unity Front (UN). The MAS won control of the lower chamber of the Bolivian congress, 12 of 27 seats in the Senate, and two of the country's nine governorships.

President Morales has taken some positions that could complicate U.S. relations with Bolivia. Morales, a former leader of the coca growers union, has resisted U.S. counternarcotics policy in the region and vowed to decriminalize coca growing. Morales has also pledged to nationalize Bolivia's oil and gas sector, but has assured investors that his government will not confiscate foreign assets. Morales' first task as president will be to convoke a Constituent Assembly by mid-2006 to reform the constitution.

**CRS Products:**

CRS Report RL32580, *Bolivia: Political and Economic Developments and Implications for U.S. Policy*, by Connie Veillette.

CRS Report RL33162, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Caroline Navarette-Frias.

CRS Report RL32770, *Andean-U.S. Free Trade Agreement Negotiations*, by M. Angeles Villarreal.

**Brazil**

President Luis Inácio Lula da Silva of the leftist Workers' Party (PT) was inaugurated as President of Brazil on January 1, 2003, after winning the October 2002 elections decisively. During three years in office, he has sought to eradicate hunger through a program called Zero Hunger, while maintaining the restrained economic policies associated with his predecessor. Brazil even surpassed the IMF's fiscal and monetary targets, and the country has experienced lower inflation, a dramatic lowering of Brazil's credit risk rating, and solid rates of economic growth (4.9% in 2004, and 3.6% estimated for 2005). In December 2005, Brazil decided to pay off its \$15.5 billion debt to the IMF ahead of schedule. Interest rates in the country remain very high but on a downward path. In 2003, the President orchestrated passage of social security and tax reforms, and in 2004, he gained approval of new laws to reduce the length of legal proceedings and to allow more private investment in public infrastructure projects. Even so, he has been criticized for failing to develop more effective social programs to address the persistent problems of land distribution, social inequity, and crime.

Since May 2005, the country has been embroiled in a serious political scandal as congressional committees investigate charges that senior members of the President's party were providing large monthly payments or bribes to congressmen of the allied parties to guarantee their support. Following confirmation of some of the allegations, several senior officials resigned, including key presidential advisers and the leadership of the PT, and a number of deputies face possible expulsion following the completion of impeachment proceedings. Jose Dirceu, the President's long-time adviser, Chief of Staff, and legislator, was impeached on November 30, 2005, and expelled from the Chamber of Deputies. Finance Minister Antonio Palocci has been implicated in the schemes as well, but the President seems determined to keep him as the head of his economic team. Most observers doubt that a movement to impeach President Lula da Silva will develop because his involvement seems to be marginal and because opposition parties appear to prefer to face a weakened candidate for re-election in the upcoming October 2006 presidential election.

Relations with the United States have been generally positive, although President Lula da Silva has made relations with the closest neighboring countries in the Southern Common Market (Mercosur) his first priority, and has been seeking to strengthen ties with non-traditional partners, including India and China, and African and Arab countries. On June 20, 2003, the Brazilian President made an official visit

to Washington, D.C., and the countries' leaders resolved "to create a closer and qualitatively stronger [bilateral] relationship." Following an October 2004 visit by her predecessor, Secretary of State Condoleezza Rice visited Brazil on April 26-27, 2005, and discussed ways to advance trade and democracy in the world. On November 6, 2005, President Bush visited Brasília on his return from the Summit of the Americas in Argentina, and the two leaders reaffirmed the good relations between the countries and pledged to work together to advance peace, democracy, and a successful conclusion of the Doha Round of global trade talks.

Trade issues are central to the bilateral relationship, with both countries being heavily involved in subregional, regional, and global trade talks. Brazil is seeking to strengthen the Mercosur and to establish free trade agreements with most of the countries in South America while also pursuing an effort to negotiate a Mercosur-European Union free trade agreement and to advance the global trade talks through the Doha Round as a leader of the G-20 developing countries. The United States has been actively involved in the Doha negotiations and has pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA) while simultaneously undertaking a series of subregional agreements. Brazil and the United States are co-chairs of the FTAA Trade Negotiation Committee, but the countries have different perspectives. 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 emphasizes investment and intellectual property rights and argues that agricultural subsidy issues should be resolved in the Doha round of WTO talks.

Disagreements on the FTAA came to a head in the November 2003 Ministerial Meeting in Miami, Florida, where the parties finally agreed on a formula under which all of the countries would agree to a set of core obligations, while countries favoring a more ambitious agreement would negotiate plurilateral agreements. Despite several attempts, the regional countries have not met to define the FTAA common obligations. A U.S. effort, at the fourth Summit of the Americas at Mar del Plata, Argentina, to set a date for new FTAA negotiations was resisted by Venezuela and Mercosur countries, arguing that such talks should be put off until agricultural subsidy issues are resolved in the global Doha talks. Following modest but encouraging results at the WTO Ministerial in Hong Kong in mid-December 2005, recent reports suggest that FTAA negotiations may resume in February 2006.

**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 — a record that has worsened since 2003. Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. 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. The Bush Administration has further tightened restrictions on travel, on sending private humanitarian assistance to Cuba, and on the payment process for U.S. agricultural exports to Cuba. 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. Still others call for a swift normalization of U.S.-Cuban relations.

