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Latin America and the Caribbean: Issues for the 108th Congress

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Summary

The Latin American 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. But several nations have faced considerable challenges that have threatened political stability, including economic decline and rising poverty, violent guerrilla conflicts, drug trafficking, and increasing crime.

Bush Administration officials maintain that U.S. policy toward Latin America has three overarching goals: strengthening security; promoting democracy and good governance; and stimulating economic development. Some observers argue that the Administration has not been paying enough attention to the region and to instability in several countries. They maintain that the United States, faced with other pressing foreign policy problems like the war in Iraq and the global anti-terrorist campaign, has fallen back to a policy of benign neglect of the region. In contrast, others maintain that the United States has an active policy toward Latin America and point to the considerable assistance and support provided to Colombia and its neighbors as they combat drug trafficking and terrorist groups. They also point to the momentum toward free trade in the region through negotiation of numerous free trade agreements, and to increased bilateral and regional cooperation on security issues.

Congressional attention to Latin America in the 108th Congress continued to focus on counter-narcotics and counter-terrorism efforts in the Andean region, trade issues, and potential threats to democracy and stability. U.S. counter-narcotics efforts focused on continuation of the Andean Counterdrug Initiative supporting Colombia and its neighbors in their struggle against drug trafficking and drug-financed terrorist groups. With regard to trade, Congress approved implementing legislation for a bilateral free trade agreement with Chile in July 2003; the United States signed a combined U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) on August 5, 2004, but Congress did not consider implementing legislation before the end of the 108th Congress. Congress also paid increased attention to economic, social, and political tensions in South America that threatened democratic order, particularly in the Andean region. In the Caribbean, Haiti's persistent poverty and political instability remained a congressional concern, as did assistance to Haiti and other Caribbean nations in the aftermath of devastating damage incurred by hurricanes and storms in 2004. Congress also continued to debate the appropriate U.S. policy approach to Cuba, the region's only holdout to democracy, as it did for the past several years. Finally, Congress maintained an active interest in neighboring Mexico, with a myriad of trade, migration, border and drug trafficking issues dominating bilateral relations.

This report examines issues in U.S. policy toward Latin America and the Caribbean in the 108th Congress. It reflects final actions of the 108th Congress and will not be updated. For more details and discussion, see the listed CRS products after each section.

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Introduction

Conditions in the Region

Latin America 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. In 2004, free and fair elections for head of government were held in Antigua and Barbuda on March 23; El Salvador on March 21; Panama on May 2; the Dominican Republic on May 16; Venezuela on August 15, for a special presidential recall referendum; St. Kitts and Nevis on October 25; and Uruguay on October 31. Despite this democratic progress, several nations faced considerable challenges that threatened political stability, including economic decline and rising poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

In 2002 and 2003, the region as a whole experienced slower economic growth with 2002 registering a gross domestic product (GDP) decline of 0.6% and a per capita income decline of almost 2%, the worst economic performance in almost two decades. Argentina, Uruguay, and Venezuela suffered the deepest recessions, skewing the regional data downward, while most other countries had slow, but positive, growth rates. For 2003, regional economic growth was estimated to be 1.5%, with a per capita income increase of 0.2%.

By the end of 2004, however, the region had rebounded with an estimated growth rate of 5.5% for the year, surpassing even the most optimistic predictions. Every country in the region, with the exception of Haiti, experienced positive economic growth, and per capita income for the region as a whole increased by an estimated 4% for the year.[1]

In South America, the economic downturn in 2002 and 2003 increased political pressure on elected governments and led some in the region to question democracy and the democratic free-market model of development. The Andean governments of Bolivia and Peru faced violent protests, which in Bolivia, led to the resignation of President Gonzalo Sanchez de Lozada on October 17, 2003, just 15 months after he was elected. Colombia faced challenges from drug trafficking organizations, as well as from two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, have been responsible for thousands of deaths each year. Venezuela was plagued by political polarization between supporters and opponents of President

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[1] U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Preliminary Overview of the Economies of Latin America and the Caribbean," December 15, 2005.

Hugo Chavez, although Chavez's victory in the August 2004 recall referendum has the potential of reducing polarization. Argentina's democratic political system was under considerable stress after social protests over economic conditions led to the resignation of a democratically elected President in December 2001. The political and financial situation eventually stabilized, and bold policy moves in the areas of human rights and institutional reform by President Néstor Kirchner, inaugurated in May 2003, helped restore Argentines' faith in government.

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 was rampant. While the 1996 peace accords in Guatemala brought an end to the 36-year civil conflict, the government did not fully implement substantive reforms associated with the peace plan and the human rights situation remains poor. A new Guatemalan President, Oscar Berger, was elected in December 2003 and was inaugurated on January 14, 2004. Observers are hoping that he will improve upon the performance of his predecessor.

In the Caribbean, Haitian President Jean-Bertrand Aristide resigned on February 29, 2004, under disputed circumstances after armed opposition groups had taken control of half the country. President Bush deployed U.S. military forces to Haiti to secure key facilities and to help secure the arrival of a Multinational Interim Force, authorized by the U.N. Security Council, which was succeeded by the United Nations Stabilization Mission in Haiti (MINUSTAH) in June 2004. In Cuba, Fidel Castro retained tight control over the Communist government. The human rights situation deteriorated significantly in 2003, with the arrest and imprisonment of 75 dissidents.

U.S. Policy

Congressional attention to Latin America in the 108th Congress focused on counter-narcotics and counter-terrorism efforts in the Andean region, security cooperation with Latin America, and trade issues, such as free trade agreements with Chile and Central American countries and the regional Free Trade Area of the Americas (FTAA). 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. Congress maintained an active interest in neighboring Mexico, with a myriad of trade, migration, border and drug trafficking issues dominating U.S.-Mexico bilateral relations.

U.S. counter-narcotics efforts in the region continued to focus on the Administration's Andean Counterdrug Initiative[2] supporting Colombia and its

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[2] The U.S. program to provide anti-narcotics assistance to Colombia, in support of Plan Colombia, and its neighbors is called the Andean Counterdrug Initiative. In 2001, the Bush Administration requested funding for FY2002, and then later for FY2003, for the "Andean Regional Initiative," which encompassed State Department counterdrug funding (the Andean Counterdrug Initiative) as well as other assistance programs, such as development assistance, child survival and health, economic support funds, and Foreign Military Financing. For FY2004, the budget request returned to the usage of Andean Counterdrug Initiative, and requested funds for the other assistance programs from their regular accounts.

neighbors with foreign assistance in their struggle against drug trafficking and drug-financed terrorist groups. Congress expressed repeated concerns over the capture and killing of various U.S. citizens by the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN).

Security issues became a higher-profile aspect of U.S. relations with Latin America in the aftermath of the September 11, 2001, terrorists attacks in the United States. Bilateral and regional cooperation on anti-terrorism issues increased, and the United States expanded its assistance to Colombia beyond a strictly counternarcotics focus to also include counterterrorism support. In June 2002, the United States and other members of the Organization of American States (OAS) signed an Inter-American Convention Against Terrorism in order to improve regional cooperation. President Bush submitted the convention to the Senate for its advice and consent in November 2002, and the Senate Foreign Relations Committee held a June 17, 2004, hearing on the convention.

U.S. officials maintained that the most effective and rapid means to stimulate economic development in Latin America is through trade, and they set the goal of strengthening trade linkages with the region through the negotiation of numerous free trade agreements (FTAs):

- On June 6, 2003, the United States and Chile signed a bilateral FTA that had been completed in December 2002. This paved the way for congressional consideration of implementing legislation for the Chile FTA, under so-called fast track procedures, with both the House and Senate approving the measure in July (P.L. 108-77, H.R. 2738).

- In December 2003, the Administration completed negotiations for a U.S.-Central America Free Trade Agreement (CAFTA) with four Central American countries: El Salvador, Honduras, Guatemala, and Nicaragua; Costa Rica agreed to CAFTA in late January 2004 after additional bilateral negotiations with the United States. The United States signed the CAFTA with the five Central American countries on May 28, 2004. Separately, the United States and the Dominican Republic concluded negotiations on a similar FTA on March 15, 2004. On August 5, 2004, all seven countries signed the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). In part because of its controversial nature, Congress did not consider implementing legislation for the agreement before the end of the 108th Congress.

- The Administration also began FTA negotiations with Panama in late April 2004, and in mid-May 2004 launched FTA negotiations with Colombia, Ecuador, and Peru with the hope that Bolivia will join the U.S.-Andean negotiations in the future.

- Finally, the Administration continued to negotiate with other hemispheric nations for the establishment of a Free Trade Area of the Americas (FTAA) by January 2005, a goal first agreed to at the

> 1994 Summit of the Americas. Because of differences in the negotiations about how to proceed, it became increasingly unlikely that a comprehensive agreement could be achieved by January 2005.

In addition to trade policy, the United States supported development in the region through foreign assistance programs largely administered by the U.S. Agency for International Development (USAID). The agency supported such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counter-narcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. The Peace Corps was active in many Latin American and Caribbean nations. Overall U.S. foreign aid to the Latin America region amounted to about $862 million in FY2001, $1.5 billion in FY2002, $1.7 billion in FY2003; and an estimated $1.6 billion in FY2004. For FY2005, the Administration requested about $1.6 billion. (For further information, see CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean.)*

In the aftermath of several devastating storms in 2004 — Hurricanes Charley, Frances and Ivan, and Tropical Storm Jeanne — the United States provided humanitarian assistance to the afflicted countries, including Haiti, Grenada, Jamaica, the Bahamas, the Dominican Republic, and Cuba. Through October 2004, the United States committed or obligated $22.6 million in such assistance. On October 5, 2004, the House approved H.Con.Res. 496 (Lee) expressing support for the provision of humanitarian assistance to Caribbean nations devastated by the storms. Subsequently, Congress approved $100 million in emergency supplemental funding for the region in the aftermath of the storms (H.R. 4837, P.L. 108-324). (For additional information, see CRS Report RL32160, *Caribbean Region: Issues in U.S. Relations*.)

The Bush Administration's new foreign aid initiative, the Millennium Challenge Account (MCA), could significantly increase U.S. foreign assistance worldwide including assistance to several Latin American nations to countries that have strong records of performance in the areas of governance, economic policy and investment in people. In May 2004, the Millennium Challenge Corporation (MCC) board deemed three Latin American nations — Bolivia, Honduras, and Nicaragua — as eligible to apply for FY2004 MCA funding. (For further information, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*.)

Some Members of Congress wanted to increase U.S. assistance to combat poverty in Latin America. In the 108th Congress, the House Subcommittee on the Western Hemisphere approved an initiative, H.R. 3447 (Menendez), that would have authorized $500 million annually for five years for a Social Investment and Economic Development Fund for the Americas to provide assistance for poverty reduction and increased economic opportunity in the region.

