Order Code RL32733

CRS Report for Congress

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

Updated December 21, 2006

Mark P. Sullivan, Coordinator
Foreign Affairs, Defense, and Trade Division

Colleen W. Cook,
J. F. Hornbeck,
Clare M. Ribando,
Maureen Taft-Morales,
Connie Veillette,
and M. Angeles Villarreal
Foreign Affairs, Defense, and Trade Division

Prepared for Members and
Committees of Congress

Congressional
Research
Service

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

Summary

Over the past two decades, the Latin America and Caribbean region has made enormous strides in terms of political and economic development. In 2006, elections for head of government were held in 12 countries in the region, including the close election in Mexico in July, the re-election of presidents in Brazil, Colombia, Guyana, and Venezuela, and the election of former heads of government in Costa Rica, Haiti, Nicaragua, Peru, and St. Lucia. Although the region overall experienced an economic setback in 2002-2003, it has rebounded since 2004. Nevertheless, several nations faced considerable challenges that threatened political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, increasing crime, and the rise of a new form of populism in several countries.

Legislative and oversight attention to Latin America and the Caribbean in the 109th Congress focused on continued counternarcotics efforts; trade issues; challenges to democracy, especially in Venezuela; efforts to bring political stability and ameliorate poverty in Haiti; efforts to foster political change in Cuba; and cooperation on migration and border security, especially with Mexico. Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. In the first session, the 109th Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years; the second session considered, but did not complete action, on the FY2007ACI request of $721.5 million, so the 110th Congress will need to take action early in 2007.

In the trade arena, Congress approved legislation in 2005 (P.L. 109-53) implementing the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) that had been completed in 2004. In 2006, free trade agreements (FTAs) with Peru and Colombia were signed in April and November, respectively, and on December 19, U.S.-Panamanian FTA negotiations were completed. Implementing legislation for all three countries could be introduced early in the 110th Congress. In late 2006, Congress also extended preferences for Andean imports and approved a special trade preferences measure for imports from Haiti as part of a trade and tax-extension bill (P.L. 109-432, Division D, Titles V and VII).

With regard to democracy, Congress provided continued support to Haiti, the hemisphere's poorest nation, under the new government of Rene Preval. Venezuela remained a congressional concern because of fears that President Hugo Chávez has been using his political power to push toward authoritarian rule. With regard to U.S. policy toward Cuba, Congress continued to debate whether loosening or tightening the U.S. embargo would encourage political change.

This report provides an overview of U.S. relations with Latin America and the Caribbean, focusing on the role of Congress and congressional concerns in the 109th Congress. It reflects final actions of the 109th Congress and will not be updated. For further information, see the CRS products listed after each topic.

Contents

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

Conditions in the Region

The Latin America and Caribbean region has made enormous strides over the past two decades in political development, with all countries but Cuba having regular free and fair elections for head of state. Despite this democratic progress, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, increasing crime, and the rise of radical populism in several Latin American countries. In some countries, weaknesses remain in the state's ability to deliver public services, ensure accountability and transparency, and advance the rule of law.

In 2006, 12 countries held successful elections for head of state: 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 terms of economic growth, while the Latin America and Caribbean region overall experienced a gross domestic product (GDP) decline of 0.6% in 2002 and only a modest growth rate of 1.5% in 2003, the region rebounded with an estimated growth rate of 5.9% in 2004, surpassing even the most optimistic predictions. Every country in the region, with the exception of Grenada and Haiti, experienced positive economic growth, and even per capita income for the region as a whole increased by more than 4% for the year. Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004. 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, a growth rate of 5.3% is projected for the region, with Antigua and Barbuda, Argentina, the Dominican Republic, Trinidad and Tobago, and Venezuela leading the way with projected growth rates over 8%.[1]

The Andean region still faces considerable challenges, including the rise of a form of populism in several countries. Colombia continues to be threatened by drug

---

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

trafficking organizations and by two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, have been responsible for thousands of deaths each year. Bolivia has experienced political unrest over the last few years, including the resignation of presidents in 2003 and 2005. The election of 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. Many analysts believe that Correa could have difficultly enacting his populist agenda because his political party lacks representation in the legislature. Venezuela under President Hugo Chávez has been plagued by several years of political polarization, although Chávez's rule was strengthened when he survived a recall referendum in August 2004, when his supporters swept legislative elections in December 2005, and when he won another six-year term decisively in early December 2006. Windfall oil profits have bolstered economic growth and his government's revenue, allowing it to boost social spending significantly. In Peru, the presidential electoral victory in early June 2006 of former President Alan Garcia 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.

In the Caribbean, Haiti — the hemisphere's poorest nation — continues to be plagued by political challenges. In the aftermath of President Aristide's departure in February 2004, Haiti's interim government was supported by a U.N. Stabilization Mission with the goals of ensuring a secure and stable environment and restoring the rule of law. After several postponements, new elections were ultimately held February 7, 2006. Former president Rene Preval was declared the winner after several days of protests by his supporters when it appeared that a run-off election would be necessary. Preval took office on May 14, 2006, marking the beginning a new era in Haiti. His 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 late July 2006, Cuban leader Fidel Castro's announcement that he was temporarily ceding political power to his brother for several weeks 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 departs the political scene. Several Caribbean nations, especially Grenada, Haiti, Jamaica, and Cuba, were hard hit by several devastating storms in 2004 and 2005.

The AIDS epidemic in the Caribbean, where infection rates are among the highest outside of sub-Saharan Africa, has also been a major challenge for the region.

U.S. Policy Overview

Legislative and oversight attention to Latin America and the Caribbean in the 109th Congress focused on continued counternarcotics efforts in the region; trade issues, including the approval of implementing legislation for the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA); challenges to democracy in the region, especially in Venezuela; efforts to bring political stability and ameliorate poverty in Haiti; efforts to foster political change in Cuba; and cooperation on migration, border security, and anti-terrorism measures, especially with Mexico.

From FY2000-FY2006, the United States has provided around $5 billion for the Andean Counterdrug Initiative (ACI), the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The ACI has also provided interdiction and development support to six of Colombia's neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. The 109th Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years. In 2006, Congress considered the Administration's FY2007 request for $721.5 million in ACI funding with human rights and the environmental consequences of aerial fumigation remaining issues in the congressional debate. Action was not completed on FY2007 foreign aid appropriations, so the 110th Congress will need to take action early in 2007.

In the trade arena, Congress approved legislation in July 2005 (P.L. 109-53, signed into law August 2, 2005) implementing the DR-CAFTA that had been completed in 2004. The Bush Administration viewed the agreement as a way for the region to help create jobs, attract foreign investment, and advance good governance. As reflected in the narrow passage in the House, congressional consideration of the DR-CAFTA was controversial, with opposition from labor advocates and some industry groups. In 2006, free trade agreements (FTAs) with Peru and Colombia were signed in April and November, respectively, and on December 19, U.S.-Panamanian FTA negotiations were completed. Implementing legislation for all three countries could be introduced early in the 110th Congress. In late 2006, Congress also extended trade preferences for Andean imports and approved a special trade preferences measure for imports from Haiti as part of a trade and tax-extension bill (P.L. 109-432, Division D, Titles V and VII).

With regard to democracy and political stability, Congress focused on continued support to Haiti, the hemisphere's poorest nation, under the new government of Rene Preval. Venezuela — a major supplier of oil to the United States — remained a congressional concern because of fears that President Hugo Chávez was using his political power to push toward authoritarian rule and to support leftist groups in other Latin American countries. In Bolivia, the new government of President Evo Morales, a former leader of the coca growers union, has complicated U.S. relations not only because of his criticism of U.S. counternarcotics policy but also because of his leftist orientation and close relations with Venezuela's Hugo Chávez and Cuba's Fidel

Castro. With regard to U.S. policy toward Communist Cuba, Congress has continued to focus on the poor human rights situation and to debate whether loosening or tightening the U.S. embargo will encourage political change. Fidel Castro's announcement that he was ceding power to his brother temporarily could foster a re-examination of U.S. policy.

Congress has maintained an active interest in neighboring Mexico, focusing especially on border security and migration issues. In May 2005, Congress approved legislation (as part of P.L. 109-13, the FY2005 Emergency Supplemental Appropriations Act) that established identity card standards for the issuance of drivers' licenses, waived laws to facilitate the construction of a border fence, and required a pilot test of ground surveillance technologies at the border. In September 2006, Congress approved the Secure Fence Act of 2006 (P.L. 109-367), which authorized the construction of a fence and other barriers along 700 miles of the U.S.-Mexico border. Both the House and Senate approved separate immigration reform measures in 2006 (H.R. 4437 and S. 2611), but did not complete action on the measures. The House bill would have strengthened border and immigration controls and would have made unlawful presence in the United States a felony, while the Senate measure also included enforcement measures (but would not make unlawful presence a felony) as well as a guest worker program, and would have allowed most illegal immigrants to normalize their status in the United States.