In the second session of the 109<sup>th</sup> Congress, attention likely will continue to focus on Cuba's human rights situation and on Cuba sanctions. To date in the 109<sup>th</sup> Congress, legislative initiatives have included four human rights resolutions: House-passed H.Con.Res. 81, H.Res. 193, and H.Res. 388; Senate-passed S.Res. 140; and H.Con.Res. 165, which also expresses support for the embargo. In addition, P.L. 109-102 (H.R. 3057) funds democracy projects for Cuba in FY2006; House-passed H.R. 2601 would authorize \$5 million for U.S. government scholarship and exchange programs; a pending amendment (S.Amdt. 319) to S. 600 would authorize \$15 million in democracy and human rights projects.

With regard to Cuba sanctions, the House- and Senate-passed versions of H.R. 3058, the FY2006 Transportation appropriations bill, had identical provisions that would have prohibited funds from being used to implement tightened restrictions on financing for U.S. agricultural exports to Cuba, but the provisions were not included in the conference report (H.Rept. 109-307). Other initiatives include H.Con.Res. 206 (temporary suspension of some sanctions after Hurricane Dennis); H.R. 208 and H.R. 579 (overall Cuba sanctions); S. 894 and H.R. 1814, (travel) H.R. 2617 (family visits); H.R. 3064 (educational travel); H.R. 1339 and S. 634 (cash in advance for U.S. agricultural sales); and H.R. 719 and S. 328 (facilitation of agricultural sales). In addition, H.R. 719 and S. 328, as well as H.R. 3372 and S. 1604, would repeal a provision of law preventing payments from Cuban or foreign nationals for trademark registration related to confiscated assets in Cuba. In contrast, H.R. 1689 and S. 691 would amend the law regarding Cuban trademarks so that it applies to all parties regardless of nationality. Other legislative initiative have provisions related to Cuba broadcasting (P.L. 109-108, S. 600, and H.R. 2601); anti-drug cooperation (H.R. 3057); and U.S. fugitives in Cuba (H.R. 2601, H.R. 332).



**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 RS22228, *Cuba after Fidel Castro: Issues for U.S. Policy*, 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. President Fernández continues to enjoy relatively strong popular support and has restored some confidence in the Dominican economy. On February 1, 2005, President Fernández signed a new \$665 million loan agreement with the IMF. During the first half of 2005, GDP growth in the Dominican Republic reached 5.8%. Inflation has declined, and the currency has regained most of its value. The Fernández administration has struggled, however, to deal with high crime rates, corruption and persistent electricity shortages. Human rights organizations have criticized the Dominican government for several massive repatriations of undocumented Haitian migrants in 2005 and for the illegal trafficking of Haitian children into the Dominican Republic. Some 4,000 individuals were repatriated to Haiti in May and more than 1,000 more in August 2005.

On September 6, 2005, the Dominican Republic approved the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). The Dominican government is now striving to build up its export competitiveness, expand its tourism industry, and develop new tax measures needed to compensate for the loss of tariff revenue that is expected to result from DR-CAFTA. In late December 2005, Dominican officials announced that they would be unable to implement DR-CAFTA until July 2006. As the 109<sup>th</sup> Congress begins its second session, Congress will likely be interested in the Dominican Republic's implementation of DR-CAFTA.

**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 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**

On April 20, 2005, President Lucio Gutierrez was removed from office by Ecuador's Congress following weeks of popular protests. Ecuadorians rejected Gutierrez's December 2004 replacement of the majority of the judges on the country's three highest courts with his political allies, a move that had been sharply criticized by the international community. Succeeding him as President was his former vice president, Alfredo Palacio, a physician and political independent. Palacio is the country's seventh president in nine years. Ecuador's economy is currently expanding because of high oil prices, but its political institutions are extremely fragile. The Palacio Administration has already been weakened by cabinet resignations, allegations of corruption, and a failure to gain congressional support for a constituent assembly.

Ecuador continues to work with the United States on counter-narcotics matters and is expected to soon resume negotiations for a U.S.-Andean Free Trade Agreement. Despite this cooperation, international investors are concerned by Palacio's lack of fiscal discipline, including his support of a congressional measure to channel oil revenue into social spending rather than debt repayment. In June 2005, the U.S. State Department placed Ecuador on the Tier 3 list of countries not taking adequate measures to combat trafficking in persons, but the country will not face sanctions this year as it has been given a U.S. national interest waiver.

**CRS Products:**

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

CRS Report RL32770, *Andean-U.S. Free Trade Agreement Negotiations*, by M. Angeles Villarreal.

## El Salvador

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca faces the challenges of restarting a stagnating economy, passing legislation in a polarized political environment, and combating gang violence. His legislative agenda should face less opposition in 2006 than in previous years, as mass defections from the Farabundo Marti National Liberation Front (FMLN) have weakened the opposition's strength in the Legislative Assembly, and ARENA is likely to pick up seats in the March legislative elections. In 2005, despite its tough anti-gang legislation, El Salvador posted a murder rate of 15 people per day, the highest in the hemisphere. Although a majority of Salvadorans approve of President Saca's job performance, especially his handling of Tropical Storm Stan and a volcanic eruption in October 2005, a majority also disapprove of his decision to maintain Salvadoran soldiers in Iraq.