On January 7, 2004, President Bush proposed a new temporary worker program that would allow undocumented persons in the United States, and foreign workers, to work for a period of three years (which would be renewable one time) and receive legal temporary status. The proposal was somewhat similar to legislation proposed by Senator McCain, S. 1461, and Representatives Kolbe and Flake, H.R. 2899, but no action was taken on these measures. Prospects for action was thwarted by opposition from those who wanted to provide broader amnesty to undocumented workers in the United States as well as from those who believed that such a proposal constituted a reward to those people living in the United States illegally.

President Bush met with other hemispheric leaders at a Special Summit of the Americas held in Monterrey Mexico from January 12-13, 2004. The leaders issued the Declaration of Nuevo León, which set forth reaffirmations and commitments in the three areas of economic growth with equity, social development, and democratic governance. Among the measures agreed upon was a commitment to reduce the cost of sending remittances in the region by at least half by 2008. The Declaration also supported a tripling of Inter-American Development Bank lending to micro, small, and medium-sized enterprises. While the Declaration included a commitment "to deny safe haven to corrupt officials, to those who corrupt them, and their assets," it did not include a U.S. proposal that would have barred corrupt officials from taking part in hemispheric meetings. In addition, although the Declaration welcomed progress toward the establishment of a FTAA, it did not include a U.S. proposal to note a January 2005 deadline for the agreement.[3] (For further information, see CRS Report RS21700, *Special Summit of the Americas — Monterrey, Mexico, January 2004: Background and Objectives*.)

Some observers, including many from Latin America, maintained that the Bush Administration did not pay enough attention to the region and to the problems of economic and political stability in several countries. U.S. policy was criticized for having returned to a policy of benign neglect as the Administration focused its attention on such pressing problems as the global anti-terrorism campaign, the war in Iraq, and homeland security. They argued that the United States cannot afford to let the region become unstable politically or economically, because it is an important market for U.S. exports, and an important supplier of U.S. energy needs, and increased instability could lead to increased illegal migration.

Others suggest that despite its attention to crises and issues worldwide, the United States maintained an active policy toward Latin America. They point to the momentum for free trade in the region and to the assistance and support provided to Colombia and its neighbors as they combat drug trafficking and terrorist groups in the Andean region. They maintained that the new U.S. focus on security issues worldwide will only solidify U.S. ties to the region through increased bilateral and regional cooperation such as the Inter-American Convention Against Terrorism.

[3] Organization of American States, Declaration of Nuevo León, Jan. 13, 2004; Tim Weiner, "Bush Meets Skepticism on Free Trade at Americas Conference," *New York Times*, Jan. 14, 2004; Richard Boudreaux, "The Americas' New Left Challenges Bush," *Los Angeles Times*, Jan. 14, 2004.

CRS Products:

CRS Report RL32001, *AIDS in the Caribbean and Central America*, by (name r edacted).

CRS Report RL32160, *Caribbean Region: Issues in U.S. Relations*, by (name r edacted).

CRS Report RL32038, *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Countries,* by (name redacted).

CRS Report RL31659, *Foreign Remittances to Latin America,* by (name redacted) and (name redacted).

CRS Report RL32044, *Immigration: Policy Considerations Related to Guest Worker Programs*, by (name redacted).

CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections,* by (name redacted).

CRS Report RL30971, *Latin America and the Caribbean: Legislative Issues in 2001-2002,* Coordinated by (name redacted).

CRS Report RS21049, *Latin America: Terrorism Issues*, by (name redacted).

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

CRS Issue Brief IB95017, *Trade and the Americas*, by (name redacted).

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean,* coordinated by (name redacted).

Regional Issues

Colombia and the Andean Counterdrug Initiative

Congress has expressed concern about the problem of illegal narcotics in the Andean Region and divided over an appropriate policy. For over two decades, U.S. policy towards the Andean Region has focused almost exclusively on counternarcotics efforts, that is, curbing the cultivation of coca leaf, its transformation into cocaine, and its subsequent trafficking. Success in controlling coca and coca base production in Bolivia and Peru seemed to be offset in the mid-to-late 1990s by the expansion of coca cultivation into uncontrolled areas of Colombia, which previously had served only for the refinement of coca base into cocaine. In the last few years, drug traffickers have also begun to cultivate opium poppies and transform them into high-grade heroin in Colombia. Eighty percent of the world's cocaine originates in Colombia.

In 2000, the 106th Congress approved expanded political, economic, and military assistance to combat drug production and trafficking in Colombia under the Clinton Administration's proposal to support Plan Colombia (P.L. 106-246), an initiative of then President Pastrana of Colombia (1998-2002). In 2002, it approved the Bush Administration's Andean Regional Initiative (ARI), the continuation of the Clinton policy in Colombia and a sizable expansion of assistance to six of Colombia's neighbors: Brazil, Bolivia, Ecuador, Panama, Peru, and Venezuela (P.L. 107-206 and P.L. 107-115). ARI funding included antinarcotics assistance, known as the Andean Counterdrug Initiative (ACI), as well as Foreign Military Financing, Development Assistance, Child Survival and Health funds, and Economic Support Funds. The 107th Congress also approved a major shift in U.S. Andean policy by authorizing the use of U.S. assistance to help Colombia counter threats to its stability from illegal armed groups of the left and right which substantially finance their operations through the drug trade.

The 108th Congress continued to scrutinize indicators of the effectiveness of U.S. assistance to the Andean region. (For FY2004, the Bush Administration budget request did not use the term "Andean Regional Initiative," instead making separate requests for the Andean Counterdrug Initiative, Foreign Military Financing, and the other development assistance programs from their regular accounts.) According to United States and Colombian officials, coca cultivation dropped 15% in Colombia during 2002 and 21% in 2003. This marked the first reduction in acreage devoted to coca cultivation in Colombia. Poppy cultivation was reduced by 24% in 2002. It is believed that the Plan Colombia goal of having sprayed 50% of the country's coca crop by the end of 2005 may have been accomplished two years ahead of schedule. It should be noted that spraying does not prevent, although it may discourage, the replanting of illicit crops. However, according to the Administration, during 2002 and 2003, coca cultivation picked up in Bolivia, reversing a declining trend there. Peru's coca cultivation in 2003 decreased 15%.

Critics of U.S. policy contend that winning the war against drugs is a losing proposition as long as demand continues. They argue that policy should focus on the "demand side" because they view providing treatment for the users of illegal narcotics as the only permanent solution. The Bush Administration has, however, recast the debate, arguing that the United States faces not only a threat from drug production and trafficking in the Andean region, but also from the increasing instability brought on by insurgent guerrilla organizations that are fueled by the drug trade. To the Bush Administration and its supporters, the assistance to Colombia is necessary to help shore up a democratic government besieged by drug-supported leftist and rightist armed groups. Substantial assistance to Colombia's neighbors is warranted, they argue, because of an increasing threat from the spillover of violence from Colombia, and the possible resurgence of drug cultivation in some countries and its spread from Colombia to others.

Although some critics agree with this assessment, they argue that the Bush plan overemphasizes military and counter-drug assistance and provides inadequate support for protecting human rights and encouraging a peace process in Colombia. In particular, they express concern that current military assistance is drawing the United States into Colombia's guerrilla conflict in support of armed forces which, they charge, have substantial ties to rightist groups guilty of gross violations of human rights. This concern grew with the August 2002 inauguration of President Alvaro Uribe, who is viewed by some as tolerating the actions of rightist armed groups, despite his statements that he will neither tolerate violence against nor on behalf of the government. In July 2003, President Uribe announced that an agreement had been reached with the rightist paramilitary umbrella organization, the United Self Defense Forces of Colombia (AUC), that would result in its disarmament by the end of 2005. Part of the demobilization plan entails a controversial legislative proposal by President Uribe to grant conditional amnesties to illegal combatants who disarm and provide some form of restitution under court supervision. Critics also voice skepticism that U.S.-funded aerial fumigation and alternative development projects can effectively cut coca and poppy cultivation, and provide adequate livelihoods to induce growers to voluntarily give up illicit crops.

ACI and Related Funding Programs. The United States has made a significant commitment of funds and material support to help Colombia and the Andean region fight drug trafficking since the development of Plan Colombia in 1999. Congress passed legislation providing $1.3 billion in assistance for FY2000 (P.L. 106-246) and has provided a total of $3.7 billion from FY2000 through FY2004 in both State Department and Defense Department counternarcotics accounts. Since 2002, Congress has granted expanded authority to use counternarcotics funds for a unified campaign to fight both drug trafficking and terrorist organizations in Colombia. The three main guerrilla groups in Colombia participate in drug production and trafficking, and have been designated foreign terrorist organizations by the State Department. For FY2004, Congress approved $731 million for the Andean Counterdrug Initiative (P.L. 108-199). In November 2004, Congress again approved the Administration's request of $731 million for FY2005 (P.L. 108-447.)

The ACI account funds, among other things, support for the eradication of illegal crops and the destruction of laboratories, as well as economic and social development. Congress also approved $110 million in FY2004 in Foreign Military Financing (FMF) for Colombia. In the past, FMF funding has been used to train and equip a Colombian Army brigade to protect the Caño-Limón oil pipeline in Colombia. The FMF request for FY2005 is $108 million. Congress has regularly maintained a number of provisions relating to human rights, aerial fumigation, and prohibiting U.S. military personnel from participating in combat operations. Current law also imposed a cap of 400 each on U.S. military and civilian personnel deployed in support of Plan Colombia (P.L. 106-246, Section 3204(b)through(d) as amended by P.L. 107-115). In response to an Administration request, Congress approved increasing the cap on military personnel to 800 and contract employees to 600 in the FY2005 National Defense Authorization Act (P.L. 108-375, H.R. 4200, H.Rept. 108-767).

The Killing and Capture of U.S. Citizens. Congress has expressed repeated concerns regarding the capture and killing of various U.S. citizens by the Revolutionary Armed Forces of Colombia (FARC), the first case occurred on February 13, 2003. On that morning, a Cessna 208 aircraft carrying four American contractors and a Colombian crash landed in the Colombian province of Caquetá. The pilot and one of the contractors were shot, the other three contractors were captured by the FARC. Subsequently, in March 2003, three more American contractors were killed in a plane crash as they were searching for the captured contractors. Both planes involved in these crashes were Cessna 208s, which some contract employees have complained are not suitable for use in Colombia because they cannot perform the steep climbs required by mountainous terrain. A fifth American was killed in April 2003 when his T-65 air tractor crashed while spraying opium poppies. While these flights were considered accidents, fumigation flights have been fired on, and since August 2003, two planes have been downed by hostile fire. On August 25, 2003, a spray aircraft piloted by a U.S. citizen was shot down, resulting in injuries to the pilot. An OV Bronco aircraft was downed on September 21, 2003, reportedly by hostile fire, killing its Costa Rican pilot. The ELN claimed responsibility for the shootdown.[4] Kidnappings of Colombians, including several government officials, and foreigners persist.

