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CRS Report for Congress

Latin America and the Caribbean: Issues for the 110th Congress

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Latin America and the Caribbean: Issues for the 110th Congress

Summary

Over the past two decades, the Latin America and Caribbean region has made enormous strides in terms of political and economic development. Twelve countries held successful elections for head of government in 2006, including a close election in Mexico, and in 2007, five other countries have elections scheduled. Although the region overall experienced an economic setback in 2002-2003, it has rebounded since 2004, and most recently experienced an average growth rate over 5% in 2006. Despite this progress, several nations face considerable challenges that threaten political stability or pose challenges for U.S. interests and policy in the region. These include persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, increasing crime, and the rise of a new form of populism in several countries.

In the 110th Congress, legislative and oversight attention to Latin America and the Caribbean will likely focus on continued counternarcotics efforts, especially in the Andean region; potential immigration reform and increased border security, which have been key issues in relations with Mexico; efforts to deal with potential threats to democracy and the rise of populism in such nations as Venezuela, Bolivia, and Ecuador; debate over the best means to foster political change in Communist Cuba; trade issues, including the potential consideration of implementing legislation for free trade agreements (FTAs); and continued efforts to support stability and poverty alleviation in Haiti.

Curbing the flow of illicit drugs from Mexico and South America into the United States has been a key component of U.S. relations with Latin America for almost two decades. Since 2000, the centerpiece of this policy has been the Andean Counterdrug Initiative (ACI) aimed at supporting Colombia and its neighbors in eradicating the production of illicit drugs. From FY2000-FY2006, the United States provided around $5 billion for the ACI.

In the trade arena, the United States signed FTAs with Colombia and Peru in 2006, and also completed negotiations for an agreement with Panama late in the year. Implementing legislation for all three countries could be introduced early in the 110th Congress. Congressional interest also will be drawn to the scheduled expiration of fast track Trade Promotion Authority (TPA) in July 2007.

The 110th Congress will also likely maintain an oversight interest in potential terrorist threats in Latin America, as well as efforts to counter the trafficking of persons in the region, the rise of violent gangs in Central America, and continued efforts against HIV/AIDS in the Caribbean, where infection rates in some countries are among the highest outside sub-Saharan Africa.

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

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Overview[1]

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 some countries, weaknesses remain in the state's ability to deliver public services, ensure accountability and transparency, and advance the rule of law.

Twelve countries held successful elections for head of government in 2006: Chile, Costa Rica, Haiti, Peru, Colombia, Mexico, Guyana, Brazil, Ecuador, Nicaragua, Venezuela, and St. Lucia. In Mexico, the narrow official victory of conservative candidate Felipe Calderón over leftist Andrés López Obrador elicited a dramatic response from López Obrador who protested the electoral outcome. Presidents were re-elected in four races — Brazil, Colombia, Guyana, and Venezuela — and in five countries, former heads of government returned to power — Costa Rica, Haiti, Nicaragua, Peru, and St. Lucia. In 2007, presidential elections are scheduled in Argentina (October) and Guatemala (November), and in the Caribbean, parliamentary elections are due in the Bahamas (May), Jamaica (October), and Trinidad and Tobago (October). (For a listing of recent and forthcoming elections, see CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections*.)

In terms of economic growth, while the Latin America and Caribbean region overall experienced a gross domestic product decline of 0.6% in 2002 and only a modest growth rate of 1.5% in 2003, the region rebounded with an estimated average growth rate of 5.9% in 2004, surpassing even the most optimistic predictions.

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[1] This report draws from the various CRS reports listed after each topic. General sources used for this report include major newspapers covering the region, such as the *Miami Herald*, *New York Times*, and *Washington Post*; country reports from the Economist Intelligence Unit; articles from various daily, weekly, and monthly publications of *LatinNews.com*; congressional hearings and reports; and reports, press releases, and congressional budget justifications from such agencies as the State Department, the U.S. Agency for International Development, and the Office of the United States Trade Representative.

Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004, and even per capita income for the region as a whole increased by more than 4%. Growth continued in 2005 at a rate of 4.5%, with Argentina, the Dominican Republic, Grenada, Trinidad and Tobago and Venezuela all registering growth rates over 8%. Only Guyana experienced an economic setback of 3% in 2005. For 2006, The U.N. Economic Commission for Latin America and the Caribbean estimated a growth rate of 5.3% for the region, with Antigua and Barbuda, Argentina, the Dominican Republic, Trinidad and Tobago, and Venezuela leading the way with growth rates over 8%.[2]

The Andean region still faces considerable challenges, including the rise 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. The election of Bolivian indigenous leader Evo Morales as President in December 2005 complicated U.S. relations given Morales' efforts to decriminalize coca growing. In Ecuador, Rafael Correa, a left-leaning U.S.-trained economist won the November 2006 presidential elections and has vowed to reform Ecuador's political system, renegotiate Ecuador's foreign debt, and reassert state control over foreign oil companies operating in the country. Venezuela under President Hugo Chávez has been plagued by several years of political polarization, although Chávez's rule has been solidified since 2004 when he survived a recall referendum. He won another six-year term decisively in early December 2006, in large part because windfall oil profits have allowed his government to boost social spending significantly. In Peru, the presidential electoral victory in June 2006 of former President Alan García over retired military officer Ollanta Humala, an admirer of Hugo Chávez, eased U.S. concerns about the future of democracy in the country and the future of U.S.-Peruvian relations.

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. In Nicaragua, former President and Sandinista party leader Daniel Ortega won the November 2006 presidential election. Observers are uncertain how his government will proceed since his campaign vacillated between anti-U.S. rhetoric and reassurances that his government would respect private property, free trade policies, and work toward a cooperative relationship with the United States.

The diverse Caribbean region, which includes some of the hemisphere's richest and poorest nations, also faces significant challenges. The AIDS epidemic in the region, where infection rates are among the highest outside of sub-Saharan Africa, has been a major challenge for economic and social development in several countries.

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[2] U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Preliminary Overview of the Economies of Latin America and the Caribbean," December 2006.

Caribbean nations remain vulnerable to destruction by hurricanes and tropical storms as demonstrated in the 2004 and 2005 hurricane season. Haiti — the hemisphere's poorest nation — continues to be plagued by political and security problems. For many observers, the new government of President René Préval marks the beginning of a new era. Préval's goals include building governmental institutions and establishing conditions for foreign investment in order to create jobs. Cuba remains a hardline communist state with a human rights situation that has deteriorated significantly since 2003. In July 2006, Cuban leader Fidel Castro's announcement that he was temporarily ceding political power to his brother in order to recover from surgery prompted widespread speculation about the island's political future and the future of U.S.-Cuban relations after Fidel.

U.S. Policy

U.S. interests in Latin America and the Caribbean are diverse, and include economic, political and security concerns. Geographic proximity has ensured strong economic linkages between the United States and the region, with the United States being the major trading partner and largest source of foreign investment for most countries in the region. Free trade agreements with Mexico and Canada, Chile, and Central America and the Dominican Republic have augmented U.S. economic linkages with the region. The region is also the largest source of migration, both legal and illegal, with geographic proximity and economic conditions in the region being major factors in the migration. Curbing the flow of illicit drugs from Mexico and South America into the United States has been a key component of U.S. relations with Latin America for almost two decades. Latin American nations, largely Venezuela and Mexico, supply the United States with just over one-third of its imported oil, but there have been concerns about the security of the region as an oil supplier because of Mexico's declining oil reserves and periodic threats by Venezuela's President to cut oil exports to the United States.

In the aftermath of the Cold War, U.S. policy interests in Latin America and the Caribbean shifted away from security concerns and focused more on strengthened economic relations, but the September 2001 terrorist attacks in the United States resulted in security interests re-emerging as a major U.S. interest. As a result, bilateral and regional cooperation on anti-terrorism efforts have intensified. The Bush Administration has described the Caribbean region as America's third border, with events in the region having a direct impact on the homeland security of the United States. Cooperation with Mexico on border security and migration issues has also been a key component of the bilateral relationship.

In general, Administration officials set forth three priorities for the United States in Latin America and the Caribbean: promoting democracy; advancing free trade; and advancing poverty alleviation and social justice.[3] As noted above, Latin America has made enormous strides in terms of political and economic development over the past 25 years, with considerable U.S. support, but such conditions as persistent poverty, especially in Haiti, and the rise of populism in such countries as Venezuela, Bolivia,

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[3] U.S. Department of State, "Future Engagement and Partnership with Latin America," R. Nicholas Burns, Under Secretary for Political Affairs, November 20, 2006.

and Ecuador will continue to pose challenges for U.S. interests and policy in the region. Fostering cooperation on such issues as drug trafficking, terrorism, crime, and poverty reduction will remain key components of U.S. policy in the region.