Congressional consideration of the annual foreign operations appropriations legislation that funds foreign aid remained an important way for Congress to influence U.S. policy toward the region. U.S. foreign aid is largely administered by the U.S. Agency for International Development (USAID). The agency supports such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counternarcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. In the aftermath of several devastating storms in 2004, the United States provided disaster and reconstruction assistance to several Caribbean nations. Overall U.S. foreign aid to the Latin America and Caribbean region amounted to about $1.82 billion in FY2005, and an estimated $1.68 billion in FY2006. The FY2007 request for the region was for $1.63 billion, but as noted above, action was not completed on the FY2007 foreign aid appropriations measure, so the 110th Congress will face the task in early 2007. In addition, the Millennium Challenge Account (MCA) also has increased U.S. aid to several Latin American nations. Since 2005, the Millennium Challenge Corporation has approved five-year compacts with Honduras, Nicaragua, and El Salvador.

CRS Products:

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

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

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

CRS Report RL33693, *Latin America: Energy Supply, Political Developments, and U.S. Policy Approaches,* by Mark P. Sullivan and Clare M. Ribando.

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

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

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

Regional Issues

U.S. Foreign Assistance

The United States maintains a variety of foreign assistance programs in Latin America and the Caribbean, including security assistance, counternarcotics, economic development, and trade capacity building programs. Aid to the region increased during the 1960s with the Alliance for Progress and during the 1980s with aid to Central America. Since 2000, U.S. assistance has focused on counternarcotics especially in the Andean region. Current aid levels to Latin America and the Caribbean comprise about 11.8% of the worldwide FY2006 bilateral aid budget. Appropriations for FY2007 have not been finalized, and will likely be determined in early 2007. Amounts requested for FY2007 would reduce this ratio to 10.6%, despite concerns expressed by Members of Congress about decreasing levels of aid to the region. Current aid levels could increase as more countries are deemed eligible for Millennium Challenge Account grants.

The annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for, and sets conditions on foreign assistance programs. For FY2006, U.S. assistance to Latin America and the Caribbean amounted to an estimated $1.68 billion, the largest portion of which, $919 million, was allocated to the Andean region. 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 represents the lowest levels of U.S. foreign assistance to the region in more than four decades, measured in constant dollars. The FY2007 request is 3% lower than FY2006. The largest decrease occurs in the Development Assistance Account, which sustains a 28% reduction. The largest increase is for Economic Support Funds (up 26%) and the Global HIV/AIDS Initiative (up 35%). The increase in Economic Support Funds includes trade assistance for DR-CAFTA countries. The Child Survival and Health Account would be cut by 9%. These figures do not include Millennium Challenge Compacts signed with Honduras ($215 million over five years), Nicaragua ($175 million over five years), and El Salvador ($461 million over five years).

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.

On June 9, 2006, the House passed H.R. 5522, the FY2007 Foreign Operations Appropriations Act, cutting the President's overall request for foreign assistance worldwide by $2.4 billion, which could affect aid levels to Latin America. However, the report accompanying the bill cautioned the Administration on providing levels of assistance to Latin America in FY2007 that would be below that provided in FY2006. The Senate Appropriations Committee marked up its bill on June 29, 2006. As the bill has not been completed, three continuing resolutions have maintained funding into 2007.

Some Latin American countries have been affected by a cutoff of U.S. assistance as a result of not signing Article 98 agreements that exempt U.S. citizens from the jurisdiction of the International Criminal Court. The American Service Members Protection Act (ASPA, Title II of P.L. 107-206) applies the aid cutoff to FMF and International Military Education and Training (IMET) funds. However, the conference report to the FY2007 Defense Authorization measure (P.L. 109-364, signed into law in October 2006) modified ASPA to end the ban on IMET aid to countries that are members of the ICC and that do not have Article 98 agreements in place. The FY2005 and FY2006 Foreign Operations Appropriations acts extended the prohibition to ESF assistance. Colombia, the major recipient of U.S. assistance in Latin America, has signed an agreement. Others that have not, such as Bolivia, Brazil, Ecuador, Mexico, Paraguay, Peru, and Venezuela, could see their assistance withheld.

The Millennium Challenge Account (MCA) is a new initiative that provides sizable aid grants to a few low-income nations that have been determined, through a competitive process, to have the strongest policy reform records and where new investments are most likely to achieve their intended development results. In Latin America, Bolivia, Honduras, and Nicaragua were deemed eligible to participate in the first round; El Salvador became eligible for FY2006. In 2005, the Millennium Challenge Corporation (MCC) approved five-year compacts with Honduras and Nicaragua, and in 2006 it approved a five-year compact with El Salvador. 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. Although the Administration's MCC request for FY2007 was $3 billion, the House cut funding by $1 million and the Senate by $1.23 million.

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. Both the House and Senate foreign operations bills meet the Administration's request for HIV/AIDS programs, but the House reduces funding for malaria by $47 million.

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 Larry Nowels, Connie Veillette, and Susan B. Epstein.

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 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 totals approximately $5 billion.

For FY2007, the Administration requested $721.5 million, of which $65.7 million was proposed for the Critical Flight Safety Program, to upgrade aging aircraft. Funding for the Air Bridge Denial program, an air interdiction program in operation over Colombia, was included in the request for Colombia. 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 most significant change is to provide some funding for Colombia from traditional aid accounts rather than the Andean Counterdrug Initiative (ACI) and to create a new account, the Trade Capacity Enhancement Fund, to which some ACI funds would be transferred. The bill provides a total of $545.2 million for Colombia, an increase of $80.4 million over the FY2006 level. Instead of funding alternative development and institution building from the ACI account, the bill provides $135 million in Economic Support Funds (ESF) for alternative development, a $10 million increase from the request. In addition, the bill provides $26.2 million in International Narcotics Control and Law Enforcement (INCLE) funds for rule of law programs, equal to the request, that were previously provided from the ACI account. Funding for drug interdiction programs at $313.9 million, equal to the request, is maintained in the ACI account. The provision of some funds from non-ACI accounts is characterized as beginning the process of treating Colombia as a strategic partner. The bill also provides $70.2 million for the Critical Flight Safety Program, earmarked for operations in Colombia. This is $4.5 million above the request.

The bill increases funding for Peru by $10.5 million over the request, providing $46 million for alternative development and $63 million for interdiction programs. These funds remain in the ACI account. The bill cuts ACI funding for Bolivia by $15 million from the request, all of it in interdiction programs. Funding for alternative development is set at $31 million, and $20 million for interdiction. The cut was made in response to reports that Bolivia's commitment to fighting drugs was lessening. ACI funding for Brazil ($4 million), Ecuador ($17.3 million), and Panama ($4 million) is equal to the request. The $1 million requested for Venezuela was not provided. The bill creates a new account, the Trade Capacity Enhancement Fund, and a new position at USAID to oversee and coordinate trade assistance programs. Although the total amount provided is $522 million, the bill transfers $62.5 million of ACI funds to the new account for use in ACI countries. The House report notes that this is the amount of ACI funds that would have been committed to trade promotion activities.

The Senate Appropriations Committee reported its version of the Foreign Operations bill on June 29. The Senate bill provides $699.4 million for ACI, a decrease of $22 million. A portion of the decrease ($9.8 million) is transferred to a Democracy Fund for similar types of programs as that provided by ACI. The remaining decrease is from interdiction activities and the Critical Flight Safety Program, which was cut by $12.3 million. Both the House and Senate bills maintain reporting requirements from previous appropriations bills. Congress did not complete its work on the Foreign Operations bill, instead passing three continuing resolutions to maintain funding into 2007.

In the FY2006 Foreign Operations Appropriations Act (H.R. 3057, P.L. 109-102) Congress provided the Administration's request for $734.5 million, but reduced the amounts for some of its components. The Critical Flight Safety Program would receive $30 million instead of $40 million, and the Air Bridge denial program would receive $14 million rather than $21 million. FY2006 funding for ACI is estimated at $727.2 million (reflecting a 1% across-the-board rescission).

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 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 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

Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). On August 5, 2004, the United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic signed the DR-CAFTA. Nearly one year later, it faced a contentious debate and close vote in both houses of the U.S. Congress. The Senate passed implementing legislation by a vote of 54 to 45 on June 30, 2005. The House did the same on July 28, 2005, by a vote of 217 to 215. President Bush signed the legislation into law on August 2, 2005 (P.L. 109-53, 119 Stat. 462). In addition to the United States, all countries except Costa Rica have ratified the agreement. The DR-CAFTA was expected to take effect on January 1, 2006, but none of the countries were able to make the necessary legal and regulatory changes in time. Since then, all ratifying countries except the Dominican Republic have implemented the agreement. The Dominican Republic is expected to do so in early 2007. Costa Rica still faces a two-vote ratification process in the National Assembly for the agreement itself and passage of conforming legislation necessary to be in compliance with its commitments. All this legislation is expected to be voted on by the National Assembly in 2007 and, if passed, will be supported by President Arias. The DR-CAFTA, however, still faces some opposition in Costa Rica and the final outcome cannot be predicted with certainty.