Air Bridge Denial Program. Following the April 2001 accidental shooting down of an airplane carrying U.S. missionaries in Peru by the Peruvian military working with U.S. assistance, the Air Bridge Denial Program, an effort to intercept drug trafficking flights, was suspended in both Peru and Colombia. Congress inserted language in the foreign aid funding bills requiring that safety enhancements be instituted before such flights could resume in Peru. Although discussions are still ongoing with Peru, Secretary of State Powell recommended to President Bush on August 5, 2003, that flights be resumed in Colombia after agreement was reached with Colombian authorities on protocols to ensure enhanced safety. The program resumed soon thereafter. The FY2005 request was for $21 million, and Congress approved $11.2 million.

CRS Products:

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

CRS Report RL32021, *Andean Regional Initiative (ARI): FY2003 Supplemental and FY2004 Assistance for Colombia and Neighbors*, by (name redacted) and (name redacted).

CRS Report RL31383, *Andean Regional Initiative (ARI): FY2002 Supplemental and FY2003 Assistance for Colombia and Neighbors*, by (name redacted) and (name r edacted).

CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors*, by (name redacted) and (name redacted).

CRS Report RL32250, *Colombia: Issues for Congress*, by (name redacted).

CRS Report RL32052, *Colombia and Aerial Eradication of Drug Crops: U.S. Policy and Issues,* by (name redacted) and José E. Arvelo-Velez.

CRS Report RS21213, *Colombia: Summary and Tables on U.S. Assistance, FY1989-FY2003*, by (name redacted).

[4] "ELN - We Shot Down U.S. Anti-Drug Plane," *EFE News Service*, Oct. 3, 2003.

U.S.-Latin American Trade Relations

Since the North American Free Trade Agreement (NAFTA) took effect in January 1994, its mixed and controversial reviews have led many Members of Congress to adopt a more cautious attitude toward future trade negotiations. This outlook was reflected in the spirited debate over Trade Promotion Authority (TPA), which continued for eight years before legislation permitting "fast-track" approval of trade agreements was passed in August 2002. It was also seen in the debate that emerged over the implementing legislation for the U.S.-Chile FTA, among others, that was passed by Congress in July 2003. In the meantime, the Bush Administration is pursuing, and in some cases has completed, other FTAs with Latin American countries that will require congressional approval before they can take effect.

U.S.-Chile FTA. On January 1, 2004, the U.S.-Chile free trade agreement (FTA) went into effect. The United States and Chile signed the long anticipated FTA in Miami, Florida on June 6, 2003, concluding a 14-round negotiation process that began on December 6, 2000. Congress held hearings before the House Ways and Means, Senate Finance, and both Judiciary Committees. The House passed the U.S.-Chile Free Trade Implementation Act (H.R. 2738) on July 24, 2003 by a vote of 270 to 156, followed by the Senate one week later, 66 to 31. President George W. Bush signed the implementing legislation into law (P.L. 108-77) on September 3, 2003. The FTA allows 85% of all consumer and industrial goods to be traded duty free immediately, with 75% of tariffs on farm goods and Chile's luxury tax on automobiles to be eliminated within the first four years, and tariffs on sensitive goods traded between the two countries to be phased out over a period of up to 12 years. Chile's rules governing investment, services trade, intellectual property rights, labor, environment, dispute resolution, and other issues critical to the United States are also clarified and made more transparent. There are no provisions on antidumping or countervailing duties, key trade issues for Chile and Latin America in general. Because multiple FTAs are now being contemplated, some Members of Congress expressed serious reservations about certain provisions in the U.S.-Chile agreement becoming "templates" for future FTAs. In particular, congressional hearings focused on provisions related to labor, capital controls, and the temporary entry for business persons.

U.S.-Dominican Republic-Central America FTA (DR-CAFTA). On December 17, 2003, the United States concluded negotiations on a U.S.-Central America Free Trade Agreement (CAFTA) with four of the five Central American Common Market (CACM) countries (Guatemala, Honduras, El Salvador, and Nicaragua). Costa Rica agreed to CAFTA on January 25, 2004, following additional bilateral discussions with the United States on various sensitive issues. The agreement was signed by all five parties on May 28, 2004, at the Organization of American States in Washington, D.C. Separately, the United States and the Dominican Republic on March 15, 2004, concluded negotiations on a similar FTA. On August 5, 2004, all seven countries signed the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). Because of the many controversies surrounding the FTA, no implementing legislation was introduced in the 108th Congress.

The DR-CAFTA negotiations were ground breaking in trying to reconcile the needs of five (and eventually six) different U.S. trading partners within a "bilateral" framework. The DR-CAFTA was negotiated in part as a regional agreement in which all parties would be subject to the same basic framework and rules, but each country was also able to define its own market access schedules. This flexibility allowed Costa Rica to delay joining the agreement and for the Dominican Republic to be added as a new partner when it acceded to "the same set of obligations and commitments." It also appended a separately negotiated schedule for market access.

If the DR-CAFTA is implemented, more than 80% of U.S. consumer and industrial exports would become duty-free immediately, with all tariffs removed within 10 years. Tariffs would go to zero on information technology products, agricultural and construction equipment, paper products, chemicals, and medical/scientific equipment, among others. Over half of current U.S. farm exports to the region would become duty free immediately, including "high quality" cuts of beef, cotton, wheat, soybeans, certain fruits, and vegetables, processed food products, and wine. For the most sensitive agricultural products, tariffs and tariff rate quotas would be phased out over 15-20 years, with sugar, white corn, potatoes, and onions escaping full duty-free treatment for some countries. Advances were also made in other areas important to the United States including services trade, intellectual property rights, investment, and government procurement.

The DR-CAFTA, however, faces political uncertainty. In the United States, some industry groups oppose liberalizing trade rules for the region's major exports, apparel and agricultural goods, and labor advocates also resist the agreement. For the U.S. Congress, reconciling these diverse interests is a difficult task given the competing nature of the negotiating goals. Also, support for the agreement has been jeopardized by the Dominican Republic's passage of a revenue bill that includes a 25% tax on beverages containing high fructose corn syrup. The USTR considers the tax "to be inconsistent with the Dominican Republic's obligations under the agreement" and has recommended to Congress that implementing legislation not include the Dominican Republic, unless the tax is repealed. As of mid-December 2004, the Dominican Senate had voted to repeal the tax, but further legislative action is needed, leaving the fate of the DR-CAFTA unclear.

Panama Trade Agreement. On April 26, 2004, the United States and Panama initiated negotiations for a bilateral FTA. By building on the DR-CAFTA framework, negotiators have been able to move quickly. To date, six rounds have been completed, with a seventh round scheduled to begin January 10, 2005. Panama is a services-based economy, which distinguishes it, and the trade negotiations, from those of its Central American neighbors. Agriculture and maritime concerns have been the most challenging issues to negotiate. The United States also has sought to loosen Panamanian rules limiting activities of foreign professionals and is focused intently on government procurement provisions, given Panama's plan to invest some $8 billion to increase the capacity of the Panama Canal. Unlike the DR-CAFTA, there is little textile and apparel trade, and labor issues have not taken on the same importance. Panama is also a beneficiary of the Caribbean Basin Initiative's (CBI) unilateral trade preferences of the United States and is among the largest recipients of U.S. foreign direct investment in Latin America. Panama seeks to solidify U.S. market access and investment benefits in the FTA. For the United States, Panama has long been of strategic commercial and security importance, even as a small trading partner. Much of the draft agreement has been completed. Sensitive market access issues, especially agriculture, and government procurement issues related to projects in the Panama Canal Authority, have yet to be finalized. The agreement is expected to be concluded early in 2005, and implementing legislation may be introduced in the 109^{th} Congress.

Free Trade Area of the Americas. The Free Trade Area of the Americas is a regional trade proposal among 34 nations of the Western Hemisphere that would promote economic integration by creating, as originally conceived, a comprehensive (presumably WTO-plus) framework for reducing tariff and nontariff barriers to trade and investment. Formal negotiations commenced in 1998 and the process so far has led to three draft texts, the last released at the eighth trade ministerial meeting that took place November 17-21, 2003, in Miami. The negotiating schedule called for a final agreement to be adopted by January 2005, with its entry into force to occur no later than year end. The first deadline has been missed, and meeting the second seems unlikely.

The FTAA negotiations are at a crossroads, with Brazil and the United States, the co-chairs of the Trade Negotiations Committee (TNC) that oversees the process, at odds over how to proceed. Brazil has taken strong exception to the U.S. approach to the FTAA, particularly its firm stand of refusing to discuss agricultural subsidies, antidumping legislation, and alternatives to its "differentiated market access" proposal. Brazil responded with its own "Three Track Proposal" that would eliminate discussion of many issues of importance to the United States. To avoid an impasse, the United States and Brazil jointly authored the Ministerial Declaration of the eighth ministerial meeting held in Miami on November 20-21, 2003, which defined how the FTAA negotiations would proceed. Although it reaffirmed the commitment to complete a "comprehensive and balanced" agreement, it did so in the context of a rather unorthodox compromise. The declaration would allow for the possibility that countries could assume different levels of commitments, with a common set of rights and obligations applicable to all. The TNC was instructed to define the differences, but so far has been unable to do so. Negotiations were on hold for much of 2004, but Brazil and the United States have agreed to restart the FTAA negotiations in January 2005.

In the meantime, both countries are courting other Latin American countries to join them in sub-regional trade agreements. Until Brazil and the United States come to some understanding of how to proceed, it appears that the region will continue to follow a path of integration based on bilateral and sub-regional trade arrangements, which most economists argue is far inferior to a comprehensive region-wide FTA.

CRS Products:

CRS Report RL31870, *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by (name redacted).

CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by (name redacted).

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by (name redacted).

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 (name redacted).

CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by (name redacted).

CRS Issue Brief IB95017, *Trade and the Americas*, by (name redacted).

CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by (name redacted).

CRS Report RS21868, *U.S.-Dominican Republic Free-Trade Agreement*, by Leonore Sek.

CRS Report 98-840, *U.S.-Latin American Trade: Recent Trends*, by (name redacted).

Terrorism

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, which was referred to the Senate Foreign Relations Committee (Treaty Doc. 107-18). The committee held a hearing on the treaty on June 17, 2004, but no action was taken before the end of the 108th Congress. In the aftermath of 9/11, the OAS also reinvigorated the Inter-American Committee on Terrorism (CICTE), which cooperated on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence.

On October 27-28, 2003, the OAS held a Special Conference on Security in Mexico City that focused on identifying new threats, concerns and challenges facing the hemisphere and agreed on a cooperative approach toward addressing them.