The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, especially through the United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). As the 109<sup>th</sup> Congress begins its second session, issues of concern to Congress are likely to include cooperation with El Salvador on the implementation of DR-CAFTA and consideration of President Saca's request to extend the Temporary Protected Status (TPS) of undocumented Salvadoran migrants living in the United States that is set to expire in September 2006.

### CRS Products:

CRS Report RS21655, *El Salvador: Political, Economic, and Social 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.

## Guatemala

Congressional concerns regarding Guatemala in the 109<sup>th</sup> Congress include how to support further consolidation of its democratic process, reduction of poverty, respect for human rights, further military reform, and the proposed easing of 15-year old prohibitions of U.S. military aid to Guatemala. Guatemala has been consolidating its transition from centuries of mostly autocratic rule toward representative government since the 1980s, but its democratic institutions remain fragile. Since taking office in January 2004 for a four-year term, President Oscar Berger has made fulfilling the 1996 Peace Accords a central theme of his administration. The Peace Accords ended a 36-year civil war and outline a profound restructuring of state

institutions. They seek to end government security forces' impunity from prosecution and consolidate the rule of law; shift considerable government funding away from the military and into health, education, and other basic services to reach the rural and indigenous poor; and promote the full participation of the indigenous population in local and national decision-making processes.

President Berger has attacked corruption and enacted long-delayed military reforms. His economic reforms include a temporary tax to fund programs related to the peace process. The Financial Action Task Force, an international organization dedicated to enhancing international cooperation in combating money-laundering, welcomed progress made by Guatemala in enacting and implementing anti-money laundering legislation.<sup>5</sup> In 2005, the Guatemalan legislature passed CAFTA, the U.S.-Central America Free Trade Agreement, as part of the government policy to stimulate the economy by encouraging private investment. President Bush signed CAFTA on August 2, 2005. Opposition leaders maintained it favored capital-intensive investment over labor-intensive development and would therefore hurt the poor.<sup>6</sup> President Berger has proposed developing compensation programs for sectors that prove to be hurt by the implementation of CAFTA.

Guatemala continues to exhibit extreme poverty and inequality. About 56% of the total population, and 76% of the indigenous population, live in poverty. According to the World Bank, Guatemala has one of the largest income distribution gaps in the world. Guatemala's social indicators continue to be among the worst in the hemisphere. Its malnutrition rates are among the worst in the world; 44% of children under five years of age have stunted growth. Drought and low coffee prices triggered a rural economic crisis beginning in 2001, which has caused severe malnutrition among the rural poor. Guatemala's illiteracy rate is extremely high: at 31%, only Nicaragua and Haiti have worse levels in the hemisphere. The average level of schooling is 4.3 years, and among the poor, it is less than two years.

Regarding respect for human rights, Guatemala has made enormous strides, but significant problems remain. The U.N., the OAS, and the United States have all expressed concern that human rights violations have increased over the past several years and that the Guatemalan government has taken insufficient steps to curb them. The U.N. Office of the High Commissioner for Human Rights is succeeding the U.N. Verification Mission in Guatemala, which withdrew in late 2004 after verifying compliance with the Peace Accords for ten years. According to the State Department's human rights report for 2004, the Guatemalan government "generally respected the human rights of its citizens," but "very serious problems" remained, including reported extrajudicial killings and kidnaping for ransom by security forces, and social cleansing. The Guatemalan legislature is considering tough anti-gang legislation, similar to legislation that has been criticized in other countries for neglecting or violating human rights. President Berger supports a more balanced approach to the gang problem, with preventive as well as suppressive elements.

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<sup>5</sup> "FATF Tackles Terrorism Financing, Delists Guatemala," Financial Action Task Force, July 2, 2004.

<sup>6</sup> U.S. Southern Command Daily Open Source Information Overview, "One Dead in Guatemala Protests against Trade Deal with U.S.," March 16, 2005.

The Berger Administration requested funds to modernize the military and provide equipment for border protection and counter narcotics efforts, noting that it carried out military reforms such as reducing the size of the military by half. In response, the White House released in March 2005 \$3.2 million in frozen Military Assistance Program (MAP) funds from earlier years for non-lethal equipment<sup>7</sup> and proposed lifting 15-year restrictions on military aid to Guatemala. Before the Administration released the MAP funds, it certified to Congress that certain conditions set by Congress in the FY2005 foreign operations appropriations act (P.L. 108-447, Section 584(b)) had been met. These conditions related to limiting the role of the military, the investigation and prosecution of military personnel implicated in human rights violations and other crimes, establishment of the Commission for the Investigation of Illegal Groups and Clandestine Security Organizations, and efforts to combat narcotics trafficking and organized crime.<sup>8</sup>

The Bush Administration proposed in its 2006 budget to remove military aid restrictions and provide Guatemala with International Military Education and Training (IMET) and Foreign Military Financing (FMF) funds, which have been prohibited since 1990 because of human rights concerns. While applauding the reduction in forces, some human rights groups express concern that other reforms required by the Peace Accords have not yet been enacted and about continued human rights abuses and impunity and corruption among current and former military officials. In FY2006 foreign operations appropriations (P.L. 109-102), Congress maintained the existing restrictions, allowing only expanded-IMET or training in military justice reform, respect for human rights, and for civilians in defense matters, and prohibiting FMF for Guatemala.