The DR-CAFTA is a regional agreement to reduce barriers to trade in which all parties are subject to "the same set of obligations and commitments," although each country negotiated a separate market access schedule. It is a comprehensive and reciprocal trade agreement, which distinguishes it from, and replaces, U.S. commitments made under unilateral preferential trade arrangements — the Caribbean Basin Initiative (CBI), the Caribbean Basin Trade Partnership Act (CBTPA), and the Generalized System of Preferences (GSP). The DR-CAFTA covers market access tariff reductions and non-tariff barriers to trade including government procurement, intellectual property, investment, labor, and environment rules, among other issues.

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

U.S.-Panama Free Trade Agreement (FTA). On November 16, 2003, President Bush formally notified Congress of his intention to negotiate a bilateral FTA with Panama. Negotiations commenced in April 2004 and 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 Trade Promotion Authority (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 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 right away, with remaining tariffs phased out over a ten-year period. Approximately half of U.S. farms exports to Panama 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 most other farm products are phased out over 15 years. Panama and the United States signed a detailed bilateral agreement to resolve SPS issues. Panama agreed to recognized U.S. food safety inspection as equivalent to Panamanian standards, which will expedite entry of U.S. meat and poultry exports. The FTA also consummates additional provisions for services trade, telecommunications, intellectual property rights, labor, environment, and government procurement, while including support for trade capacity building.

U.S.-Peru Trade Promotion Agreement. On April 12, 2006, U.S. Trade Representative Rob Portman and Peruvian Minister of Foreign Trade and Tourism Alfredo Ferrero Diez Canseco 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 (FTA).[2] 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. Under the Trade Promotion Authority Act of 2002 (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. However, TPA authority is scheduled to expire on July 1, 2007. Implementing legislation could be introduced early in the 110th Congress. In Peru, the Peruvian Congress voted 79-14 to approve the PTPA in June 2006.

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.

U.S.-Colombia Trade Promotion Agreement. On February 27, 2006, U.S. Trade Representative Portman and Colombia's Minister of Trade, Industry, and

---

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

Tourism, Jorge Humberto Botero, 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.[3] 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. Under TPA, there is no deadline for the President to submit the final text of the agreement and draft implementing legislation to Congress after the agreement is signed. However, TPA authority is scheduled to expire on July 1, 2007.

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. In November 2006, Colombian President Alvaro Uribe met with policymakers to urge an extension of the ATPA trade preferences to prevent a disruption of business for Colombian and U.S. companies. President Bush has stated that he supports an extension of the ATPA. The Bush Administration and President Uribe view the extension of the trade preferences program as a temporary measure in reducing tariffs from Andean countries. They have stated that the long-term goal is a free trade agreement so that tariff reductions are permanent.

Free Trade Area of the Americas. The proposed Free Trade Area of the Americas (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).

---

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

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. Amidst dramatic and sometimes violent protests against President George W. Bush and the FTAA, which was not scheduled as the major topic of this summit, it 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 upcoming WTO Doha Round ministerial, 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 RL32110, *Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement*, by Remy Jurenas.

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

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

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

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, 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 RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

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

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

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

Terrorism Issues

In the aftermath of the September 2001 terrorist attacks on New York and Washington, D.C., U.S. attention to terrorism in Latin America intensified, with an increase in bilateral and regional cooperation. Latin American nations strongly condemned the attacks, and took action through the Organization of American States to strengthen hemispheric cooperation. In June 2002, OAS members signed an Inter-American Convention Against Terrorism in order to improve regional cooperation, including a commitment by parties to deny safe haven to suspected terrorists. President Bush submitted the convention to the Senate in mid-November 2002 for its advice and consent, and it was referred to the Senate Foreign Relations Committee (Treaty Doc. 107-18). The committee held a hearing on the treaty on June 17, 2004, and on July 28, 2005, the committee favorably reported the treaty (Senate Exec. Rept. 109-3). On October 7, 2005, the Senate agreed to the resolution of advice and consent on the convention, and the United States deposited its instruments of ratification for the convention on November 15, 2005.

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

The State Department, in its annual report on worldwide terrorism (*Country Reports on Terrorism 2005*, April 2006), highlighted terrorist threats in Colombia, Peru, and the tri-border area (TBA) of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fundraising activities. The report asserted that terrorism in the Western Hemisphere was "primarily perpetrated by narcoterrorist organizations based in Colombia and by the remnants of radical leftist Andean groups." According to the report, there is no corroborated information that Islamic extremist groups have an operational presence in the TBA or elsewhere in Latin America. The report also maintained that Cuba remained a state sponsor of terrorism, while Venezuela "virtually ceased its cooperation in the global war on terror, tolerating terrorists in its territory and seeking close relations with Cuba and Iran, both state sponsors of terrorism." In mid-May 2006, the Department of State, pursuant to Section 40A of the Arms Export Control Act, prohibited the sale or license of defense article and services to Venezuela because of its lack of cooperation on antiterrorism efforts. Other countries on the Section 40A list include Cuba, Iran, North Korea, and Syria, not to be confused with the "state sponsors of terrorism" list under Section 6(j) of the Export Administration Act of 1979, which includes Cuba, Iran, North Korea, Sudan, and Syria.

Through the State Department, the United States has provided Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is provided through the annual foreign operations appropriations measure under the Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) account. For FY2005, $7.9 million in ATA was provided for the Western Hemisphere, with $5.1 million for training anti-kidnapping units in Colombia and $0.5 million for the tri-border area of Brazil, Paraguay, and Argentina. For FY2006, an estimated $12.3 million in ATA was provided for the Western Hemisphere, with $5.3 million for Colombia and $1.5 million for the Bahamas. The FY2007 Western Hemisphere request was for $11.9 million, with $3.1 million for Colombia, $2.8 million for Trinidad and Tobago, and $1.4 million for Jamaica.

In the second session of the 109th Congress, the House approved H.Con.Res. 338 on June 12, 2006, which expressed the sense of Congress regarding the activities of Islamic terrorist organizations in the Western Hemisphere. The resolution "recognizes the potential threat that sympathizers and financiers of Islamist terrorist organizations that operate in the Western Hemisphere pose to the United States, our allies, and interests." The resolution also encourages the President to direct the U.S. representative to the OAS to seek support for the creation of a special task force of the CICTE to assist governments in investigating and combating the proliferation of Islamist terrorist organizations in the region.

CRS Products:

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

Gangs in Central America

In the past two years, there has been increasing attention by the press and policymakers on the effects of crime and gang violence in Central America, and its spillover effects on the United States. Since February 2005, some 1,274 members of the violent Mara Salvatrucha (MS-13) have been arrested in cities across the United States. 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, drug smuggling, and trafficking in persons and weapons to the United States. Some analysts maintain that contact between gang members in both regions is increasing, and that this tendency may serve to increase gang-related violent crime in the United States. Others assert that unless the root causes of gang violence — 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.

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 (Sensennbrenner) and S. 2611 (Specter), which were considered but not enacted. On June 7, 2005, the OAS passed a resolution to hold conferences and workshops on the gang issue and to urge member states to support the creation of holistic solutions to the gang problem. Within the U.S. government, the National Security Council 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 in five broad areas: diplomacy, repatriation, law enforcement, capacity enhancement, and prevention. Some observers maintain that these efforts to deal with criminal gang activity on the international front need to be better coordinated with domestic policies aimed at stiffening penalties for gang-related crime.

CRS Products:

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

AIDS in the Caribbean and Central America

The AIDS epidemic in the Caribbean and Central America has begun to have negative consequences for economic and social development, and continued increases in infection rates threaten future development prospects. In contrast to other parts of Latin America, the mode of transmission in several Caribbean and Central American countries has been primarily through heterosexual contact, making the disease difficult to contain because it affects the general population. The Caribbean countries with the highest prevalence or infection rates are Haiti, with a rate over 3%; the Bahamas, Guyana, and Trinidad and Tobago, with rates over 2%; and Barbados, Belize, the Dominican Republic, Jamaica, and Suriname, with rates over 1%. In Central America, Honduras has the highest prevalence rate of 1.8%, while Guatemala has a rate over 1%.

The response to the AIDS epidemic in the Caribbean and Central America has involved a mix of support by governments in the region, bilateral donors (such as the United States, Canada, and European nations), regional and multilateral organizations, and nongovernmental organizations (NGOs). Many countries in the region have national AIDS programs that are supported through these efforts.

USAID has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for HIV/AIDS in Central America and the Caribbean region rose from $11.2 million in FY2000 to $33.8 million in FY2003. Because of the inclusion of Guyana and Haiti as focus countries in the President's Emergency Plan for AIDS Relief (PEPFAR), funded through the Global HIV/AIDS Initiative (GHAI) account, U.S. assistance to the Caribbean and Central America for HIV/AIDS increased to $47 million in FY2004, $82.5 million in FY2005, and an estimated $92.7 million in FY2006. For FY2007, the Administration requested $113 million. This included $88 million in GHAI funding for Guyana ($25 million) and Haiti ($63 million), and another $25 million for non-focus countries and programs in Central America and the Caribbean through the Child Survival and Health account.