Among the threats identified in the adopted Declaration on Security in the Americas were "terrorism, transnational organized crime, the global drug problem, corruption, asset laundering, illicit trafficking in weapons and the connections among these activities."[5]

The State Department, in its annual report on worldwide terrorism (*Patterns of Global Terrorism*, April 2004), highlighted terrorist threats in Colombia, Peru, and the tri-border region of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fundraising activities. In the aftermath of 9/11, U.S. attention focused on potential links in the region to the Al Qaeda terrorist network, but the *Patterns* report maintained that reports of an Al Qaeda presence in the tri-border region remained "uncorroborated by intelligence and law-enforcement officials." The State Department also designated four terrorist groups (three in Colombia and one in Peru) as Foreign Terrorist Organizations, and Cuba has been listed as a state sponsor of terrorism since 1982.

There were increased concerns in 2004 about potential Al Qaeda threats in Central America, although U.S. officials maintained that there was no evidence supporting such concerns. Honduras declared a terror alert on August 23, 2004, after receiving information that Al Qaeda reportedly was attempting to recruit Hondurans to attack U.S. and other embassies.[6] In June, Honduran officials said that a suspected terrorist cell leader, Adman G. El Shukrijumah had been spotted at an Internet café. In August, El Salvador received threats from an Islamic extremist group to carry out attacks in the country if it did not pull its troops out of Iraq. Some press reports alleged that Al-Qaeda could attempt to use a Salvadoran criminal gang, the Mara Salvatrucha, to infiltrate the U.S.-Mexico border, although Secretary of Homeland Security Tom Ridge maintained on September 27, 2004, that there was no indication of such infiltration along the border.[7] Moreover, the head of Interpol's regional office in Central America stated in early October 2004 that reports of Al Qaeda links with Central American gangs were mere speculation, with no firm basis in evidence.[8]

Through the State Department, the United States provides Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is generally provided through the annual foreign operations appropriations measure. In FY2002, a total of $27.5 million was provided for the region, with $25 million for an anti-kidnapping program in Colombia (appropriated through an FY2002 supplemental appropriations measure, P.L. 107-206) and $2.5 million for the regular Western Hemisphere program. For FY2003, the

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[5] Organization of American States. Declaration on Security in the Americas. Oct. 28, 2003.

[6] "Honduras: Terror Alert Issued After Al-Qaida Tip-Off," *Latinnews-Daily*, August 24, 2004.

[7] "U.S. Officials Dispute Al Qaeda Role in Hemisphere," *Homeland Security Monitor* (Intellibridge), September 30, 2004; Jerry Seper, "Al Qaeda Seeks Tie to Local Gangs." *Washington Times*, September 28, 2004.

[8] "No Clear Evidence Terrorists are Present," *Miami Herald*, October 7, 2004.

Administration's $3.6 million in ATA assistance was provided for the region, with $3.3 million of that for Colombia. For FY2004, an estimated $2.6 million in ATA assistance was provided for the Western Hemisphere, while the Administration requested $5.2 million for FY2005, including $1 million for the tri-border region of Brazil, Paraguay, and Argentina, and $3.9 million for Colombia.

In the 108th Congress, the Senate Foreign Relations Committee report (S.Rept. 108-56) to S. 1161, the Foreign Relations Authorization Act for FY2004, urged the Department of State to pay particular attention to training and related equipment for countering terrorist financing, transitional crime intelligence sharing, and border security in the Tri-border area. As noted above, the Senate Foreign Relations Committee held a June 17, 2004, hearing on the Inter-American Convention Against Terrorism.

The U.S. Congress also expressed concern regarding the continuing investigation into the July 1994 bombing of the Argentine-Israeli Mutual Association (AMIA) in Buenos Aires that killed 86 people. (Allegations have linked Hizballah, the radical Lebanon-based Islamic group, to the 1994 bombing as well as to the1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people.) Both the House and the Senate approved similar resolutions — H.Con.Res. 469 (Ros-Lehtinen) and S.Con.Res. 126 (Coleman) — on July 22, 2004, that, among other provisions, urged Argentina to provide resources to investigate all areas of the AMIA case, encourage U.S. law enforcement support, and encourage the establishment of an OAS task force to assist in the investigation.

CRS Products:

CRS Report RS21049, *Latin America: Terrorism Issues*, by (name redacted).

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 of 5.6%; Trinidad and Tobago, with a rate of 3.2%; the Bahamas, with a rate of 3%; Guyana, with a rate of 2.5%; and Belize, with a rate of 2.4%. (Belize and Guyana are considered Caribbean nations because of their extensive linkages.) Four other Caribbean countries — the Dominican Republic, Suriname, Barbados, and Jamaica — have rates over 1%. In Central America, Honduras has the highest prevalence rate of 1.8%, while Guatemala has a rate over 1%.

The response to the AIDS epidemic in the Caribbean and Central America has involved a mix of support by governments in the region, bilateral donors (such as the

United States, Canada, and European nations), regional and multilateral organizations, and nongovernmental organizations (NGOs). Many countries in the region have national AIDS programs that are supported through these efforts.

The U.S. Agency for International Development (USAID) has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for HIV/AIDS in Central America and the Caribbean region rose from $11.2 million in FY2000 to $33.8 million in FY2003. Because of the inclusion of Guyana and Haiti in the President's Emergency Plan for AIDS Relief (PEPFAR), FY2004 U.S. assistance to the region for HIV/AIDS increased to an estimated $56.6 million in FY2004, and the FY2005 request increased to $86 million.

In May 2003, Congress approved the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003, H.R. 1298 (P.L. 108-25), which authorized $3 billion per year for FY2003 through FY2008 to fight the three diseases worldwide. PEPFAR and the legislation focus on assisting 12 African countries plus Guyana and Haiti, although the legislation notes that other countries may be designated by the President. Some Members of Congress wanted to expand the list of Caribbean countries in the legislation. Both the House-passed FY2004-FY2005 Foreign Relations Authorization Act, H.R. 1950 (Section 1818), and the Senate Foreign Relations Committee's reported FY2005 Foreign Relations Authorization Act, S. 2144 (Section 2518), had provisions that would have added 14 Caribbean countries to those listed in the May 2003 legislation, but no final action was taken on these measures.

CRS Products:

CRS Report RL32001, *AIDS in the Caribbean and Central America*, by (name r edacted).

Country Issues

Argentina

Although Argentina emerged from its 2001-2002 economic and political crisis, the current administration of President Néstor Kirchner faced considerable challenges. These include the ability to build the political consensus needed in order to ensure sustainable economic growth and financial stability and the ability to negotiate a debt restructuring deal for over $100 billion in defaulted bond debt.

A center-left Peronist (Justicialist Party or PJ), Kirchner emerged from a crowded April 2003 presidential race with 22% of the vote and was inaugurated to a four-year term on May 25, 2003. He succeeded another Peronist, Eduardo Duhalde, who had become President in January 2002 in the aftermath of the resignation of President Fernando de la Rua of the Radical Civic Union (UCR) in December 2001. Social protests over deteriorating economic conditions had led to De la Rua's resignation. Although the country was under considerable stress in 2001 and 2002, the democratic political system weathered the crisis and economic growth has resumed from a decline of almost 11% in 2002 to an estimated increase of over 7% in 2003. The forecast for 2004 is for economic growth of 7%.

President Kirchner's bold policy moves in the areas of human rights and institutional reform helped restore Argentines' faith in government. He vowed to prosecute military officials responsible for past human rights violations during the last era of military rule (1976-1983). In the economic arena, the Kirchner government reached a three-year stand-by agreement with the International Monetary Fund (IMF) in September 2003, after several months of tough negotiations, that provided credit line of about $12.5 billion. Although IMF accords are not normally politically popular, the accord was widely praised in Argentina as an agreement with realistic fiscal targets that would enable Argentina to deal with such issues as employment and social equity.

On the economic front, Argentina suspended its IMF loan program in mid-August 2004 because of IMF pressure on its debt negotiations with bondholders and on Argentine progress in implementing key economic reforms. The IMF had delayed its third review of the stand-by agreement because of concerns about these issues; the delay held up disbursement of $778 million to Argentina under the agreement. Argentina expected to renew talks with the IMF in December or January 2005, after it had made progress in restructuring its $100 billion in defaulted bond debt. The bondholders had strongly criticized the terms of Argentina's initial restructuring proposal, which included a 75% "haircut" or debt reduction. A new Argentine proposal in early June 2004 included an agreement to pay billions in unpaid interest, but the proposal again was criticized by many bondholders; a formal launching of the proposal was expected in late November 2004, but has been delayed until mid-January 2005. Although Argentina's economic recovery has enabled it to achieve the macroeconomic targets set by the IMF, many poor and middle-class Argentines have yet to see major improvements in living standards.

U.S.-Argentine relations have been strong since the country's return to democracy in 1983 and were especially close during the Menem presidency. The tough U.S. approach toward Argentina during its political and financial crisis in 2001-2002 caused some friction in the bilateral relationship and contributed to an increase of anti-Americanism in Argentina. At present, despite strong bilateral relations, there have been several irritants in the relationship, such as Argentina's closer relations with Cuba. U.S. officials also urged both the Argentine government and its private creditors to move expeditiously to work out a fair and mutually agreeable debt restructuring agreement, which they believe is critical to ensuring Argentina's continued economic recovery.

As noted above (section on *Terrorism*), Congress has expressed concern regarding the continuing investigation into the July 1994 bombing in Buenos Aires of the Argentine-Israeli Mutual Association (AMIA) that killed 86 people. Both the House and the Senate approved similar resolutions — H.Con.Res. 469 (Ros-Lehtinen) and S.Con.Res. 126 (Coleman) — on July 22, 2004, that urged Argentina to provide resources to investigate all areas of the AMIA case, encourage U.S. law enforcement support, and encourage the establishment of an OAS task force to assist in the investigation.

CRS Products:

CRS Report RS21113, *Argentina: Political Conditions and U.S. Relations*, by (name r edacted).

CRS Report RL32637, *Argentina's Sovereign Debt Restructuring,* by (name redacted).

CRS Report RS21072, *The Financial Crisis in Argentina*, by (name redacted).

CRS Report RL31582, *The Argentine Financial Crisis: A Chronology of Events,* by (n ame redacted).

Bolivia

Political unrest in Bolivia led to the resignation of President Gonzalo Sanchez de Lozada on October 17, 2003, just fifteen months after he was elected. Succeeding him as President is his former Vice President, Carlos Mesa, a popular former television journalist, historian, and political independent. This change in leadership came about after months of protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society especially in response to government plans to export natural gas via a port in Chile, an historic adversary of Bolivia. The new President faces many difficulties in governing a politically fractured society within a context of a highly mobilized indigenous community, and the uncertainty of being able to obtain consensus on natural gas exports as a basis for the country's future economic development. The change in government and the role that indigenous groups played in it represents challenges for U.S. policy, which has been seen as focusing almost exclusively on coca eradication and less on equitable economic development policies.

CRS Products:

CRS Report RL32580, *Bolivia: Political and Economic Developments and Implications for U.S. Policy,* by (name redacted).

