

# CRS Report for Congress

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

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

## Summary

Over the past two decades, the Latin America and Caribbean region has made enormous strides in terms of political and economic development. In 2006, elections for head of government have already been held in seven countries in the region (including the close election in Mexico), and for the balance of the year, elections will take place in Brazil and Ecuador (October), Nicaragua (November), Venezuela (December), and St. Lucia (by year's end). Although the region overall experienced an economic setback in 2002-2003, it has rebounded since 2004. Nevertheless, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, increasing crime, and the rise of radical populism in several countries.

Legislative and oversight attention to Latin America and the Caribbean in the 109<sup>th</sup> Congress has focused on continued counternarcotics efforts; trade issues; challenges to democracy, especially in Venezuela; efforts to bring political stability and ameliorate poverty in Haiti; efforts to foster political change in Cuba; and cooperation on migration and border security, especially with Mexico.

Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. In the first session, the 109<sup>th</sup> Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years, and the second session is considering the FY2007 request of \$721.5 million for ACI funding.

In the trade arena, Congress approved legislation in 2005 (P.L. 109-53) implementing the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) that had been completed in 2004. Several additional FTAs with countries in the region have either been completed or are being negotiated: an FTA with Peru was signed in April 2006; in August 2006, President Bush notified Congress of his intention to sign an FTA with Colombia; negotiations with Panama have not yet been completed; and negotiations with Ecuador were suspended in May 2006 after Ecuador terminated the operating contract of a U.S. oil company.

With regard to democracy, Congress is providing continued support to Haiti, the hemisphere's poorest nation, under the new government of Rene Preval. Venezuela has remained a congressional concern because of fears that President Hugo Chávez is using his political power to push toward authoritarian rule. In Bolivia, the new government of President Evo Morales has complicated U.S. relations in part because of his stance toward U.S. counternarcotics policy. With regard to U.S. policy toward Cuba, Congress has continued to debate whether loosening or tightening the U.S. embargo will encourage political change.

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

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

## Conditions in the Region

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

Already in 2006, presidential elections have been held in Chile, Costa Rica, Haiti, Peru, Colombia, Mexico, and Guyana, and additional elections are scheduled for Brazil and Ecuador in October, Nicaragua in November, and Venezuela in December. In Mexico, the narrow official victory of conservative candidate Felipe Calderón over leftist Andrés López Obrador elicited a dramatic response from López Obrador who has vowed to continue protesting the electoral outcome. St. Lucia is due to hold parliamentary elections by the end of the year, and the new Jamaican government of Portia Simpson Miller, the country's first woman prime minister, might call elections this year.

While the region overall experienced a gross domestic product (GDP) decline of 0.6% in 2002 and only a modest growth rate of 1.5% in 2003, the region rebounded with an estimated growth rate of 5.9% in 2004, surpassing even the most optimistic predictions. Every country in the region, with the exception of Haiti, experienced positive economic growth, and even per capita income for the region as a whole increased by more than 4% for the year. Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004. Growth continued in 2005 at a rate of 4.5%, with Argentina and Venezuela registering the strongest growth rates, and a growth rate of 4.6% is projected for the region in 2006.<sup>1</sup>

The Andean region still faces considerable challenges, including the rise of a radical form of populism in several countries. Colombia continues to be threatened by drug trafficking organizations and by two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, have been responsible for thousands of deaths each year. Bolivia has experienced political unrest over the last few years,

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<sup>1</sup> U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Latin America and the Caribbean, Projections 2006-2007," April 2006.

including the resignation of presidents in 2003 and 2005. The election of indigenous leader Evo Morales as president in December 2005 has complicated U.S. relations given Morales' efforts to decriminalize coca growing. Ecuadorian President Lucio Gutierrez was removed from office in April 2005 following weeks of popular protests related to his replacement of judges. Current President Alfredo Palacio, a political independent, has been faced with significant challenges in governing within Ecuador's politically fragmented and unstable political environment. The country is scheduled to hold presidential and legislative elections on October 15, 2006, with a second presidential round set for November 26, 2006. Venezuela under President Hugo Chávez has been plagued by several years of political polarization, although Chávez's rule was strengthened after he survived a recall referendum in August 2004 and after his supporters swept legislative elections in December 2005 after the opposition withdrew from the race. Windfall oil profits have bolstered his government's revenue and economic growth, and it appears likely that Chávez will win another term in the presidential elections set for December 3, 2006. In Peru, the presidential electoral victory in early June 2006 of former President Alan Garcia over retired military officer Ollanta Humala, an admirer of Hugo Chávez, has eased U.S. concerns about the future of democracy in the country and the future of U.S.-Peruvian relations.

In Central America, countries such as El Salvador, Honduras, and Nicaragua emerged from the turbulent 1980s and 1990s with democratic institutions more firmly entrenched, yet violent crime is a major problem in all countries. Honduras and Nicaragua are among the poorest countries in the hemisphere. While Guatemala has made significant progress in improving the government's human rights policy, significant problems remain. In Nicaragua, tensions among current President Enrique Bolaños, the Sandinista party, and allies of former President Arnoldo Aleman were threatening the country's political stability in 2005, but were eased by October of that year. It is expected that Bolaños will fill out the remainder of his term until January 2007. National elections are scheduled for November 5, 2006, with former President and Sandinista party leader Daniel Ortega currently leading polls.

In the Caribbean, Haiti — the hemisphere's poorest nation — continues to be plagued by political challenges. In the aftermath of President Aristide's departure in February 2004, Haiti's interim government was supported by a U.N. Stabilization Mission with the goals of ensuring a secure and stable environment and restoring the rule of law. After several postponements, new elections were ultimately held February 7, 2006. Former president Rene Preval was declared the winner after several days of protests by his supporters when it appeared that a run-off election would be necessary. Preval took office on May 14, 2006, marking the beginning a new era in Haiti. His goals include building governmental institutions and establishing conditions for foreign investment in order to create jobs. Cuba remains a hardline communist state with a human rights situation that has deteriorated significantly since 2003. In late July 2006, Cuban leader Fidel Castro's announcement that he was temporarily ceding political power to his brother for several weeks in order to recover from surgery prompted widespread speculation about the island's political future after Fidel departs the political scene. Several Caribbean nations, especially Grenada, Haiti, Jamaica, and Cuba, were hard hit by several devastating storms in 2004 and 2005. The AIDS epidemic in the Caribbean,

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

## **U.S. Policy Overview**

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

From FY2000-FY2006, the United States has provided around \$5 billion for the Andean Counterdrug Initiative (ACI), the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The ACI has also provided interdiction and development support to six of Colombia's neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. The 109<sup>th</sup> Congress approved the Administration's request to continue ACI funding in FY2006 at approximately the same levels as in previous years. This year, Congress is considering the Administration's FY2007 request for \$721.5 million in ACI funding. Human rights and the environmental consequences of aerial fumigation remain issues in the congressional debate, and assistance to Bolivia has become an issue with the election of a president who has strongly criticized U.S. counternarcotics policy toward the region.

In the trade arena, Congress approved legislation in July 2005 (P.L. 109-53, signed into law August 2, 2005) implementing the DR-CAFTA that had been completed in 2004. The Bush Administration views the agreement as a way for the region to help create jobs, attract foreign investment, and advance good governance. As reflected in the narrow passage in the House, congressional consideration of the DR-CAFTA was controversial, with opposition from labor advocates and some industry groups. Several additional free trade agreements with countries in the region either have been completed or are being negotiated. In January 2006, President Bush notified Congress of his intention to enter into an FTA with Peru (negotiations were completed in December 2005), and the agreement was signed in April 2006. In late February 2006, Colombia and the United States completed FTA negotiations, and President Bush notified Congress on August 24, 2006, of his intention to sign an FTA with the country. The United States and Panama have had nine rounds of free trade talks, with the latest round ending in January 2006, but the agreement has not been completed pending resolution of a few contentious agricultural issues. U.S. negotiations with Ecuador were suspended in May 2006 after Ecuador announced that it was terminating the contract of Occidental Petroleum, a U.S. company, after a long dispute.

With regard to democracy and political stability, Congress has focused on continued support to Haiti, the hemisphere's poorest nation, under the new

government of Rene Preval. Venezuela — a major supplier of oil to the United States — has remained a congressional concern because of fears that President Hugo Chávez may be using his political power to push toward authoritarian rule and to support leftist groups in other Latin American countries. In Bolivia, the new government of President Evo Morales, a former leader of the coca growers union, has complicated U.S. relations not only because of his criticism of U.S. counternarcotics policy but also because of his leftist orientation and close relations with Venezuela's Hugo Chávez and Cuba's Fidel Castro. With regard to U.S. policy toward Communist Cuba, Congress has continued to focus on the poor human rights situation and to debate whether loosening or tightening the U.S. embargo will encourage political change. Fidel Castro's announcement that he was ceding power to his brother temporarily could foster a re-examination of U.S. policy.

Congress has maintained an active interest in neighboring Mexico, focusing especially on border security and migration issues. In May 2005, Congress approved legislation (as part of P.L. 109-13, the FY2005 Emergency Supplemental Appropriations Act) that established identity card standards for the issuance of drivers' licenses, waived laws to facilitate the construction of a border fence, and required a pilot test of ground surveillance technologies at the border. Both the House and the Senate approved immigration reform measures in recent months: the House measure would strengthen border and immigration controls and would make unlawful presence in the United States a felony; the Senate measure also includes enforcement measures (but would not make unlawful presence a felony) and a guest worker program, and would allow most illegal immigrants to normalize their status in the United States.