In the 110th Congress, legislative and oversight attention to Latin America and the Caribbean will likely focus on: continued counternarcotics efforts, especially in Mexico and the Andean region; potential immigration reform and increased border security; efforts to deal with threats to democracy in such nations as Venezuela as well as the rise of populism in several Latin American countries; debate over the best means to foster political change in Communist Cuba; trade issues, including the potential consideration of several free trade agreements with Colombia, Peru, and Panama; and continued efforts to support stability and poverty alleviation in Haiti. The Congress will also likely maintain an oversight interest in potential terrorist threats in Latin America, as well as efforts to counter the trafficking of persons in the region, the rise of violent gangs in Central America, and continued efforts against HIV/AIDS in the Caribbean, where infection rates in some countries are among the highest outside sub-Saharan Africa.

Figure 1. Map of Latin America and the Caribbean

Source: Map Resources. Adapted by CRS.

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, U.S. assistance has focused on counternarcotics especially in the Andean region. In FY2006, aid levels to Latin America and the Caribbean comprised about 11.8% of the worldwide bilateral aid budget.

Appropriations for FY2007 were finalized late in the fiscal year (P.L. 109-289, as amended by P.L. 110-5 on February 15, 2007). Estimated FY2007 funding levels on a country and regional level are not yet available. Amounts requested for FY2008 would continue to reduce the ration of assistance to Latin America, despite concerns expressed by some Members of Congress about decreasing levels of aid to the region. The Administration contends that aid levels have not been cut when Millennium Challenge Compacts are included. Current aid levels could increase as more countries are deemed eligible for compacts. A restructuring of foreign aid programs, led by the newly created position of Director of Foreign Assistance at the State Department, got underway in 2006.

The annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for, and sets conditions on, foreign assistance programs. For FY2006, U.S. assistance to Latin America and the Caribbean amounted to an estimated $1.68 billion, the major portion of which, $919 million, was allocated to the Andean region, largely through the Andean Counterdrug Initiative discussed in more detail below. Mexico and Central America received $292 million, while the Caribbean received $307 million. Brazil and the Southern Cone of South America received an estimated $36 million. The United States also maintains programs of a regional nature that totaled an estimated $133 million in FY2006.

The FY2007 request of $1.6 billion represented the lowest levels of U.S. foreign assistance to the region in more than four decades, measured in constant dollars. The FY2007 request was 3% lower than FY2006. The largest proposed decrease occurred in the Development Assistance Account, which sustained a 28% reduction. The largest proposed increase was for Economic Support Funds (up 26%) and the Global HIV/AIDS Initiative (up 35%). The increase in Economic Support Funds included trade assistance for signatory countries of the Dominican Republic-Central America-United States Free Trade Agreement. The Child Survival and Health Account would be cut by 9%.

The FY2008 request for Latin America totals $1.45 billion with major reductions in Child Survival and Health, Development Assistance, and Foreign Military Financing. Other reductions include International Narcotics Control and Law Enforcement (INCLE), and the Non-proliferation, Anti-terrorism, Demining, and Related Programs account (NADR). The request includes increases for the ESF and the Global HIV/AIDS Initiative.

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

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.

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 2005, the Millennium Challenge Corporation (MCC) approved five-year compacts with Honduras ($215 million) and Nicaragua ($175 million), and in 2006 it approved a five-year compact with El Salvador ($461 million). Both Guyana and Paraguay have received threshold assistance from the MCC to help assist the countries become eligible for an MCC compact. Other Latin American or Caribbean nations could be eligible to receive assistance in future years.

CRS Products:

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

CRS Report RL33337, *Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America*, by Clare M. Ribando.

CRS Report RL33420, *Foreign Operations (House)/State, Foreign Operations, and Related Programs (Senate): FY2007 Appropriations*, by Connie Veillette, Susan B. Epstein, and Larry Nowels.

CRS Report RL32427, *Millennium Challenge Account,* by Curt Tarnoff.

CRS Report RL33491, *Restructuring Foreign Aid: The Role of the Director of Foreign Assistance in Transformational Development*, by Connie Veillette.

Andean Counterdrug Initiative

The Andean Counterdrug Initiative (ACI) is the primary U.S. program that addresses counternarcotics and alternative development in the Andean region of South America. The ACI supports Plan Colombia, a six-year plan developed by the Colombian government in 1999 to combat drug trafficking and related guerrilla activity. The 110th Congress could reconsider the ACI program during the appropriations process in 2007. Some critics have argued that it has been ineffective in reducing drug production, while supporters claim that it has helped stabilize Colombia, a strong U.S. ally.

The ACI program is regional in nature because organizations in countries bordering Colombia also produce and traffic in narcotics and because it is affected by other cross-border issues. The ACI 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 FY2006 totaled approximately $5 billion.

For FY2007, the Administration requested $721.5 million for the ACI program, of which $65.7 million was proposed for the Critical Flight Safety Program, to upgrade aging aircraft. On June 9, 2006, the House passed H.R. 5522, the FY2007 Foreign Operations Appropriations Act, that makes significant changes to the way foreign aid to Colombia is provided but largely approves the Administration's request with regard to funding levels. The Senate Appropriations Committee reported its version of the Foreign Operations bill on June 29, 2006, which would have provided $699.4 million for ACI, a decrease of $22 million. Both the House and Senate bills maintain reporting requirements from previous appropriations bills. Congress did not complete the Foreign Operations bill, instead passing three continuing resolutions to maintain funding into 2007. The final CR (P.L. 109-289, as amended by P.L. 110-5) sets ACI funding at $722 million. For FY2008, the Administration requested $442.8 million for ACI. This apparent decrease results from the decision to transfer alternative development programs from the ACI account to Economic Support Funds.

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. 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.

For a broader discussion of Colombia beyond the ACI, see section on "Colombia" below.

CRS Products:

CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance*, by Connie Veillette.

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

CRS Report RL32250, *Colombia: Issues for Congress*, by Colleen Cook.

CRS Report RL33163, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Caroline Navarette-Frias.

Free Trade Agreements

For many reasons, trade has been one of the most enduring and dynamic issues in U.S.-Latin American relations, with U.S. trade policy evolving over time to address changing circumstances and priorities. When Latin American countries faced economic, social, and political upheaval in the 1970s and 1980s, the United States created unilateral (one-way) trade preference programs to encourage export-led economic growth and development. Years later, after economic growth rebounded and trade liberalization became more the norm, U.S. trade policy shifted toward an emphasis on reciprocal free trade agreements (FTAs). Among the major differences with trade preferences, FTAs are negotiated between parties, have mutual obligations that are far more comprehensive, and are permanent, not requiring congressional renewal.

By implementing the North American Free Trade Agreement (NAFTA), the U.S.-Chile FTA, and the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) — still not completed for the Dominican Republic and Costa Rica — countries gave up trade preferences provided to them under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI). Currently, newly negotiated FTAs with Panama, Peru, and Colombia present the same tradeoff with respect unilateral preferences extended under CBI and the Andean Trade Preference Act (ATPA). In addition, all preferential arrangements are set to expire by the close of the 110th Congress, and to the extent that some key Members of Congress have raised concerns about renewing them, there may be some pressure on those Latin American countries not contemplating an FTA with the United States to reconsider their positions.

Three other important issues cut across particular U.S. trade policy initiatives in the region. First, the proposed hemispheric-wide Free Trade Area of the Americas (FTAA) has stalled over disagreements between Brazil and the United States, and the Southern Common Market (Mercado Común del Sur — Mercosur) seems to be expanding its customs union approach to regional integration as an alternative to the U.S. backed FTAA. It is in this context, as well as the faltering World Trade Organization negotiations, that congressional consideration of the three recently concluded U.S. bilateral FTAs takes on added importance. Two other factors may determine how early Congress considers one or more of these FTAs. First is the scheduled expiration of Trade Promotion Authority (TPA) on July 1, 2007, which contains expedited legislative procedures typically used to consider reciprocal trade agreement implementing legislation. A second is the possibility of changing the labor provisions in agreements already negotiated, as called by some Members of Congress.

U.S.-Peru Trade Promotion Agreement. On April 12, 2006, the United States and Peru signed the U.S.-Peru Trade Promotion Agreement (PTPA). The PTPA negotiations began in May 2004, when the United States, Colombia, Peru, and Ecuador participated in the first round of negotiations for a U.S.-Andean free trade agreement. After talks among the four countries failed, Peru continued negotiations with the United States and the two countries concluded an agreement in December 2005. On January 6, 2006, President Bush notified the Congress of his intention to enter into a free trade agreement with Peru. Implementing legislation has not been introduced. Under TPA, the PTPA would be considered by the Congress on an expedited basis that is limited in debate and with no amendments. TPA procedures require the President to submit the draft agreement and implementing legislation to Congress, but with no time limit to do so. In Peru, the Peruvian Congress voted 79-14 to approve the PTPA in June 2006. The labor provisions are the most controversial of the agreement. Some Members of Congress have indicated that PTPA labor requirements would have to be strengthened for the agreement to be approved by Congress, and there is a possibility that new language on labor standards could be included in a side letter to the PTPA containing binding labor requirements.