Brazil

Luis Inácio Lula da Silva of the leftist Workers' Party (PT) was inaugurated President of Brazil on January 1, 2003, pledging to bring fundamental change to the country while maintaining sound economic policies. He won the October 2002 elections decisively, with the support of leftist parties and a variety of centrist elements. As he sought to fashion support for his programs in Congress, he reached out beyond the parties that supported him in the election to other centrist parties, especially the centrist PMDB, but the alliance was strained by the October 2004 municipal elections and splits within the PMDB.

During his first two years in office, President Lula da Silva has pursued cautious economic policies and met and even surpassed previously established targets for International Monetary Fund (IMF) loans, while stressing that one of his main priorities is the eradication of hunger in the country through programs called Zero Hunger and Family Payments. As a result of his policies, the country has experienced lower inflation, a strengthening of the currency, and a dramatic lowering of Brazil's credit risk rating. Tackling long-standing problems that were not resolved during the presidency of Fernando Henrique Cardoso (1995-2002), President Lula da Silva obtained a reform of the social security system to make it more self-sustaining and a modification of the tax system to make it more effective and fair. While economic growth was only 0.3 % in 2003, most observers expect 3.5-4% growth in 2004, although interest rates and unemployment rates have remained fairly high. To guarantee against external shocks to the heavily indebted economy, in early November 2003, Brazil agreed to extend the loan with the IMF and to maintain the previous austere fiscal targets. Under the agreement, Brazil would have available about $20 billion in resources, including a rollover of $8 billion from the past loan, about $6 billion in fresh funds, and postponement of payment of $5.5 billion due in 2005. Brazilian Finance Minister Palocci argues that the loan is an insurance package and notes that Brazil may not draw upon the funds.

Relations with the United States have been generally positive, although President Lula da Silva has made relations with the neighboring countries in the Southern Common Market (Mercosur) his first priority, has orchestrated the linking of the Mercosur with the Andean Community of Nations (CAN), and has been seeking to strengthen ties with the European Union and with other non-traditional partners, including India and China. On June 20, 2003, President Lula da Silva made an official visit to Washington, D.C., and the countries' leaders resolved "to create a closer and qualitatively stronger [bilateral] relationship." Leaders agreed on a framework for regular high-level discussions on a wide range of issues, including agreements to enhance cooperation in science and nuclear energy; to jointly promote HIV/AIDS treatment in the Portuguese-speaking African countries of Mozambique and Angola; and to establish an energy partnership for cooperation on alternative energy sources. On October 4-6, 2004, Secretary of State Colin Powell visited Brazil for high level discussions on international trade, hunger, and security matters, as well as Brazil's leading role in the U.N.-sanctioned peacekeeping force in Haiti.

Lower level U.S. officials have visited Brazil on many occasions, with much of the discussion relating to the Free Trade Area of the Americas (FTAA) since Brazil and the United States are co-chairs of the FTAA Trade Negotiation Committee with responsibility for guiding the talks in the final phase of negotiations. Brazil has been taking the position that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties to be acceptable, while the United States has argued that the broader agricultural issues should be resolved in the Doha round of WTO talks.

The WTO talks stalled in September 2003 in Cancun, Mexico, when Brazil led a group of developing countries called the G-20 that insisted that developed countries agree to reduce agricultural subsidies as part of any settlement. However, the talks were revived in early 2004, and a series of meetings led to agreement on August 1, 2004, on the framework of a possible agreement. This framework included commitments to make substantial reductions in trade-distorting domestic agricultural support programs, to phase-out all export subsidies under a yet-to-be-determined schedule, and to significantly improve market access for agricultural products.[9]

In the FTAA talks, Brazil and the United States took divergent positions in the November 2003 Eighth Ministerial Meeting in Miami, Florida.. Brazil argued that if the United States insisted on deferring action on agricultural subsidies and anti-dumping measures to the Doha round of WTO negotiations, the agreement would be much less attractive for Brazil where agriculture has become the primary area for exports and development. In that case, Brazil argued that it would like to defer to the WTO negotiations a number of sensitive issues, including investment, services, government procurement, and intellectual property rights. In a mini-ministerial meeting in Washington, D.C. in early November 2003, Brazil and the United States agreed to a flexible formula for the FTAA, called by some an "FTAA light" or an "FTAA ala carte." Under the formula, subsequently adopted by the Ministers, all of the countries would agree to a set of core obligations, while countries which favored a more ambitious agreement would negotiate plurilateral agreements. When the Trade Negotiations Committee (TNC) met in Puebla, Mexico, in early February 2004, the delegates were unable to agree on the FTAA common obligations, and the TNC was suspended. Despite four separate efforts in March, April, and May 2004, the cochairs were unable to agree upon a framework for the FTAA negotiations, and it became increasingly clear that negotiations would not be completed by the scheduled deadline of January 2005.

At the same time, negotiations for a free trade agreement between the European Union and Mercosur that were scheduled to conclude by the end of October 2004, broke down in mid-July 2004, with the EU demanding better access to Mercosur's services sector, while Mercosur insisted on greater access to the European market for Mercosur agricultural products. Under these circumstances, the two sides called for a meeting of the lead negotiators by the end of the year and a ministerial meeting in the first quarter of 2005.

CRS Products:

CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by (name redacted).

CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by (n ame redacted).

[9] For details, see CRS Report RS21905, *The Agriculture Framework Agreement in the WTO Doha Round*, by (name redacted).

Cuba

Cuba under Fidel Castro remains a hard-line communist state, with a poor record on human rights that has deteriorated significantly since 2003. With the cutoff of assistance from the former Soviet Union, Cuba experienced severe economic deterioration from 1989 to 1993. While there has been some improvement since 1994 as Cuba has implemented limited reforms, the economy remains in poor shape.

Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. The Bush Administration has further tightened restrictions on travel and remittances to Cuba significantly. 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, Radio and TV Marti. While there appears to be broad agreement on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island, there are several schools of thought on how to achieve that objective. Some advocate maximum pressure on the Cuban government until reforms are enacted, others argue for lifting some U.S. sanctions that they believe are hurting the Cuban people, and still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo. There was considerable reaction to the Bush Administration's June 2004 tightening of restrictions for family visits and other categories of travel.

Congress continued its high level of interest in Cuba in the 108th Congress with a variety of legislative initiatives regarding sanctions and human rights. Several FY2005 appropriations measures had provisions that would have eased Cuba sanctions, but ultimately these were not included in the FY2005 omnibus appropriations measure (P.L. 108-447, H.Rept. 108-792). The House-passed version of the FY2005 Commerce, Justice, and State appropriations bill, H.R. 4754, would have prohibited funds to implement, administer, or enforce recent restrictions on gift parcels and on baggage for travelers. The House-passed version of the FY2005 Transportation/Treasury appropriations bill, H.R. 5025, had three Cuba provisions that would have eased sanctions on family travel, travel for educational activities, and private commercial sales of agricultural and medical products. The Senate committee version of the FY2005 Transportation/ Treasury appropriations bill, S. 2806, had a provision that would have prohibited funds from administering or enforcing restrictions on Cuba travel. The Senate committee version of the FY2005 Agriculture appropriation bill, S. 2803, would have allowed travel to Cuba under a "general license" when it was related to the commercial sale of agricultural and medical products. The Administration had threatened to veto both the Transportation/Treasury and Agriculture appropriations measures if they had provisions weakening Cuba sanctions.

In other action, the 108th Congress demonstrated concern about the poor human rights situation by approving four resolutions: S.Res. 97, H.Res. 179, S.Res. 62, and S.Res. 328. Numerous other legislative initiatives were introduced that would have ease sanctions on Cuba, but no action was taken on these bills: H.R. 187, H.R. 188, H.R. 1698, H.R. 2071, H.R. 3422, H.R. 4678, S. 403, S. 950, and S. 2449/H.R. 4457. Two initiatives, H.R. 3470 and H.R. 3670, would have tightened sanctions. H.R. 2494/S. 2002 would have repealed a provision in law that prohibits trademark registration or courts from considering trademark claims if the trademark was used in connection with confiscated assets in Cuba; in contrast, H.R. 4225/S. 2373 would have applied a narrow fix to the law so that it conformed with a World Trade Organization ruling.

Since a 1995 U.S.-Cuban migration accord, the U.S. Coast Guard has interdicted thousands of Cubans at sea trying to enter the United States and returned them to Cuba, while those deemed at risk for persecution have been transferred to Guantanamo and then found asylum in a third country. Those Cubans who reach shore usually are allowed to apply for permanent resident status in one year pursuant to the Cuban Adjustment Act of 1966 (P.L. 89-732). This so-called "wet foot/dry foot" policy has been criticized by some as encouraging Cubans to risk their lives in order to make it to the United States and as encouraging alien smuggling. Others maintain that U.S. policy should welcome those migrants fleeing Communist Cuba whether or not they are able to make it to land.

CRS Products:

CRS Report RL31740, *Cuba: Issues for the 108th Congress*, by (name redacted).

CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives*, by (name redacted).

CRS Report RL32251, *Cuba and the State Sponsors of Terrorism List*, by (name r edacted).

CRS Report RS20468, *Cuban Migration Policy and Issues*, by (name redacted).

CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by (name redacted).

CRS Report RS21764, *Restricting Trademark Rights of Cubans: WTO Decision and Congressional Response*, by (name redacted).

Dominican Republic

President Leonel Fernández of the Dominican Liberation Party (PLD), who served as president previously (1996-2000), took office on August 16, 2004. Fernández is charged with helping the Dominican Republic recover from a deep economic crisis that occurred primarily as the result of three major banking failures and bailouts in 2003. Since then, the country has faced high inflation, double-digit unemployment, currency depreciation, and chronic power shortages. President Fernández used his electoral mandate to push the PRD-dominated Congress to pass tax increases as part of a fiscal reform package necessary to restart a suspended $600 million IMF loan. The package has been controversial, however, as it contains a tax on fructose-sweetened drinks, aimed at U.S.- produced high fructose corn syrup. President Fernández and the Dominican Congress are trying to negotiate a way to pass a 2005 budget that repeals the tax, complies with IMF fiscal targets, and placates the country's sugar industry. If the tax is not repealed, the Dominican Republic could be excluded from the U.S.- Dominican Republic - Central America Free Trade Agreement (DR-CAFTA).

CRS Products:

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

CRS Report RS21868, *U.S.-Dominican Republic Free-Trade Agreement*, by (name redacted).

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 (name redacted).

Ecuador

In January 2003, Lucio Gutierrez, a former army Colonel who was part of the junta that toppled the government of Jamil Mahuad in January 2000, became the country's sixth president in seven years. Upon assuming the presidency, Gutierrez abandoned his populist rhetoric and adopted economic reform and good governance policies in order to secure support from the United States and the International Monetary Fund (IMF). Despite rapid economic growth driven by high oil prices, President Gutierrez's power has been limited by legislative gridlock, protests organized by indigenous groups that at once formed part of his governing coalition, and allegations of corruption within his administration. Gutierrez's party, the Patriotic Society Party (PSP), won barely 5% of the vote in the regional and municipal elections held on October 17, 2004. Since that time, President Gutierrez has formed new alliances with mid-size parties, including that of exiled President Abdalá Bucaram, in order to stave off impeachment proceedings and shore up support for his government.