Immigration will be an area of contention in U.S.-Guatemalan relations in 2006. In December 2005, the House passed a bill (H.R. 4437) that would make unlawful presence in the United States a criminal, rather than a civil offense and would increase border barriers. In January 2006, Guatemala joined the Mexican and other Central American governments in criticizing U.S. efforts to toughen border enforcement and demanded guest-worker programs. The countries said they were seeking integrated solutions, by which they would try to decrease illegal emigration, and the United States would help create conditions that would lessen the need to migrate.

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<sup>7</sup> Eric Green, "United States Releases \$3.2 Million in Military Aid to Guatemala," U.S. Dept. of State, Washington File, March 24, 2005.

<sup>8</sup> Certification Under Section 584(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2005 (Div. D, P.L. 108-447); Dept. of State Public Notice 4983, Jan. 25, 2005 (70 F.R. 5264, Feb. 1, 2005).

**CRS Products:**

CRS Report RL32124, *Guatemala: Political Conditions, Elections, and Human Rights*, by Maureen Taft-Morales.

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. policy during the second session of the 109<sup>th</sup> Congress will be how to promote greater stability and strengthen democratic processes in Haiti most effectively. The lack of a fully functioning infrastructure and ongoing violence make it difficult to pursue other U.S. goals in Haiti, such as promoting democracy — especially elections, encouraging respect for human rights, alleviating poverty, and decreasing narcotics trafficking. A further Administration goal, of limiting illegal immigration, has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers.

The initial policy focus will be on presidential and legislative elections, now scheduled for February 7, with runoff elections on March 19 if no candidate wins a majority. Originally scheduled for late 2005, they have been postponed several times amidst technical and security concerns. If free and fair elections are held, the U.S. focus will likely shift to assisting in the transition of a new government, due to be sworn in on March 29. As political disarray and human rights violations continue, some observers express concern that conditions are not conducive to safe elections, and that insisting on elections before favorable conditions exist risks having the elections seen as unfair, non-inclusive, or illegitimate. Others argue that establishing a legitimate government through fair, credible elections is the first step toward stability.

On November 11, 2005, Haiti's provisional electoral council released a revised slate of candidates allowed to run out of the 54 who had registered to run. The 35 remaining candidates include former presidents and prime ministers, some of whom served under the brutal de facto military regime; the leader of last year's armed rebellion, whom the Bush Administration suspects of drug trafficking; a former Senator accused of political murders; a former mayor of Port-au-Prince and supporter-turned-critic of former President Jean-Bertrand Aristide; a co-founder of the Group of 184, a civil society coalition that opposed Aristide; and long-time activists who fought against the Duvalier and de facto regimes. Millionaire Haitian-American businessman Dumarsais Simeus was prohibited from running because he had not presented proof of Haitian nationality. Former President Rene Preval (1996-2000) is widely considered the frontrunner. Preval has been estranged in recent years from his former mentor Aristide, but remains popular among Haiti's poor.

Aristide departed from office amidst violent protests on February 29, 2004. The interim government says its investigation into the Aristide Administration uncovered embezzlement of millions of dollars of public funds. The Central Unit for Financial Information reported that millions of dollars in public funds were illegally transferred to private institutions created by Aristide and that an estimated \$20 million were transferred to personal foreign accounts belonging to Aristide. The government filed a suit in U.S. federal court November 2 alleging that Aristide and others broke U.S. law by transferring public funds to personal foreign accounts. Aristide's lawyer dismissed the lawsuit as "baseless" and said that it was part of a government misinformation campaign against Aristide. Observers made allegations of corruption and misuse of public funds throughout much of Aristide's second term.

Noting the current interim government's difficulties in organizing elections and voicing concern that the ongoing violence and human rights violations create an intimidating atmosphere that inhibits political participation at a national and local level, some critics describe the government of Prime Minister Gerard LaTortue as weak and partisan. Others note that the government has enacted some reforms. With international support, some progress has been made toward the objectives outlined at the International Donors Conference on Haiti in July 2004, including voter registration, improvements in fiscal transparency, jobs creation, and broader access to clean water and other services.

Policymakers concerned about security in Haiti are debating what role the United States should play in enhancing Haitian security and promoting greater respect for human rights. The Administration facilitated both the transfer and sale of arms to Haiti in 2005. Congress expressed concern about members of the Haitian National Police or other individuals committing human rights violations or other unlawful acts while using weapons that have been provided or licensed by the U.S. government, and prohibited the transfer of excess lethal materiel with International Narcotics Control and Law Enforcement funds unless certain conditions were met. Observers are also debating how best to support the existing United Nations Stabilization Mission in Haiti (MINUSTAH), or whether to expand the UN's role, with some observers urging some sort of long-term international intervention; the mission's current mandate expires in February, but is expected to be renewed. Only four U.S. military advisers and 25 civilian police have been participating in MINUSTAH out of a force of about 8,000 from 41 countries.