The PTPA would likely have a have a small net economic effect on the United States because of the small size of Peru's economy in relation to the U.S. economy. The PTPA's labor provisions are the most controversial. Supporters of the agreement argue that Peru has ratified all eight International Labor Organization (ILO) core labor standards and that the PTPA would reinforce Peru's labor reform measures of recent years. Critics would like to see the PTPA include enforceable ILO labor standards and argue that Peru has failed to comply with U.S. internationally recognized worker rights and ILO standards. In considering the agreement, policymakers may look at the labor provisions but may also take into account Peru's commitments to labor reforms and alleviating poverty. The United States currently extends duty-free treatment to selected imports from Peru under the Andean Trade Preferences Act (ATPA), a regional trade preference program that expires at the end of June 2007. In 2005, 44% of all U.S. imports from Peru received preferential duty treatment. In the absence of a PTPA, and if the ATPA is not renewed, Peruvian goods entering the United States would be subject to higher duties.

The U.S. trade deficit with Peru was $3.24 billion in 2006. The major U.S. import from Peru is gold, followed by refined copper, and kerosine and other oils, while the leading U.S. exports to Peru are gasoline, engineering machinery parts, and office and data processing machinery.

U.S.-Colombia Trade Promotion Agreement. On February 27, 2006, the United States and Colombia announced the conclusion of a U.S.-Colombia bilateral free trade agreement. A free trade agreement with Colombia was originally intended to be part of a broader U.S.-Andean free trade agreement FTA, but after negotiations failed and the Peru Trade Promotion Agreement was concluded, Colombia continued negotiations with the United States on a bilateral basis. The two countries finalized the text of the agreement on July 8, 2006.[4] President Bush notified Congress on August 24, 2006, of his intention to sign the U.S.-Colombia Trade Promotion Agreement (CTPA). The CTPA was signed on November 22, 2006. Implementing legislation has not been introduced.

If ratified, the CTPA would likely have a have a small net economic effect on the United States because of the relatively small size of Colombia's economy in relation to the U.S. economy. The United States currently extends duty-free treatment to selected imports from Colombia under the ATPA, a regional trade preference program that expires at the end of June 2007. In 2005, 51% of all U.S. imports from Colombia received preferential duty treatment under this program. In the absence of a CTPA, and if the ATPA is not renewed, many Colombian products entering the U.S. market may be subject to higher duties.

The U.S. trade deficit with Colombia was $3.00 billion in 2006. The dominant U.S. import from Colombia is crude oil, followed by coal, and other petroleum oils, while the leading U.S. export items are corn, vinyl chloride, and office and data processing machinery parts.

U.S.-Panama Free Trade Agreement. On November 16, 2003, President Bush formally notified Congress of his intention to negotiate a bilateral FTA with Panama. Negotiations commenced in April 2004 and after an extended hiatus, the tenth and final round concluded on December 19, 2006. The negotiations were delayed by two factors. The first was difficulty in coming to an agreement on sensitive agriculture issues, particularly sanitary and phytosantiary (SPS) measures. The second was the Panamanian government's decision to put off negotiations for much of 2006 while it focused the nation's attention on another controversial issue, the national referendum on the Panama Canal expansion project. The canal expansion referendum passed on October 22, 2006, and so attention turned again to completing the FTA negotiations. With the encroaching July 1, 2007 scheduled expiration of the TPA in mind, negotiators on both sides appeared to move quickly to find common ground.

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. The proposed U.S.-Panama FTA is a comprehensive agreement similar to other bilateral FTAs entered into by the United States. According to a summary provided by the United States Trade Representative (USTR), 88% of U.S. exports become duty free right away, with remaining tariffs phased out over a ten-year period. Approximately half of U.S. farm exports to Panama would achieve duty-free status immediately, with many products restricted by tariff-rate quotas winning additional market access, as do Panamanian sugar exports to the United States. Tariffs on other farm products are phased out over 15-19 years, giving Panama's most sensitive sectors time to adjust to free trade. Panama and the United States signed a detailed bilateral agreement to resolve SPS issues. Panama agreed to

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[4] Brevvi, Rosella, *International Trade Daily,* "President Notifies Congress of Intent to Sign Colombia FTA," Aug. 25, 2006.

recognize U.S. food safety inspection as equivalent to Panamanian standards, which will expedite entry of U.S. meat and poultry exports. The FTA also includes additional provisions for services trade, telecommunications, intellectual property rights, labor, environment, and government procurement, while providing support for trade capacity building. The agreement has not yet been signed and Panamanian negotiators have expressed a willingness to discuss changes to the labor chapter to accommodate U.S. congressional concerns. Labor is perhaps the most difficult hurdle facing congressional approval of the FTA.

The U.S. trade surplus with Panama was $2.3 billion in 2006. Major U.S. exports to Panama include oil and mostly capital- and technology-intensive manufactured goods such as aircraft, pharmaceuticals, machinery, medical equipment, and motor vehicles. U.S. imports from Panama include seafood, repaired goods, gold, sugar, and coffee.

Free Trade Area of the Americas. The proposed FTAA was originally conceived over 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 an incomplete agreement have been released, but the original January 2005 date for signing it has long since 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. 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 declined Brazil's offer to move ahead with the "4+1" market access talks with the Mercosur (Southern Common Market) countries (Brazil, Argentina, Uruguay, Paraguay, and as of July 1, 2006, Venezuela).

The breadth of an emerging resistence to the FTAA became clearer at the fourth Summit of the Americas held on November 4-5, 2005, in Mar del Plata, Argentina. Amid 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 became clear 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 resistence against U.S. policies and presence in Latin America. On July 4, 2006, Venezuela formally joined Mercosur as its first new full member since its inception in 1991. Although Mercosur has resisted the FTAA, Venezuela is the only country in Latin America to reject the idea unequivocally. With Venezuela's new-found status as a member of Mercosur, the United States may find it even more difficult to isolate its unabashedly negative influence on the FTAA negotiations.

The Summit declaration called for a time to reflect on the problems of the FTAA process while awaiting the outcome of the WTO Doha Round, particularly with respect to agricultural issues. Given that the WTO talks have also bogged down, it seems unlikely that the FTAA will find the support to move ahead in the near future, particularly with Venezuela now potentially influencing policy in the Mercosur group. In the meantime, both Brazil and the United States are meeting on an informal bilateral basis and continue to court other Latin American countries to join them in subregional trade pacts, making the future of U.S. trade policy in the region less certain.

CRS Products:

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

CRS Report RS22419, *U.S.-Colombia Trade Promotion Agreement,* by Angeles Villarreal.

CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by Angeles Villarreal.

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

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

CRS Report 98-840, *U.S.-Latin America Trade: Recent Trends,* by J. F. Hornbeck.

Migration Issues

Latin America, followed by Asia, is the leading source of both legal and illegal migration to the United States. The overwhelming majority of Latin American immigrants come from Mexico, Central America, and the Caribbean. Factors contributing to Latin American migration to the United States include family ties, poverty, a shortage of good jobs, and proximity to the United States. Latin American governments, most notably Mexico under President Vicente Fox, lobbied for comprehensive immigration reform in the United States and the creation of a guest worker program that would normalize the status of illegal migrant workers and facilitate circular migration patterns so that workers return to their countries of origin. The 109th Congress considered immigration reform, but did not enact any comprehensive reform measures, and the 110th Congress is likely to consider similar measures. Latin American nations were disappointed by the failure of immigration reform in the 109th Congress and the approval of a border fence along 700 miles of the U.S.-Mexico border. After President Bush signed the Secure Fence Act of 2006 (P.L. 109-367), Mexico, with the support of 27 other nations, denounced the proposed border fence at the Organization of American States.

Mexico is the largest source of legal migrants to the United States and is also believed to be the largest source of illegal immigrants. According to the Pew Hispanic Center, undocumented Mexican migrants accounted for 56% of the estimated 11.5 to 12 million illegal immigrants in the United States in 2005.[5] In February 2006, the Mexican Congress approved a concurrent resolution on migration and border security in which Mexico acknowledges that its workers will continue to emigrate until there are more opportunities in Mexico. The resolution also accepts the need to revisit its migration policies to consider enforcement of its northern and southern borders, enforcement of Mexican immigration laws that respects the human rights of migrants, and the need to combat human trafficking. Perhaps most relevant, the Mexican resolution states that the Mexican government does not promote illegal migration and calls for the development of a guest worker program in the United States under the principle of shared responsibility. The resolution commits Mexico to enforcing legal emigration "if a guest country offers a sufficient number of appropriate visas to cover the biggest possible number of workers and their families, which, until now cross the border without documents because of the impossibility of obtaining them."[6]

Mexico benefits from illegal migration in at least two ways: (1) it is a "safety valve" that dissipates the political discontent that could arise from higher unemployment in Mexico; and (2) it is a source of remittances by workers in the United States to families in Mexico, estimated to be $23 billion in 2006.[7] President Calderón announced the creation of a new jobs program in January 2007 in an effort to boost Mexican development and decrease migration pressures.