Despite some recent disagreements, Ecuador continues to cooperate with the U.S. counter-narcotics program and has mobilized its military and police forces to help control spillover effects from the conflict in Colombia along its northern border. Ecuador and the United States possess a significant trade and investment relationship that has been enhanced since 1992 by the Andean Trade Preference Act. The United States has concluded six rounds of negotiations with Ecuador, along with Colombia and Peru, for an Andean Free Trade Agreement. Ecuador was placed on the State Department's 2004 Tier 3 List of countries that had not adequately combated trafficking in persons, but avoided U.S. sanctions by making progress on that issue between June and September 2004.

CRS Products:

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

El Salvador

On March 21, 2004, businessmen Tony Saca of the conservative National Republican Alliance (ARENA) party soundly defeated his nearest rival, Shafick Handal, a former guerrilla and Communist Party member, of the Farabundo Marti National Liberation Front (FMLN) to win the Salvadoran presidential elections. Mr. Saca took office on June 1, 2004, alongside Ana Vilma de Escobar, who became the first Salvadoran woman to serve as vice president. The new administration is facing a divided legislature, in which the FMLN continues to hold 31 of 84 seats. President Saca scored a number of early legislative triumphs, such as the approval of the 2004 budget and tough legislation to combat gang violence. Although 60% of Salvadoran approve of his overall job performance, 73% disprove of his August decision to send a new contingent of 380 Salvadoran soldiers to Iraq. The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, possibly through the proposed United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 17, 2004, despite the opposition of the FMLN, El Salvador became the first country in Central America to ratify DR-CAFTA.

CRS Products:

CRS Report RS21655, *El Salvador: Political and Economic 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 (name redacted).

Guatemala

Since taking office on January 14, 2004, for a four-year term, President Oscar Berger has attacked corruption and enacted long-delayed military reforms. Since the 1980s, Guatemala has been consolidating its transition from a centuries-long tradition of mostly autocratic rule toward representative government. A democratic constitution was adopted in 1985, and a democratically-elected government was inaugurated in 1986. Democratic institutions remain fragile. A 36-year civil war ended in 1996 with the signing of the Peace Accords between the government and the left-wing guerrilla movement. The accords not only ended the civil conflict but also constituted a blueprint for profound political, economic, and social change to address the conflict's root causes. They outline a profound restructuring of state institutions, with the goal of ending government security forces' impunity from prosecution, and consolidating the rule of law; a major shift of government funding away from the military and into health, education, and other basic services to reach the rural and indigenous poor; and the full participation of the indigenous population in local and national decision making processes. Berger has promised to make fulfilling the Peace Accords a central theme of his administration.

Berger has pursued corruption charges against his predecessor, Alfonso Portillo, of the Guatemalan Republican Front (FRG), and other former FRG officials. His proposed economic reforms include new income tax rates and a temporary tax to fund programs related to the peace process. He says passing the free-trade agreement signed with the United States is a top priority and that he plans to stimulate the economy by encouraging private investment. The Financial Action Task Force, an international organization dedicated to enhancing international cooperation in combating money-laundering, removed Guatemala from its list of non-cooperative countries in July 2004.[10] Guatemala had been on the list of nine countries — the only one in the Americas — during the Portillo Administration.[11] The Task Force welcomed progress made by Guatemala in enacting and implementing anti-money laundering legislation.

The United States has prohibited International Military Education and Training (IMET) and Foreign Military Financing (FMF) to Guatemala since 1990 because of human rights concerns. The Berger Administration has lobbied Washington to ease the military aid prohibition, noting that within its first six months in office it had reduced the size of the military by half and developed proposals for other military reforms. The government says it needs funds to modernize the military and provide equipment for border protection and counternarcotics efforts. While applauding the reduction in forces, some human rights groups say that other reforms required by the Peace Accords, such as adopting a military doctrine limiting the military to external defense, have not yet been enacted. They also express concern about continued human rights abuses, impunity for such offenses, and corruption among current and former military officials.

Furthermore, the proposed U.N. Commission for the Investigation of Illegal Armed Groups and Clandestine Security Organizations (CICIACS) has still not been formed. CICIACS, which would investigate and prosecute clandestine groups, through which many military officers allegedly engage in human rights violations, drug trafficking, and organized crime, was approved by the Portillo Administration and has yet to be approved by the Guatemalan Congress.

Some human rights groups argue that the U.S. ban on military aid should not be lifted until these and other reforms are carried out, and others not until reparations

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[10] *"FATF Tackles Terrorism Financing, Delists Guatemala,"* Financial Action Task Force, July 2, 2004.

[11] Financial Action Task Force on Money Laundering, *Annual Review of Non-Cooperative Countries or Territories*, June 20, 2003. Paris, France.

are made to civilian victims of the armed conflict.[12] The Guatemalan Congress authorized reparations to former paramilitaries (PACs) on August 19, 2004, despite opposition from human rights groups and others saying the Congress should not bow to threats of violence from the PACs if the legislation were not passed.

Regarding respect for human rights, Guatemala has made enormous strides, but significant problems remain. The armed conflict is definitively ended, the state policy of human rights abuses has been ended, and civilian control over military forces has increased . On the other hand, security forces reportedly continue to commit gross violations of human rights with impunity, and Guatemala must still overcome a deep ly embedded legacy of racism and social inequality. The U.N., the OAS, and the United States have all expressed concern that human rights violations have increased over the past several years, and that the Guatemalan government has taken insufficient steps to curb them or to implement the Peace Accords. In August 2004, the U.N. Office of the High Commissioner for Human Rights opened an office in Guatemala. It succeeds the U.N. Verification Mission in Guatemala, which withdrew in December 2004, after verifying compliance with the Peace Accords for ten years. In September 2004, U.N. Secretary General Kofi Annan said that Guatemala's political process had matured to the point where the country should now be able to deal peacefully with all of its unresolved issues.

From1997 through 2003, U.S. assistance to Guatemala focused on support of the peace process. U.S. aid to Guatemala no longer includes a project specifically in support of the peace process and has been cut by more than a third in the past three years, declining from about $60 million in FY2002 to $38 million requested for FY2005. Congress criticized the Administration's strategy of reducing staffing and funding for Guatemala for FY2004 in its conference report for the FY2004 omnibus appropriations bill (H.Rept. 108-401), saying it would "limit the ability of the United States to be responsive at this critical juncture in Guatemala's history."

The FY2005 consolidated appropriations act (P.L.108-447) continues to limit IMET for Guatemala to expanded- IMET, or training for civilians, military justice reform, and respect for human rights. FMF would continue to be prohibited. Up to $3.227 million in prior year "Military Assistance Program" funds available for Guatemala may be used for non-lethal defense items if the Secretary of State certifies that certain military reforms have been enacted. These would include the limitation both "in doctrine and practice" of military activities to those permitted by the 1996 Peace Accords and cooperation with civilian authorities in the investigation and prosecution of military personnel implicated in human rights violations and other criminal activities. The Guatemalan government would have to carry out other prerequisites for the release of military assistance funds, including working with the U.N. to establish CICIACS; continuing to make the military budget process transparent and accessible to civilian authorities and the public; facilitating the prompt establishment of a U.N. High Commissioner for Human Rights office in

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[12] "*Vice President Eduardo Stein Meets with U.S. Officials this Week to Discuss Military Funding,*" Guatemala Human Rights Commission/USA, July 19, 2004. Also, "*WOLA Opposes Renewing Military Assistance to Guetemala (sic) , As Guatemalan Vice President Visits Washington,*" Washington Office on Latin America, July 19, 2004.

Guatemala; and increasing efforts to combat narcotics trafficking and organized crime. The act also earmarks for Guatemala $6 million in Economic Support Funds and $1 million in Andean Counternarcotics Initiative funds. The bill also stipulates that Child Survival and Health, and Development Assistance funding levels should not be less than that provided in FY2004, earmarking $22.5 million for Guatemala. The managers' statement commended the Guatemalan (and Nicaraguan) anti-corruption office and recommended $250,000 for the office.

CRS Products:

CRS Report RL32124, *Guatemala: Political Conditions, Elections, and Human Rights*, by (name redacted).

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 (name redacted).

Haiti

Long-term political conflict in Haiti escalated until armed rebellions around the country led to the departure of President Jean-Bertrand Aristide on February 29, 2004. An interim government, headed by Prime Minister Gerard LaTortue, has taken over, but ongoing violent protests by both sides continue. Security conditions are so tenuous that some observers are expressing concerns that a civil war will break out or that Haiti will become a "criminal state." Aristide went into exile in South Africa on May 31, 2004. Some supporters maintain that he is still the democratically elected president and that the United States forced him from office, a charge the Bush Administration denies.

Former soldiers have demanded restoration of the Haitian army, which had a long history of human rights abuses and was disbanded by Aristide in 1995. They have seized control of towns, assumed security responsibilities alongside local police, or expelled police officers in various parts of the country. Supporters of Aristide, demanding his return to office, began violent protests on September 30, 2004, the anniversary of the coup that removed Aristide from office in 1991. These have left at least 55 dead, including police officers who were decapitated. The Bush Administration condemned the violent "systematic campaign to destabilize the interim government and disrupt the efforts of the international community to assist the Haitian people" it says is being carried out by pro-Aristide armed gangs.[13] Both sides are heavily armed. The Haitian National Police are understaffed and under-equipped to maintain order.

At the end of its initial six-month authorization, the U.N. Stabilization Mission in Haiti had 6,060 personnel, still less than the full 8,000 troops and civilian police it was authorized to have, and is finding it difficult to carry out its mandate to

[13] U.S. Dept. of State, *"Violence in Haiti,"* statement by Richard Boucher, Spokesman, Oct. 12, 2004.

establish law and order. Two U.N. peacekeepers have been wounded. In addition, the mission's efforts were diverted by the need to help protect and deliver emergency assistance following Haiti's natural disasters in spring and fall 2004.

Congressional concerns relating to Haiti include support for strengthening the transition to democracy; the cost and effectiveness of U.S. assistance; protection of human rights and improvement of security conditions; combating narcotics trafficking; limiting illegal Haitian migration; and addressing humanitarian needs.

