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Latin America and the Caribbean: Legislative Issues in 2001-2002

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Latin America and the Caribbean: Legislative Issues in 2001-2002

Summary

This report provides an overview of the major legislative issues Congress dealt with in 2001 and 2002 relating to Latin America and the Caribbean. Organized by the regions and subregions of the Western Hemisphere, the report provides reference and linkages to other reports covering the issues in more detail. The importance of the region to the United States has been emphasized by President Bush's trips to Mexico in February 2001 and March 2002 and his trips to Peru and El Salvador in March 2002, and by a number of congressional trips to the region.

At the hemispheric level, the major legislative issues included action to implement the Declaration and Action Plan of hemispheric leaders at Summit of the Americas III in Quebec City, Canada, in April 2001. This included action to conclude negotiation of a Free Trade Area of the Americas (FTAA) by January 2005, to promote democracy throughout the hemisphere, to strengthen multilateral mechanisms for counter-narcotics activity, and to further sustainable development and environmental protection in the region. The hemispheric response to the September 2001 terrorist attacks on the United States is also included.

With neighbor Mexico in North America, the major bilateral issues for the United States have been related to trade, drug trafficking, and migration, as President George W. Bush sought to advance friendly relations with President Vicente Fox, the first President of Mexico from an opposition party in over 70 years.

With regard to Central America, the major issues were disaster relief and reconstruction, the proposed Central America-U.S. free trade agreement, earthquakes in El Salvador, implementation of the peace accords in Guatemala, and the new government in Nicaragua. With regard to the Caribbean, President Bush announced a "Third Border Initiative" to strengthen the development of the smaller Caribbean countries, and the President and Congress have been seeking ways to advance democracy in Cuba and Haiti.

In the Andean region, the major issues were President Bush's requests for new assistance and additional authorities under the Andean Regional Initiative for Colombia and regional neighbors, the extension of the Andean Trade Preference Act (ATPA), dealing with the new Toledo government in Peru, and seeking ways to engage the "maverick" government in Venezuela following the ouster and return of President Chavez.

In the region encompassing Brazil and the Southern Cone countries of South America, the major issues were managing trade and economic issues with Brazil as the country selected a new president, dealing with a serious economic crisis in Argentina, and completing negotiations for a U.S.-Chile Free Trade Agreement with Chile.

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I. Hemispheric Issues

Summit of the Americas III

Summit of the Americas III was held in Quebec City, Canada, on April 20-22, 2001, with 34 democratically elected Presidents and Prime Ministers from the Western Hemisphere in attendance, including George W. Bush from the United States. The hemispheric leaders dealt with three major themes: (1) Strengthening Democracy, where they agreed to a democracy clause that specified that democratic government was an essential condition for participation in the summit process; (2) Creating Prosperity, where they agreed to advance toward the conclusion of the agreement on the Free Trade Area of the Americas (FTAA) by January 2005; and (3) Realizing Human Potential, where they agreed to initiatives to promote education, health, and greater equity for women, youth, and indigenous peoples.

For more information, see CRS Report RL30936, *Summit of the Americas III, Quebec City, Canada, April 20-22, 2001: Background, Objectives, and Results*, by K. Larry Storrs and M. Angeles Villarreal.

Free Trade Area of the Americas (FTAA)

The proposed Free Trade Area of the Americas (FTAA) is a regional trade agreement that would include 34 nations of the Western Hemisphere. Ideally, it would promote economic integration by creating a comprehensive (presumably WTO-plus) framework for reducing tariff and nontariff barriers to trade and investment. The FTAA held center stage in discussions at the Third Summit of the Americas that convened in Quebec on April 20-22, 2001, and despite protests from various interest groups, all countries except Venezuela signed the Declaration of Quebec City. The first draft text of the FTAA was adopted, renewing the

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[1] For information on legislative issues in 2000, see CRS Report RS20474, *Latin America: Overview of Legislative Issues for Congress in 2000*, coordinated by Mark P. Sullivan. The current report, organized by regions, is entitled *Latin America and the Caribbean* to include the English-speaking countries in the Caribbean area. The term "Latin America" is a cultural rather than a geographical term, and includes all countries where Latin-based languages are spoken. "Latin America" includes Mexico in North America and most countries in Central America and South America. It also includes Cuba and the Dominican Republic in the Caribbean where Spanish is spoken, Haiti in the Caribbean where French is spoken, and Brazil in South America where Portuguese is spoken.

commitment to complete the FTAA by January 2005, with the agreement's entry into force to occur no later than the end of the same year.