In recent years, several Latin American economies have benefitted from remittances received from workers in the United States, motivating diplomats to push for immigration reform that will protect the status of their nationals in the United States and in other receiving countries. In 2006, migrants sent an estimated $60 billion to their home countries, with Mexico, Colombia, and Brazil receiving the largest amounts of remittances. The Inter-American Development Bank (IDB) estimates that remittances from the United States have grown 51% since 2004. Remittances to El Salvador in 2006 were the equivalent of almost 18% of that country's gross domestic product.[8]

In addition to concerns over immigration reform, El Salvador, Honduras, and Nicaragua advocate for extensions of their eligibility for temporary protected status (TPS). TPS is a discretionary, humanitarian benefit granted to eligible nationals after the Secretary of Homeland Security determines that a country has been affected by ongoing armed conflict, natural disaster, or other extraordinary conditions that limit the affected country's ability to accept the return of its nationals from the United States. Honduras and Nicaragua were designated for TPS in January 1999 in response to devastation from Hurricane Mitch. U.S. Citizenship and Immigration

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[5] Pew Hispanic Center, "The Size and Characteristics of the Unauthorized Migrant Population in the U.S.," by Jeffrey Passel, March 7, 2006.

[6] "Mexico-U.S.: Migration and Border Security," Embassy of Mexico, February 2006.

[7] Dianne Solis and Laurence Iliff, "$23 Billion Sent to Mexico in '06," *Dallas Morning News*, February 1, 2007.

[8] "Cenbank: Remittances Reach US$3.3 bn in 2006," *Business News Americas*, Jan. 22, 2007.

Services (USCIS) estimates that 75,000 Hondurans and 4,000 Nicaraguans benefit from TPS. The most recent extension of TPS is due to expire on July 5, 2007. El Salvador was previously designated for TPS from 1990 to 1992 in accordance with Section 303 of the Immigration Act of 1990 which established TPS. It was again designated in March 2001 following a series of earthquakes in January 2001. USCIS estimates that 225,000 Salvadorans benefit from TPS. The current extension expires September 9, 2007.

CRS Products:

CRS Report RL33659, *Border Security: Barriers Along the U.S. International Border*, by Blas Nunez-Neto and Stephen R. Vina.

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

CRS Report RS20844, *Temporary Protected Status: Current Immigration Policy and Issues*, by Ruth Ellen Wasem and Karma Ester.

CRS Report RL32235, *U.S. Immigration Policy on Permanent Admissions*, by Ruth Ellen Wasem and Karma Ester.

Terrorism Issues

U.S. attention to terrorism in Latin America intensified in the aftermath of the September 2001 terrorist attacks on New York and Washington, with an increase in bilateral and regional cooperation. Latin American nations strongly condemned the attacks, and took action through the Organization of American States (OAS) to strengthen hemispheric cooperation. OAS members signed an Inter-American Convention Against Terrorism in 2002. The Senate agreed to the resolution of advice and consent on the Convention in the 109th Congress and the United States ratified it in November 2005.

In its April 2006 report on global terrorism, the State Department highlighted threats in Colombia, Peru, and the tri-border area of Argentina, Brazil, and Paraguay, but stated that there were no known operational cells of Islamic terrorists in the hemisphere. Cuba has remained on the State Department's list of state sponsors of terrorism since 1982, which triggers a number of economic sanctions. In May 2006, the Department of State, pursuant to Arms Export Control Act, added Venezuela to its annual list of countries not cooperating on antiterrorism efforts, which triggered prohibitions on the sale or license of defense articles and services to that country. Cuba also has been on that list for many years.

The 110th Congress will likely continue to monitor potential terrorist threats in Latin America and the region's cooperation with the United States on antiterrorism efforts. It will consider the Administration's FY2008 request for $8.1 million in Anti-Terrorism Assistance and $1.4 million in Terrorist Interdiction Program assistance for Western Hemisphere countries funded through Foreign Operations appropriations legislation.

CRS Products:

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

HIV/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 in several countries, and continued increases in HIV infection rates threaten future development prospects. In contrast to other parts of Latin America, the mode of HIV 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 countries with the highest prevalence or infection rates are Belize, the Bahamas, Guyana, Haiti, and Trinidad and Tobago, with rates between 2% and 4%; and Barbados, the Dominican Republic, Honduras, Jamaica, and Suriname, with rates between 1% and 2%.

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 HIV/AIDS programs that are supported through these efforts.

U.S. government funding for HIV/AIDS in the Caribbean and Central America has increased significantly in recent years. Aid to the region rose from $11.2 million in FY2000 to an estimated $92.7 million in FY2006, in large part because of the inclusion of Guyana and Haiti as focus countries in the President's Emergency Plan for AIDS Relief (PEPFAR) funded largely through the Global HIV/AIDS Initiative (GHAI) foreign assistance funding account. The FY2007 request was for $113 million, with $25 million in GHAI funding for Guyana, $63 million in GHAI funding for Haiti, and the balance for several Caribbean and Central American countries funded through the Child Survival and Health (CSH) account. For FY2008, the Administration is requesting $104.3 million in GHAI funding, with $83 million for Haiti and $21.3 million for Guyana. In addition, an unspecified amount of the FY2008 CSH funding request for Caribbean and Central American countries will support efforts to combat HIV/AIDS. In the 110th Congress, H.R. 868 (Fortuño) would add 14 Caribbean nations to those countries targeted for increased HIV/AIDS assistance under PEPFAR.

CRS Products:

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

CRS Report RL33485, *U.S. International HIV/AIDS, Tuberculosis, and Malaria Spending: FY2004-FY2007*, by Tiaji Salaam-Blyther.

Gangs in Central America

The 110th Congress is likely to maintain an oversight interest in the effects of crime and gang violence in Central America, and its spillover effects on the United States. Since February 2005, more than 1,274 members of the violent Mara Salvatrucha (MS-13) gang have been arrested in cities across the United States, according to the FBI. These arrests have raised concerns about the transnational activities of Central American gangs. Citizens in several Central American countries have consistently identified crime and gang violence among the top issues of popular concern. Governments throughout the region are struggling to find the right combination of suppressive and preventive policies to effectively deal with the gang problem as well as more effective ways to solve related issues such as police corruption, overcrowded prisons, and weak judicial systems. 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, and trafficking in drugs, persons, and weapons to the United States. Some maintain that contact between gang members across the regions is increasing, and that this tendency may cause increased gang-related violent crime in the United States. Many experts argue that the repressive anti-gangs laws adopted by El Salvador and Honduras have failed to reduce violence and homicides in those countries, and that law enforcement solutions alone will not solve the gang problem. Others assert that unless the root causes of gang violence — poverty, joblessness, ineffective judicial systems, easy access to arms, and the social exclusion of at-risk youth — are addressed in a holistic manner, the problem will continue to escalate.

Several U.S. agencies have been actively engaged on both the law enforcement and preventive side of dealing with Central American gangs. The National Security Council (NSC) created an inter-agency task force to develop a comprehensive, three-year strategy to deal with international gang activity. The strategy, which is now being implemented, states that the U.S. government will pursue coordinated anti-gang activities through five broad areas: diplomacy, repatriation, law enforcement, capacity enhancement, and prevention. On February 5, 2007, Attorney General Alberto Gonzales attended a conference at which he and President Tony Saca of El Salvador agreed to oversee the creation of a transnational anti-gang unit (TAG) that will be coordinated by the FBI.

In the 109th Congress, legislation was introduced — S. 853 (Lugar) and H.R. 2672 (Harris), the North American Cooperative Security Act — that included 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. Similar provisions were included in both House and Senate versions of broader immigration legislation, H.R. 4437 (Sensenbrenner) and S. 2611 (Specter), which were considered but not enacted. In the 110th Congress, similar provisions are included in S. 330 (Isakson), the Border Security and Immigration Reform Act of 2007.

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

Afro-Latinos

As in past years, the 110th Congress is likely to maintain an interest in the situation of Afro-Latinos in Latin America. In recent years, people of African descent in the Spanish- and Portuguese-speaking nations of Latin America — also known as "Afro-Latinos" — have been demanding 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.[9] Afro-Latinos have formed 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.