Beginning in 2000, in response to an unresolved elections dispute, the Clinton Administration redirected U.S. humanitarian assistance through non-governmental organizations, rather than through the Haitian government. The Bush Administration continued this policy throughout the Aristide administration. Aid began to decrease at the end of the Clinton Administration and continued to do so for the first two years of the Bush Administration. The Bush Administration launched an initiative in 2003 to prevent the transmission of the HIV/AIDS virus from mothers to children; Haiti was one of 14 countries included in the program. According to USAID, between four and six thousand Haitian children are born with the virus each year. The Administration is providing aid to the interim LaTortue government, and will reportedly consider requests from that government for weapons purchases, which would mean lifting the arms embargo against Haiti that has been in place since a military coup ousted Aristide in 1991.[14]

The FY2004 foreign aid appropriations legislation (P.L. 108-199, Division D) continues to allow Haiti to purchase defense articles and services for the Haitian Coast Guard, prohibits the use of funds to issue a visa to any alien involved in extrajudicial and political killings in Haiti, allocates $5 million to the OAS Special Mission in Haiti and $19 million in Refugee and Entrant Assistance funds to communities with large concentrations of Haitian (and Cuban) refugees of varying ages for healthcare and education. Before the current unrest, Haiti was going to receive an estimated $55 million in U.S. foreign aid in FY2004. Additional humanitarian and disaster assistance was made available following floods in February and hurricanes in fall 2004, which left thousands dead or homeless. More costs were incurred with the U.S. military forces in Haiti. The Bush Administration has requested an additional $120 million in assistance to Haiti, for a total of about $230 million for FY2004-FY2005. According to USAID, the aid will be distributed as follows: $22 million for job creation; $45 million for government infrastructure support; $26 million for improved security through improved administration of justice; $122 million for humanitarian aid, including health care, nutrition, and education; and $15 million for elections support.

The FY2005 consolidated appropriations act (P.L. 108-447) contains several provisions regarding Haiti. The law (1) makes International Military Education and Training funds and Foreign Military Financing available only through regular notification procedures; (2) appropriates $20 million for child survival and health programs, $25 million for development assistance, including agriculture,

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[14] *"U.S. Will Sell Haiti Weapons: Arms Embargo Reportedly Lifted in Violence-Plagued Nation,"* Associated Press, Oct. 20, 2004.

environment, and basic education programs; $40 million in ESF for judicial reform, police training, and national elections; "sufficient funds" for the OAS to help Haiti hold elections in 2005, and $2 million to Zanmi Lasante for maternal and child health activities; (3) allows Haiti to purchase defense articles and services for its Coast Guard; (4) notes disappointment on the Haitian government's role in the trial and acquittal of Louis Jodel Chamblain, and the deteriorating security human rights situation; (5) requires a report within 90 days on a multi-year assistance strategy; (6) and encourages the Administration to help Haitian and NGO officials to devise a reforestation strategy and to provide a report on that strategy within 180 days. The conference report was agreed to in both houses on November 20, 2004. The earlier Senate version had made several findings regarding improving security in Haiti, concluding that "the failure to establish a secure and stable environment and to conduct credible and inclusive elections will likely result in Haiti's complete transition from a failed state to a criminal state."

On July 20, 2004, international donors pledged more than $1 billion over the next two years to help Haiti rebuild its infrastructure, strengthen institutions, and improve basic services. The interim government signed an agreement with the U.N. and the OAS on August 23 to hold presidential, parliamentary, and local elections in 2005. The U.N. established a trust fund for the elections, started with $9 million in U.S. funds, which they hope will reach $41 million. Members of former President Aristide's Fanmi Lavalas party have threatened to boycott the elections and claim to face political persecution by the interim government. Several were arrested in October; reportedly the charges have not been made public.

CRS Products:

CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by (name redacted).

CRS Web Page CA9005, *Haiti: Legislation in the 108th Congress*, by Andy Mendelson, available online at [http://www.crs.gov/products/browse/officialsources/haitileg.shtml].

CRS Report 93-931, *Haiti: Background to the 1991 Overthrow of President Aristide*, by (name redacted).

CRS Report 95-602, *Haiti: Efforts to Restore President Aristide, 1991-1994*, by (name redacted).

CRS Report RS21751, *Humanitarian Crisis in Haiti: 2004*, by (name redacted).

CRS Report RS21349, *U.S. Immigration Policy on Haitian Migrants*, by (nam e redacted).

CRS Report RS21839, *Haitian Textile Industry: Impact of Proposed Trade Assistance*, by (name redacted).

Honduras

Honduras faced enormous challenges in the areas of crime (especially youth gangs known as *maras*) and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. Inaugurated to a four-year term in January 2002, current President Ricardo Maduro is the 6th elected president since the country's return to civilian rule. 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, including anti-narcotics efforts and more recently the fight against terrorism. Negotiations for a U.S.-Central America Free Trade Agreement (CAFTA) with five Central American countries concluded in December 2003, which was signed on May 28, 2004; subsequently a combined U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) was signed on August 5, 2004. 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. As noted above (*U.S.-Latin American Trade Relations*), Congress did not consider implementing legislation for the DR-CAFTA by the end of the 108th Congress.

CRS Products:

CRS Report RS21103, *Honduras: Political and Economic Situation and U.S. Relations*, by (name redacted).

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 (name redacted).

Mexico

Congressional interest in Mexico generally focuses on trade, migration, drug trafficking and human rights issues, but more attention to migration was sparked by President Bush's January 7, 2004 immigration proposal. The President called for an overhaul of the immigration system to permit the matching of willing foreign workers with willing U.S. employers when no Americans can be found to fill the jobs. Under his proposal, temporary legal status would be available to new foreign workers who have work offers in the United States and to undocumented workers already employed in the United States for a term of three years that could be renewed but would end at some point. President Fox welcomed the proposal when he met President Bush on several occasions in early 2004, and he called for renewed attention to immigration matters when he called to congratulate President Bush on his re-election and when they met at an APEC summit in November 2004. The proposal was in keeping with Fox-Bush pledges in 2001, subsequently stalled as a result of terrorism concerns, to work to achieve more orderly and humane migration flows between the countries. The President's proposal supplemented other congressional proposals with guest worker provisions, including S. 1461

(McCain)/H.R. 2899 (Kolbe), S. 1387 (Cornyn), S. 2010 (Hagel and Daschle), S. 2381 (Kennedy)/H.R. 4262 (Gutierrez), and S. 1645 (Craig)/H.R. 3142 (Cannon). In a related development, Congress passed the Intelligence Reform and Terrorism Prevention Act of 2004 (S. 2845/P.L. 108-458) in December 2004, with provisions to increase immigration law enforcement personnel and to adopt more stringent border control and identity document standards.

On trade issues, Mexico is the United States' second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA), but there are various disputes between the countries. Mexico has complained, for example, that the United States is still failing to grant Mexican trucks access to U.S. highways under the terms of the NAFTA pact, and the U.S. Supreme Court ruled against non-governmental plaintiffs in June 2004 that an environmental impact statement is not required. However, the Transportation-Treasury Appropriations for FY2005, incorporated into the Consolidated Appropriations Act for FY2005 (H.R. 4818/P.L. 108-447), contains a provision that prohibits implementation of an Administration rule allowing Mexican and Canadian truck owners and operators an additional two years to bring their trucks into compliance with U.S. safety provisions. The United States has complained about Mexico's 20% tax on soft drinks made with high fructose corn syrup (HFCS) that has had a devastating impact on HFCS and corn sales from the United States, and, in September 2004, the United States and Mexico selected the panelists for a WTO dispute settlement panel to consider the U.S. claims against Mexico's HFCS tax, although producer groups are still hoping to achieve a negotiated settlement. Mexico banned beef imports from the United States in December 2003 following the discovery of one cow infected with mad cow disease in Washington state. In March and April 2004, following the earlier announcement of new U.S. procedures that would exclude unhealthy cattle from the food chain, Mexico announced that it was resuming beef trade with the United States, but was retaining the ban on live cattle imports.

On drug trafficking issues, the State Department's March 2004 International Narcotics Control Strategy Report praised Mexico for the capture of major drug cartel figures, for the seizure of large quantities of illicit drugs, and for unprecedented levels of cooperation with the United States in counter-narcotics efforts. The State Department reported in April 2004, however that marijuana cultivation increased 70% and opium poppy cultivation increased 78% in Mexico in 2003, in part because of unusually favorable growing conditions. In recent law enforcement actions with U.S.-Mexico cooperation, Efrain Perez and Jorge Arellano Felix, two alleged lieutenants of the Arellano-Felix drug cartel, were arrested in Mexico on June 3, 2004, and Ramiro Hernandez, one of the alleged leaders of the Gulf cartel was arrested in Mexico on August 10, 2004. On October 19, 2004, DEA officials announced the dismantling through Operation Money Clip of a major Mexican money-laundering and drug trafficking organization.

On human rights issues, President Fox has freed several critics from jail, and he has designated special prosecutors to prosecute those responsible for human rights abuses in the 1970s and 1980s. Although a number of suspects have been arrested for past abuses, human rights groups argue that the special prosecutors have failed to produce significant results. In late January 2004, President Fox named a special prosecutor to coordinate the federal and state efforts to find and punish those responsible for a decade of slayings of over 300 women in Ciudad Juarez, across the border from El Paso, Texas. The State Department's March 2004 report on human rights conditions in Mexico notes that the government's efforts to improve the human rights situation appeared to stall, with a few exceptions. On July 24, 2004, a Mexican judge refused a special prosecutor's request for an arrest warrant against former President Luis Echeverria for involvement in a 1971 massacre, on grounds that the statute of limitations had expired. On December 10, 2004, President Fox, responding to an analysis by the U.N. High Commission for Human Rights, presented a series of proposed reforms to discourage torture and to strengthen the rights of defendants in Mexico.

CRS Products:

CRS Report RL31876, *Mexico-U.S. Relations: Issues for the 108th Congress, by (n ame redacted).*

CRS Report 98-174, *Mexican Drug Certification Issues: U.S. Congressional Action, 1986-2002*, by (name redacted).

CRS Report RL32669, *Mexico's Counter-Narcotics Efforts under Fox, December 2000 to October 2004*, by (name redacted).

CRS Report RS21561, *Mexico's Congress and July 2003 Elections*, by (name re dacted).

CRS Report RL32044, *Immigration: Policy Considerations Related to Guest Worker Programs*, by (name redacted).

CRS Report RL30852, *Immigration of Agricultural Guest Workers: Policy, Trends and Legislative Issues*, by (name redacted) and Geoffrey K. Collver.

CRS Electronic Briefing Book, *Trade*, "NAFTA," by (name redacted). [http://www.congress.gov/brbk/html/ebtra42.html].

Panama

Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the military regime of General Manual Antonio Noriega from power. Since then, the country has had four successive civilian governments, with the current administration of President Martin Torrijos of the Democratic Revolutionary Party (PRD) elected in May 2004 and inaugurated on September 1, 2004. In the May 2, 2004, election, Torrijos — the son of former populist leader General Omar Torrijos — won a decisive victory with 47.5% of the vote in a four-man race. His electoral alliance also won a majority of seats in the unicameral Legislative Assembly. Torrijos succeeded President Mireya Moscoso of the Arnulfista Party (PA) who been elected in May 1999. The most significant challenges facing the new government include dealing with the funding deficits of the country's social security fund (Caja de Seguro Social), developing plans for the expansion of the Panama Canal, and combating poverty and unemployment.