Some Members of Congress wanted to expand the list of focus countries to include 14 additional Caribbean countries. In the 109th Congress, S. 600, the Foreign Affairs Authorization Act, FY2006 and FY2007, contained a provision (Section 2516) that would have added 14 Caribbean countries to the list of focus countries targeted for increased HIV/AIDS assistance, but action on S. 600 was not completed. In other action, the 109th Congress approved H.R. 1409 (P.L. 109-95), similar to S. 350 introduced in the Senate, which authorized assistance for orphans and other vulnerable children in developing countries, including in the Caribbean. Legislative initiatives in the 109th Congress that were not considered include H.R. 164, which would have provided for the establishment of pediatric centers in developing countries, including Guyana, to provide treatment and care for children with

HIV/AIDS; and H.R. 945, which would have provided assistance to combat infectious diseases in Haiti, including HIV/AIDS.

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.

Afro-Latinos

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

Improvement in the status of Afro-Latinos could be difficult and contentious, however, depending on the size and circumstances of the Afro-descendant populations in each country. As treated in this paper, Afro-Latinos are, generally, descendants of the millions of West African slaves brought to the Americas by European traders during the colonial period. Afro-Latinos comprise a majority of the population in Cuba and the Dominican Republic, while in Brazil, Colombia, Panama, Venezuela, Ecuador, and Nicaragua, they form a significant minority.

Assisting Afro-Latinos has never been a primary U.S. foreign policy objective, although a number of foreign aid programs benefit Afro-Latino populations. Those programs are funded through the U.S. Agency for International Development (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.

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. A concurrent resolution, S.Con.Res. 90, was submitted in the Senate.

Some Members of Congress 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 have made Colombian nationals, including Afro-Colombians affected by the country's ongoing conflict, eligible for Temporary Protected Status (TPS).

Another 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 in order to continue to receive U.S. assistance.

CRS Products:

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

Trafficking in Persons in Latin America and the Caribbean

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

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

Congress has taken a leading role in fighting human trafficking by passing the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) and the Trafficking Victims Protection Reauthorization Act of 2003 (P.L. 108-193). As a result of that legislation, the State Department and other U.S. agencies provided more than $94.7 million in anti-trafficking assistance to foreign governments in FY2005.

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. Latin America had a higher percentage of Tier 3 countries in the 2004 and 2005 TIP reports than any other region. In 2005, Bolivia, Ecuador, Jamaica, Venezuela, and Cuba were placed on Tier 3, but only Venezuela and Cuba were subject to sanctions. In the 2006 TIP report, Belize, Cuba, and Venezuela were the only countries identified as Tier 3 in the region, 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 since the end of the 2006 reporting period, 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. Congress continues 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.

CRS Products:

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

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

Country Issues

Argentina

Argentina's restructuring of over $100 billion in defaulted bond debt in June 2005 demonstrated the country's emergence from its economic crisis. Although the country was under considerable economic stress in 2001 and 2002, the democratic political system weathered the crisis. President Néstor Kirchner, elected in 2003, has made bold policy moves in the areas of human rights, institutional reform, and economic policy that have helped restore Argentines' faith in democracy. The October 2005 legislative elections demonstrated strong support for President Kirchner. Economic growth has rebounded, from a decline of almost 11% in 2002 to 8.8% in 2003, 9% in 2004, 9.2% in 2005, and an estimate of 8.3% for 2006.[4] In January 2006, Argentina paid off its $9.5 billion debt to the International Monetary Fund (IMF). The government faces such challenges as reducing poverty and controlling inflation while maintaining economic growth.

President Kirchner strongly supported the Supreme Court's June 2005 overturning of two amnesty laws from the 1980s that had blocked prosecution for killings under military rule. The action opened the door for trials of former military and police officials. In August 2006, a former federal police official was sentenced to 25 years in prison in the first trial since the Supreme Court's action, and in September 2006, the former police commissioner of Buenos Aires, Miguel

[4] Economist Intelligence Unit, "Country Report: Argentina," December 2006.

Etchecolatz, was sentenced to life in prison. A key witness in the Etchecolatz case, Jorge Julio Lopez, disappeared after his testimony, provoking widespread concerns about a potential return of death squads intended to intimidate witnesses in future human rights trials. President Kirchner has called for Argentines to stay on alert so that the past is not repeated, and has urged the judicial system to move more quickly in prosecuting past human rights violations.[5]

Issues of concern to the U.S. Congress include continued cooperation with Argentina on counterterrorism issues and progress in Argentina's investigation of the 1994 Argentine-Israeli Mutual Association (AMIA) bombing that killed 85 people. In late October 2006, Argentina's prosecutor in the AMIA case accused Iran of masterminding the attack, and in November, an Argentine judge issued arrest warrants for nine former Iranian officials, including former President Hashemi Rafsanjani.[6]

CRS Products:

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

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

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

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

Bolivia

In the past few years, Bolivia has experienced extreme political unrest resulting in the country having six presidents since 2001. President Evo Morales, an indigenous leader of the leftist Movement Toward Socialism (MAS) party, was elected in a convincing first-round victory on December 18, 2005 with 54% of the votes. He was inaugurated to a five-year term on January 22, 2006. The MAS won control of the lower chamber of the Bolivian Congress, 12 of 27 seats in the Senate, and three of the country's nine governorships.

President Morales moved to fulfill his campaign promises to decriminalize coca cultivation and to nationalize the country's natural gas industry. 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. Morales'

[5] Larry Rohter, "Death Squad Fears Haunt Argentina," *New York Times*, Oct. 8, 2006; Mayra Pertossi, "Argentina President Presses Courts to Speed 'Dirty War' Prosecutions," Associated Press, Dec. 16, 2006.

[6] Patrick J. McDonnell, "Argentina Issues Arrest Warrants," *Los Angeles Times*, Nov. 10, 2006.

drug policy — combining the allowance of limited coca production for traditional uses and coca-derived products, voluntary eradication, and aggressive interdiction — has resulted in record drug seizures, but rising coca cultivation levels for "licit" uses. In the same vein, his nationalization move, which began in May and culminated in the December 2006 signing of new contracts giving Bolivia control over all foreign energy companies operating in its territory, have raised state tax revenues, but jeopardized desperately-needed foreign investment.

Any progress that President Morales has made on advancing these campaign pledges has been overshadowed in recent months by an escalating domestic crisis 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 meaningful constitutional reforms and effectively respond to the eastern province's ongoing demands for regional autonomy. Four months later, the assembly is in shambles and the eastern provinces have launched large protests against the Morales government that could escalate out of control.

For some 20 years, U.S. interest in Bolivia has 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 have become 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. In September 2006, President Bush again designated Bolivia as a major drug production country and expressed concerns about the Morales' governments counternarcotics efforts. In FY2006, Congress provided an estimated $116.6 million in foreign assistance to Bolivia, including some $79.2 million in counternarcotics funds. For FY2007, the Administration proposed spending $99.8 million on Bolivia, including roughly $66 million in counternarcotics funds. Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less. The continuing appropriations resolution expires on February 15, 2007. 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 through June 30, 2007.

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

In January 2007, Luis Inácio "Lula" da Silva, of the leftist Workers' Party (PT), will be inaugurated for a second four-year term as President of Brazil. President Lula was re-elected after defeating 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 valid 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, voted in favor of continuing macroeconomic stability under a second Lula Administration, rather than removing President Lula because of the corruption scandals that had involved his party, including many of his closest advisers, during his first term.

Despite winning on a leftist platform in 2002, President Lula maintained the orthodox economic policies associated with his predecessor, even surpassing fiscal and monetary targets. Inflation and interest rates have been on a downward trend, and Brazil's credit rating has improved, but economic growth remains modest (2.3% in 2005). In 2003, President Lula gained congressional approval of social security and tax reforms, and in 2004, a new law to increase private investment in public infrastructure projects. Despite these achievements, legislative progress stalled in 2005, and President Lula has been criticized for failing to develop effective social programs to address the perennial problems of land redistribution, social inequality, and crime.

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. He is seeking to formalize an alliance between his Worker's Party and the center-right Party of the Brazilian Democratic Movement (PMDB), now the largest party in Brazil's Chamber of Deputies (89 deputies) and the second largest in the Senate (18 seats). Upon taking office, his immediate task will be to boost Brazil's lagging economic growth, which many analysts predict could depend on enacting deep (and unpopular) structural reforms. 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. Trade issues are central to the bilateral U.S.-Brazilian relationship, with both countries heavily involved in subregional, regional, and global trade talks in the Doha round of the World Trade Organization (WTO) negotiations. The United States and Brazil have different approaches to trade liberalization, which have put the two countries at odds over how to proceed with the Free Trade Area of the Americas (FTAA) negotiations.