Assisting Afro-Latinos has never been a primary U.S. foreign policy objective, although a number of foreign aid programs benefit Afro-Latino populations. Those programs are funded through USAID, the State Department, the Inter-American Foundation (IAF), the Peace Corps, and the National Endowment for Democracy (NED). They include agricultural, micro-credit, health, democracy, and bilingual education programs. While some foreign aid is specifically targeted towards Afro-Latinos, most is distributed broadly through programs aimed at helping all marginalized populations. Some Members may support increasing U.S. assistance to Afro-Latinos, while others may oppose, particularly given the limited amount of development assistance available for Latin America.

During the 109th Congress, the House passed H.Con.Res. 175, 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-Latino communities. Some Members of Congress also expressed specific concerns about the situation of Afro-Colombians affected by the conflict in Colombia. Legislation was introduced — H.R. 4886 (McGovern) the Colombian Temporary Protected Status Act of 2006 — that would

[9] Inter-American Development Bank, "The Region: Race Latin America's Invisible Challenge," Washington, DC, January 1997.

have made Colombian nationals, including Afro-Colombians affected by the country's ongoing conflict, eligible for Temporary Protected Status (TPS). A resolution, H.Res. 822 (McCollum), was introduced that recognized the efforts of Afro-Colombian and other peace-building communities in Colombia and urged the Secretary of State to monitor acts of violence committed against them. The Senate Appropriations Committee report to the FY2007 foreign operations appropriations bill (H.R. 5522; S.Rept. 109-277) would have required the State Department to certify that the Colombian military is not violating the land and property rights of Afro-Colombians.

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. According to the State Department, 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 $94.7 million in anti-trafficking assistance to foreign governments in FY2005 (latest available data).

On June 5, 2006, the State Department released its sixth 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. In the 2006 TIP report, Belize, Cuba, and Venezuela were the only countries identified as Tier 3 in the region, a significant improvement from 2005 and 2004, but six others — including Brazil and Mexico — were on the Tier 2 Watch List and could fall into the Tier 3 category by 2007. In September 2006, President Bush announced that Belize would not be subject to sanctions because its government had taken significant counter-trafficking actions, but Venezuela and Cuba would be sanctioned.

During the 109th 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.

The 110th Congress will likely continue to monitor both U.S. and international efforts to fight human trafficking, especially in regions such as Latin America, where it is an emerging problem, and will may address human trafficking as part of its authorization, appropriations, and oversight activities. Legislation already has been introduced, H.R. 270 (Smith), that would authorize funds for anti-trafficking programs for FY2008 through FY2010. Another legislative initiative, H.R. 1 (Pelosi), Implementing the 9/11 Commission Recommendations Act of 2007, approved by the House on January 9, 2007, contains provisions that would provide increased funding and equipment to strengthen the Human Smuggling and Trafficking Center within the Department of Homeland Security.

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

Bolivia

In the past few years, Bolivia has experienced extreme political unrest resulting in the country having six presidents since 2001. Evo Morales, an indigenous leader of the leftist Movement Toward Socialism (MAS) party, won a convincing victory in the December 18, 2005, presidential election with 54% of the votes. He was inaugurated to a five-year term on January 22, 2006.

During his first year in office, President Morales moved to fulfill his campaign promises to decriminalize coca cultivation, nationalize the country's natural gas industry, and enact land reform. These policies pleased his supporters within Bolivia, but have complicated Bolivia's relations with some of its neighboring countries, foreign investors, and the United States.

Any progress that President Morales has made on advancing his campaign pledges has been overshadowed by ongoing discord between the MAS government in La Paz and opposition leaders in the country's wealthy eastern provinces. In August 2006, many Bolivians hoped that the constituent assembly elected in July would be able to carry out constitutional reforms and respond to the eastern province's ongoing demands for regional autonomy. Six months later, the assembly has just reached an agreement on voting procedures but has yet to consider any reform proposals. The Morales government is also struggling to satisfy leftist social movements and other actors that are pressuring him to adopt more radical proposals.

U.S. interest in Bolivia has traditionally centered 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. U.S.-Bolivian relations became tense in 2006 in the wake of the Morales government's questionable commitment to combating illegal drugs, increasing ties with Venezuela and Cuba, and the nationalization measure. Some U.S. officials have stated that democracy in Bolivia could be at risk because of measures taken by President Morales to eliminate checks on his authority.

In FY2006, Bolivia received $133.8 million in U.S. foreign assistance, including some $79.2 million in counternarcotics funds. For FY2007, the Administration requested $99.8 million for Bolivia, including $66 million in counternarcotics funds, but actual aid amounts for FY2007 are not yet available. The FY2008 request for Bolivia is for $111.7 million, including $30 million in counternarcotics funds. In December 2006, Congress voted to extend trade preferences for Bolivia, along with Colombia, Ecuador, and Peru, under the Andean Trade Preferences and Drug Eradication Act (ATPDEA) through June 30, 2007. The 110th Congress is likely to consider what level of foreign assistance Bolivia should receive, and whether its existing trade preferences should be extended.

CRS Products:

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

CRS Report RL33163, *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

On January 1, 2007, Luis Inácio "Lula" da Silva, of the leftist Workers' Party (PT), was inaugurated for a second four-year term as President of Brazil. President Lula defeated Geraldo Alckmin, former governor of the state of São Paulo, of the Brazilian Social Democratic Party (PSDB), in a run-off presidential election held on October 29, 2006. Lula captured 61% of the votes as compared to Alckmin's 39%, winning handily in the poorer, north and northeastern regions of the country, but failing to carry the more prosperous southern and western states or São Paulo, the country's industrial and financial hub. In the second round, Brazilians, though divided by class and region, effectively voted in favor of continuing macroeconomic stability under a second Lula Administration despite the corruption scandals that had involved Lula's party, including many of his closest advisers, during the first term.

President Lula has been working to make cabinet appointments and form a governing coalition capable of pushing his agenda through Brazil's notoriously fractured legislature. His immediate task is to boost Brazil's lagging economic growth and to address the issues of crime and violence. Some analysts predict that ongoing investigations against President Lula's PT party may undermine the strength of his second term in office.

Relations with the United States have been generally positive, although President Lula has made relations with neighboring countries in the Southern Common Market (Mercosul) his first priority, and has sought to strengthen ties with nontraditional partners, including India and China.

In recent years, congressional interest in Brazil has centered on the U.S.-Brazilian bilateral trade relationship, as well as Brazil's role in sub-regional, regional, and global trade talks in the Doha round of the World Trade Organization (WTO) negotiations. In December 2006, Congress extended trade preferences for Brazil under the Generalized System of Preferences (GSP), but set thresholds that may limit trade preferences for some Brazilian exports compared to previous years. Interest in Brazil also focuses on its role as a stabilizing force in Latin America, especially with respect to Venezuela and Bolivia. During the 109th Congress, Brazil's role as an ethanol producer generated interest that is likely to increase during the 110th Congress. The Bush Administration and the Lula government are currently developing a new energy partnership to encourage ethanol production and use throughout the Western hemisphere. Brazil is also a key U.S. ally whose cooperation is sought on issues that include counternarcotics efforts; human rights concerns, such as race relations and trafficking in persons; the environment, including protection of the Amazon; and HIV/AIDS prevention.

CRS Products:

CRS Report RL33456, *Brazil-U.S. Relations*, by Clare M. Ribando.

CRS Report RL33258, *Brazilian Trade Policy and the United States,* by J .F. Hornbeck.

CRS Report RL33699, *Brazil's Agricultural Production and Exports: Selected Data*, by Logan Rishard Council and Charles Hanrahan.

Colombia

Colombian President Alvaro Uribe was re-elected on May 28, 2006, with 62% of the vote. Parties loyal to President Uribe also won a majority of both houses of congress in the March 2006 congressional elections. His second term has thus far been marred by scandals, including a Supreme Court investigation into the alleged paramilitary ties of several pro-Uribe congressmen. President Uribe has been a strong ally of the United States and a supporter of U.S. counternarcotics efforts in the region and, through the Andean Counterdrug Initiative, Colombia is the largest U.S. foreign aid recipient in Latin America. Beyond ACI, congressional interest in Colombia relates to human rights conditions; trade; 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.

Colombia produces 70% of the world's supply of cocaine, according to the U.N. Office on Drugs and Crime, and a significant amount of the heroin entering the United States.[10] Illegally armed groups of both the left and right are believed to participate in the drug trade. In March 2006, the United States indicted fifty commanders of the FARC for drug trafficking. The United States has also requested the extradition of 23 paramilitary leaders on drug trafficking charges. 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). In 2006, Congress extended the increased cap on military personnel and civilian contractors through 2008 (John Warner National Defense Authorization Act for Fiscal Year 2007, P.L. 109-364). Since FY2002, Congress has appropriated funds in support of a unified campaign against narcotics trafficking and activities of organizations designated as terrorist organizations by the Department of State.

