

CRS Report for Congress

Received through the CRS Web

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

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Summary

Honduras faces enormous challenges in the areas of crime and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a military presence in the country, and cooperation on a range of transnational issues. A U.S.-Central America Free Trade Agreement (CAFTA) with five Central American countries was signed on May 28, 2004, and a combined U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) was signed on August 5, 2004. The Honduran Congress approved the agreement on March 3, 2005, by a vote of 124-4. The Bush Administration views DR-CAFTA as a means of solidifying democracy in Honduras and promoting safeguards for environmental protection and labor rights in the country; critics fear that a CAFTA without strong environmental and labor provisions would do nothing to spur reforms in the country. For additional information, see CRS Report RL31870, *The Dominican Republic.-Central America-United States Free Trade Agreement (DR-CAFTA)*; and CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*.

Political and Economic Situation

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

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

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

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

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

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

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

countries in the hemisphere. Among the country's development challenges are an estimated poverty rate of 79%; an infant mortality rate of 34 per 1,000; chronic malnutrition (33% of children under five years); an average adult education level of 5.3 years; and rapid deterioration of water and forest resources, according to the U.S. Agency for International Development.² Honduras also has a significant HIV/AIDS crisis, with an adult infection rate of 1.6%. The Garifuna community (descendants of freed black slaves and indigenous Caribs from St. Vincent) concentrated in northern coastal areas has been especially hard hit by the epidemic.

In October 1998, Hurricane Mitch devastated the country, killing more than 5,000 people and causing billions of dollars in damage. As a result, gross domestic product declined by 1.4% in 1999. More than five years after Hurricane Mitch, observers maintain that the country is still feeling the effects of the storm, with roads and bridges broken, the agricultural sector still not recovered, and scores of orphaned children, many of whom have joined criminal gangs.³

Spurred on by U.S. assistance in the aftermath of Hurricane Mitch, the economy grew by 6% in 2000. Economic growth in 2001 and 2002 was reduced to 2.5% and 2.6% respectively because of such factors as a drought in western Honduras, flooding in the north caused by a tropical storm, and low coffee prices worldwide that reduced the value of Honduran coffee exports. In the last two years, economic growth has rebounded, with 3.5% growth in 2003 and estimated 5% growth in 2004.⁴

Amid the country's reconstruction efforts, former President Flores developed a good relationship with the international financial institutions. In 1999, Honduras signed a poverty reduction and growth facility (PRGF) agreement with the International Monetary Fund (IMF) that was extended through 2002. The agreement imposed fiscal and monetary conditions requiring Honduras to maintain firm macroeconomic discipline and to develop a comprehensive poverty reduction strategy.

Under the Maduro government, the IMF approved a three-year PRGF program in February 2004 for Honduras that could ultimately make the country eligible for some \$950 million in debt relief under the IMF and World Bank's Highly Indebted Poor Countries (HIPC) Initiative. The objectives of the program, according to the IMF, are to alleviate poverty and move the economy to a path of higher economic growth and lower inflation.⁵ As part of the agreement, the Honduran government agreed to lower the fiscal deficit and undertake structural reforms, including financial system reform and democratic institution building. The IMF acknowledged that broad public support for the program is crucial for its success. At times, street demonstrations against economic reforms have made it politically costly for the government. In late August 2003, some 12,000 protestors

² U.S. Agency for International Development. Congressional Budget Justification FY2004, Latin America and the Caribbean volume.

³ Michael. A.W. Ottey, "Hurricane Mitch Still Scars Honduras," *Miami Herald*, Nov. 5, 2003.

⁴ "Honduras Country Report," Economist Intelligence Unit, February 2005.

⁵ International Monetary Fund, "IMF Approves in Principle Three-year US\$107.6 million Poverty Reduction and Growth Facility Arrangement for Honduras and Grants Additional Interim Assistance under the Enhanced HIPC Initiative," Press Release No. 04/29, Feb. 18, 2004.

blocked entrances to the capital and forced their way into Congress. The government faces the dilemma of balancing the IMF's calls for reducing public expenditures and the public's demands for increased spending. In February 2005, an IMF staff mission maintained that the government was on track with its economic program and had made progress toward its goal of reaching the HIPC completion point in 2005.