In addition to trade policy, U.S. interest in Brazil centers on its role as a stabilizing force in Latin America, especially with respect to populist governments in Venezuela and Bolivia. Brazil's nuclear enrichment capabilities and its role as an ethanol producer have generated growing interest in the United States. 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 RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

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

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 12 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 (ACI), 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. (Also see sections above on "Andean Counterdrug Initiative" and "U.S.-Colombia Trade Promotion Agreement.")

It is estimated that Colombia produces 70% of the world's supply of cocaine and 50% of the heroin entering the United States. 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.[7] 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

[7] Juan Forero, "U.S. Indicts 50 Leaders of Colombian Rebels in Cocaine Trafficking," *New York Times*, Mar. 23, 2006.

National Defense Authorization Act, P.L. 108-375). Since FY2002, Congress has authorized support for a unified campaign against narcotics trafficking and activities of organizations designated as terrorist organizations by the Department of State.

In 2006, the United Nations Office on Drugs and Crime reported a 50% decline in opium poppy cultivation in Colombia in 2005 to 4,940 acres; or, 69% fewer acres than in 2000. However, the United Nations also reported an 8% increase in acreage devoted to coca cultivation; the first such increase since 2000. At 212,510 acres, the area of cultivation remains 47% less than in 2000 when 403,350 acres were under cultivation. It is believed that the Plan Colombia spraying goals are ahead of schedule. The Office of National Drug Control Policy (ONDCP) enlarged its area of survey in 2005, which showed 355,680 acres under cultivation. This figure represents a 26% increase over ONDCP data for 2004; however, when the survey area was limited to the same area as in 2004, the ONDCP found an 8% reduction in coca cultivation. Although the new survey area showed an increase in coca cultivation, ONDCP argues that this new data can be used to better target future eradication efforts the previous year because newly-planted crops are less productive. In 2005, the State Department reports that 343,000 acres of coca and 4,000 acres of opium poppy were sprayed. The spraying does not prevent, although it may discourage, the replanting of illicit crops. In November 2005, the ONDCP announced a slight increase in the street price of cocaine in 2004. The significance of this report was challenged by critics of U.S. policy because 2003 prices were the lowest since 1981. Critics also maintained that short-term fluctuations in price do not necessarily signal significant changes in supply.

On July 15, 2003, the Uribe Administration announced an agreement with leaders of the paramilitary United Self-Defense Forces of Colombia (AUC) that was to result in the demobilization of its members by the end of 2005. The office of Colombia's High Commissioner for Peace estimates that nearly 31,000 paramilitaries demobilized as of July 2006. An estimated 2,000 paramilitaries remain outside of the disarmament process. The demobilization process has posed a number of controversial issues relating to ensuring accountability of militants while providing a large enough incentive for fighters to lay down their arms. The outcome of such a process could have effects on how Colombian citizens feel about the effectiveness of the country's judicial system, the rule of law, and the ability of the state to provide for a general level of safety. There are also concerns that some fighters that operate outside of the AUC umbrella will not demobilize and will continue to carry out their operations in rural areas. Critics also note that paramilitaries demobilized under the controversial Justice and Peace Law will receive reduced sentences of five to eight years and may be protected 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 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 war between the Colombian government, the FARC, National Liberation Army (ELN), and right-wing paramilitaries. Colombia has the second largest population of internally displaced persons (IDPs) in the world, behind

Sudan. 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. The United States began resettling refugees from Colombia in 2002. Admissions peaked at 577 in FY2004 but declined to 323 in FY2005 due to provisions of the REAL ID Act of 2005 (included in P.L. 109-13), which bars admission of persons who have provided material support to terrorist groups. Only 115 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. The State Department anticipates only 50 Colombian refugees will be resettled to the United States in FY2006. H.R. 5918, introduced on July 27, 2006, but not considered, would have amended the Immigration and National Act so that persons who provided material support to a terrorist organization under duress or coercion could be admitted to the United States.

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 M. 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. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba. While there appears to be broad agreement on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island — there are several schools of thought on how to achieve that objective: some advocate maximum pressure on Cuba until reforms are enacted; others argue for lifting some U.S. sanctions judged to be hurting the Cuban people; and still others call for a swift normalization of U.S.-Cuban relations.

Fidel Castro's July 31, 2006, announcement that he was ceding political power to his brother Raúl temporarily in order to recover from surgery could foster a re-examination of U.S. policy, especially if Fidel's departure from the political scene becomes permanent. In the new context of Fidel's transfer of power, there are two broad policy approaches to contend with political change in Cuba: a status-quo approach that would maintain the U.S. dual-track policy of isolating the Cuban government while providing support to the Cuban people; and an approach aimed at influencing the Cuban government and Cuban society through increased contact and engagement.

In the 109th Congress, legislative initiatives included the approval of five human rights resolutions: H.Con.Res. 81, H.Res. 193, H.Res. 388, S.Res. 140 and S.Res. 469. P.L. 109-102 funded Cuba democracy projects in FY2006. Action on several FY2007 appropriations measures were not completed so action will need to be completed in 2007: House-passed H.R. 5522 would have funded FY2007 democracy projects, and House and Senate versions of the bill had contrasting provisions on anti-drug cooperation; House-passed H.R. 5576 would have prohibited funds from being used to implement tightened restrictions on financing for agricultural exports to Cuba; the Senate version of H.R. 5384 would have liberalized travel related to the sale of agricultural and medical goods to Cuba; and H.R. 5522 and H.R. 5672 would have funded Cuba broadcasting.

Other legislative initiatives not acted upon would have eased U.S. sanctions in various ways: suspension of sanctions after Hurricane Dennis (H.Con.Res. 206); overall sanctions (H.R. 208 and H.R. 579); overall travel (S. 894 and H.R. 1814); family visits (H.R. 2617); educational travel (H.R. 3064); cash in advance for U.S. agricultural sales (H.R. 1339 and S. 634); and facilitation of agricultural sales (H.R. 719 and S. 328). Other measures had provisions on Cuba's trademark registrations (H.R. 719, S. 328, H.R. 3372, S. 1604, H.R. 1689 and S. 69); Cuba broadcasting (S. 600, H.R. 2601); U.S. fugitives in Cuba (H.R. 2601, H.R. 332); sanctions related to Cuba's offshore oil development (H.R. 5292, S. 2682, S. 2795); participation in Cuba's offshore oil development (H.R. 5353, S. 2787); support for U.S. diplomats in Cuba (H.Con.Res. 428); repeal of the Cuban Adjustment Act (H.R. 5670); assistance to facilitate a peaceful transition in Cuba (S. 3769); and authorization of $5 million for scholarship and exchange programs (House-passed H.R. 2601).

CRS Products:

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

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

CRS Report 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.

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

Dominican Republic

President Leonel Fernández of the Dominican Liberation Party (PLD), who served as president previously (1996-2000), has entered the second half of his four-year term in a relatively strong position. Fernández has presided over a period of rapid economic growth (an estimated 10% in 2006), enjoys popular support, and 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. 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, crime, 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 repatriating large numbers of undocumented Haitian migrants, and for failing 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 U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). The Dominican Republic was scheduled to implement the DR-CAFTA on July 1, 2006, but that date was postponed. In late November 2006, the Dominican Congress approved a package of seven laws that bring the country into compliance with the DR-CAFTA, but regulations related to intellectual property rights and customs fees must still be finalized. The Dominican Republic is expected to implement the DR-CAFTA in early 2007.

CRS Products:

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

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

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

Ecuador

President-elect Rafael Correa, a left-leaning, U.S.-trained economist, is scheduled to take office on January 15, 2007. Correa, who will become Ecuador's eighth president in ten years, 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.

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 Correa government. For example, Correa has pledged to raise taxes and exert more state control over U.S. and other foreign oil companies. He opposes completing negotiations of a free trade agreement (FTA) 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-elect 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.

Some analysts have urged the U.S. government to adapt a similar policy towards the Correa government in Ecuador as it has with the Morales government in Bolivia. They maintain that the United States has the ability to influence Ecuador in terms of foreign aid, trade preferences, and international finance. They urge U.S. officials not to antagonize Correa, but to use pragmatic, low-profile means to urge him to maintain open-market and democratic policies.

CRS Products:

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

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

El Salvador

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca is seeking to restart the country's stagnating economy, which has averaged only 2% growth in recent years, but recorded an estimated 4% growth in 2006; pass legislation in a polarized political environment; and combat gang violence. His legislative agenda is facing continuing opposition from the leftist Farabundo Marti National Liberation Front (FMLN), which recovered the seats it had lost due to previous defections in the March 2006 legislative elections. Although ARENA also increased its representation in the legislature and is still the largest party in El Salvador's National Assembly, it lacks a majority and will continue to have to rely on support from small parties to enact President Saca's agenda. Despite its tough anti-gang legislation, El Salvador, along with Guatemala and Honduras, has one of the highest murder rates in the hemisphere. Although a majority of Salvadorans approve of President Saca's job performance, a majority also disapprove of his decision to maintain Salvadoran soldiers in Iraq.