Congressional consideration of the annual foreign operations appropriations legislation that funds foreign aid is an important way for Congress to influence U.S. policy toward the region. U.S. foreign aid is largely administered by the U.S. Agency for International Development (USAID). The agency supports such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counternarcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. In the aftermath of several devastating storms in 2004, the United States provided disaster and reconstruction assistance to several Caribbean nations. Overall U.S. foreign aid to the Latin America and Caribbean region amounted to about \$1.82 billion in FY2005, and an estimated \$1.68 billion in FY2006. The FY2007 request for the region is for \$1.63 billion. The Millennium Challenge Account (MCA), could also significantly increase U.S. aid to several Latin American nations. In May 2005, the Millennium Challenge Corporation approved a five-year \$215 million compact for Honduras, and in July 2005 it approved a \$175 million five-year compact with Nicaragua.

**CRS Products:**

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

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

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

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

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

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

## Regional Issues

### U.S. Foreign Assistance

The United States maintains a variety of foreign assistance programs in Latin America and the Caribbean, including security assistance, counternarcotics, economic development, and trade capacity building programs. Aid to the region increased during the 1960s with the Alliance for Progress and during the 1980s with aid to Central America. Since 2000, U.S. assistance has focused on counternarcotics especially in the Andean region. Current aid levels to Latin America and the Caribbean comprise about 11.8% of the worldwide FY2006 bilateral aid budget. Amounts requested for FY2007 would reduce this ratio to 10.6%. Current aid levels to the region could increase further as more countries are deemed eligible for Millennium Challenge Account grants.

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

The FY2007 request of \$1.6 billion represents the lowest levels of U.S. foreign assistance to the region in more than four decades, measured in constant dollars. The FY2007 request is 3% lower than FY2006. The largest decrease occurs in the



Development Assistance Account, which sustains a 28% reduction. The largest increase is for Economic Support Funds (up 26%) and the Global HIV/AIDS Initiative (up 35%). The increase in Economic Support Funds includes trade assistance for DR-CAFTA countries. The Child Survival and Health Account would be cut by 9%. These figures do not include Millennium Challenge Compacts signed with Honduras (\$215 million over five years) and Nicaragua (\$175 million over five years).

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

On June 9, 2006, the House passed H.R. 5522, the FY2007 Foreign Operations Appropriations Act, cutting the President's overall request for foreign assistance worldwide by \$2.4 billion, which could affect aid levels to Latin America. However, the report accompanying the bill cautioned the Administration on providing levels of assistance to Latin America in FY2007 that would be below that provided in FY2006. The Senate Appropriations Committee marked up its bill on June 29; it has not yet been scheduled for floor debate.

Some Latin American countries will be affected by a cutoff of U.S. assistance as a result of not signing Article 98 agreements that exempt U.S. citizens from the jurisdiction of the International Criminal Court. The American Service Members Protection Act (Title II of P.L. 107-206) applies the aid cutoff to FMF and International Military Education and Training (IMET) funds. The FY2005 and FY2006 Foreign Operations Appropriations acts extends the prohibition to ESF. Colombia, the major recipient of U.S. assistance in Latin America, has signed an agreement. Others that have not, such as Bolivia, Brazil, Ecuador, Mexico, Paraguay, Peru, and Venezuela, could see their assistance withheld.

The Millennium Challenge Account (MCA) is a new initiative that provides sizable aid grants to a few low-income nations that have been determined, through a competitive process, to have the strongest policy reform records and where new investments are most likely to achieve their intended development results. In Latin America, Bolivia, Honduras, and Nicaragua were deemed eligible to participate in the first round; El Salvador became eligible for FY2006. In 2005, the Millennium Challenge Corporation (MCC) approved five-year compacts with Honduras and Nicaragua. In 2006, the MCC announced threshold assistance of \$37 million for Paraguay to assist the country to become eligible for an MCC compact. Other Latin American or Caribbean nations could be eligible to receive assistance in future years.

Although the Administration's MCC request for FY2007 was \$3 billion, the House cut funding by \$1 million and the Senate by \$1.23 million.

U.S. support to counter the HIV/AIDS epidemic in the region is provided through programs administered by several U.S. agencies, although the U.S. Agency for International Development (USAID) is the lead agency in the international fight against AIDS. The United States also provides contributions to multilateral efforts, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Both the House and Senate foreign operations bills meet the Administration's request for HIV/AIDS programs, but the House reduces funding for malaria by \$47 million.

**CRS Products:**

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

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

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

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

## **Andean Counterdrug Initiative**

The Andean Counterdrug Initiative (ACI) is the primary U.S. program that addresses counternarcotics and alternative development in the Andean region of South America. The ACI supports Plan Colombia, a six-year plan developed by the Colombian government in 1999 to combat drug trafficking and related guerrilla activity. The ACI program is regional in nature because organizations in countries bordering Colombia also produce and traffic in narcotics and because it is affected by other cross-border issues. The ACI began in 2000, when Congress passed legislation providing \$1.3 billion in interdiction and development assistance (P.L. 106-246) for Colombia and six regional neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. Funding for ACI from FY2000 through FY2006 totals approximately \$5 billion.

For FY2007, the Administration requested \$721.5 million, of which \$65.7 million was proposed for the Critical Flight Safety Program, to upgrade aging aircraft. Funding for the Air Bridge Denial program, an air interdiction program in operation over Colombia, was included in the request for Colombia. On June 9, 2006, the House passed H.R. 5522, the FY2007 Foreign Operations Appropriations Act, that makes significant changes to the way foreign aid to Colombia is provided but largely approves the Administration's request with regard to funding levels. The most significant change is to provide some funding for Colombia from traditional aid

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

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

The Senate Appropriations Committee reported its version of the foreign operations bill on June 29; it has yet to be scheduled for floor consideration. The Senate bill provides \$699.4 million for ACI, a decrease of \$22 million. A portion of the decrease (\$9.8 million) is transferred to a Democracy Fund for similar types of programs as that provided by ACI. The remaining decrease is from interdiction activities and the Critical Flight Safety Program, which was cut by \$12.3 million. Both the House and Senate bills maintain reporting requirements from previous appropriations bills.

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

Supporters of U.S. policy argue that assistance to Colombia is necessary to help a democratic government besieged by drug-supported leftist and rightist armed groups. Assistance to Colombia's neighbors, according to supporters, is merited because of an increasing threat from the spillover of violence and drug production

from Colombia. While some critics agree with this assessment, they argue that U.S. assistance overemphasizes military and counter-drug assistance and provides inadequate support for protecting human rights. Critics also assert that U.S. assistance is disproportionately targeted to eradication of crops and military training rather than to alternative development projects that could provide alternative livelihoods for growers who voluntarily give up illicit crops.

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

**CRS Products:**

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

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

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

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

## Free Trade Agreements

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

The DR-CAFTA is a regional agreement to reduce barriers to trade in which all parties are subject to “the same set of obligations and commitments,” although each country negotiated a separate market access schedule. It is a comprehensive and

reciprocal trade agreement, which distinguishes it from, and will eventually replace, U.S. commitments made under unilateral preferential trade arrangements — the Caribbean Basin Initiative (CBI), the Caribbean Basin Trade Partnership Act (CBTPA), and the Generalized System of Preferences (GSP). The DR-CAFTA covers market access of goods, services trade, government procurement, intellectual property, investment, labor, and environment, among other issues.

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

**U.S.-Panama Free Trade Agreement (FTA).** On November 16, 2003, President Bush formally notified Congress of his intention to negotiate a bilateral FTA with Panama. Negotiations commenced in April 2004, with the ninth and most recent round occurring in Washington, D.C. January 17-20, 2006. The agreement has still not been completed, pending resolution of a few remaining contentious agricultural issues. Currently, the Panamanian government is also focusing on a national referendum scheduled for October 22, 2006, on expansion of the Panama Canal. Because the government does not wish to focus the public's attention on two highly controversial issues at the same time, the U.S.-Panama FTA is not expected to be concluded until after the referendum vote.

Panama is largely a services-based economy, which distinguishes it, and the trade negotiations with the United States, from those of its Central American neighbors. After nine rounds, nearly all issues have been resolved, including difficult ones such as defining government procurement rules for the Panama Canal Authority and market access for U.S. retailers. Unlike the DR-CAFTA, there is little textile and apparel trade, and labor issues so far have been less controversial. The treatment of sensitive agricultural products are the last issues to be concluded. In particular, the United States and Panama have yet to finalize an agreement on a sanitary and phytosanitary (SPS) issue. The United States has requested that Panama accept USDA meat inspection standards as sufficient for immediate entry of U.S. exports. This became, politically, a very sensitive issue (the Panamanian Agriculture Minister resigned) because the SPS chapter had already been closed, Panama was concerned about compromising its high inspection standards, and Panama did not want to look as if it had suddenly capitulated to U.S. demands. Following a week-long review of the U.S. meat inspection process in February 2006, a Panamanian delegation found that it did not pose a threat to Panama's national standards. Details remain to be worked out over how this might translate into an immediate certification for entry into Panama of U.S. meat products. Reportedly, all other agricultural market access issues have been finalized with the exception of determining any change to Panama's portion of the U.S. sugar quota.