A scandal involving alleged paramilitary ties to politicians, including current members of the Colombian Congress, erupted in November 2006 when three congressmen were arrested for their alleged role in establishing paramilitary groups in the Caribbean state of Sucre. The Colombian Supreme Court expanded its investigation, and in February 2007 another six congressmen were arrested, including Senator Alvaro Araujo, brother of Foreign Minister Maria Consuelo Araujo. The Foreign Minister resigned her post on February 19 as a result of the investigation into her family's alleged ties to the paramilitaries.

On July 15, 2003, the Uribe Administration announced an agreement with leaders of the paramilitary United Self-Defense Forces of Colombia (AUC) that led to the demobilization of nearly 31,000 paramilitaries as of July 2006. An estimated 2,000 paramilitaries remain outside of the disarmament process, and there are credible reports that paramilitary groups are re-organizing in several regions of Colombia.[11] The demobilization process has been controversial. Critics maintain that there is no mechanism to ensure that demobilizing leaders fully disclose their crimes in exchange for reduced sentence and likely protection from extradition to the United States. Critics also are concerned that the demobilization process does not address the criminal enterprises, such as narcotics trafficking, that financed the AUC's political operations and that the paramilitaries are re-organizing, not

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[10] U.S. Department of State, International Narcotics Control Strategy Report, March 2006, p. 101.

[11] Organization of American States, Seventh Quarterly Report of the Secretary General to the Permanent Council on the Mission to Support the Peace Process in Colombia (MAPP/OEA), August 30, 2006.

demobilizing. Further concern has focused on the ability of the government to re-incorporate ex-fighters into law-abiding civilian life and to provide some type of restitution to their victims.

The issue of drug trafficking is exacerbated by humanitarian conditions resulting from more than 40 years of civil conflict. Colombia has the second largest population of internally displaced persons (IDPs) in the world, behind Sudan. The U.S. Committee for Refugees and the Colombian government report that there are 3 million IDPs in Colombia, with an estimated 160,000 to 250,000 newly displaced in 2005. There are also nearly 258,000 Colombian refugees and asylum seekers outside of Colombia. U.S. efforts to resettle Colombian refugees, begun in 2002, have been limited due to provisions of the REAL ID Act of 2005 (included in P.L. 109-13), which bars admission to the United States of persons who have provided material support to terrorist groups. One hundred and fifteen Colombian refugees were admitted into the United States in FY2006. In 2005, the United Nations High Commissioner for Refugees (UNHCR) stopped referring Colombians for resettlement to the United States because of this issue. (Also see sections above on "Andean Counterdrug Initiative" and "U.S.-Colombia Trade Promotion Agreement.")

CRS Products:

CRS Report RL32250, *Colombia: Issues for Congress*, by Colleen Cook.

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

CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance*, by Connie Veillette.

CRS Report RL33163, *Drug Crop Eradication and Alternative Development in the Andes*, by Connie Veillette and Caroline Navarette-Frias.

CRS Report RS22419, *U.S.-Colombia Trade Promotion Agreement*, by Angeles Villarreal.

Cuba

Since the early 1960s, U.S. policy toward Cuba under Fidel Castro has consisted largely of isolating the communist nation through comprehensive economic sanctions, which have been significantly tightened by the Bush Administration, including restrictions on travel, private humanitarian assistance, and payment terms for U.S. agricultural export to Cuba. A second component of U.S. policy has consisted of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba.

As in past years, the main issue for U.S. policy toward Cuba in the 110th Congress will be how to best support political and economic change in one of the world's last remaining Communist nations. Unlike past years, however, Congress will be examining policy toward Cuba in the context of Fidel Castro's temporary, and potentially permanent, departure from the political scene because of health conditions, which could foster a re-examination of U.S. policy. While there has been broad agreement in Congress on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island — there have been several schools of thought on how best to achieve that objective. Some advocate maximum pressure on the Cuban government until reforms are enacted, while others argue for lifting some U.S. sanctions that they believe are hurting the Cuban people, or as part of a strategy of lifting sanctions incrementally in response to positive changes in Cuba. Still others call for a swift normalization of U.S.-Cuban relations.

Over the past several years, Congress has continued its high level of interest in Cuba with a variety of legislative initiatives regarding sanctions and human rights. While one or both houses have at times approved legislative provisions that would ease U.S. sanctions on Cuba, ultimately these provisions have been stripped out of the final enacted measures. President Bush has regularly threatened to veto various appropriations bills if they contained provisions weakening the embargo.

The debate on policy toward Cuba will likely continue in the 110th Congress, and there could be increased oversight of various aspects of Cuba policy, including a review of U.S. democracy promotion efforts prompted by a November 2006 Government Accountability Office report criticizing the management of such efforts for Cuba. For FY2008, the Administration has requested $45.7 million in Economic Support Funds for Cuba democracy promotion projects, more than five times the amount provided in FY2006 ($8.9 million) and the amount requested in FY2007 ($9 million.)

To date in the 110th Congress, several measures have been introduced that would ease Cuba sanctions — H.R. 177 (educational travel), H.R. 216 (Cuban baseball players), H.R. 217 (overall embargo), H.R. 624 (overall embargo), H.R. 654 (travel), H.R. 757 (family travel and remittances), and H.R. 1026 (facilitation of the sale of U.S. agricultural products to Cuba) — while one measure would tighten sanctions — H.R. 525 (related to U.S. fugitives in Cuba).

CRS Products:

CRS Report RL33819, *Cuba: Issues for the 110th Congress*, by Mark P. Sullivan.

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

CRS Report RL33622, *Cuba after Fidel Castro: U.S. Policy Implications and Approaches,* 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 Report RL33499, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

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 has entered the second half of his four-year term in a relatively strong position. He has presided over a period of rapid economic growth (an estimated 10% in 2006), enjoys continued popular support, and now has a majority in both legislative chambers. He has restored confidence in the Dominican economy and enacted some fiscal reforms recommended by the International Monetary Fund since signing a $665 million standby agreement with the Fund in February 2005. In addition, President Fernández launched an anti-crime initiative in 2005 that has been relatively successful. Analysts predict that Fernández has a good chance of being re-elected in May 2008 if he is able to address the country's ongoing problems with corruption and electricity shortages. President Fernández seeks to maintain close ties with the United States and to improve relations with neighboring Haiti. His government has been criticized, however, for mistreating Haitians and Dominican-Haitians. The Dominican government has yet to comply with a 2005 ruling against it by the Inter-American Court of Human Rights, which mandated the provision of identity documents to Dominicans of Haitian descent.

On September 6, 2005, the Dominican Republic approved the CAFTA-DR. The country was scheduled to implement the agreement on July 1, 2006, but that date was postponed. In late 2006, the Dominican Congress approved a package of laws that bring the country into compliance with the CAFTA-DR. The Dominican Republic is expected to implement CAFTA-DR on March 1, 2007.

Congressional interest in the Dominican Republic in the 110th Congress is likely to center on trade, counter-narcotics, regional security, migration, and human rights matters. For FY2006, the United States allocated an estimated $25 million to the Dominican Republic. The Administration requested an estimated $35 million for

FY2007, but actual aid amounts for FY2007 are not yet available. The FY2008 request for the Dominican Republic is for $31.2 million.

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 (CAFTA-DR)*, by J. F. Hornbeck.

Ecuador

On January 15, 2007, Rafael Correa, a left-leaning, U.S.-trained economist, was inaugurated to a four-year term as President of Ecuador. Correa defeated Alvaro Noboa, a wealthy banana magnate, in a run-off election held in late November 2006. Contrary to analysts' predictions, Correa won the election decisively with 57% of the vote as compared to Noboa's 43%. Correa has vowed to dramatically reform Ecuador, a country whose economy is currently expanding because of high oil prices, but whose political institutions are extremely fragile. He has promised to call a constituent assembly with power to reform the country's constitution and dissolve its legislature, to renegotiate Ecuador's international debt, and to reassert state control over foreign oil companies operating in the country. These proposals, though popular among many Ecuadorians, have prompted serious concerns among foreign investors. Many analysts predict that Correa will have a difficult time enacting his agenda given that his party lacks representation in the legislature, a notoriously fractured institution that is now dominated by Noboa's party. President Correa scored one victory in mid-February when the Ecuadorian Congress agreed to allow a referendum on the convocation of a constituent assembly to be held on April 15, 2007.

Ecuador has traditionally had close relations with the United States, although recent trade disputes have strained bilateral relations. Ecuador continues to work with the United States on counternarcotics matters, but negotiations for a bilateral free trade agreement were suspended indefinitely in May 2006 following Ecuador's decision to expel a U.S. oil company, Occidental, from the country without compensation for an alleged breach of contract. U.S. officials congratulated Correa on his recent victory and pledged to cooperate with his government, but have also expressed concerns about his ties with Hugo Chávez of Venezuela and his stated policies regarding trade, energy, and counternarcotics matters.