The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, especially through the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). In February 2006, the Bush Administration extended the Temporary Protected Status (TPS) of eligible Salvadoran migrants living in the United States until September 9, 2007. On March 1, 2006, El Salvador became the first country in the region to implement the DR-CAFTA with the United States. In November 2006, El Salvador signed a five-year, $461 million compact with the Millennium

Challenge Corporation that focuses on development of its northern border region. The Salvadoran government is also seeking further assistance from the Bush Administration in dealing with the problem of criminal gangs.

CRS Products:

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

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

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

Haiti

The main issue for U.S. policy during the second session of the 109th Congress was how to promote greater stability and strengthen democratic processes in Haiti most effectively. With an elected President and legislature in place, the U.S. focus has shifted to assisting the new government. The Administration hopes that an elected government will ease the development of a functioning infrastructure and a reduction in violence, making it easier to pursue other U.S. goals in Haiti, such as promoting democracy, encouraging respect for human rights, alleviating poverty, and decreasing narcotics trafficking. A further Administration goal, of limiting illegal immigration, has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers.

Presidential and legislative elections were held on February 7, 2006, runoff legislative elections on April 21, and municipal elections on December 3, after being postponed several times since fall 2005 amidst technical and security concerns. Former President Rene Preval (1996-2000) was declared the winner after a week of controversy over the tabulation of votes, and inaugurated on May 14. Preval outlined the two main missions of his government to be building institutions as provided for in the constitution, and creating conditions for private investment in order to create jobs. He emphasized that these must be done through dialogue among all sectors and creating a secure environment. To that end, he has asked the United Nations Stabilization Mission in Haiti (MINUSTAH) to stay and has also said he will promote a constitutional change to formalize the dissolution of the Haitian army. Preval has placed the needs of Haitian children at the top of his political agenda, and UNICEF has pledged to mobilize international assistance to support those needs. Preval says he will cooperate fully with U.S. counternarcotics efforts; he asked for U.S. support for public works projects and passage of legislation to give Haiti trade preferences.

On December 9, 2006, the 109th Congress passed such a special trade preferences bill for Haiti, the Haitian Hemispheric Opportunity through Partnership

Encouragement/HOPE Act of 2006 (H.R. 6142) incorporated into H.R. 6111 (P.L. 109-432, Division D, Title V). Supporters said the bill, which expands U.S. preferential trade for Haiti by amending the Caribbean Basin Economic Recovery Act, could generate 40,000 jobs in Haiti. Some U.S. textile interests opposed it because it would provide preferences to some garments with components originating in China and other parts of Asia. The incoming Senate Finance Committee Chairman reportedly promised to hold a hearing in the 110th Congress, before the HOPE act goes into effect, 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) which had been reintroduced for consideration in the fall of 2005.

The House International Relations Committee unanimously approved a bill providing for recruitment of Haitian-Americans for Haitian reform efforts, the Haiti Economic and Infrastructure Reconstruction Act (H.R. 611), on September 13, 2006, but action was not completed on the measure before the end of the 109th Congress. The bill would have authorized $3 million annually from FY2006 to FY2011 for a USAID program to encourage U.S. professionals, especially Haitian-Americans, to help reform Haitian education, judicial, and health care systems. The bill would also have provided scholarship loans to talented Haitian students. The loans would be forgivable if the student returned to Haiti to help in revitalization efforts. Some Members had hoped to bring the bill to a vote before session's end, and may introduce a similar bill in the 110th Congress.

The Bush Administration provided an estimated $194 million for Haiti for FY2006 and requested $198 million for FY2007. Child survival and health, development assistance, and counter narcotics assistance funds would be decreased. HIV/AIDS Funding would be increased. Congress provided an additional $20 million for Haiti in an emergency supplemental bill (H.R. 4939, P.L. 109-234, signed into law June 15, 2006). The bill includes $17.5 million in Economic Support Funds and $5 million in Child Survival and Health funds for Haiti.

Former President Jean-Bertrand Aristide, who had maintained he was still Haiti's president since his departure in February 2004, acknowledged Preval as "my President" and said he wants to return to Haiti from exile. Preval has been estranged in recent years from Aristide, his former mentor. Publicly, Preval has said that Aristide has the constitutional right to return, but has also suggested that Aristide might want to consider that he will probably face corruption or other charges if he were to return. Privately, he is said to agree with foreign diplomats that Aristide's return would be destabilizing.[8] But Preval must tread carefully, as much of his support came from Haiti's poor, Aristide's strongest supporters, many of whom now expect Aristide to return.

---

[8] Joe Mozingo, "Haiti's New Leader Fears Mentor's Return," *Knight Ridder, San Jose Mercury News*, Mar. 5, 2006.

In July 2006, international donors pledged $750 million to bridge Haiti's budget gap and fund economic, social, and democratic reconstruction projects from July 2006 through September 2007. 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 consider providing more funds directly to the government rather than through non-governmental organizations.

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 fro 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.

Honduras

Honduras faces significant challenges in the areas of crime and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. In November 2005, Hondurans elected Manuel Zelaya of the Liberal Party as president in a close race in which he defeated National Party candidate Porfirio Lobo Sosa. Zelaya was inaugurated on January 27, 2006 to a four-year term, succeeding President Ricardo Maduro of the National Party. Zelaya's Liberal Party failed to gain a majority in the National Congress, which has made it difficult for President Zelaya to enact his legislative agenda. Zelaya initially moved to replace President Maduro's zero-tolerance policy toward youth gangs, or maras, by using dialogue and other outreach techniques to convince gang members to give up violence and re-integrate into society. However, the Zelaya government also has resorted to more traditional crime control efforts such as arresting gang members, and has made promises to hire an additional 1,000 police officers each year.[9] The government has been criticized by human rights organizations for proposing reforms to the national police force law that would include the creation of a Special Forces Battalion; these groups fear that such a move could lead to the "militarization" of the police.[10]

[9] Economist Intelligence Unit, "Country Report: Honduras," December 2006.

[10] "Honduras: Police Reform Suffers Serious Setbacks," *Central America Report*, Sept. 1, 2006.

The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a military presence in the country, and cooperation on a range of transnational issues. Honduras is a party to the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA), which was approved by the Honduran Congress in March 2005 and by the U.S. Congress in July 2005 (P.L. 109-53). The agreement entered into force with Honduras on April 1, 2006. On February 23, 2006, the Department of Homeland Security announced the extension of Temporary Protected Status (TPS) for some 75,000 eligible Hondurans in the United States until July 5, 2007. TPS, which had been scheduled to expire on July 5, 2006, initially was provided in the aftermath of Hurricane Mitch in 1998 and has been extended several times. In late March 2006, the Bush Administration announced that the Honduran port of Puerto Cortes was now included in the U.S. Container Security Initiative (CSI). In June 2006, President Zelaya announced that Honduras would seek to convert the Soto Cano Air Base (the location of Joint Task Force Bravo consisting of about 550 U.S. military personnel) into a commercial air cargo terminal, and in July, a Honduran military official announced that the government was looking to build a new military aircraft refueling facility — with U.S. support — in the Mosquito Coast region for anti-drug operations.[11] In October 2006, however, the Honduran Defense Minister suggested that the conversion of Soto Cano, which would take more work than originally thought and cost some $100-200 million, might not be viable financially.[12]

CRS Products:

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

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

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

Mexico

Conservative Felipe Calderón of the National Action Party (PAN) was inaugurated as president on December 1, 2006, replacing President Vicente Fox (PAN) who served as President since 2000. Mexico's constitution limits presidents to one term in office. President Calderón narrowly defeated leftist Andrés Manuel

[11] "Honduras: Zelaya Asks Bush for Special Forces in Mosquitia," *Latin American Weekly Report*, June 13, 2006; "Honduras: U.S. to Assist with New Military Base," *Latin American Regional Reports, Caribbean & Central America*, July 2006; "U.S. to Help Build Military Base in Honduras," *Associated Press*, July 16, 2006.

[12] "Honduras: Upgrading Palmerola Base," *Latin America Regional Report, Caribbean & Central America*, October 2006.

López Obrador of the Party of the Democratic Revolution (PRD) in the July 2 election. López Obrador challenged the election results, but Mexico's Federal Electoral Tribunal (TEPJF) ruled in favor of Calderón. López Obrador rejects that decision and was sworn in as the "legitimate president" on November 20, 2006. President Calderón has focused on the budget and combating drug trafficking in the first weeks of his administration. His budget proposal includes a cut in the salaries of high-ranking officials, including the president, and controls on spending in the hopes of saving over $2 billion to spend on social programs. He did not suggest cuts in military salaries due to its role combating drugs. In mid-December he took back part of his budget request to reconsider proposed cuts in education, mostly at the university level. President Calderón sent over 6,000 soldiers and police to the western state of Michoacán to combat the high level of drug violence in that state. He also declared that he will loan 10,000 soldiers to the federal police to assist in the battle against drug cartels.