For FY2006, the Administration requested about \$196 million in assistance, including \$32 million for food aid. In the FY2006 foreign operations appropriations act (P.L. 109-102), Congress earmarked over \$116 million in assistance for Haiti, including \$50 million for Economic Support Funds, \$30 million for Development Assistance (instead of the \$30 million requested for Transitions Initiatives), \$20 million for Child Survival and Health (CSH) assistance, and \$15 million for International Narcotics Control and Law Enforcement (INCLE) assistance. The FY2006 legislation also prohibits the use of INCLE assistance to transport excess U.S. weapons, ammunition, or other lethal property to the government of Haiti unless certain conditions are met. It also established reporting requirements related to investigations of human rights abuses by the Haitian National Police and security issues related to elections.

In other areas of concern, U.S. funding to Haiti to combat HIV/AIDS has increased significantly in recent years because of Haiti's inclusion as a focus country in the President's Emergency Plan for AIDS Relief (PEPFAR). The administration requested \$47 million in Global HIV/AIDS Initiative funding in FY2006. Supporters of special trade preferences for Haiti reintroduced them for consideration by both houses towards the end of the last session. The Haiti Economic Recovery Opportunity Act (H.R. 4211/S. 1937) would expand U.S. preferential trade for Haiti by amending the Caribbean Basin Economic Recovery Act.

**CRS Products:**

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

CRS Report RL33156, *Haiti: International Assistance Strategy for the Interim Government and 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 108<sup>th</sup> Congress*, by Andy Mendelson, available online at [<http://www.crs.gov/products/browse/officialsources/haitileg.shtml>].

## Honduras

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 that was marred by technical difficulties that delayed the official count. Zelaya will be inaugurated on January 27, 2006, succeeding President Ricardo Maduro of the National Party. 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 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). In the second session of the 109<sup>th</sup> Congress, issues of concern to Congress will likely include whether temporary protected status for some 82,000 undocumented Hondurans will be extended beyond the scheduled expiration date of July 5, 2006.



**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**

President Vicente Fox is approaching the last year of his six year term (2000-2006) with many unfulfilled goals, and he is constitutionally prohibited from running for re-election. In this context, the major parties have selected candidates for the approaching July 2006 presidential elections: Andres Manuel Lopez Obrador is the candidate for the Party of the Democratic Revolution (PRD), Felipe Calderon is the candidate for the National Action Party (PAN), and Roberto Madrazo is the candidate for the Institutional Revolutionary Party (PRI).

Congressional interest in Mexico generally focuses on migration and border affairs, trade issues, and drug trafficking concerns. With regard to migration and border issues, Congress is considering a variety of immigration initiatives, including some that would establish a guest worker program in line with President Bush's 2004 and 2005 proposals and high level Mexico-U.S. talks. In May 2005, Congress passed FY2005 Emergency Supplemental Appropriations (H.R. 1268/P.L. 109-13), which included the REAL ID Act of 2005, with provisions that strengthened border control and established identity card standards for drivers' licenses. In June 2005, U.S., Canadian, and Mexican officials released a Report to Leaders with initiatives for trilateral cooperation under the "Security and Prosperity Partnership (SPP) of North America" established in March 2005. On November 2, 2005, Homeland Security Secretary Chertoff launched the "Secure Border Initiative" to secure U.S. borders and reduce illegal immigration, drawing upon increased funding approved by Congress in early October 2005. In December 2005, the House passed H.R. 4437 (Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005) that would strengthen border and immigration controls, including deployment of a fence and surveillance equipment along the Mexico-U.S. border.

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, for example, has complained about Mexico's 20% tax on soft drinks made with high fructose corn syrup (HFCS), with devastating impact on HFCS sales. In 2004, USTR initiated WTO dispute settlement proceedings

against Mexico's tax, and following interim decisions, the WTO panel issued a final decision on October 7, 2005, essentially supporting the U.S. position. About the same time, the United States announced a new tariff-rate quota of 250,000 metric tons of raw or refined sugar from Mexico in FY2006, in keeping with Mexican claims under NAFTA, and Mexico followed suit by allowing up to 250,000 metric tons of HFCS from the United States in the same period. In mid-November 2005, the Mexican Senate extended the tax on HFCS products, and in early December 2005, Mexico decided to appeal the adverse panel ruling.

On drug trafficking issues, Bush Administration officials have regularly praised Mexico's counter-narcotics efforts under Fox, especially action against major traffickers and efforts to improve the judicial system. The State Department reported in March 2005, however, that Mexico remained the leading transit country for cocaine and a leading supplier of methamphetamine and that numerous U.S. extradition requests were denied based on the Mexican prohibition against life sentences and capital punishment, although the prohibition against life sentences seems to be weakening.. Several bills (H.R. 3889, H.R. 2601) have been reported by committees to encourage a reduction of smuggling of methamphetamine from Mexico. The Foreign Operations Appropriations Act (H.R. 3057/P.L. 109-102) was enacted in November 2005, barring assistance to a country that refuses to extradite individuals accused of killing U.S. law enforcement officers, unless the Secretary of State certifies that application of the sanction is contrary to U.S. national interests.

**CRS Products:**

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

CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

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.