The Seventh Trade Ministerial occurred on November 1, 2002 in Quito, Ecuador. Five major achievements stand out: (1) Brazil and the United States became co-chairs of the Trade Negotiations Committee (TNC), which will guide the overall negotiation process for the final phase scheduled to be completed by January 2005; (2) a new Hemisphere Cooperation Program (HCP) was established to develop resources to help small countries "strengthen their capacity to implement and participate fully in the FTAA;" (3) a second draft of the FTAA agreement was released; (4) a time line was established for the critical market access negotiations; and (5) the final rotation of chairs for the various negotiating groups was completed. The TNC is scheduled to meet three times in 2003, with the next meeting set for April 2003 in Trinidad and Tobago. At that time, negotiating group meeting schedules will be determined for the coming year. Milestones have been set by the TNC for developing negotiating group revised drafts of the agreements. The eighth FTAA ministerial meeting will convene in Miami, Florida sometime in the fourth quarter of 2003, and the ninth is scheduled to take place in Brazil in the following year.

Special instructions were provided in the areas of market access at the Quito Ministerial. Market access negotiations involve five separate negotiating groups: market access, agriculture, services, investment, and government procurement. Specific instructions were given for the negotiating groups on agriculture and market access to coordinate their efforts in developing guidelines and chapter revisions. Firms dates have been set for market access negotiations, with final revised offers due by July 15, 2003. It was also formally recognized that discussions on agriculture, critical and sensitive for all negotiating members, will have to be done with an eye on parallel discussions being undertaken by the WTO. The WTO deadline for agriculture negotiations is also set for January 2005. Most of the second draft text of the FTAA agreement contains bracketed text, denoting the general and still evolving nature of the agreement.

Much attention is focused on how Brazil and the United States will undertake their duties as co-Chairs of the TNC, both as leaders of the negotiating process and as the two largest economies with significant differences of opinion on many issues, including difficult topics such as treatment of steel and agricultural products. In neither country is there a consensus on the FTAA, and despite some statements by public sector officials in support of the agreement, private sector discussions still reflect an ongoing tension between the two countries. Additional complications to completing an FTAA include challenges to economic and social progress in Latin America, such as the financial crisis in Argentina, the recent large IMF package for Brazil, and deteriorating political conditions in Venezuela and Colombia. Setbacks in these areas raise the potential for eroding stability and the spirit of cooperation that launched the FTAA negotiations in 1998. The U.S.-Chile bilateral agreement and a new U.S. overture toward a U.S.-Central American free trade agreement may also raise questions in Latin America over the U.S. commitment to a regional approach to trade liberalization in the Western Hemisphere.

For more information, see CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck; CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn; and CRS Report RL30935, *Agricultural Trade in the Free Trade Area of the Americas*, by Remy Jurenas.

Democracy in Latin America and the Caribbean

Latin America has made enormous strides in recent years in the development of democracy, with all countries but Cuba led by democratically-elected heads of state. Nonetheless, many government institutions in the region have proven ill-equipped to deal with challenges to their further development, such as strong, often autocratic presidents; violent guerrilla conflicts; militaries still not comfortable with civilian rule; and narcotics trafficking and related crime and corruption.

The Organization of American States (OAS) has also made progress in efforts to promote democracy in the hemisphere by establishing procedures for collective action when democracy is interrupted, beginning with the Santiago Commitment to Democracy in 1991, and following most recently with the adoption of the Inter-American Democratic Charter in Lima, Peru, on September 11, 2001, the same day as the terrorist attacks on the United States. Since then, the Inter-American Democracy Charter has been used to some extent to deal with the situations in Venezuela and Haiti.

Regarding Venezuela, on April 13, 2002, the OAS Permanent Council, with support from the United States, condemned the alteration of constitutional order in Venezuela when President Hugo Chavez was temporarily ousted. The Council sent an OAS Mission headed by OAS Secretary General Cesar Gaviria to Venezuela to gather facts and undertake good offices, and it convoked a special session of the General Assembly to deal with the situation in accordance with the Inter-American Democratic Charter. In August 2002, the Council reiterated the Organization's readiness to offer support, and in September 2002 a joint mission of the OAS, the United Nations Development Programme, and the Carter Center sought to facilitate dialogue between the government and the opposition. Secretary General Gaviria has continued to monitor the situation and to encourage talks between the two sides.

Regarding Haiti, the OAS passed two resolutions in 2002 encouraging the democratic process in Haiti. Resolution 806, adopted in January, established an OAS Mission in Haiti and called on the Haitian government to "restore a climate of security" necessary for resuming negotiations with the opposition and holding free and fair elections. On September 4, invoking the Inter-American Democratic Charter, the OAS passed Resolution 822, which strengthened the mission, supported normalization of Haiti's relations with international financial institutions, freed the government to hold elections in 2003 without a prior agreement with the opposition, and called on Haiti to comply fully with previous OAS resolutions and government commitments.