**U.S.-Peru Trade Promotion Agreement.** On April 12, 2006, U.S. Trade Representative Rob Portman and Peruvian Minister of Foreign Trade and Tourism Alfredo Ferrero Diez Canseco signed the U.S.-Peru Trade Promotion Agreement (PTPA). The PTPA negotiations began in May 2004, when the United States, Colombia, Peru, and Ecuador participated in the first round of negotiations for a U.S.-Andean free trade agreement (FTA).<sup>2</sup> After negotiators failed to reach an agreement, Peru continued negotiating with the United States on a bilateral basis. The two countries concluded the agreement in December 2005. On January 6, 2006, President Bush notified the Congress of his intention to enter into a free trade agreement with Peru. Under current deadlines in the Trade Promotion Authority Act (TPA), expedited legislative procedures apply to implementing bills for trade agreements, if, among other requirements, the agreements are entered into by June 30, 2007. Press reports indicate that Congress is unlikely to vote on the PTPA until early 2007.<sup>3</sup> The labor provisions may be among the more controversial of the agreement.

The United States is Peru's leading trading partner. In 2005, 31% of Peru's exports went to the United States, and 18% of Peru's imports were supplied by the United States. Trade with Peru accounts for less than 1% of total U.S. trade. Peru is the 43<sup>rd</sup> largest U.S. export market (\$2.3 billion in 2005) and the 44<sup>th</sup> largest source of U.S. imports (\$5.1 billion in 2005). The United States currently extends duty-free treatment to imports from Peru under a regional preference program, the Andean Trade Promotion and Drug Eradication Act (ATPDEA), but that access is scheduled to expire at the end of December 2006. In 2005, 44% of all U.S. imports from Peru received preferential duty treatment. Of those, the leading imports were refined copper and knit or crocheted sweaters. If ratified, the PTPA would likely have a small net economic effect on the United States because of the relatively small size of Peru's economy in relation to the U.S. economy. In 2005, Peru had a GDP of \$78 billion, approximately 0.6% of U.S. GDP of \$12.5 trillion.

**U.S.-Colombia Trade Promotion Agreement.** On February 27, 2006, U.S. Trade Representative Portman and Colombia's Minister of Trade, Industry, and Tourism, Jorge Humberto Botero, announced the conclusion of a U.S.-Colombia bilateral free trade agreement. President Bush notified Congress on August 24, 2006, of his intention to sign the U.S.-Colombia Trade Promotion Agreement (CTPA). A free trade agreement with Colombia was originally intended to be part of a broader U.S.-Andean free trade agreement FTA, but after negotiators failed to reach agreement, Colombia continued negotiations with the United States on a bilateral basis. Although the announcement of the CTPA took place in February, President Bush and Colombian President Alvaro Uribe conceded on June 14 that the two sides were still working on some outstanding issues. The two countries finalized the text

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<sup>2</sup> See CRS Report RL32770, *Andean-U.S. Free-Trade Agreement Negotiations*, by M. Angeles Villarreal.

<sup>3</sup> Brevetti, Rosella, *International Trade Daily*, "Kolbe Sees Peru Pact Delayed Until Next Year," September 8, 2006.

of the agreement on July 8, 2006.<sup>4</sup> The labor and sugar provisions may be among the more controversial of the agreement. It appears unlikely that Congress would consider implementing legislation for the CTPA before the end of 2006.

The United States is Colombia's leading trading partner. In 2004, 42% of Colombia's exports went to the United States, and 29% of Colombia's imports were supplied by the United States. Colombia is the 28<sup>th</sup> largest U.S. export market (\$5.41 billion in 2005) and the 31<sup>st</sup> largest source of U.S. imports (\$8.85 billion in 2005). Colombia accounts for less than 1% of total U.S. trade. The United States currently extends duty-free treatment to selected imports from Colombia under the ATPDEA, a regional trade preference program that expires in December 2006. In 2005, 51% of all U.S. imports from Colombia received preferential duty treatment under this program. Of those, the leading imports were certain subcategories of crude oil and cut flowers. If ratified, the CTPA would likely have a small net economic effect on the United States because of the relatively small size of Colombia's economy in relation to the U.S. economy.

**Free Trade Area of the Americas.** The proposed Free Trade Area of the Americas (FTAA) was originally conceived 10 years ago as a regional (presumably WTO-plus) trade agreement that would include 34 nations of the Western Hemisphere. Since then, three drafts of an incomplete agreement have been released, but the original January 2005 date for signing it has passed. At the center of the delay are deep differences dividing the United States and Brazil, the co-chairs of the Trade Negotiating Committee, which is charged with defining the framework under which the FTAA negotiations can continue. In particular, Brazilian insistence on a reduction of U.S. agricultural subsidies has been central to the debate. The United States and Brazil agreed at the November 2003 Miami Ministerial to a two-tier approach that would include a set of "common rights and obligations" to which all countries would agree, augmented by optional plurilateral arrangements for countries wishing to make deeper reciprocal commitments. To date, the United States and Brazil have been unable to define how this two-tier concept would work, and the United States has rebuffed Brazil's offer to move ahead with the "4+1" market access talks with the Mercosur (Southern Common Market) countries (Brazil, Argentina, Uruguay, and Paraguay).

The breadth of an emerging resistance to the FTAA became clearer at the fourth Summit of the Americas held on November 4-5, 2005, in Mar del Plata, Argentina. Amidst dramatic and sometimes violent protests against President George W. Bush and the FTAA, which was not scheduled as the major topic of this summit, it was evident that Latin America was divided over how to proceed. A total of 29 countries supported restarting negotiations, and the United States pushed to set a specific date in 2006. The Mercosur countries rejected this idea, arguing that the conditions for a balanced and equitable FTAA did not yet exist. Venezuela lobbied independently to end any further effort on the FTAA and called for a unified resistance against U.S. policies and presence in Latin America. On July 4, 2006, Venezuela formally joined Mercosur as its first new full member since its inception in 1991. Although

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<sup>4</sup> Brevvi, Rosella, *International Trade Daily*, "President Notifies Congress of Intent to Sign Colombia FTA," August 25, 2006.

Mercosur has resisted the FTAA, Venezuela is the only country in Latin America to reject the idea unequivocally. With Venezuela's new-found status as a voting member of Mercosur, the United States may find it even more difficult to isolate its unabashedly negative influence on the FTAA negotiations.

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

**CRS Products:**

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

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

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

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

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

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

CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

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

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

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



## Terrorism Issues

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

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

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

Through the State Department, the United States has provided Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is provided through the annual foreign operations appropriations measure under the Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) account. For FY2005, \$7.9 million in ATA was provided for the

Western Hemisphere, with \$5.1 million for training anti-kidnapping units in Colombia and \$0.5 million for the tri-border area of Brazil, Paraguay, and Argentina. For FY2006, an estimated \$12.3 million in ATA will be provided for the Western Hemisphere, with \$5.3 million for Colombia and \$1.5 million for the Bahamas. The FY2007 Western Hemisphere request is \$11.9 million, with \$3.1 million for Colombia, \$2.8 million for Trinidad and Tobago, and \$1.4 million for Jamaica.

In the second session of the 109<sup>th</sup> Congress, the House approved H.Con.Res. 388 on June 12, 2006, which expresses the sense of Congress regarding the activities of Islamic terrorist organizations in the Western Hemisphere. The resolution “recognizes the potential threat that sympathizers and financiers of Islamist terrorist organizations that operate in the Western Hemisphere pose to the United States, our allies, and interests.” The resolution also encourages the President to direct the U.S. representative to the OAS to seek support for the creation of a special task force of the CICTE to assist governments in investigating and combating the proliferation of Islamist terrorist organizations in the region.

**CRS Products:**

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

## Gangs in Central America

In the past two years, there has been increasing attention by the press and policymakers on the effects of crime and gang violence in Central America, and its spillover effects on the United States. Since February 2005, some 1,096 members of the violent Mara Salvatrucha (MS-13) have been arrested in cities across the United States. These arrests have raised concerns about the transnational activities of Central American gangs. Citizens in several Central American countries have consistently identified crime and gang violence among the top issues of popular concern. Governments throughout the region are struggling to find the right combination of suppressive and preventive policies to effectively deal with the gang problem as well as more effective ways to solve related issues such as police corruption, overcrowded prisons, and weak judicial systems. Gang violence may threaten political stability, inhibit social development, and discourage foreign investment in Central America.

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

In the 109<sup>th</sup> Congress, legislation has been introduced — S. 853 (Lugar) and H.R. 2672 (Harris), the North American Cooperative Security Act — that includes provisions to increase cooperation among U.S., Mexican, and Central American officials in the tracking of gang activity and in the handling of deported gang members. Similar provisions have been included in both House and Senate versions of broader immigration legislation, H.R. 4437 (Sensennbrenner) and S. 2611 (Specter). On June 7, 2005, the OAS passed a resolution to hold conferences and workshops on the gang issue and to urge member states to support the creation of holistic solutions to the gang problem. Within the U.S. government, the Department of Justice has created an inter-agency task force to focus on dealing with international gang activity through diplomacy, law enforcement, transnational legal mechanisms, justice sector reform, increased information-sharing, and improved repatriation procedures. Some observers maintain that efforts to deal with criminal gang activity on the international front need to be coordinated with domestic policies aimed at stiffening penalties for gang-related crime.