## Nicaragua

Tensions among current President Enrique Bolaños, the leftist Sandinista party (Sandinista National Liberation Front, FSLN), and allies of rightist former President Arnoldo Alemán (1997-2002) were threatening Nicaragua's political stability throughout much of 2005. Events in October considerably reduced tensions and provided for President Bolaños to fill out the remainder of his term, which expires in January 2007. Politics will remain volatile, but for a different reason. Attention is now shifting to national elections scheduled for November 5, 2006. Dissidents from both sides — Herty Lewites of the left, and Eduardo Montealegre of the right — lead in polls, but their candidacies may be blocked by their former parties. Both are ahead of Sandinista leader and presidential candidate former President Daniel Ortega (1985-1991), who lost the last three elections.

Fall 2005 was a turning point in the political crisis. Following months of negotiations by the Organization of American States (OAS) and an October 2005 visit by U.S. Deputy Secretary of State Robert Zoellick, Ortega announced that he was breaking the power-sharing pact between his party and the PLC that had defined national politics since it was negotiated in 1998 and hampered Bolaños' ability to govern. Ortega and President Bolaños then agreed to postpone the implementation of constitutional amendments that have been at the root of tensions. These amendments will transfer significant executive powers, including controlling Cabinet appointments, to the legislature in February 2007. At the end of October, the National Assembly voted against proceeding with an attempt to impeach Bolaños on electoral fraud charges, which the OAS, the United States, and other foreign governments had viewed as threats to the constitutional order. In November, Bolaños renewed a national dialogue with the FSLN and PLC that had been suspended since April.

In a country with a long tradition of government corruption, President Bolaños took the landmark step of prosecuting former President Alemán and 13 associates for embezzling \$100 million in public funds while in office. Alemán, under whom Bolaños served as Vice-President, was sentenced to 20 years in prison in 2003 for fraud and money-laundering, remains under house arrest. After prosecuting his former boss, Bolaños was left with only a small faction of the Liberal Constitutionalist Party (PLC) supporting him.

In January 2005, the National Assembly, dominated by the PLC and Sandinista parties in opposition to the government, adopted a series of constitutional amendments that transferred presidential powers to itself and further divided up government institutions as political patronage. The Bolaños Administration did not recognize the amendments, and the Central American Court of Justice found them to be illegal, although its ruling is non-binding. During the height of the tensions, Bolaños invoked the OAS Inter-American Democratic Charter, under which a member government that considers its democratic process or legitimate exercise of power to be at risk may request assistance from the OAS to strengthen and preserve its democratic system. The OAS sent several high-level delegations to Nicaragua and established a mechanism for a national dialogue to reach a consensus on the constitutional amendments and governance.

Nicaragua is the second poorest nation in the hemisphere, rating only above Haiti. Nicaragua's poverty is widespread and acute. According to a recent World Bank report, overall poverty declined in Nicaragua between 1993 and 2001, but more than two-thirds of the rural population continue to live in poverty. Some social indicators have shown little or no improvement since 1993. Fertility rates continue to be high. Despite a marked increase in primary and secondary school enrollment, illiteracy rates among youth and adults have not improved.<sup>9</sup> The official unemployment rate is about 22%, with another 36% underemployed.<sup>10</sup> Primarily an agricultural country, Nicaragua's economy has been especially hard hit in recent years by the devastation wrought by natural disasters, drought, and a dramatic 75% decline in coffee prices. Agricultural production is expected to increase in 2006, however.<sup>11</sup>

The Bush Administration states that strengthening democracy is its first priority in Nicaragua. For FY2005, the Administration estimates that U.S. assistance to Nicaragua will total about \$49.5 million. The Administration requested \$32.9 million for FY2006, with most of that (\$21.3 million) in Development Assistance. In 2005 the Administration signed a five-year, \$175 million agreement with Nicaragua under the Millennium Challenge Account program. The Bush Administration suspended military assistance to Nicaragua in March 2005, until an agreement was worked out to destroy an arsenal of anti-aircraft missiles the Administration says constitutes a possible terrorist threat. In October 2005, the Pentagon announced that military assistance would resume, and the National Assembly promised to schedule debate on a law authorizing the missiles destruction. The Bolaños and Bush Administrations made passage of a U.S.-Central America Free Trade Agreement (CAFTA) a priority. The National Assembly approved CAFTA in October 2005, but is still debating intellectual property and copyright reforms, which must be passed before it can be implemented.

Resolution of property claims by U.S. citizens, arising from expropriations carried out by the Sandinista government in the 1980s, and immigration will be contentious areas in U.S.-Nicaraguan relations in 2006. Nicaragua passed a law creating a new Property Institute that could lead to the dismissal of 768 property claim lawsuits seeking compensation that are still pending in Nicaraguan courts. The new institute has not been established yet, but the Bush Administration warned earlier that passage of the property law could threaten U.S. aid to Nicaragua. In January 2006, Nicaragua joined the Mexican and other Central American governments in criticizing U.S. efforts to increase border enforcement and demanded guest-worker programs. The Department of Homeland Security has proposed ending Temporary Protected Status for Central Americans, which could force some 3,600 Nicaraguans to return home or stay in this country illegally. In December 2005, the House passed a bill (H.R. 4437) that would make unlawful presence in the United States a criminal, rather than a civil offense, and would increase border barriers.