U.S. Relations

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

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

With Hurricane Mitch funds expended by the end of 2001, U.S. foreign aid levels to Honduras declined. Foreign aid funding amounted to \$41 million for FY2002, \$53 million for FY2003, \$43 million for FY2004, and an estimated \$41 million for FY2005. The Bush Administration requested almost \$37 million for FY2006. These amounts include support for a variety of development assistance projects, HIV/AIDS assistance, food aid, and the largest Peace Corps presence in the world, with over 250 volunteers. Honduras also could receive substantial U.S. foreign assistance under the Bush Administration's Millennium Challenge Account (MCA), a performance and results-based assistance program intended to focus exclusively on development goals without regard for other U.S. foreign policy objectives. In early May 2004, the Millennium Challenge Corporation (MCC) deemed Honduras eligible to compete for grants under the new program. Honduras and the MCC are currently negotiating an agreement for such assistance.

Military Issues. The United States maintains a troop presence of about 550 military personnel known as Joint Task Force (JTF) Bravo at Soto Cano Air Base. JTF Bravo was first established in 1983 with about 1,200 troops, who were involved in military training exercises and in supporting U.S. counterinsurgency and intelligence operations in the region. Today, U.S. troops in Honduras support such activities as disaster relief, medical and humanitarian assistance, counternarcotics exercises, and search and rescue operations that benefit Honduras and other Central American countries. Regional exercises and deployments involving active and reserve components provide training opportunities for thousands of U.S. troops. In the aftermath of the Hurricane Mitch in 1998, U.S. troops provided extensive assistance in the relief and reconstruction effort and were involved in delivering relief supplies, repairing bridges and roads, rebuilding schools, and operating medical clinics.

Honduras was among the coalition of the willing supporting U.S. military operations in Iraq, and in July 2003, Honduras began providing a military contingent of 370 troops to Iraq, joining other contingents from El Salvador, Nicaragua, and the Dominican Republic. The Maduro government's proposal to send the troops was approved by the Honduran Congress, but the narrow margin of 66-62 reflected strong opposition by some sectors, including the opposition Liberty Party.⁶ The Honduran troops served under a brigade commanded by Spain, but when Spain decided to bring home its troops, Honduras followed suit and removed all its troops by June 1, 2004.

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

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

⁶ "Debate on Sending Central American Soldiers to Iraq," *Inforpress: Central America Report*, July 18, 2003.

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

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

One of the controversial issues regarding DR-CAFTA is how labor provisions will be handled. The agreement has provisions that would provide for the enforcement of domestic laws and would establish a cooperative approach to improve working conditions that would involve working with the International Labor Organization (ILO) and building local capacity to improve labor rights. Opponents argue that the agreement should have provisions enforcing international standards, maintaining that Central American countries have a history of non-enforcement of inadequate domestic laws. In April 2005, Honduras and other Central American countries endorsed a work plan with the goals of strengthening enforcement of labor laws in the region. They called for a donor's meeting to fund the projects. The United States has already pledged \$15 million for the initiative.⁷

Honduras has received criticism for its poor labor conditions. According to the State Department's February 2005 human rights report, there is credible evidence that blacklisting has occurred in the maquiladoras because of employees' union activities. Over 350,000 children work illegally in Honduras, occurring frequently in rural areas and in small companies, although only occurring in isolated cases in the maquiladora sector, according to the Department of State. In December 2004, two labor groups submitted a petition to USTR to review Honduran labor practices regarding its eligibility for General System of Preferences (GSP) trade benefits. The groups alleged that Honduras has done nothing since 2000 to fully implement a 1995 agreement with USTR regarding improvement of its labor practices.⁸

⁷ Rosella Brevetti, "CAFTA-DR Minister Unveil Plan for Improving Labor Conditions," *International Trade Reporter*, April 7, 2005; "CAFTA Countries Lay Out Labor Enforcement Plan, Seek More Funding," *Inside U.S. Trade*, April 8, 2005.

⁸ "Labor Groups Petition USTR to Review FTA Partners' GSP Eligibility," *Inside U.S. Trade*, December 24, 2004.