**CRS Products:**

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

## **AIDS in the Caribbean and Central America**

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

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

USAID has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for HIV/AIDS in Central America and the Caribbean region rose from \$11.2 million in FY2000 to \$33.8 million in FY2003. Because of the inclusion of Guyana and Haiti as focus countries in the President's Emergency Plan for AIDS Relief (PEPFAR), funded through the Global HIV/AIDS Initiative (GHAI) account, U.S. assistance to the Caribbean and Central America for HIV/AIDS increased to \$47

million in FY2004, \$82.5 million in FY2005, and an estimated \$92.7 million in FY2006. For FY2007, the Administration requested \$113 million. This included \$88 million in GHAI funding for Guyana (\$25 million) and Haiti (\$63 million), and another \$25 million for non-focus countries and programs in Central America and the Caribbean through the Child Survival and Health account.

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

**CRS Products:**

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

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

## Afro-Latinos

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

Improvement in the status of Afro-Latinos could be difficult and contentious, however, depending on the size and circumstances of the Afro-descendant populations in each country. Afro-Latinos are, generally, descendants of the millions of West African slaves brought to the Americas by European traders during the colonial period. Afro-Latinos tend to reside in coastal areas, although in many countries they have migrated to large cities in search of employment. Afro-Latinos comprise a majority of the population in Cuba and the Dominican Republic, while in Brazil, Colombia, Panama, Venezuela, Ecuador, and Nicaragua, they form a significant minority.

Assisting Afro-Latinos has never been a primary U.S. foreign policy objective, although a number of foreign aid programs exist that benefit Afro-Latino populations. Those programs are funded through the U.S. Agency for International Development (USAID), the Inter-American Foundation (IAF), the Peace Corps, and the National Endowment for Democracy (NED). They include agricultural, micro-credit, health, grassroots organizing, and bilingual education programs.

Some assert that the United States has an interest in improving the condition of Afro-Latinos in Latin America. Assisting vulnerable peoples fits into larger U.S. policy goals for the region: promoting democracy, encouraging economic growth and poverty reduction, and protecting human rights. Others disagree, however, as to whether U.S. foreign aid should be specifically targeted toward Afro-Latinos, or be distributed broadly through efforts to support marginalized populations. Skeptics question whether increasing assistance to Afro-Latinos is feasible in a time when limited development assistance is being allocated to Latin America. Still others caution that the United States should be careful when intervening in the sensitive racial politics of other countries.

In the 109<sup>th</sup> Congress, the House passed H.Con.Res. 175, on July 18, 2005, recognizing the injustices suffered by African descendants of the transatlantic slave trade in all of the Americas and recommending that the United States and the international community work to improve the situation of Afro-descendant communities in Latin America and the Caribbean. A concurrent resolution, S.Con.Res. 90, is under consideration in the Senate.

Some Members of Congress have also expressed concern about the situation of Afro-Colombians affected by the ongoing armed conflict in Colombia. Legislation has been introduced — H.R. 4886 (McGovern), the Colombian Temporary Protected Status Act of 2006 — that would make Colombian nationals, including Afro-Colombians affected by the country's ongoing conflict, eligible for Temporary Protected Status (TPS) under Section 244 of the Immigration and Nationality Act. Another resolution, H.Res. 822 (McGovern), has been introduced that recognizes the efforts of Afro-Colombian and other peace-building communities in Colombia and urges the Secretary of State to monitor acts of violence committed against them. The Senate Appropriations Committee report to the FY2007 Foreign Operations appropriations bill (H.R. 5522, S.Rept. 109-277) would require the State Department to certify that the Colombian military is not violating the land and property rights of Afro-Colombians in order to continue to receive U.S. assistance.

**CRS Products:**

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

## Trafficking in Persons in Latin America and the Caribbean

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

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

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

On June 5, 2006, the State Department released its sixth annual report on human trafficking, *Trafficking in Persons Report* (TIP) dividing countries into four groups according to the efforts they were making to combat trafficking. Tier 3 countries are those that have not made an adequate effort to combat trafficking and are subject to sanctions. Latin America had a higher percentage of Tier 3 countries in the 2004 and 2005 TIP reports than any other region. In 2005, Bolivia, Ecuador, Jamaica, Venezuela, and Cuba were placed on Tier 3, but only Venezuela and Cuba were subject to sanctions. In the 2006 TIP report, Belize, Cuba, and Venezuela are the only countries identified as Tier 3 in the region, but six others — including Brazil and Mexico — are on the Tier 2 Watch List and could fall into the Tier 3 category by 2007.

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

**CRS Products:**

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

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

## Country Issues

### Argentina

Argentina's restructuring of over \$100 billion in defaulted bond debt in June 2005 demonstrated the country's emergence from its economic crisis. Although the country was under considerable economic stress in 2001 and 2002, the democratic political system weathered the crisis. President Néstor Kirchner, elected in 2003, has made bold policy moves in the areas of human rights, institutional reform, and economic policy that have helped restore Argentines' faith in democracy. The October 2005 legislative elections demonstrated strong support for President Kirchner. Economic growth has rebounded, from a decline of almost 11% in 2002 to 8.8% in 2003, 9% in 2004, 9.2% in 2005, and an estimate of 7.5% for 2006.<sup>5</sup> In January 2006, Argentina paid off its \$9.5 billion debt to the International Monetary Fund (IMF), a popular move, but one that critics have questioned for its economic wisdom. The government faces such challenges as reducing poverty and continuing to control inflation. In early August 2006, a former federal police official charged with running a clandestine detention center during military rule was sentenced to 25 years in prison. This marked the first human rights trial since the Supreme Court's June 2005 overturning of two amnesty laws from the 1980s that had blocked prosecution for killings under military rule. Issues of concern to the U.S. Congress include continued cooperation with Argentina on counterterrorism issues and progress in Argentina's investigation of the 1994 Argentine-Israeli Mutual Association (AMIA) bombing that killed 86 people.

**CRS Products:**

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

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

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

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

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<sup>5</sup> Economist Intelligence Unit, "Country Report: Argentina," August 2006.

## Bolivia

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

President Morales has moved to fulfill his campaign promises to decriminalize coca cultivation and to nationalize the country's natural gas industry. These policies have pleased his supporters within Bolivia, but have complicated Bolivia's relations with some of its neighboring countries, foreign investors, and the United States. He also secured passage of legislation convoking a special election for delegates to a constituent assembly to reform the country's constitution. The MAS performed relatively well in those elections, capturing 137 of 255 seats, but will have to form alliances in order to reach the two-thirds majority needed to pass constitutional reforms. The assembly convened on August 6, 2006, and will deliberate for one year. In a concurrent referendum, the four wealthy eastern provinces of Bolivia voted in favor of increasing regional autonomy, while the other five provinces opposed the measure. The issue of regional autonomy will be taken up in the constituent assembly.

For some 20 years, U.S. interest in Bolivia has centered on its role as a coca producer and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries in the Andes. U.S.-Bolivian relations have become tense in 2006 in the wake of the Morales government's questionable commitment to combating illegal drugs, increasing ties with Venezuela and Cuba, and the nationalization measure. In FY2006, Congress provided an estimated \$116.6 million in foreign assistance to Bolivia, including some \$79.2 million in counternarcotics funds. For FY2007, the Administration proposes spending \$99.8 million on Bolivia, including roughly \$66 million in counternarcotics funds. Congress is soon likely to consider whether to renew the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which provides duty-free access to some imports from Bolivia and other Andean countries in exchange for counternarcotics cooperation. The ATPDEA expires in December 2006, although legislation has been proposed, H.R. 5070 (Rangel), that would renew its benefits for another year.

**CRS Products:**

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

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

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



## Brazil

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

Brazilians will head to the polls to elect a new President and Vice President, federal legislators (all Deputies and one third of the Senate), and governors on October 1, 2006. The leading presidential candidates are President Lula and Geraldo Alckmin, former governor of the state of São Paulo, of the Brazilian Social Democratic Party (PSDB). In late 2005, a series of corruption scandals involving senior PT officials, legislators, and cabinet officials weakened the Lula government. President Lula has since recovered popular support, however, and has a commanding lead in recent opinion polls. While most analysts predict that President Lula will be easily re-elected, many predict that the PT will lose a significant number of congressional seats and that the PSDB and other opposition parties will perform well in the legislative, state, and local elections.

Relations with the United States have been generally positive, although President Lula has made relations with neighboring countries in the Southern Common Market (Mercosul) his first priority, and has sought to strengthen ties with nontraditional partners, including India and China. Trade issues are central to the bilateral U.S.-Brazilian relationship, with both countries heavily involved in subregional, regional, and global trade talks in the Doha round of the World Trade Organization (WTO) negotiations. The United States and Brazil have different approaches to trade liberalization, which have put the two countries at odds over how to proceed with the Free Trade Area of the Americas (FTAA) negotiations.

In addition to trade policy, U.S. interest in Brazil centers on its role as a stabilizing force in Latin America, especially with respect to populist governments in Venezuela and Bolivia. Brazil’s nuclear enrichment capabilities and its role as an ethanol producer have generated growing interest in the United States. Brazil is also a key U.S. ally whose cooperation is sought on issues that include counternarcotics efforts; human rights concerns, such as race relations and trafficking in persons; the environment, including protection of the Amazon; and HIV/AIDS prevention.

**CRS Products:**

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

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

CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

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

**Colombia**

Colombian President Alvaro Uribe was re-elected on May 28, 2006, with 62% of the vote. Parties loyal to President Uribe also won a majority of both houses of congress in the March 12 congressional elections. President Uribe has been a strong ally of the United States and a supporter of U.S. counternarcotics efforts in the region and, through the Andean Counterdrug Initiative (ACI), Colombia is the largest U.S. foreign aid recipient in Latin America. Beyond ACI, congressional interest in Colombia relates to human rights conditions; trade; the expansion of U.S. assistance for counterterrorism and infrastructure protection; the health and environmental consequences of aerial fumigation of drug crops; the progress of alternative development to replace drug crops; the level of risk to U.S. personnel in Colombia, including the continued captivity of three American hostages by the Revolutionary Armed Forces of Colombia (FARC); and the current demobilization talks between the Colombian government and paramilitaries. (Also see sections above on “Andean Counterdrug Initiative” and “U.S.-Colombia Trade Promotion Agreement.”)