For more information, see CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections*, by Mark P. Sullivan, as well as references cited above on Summit of the Americas III and cited below on Haiti, Peru, and Venezuela.

Hemispheric Response to September 2001 Terrorist Attacks

Latin American nations strongly condemned the September 11, 2001 terrorist attacks on New York and Washington, D.C. and took action through the Organization of American States (OAS) and the Rio Treaty to strengthen hemispheric cooperation against terrorism. The OAS, which happened to be meeting in Peru at the time, swiftly condemned the attacks, reiterated the need to strengthen hemispheric cooperation to combat terrorism, and expressed full solidarity with the United States. At a special session on September 19, 2001, OAS members invoked the 1947 Inter-American Treaty of Reciprocal Assistance, also known as the Rio Treaty, which obligates signatories to the treaty to come to one another's defense in case of outside attack. Another resolution approved on September 21, 2001, called on Rio Treaty signatories to "use all legally available measures to pursue, capture, extradite, and punish those individuals" involved in the attacks and to "render additional assistance and support to the United States, as appropriate, to address the September 11 attacks, and also to prevent future terrorist acts."

In another resolution, the OAS called on the Inter-American Committee on Terrorism (CICTE) to identify urgent actions aimed at strengthening inter-American cooperation in order to combat and eliminate terrorism in the hemisphere. The CICTE was reinvigorated in the aftermath of September 11, and has cooperated on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence and information.

On June 3, 2002, OAS members meeting in Barbados for the OAS General Assembly signed a newly completed Inter-American Convention Against Terrorism. Signing the treaty for the United States, Secretary of State Powell said that the OAS had "produced the first new international treaty since September 11 targeted at improving our ability to combat terrorism."[2] Secretary Powell also noted that the OAS should continue its work of reviewing hemispheric security policy, with the goal of developing an inter-American declaration that would focus on cooperative security efforts and ways to identify, prevent, and remedy potential threats.

The Convention, among other measures, would improve regional cooperation against terrorism, commit parties to sign and ratify U.N. anti-terrorism instruments, commit parties to take actions against the financing of terrorism, and deny safe haven to suspected terrorists.[3] President Bush submitted the convention to the Senate on November 12, 2002, for its advice and consent, and the treaty was referred to the Senate Foreign Relations Committee. An OAS meeting to discuss the scope of the Convention and the anti-terrorism approach for the hemisphere is scheduled for January 22-24, 2003, in El Salvador.

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[2] U.S. Department of State, International Information Programs, "Transcript: Powell Stresses Security at OAS General Assembly," *Washington File*, June 3, 2002.

[3] U.S. Department of State, International Information Programs, "Fact Sheet: Inter-American Convention Against Terrorism," *Washington File*, June 3, 2002.

For background information, see CRS Report RS21049, *Latin America: Terrorism Issues,* by Mark P. Sullivan; and "The Americas' Response to Terrorism," on the OAS web site at [http://www.oas.org/OASpage/crisis/crisis_en.htm].

Drug Certification Process

From the mid-1980s to the beginning of FY2001, Congress required the President to certify that drug producing and drug-transit countries were cooperating fully with the United States in counter-narcotics efforts in order to avoid a series of sanctions, including suspension of U.S. foreign assistance and financing, and opposition to loans in the multilateral development banks. Congress closely monitored these certification decisions and submitted resolutions of disapproval in some years. Under the legislation, the sanctions would also apply if Congress, within 30 calendar days, passed a joint resolution of disapproval to overturn the presidential certification, although any resolution would be subject to veto.

Over the years, spokesmen from many countries complained about the unilateral and non-cooperative nature of the drug certification requirements, and urged the United States to end the process and to rely upon various multilateral methods of evaluation developed recently.[4] Mexico, often the focus of congressional debate, particularly expressed dissatisfaction with the process, even though it was regularly certified as being a fully cooperative country. Following the July 2000 election of opposition candidate Vicente Fox as President of Mexico, a number of legislative measures were introduced to modify the drug certification requirements, and these initiatives were mentioned when President Bush met with President Fox in Mexico in mid-February 2001, and in the United States in early September 2001.

In 2001, the Senate Foreign Relations Committee reported out two measures (S. 219 and S. 1401) that would have modified the certification requirements for three years. By the end of the year, the only measure that passed was the Foreign Operations Appropriations for FY2002 (H.R. 2506/P.L. 107-115) that waived the drug certification requirements for FY2002 only, but required the President, with some waiver authority, to designate and withhold assistance from the worst offending countries that had failed demonstrably to adhere to international counter-narcotics agreements.