Several key issues could complicate U.S.-Ecuadorian relations early in the 110th Congress. For example, Correa opposes completing negotiations of a free trade agreement with the United States, and is not willing to restart negotiations as a condition to continue receiving U.S. trade preferences under the Andean Trade Preferences and Drug Eradication Act (ATPDEA), which are due to expire on June 30, 2007. President Correa has recently confirmed that his government will not renew the lease on the U.S. air base at Manta, which is currently used for U.S. aerial counter-drug detection and monitoring operations, when it expires in 2009. He has expressed reservations about any Ecuadorian involvement in Plan Colombia and publicly opposed the Colombian army's incursions into Ecuadorian territory and the Colombian government's recent resumption of aerial fumigation along the Ecuador-Colombian border. For FY2006, the United States allocated an estimated $29.6 million to Ecuador. The Administration requested an estimated $34 million for FY2007, but actual aid amounts for FY2007 are not yet available. The FY2008 request for Ecuador is for $20.6 million, with the most dramatic cuts from FY2006 levels occurring in counter-narcotics funds.

CRS Products:

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

CRS Report RS22548, *ATPA Renewal: Background and Issues,* by M. Angeles Villarreal.

Haiti

The main issue for U.S. policy regarding Haiti during the 110th Congress will be how to continue to improve security, promote economic development, and strengthen fragile democratic processes now that an elected government is in place. Haiti's priorities are many, and deeply intertwined; the Haitian government and the international donor community are implementing an interim assistance strategy that addresses its many needs simultaneously. The current challenge is to accomplish short-term projects that will boost public and investor confidence, while at the same time pursuing long-term development plans that will improve living conditions for Haiti's vast poor population and construct government institutions capable of providing services and stability. The Haitian government is working with international donors, including the United States, to develop a long-term poverty reduction plan. Donors are also looking at how to ensure transparency as they begin providing funds directly to the government rather than through non-governmental organizations.

On December 9, 2006, the 109th Congress passed a special trade preferences bill for Haiti (the Haitian Hemispheric Opportunity through Partnership Encouragement/HOPE Act of 2006, Title V, P.L.109-432). Supporters said the bill could generate 40,000 jobs in Haiti. Some U.S. textile interests opposed the bill because it would provide preferences to some garments with components originating in China and other parts of Asia. The then-incoming Senate Finance Committee Chairman promised to hold a hearing in the 110th Congress, so that textile industry representatives may testify on the impact they say the bill will have (*National Journal*, December 11, 2006). The HOPE legislation was presented as a compromise; it had more restrictive country of origin rules for apparel components than the Haiti Economic Recovery Opportunity Act (HERO, H.R. 4211/S. 1937) that had been reintroduced for consideration in the fall of 2005. U.S. Trade Representative Susan Schwab expressed confidence at a House Ways and Means Committee hearing on February 14 that the USTR would implement the bill by the 90-day deadline set by the legislation.

The 110th Congress will likely consider the levels of support to provide for security enhancing measures in Haiti such as the UN Stabilization Mission in Haiti (MINUSTAH)'s disarmament, demobilization, and reintegration program, the Haitian government's Social Reconciliation Plan, and police and judicial reform. The Administration partially lifted the 15-year-old arms embargo against Haiti to allow arms and equipment to Haitian security units. Some Members have expressed concern about doing so before the Haitian police force has been adequately vetted for those accused of human rights violations or other crimes. An Administration goal of limiting illegal immigration has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers. The Bush Administration requested $198 million for Haiti for FY2007. Child survival and health, development assistance, and counternarcotics assistance funds would be decreased. HIV/AIDS funding would be increased as part of the President's Emergency Plan for AIDS Relief. The Administration's FY2008 request of $223 million represents increases in Economic Support Funds and HIV/AIDS funding but decreases in all other categories of aid to Haiti.

President René Préval, who was inaugurated on May 14, 2006 to a five-year term, has asked for U.S. support for public works projects. Préval said he would cooperate fully with counter narcotics efforts, though he recently criticized U.S. anti-drug efforts as inadequate. He outlined his government's two main missions to be building institutions as provided for in the constitution — including the new municipal posts elected on December 3, 2006 — and creating conditions for private investment in order to create jobs. His initial focus has been on improving security, although crime and kidnaping have increased in recent months.

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.

Mexico

Immigration and border security matters are likely to dominate congressional interest in Mexico in 2007. The 109th Congress considered immigration reform, but did not enact any comprehensive reform measures. In September 2006, Congress approved the Secure Fence Act of 2006 (P.L. 109-367) to authorize the construction of a border fence and other barriers along 700 miles of the U.S.-Mexico border as well as $1.2 billion in initial funding for fence construction through the FY2007 Department of Homeland Security Appropriations Act. In the 109th Congress, both the House and Senate approved immigration reform measures (H.R. 4437 and S. 2611, respectively), but were not able to resolve key differences in the bills. Principal sticking points included the House provision that would criminalize unlawful presence and Senate provisions to adjust the status of certain illegal immigrants. President Bush continues to express support for comprehensive immigration reform including increased border security, a guest worker program, and the normalization of status of some of the estimated 12 million illegal immigrants. Mexican President Felipe Calderón, like his predecessor President Vicente Fox, is critical of the border fence, and has charged that economic development would be a more effective means to reducing illegal Mexican migration to the United States. In 2005, there were an estimated 6.2 million undocumented Mexican migrants residing in the United States.

Drug cartel violence in northern Mexico and Michoacán is also likely to be of concern to the 110th Congress. President Calderón has stated that cartel violence threatens the Mexican state. He launched anti-cartel efforts in the border city of Tijuana and in the western state of Michoacán shortly after taking office and has since extended these offenses against the cartels to another six states — Guerrero, Sinaloa, Chihuahua, Durango, Nuevo León, and Tamaulipas. All of these efforts involve the Mexican army, navy, and federal police officers. U.S. Attorney General Alberto Gonzales has praised the efforts. Others are critical, stating that the initiatives are more show than substance and are unlikely to effectively weaken Mexico's drug cartels. The pace of extraditions from Mexico to the United States continued to increase rapidly in 2006 with a record 63 extraditions, including accused drug kingpin Francisco Rafael Arellano Felix of the Tijuana cartel. President Calderón has indicated that he will use extradition as a major tool in combating drug traffickers, and on January 19, 2007, Mexico extradited 15 individuals to the United States, including the alleged head of the Gulf cartel, Osiel Cárdenas Guillén, and three other senior drug traffickers. Extradition had been a source of tension in U.S.-Mexico relations, with Mexico refusing to extradite criminals facing life sentences without the possibility of parole due to a 2001 Mexican Supreme Court ruling that found that such sentences amounted to cruel and unusual punishment. In November 2005, in a partial reversal of its October 2001 ruling, the Court found that life imprisonment without possibility of parole does not amount to cruel and unusual punishment. As a result of this decision, criminals facing life imprisonment may be extradited to the United States.

Trade issues will also continue to be a concern. Mexico is the United States' second largest trading partner, and is a party to the NAFTA along with Canada and the United States. The three countries are currently seeking to maintain competitiveness with other regions through the Security and Prosperity Partnership of North America (SPP). Resolution of trade disputes will continue to be a concern. An ongoing dispute involves granting Mexican trucks access to U.S. highways. Another long running dispute related to sugar and high-fructose corn syrup imports was recently resolved and Mexico has agreed to repeal its 20% tax on soft drinks made with high-fructose corn syrup (HFCS).

CRS Products:

CRS Report RL33125, *Immigration Legislation and Issues in the 109th Congress,* coordinated by Andorra Bruno.

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

CRS Report RL32724, *Mexico-U.S. Relations: Issues for Congress, by Colleen Cook.*

CRS Report RS22462, *Mexico's 2006 Elections,* by Colleen Cook.

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

Nicaragua

Sandinista leader and former President Daniel Ortega was inaugurated President on January 10, 2007. Ortega's previous presidency (1985-1991) was marked by a civil war with U.S.-backed "contras," authoritarian tendencies, and charges of corruption. Ortega, who lost the last three presidential elections, won only 37.9% of the vote. But Nicaraguan law allowed him to avoid a run-off vote because he was 9.6% ahead of the next closest candidate, Eduardo Montealegre of the Nicaraguan Liberal Alliance (ALN). What the Ortega government's positions will be is unclear, as he did not provide specific policy plans during the campaign and continues to vacillate between anti-U.S. rhetoric and pragmatic reassurances that his second administration will respect private property and pursue free-trade policies. Reported conversations between Ortega and U.S. officials, including President Bush, indicate both sides are seeking a cooperative relationship. Ortega's cabinet appointments include both Sandinista loyalists and supporters of a free market economy.