It is estimated that Colombia produces 70% of the world’s supply of cocaine and 50% of the heroin entering the United States. Illegally armed groups of both the left and right are believed to participate in the drug trade. In March 2006, the United States indicted fifty commanders of the FARC for drug trafficking.<sup>6</sup> The United States has also requested the extradition of 23 paramilitary leaders on drug trafficking charges. In 2004, Congress raised the cap on military personnel allowed to be deployed in Colombia in support of Plan Colombia from 400 to 800 for military personnel and from 400 to 600 for civilian contractors (FY2005 Ronald W. Reagan National Defense Authorization Act, P.L. 108-375). Since FY2002, Congress has authorized support for a unified campaign against narcotics trafficking and activities of organizations designated as terrorist organizations by the Department of State.

In 2006, the United Nations Office on Drugs and Crime reported a 50% decline in opium poppy cultivation in Colombia in 2005 to 4,940 acres; or, 69% fewer acres than in 2000. However, the United Nations also reported an 8% increase in acreage

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<sup>6</sup> Juan Forero, “U.S. Indicts 50 Leaders of Colombian Rebels in Cocaine Trafficking,” *New York Times*, March 23, 2006.

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

On July 15, 2003, the Uribe Administration announced an agreement with leaders of the paramilitary United Self-Defense Forces of Colombia (AUC) that was to result in the demobilization of its members by the end of 2005. The office of Colombia's High Commissioner for Peace estimates that nearly 31,000 paramilitaries demobilized as of July 2006. An estimated 2,000 paramilitaries remain outside of the disarmament process. The demobilization process has posed a number of controversial issues relating to ensuring accountability of militants while providing a large enough incentive for fighters to lay down their arms. The outcome of such a process could have effects on how Colombian citizens feel about the effectiveness of the country's judicial system, the rule of law, and the ability of the state to provide for a general level of safety. There are also concerns that some fighters that operate outside of the AUC umbrella will not demobilize and will continue to carry out their operations in rural areas. Critics also note that paramilitaries demobilized under the controversial Justice and Peace Law will receive reduced sentences of five to eight years and may be protected from extradition to the United States. Critics also are concerned that the demobilization process does not address the criminal enterprises, such as narcotics trafficking, that financed the AUC's political operations and that the paramilitaries are re-organizing, not demobilizing. Further concern has focused on the ability of the government to re-incorporate ex-fighters into law-abiding civilian life and to provide some type of restitution to their victims.

The issue of drug trafficking is exacerbated by humanitarian conditions resulting from more than 40 years of civil war between the Colombian government, the FARC, National Liberation Army (ELN), and right-wing paramilitaries. Colombia has the second largest population of internally displaced persons (IDPs) in the world, behind Sudan. There are 3 million IDPs in Colombia, with an estimated 160,000 to 250,000 newly displaced in 2005. There are also nearly 258,000 Colombian refugees and asylum seekers outside of Colombia. The United States began resettling refugees from Colombia in 2002. Admissions peaked at 577 in FY2004 but declined to 323 in FY2005 due to provisions of the REAL ID Act of 2005 (included in P.L. 109-13), which bars admission of persons who have provided material support to terrorist groups. In 2005, the United Nations High Commissioner for Refugees (UNHCR)

stopped referring Colombians for resettlement to the United States because of this issue. The State Department anticipates only 50 Colombian refugees will be resettled to the United States in FY2006. H.R. 5918, introduced on July 27, 2006, would amend the Immigration and National Act so that persons who provided material support to a terrorist organization under duress or coercion can be admitted to the United States.

**CRS Products:**

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

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

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

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

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

## Cuba

Since the early 1960s, U.S. policy toward Cuba under Fidel Castro has consisted largely of isolating the communist nation through comprehensive economic sanctions, which have been significantly tightened by the Bush Administration. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba. While there appears to be broad agreement on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island — there are several schools of thought on how to achieve that objective: some advocate maximum pressure on Cuba until reforms are enacted; others argue for lifting some U.S. sanctions judged to be hurting the Cuban people; and still others call for a swift normalization of U.S.-Cuban relations.

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

In the 109<sup>th</sup> Congress, legislative initiatives include six human rights resolutions: House-passed H.Con.Res. 81, H.Res. 193, and H.Res. 388; Senate-passed S.Res. 140 and S.Res. 469; and H.Con.Res. 165. In addition, P.L. 109-102 funds Cuba democracy projects in FY2006, H.R. 5522 would fund FY2007 democracy projects, House-passed H.R. 2601 would authorize \$5 million for scholarship and exchange programs, and S. 3769 would authorize assistance to facilitate a peaceful transition in Cuba.

With regard to sanctions, both the House-passed and Senate Appropriations Committee-reported versions of the FY2007 Treasury Department appropriations bill, H.R. 5576, prohibit funds from being used to implement tightened restrictions on financing for agricultural exports to Cuba; the President has threatened to veto the bill if it weakens Cuba sanctions. Other initiatives include H.Con.Res. 206 (suspension of sanctions after Hurricane Dennis); H.R. 208 and H.R. 579 (overall sanctions); S. 894 and H.R. 1814 (travel); H.R. 2617 (family visits); H.R. 3064 (educational travel); H.R. 1339 and S. 634 (cash in advance for U.S. agricultural sales); and H.R. 719 and S. 328 (facilitation of agricultural sales). Other measures have provisions on Cuba's trademark registrations (H.R. 719, S. 328, H.R. 3372, S. 1604, H.R. 1689 and S. 69); Cuba broadcasting (P.L. 109-108, S. 600, H.R. 2601, H.R. 5522, and H.R. 5672); anti-drug cooperation (H.R. 5522); U.S. fugitives in Cuba (H.R. 2601, H.R. 332); sanctions related to Cuba's offshore oil development (H.R. 5292, S. 2682, S. 2795); authorization for participation in Cuba's offshore oil development (H.R. 5353, S. 2787); support for U.S. diplomats in Cuba (H.Con.Res. 428); repeal of the Cuban Adjustment Act (H.R. 5670); and travel related to the sale of agricultural and medical goods to Cuba (H.R. 5384).

**CRS Products:**

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

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

CRS Report RL33622, *Cuba after Fidel Castro: U.S. Policy Implications and Approaches*, by Mark P. Sullivan.

CRS Report RL32251, *Cuba and the State Sponsors of Terrorism List*, by Mark P. Sullivan.

CRS Report RS20468, *Cuban Migration Policy and Issues*, by Ruth Ellen Wasem.

CRS Report RL33499, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

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

## Dominican Republic

President Leonel Fernández of the Dominican Liberation Party (PLD), who served as president previously (1996-2000), took office on August 16, 2004. President Fernández enjoys strong popular support and has restored some confidence in the Dominican economy. His fiscal policy has been guided by a \$648 million loan agreement reached with the International Monetary Fund (IMF) in February 2005. GDP growth in the Dominican Republic reached 9.3% in 2005, and inflation fell to 7.4%, but unemployment still stood at 17.5% in late 2005. The Fernández administration has struggled to deal with corruption, crime, and an ongoing electricity crisis. In 2005, his government was criticized for several massive repatriations of undocumented Haitian migrants, but relations with Haiti have improved since René Préval took office in May 2006. Fernández will face less opposition to his legislative agenda during the last two years of his term as the PLD captured a majority in both chambers of the Dominican Congress in the May 2006 legislative elections.

On September 6, 2005, the Dominican Republic approved the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). The Dominican Republic was scheduled to implement the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) on July 1, 2006, but that date has been postponed pending the adoption of legal and regulatory measures to conform with the agreement.

### CRS Products:

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

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

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

## Ecuador

Alfredo Palacio, a political independent and former vice president, became president in April 2005 after Lucio Gutierrez was removed from office by Ecuador's Congress following weeks of popular protests. Ecuadorians rejected Gutierrez's December 2004 replacement of the majority of the judges on the country's three highest courts with his political allies, a move that had been sharply criticized by the international community. Ecuador's economy is currently expanding because of high oil prices, but its political institutions are extremely fragile. Palacio, the country's seventh president in nine years, will serve until January 2007. The Palacio Administration has been weakened by frequent cabinet resignations, a failure to gain

congressional support for a constituent assembly in 2005, and ongoing popular protests. Presidential and legislative elections are scheduled for October 15, 2006, with a second presidential round scheduled for November 26, 2006. There are currently twelve candidates running for president and the vast majority of Ecuadorian voters have yet to decide which candidate they will support.

Ecuador continues to work with the United States on counternarcotics matters, but negotiations for a bilateral free trade agreement were suspended indefinitely in May 2006 following Ecuador's decision to expel a U.S. oil company, Occidental, from the country without compensation for an alleged breach of contract. Citing Ecuador's failure to respect foreign investment as a reason for that suspension, U.S. officials have also suggested that Ecuador's trade benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which expires at the end of this year, may not be extended.