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<sup>9</sup> The World Bank Group, Latin America and the Caribbean, *Nicaragua Poverty Assessment*, June 2, 2004.

<sup>10</sup> U.S. Dept. of State, *Background Note: Nicaragua*, February 2005, p. 5.

<sup>11</sup> "Business Outlook: Nicaragua," Economist Intelligence Unit, Jan. 9, 2006.

Other issues of concern to Congress include improving respect for human rights, developing a free market economy, improving civilian control over defense policy, increasing Nicaragua's capacity to combat transnational crimes such as trafficking in people and narcotics, reforming the judicial system and implementing good governance.<sup>12</sup> The October agreement led to progress in several reform efforts, such as the passage of the 2006 budget, the first-ever tax code, local government transfers, and financial administration reforms.

**CRS Products:**

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.

## Panama

With four successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Antonio Noriega from power. The current President, Martín Torrijos of the Democratic Revolutionary Party (PRD), 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 almost 48% of the vote in a four-man race. He succeeded President Mireya Moscoso of the Arnulfist Party (PA), elected in 1999, whose administration was tainted by several high-profile corruption scandals. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly.

The most significant challenges facing the Torrijos government have included dealing with the funding deficits of the country's social security fund; developing plans for the expansion of the Panama Canal; and combating unemployment and poverty. After protests and a protracted strike by construction workers, doctors, and teachers in 2005, the Torrijos government was forced to modify its plans for reforming the social security fund. A planned referendum on the Canal's expansion was delayed until late 2006.

The United States has close relations with Panama, stemming in large part from the extensive linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current bilateral relationship is characterized by extensive cooperation on counternarcotics efforts, assistance to help Panama assure the security of the Canal and its border with Colombia, and negotiations for a bilateral free trade agreement. The United States provided Panama with an estimated \$18.6 million in total foreign aid FY2005. The FY2006 request was for \$17.4 million.

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<sup>12</sup> U.S. Dept. of State, *Background Note: Nicaragua*, February 2005, p. 6.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. A ninth round held in Washington ended on January 13, 2006, with disagreement on sanitary control systems for U.S. products and animals to enter the Panamanian market. 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, 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 the second session of the 109<sup>th</sup> Congress, congressional interest will likely focus on the status of bilateral free trade negotiations. If negotiations are completed and an agreement is signed this year, Congress could consider implementing legislation.

**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**

As the Peruvian legislature's attention has shifted from investigating corruption allegations against President Alejandro Toledo to the April 9, 2006, national elections, Toledo is expected to complete his term, which expires in July 2006. Peru under Toledo has been characterized by two seemingly contradictory trends: high economic growth and extremely low popularity of the President. Some analysts believe that Toledo's perceived weakness may have contributed to Peruvians' disillusionment with traditional political parties and the rise of a populist leftist candidate.

Ollanta Humala, a retired army officer who led an uprising against then-President Fujimori and who espouses nationalist, anti-globalization policies, has recently risen to the top of opinion polls. He has yet to present a detailed program to the electoral authority but appeared to be trying to soften his image as an extremist by naming two moderates as his vice-presidential candidates. Various polls show him vying for first place with Lourdes Flores Nano, a popular former member of Congress of the center-right coalition Unidad Nacional. Alan Garcia, whose presidency (1985-1990) was marked by hyper-inflation and a violent guerrilla insurgency, is running for a center-left party, Union por el Peru, rather than his own party, Apra, and his popularity is slipping. Valentin Paniagua, who as interim President (2000-2001) steered the country out of a political crisis, stabilizing the economy and organizing fair elections, represents the well-established Accion Popular party that has moved toward the political center and has been in fourth place out of 23 candidates. Analysts say the outcome is far from certain. If no candidate receives 50% or more of the vote, there will be a run-off vote between the top two

candidates on May 7. Despite being barred from holding office until 2010 and being charged with ordering murder and torture, former President Alberto Fujimori (1990-2000) tried to return to Peru to run for president. The Chilean government arrested him in November 2005 and is processing Peru's request for his extradition. Peru's courts and elections board have barred him from running for office.

Toledo has presided over one of the highest economic growth rates in Latin America throughout his term, with 5% growth expected for 2006,<sup>13</sup> in contrast to four years of stagnation under his predecessors. Despite his low level of support, Toledo has pushed through tax reforms that have increased tax collection, pension reforms to reduce that system's deficit, and fiscal reforms that have reduced expenditures and the budget deficit. Economic growth has been driven by the mining sector. High growth rates have nonetheless left a substantial percentage of the population living in poverty and underemployed. Responding to nearly constant, widespread protests by teachers, farmers, and others for higher wages, Toledo declared several states of emergency. His administration started a welfare program in May that provides monthly subsidies to about 25% of the 6 million Peruvians living in extreme poverty. Pedro Pablo Kuczynski — then Economy Minister, now Prime Minister — said in March 2005 that the benefits of economic growth were filtering down to poorer sectors of society. In the first three quarters of 2005, employment grew 3.5% in Lima and 6.4% in the rest of the country.<sup>14</sup>