President Moscoso had been elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges proved difficult to fulfill amid high-profile corruption scandals and poor economic conditions over the past several years. As a result, the President's popularity fell considerably in her last year in office. In one of her last presidential acts, President Moscoso pardoned four anti-Castro activists who had been sentenced in April 2004 to prisons terms ranging from seven to eight years for involvement in an alleged plot to kill Fidel Castro. One of the four, Luis Posada Carriles, was allegedly involved in the 1976 bombing of a Cuban airliner. Cuba responded to the pardon by breaking diplomatic relations with Panama. President Torrijos criticized the pardons and vowed to begin the process of reestablishing relations with Cuba.

Before the December 1989 U.S. intervention, the Panamanian economy had been severely damaged by two years of U.S. economic sanctions and economic disruption caused by the political crisis. Since 1990, the economy has rebounded, registering real growth annually, although the level of annual growth has varied a lot and slowed considerably in 2001 and 2002. Although the economy has improved considerably since 1990, poverty has worsened over the past three years because of slow economic growth. Income distribution remains highly skewed and high unemployment has been a persistent problem.

The United States has close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts as well as U.S. assistance to help Panama assure the security of the Canal and the security of its border with Colombia. U.S. assistance to Panama has increased in the past several years with the country receiving assistance under the Bush Administration's Andean Regional Initiative to help Colombia and its neighbors combat drug trafficking.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. To date, six negotiating rounds have been held, with the most recent concluding in mid-December 2004. Reportedly significant progress has been made and negotiators hope to conclude an agreement in early 2005. The most sensitive issues in the talks are differences over market access for certain agricultural products; for Panama, potatoes, onions, and vegetable oils are sensitive products, while sugar remains a sensitive product for the United States.[15] The next round of talks will take place the week of January 10, 2005, in Washington.

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[15] "U.S. Looking to Wrap Up Free Trade Talks with Panama Early Next Year, Officials Say," *International Trade Reporter*, December 16, 2004.

with Panama wanting more access to the U.S. agricultural market, but fearing the full opening of its agricultural market to U.S. products.[16] Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law. Since Panama has a service-based economy, it traditionally has imported much more than it exports to the United States. In 2003, the U.S. trade surplus with Panama was $1.5 billion, with Panama exporting $301 million in goods and importing $1.8 billion in merchandise. The stock of U.S. foreign investment in Panama was estimated at $20 billion in 2002, surpassing the combined U.S. foreign investment in the five other Central American nations.

CRS Products:

CRS Report RL30981, *Panama: Political and Economic Conditions and U.S. Relations*, by (name redacted).

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by (nam e redacted).

Peru

Peru under President Alejandro Toledo has been characterized by two seemingly contradictory trends: high economic growth and extremely low popularity of the president. President Toledo has been widely criticized as having weak leadership skills, his image has been damaged by personal issues, and his administration tarnished by corruption charges. Toledo's public support has remained low for two years, and was at 11% in October 2004. Many Peruvians wonder whether he will be able to survive politically until the end of his term in 2006. Toledo denies allegations of corruption, and said he would open his bank accounts to public scrutiny. Although the scandals are limited in comparison to the widespread corruption of the earlier Fujimori administration, they have proved damaging to Toledo, who came to office as a reformer.

Toledo has presided over 37 consecutive months of economic growth, in contrast to four years of stagnation under his predecessors. Peru has been more stable economically than its neighbors. Under Toledo, Peru has exhibited one of the highest growth rates in Latin America, with an increased economic output of over 4% for 2003 and 2004. The public is impatient, however, for a rapid improvement in its standard of living: 54% of the population lives in poverty, and 43% are underemployed. Responding to nearly constant, widespread protests by teachers, farmers, and others for higher wages, Toledo has declared several states of emergency. Opposition in Congress — where no party holds a majority — has also limited the President's ability to push through economic reforms. In July 2004,

[16] "Panama, United States Make Progress in Fifth Round of Trade Talks," *Associated Press*, October 22, 2004.

Toledo was further weakened by his party's loss of the leadership of the unicameral Congress.

Peru is a major illicit drug-producing and transit country. According to the State Department's March 2004 international narcotics report, Peru made progress in the preceding year on many components of the U.S.-Peru counternarcotics program, including the reduction of coca cultivation by 15%, and the signing of an extradition treaty. The United States and Peru signed a five-year cooperative agreement for 2002-2007 that links alternative development to coca eradication more directly than past programs have. After thousands of coca growers protested against forced coca eradication, the government and growers signed an agreement calling for the "gradual and fixed" reduction of coca leaf cultivation and restricted forced eradication. Peru is the second largest beneficiary, after Colombia, of the Andean Counterdrug Initiative. For FY2004, Peru was allocated $66 million for interdiction, $50 million for alternative development, and $1.7 million in Foreign Military Financing (FMF). For FY2005, the Administration requested $62 million for interdiction, $50 million for alternative development, and $1 million in FMF.

The FY2005 consolidated appropriations act (P.L. 108-447) contained several provisions regarding Peru. Under Economic Support Funds, $8 million was earmarked for Peru and $3 million for the Peru-Ecuador Peace initiative. Under the Andean Counterdrug Initiative, Peru was allocated a total of $116.3 million: $62 million for interdiction and $54.3 million for alternative development. The act continues to prohibit resumption of a Peruvian air interdiction program until enhanced safeguards are in effect, with a 30-day notification to Congress before resumption. Peru was allotted $1 million for Foreign Military Financing funds.

Support for democracy and human rights also is a U.S. concern in Peru. U.S. initiatives include the provision of $50 million over five years to support consolidating democratic reform, $3.5 million to support the Truth and Reconciliation Commission in investigating past human rights abuses, and the continued declassification and delivery of State Department documents requested by Peru's Congress to support its investigation into corruption and abuses under the Fujimori government. President Alberto Fujimori fled the country in the wake of scandals in 2000. Vladimiro Montesinos, Fujimori's spy chief who had ties to U.S. agencies, continues to face trials on dozens of charges ranging from influence peddling to directing a death squad.

The case of Lori Berenson, an American jailed in Peru, has been an ongoing issue in bilateral relations. Berenson's 1996 conviction by a secret military tribunal was overturned, but she was convicted again by a civilian court on charges of collaboration with terrorists. The Inter-American Court of Human Rights agreed in September 2002 to consider her case. Hearings were held in May and June 2004. Many observers were surprised by the Court's decision, announced on December 3, 2004, which upheld her conviction. The ruling represents a reversal of a 2002 Inter-American Commission on Human Rights decision, which found Peru responsible for violations of the right to judicial guarantees and recommended Peru make amends for violations of Berenson's human rights. Her 20-year sentence will end in 2015.

The $1.6 billion Camisea natural gas project in Peru, supported by U.S. investors, generated controversy in the 108th Congress. Critics, including some Members of Congress, some U.S. officials, and international environmental groups, expressed concern about its negative impact on indigenous societies and the environment, including a pristine tropical rain forest and Peru's only marine sanctuary for endangered birds and mammals. Supporters of the project say it will contribute greatly to Peru's economy, including some $5.5 billion in tax revenues, and $100 million annually to affected communities, and will reduce pollution in Lima. Two Texas energy companies are involved in the project: Hunt Oil Company, and the Kellogg Brown and Root unit of Halliburton Company. In August 2003, the U.S. Export-Import Bank board rejected a request for about $214 million in loan guarantees for the project based on concerns for the environment and indigenous people in the Amazon. The Inter-American Development Bank (IDB) approved $135 million in loans to the project in September; the United States abstained. According to the U.S. Agency for International Development, U.S. environmental laws required the Treasury Department to vote no on the loans because the required environmental studies had not been completed. In August 2004, gas from Camisea reached Lima. The FY2005 consolidated appropriations act also included $8 million to implement a regional strategy for conservation in the Amazon basin countries, including programs to improve the capacity of indigenous communities and local law enforcement agencies in indigenous reserves.

CRS Products:

CRS Report RS20536, *Peruvian Elections in 2000: Congressional Concerns and Policy Approaches*, by (name redacted).

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

Venezuela

An oil-exporting South American nation with a population of about 25 million, Venezuela has been wracked by several years of political turmoil under the rule of President Hugo Chavez, who was first elected in 1998. Under Chavez, Venezuela has undergone enormous political changes, with a new constitution in place, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. Chavez was re-elected President with a new six-year term in July 2000 under the new constitution. Although President Chavez remained widely popular until mid-2001, his popularity has eroded considerably after that amid concerns that he was imposing a leftist agenda on the country and that his government was ineffective in improving living conditions. In April 2002, massive opposition protests and pressure by the military led to the ouster of Chavez from power for a brief period. However, the military ultimately restored him to power. Political opposition to Chavez's rule has continued since his return to office. From early December 2002 until early February 2003, the opposition orchestrated a general strike that severely curtailed Venezuela's oil exports and disrupted the economy but was unsuccessful in getting President Chavez to agree to an early non-binding referendum on his rule or new elections.

After months of negotiations facilitated by the Organization of American States (OAS) and the Carter Center, the government of Hugo Chavez and the political opposition signed an agreement in May 2003 that set forth mechanisms to resolve the political crisis. This included holding a presidential recall referendum pursuant to constitutional provisions, which ultimately was held on August 15, 2004. Leading up to the referendum, public opinion polls conducted by various survey firms yielded significantly different results, with some favoring the opposition and some favoring Chavez, but by early August 2004 a number of polls showed Chavez with an advantage. In the end, Chavez convincingly won the overall vote by a margin of 59.3% to 40.7%. The opposition claimed fraud and refused to accept the outcome, but both the OAS and Carter Center concluded that the vote results were accurate and conducted an additional audit of the vote to confirm the results.

The United States has traditionally had close relations with Venezuela, but there has been friction in relations with the Chavez government. The Bush Administration expressed strong support for the work of the OAS in resolving the crisis, welcomed the May 2003 political accord, and supported its implementation. After the recall referendum, the Administration congratulated the Venezuelan people for their commitment to democracy and commended the work of the OAS and Carter Center. At the same time, U.S. officials stressed the importance of reconciliation on the part of the government and the opposition in order to resolve their political differences peacefully. A dilemma for U.S. policymakers has been how to press the Chavez government to adhere to democratic principles without taking sides in Venezuela's polarized political conflict. Since Venezuela is a major supplier of foreign oil to the United States (the fourth major foreign supplier in 2003, after Saudi Arabia, Canada, and Mexico), a key U.S. interest has been ensuring the continued flow of oil exports at a reasonable and stable price.

CRS Products:

CRS Report RL32488, *Venezuela: Political Conditions and U.S. Policy*, by (name r edacted).