**CRS Products:**

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

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

## **El Salvador**

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca is seeking to restart the country's stagnating economy, pass legislation in a polarized political environment, and combat gang violence. His legislative agenda should face continuing opposition from the Farabundo Marti National Liberation Front (FMLN), which in the March 12, 2006, legislative elections recovered the seats it had lost due to defections in 2005. Although ARENA also increased its representation in the legislature and is still the largest party in El Salvador's National Assembly, it lacks a majority and will continue to have to rely on support from small parties to enact President Saca's agenda. In 2005, despite its tough anti-gang legislation, El Salvador posted a murder rate of 15 people per day, the highest in the hemisphere. Although a majority of Salvadorans approve of President Saca's job performance, especially his handling of Tropical Storm Stan and a volcanic eruption in October 2005, a majority also disapprove of his decision to maintain Salvadoran soldiers in Iraq.

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

Salvador submitted a \$441 million proposal to the Millennium Challenge Corporation that focuses on development of its northern border region. The Salvadoran government is also seeking further assistance from the Bush Administration in dealing with the problem of criminal gangs.

**CRS Products:**

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

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

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

## Guatemala

Congressional concerns regarding Guatemala in the 109<sup>th</sup> Congress include how to support its democratic process, reduction of poverty, respect for human rights, further military reform, and the debate over prohibitions of U.S. military aid to Guatemala. Guatemala has been consolidating its transition from mostly autocratic rule toward democratic government since the 1980s, but its institutions remain fragile. President Oscar Berger made fulfilling the 1996 Peace Accords, including a profound restructuring of state institutions, a priority. Berger has attacked corruption and enacted long-delayed military and economic reforms. Political maneuvering for November 2007 presidential elections has led to defections from Berger's center-right alliance, the Gran Alianza Nacional (GANAN), and a loss of a working majority for GANAN in the legislature.

In 2005, the Guatemalan legislature passed DR-CAFTA, the Dominican Republic-Central America-United States Free Trade Agreement. Berger has proposed compensation programs for sectors that prove to be hurt by the implementation of DR-CAFTA, which went into effect with Guatemala on July 1, 2006. The Bush Administration's proposal for FY2007 funding includes rural development projects it says will help in the adjustment to DR-CAFTA.

Extreme poverty and inequality persist in Guatemala. About 56% of the total population, and 76% of the indigenous population, live in poverty. According to the World Bank, Guatemala has one of the largest income distribution gaps in the world. Guatemala's social indicators continue to be among the worst in the hemisphere. Its malnutrition rates are among the worst in the world; 44% of children under five years of age have stunted growth. Guatemala's illiteracy rate is extremely high. The average level of schooling is 4.3 years, and among the poor, it is less than two years.



Regarding respect for human rights, Guatemala has made enormous strides, but significant problems remain. The U.N., the OAS, and the United States have all expressed concern that human rights violations have increased in recent years, that the Guatemalan government has taken insufficient steps to curb them, and that a lack of investigation and punishment create impunity. According to the State Department's human rights report for 2005, the Guatemalan government "generally respected the human rights of its citizens," but "serious problems" remained, including reported extrajudicial killings and kidnaping for ransom by security forces, and social cleansing.

The Bush Administration proposed in its FY2006 budget to provide military aid to Guatemala that had been prohibited since 1990 because of human rights concerns. While applauding the reduction in forces and other reforms, some human rights groups express concern about continued human rights abuses and impunity among the military. Congress maintained the existing restrictions in FY2006 (P.L. 109-102), allowing only expanded-International Military Education and Training in military justice reform, respect for human rights, and for civilians in defense matters, and prohibiting Foreign Military Financing (FMF) for Guatemala.

For FY2007, the House-passed foreign operations bill, H.R. 5522, would only prohibit FMF. Although the Administration did not seek FMF for Guatemala in its request, the Senate Appropriations Committee-reported version of the bill would direct up to \$500,000 in FMF be made available for the Guatemalan Air Force and Navy, only for spare aircraft parts, and motors for boats patrolling a river frequented by drug traffickers.

The Senate Committee-reported version of H.R. 5522 also would provide Guatemala with IMET assistance "only to support efforts of the military to participate in international peacekeeping operations and improve disaster response capabilities." It also would prohibit funds to security forces of a foreign country if there is "credible evidence" that those forces have committed gross violations of human rights, unless the Secretary of State reports to the Appropriations Committees that such a country's government "is taking effective measures to bring the responsible members of the security forces unit to justice." It would also provide that if funds were withheld pursuant to this condition, the Secretary of State should inform the foreign government of the basis for doing so, and assist that government in bringing the responsible security force members to justice. The Senate also supported State Department and U.N. efforts to encourage the Guatemalan government to carry out human rights-related reforms, including establishing an international commission to investigate, dismantle, and prosecute networks responsible for political violence; and setting timetables for ending the role of the army in internal law enforcement and rebuilding the National Civilian Police. The Administration says it will provide Guatemala with non-lethal Excess Defense Articles on a limited case-by-case basis in 2007.

Immigration is an area of contention in U.S.-Guatemalan relations in 2006. A House-passed bill (H.R. 4437) would make unlawful presence in the United States a criminal, rather than a civil offense and would increase border barriers. Guatemala joined the Mexican and other Central American governments in criticizing U.S. efforts to toughen border enforcement and demanded guest-worker programs. The

countries said they were seeking integrated solutions, by which they would try to decrease illegal emigration, and the United States would help create conditions to lessen the need to migrate. A Senate-passed bill (S. 2611) would combine enforcement with guest-worker provisions.

**CRS Products:**

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

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

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

## Haiti

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

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

The House International Relations Committee is expected to mark up a bill on September 13, 2006, that would support Haitian efforts to strengthen institutions. A

manager's amendment to H.R. 611, the Haiti Economic and Infrastructure Reconstruction Act, would authorize \$3 million annually from FY2006 to FY2022 for a USAID program to encourage U.S. professionals, especially Haitian-Americans, to help reform Haitian education, judicial, and health care systems.

Supporters of special trade preferences for Haiti reintroduced the Haiti Economic Recovery Opportunity Act (HERO, H.R. 4211/S. 1937) for consideration in the fall of 2005. The bill would expand U.S. preferential trade for Haiti by amending the Caribbean Basin Economic Recovery Act. Members have also worked on a compromise bill, the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE). The 2004 draft had more restrictive country of origin rules for apparel components than HERO; it has also been discussed in the 109<sup>th</sup> Congress but has never been introduced.

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

Former President Jean-Bertrand Aristide, who had maintained he was still Haiti's president since his departure in February 2004, acknowledged Preval as "my President" and said he wants to return to Haiti from exile. Preval has been estranged in recent years from Aristide, his former mentor. Publicly, Preval has said that Aristide has the constitutional right to return, but has also suggested that Aristide might want to consider that he will probably face corruption or other charges if he were to return. Privately, he is said to agree with foreign diplomats that Aristide's return would be destabilizing.<sup>7</sup> But Preval must tread carefully, as much of his support came from Haiti's poor, Aristide's strongest supporters, many of whom now expect Aristide to return.

In July 2006, international donors pledged \$750 million to bridge Haiti's budget gap and fund economic, social, and democratic reconstruction projects from July 2006 through September 2007.

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<sup>7</sup> Joe Mozingo, "Haiti's New Leader Fears Mentor's Return," *Knight Ridder, San Jose Mercury News*, March 5, 2006.

**CRS Products:**

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

CRS Report RL33156, *Haiti: International Assistance Strategy for the Interim Government and Congressional Concerns*, by Maureen Taft-Morales.

CRS Report RS21349, *U.S. Immigration Policy on Haitian Migrants*, by Ruth Ellen Wasem.

CRS Report RS21839, *Haitian Textile Industry: Impact of Proposed Trade Assistance*, by Bernard A. Gelb.

## Honduras

Honduras faces significant challenges in the areas of crime and human rights and improving overall economic and living conditions in one of the hemisphere's poorest countries. In November 2005, Hondurans elected Manuel Zelaya of the Liberal Party as president in a close race in which he defeated National Party candidate Porfirio Lobo Sosa. Zelaya was inaugurated on January 27, 2006 to a four-year term, succeeding President Ricardo Maduro of the National Party. Zelaya's Liberal Party failed to gain a majority in the National Congress, which could make it more difficult in passing his legislative agenda. Fulfilling his campaign pledge, Zelaya has moved to replace President Maduro's zero-tolerance policy toward youth gangs, or maras, and is using dialogue and other outreach techniques to convince gang members to give up violence and re-integrate into society.

The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a military presence in the country, and cooperation on a range of transnational issues. Honduras is a party to the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA), which was approved by the Honduran Congress in March 2005 and by the U.S. Congress in July 2005 (P.L. 109-53). The agreement entered into force with Honduras on April 1, 2006. On February 23, 2006, the Department of Homeland Security announced the extension of Temporary Protected Status (TPS) for some 75,000 eligible Hondurans in the United States until July 5, 2007. TPS, which had been scheduled to expire on July 5, 2006, initially was provided in the aftermath of Hurricane Mitch in 1998 and has been extended several times. In late March 2006, the Bush Administration announced that the Honduran port of Puerto Cortes was now included in the U.S. Container Security Initiative (CSI).