Drugs and security are likely to be issues in U.S.-Peruvian relations in 2006. 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. Protests against forced coca eradication led to an agreement calling for the reduction of coca leaf cultivation and restricted forced eradication. The government's coca policy is being further challenged: after the government accepted an ordinance passed by the region of Cusco authorizing free cultivation of coca, other regions passed similar ordinances, which the government has denounced as illegal. Peru receives less than one-fourth of the funding Colombia does under the Andean Counterdrug Initiative. Peru's anti-narcotics agency reported that coca planting outstripped eradication in 2004 and that the local drug industry appears to be producing pure cocaine now rather than sending it to Colombia to be processed.<sup>15</sup> The U.N. Office on Drugs and Crime reported in June 2005 that the land area being used for cultivating coca increased by 14%, and cocaine production increased by 23%, from 2003 to 2004. The Bush Administration stated that cultivation and production has been reduced by one-third since 2000.<sup>16</sup> For FY2006, Congress allocated Peru \$59 million for interdiction and \$49 million for alternative development in FY2006 foreign

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<sup>13</sup> "Country Report: Peru," *Economist Intelligence Unit*, Jan. 2006, p. 10.

<sup>14</sup> *Ibid*, p. 20.

<sup>15</sup> "Drug Seizures up but Coca Production Excels Too," Latin American Regional Report, Andean Group, March 8, 2005.

<sup>16</sup> "EU Reaffirms Commitment to Fight Against Drugs in Andean Countries," *Agence Europe*, June 15, 2005; Tyler Bridges and Steven Dudley, "Report: Coca cultivation rises in Andean Region..." *Miami Herald*, June 14, 2005.

operations appropriations (P.L. 109-447, conference report H.Rept. 109-265), an \$8 million reduction from FY2005 funding. In security issues, the Bush Administration requested \$300,000 for Foreign Military Financing for Peru, down from \$992,000 in FY2005. In Peru, a cell of the Shining Path (Sendero Luminoso), the extreme left guerrilla group active in the 1980s and early 1990s, has rejected the cease-fire in effect since 1992 and carried out three deadly attacks in 2005 in a coca growing region. The government responded by declaring a state of emergency.

The United States supports democracy and human rights programs in Peru. These 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 Fujimori, who fled the country in the wake of scandals in 2000, and his spy chief, Vladimiro Montesinos, who reportedly had ties to U.S. agencies.<sup>17</sup>

Peru signed a free trade agreement with the United States in December 2005. Both governments are expected to push for legislative ratification in 2006. Some Members of Congress have expressed concern over unresolved trade disputes with Peru. The agreement was originally to be a regional one, but neither Colombia nor Ecuador has signed such an agreement.

**CRS Products:**

CRS Report RL32770, *Andean-U.S. Free-Trade Agreement Negotiations*, by Lenore Sek.

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

Under the populist rule of President Hugo Chávez, first elected in 1998, Venezuela has undergone enormous political changes, with a new constitution, 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. In April 2002, massive opposition protests led to the ouster of Chávez from power for a brief period, but the military restored him to power after an interim government resorted to such hardline measures as dismantling the National Assembly and suspending the Constitution. After months of negotiations, the Chávez government and the political opposition signed an agreement in May 2003 that ultimately led to an August 2004 presidential recall referendum. Chávez survived the

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<sup>17</sup> Kevin G. Hall, "CIA Paid Millions to Montesinos," *The Miami Herald*, August 3, 2001.



vote by a margin of 59% to 41%. In December 2005 legislative elections, pro-Chávez parties won all 167 seats in the National Assembly after opposition parties pulled out of the race just days before the vote. The country's next presidential elections are set for the end of 2006, and there is a strong chance that Chávez could win another six-year term. The government has benefitted from the rise in world oil prices, which has sparked an economic boom. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of his Bolivarian revolution.

The United States traditionally has had close relations with Venezuela, but there has been friction in relations with the Chávez government. In 2005, relations deteriorated markedly, with Venezuela's cancellation of a bilateral military exchange program in April and its suspension of cooperation with the Drug Enforcement Administration in August. On September 15, 2005, President Bush designated Venezuela as a country that has failed demonstrably to adhere to its obligations under international narcotics agreements, although he waived economic sanctions that would have curtailed U.S. assistance for democracy programs in Venezuela. 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 the fourth major supplier of foreign oil to the United States, a key U.S. interest has been ensuring the continued flow of oil exports.

In the first session of the 109<sup>th</sup> Congress, the FY2006 Foreign Operations appropriations measure (P.L. 109-102, H.Rept. 109-265) provided \$2 million in FY2006 for democracy programs in Venezuela and \$2.252 million in assistance under the Andean Counterdrug Initiative. In the second session, Congress will likely continue to focus on concern about the status of democracy in Venezuela and President Chávez's support for leftist movements and governments in the region. Pending legislation includes the House-passed version of H.R. 2601, which would authorize \$9 million for each of FY2006 and FY2007 for democracy programs in Venezuela and authorize funds for U.S.-government broadcasting to Venezuela; H.Con.Res. 224 (Fortuño), which calls on the Venezuelan government to uphold the human rights and civil liberties of the people of Venezuela; and H.Con.Res. 328 (Mack), which condemns President Chávez's "anti-democratic actions" and expresses strong U.S. support for democratic forces in Venezuela.

**CRS Products:**

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