In 2002, both houses passed the Foreign Relations Authorization for FY2003 (H.R. 1646/P.L. 107-228) that permanently modified the drug certification requirements. Section 706 requires the President, with some waiver authority, to

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[4] One of the multilateral mechanisms most frequently mentioned is the Multilateral Evaluation Mechanism (MEM) developed by the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). Under the MEM, all hemispheric countries are evaluated on the basis of 61 common criteria. Representatives of each country evaluate all countries except their own. Hemispheric leaders at Summit of the Americas III noted with satisfaction the first set of evaluations and recommendations under the MEM procedures and called for strengthening the MEM process and for strengthening hemispheric counter-narcotics cooperation. In late January 2002, CICAD reported that hemispheric countries had made significant progress in implementing CICAD's initial recommendations.

designate and withhold assistance from the worst offending countries that have "failed demonstrably" to make substantial counter-narcotics efforts. At the same time, it permits the President to use his discretion to withhold assistance and apply previous sanctions against countries that are failing to cooperate fully with the United States in counter-narcotics efforts whenever he determines that such actions would be helpful.

For more information, see CRS Report RL30892, *Drug Certification Requirements and Congressional Modifications in 2001-2002,* by K. Larry Storrs.

Sustainable Development and Environmental Protection

Roughly 50% of the world's tropical forests, 40% of its biological diversity, and extensive freshwater and marine resources are located in the Latin American and Caribbean region. The U.S. Agency for International Development (USAID) has devoted about $65 million per year to environment programs in the region in recent years, supporting sustainable forestry, improved hillside agriculture, conservation of biological diversity, prevention of industrial pollution, and better water management. In Brazil, for example, USAID, working with other bilateral and multilateral donors and non-governmental organizations (NGOs), supports programs to conserve the Brazilian rainforest. The programs' goals are to suppress fires, and to develop and train leaders for sustainable development activities that will reduce the extensive burning/clearing of tropical forests in Brazil's vast Amazon region which allegedly contributes to the loss of biological diversity and increased global warming.

For further information, see CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States,* by K. Larry Storrs; CRS Report 97-291, *NAFTA: Related Environmental Issues and Initiatives*, by Mary E. Tiemann; and CRS Electronic Briefing Book on "Global Climate Change" on the CRS web site, [http://www.congress.gov/brbk/html/ebgcc1.shtml] as well as references to Summit of the Americas III above. See also the explanation of USAID's environment programs in Latin America and the Caribbean at USAID's web site [http://www.usaid.gov/environment/links.html#lac_usaid].

II. Mexico

Fox Administration in Mexico

Vicente Fox of the conservative Alliance for Change was inaugurated as President of Mexico on December 1, 2000, for a 6-year term, promising to promote free market policies, to strengthen democracy and the rule of law, to fight corruption and crime, and to end the conflictive situation in the state of Chiapas. Fox's inauguration ended 71 years of presidential control by the long dominant party in Mexico. With no party having a majority in Congress, President Fox has been unable to advance many aspects of his program. Congress passed a modified version of the proposed indigenous rights legislation, prompting the Zapatista rebels in the state of Chiapas to withdraw from dialogue with the government. Congress also passed a patchwork version of the tax and fiscal reforms, significantly reducing the anticipated resources to be devoted to health and education. With legislative elections approaching in July 2003 and with each of the major parties having selected new party leaders in February and March 2002, observers doubt that Fox will be able to obtain approval of major legislation, including a proposed energy reform that would permit greater private participation in the hydrocarbon and electricity sectors. The President's relations with the long dominant Institutional Revolutionary Party (PRI) have been strained to some extent by official investigations of the alleged illegal channeling of funds from the state oil monopoly to the PRI in the 2000 election and of other corrupt practices and human rights abuses in the past.

Following economic growth averaging over 5% in 1996-1999 and growth of 7% in 2000, President Fox had to confront the economic slowdown in the United States, lower oil prices, and the fallout from the September 2001 terrorist attacks in the first years of his presidency. With an economy in which more than 80% of Mexico's exports go to the United States, Mexico's economy contracted 0.8% in 2001 and is projected to grow modestly (1.4%) in 2002, dependent upon recovery in the United States.[5]

President Fox has indicated that Mexico will pursue a more activist and diversified foreign policy, with greater involvement in UN activities, and stronger ties to Latin America and Europe. He has also indicated that it will be more aggressive in defending the interests of Mexicans living in foreign countries, particularly those in the United States. On various occasions, President Fox has indicated that he expects to have warm and friendly relations with the United States, and he has called for greater cooperation under NAFTA and for a bilateral migration agreement that would more adequately deal with safety and labor needs.