Congressional interest in Mexico generally focuses on migration, border affairs, trade issues, and drug trafficking concerns. 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. Both the House and Senate approved immigration reform measures in the second session of the 109th Congress, but did not enact comprehensive reform due to differences between the House measure (H.R. 4437, Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005), and the Senate measure (S. 2611, Comprehensive Immigration Reform Act of 2006). Principal differences include the House measure's criminalization of unlawful presence and the Senate measure's establishment of a temporary worker program. In May 2005, Congress passed the FY2005 Emergency Supplemental Appropriations (H.R. 1268/P.L. 109-13), which included the REAL ID Act of 2005, with provisions that strengthened border control and established identity card standards for drivers' licenses.[13]

On March 3, 2006, Homeland Security Secretary Michael Chertoff and Mexico's Secretary of Governance Carlos Abascal signed an action plan to combat border violence that calls for increased cooperation of law enforcement agencies and the establishment of communication protocols to facilitate such cooperation. In August 2006, U.S. and Mexican border governors agreed to share crime data. In March 2005, President Bush, President Fox, and Prime Minister Martin of Canada established the trilateral Security and Prosperity Partnership (SPP) of North America in an effort to advance the common security and the common prosperity of the countries through expanded cooperation and harmonization of policies. In August 2006, the SPP working groups submitted their second report to SPP leaders outlining completed initiatives and proposing new initiatives to ensure common security and prosperity. The working groups have established an Avian and Human Pandemic Influenza Coordinating Body and a North American Competitiveness Council.

---

[13] For more information see CRS Report RL33125, *Immigration Legislation and Issues in the 109th Congress*, by Andorra Bruno, Ruth Ellen Wasem, Alison Siskin, and Blas Nunez-Neto.

Increased cooperation between U.S. and Mexican Customs officials on money laundering has resulted in the seizure of millions of dollars. The three countries are working to more efficiently determine the risk of cargo at seaports. Mexico has implemented the Sea Cargo Initiative which allows gathers data electronically before loading at a port of origin. Earlier completed initiatives included measures to facilitate trade, such as the signing of a Framework of Common Principles for Electronic Commerce,[14] and border security through, among other measures, an agreement between the U.S. and Mexico to create an Alien Smuggler Prosecution Program along the common border.

Mexico is the United States' second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA), but there are various disputes between the countries. Mexico has complained, for example, that the United States is still failing to grant Mexican trucks access to U.S. highways, in part because of congressionally-imposed safety requirements. The United States, for example, initiated WTO dispute settlement proceedings in 2004 to dispute Mexico's 20% tax on soft drinks made with high fructose corn syrup (HFCS). The tax has had a devastating impact on HFCS sales. In November 2005, the Mexican Senate extended the tax on HFCS products. In March 2006, the WTO Appellate Body upheld the October 2005 decision in favor of the United States. For FY2006, the United States set a new tariff-rate quota of 250,000 metric tons of raw or refined sugar from Mexico, in keeping with Mexican claims under NAFTA, and Mexico followed suit by allowing up to 250,000 metric tons of HFCS from the United States in the same period. Mexico and the United States reached a sweetener agreement in August 2006. Under the agreement, Mexico will be able to export 500,000 metric tons of sugar duty free to the United States from October 1, 2006, to December 31, 2007. The United States can export the same amount of HFCS to Mexico during that period.

On drug trafficking issues, Bush Administration officials have regularly praised Mexico's counternarcotics efforts under Fox, especially action against major traffickers and efforts to improve the judicial system. The State Department reported in March 2006, however, that Mexico remained the leading transit country for cocaine and the leading foreign supplier of methamphetamine and marijuana. Several bills (H.R. 3889, H.R. 2601) have been reported by committees to encourage a reduction of smuggling of methamphetamine from Mexico. In May 2006, President Fox vetoed counternarcotics legislation, including a provision that some said amounted to the decriminalization of small amounts of drugs for personal use. In his veto, President Fox included a suggested amendment for the Mexican Congress to consider. The U.S. Coast Guard captured Francisco Javier "El Tigrillo" Arellano Felix, head of the Tijuana cartel, off the coast of Baja California. Mexico extradited his brother and alleged drug kingpin, Francisco Rafael Arellano Felix, to the United States in September 2006.

In November 2005, the Mexican Supreme Court ruled that life imprisonment without the possibility of parole does not constitute cruel and unusual punishment.

---

[14] For more information, see CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

As a result of this decision, criminals facing life imprisonment may be extradited to the United States. A January 2006 ruling that U.S. extradition requests only need to meet the requirements of the 1978 bilateral treaty, not the general law on international extradition, is likely to speed up the extradition of criminals wanted by the United States. In 2005, Mexico extradited an all-time high of 41 fugitives to the United States. Extraditions continued to increase in 2006 with 50 extraditions as of late October. The FY2006 Foreign Operations Appropriations Act (H.R. 3057/P.L. 109-102), enacted in November 2005, bars assistance to a country that refuses to extradite individuals accused of killing U.S. law enforcement officers, unless the Secretary of State certifies that application of the sanction is contrary to U.S. national interests. Similarly, the House-passed version of the FY2007 Foreign Operations appropriations bill, H.R. 5522, would prohibit provision of State Department funds to countries that refuse to extradite a person indicted in the United States for killing a law enforcement officer. The bill also would prohibit all State Department assistance, except International Narcotics Control and Law Enforcement (INCLE) funds, to countries that refuse to extradite persons who may face a sentence of life imprisonment without the possibility of parole. As noted above, action on FY2007 foreign aid appropriations was not completed by the end of the 109th Congress, so the 110th Congress will need to complete action in early 2007.

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 the 109th Congress, by Colleen Cook.*

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

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

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

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 elected President on November 5, 2006. Ortega's previous administration, from 1985-199, was marked by a civil war with U.S.-backed "contras," authoritarian tendencies, and charges of corruption. Since then, Ortega, who lost the last three presidential elections, has served as an opposition leader of the Sandinista National Liberation Front (FSLN) in the Nicaraguan Assembly. Two elements were key to Ortega's victory: a change in Nicaraguan electoral law, and a divided opposition. The Sandinistas negotiated a change in the electoral law with then-President Arnoldo Alemán's party eliminating the requirement that a candidate gain 45% of the vote to avoid a run-off election. The new law requires that a presidential candidate win either 40% of valid votes, or 35% of the vote plus at least 5% more votes than the second-place candidate in order to win in a first round. Ortega won only 37.9% of the vote, but was able 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) party. The opposition was divided among four candidates. In the 2001 presidential elections, Ortega received 40% of the vote, but faced a united opposition and lost. Observers are unsure what Ortega's government positions will be, as he vacillated during his campaign between anti-U.S. rhetoric and pragmatic reassurances that his second administration would respect private property, pursue free-trade policies, and seek a cooperative relationship with the United States.

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 advocated continued political reform. He was regarded by many as the U.S.-favored candidate. He will have a seat in the legislature. In third place with 26.2% was the Constitutional Liberal party (PLC) candidate José Rizo, an ally of Alemán and critic of President Bolaños. Edmundo Jarquin registered a distant fourth place at 6.4%. Jarquin, an economist who worked at the Inter-American Development Bank, left the FSLN in opposition to Ortega and in favor of political reform. He became the presidential candidate of the Sandinista Renewal Movement (MRS) when nominee Herty Lewites died suddenly in July 2006. Eden Pastora, a disaffected one-time Sandinista leader, won less than half a percent of the vote. The 90-member National Assembly was also elected; no party won an outright majority. The FSLN will have 38 seats, the PLC 25, the ALN 22, and the MRS 5. International and domestic observation groups pressed the government to address problems during the pre-election process such as a high rate of errors on voter registry lists, and difficulty getting voter identification cards needed to vote,[15] and considered the elections to be fair.

U.S. Agency for International Development (USAID) elections support for Nicaragua was expected to reach at least $12 million for election support activities by November 5, 2006. Critics accused both U.S. officials and Venezuelan President Hugo Chávez of trying to influence the election's outcome: the U.S. embassy for making critical remarks, such as alluding to Ortega and Rizo as "two corrupt bosses;" Chávez for supporting Ortega by providing fertilizer and oil under favorable terms through Sandinista-dominated groups. U.S. Ambassador Paul Trivelli, asserting his right to express his opinion, rejected calls to stop commenting on the elections.[16]

---

[15] National Democratic Institute, "Field Report: Nicaragua," June 1-30, 2006.

[16] Filadelfo Aleman, "U.S. Official: Nicaraguan Voters Face Stark Choices in November Election," Associated Press, Apr. 27, 2006.