**CRS Products:**

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

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

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

**Mexico**

After a tight race and contested vote, conservative Felipe Calderón of the National Action Party (PAN) was named president-elect on September 5, 2006. He will replace outgoing President Vicente Fox (PAN) whose term ends December 1, 2006. Mexico's constitution limits presidents to one term in office. President-elect Calderón narrowly defeated leftist Andrés Manuel López Obrador of the Party of the Democratic Revolution (PRD) in the July 2 election. The PRD candidate challenged the July election results, alleging that there was fraud at the polling places and illegal interference in the election by President Fox and conservative business groups. Mexico's Federal Electoral Tribunal (TEPJF), whose decisions cannot be appealed, found that President Fox did not illegally interfere in the election. The Tribunal did find that commercials paid for by business groups at the end of the campaign were illegal but that the impact of the ads was insufficient to warrant the annulment of the presidential election. López Obrador has led a campaign of civil disobedience since the election, including the blockade of Mexico City's principal avenue, Paseo de la Reforma. He rejected the election tribunal's September 5 ruling and has promised to hold an assembly at the Zocalo, Mexico City's main square, on September 16 at which he will be named head of a parallel government. On September 1, 2006, PRD members of congress prevented President Fox from delivering the state of the union address at the Mexican Congress.

Congressional interest in Mexico generally focuses on migration, border affairs, trade issues, and drug trafficking concerns. Both the House and Senate approved immigration reform measures in recent months. The House measure, H.R. 4437 (Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005), would strengthen border and immigration controls, including deployment of a fence and surveillance equipment along the Mexico-U.S. border, and would make unlawful presence in the United States a felony. The Senate measure, S. 2611 (Comprehensive Immigration Reform Act of 2006), includes enforcement measures, though it does not make unlawful presence a felony. The Senate bill also includes a guest worker program and allows most illegal immigrants to normalize their status in the United States. The House and Senate are to meet in conference to resolve the differences, though conference dates had yet to be set in early September 2006. In May 2005, Congress passed the FY2005 Emergency Supplemental Appropriations (H.R. 1268/P.L. 109-13), which included the REAL ID Act of 2005, with provisions that

strengthened border control and established identity card standards for drivers' licenses.<sup>8</sup>

On March 3, 2006, Homeland Security Secretary Michael Chertoff and Mexico's Secretary of Governance Carlos Abascal signed an action plan to combat border violence that calls for increased cooperation of law enforcement agencies and the establishment of communication protocols to facilitate such cooperation. A June 2005 report by Security and Prosperity Partnership (SPP) of North America working groups outlined completed initiatives and proposed new initiatives to ensure common security and prosperity. Completed initiatives include measures to facilitate trade, such as the signing of a Framework of Common Principles for Electronic Commerce, and border security through, among other measures, an agreement between the United States and Mexico to create an Alien Smuggler Prosecution Program along the common border. On November 2, 2005, Homeland Security Secretary Chertoff launched the "Secure Border Initiative" to gain operational control of U.S. borders and reduce illegal immigration, drawing upon increased funding approved by Congress in early October 2005. In August 2006, U.S. and Mexican border governors agreed to share crime data.

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

On drug trafficking issues, Bush Administration officials have regularly praised Mexico's counternarcotics efforts under Fox, especially action against major traffickers and efforts to improve the judicial system. The State Department reported in March 2006, however, that Mexico remained the leading transit country for cocaine and the leading foreign supplier of methamphetamine and marijuana. Several bills (H.R. 3889, H.R. 2601) have been reported by committees to encourage a reduction of smuggling of methamphetamine from Mexico. In May 2006, President

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<sup>8</sup> For more information see CRS Report RL33125, *Immigration Legislation and Issues in the 109<sup>th</sup> Congress*, by Andorra Bruno, Ruth Ellen Wasem, Alison Siskin, and Blas Nunez-Neto.

Fox vetoed counternarcotics legislation, including a provision that some said amounted to the decriminalization of small amounts of drugs for personal use. In his veto, President Fox included a suggested amendment for the Mexican Congress to consider. The U.S. Coast Guard captured Francisco Javier “El Tigrillo” Arellano Felix, head of the Tijuana cartel, off the coast of Baja California.

In November 2005, the Mexican Supreme Court ruled that life imprisonment without the possibility of parole does not constitute cruel and unusual punishment. As a result of this decision, criminals facing life imprisonment may be extradited to the United States. A January 2006 ruling that U.S. extradition requests only need to meet the requirements of the 1978 bilateral treaty, not the general law on international extradition, is likely to speed up the extradition of criminals wanted by the United States. In 2005, Mexico extradited an all-time high of 41 fugitives to the United States. The FY2006 Foreign Operations Appropriations Act (H.R. 3057/P.L. 109-102), enacted in November 2005, bars assistance to a country that refuses to extradite individuals accused of killing U.S. law enforcement officers, unless the Secretary of State certifies that application of the sanction is contrary to U.S. national interests. Similarly, the House-passed version of the FY2007 Foreign Operations appropriations bill, H.R. 5522, would prohibit provision of State Department funds to countries that refuse to extradite a person indicted in the United States for killing a law enforcement officer. The bill also would prohibit all State Department assistance, except International Narcotics Control and Law Enforcement (INCLE) funds, to countries that refuse to extradite persons who may face a sentence of life imprisonment without the possibility of parole.

**CRS Products:**

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

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

CRS Report RL32724, *Mexico-U.S. Relations: Issues for the 109th Congress*, by Colleen Cook.

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

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

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

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

## Nicaragua

After more than a year of political tensions among current President Enrique Bolaños, the leftist Sandinista party (Sandinista National Liberation Front, FSLN), and allies of rightist former President Arnaldo Alemán (1997-2002), attention in Nicaragua has shifted to national elections scheduled for November 5, 2006. Currently leading the presidential race, according to recent polls, is Sandinista leader and former President Daniel Ortega (32.1%), whose administration (1985-1991) was marked by a civil war with U.S.-backed “contras,” authoritarian tendencies, and charges of corruption. Since then, Ortega, who lost the last three presidential elections, has served as an opposition leader of the FSLN in the Nicaraguan Assembly. In second place is Eduardo Montealegre (25%), a Harvard-educated banker and former finance minister who split from the conservative Liberal party dominated by Aleman; Montealegre advocates continued political reform. He is regarded by many as the U.S.-favored candidate. In third place is Edmundo Jarquin (19.9%), an economist who worked at the Inter-American Development Bank and left the FSLN in opposition to Ortega and in favor of political reform. He became the presidential candidate of the Sandinista Renewal Movement (MRS) when nominee Herty Lewites died suddenly in July 2006. In fourth place is the PLC candidate, José Rizo (13.7%), an ally of Alemán and critic of President Bolaños.

Under Nicaraguan electoral law, a presidential candidate must win either 40% of valid votes, or 35% of the vote plus at least 5% more votes than the second-place candidate in order to win in a first round. Failing that, a run-off vote between the top two candidates is held. The 90-member National Assembly will also be elected. A non-governmental group providing electoral support expressed concern that more than a third of Nicaraguans could be disenfranchised in the November elections, a number that could affect the outcome of the elections. An audit by a Nicaraguan election observation group, Ethics and Transparency, revealed a high rate of errors on voter registry lists, and only about 28% of voters participated in a drive to verify and correct the lists. Other citizens are having trouble getting voter identification cards needed to vote.<sup>9</sup> As of May 11, 2006, U.S. Agency for International Development (USAID) elections support for Nicaragua totaled \$10.6 million. This is expected to increase to at least \$12 million to expand election support activities. Critics have accused both U.S. officials and Venezuelan President Hugo Chávez of trying to influence the election’s outcome: the U.S. embassy for making critical remarks, such as alluding to Ortega and Rizo as “two corrupt bosses;” Chávez for supporting Ortega by providing fertilizer and oil under favorable terms through Sandinista-dominated groups. U.S. Ambassador Paul Trivelli, asserting his right to express his opinion, rejected calls to stop commenting on the elections.<sup>10</sup>

During the height of tensions, President Bolaños invoked the OAS Inter-American Democratic Charter, and the OAS sent several high-level delegations to help negotiate a solution. Bolaños had been isolated by his anti-corruption efforts against Alemán, who was sentenced to 20 years in prison in 2003 for fraud and

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<sup>9</sup> National Democratic Institute, “Field Report: Nicaragua,” June 1-30, 2006.

<sup>10</sup> Filadelfo Aleman, “U.S. Official: Nicaraguan Voters Face Stark Choices in November Election,” *Associated Press*, April 27, 2006.



money-laundering. Aleman still controls the PLC, and has obtained a conditional release. Ortega announced he was breaking the power-sharing pact between his party and the PLC that had defined national politics since it was negotiated in 1998 and hampered Bolaños' ability to govern. Reforms such as the passage of the 2006 budget, the first-ever tax code, local government transfers, and financial administration reforms then passed. Ortega and Bolaños then agreed to postpone the implementation of constitutional amendments at the root of the tensions. These amendments will transfer significant executive powers to the legislature in February 2007, under the newly elected government. The FSLN and PLC still control many state institutions, however, including the electoral authority.

The National Assembly approved DR-CAFTA in October 2005 and passed intellectual property and other reforms in March 2006. It went into effect on April 1, 2006. Nicaragua is the second poorest nation in the hemisphere, rating only above Haiti. Nicaragua's poverty is widespread and acute. More than two-thirds of the rural population live in poverty. Some social indicators have shown little or no improvement since 1993. DR-CAFTA supporters say the agreement will promote economic growth, create jobs, and increase exports to the United States. In 2005, the Administration signed a five-year, \$175 million agreement with Nicaragua under the Millennium Challenge Account program to promote rural development.