The 90-member National Assembly was also elected in the November elections. No party won an outright majority. The Sandinista National Liberation Front (FSLN) has 38 seats, the Constitutional Liberal Party (PLC) 25, the ALN 22, and the Sandinista Renewal Movement (MRS) 5. Montealegre, who gained 28.3% of the vote, is a Harvard-educated banker and former finance minister who split from the conservative Liberal party dominated by Aleman, and advocates continued political reform. He was regarded by many as the U.S.-favored candidate. Because he was the second-place candidate, he now has a seat in the legislature. The previous legislature, in which Ortega was opposition leader of the FSLN, passed and then postponed the implementation of constitutional amendments at the root of political tensions towards the end of former President Enrique Bolaños' term (2002-2007).

These amendments were to transfer significant executive powers to the legislature in February 2007. Montealegre led the vote to postpone them again.

U.S. concerns include development and trade. Nicaragua is the second poorest nation in the hemisphere, rating only above Haiti. Nicaragua's poverty is widespread and acute. More than two-thirds of the rural population live in poverty. Some social indicators have shown little or no improvement since 1993. In 2005, the Bush Administration signed a five-year, $175 million agreement with Nicaragua under the Millennium Challenge Account to promote rural development. The Administration has reduced other foreign aid to Nicaragua by $14 million, from $50 million in FY2006 to a requested $36 million for FY2008. The Nicaraguan National Assembly approved the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) in October 2005 and passed related intellectual property and other reforms in March 2006. It went into effect on April 1, 2006. CAFTA-DR supporters say the agreement will promote economic growth, create jobs, and increase exports to the United States. Ortega has not yet stated the policies his government proposes to achieve his stated goal of ending poverty.

Resolution of property claims by U.S. citizens and immigration are contentious areas in U.S.-Nicaraguan relations. Nicaragua passed a law creating a new Property Institute that could lead to the dismissal of property claim lawsuits arising from expropriations carried out by the Sandinista government in the 1980s. Its implementation has been delayed along with the other reforms. Nicaragua joined Mexico and other Central American countries in criticizing U.S. efforts to increase border enforcement and in demanding guest-worker programs. In February 2006, the Department of Homeland Security extended Temporary Protected Status (TPS) for about 4,000 eligible Nicaraguans living in the United States until July 5, 2007. Other issues of concern to Congress include improving respect for human rights, 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.

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 Noriega from power. The current President, Martín Torrijos of the Democratic Revolutionary Party (PRD), was elected in May 2004 and inaugurated to a four-year term 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. In April 2006, the government unveiled its ambitious plans to build a third lane and new set of locks that will double the Canal's capacity. In an October 2006 referendum on the issue, 78% of voters supported the expansion project.

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 beginning in April 2004, negotiations for a bilateral free trade agreement. The United States provided Panama with $19 million in foreign aid in FY2005, $10.4 million in FY2006, and the FY2007 request was for $17.4 million. For FY2008, the Administration requested $5.1 million, with $1 million under the Andean Counterdrug Initiative.

After 10 rounds of negotiations, the United States and Panama announced the conclusion of a free trade agreement on December 19, 2006. U.S. Trade Representative Susan Schwab stated, however, that the agreement is subject to additional discussions on labor, and that the Administration would work with both sides of the aisle in Congress to ensure strong bipartisan support before submitting it to the 110th Congress. Panama has sought 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. (Also see "U.S.-Panama Free Trade Agreement" above.)

CRS Products:

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

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

Peru

Since taking office on July 28, 2006, President Alan Garcia has embraced a free trade agreement with the United States, appointed a fiscal conservative as finance minister, and taken other steps to assure the international financial community that he is running the country as a moderate rather than as the leftist he had been in his early career. Garcia's earlier presidency (1985-1990), characterized by many observers as disastrous, was marked by hyper-inflation and a violent guerrilla insurgency. Garcia met with President Bush at the White House in October 2006. He also sought to reassure poor Peruvian citizens that he is addressing their needs by pledging austerity measures such as halving the Government Palace's annual spending and redirecting the funds to a rural irrigation project. Garcia has indicated he will continue the pro-market economic policies of his predecessor, President Alejandro Toledo, who presided over one of the highest economic growth rates in Latin America throughout his term, with 6.7% growth in 2006. But Garcia says he will also find ways to use trade to reduce the level of poverty in Peru — over half the population lives below the poverty line — and widen the distribution of economic growth. Poverty is concentrated in rural and jungle areas, and among the indigenous population. Garcia's initially high level of public support has begun to drop, however, as reflected in the poor showing of his APRA party in municipal and regional elections held on November 19, 2006.

The former President was elected again on June 4, 2006, defeating populist Ollanta Humala 53% to 47%. A retired army officer who led an uprising against then-President Alberto Fujimori, Humala espoused nationalist, anti-globalization policies. Many observers were concerned that Humala had authoritarian tendencies. Now the opposition leader, Humala was charged in August 2006 with murder in connection to his military actions in the 1990s.

The Chilean government arrested former President Fujimori (1990-2000) in November 2005, released him on bail in May 2006, and is processing Peru's request for his extradition on over 20 charges of corruption and human rights violations. Fujimori's alliance won 15 seats in the legislature and is expected to press for his exoneration. Fujimori is barred from holding office until 2010. In December 2006, Peru's prosecutor's office criticized Fujimori's delaying tactics and said it expected the Chilean courts to make an initial ruling on extradition in March or April 2007.

Issues in U.S.-Peruvian relations include democracy, trade, drugs, and security. Democracy and human rights initiatives include the provision of $50 million over five years, ending in 2007, to support consolidating democratic reform. The United States completed negotiations for a U.S.-Peru Trade Promotion Agreement (PTPA) in December 2005; an agreement was signed in April 2006, which the Peruvian legislature ratified in June. In December 2006, Congress passed an extension of the Andean Trade Promotion and Drug Eradication Act (P.L.109-432) for six months, with a further six-month extension possible if a country enters into a free trade agreement with the United States. The White House and Congress are negotiating compromises on labor and environmental issues, some of which may be addressed in side agreements to the PTPA. The White House must submit implementing legislation by the end of March to fall within fast-track approval deadlines.

Peru is a major illicit drug-producing and transit country. Garcia's Administration has already begun a dialogue with coca growers on drug policy and told the Bush Administration that Peru would extradite convicted drug traffickers to the United States. The Administration requested $98.5 million in FY2007 Andean Counterdrug Initiative (ACI) funds for Peru, less than one-fourth of the funding Colombia receives. The FY2008 ACI request for Peru is a reduction of almost two-thirds from FY2006 funding, from $107 million to $37 million. Peru says it is meeting ACI objectives and will argue against the reductions.

CRS Products:

CRS Report RS22430, *Peru: 2006 Elections and Issues for Congress,* by Maureen Taft-Morales.

CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement,* by M. Angeles Villarreal.

CRS Report RS22548, ATPA Renewal: Background and Issues for Congress, by M. Angeles Villarreal.

CRS Report RL33370, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2007 Assistance,* by Connie Veillette.

Venezuela

Under the populist rule of President Hugo Chávez, first elected in 1998 and most recently re-elected to a six-year term in December 2006, 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. U.S. officials and human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of expression under President Chávez, who has survived several attempts to oust him from power. 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 expenditures on anti-poverty and other social programs associated with his populist agenda. In the country's December 3, 2006 presidential elections, President Chávez defeated opposition candidate Manuel Rosales 63% to 37% in a process that, despite various problems, was judged by international observers to be satisfactory. Since he was re-elected, President Chávez has announced new measures to move the country toward socialism.

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been friction in relations with the Chávez government. U.S. officials have expressed concerns about President Chávez's plans for military arms purchases, his relations with such countries as Cuba and Iran, and his efforts to export his brand of populism to other Latin American countries. 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 environment. Declining cooperation on anti-drug and anti-terrorism efforts has also been a U.S. concern. In 2005 and 2006, President Bush designated Venezuela as a country that has failed demonstrably to adhere to its obligations under international narcotics agreements, and in May 2006, the Department of State prohibited the sale of defense articles and services to Venezuela because of its lack of cooperation on anti-terrorism efforts.

The United States provided $5.9 million to Venezuela in FY2006, including $2.2 million under the Andean Counterdrug Initiative and $3.7 million in Transition Initiatives funding. For FY2007, the Administration requested $1 million in ACI funding, $1.5 million in ESF for democracy initiatives, and $45,000 for International Military Education and Training (IMET). For FY2008, the Administration requested $3 million in Development Assistance and $50,000 for IMET.

As over the past several years, the 110th Congress will likely focus on oversight hearings on conditions in Venezuela, energy security, and the overall status of bilateral relations and U.S. policy, with legislative initiatives likely focusing on funding for U.S. democracy and anti-drug initiatives in Venezuela, the human rights situation, and energy security. H.Con.Res. 50 (Fortuño), introduced January 31, 2007, would call on the Venezuelan government to uphold the human rights and civil liberties of its people.

CRS Products:

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