Congress has closely followed political and economic developments in Mexico and is interested in President Fox's efforts to advance democracy, promote free market reforms, and resolve the conflictive situation in Chiapas because of the effects of these developments on bilateral relations and because of the threat of possible instability on the southern border.

For more information, see CRS Issue Brief IB10070, *Mexico-U.S. Relations: Issues for the 107th Congress*, by K. Larry Storrs.

Mexico-U.S. Bilateral Issues

The United States and Mexico have a special relationship under the North American Free Trade Agreement (NAFTA), which removes trade and investment barriers between the countries. The friendly relationship was strengthened in 2001 by President Bush's meetings with President Fox in mid-February in Mexico, in mid-April in Canada, and in early May, early September, and early October in the United States. President Bush traveled to Monterrey, Mexico on March 22, 2002, to attend the International Conference on Financing for Development and to meet with President Fox to discuss key areas in the bilateral relationship.

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[5] "Mexico: Economic Forecast," *Economist Intelligence Unit*, February 12, 2002.

In the bilateral meeting, Presidents Bush and Fox announced a number of initiatives, including (1) a U.S.-Mexico Border Partnership Action Plan with greater cooperation and technological enhancements at the border, (2) a "Partnership for Prosperity" Action Plan with public-private initiatives to promote domestic and foreign investment in less developed areas of Mexico with high migration rates, (3) agreement to seek legislative support to expand the mandate of the North American Development Bank (NADBank) and the Border Environmental Cooperation Commission (BECC) to finance environmental infrastructure along the border, and (4) agreement to continue the cabinet-level talks to achieve safe, legal, and orderly migration flows between the countries.

During the cabinet-level Binational Commission meetings in Mexico City, on November 25-26, 2002, Secretary of State Powell and Foreign Secretary Castaneda reaffirmed the importance of the relationship between the countries and indicated the intention to continue talks toward a migration agreement. They also announced other agreements, including reforms of the NADBank and BEEC, an amendment to a tax treaty that will reduce taxes on cross-border dividend payments, and a $25 million fund to facilitate and strengthen border crossing controls. Mexico indicated concern with the impending reduction of tariffs on sensitive agricultural products, and the United States indicated concern about Mexico's continuing failure to provide water in South Texas as required by the 1944 treaty. On November 27, 2002, with safety inspectors and procedures in place, the Administration announced that it would begin the process that will open U.S. highways to Mexican truckers and buses.

Congress has acted on various measures relating to border security and U.S.-Mexico relations. In May 2002, Congress passed and the President signed the Enhanced Border Security and Visa Entry Reform Act of 2002 (H.R. 3525/P.L. 107-173) to increase INS investigators and inspectors, require interagency information sharing, mandate machine-readable visas containing biometric identifiers, strengthen terrorist lookout systems, and provide better monitoring of foreign students. In September 2002, Congress passed and the President signed the Foreign Relations Authorization for FY2003 (H.R. 1646/P.L. 107-228) that permanently modified the drug certification requirements and requires the President, with some waiver authority, to designate and withhold assistance from the worst offending countries that have "failed demonstrably" to make substantial counter-narcotics efforts. (See discussion above on Drug Certification Process). In November 2002, Congress finally passed and the President signed the Homeland Security Act of 2002 (H.R. 5005/P.L. 107-296), which incorporated the INS/Border Patrol and Customs and other agencies into the new Department of Homeland Security.

For more information on congressional action on bilateral issues, including trade, drug trafficking, and migration issues, see CRS Issue Brief IB10070, *Mexico-U.S. Relations: Issues for the 107th Congress*; and CRS Report RL31412, *Mexico's Counter-Narcotics Efforts under Fox, December 2000 to April 2002*, by K. Larry Storrs; as well as CRS Report RL30852, *Immigration of Agricultural Guest Workers: Policy, Trends and Legislative Issues*, by Ruth Ellen Wasem and Geoffrey K. Collver; the section on Border Security in the CRS Electronic Briefing book on Terrorism, by Lisa Seghetti and William Krouse, which is available online at [http://www.congress.gov/brbk/html/ebter124.html], and the section on NAFTA in the CRS Electronic Briefing Book on *Trade*, by J.F. Hornbeck, also available online [http://www.congress.gov/brbk/html/ebtra42.html].