The Bush Administration suspended military assistance to Nicaragua in March 2005, resuming it in October when an agreement was worked out to destroy anti-aircraft missiles the Administration says constitute a possible terrorist threat. The National Assembly suddenly voted on a law authorizing the missiles' destruction on July 13. Sandinista legislators walked out in protest, but PLC and Nicaraguan Liberal Alliance (ALN) legislators passed the bill 46 to 1. Nicaragua is to host a meeting of hemispheric defense chiefs in October 2006.

Resolution of property claims by U.S. citizens and immigration are contentious areas in U.S.-Nicaraguan relations. Nicaragua passed a law, now on hold until 2007, creating a new Property Institute that could lead to the dismissal of property claim lawsuits arising from expropriations carried out by the Sandinista government in the 1980s. A House-passed immigration bill (H.R. 4437) would make unlawful presence in the United States a criminal, rather than a civil offense. A Senate-passed bill (S. 2611) would combine enforcement with guest-worker provisions. Nicaragua joined the Mexican and other Central American governments in criticizing U.S. efforts to increase border enforcement and demanded guest-worker programs. In February 2006, the Department of Homeland Security extended Temporary Protected Status (TPS) for about 4,000 eligible Nicaraguans living in the United States until July 5, 2007. Other issues of concern to Congress include improving respect for human rights, improving civilian control over defense policy, increasing Nicaragua's capacity to combat transnational crimes such as trafficking in people and narcotics, reforming the judicial system and implementing good governance.

**CRS Products:**

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

## Panama

With four successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Antonio Noriega from power. The current President, Martín Torrijos of the Democratic Revolutionary Party (PRD), was elected in May 2004 and inaugurated on September 1, 2004. Torrijos, the son of former populist leader General Omar Torrijos, won a decisive electoral victory with almost 48% of the vote in a four-man race. He succeeded President Mireya Moscoso of the Arnulfist Party (PA), elected in 1999, whose administration was tainted by several high-profile corruption scandals. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly.

The most significant challenges facing the Torrijos government have included dealing with the funding deficits of the country's social security fund; developing plans for the expansion of the Panama Canal; and combating unemployment and poverty. After protests and a protracted strike by construction workers, doctors, and teachers in 2005, the Torrijos government was forced to modify its plans for reforming the social security fund. In April 2006, the government unveiled its ambitious \$5.25 plan to build a third lane and new set of locks that will double the Canal's capacity and allow giant cargo container ships, known as post-Panamax ships, to transit the Canal. Panama's Cabinet approved the expansion plan on June 14, and the Legislative Assembly approved it on July 10, 2006. A referendum on the expansion project is scheduled for October 22, 2006. A poll in early August showed that 54% of Panamanians support the project, 17% oppose it, and almost 29% are undecided.<sup>11</sup>

The United States has close relations with Panama, stemming in large part from the extensive linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current bilateral relationship is characterized by extensive cooperation on counternarcotics efforts, assistance to help Panama assure the security of the Canal and its border with Colombia, and negotiations for a bilateral free trade agreement. The United States provided Panama with \$19 million in total foreign aid in FY2005 and an estimated \$14.4 million in FY2006. The FY2007 request is for \$11.7 million, with \$4 million under the Andean Counterdrug Initiative and \$3.2 million in Development Assistance.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. A ninth round held in Washington ended in mid- January 2006, with

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<sup>11</sup> Economist Intelligence Unit, "Country Report Panama," August 2006.

disagreement on sanitary control systems for U.S. products and animals to enter the Panamanian market. Conclusion of the agreement reportedly has been postponed until January 2007 at the earliest because of the Torrijos government's current attention to the canal expansion referendum.<sup>12</sup> Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law. Since Panama has a service-based economy, it traditionally has imported much more than it exports to the United States. (Also see "U.S.-Panama Free Trade Agreement (FTA)" above.)

**CRS Products:**

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

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

## Peru

Former President Alan Garcia continued his political comeback by being elected President on June 4, 2006, defeating populist Ollanta Humala. The left-of-center Garcia was inaugurated on July 28. Municipal and regional elections will be held on November 19, 2006. Garcia's earlier presidency (1985-1990), characterized by many observers as disastrous, was marked by hyper-inflation and a violent guerrilla insurgency. But with conservative candidate Lourdes Flores edged out of the race in the first round, many observers cast Garcia as "the lesser of two evils" in the second round. Garcia also took advantage of a backlash of sentiment against Venezuela's President Hugo Chávez, who supported Humala. Chavez raised fears among middle- and upper-class Peruvians of expropriations reminiscent of those that occurred under a military dictator praised by both Chávez and Humala. Humala, a retired army officer who led an uprising against then-President Fujimori, espoused nationalist, anti-globalization policies. Many observers were concerned that Humala had authoritarian tendencies. Humala was charged in August with murder in connection to his military actions in the 1990s. His coalition is splintering, leaving Garcia's Apra party with the largest bloc of seats in the legislature.

Despite being barred from holding office until 2010 and being charged with ordering murder and torture, former President Alberto Fujimori (1990-2000) tried to return to Peru to run for president. The Chilean government arrested him in November 2005, released him on bail in May 2006, and is processing Peru's request for his extradition. His alliance won 15 seats in the legislature.

The previous President, Alejandro Toledo, presided over one of the highest economic growth rates in Latin America throughout his term. His popularity was

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<sup>12</sup> Ibid.

extremely low, however, and he could not run for reelection because of term limits. As Toledo's successor, Garcia will be under enormous social pressure to reduce the level of poverty in Peru and widen the distribution of economic growth. Poverty is concentrated in rural and jungle areas, and among the indigenous population. The wealthiest 20% of the population receive 53% of the country's income, while the poorest 20% receive only 3%.<sup>13</sup>

Issues in U.S.-Peruvian relations include trade, drugs, security, and democracy. The United States completed negotiations for a free trade agreement with Peru in December 2005, and an agreement was signed in April 2006. The Peruvian legislature ratified the agreement in June. Some Members of the U.S. Congress have expressed concern over unresolved trade disputes with Peru and whether International Labor Organization standards should be included. Both the House and Senate held mock mark-ups of the U.S.-Peru Trade Promotion Agreement in July 2006. Peru is a major illicit drug-producing and transit country. Its anti-narcotics agency reported that coca planting outstripped eradication in 2004 and that the local drug industry appears to be producing pure cocaine now rather than sending it to Colombia to be processed. Garcia's administration has already begun a dialogue with coca growers and told the Bush administration that Peru would extradite convicted drug traffickers to the United States. A cell of the Shining Path, the extreme left guerrilla group active in the 1980s and early 1990s, rejected the 1992 cease-fire and carried out fatal attacks in coca growing areas. The Administration requested \$98.5 million in FY2007 Andean Counterdrug Initiative funds for Peru, less than one-fourth of the funding Colombia receives. Democracy and human rights initiatives include the provision of \$50 million over five years to support consolidating democratic reform.

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

**CRS Products:**

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

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

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

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

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

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<sup>13</sup> World Bank, *2005 World Development Indicators*, p. 73, March 2005, Washington, DC.

## Venezuela

Under the populist rule of President Hugo Chávez, first elected in 1998, Venezuela has undergone enormous political changes, with a new constitution, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. U.S. officials and human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of speech and press under the Chávez government. Chávez has survived several attempts to oust him from power, including an April 2002 coup attempt and an August 2004 recall referendum, which Chávez survived by a vote of 59% to 41%. The country's next presidential elections are set for December 3, 2006, and there is a strong chance that Chávez will win another six-year term. The government has benefitted from the rise in world oil prices, which has sparked an economic boom. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of his Bolivarian revolution.

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been friction in relations with the Chávez government. In 2005, relations deteriorated markedly, with Venezuela's cancellation of a bilateral military exchange program and its suspension of cooperation with the Drug Enforcement Administration (DEA). U.S. officials have expressed concerns about President Chávez's plans for military arms purchases, his relations with such countries as Cuba and Iran, and his efforts to export his brand of populism to other Latin American countries. A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without taking sides in Venezuela's polarized political conflict.

In the 109<sup>th</sup> Congress, the FY2006 Foreign Operations appropriations measure (P.L. 109-102) provided \$2 million in FY2006 for Economic Support Funds for democracy programs in Venezuela and \$2.2 million in assistance under the Andean Counterdrug Initiative (ACI). For FY2007, the Administration requested \$1 million in ACI funding, \$1.5 million in ESF for democracy initiatives, and \$45,000 for International Military Education and Training. The House-passed FY2007 Foreign Operations appropriation bill, H.R. 5522, would provide no ACI funding for Venezuela, while the Senate Appropriations Committee report to the bill (S.Rept. 109-277) recommends full funding of the Administration's ACI and ESF requests. H.Con.Res. 400 (Burton), approved July 26, 2006, condemns Venezuela's failures to stem the flow of narcotics through its territory and calls for, among other measures, steps to restore cooperation between Venezuela and the DEA. Additional pending legislation in the 109<sup>th</sup> Congress includes the House-passed version of H.R. 2601, which would authorize \$9 million for each of FY2006 and FY2007 for democracy programs in Venezuela and authorize funds for U.S.-government broadcasting to Venezuela; H.Con.Res. 224 (Fortuño), which calls on the Venezuelan government to uphold human rights and civil liberties; H.Con.Res. 328 (Mack), which condemns President Chávez's "anti-democratic actions" and expresses strong U.S. support for democratic forces in Venezuela; and S. 2435 (Lugar), the Energy Diplomacy and Security Act of 2006, which would increase hemispheric cooperation on energy issues.

**CRS Products:**

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