The elections followed more than a year of political tensions among current President Enrique Bolaños, the leftist Sandinista party, and allies of rightist former President Arnoldo Alemán (1997-2002). During the height of tensions, President Bolaños invoked the OAS Inter-American Democratic Charter, and the OAS sent several high-level delegations to help negotiate a solution. Bolaños had been isolated by his anti-corruption efforts against Alemán, who was sentenced to 20 years in prison in 2003 for fraud and money-laundering. Aleman still controls the PLC, and has obtained a conditional release. Ortega announced he was breaking the power-sharing pact between his party and the PLC that had defined national politics since it was negotiated in 1998 and hampered Bolaños' ability to govern. The FSLN and PLC still controlled many state institutions, however, including the electoral authority. After Ortega's announcement, the legislature passed reforms such as the passage of the 2006 budget, the first-ever tax code, local government transfers, and financial administration. Ortega and Bolaños then agreed to postpone the implementation of constitutional amendments at the root of the tensions. These amendments will transfer significant executive powers to the legislature in February 2007, unless Ortega's newly elected government seeks to change them.

The National Assembly approved DR-CAFTA in October 2005 and passed intellectual property and other reforms in March 2006. It went into effect on April 1, 2006. 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. DR-CAFTA supporters say the agreement will promote economic growth, create jobs, and increase exports to the United States. In 2005, the Administration signed a five-year, $175 million agreement with Nicaragua under the Millennium Challenge Account program to promote rural development.

The Bush Administration suspended military assistance to Nicaragua in March 2005, resuming it in October when an agreement was worked out to destroy anti-aircraft missiles the Administration says constitute a possible terrorist threat. The National Assembly suddenly voted on a law authorizing the missiles' destruction on July 13. Sandinista legislators walked out in protest, but PLC and Nicaraguan Liberal Alliance (ALN) legislators passed the bill 46 to 1. None of the missiles were destroyed, however, and with the election of Sandinista leader Ortega as President, their destruction does not appear likely to happen soon. Nicaragua hosted a meeting of hemispheric secretaries of defense in October 2006 at which regional security concerns were addressed.

Resolution of property claims by U.S. citizens and immigration are contentious areas in U.S.-Nicaraguan relations. Nicaragua passed a law, scheduled to go into effect in 2007, 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. A House-passed immigration bill (H.R. 4437) would have made unlawful presence in the United States a criminal, rather than a civil offense. A Senate-passed bill (S. 2611) would have combined enforcement with guest-worker provisions. Nicaragua joined the Mexican and other Central American governments in criticizing U.S. efforts to increase border enforcement and demanded 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. A constitutionally required referendum on the expansion project was held on October 22, 2006, with 78% of voters supporting the 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 (FTA). The United States provided Panama with $19 million in foreign aid in FY2005, and an estimated $14.4 million in FY2006. The FY2007 request was for $17.4 million, with $4 million under the Andean Counterdrug Initiative and $3.2 million in development assistance.

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 Congress.[17] 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 (FTA)" above.)

CRS Products:

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

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

Peru

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. He also sought to reassure poor citizens that he was 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. His initially high level of public support has begun to drop, however, as reflected in the poor showing of Garcia's 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. With conservative candidate Lourdes Flores edged out of the race in the first round, many observers cast Garcia as "the lesser of two evils" in the second round. Garcia also took advantage of a backlash of sentiment against Venezuela's President Hugo Chávez, who supported Humala. Chavez raised fears among middle- and upper-class Peruvians of expropriations reminiscent of those that occurred under a military dictator praised by both Chávez and Humala. Humala, a retired army officer who led an uprising against then-President Fujimori, espoused nationalist, anti-globalization policies. Many observers were concerned that Humala

---

[17] Rosella Brevetti, ""Panama, United States Conclude Negotiations on Free Trade Pact, but Labor Issues Remain," *International Trade Daily*, Dec. 20, 2006.

had authoritarian tendencies. The opposition leader was charged in August 2006 with murder in connection to his military actions in the 1990s.

The previous President, Alejandro Toledo, presided over one of the highest economic growth rates in Latin America throughout his term. His popularity was extremely low, however, and he could not run for reelection because of term limits. Garcia has indicated he will continue pro-market economic policies, but will also find ways to use trade to reduce the level of poverty in Peru and widen the distribution of economic growth. Poverty is concentrated in rural and jungle areas, and among the indigenous population. The wealthiest 20% of the population receive 53% of the country's income, while the poorest 20% receive only 3%.[18]

Despite being barred from holding office until 2010 and being charged with ordering murder and torture, former President Alberto Fujimori (1990-2000) tried to return to Peru to run for president. The Chilean government arrested him in November 2005, released him on bail in May 2006, and is processing Peru's request for his extradition. His alliance won 15 seats in the legislature and is expected to press for his exoneration. In December 2006, Peru's prosecutor's office criticized Fujimori's delaying tactics and said it expected the Chilean courts to decide the issue in April 2007.

Issues in U.S.-Peruvian relations include trade, drugs, security, and democracy. The United States completed negotiations for a free trade agreement with Peru in December 2005, and an agreement was signed in April 2006. The Peruvian legislature ratified the agreement in June. Some Members of the U.S. Congress have expressed concern over unresolved trade disputes with Peru and whether International Labor Organization standards should be included. Both the House and Senate held mock mark-ups of the U.S.-Peru Trade Promotion Agreement in July 2006, but did not vote on the measure before the end of the 109th Congress. Congress did pass an extension of the Andean Trade Promotion and Drug Eradication Act (P.L. 109-432, Division D, Title VII) in December 2006 for six months, with a further six-month extension possible if a country enters into a free trade agreement with the United States.

Peru is a major illicit drug-producing and transit country. Its anti-narcotics agency reported that coca planting outstripped eradication in 2004 and that the local drug industry appears to be producing pure cocaine now rather than sending it to Colombia to be processed. Garcia's administration has already begun a dialogue with coca growers and told the Bush administration that Peru would extradite convicted drug traffickers to the United States. A cell of the Shining Path, the extreme left guerrilla group active in the 1980s and early 1990s, rejected the 1992 cease-fire and carried out fatal attacks in coca growing areas. The Administration requested $98.5 million in FY2007 Andean Counterdrug Initiative funds for Peru, less than one-fourth of the funding Colombia receives. Democracy and human rights initiatives include the provision of $50 million over five years to support consolidating democratic reform.

---

[18] Bank, *2005 World Development Indicators*, p. 73, March 2005, Washington, DC.

Also see sections above on the "Andean Counterdrug Initiative" and on the "U.S.-Peru Free Trade Agreement."

CRS Products:

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

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

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

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

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

Venezuela

Under the populist rule of President Hugo Chávez, first elected in 1998 and most recently re-elected to a six-year term in early 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 speech and press under the Chávez government. Chávez has survived several attempts to oust him from power, including an April 2002 coup attempt and an August 2004 recall referendum, which Chávez survived by a vote of 59% to 41%. The government has benefitted from the rise in world oil prices, which has sparked an economic boom. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with his populist agenda. In the country's December 3, 2006 presidential elections, President Chávez defeated opposition candidate Manuel Rosales 63% to 37% in polling that was monitored by international observers, including the Organization of American States.

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 conflict.

In the 109th Congress, the FY2006 Foreign Operations appropriations measure (P.L. 109-102) provided $2 million in Democracy Funds for Venezuela, and $2.2 million in assistance under the Andean Counterdrug Initiative (ACI). For FY2007, the Administration requested $1 million in ACI funding, $1.5 million in Economic Support Funds (ESF) for democracy initiatives, and $45,000 for International Military Education and Training. The House-passed FY2007 Foreign Operations appropriation bill, H.R. 5522, would have provided no ACI funding for Venezuela, while the Senate Appropriations Committee report to the bill (S.Rept. 109-277) recommended full funding of the Administration's ACI and ESF requests. Final action on FY2007 foreign aid appropriations was not completed by the end of the year, leaving the 110th Congress to complete action in 2007.

Two resolutions on Venezuela were also approved in the 109th Congress. H.Con.Res. 400 (Burton), approved July 26, 2006, condemned Venezuela's failures to stem the flow of narcotics through its territory and called for steps to restore cooperation between Venezuela and the Drug Enforcement Administration. S.Res. 607 (Bunning), approved by unanimous consent on December 6, 2006, condemned President Chávez's anti-American rhetoric during his September 20, 2006 speech before the U.N. General Assembly, and "the undemocratic actions of President Chávez."

Other legislative initiatives not completed before the end of the 109th Congress included H.R. 2601, the House-passed version of which would have authorized $9 million for each of FY2006 and FY2007 for democracy programs in Venezuela and authorized funds for U.S.-government broadcasting to Venezuela; H.Con.Res. 224 (Fortuño), which would have called on the Venezuelan government to uphold human rights and civil liberties; H.Con.Res. 328 (Mack), which would have condemned President Chávez's anti-democratic actions; S. 2435 (Lugar), which would have increased hemispheric cooperation on energy issues; H.Res. 1033 (Graves), which would have condemned President Chávez's anti-American rhetoric at the United Nations; and S.Res. 587 (Santorum), which would have condemned the anti-democratic actions and statements of the leaders of Iran, Cuba, and Venezuela and expressed concern about the national security implications of the relationships between those leaders.

CRS Products:

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