III. Central America and the Caribbean

Disaster Relief and Reconstruction

Following the destruction caused by Hurricane George in the Caribbean and Hurricane Mitch in Central America in late 1998, the United States responded with $312 million in emergency relief, and an additional $621 million in grant assistance through AID and other agencies, funded through the 1999 Emergency Supplemental Appropriations Act. Donors and country officials pledged to be better prepared for disasters, and to "build back better" in reconstruction efforts, including work to reduce poor conservation and land use practices that often contributed to the severity of the disaster damage in the countries. Congress was interested in oversight over this major project in Central America and the Caribbean, with expenditure of the designated funding continuing until the end of 2001. As evidence of continuing concern, the Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provided in Section 582 that in addition to the $100 million in assistance for El Salvador, not less than $35 million of the funds managed by the United States Agency for International Development should be made available for mitigation of the drought and rural food shortages elsewhere in Central America.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's web site [http://hurricane.info.usaid.gov/]. Also see CRS Report RS21103, *Honduras: Political and Economic Situation and U.S. Relations*, by Mark P. Sullivan.

Central America-U.S. Free Trade Agreement

On January 16, 2002, President Bush announced that the United States would explore a free trade agreement with the five nations composing the Central American Common Market (CACM) – Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The first round of negotiations is scheduled to begin January 21, 2003 in San Jose, Costa Rica, and both sides have expressed optimism that an agreement can be concluded by year end. The Central America Free Trade Agreement, referred to as CAFTA, presents a new challenge in bilateral negotiations because the five republics must first negotiate among themselves in order to bring a single position on any given issue to the negotiating table with the United States.

Integration in Central America has been a historically important theme for the region, although in practice it has experienced setbacks along the way since the CACM was created in 1960. Nonetheless, these five nations have banded together in realization that it is in their best interest to work collectively in negotiating trade agreements and that the United States, as their largest export market, is the logical priority. Although the Central American countries currently qualify as beneficiary countries under the Caribbean Basin Initiative, an FTA with the United States would potentially allow for further reduction in trade barriers, make permanent benefits provisionally guaranteed in legislation requiring periodic reauthorization, and provide an environment even more conducive for U.S. foreign investment.

For the United States, proponents of the agreement see it supporting U.S. exports and providing less expensive imports, advancing the movement toward a Free Trade Area of the Americas (FTAA), and solidifying deeper regional political and economic reforms that strengthen democracy and promote stability. Given the Central American countries' efforts to conclude FTAs with other countries, including the Canada-Central America FTA that went into force on November 1, 2002, U.S. businesses working in the isthmus see a U.S. FTA as an important step toward rationalizing trade rules in the region. FTAs have also been a way for the United States to encourage developing countries to make progress in areas such as intellectual property rights and services, where the United States has substantial economic strengths.

For more information online, see the State Department's web site at [http://usinfo.state.gov/regional/ar/trade/02082302.htm].

Earthquakes in El Salvador

El Salvador experienced several major earthquakes in January and February 2001 that killed over one thousand people, and displaced nearly two million people. The United States and other countries have responded with emergency and relief assistance. U.S. emergency assistance totaled nearly $10 million by mid-February 2001, with $6.1 million provided in response to the mid-January earthquake, and $3.3 million in response to the mid-February earthquake. When President Bush met with Salvadoran President Francisco Flores in early March 2001, he said that the United States had provided over $16 million in emergency relief assistance, and he pledged to provide $52 million in reconstruction assistance in FY2001, and an equal or greater amount in FY2002. He also notified the Salvadoran President of the U.S. Attorney General's decision to grant Temporary Protected Status (TPS) to Salvadoran immigrants in the United States for a period of 18 months. The Salvadoran government had expressed concern about the additional strain that returned immigrants would place on already stretched resources. The Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provides in Section 582 that not less than $100 million in rehabilitation and reconstruction assistance will be provided to El Salvador.

When President Bush visited El Salvador on March 24, 2002, he discussed with President Flores the country's efforts to strengthen democracy, modernize the economy, and deal with earthquake reconstruction.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's updates on the earthquake in El Salvador, available online at [http://www.usaid.gov/sv/earthq/main.htm].

Guatemala and the Peace Accords

Guatemala is beginning the sixth year of implementation of the historic peace accords signed in December 1996, which called for programs to transform Guatemala into a more participatory and equitable society. The United States is the single largest bilateral donor in this area, having offered $260 million in support over the four-year period from 1997 to 2000. Additional support was pledged through FY2003, although multilateral institutions are making larger contributions. The Bush Administration allocated $27.6 million in development assistance and $10 million in Economic Support Funds in FY2002 assistance and is requesting $26.7 million in Development Assistance and $7.5 million in Economic Support Funds for FY2003, largely to support the peace process. U.S. assistance helps the Guatemalan government to implement its social reform program, modernize the justice sector, carry out land bank and titling programs, and encourage participation from marginal communities.

The Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provides in Section 577 for U.S. agencies to collect, expeditiously declassify, and to make public any information on the murders of U.S. citizens in Guatemala since December 1999. The section in the Act on International Military Education and Training (IMET) stipulates that funds for Guatemala may only be provided for expanded IMET, or training for civilians, and only through regular notification procedures to the Committees on Appropriations. The House version (H.R. 5410) of the Foreign Operations Appropriations Act for FY2003 would limit IMET assistance to Guatemala to expanded IMET under notification procedures, while report language in the Senate version of the bill (S. 2779) expresses concern about unsolved murders of Americans in Guatemala. In the past year, the State Department and human rights groups have expressed concern over increased violations of human rights in Guatemala.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's reports on Guatemala [http://www.usaid.gov/pubs/bj2001/lac/gt/].

Nicaragua

Ongoing congressional concerns regarding Nicaragua include resolution of property claims, U.S. assistance to Nicaragua, human rights conditions, and democratization issues such as elections and anti-corruption efforts. Resolution of property claims by U.S. citizens regarding expropriations carried out by the Sandinista government in the 1980s remains the most contentious area in U.S.-Nicaraguan relations. After a 3-year freeze in property-related lawsuits, new property tribunals began hearing cases in July 2000. According to the State Department's most recent Human Rights Report (released March 4, 2002), 317 cases had been filed, 184 passed through the mediation process, and 40 cases (22%) were settled as of July 2001. Those cases not mediated move on to arbitration, or are returned to district courts for expedited trials. U.S. technical assistance is aimed at improving the mechanism for settling property disputes.

The Bush Administration requested $35.9 million for Nicaragua in FY2002 and $37.6 million in FY2003, including about $10 million in food aid for each year. U.S. law prohibits aid to countries that have confiscated assets of U.S. citizens, but U.S. administrations have granted annual waivers to allow Nicaragua to receive aid. Nicaragua is the second poorest nation in the hemisphere. Its population of 5 million has a per capita income of only $430 per year. About half the population lives in poverty, with 17% living in extreme poverty. The fall in world coffee prices has left many growers and pickers without money to buy food or crop seeds. Nicaraguans have begun dying of malnutrition, according to Nicaraguan human rights officials, who predicted that more Nicaraguans would starve to death unless immediate food aid was made available.[6] USAID responded by providing $2 million additional funding for its Food for Work program, expanding the emergency program to provide jobs and food to 15,000 heads of families through November 2003. USAID also created a $5 million loan fund to stimulate private investment to increase production, exports, and jobs.

The government of Nicaragua "generally respected many of its citizens' human rights,"according to the State Department Human Rights Report, but serious problems remain, such as extrajudicial killings by security forces. A certain amount of impunity persists, although the government has effectively punished some human rights offenders.

In the first session of the 107th Congress, an additional concern was the fairness and outcome of national elections held on November 4, 2001. The top two presidential candidates were former President Daniel Ortega of the Sandinista National Liberation Front (FSLN) and Enrique Bolaños of the incumbent Liberal Constitutional party. Bush Administration officials made it clear they were concerned about an Ortega victory because from 1979 to1990, Ortega headed Sandinista governments that were socialist and pro-Soviet and fought a civil war against U.S.-backed "contras." Bolaños, a businessman whose property was confiscated during the Sandinista era, won the election, which was widely regarded as free and fair, and he was inaugurated January 10, 2002.

Under Nicaraguan law, Ortega retains a seat in the National Assembly as the runner-up presidential candidate. Also in the legislature is former President Arnoldo Aleman, who negotiated an automatic seat for outgoing presidents – and therefore for himself – at his term's end. As perceptions of corruption in the Aleman Administration rose during the campaign, Bolaños, his former Vice President, distanced himself from the then-President, denouncing the January 2000 agreement between Aleman and Ortega on constitutional changes that have been criticized as helping the latter two maintain a hold on power.

Following through on his pledge to attack corruption, Bolaños' administration filed charges in April 2002 against former President Aleman and seven other officials for alleged misuse of $1.3 million in state funds and in August for laundering of $10 million. Nicaragua's Attorney General has accused Aleman of laundering and misusing about $96 million in government funds while he was in office, an amount

[6] "Nicaragua Fears More Starvation from Coffee Crisis," Reuters, August 28, 2002.

equal to 4% of Nicaragua's GDP, or an entire year's national health budget.[7] Aleman's seat in the legislature brings with it immunity from prosecution, which he has said he will not voluntarily relinquish. President Bolaños publicly called on the legislature to strip Aleman of his parliamentary immunity. In September, Aleman was removed as head of the Assembly but still wielded much power within the Liberal party. An attempt in November to strip him of his immunity failed.

Aleman, in apparent retaliation for the corruption campaign against him, used his position while leader of the legislature, with control of a narrow majority, to paralyze the government for much of 2002. He blocked congressional approval of the budget and tax reforms needed to qualify for an IMF loan the Bolaños Administration had hoped to secure this summer. Some analysts fear this could lead to Nicaragua defaulting on its foreign debt. Aleman also blocked an earlier attempt to lift his immunity.

The Bush Administration called Bolaños' anti-corruption drive "the most important fight in Nicaragua today and one that has the full support of the U.S. government." Assistant Secretary Reich visited Nicaragua in August, signing an agreement to provide an additional $1.8 million in U.S. assistance, $800,000 of which supports current anti-corruption efforts. Then-U.S. Ambassador Oliver Garza reportedly said the United States was investigating Aleman's international accounts and money flows and could charge Aleman with money laundering in U.S. courts.[8]

Sandinista party leader Daniel Ortega joined Bolaños' call for removal of Aleman's immunity, though he resisted earlier efforts to have his own immunity lifted. Zoilamerica Narvaez, Ortega's stepdaughter, first charged in 1998 that Ortega raped her repeatedly over several years, beginning when she was 11 years old, about the time the Sandinistas took power in 1979. The case was dropped because the legislature refused to form a committee to decide whether to strip Ortega of his parliamentary immunity. Ortega gave up his immunity in 2001, after the statute of limitations had expired, and the case was dismissed on that basis. After an appeals court upheld that decision, Narvaez filed an appeal before the Supreme Court on both rulings. In the wake of Bolaños' attack against corruption, Narvaez asked again in 2002 that the government investigate her charges that the former President raped her. In a separate process, the Inter-American Commission on Human Rights found that the Nicaraguan government had denied Narvaez her right to justice.

Bolaños and the other Central American Presidents met with President Bush in March 2002 to discuss establishing a Central American-U.S. free trade agreement. Bolaños made a private working visit to Washington in early April 2002, meeting with Assistant Secretary of State for Western Hemisphere Affairs Otto Reich and Inter-American Development Bank and International Monetary Fund (IMF) officials.

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[7] "Waiting for the Fat Man to Sing - A Corruption Case Against Nicaragua's Former President," *The Economist*, August 24, 2002.

[8] Rupert Widdicombe, "Ex-President of Nicaragua Could be Tried in U.S.". The Guardian, August 17, 2002. Also, "U.S. Government Provides Additional $1.7 million to Nicaragua," at [http://www.usaid.org.ni/projects.htm].

Bolaños outlined education and health as his administration's top priorities for his poverty-stricken nation, one of the poorest in the hemisphere.

Reich also urged Nicaragua and Honduras to resolve their border dispute, which began in 1999 when Honduras ratified a sea border treaty with Colombia that ignored Nicaraguan claims to over 50,000 square miles of Caribbean territorial waters. Honduran President Ricardo Maduro said the two countries could not find an international mediator to help resolve the dispute.

For further information, see CRS Report RS20983, *Nicaragua: Country Brief*, by Maureen Taft-Morales.

Caribbean "Third Border Initiative"

At the 2001 Summit of the Americas in Quebec, Canada, President Bush announced the "Third Border Initiative" for the Caribbean region. According to the Administration, the initiative aims to deepen U.S. commitment to fighting the spread of HIV/AIDS, to respond to natural disasters, and to make sure the benefits of globalization are felt in even the smallest economies, particularly those in the Caribbean, which can be seen as a "third border" of the United States. The initiatives in the "Third Border Initiative" include $20 million in FY2002 HIV/AIDS funding, establishment of a teacher training "Center for Excellence," increased funding for Disaster Preparedness and Mitigation, assistance to improve regional civil aviation oversight, and additional funding for anti-corruption and anti-money laundering law enforcement efforts.

The AIDS epidemic in the Caribbean – where the infection rates in several countries are among the highest outside of sub-Saharan Africa – has already begun to have negative consequences for economic and social development in the region. The countries in the Caribbean with the highest infection rates are Haiti and the Bahamas, with adult infection rates over 4%; Guyana, with an infection rate of about 3%; and the Dominican Republic and Belize, with infection rates over 2%. The U.S. Agency for International Development (USAID) has been the main U.S. agency providing support for a variety of regional and bilateral programs to combat AIDS throughout Latin America and the Caribbean. Overall USAID funding to combat HIV/AIDS in the Latin America and Caribbean region rose from $15.8 million in FY2000 to $33.2 million in FY2002. For these two years, funding for Caribbean nations rose from $5.8 million in FY2000 to $15.8 million in FY2002. In June 2002, President Bush announced a new program targeted at reducing mother-to-child transmission of HIV/AIDS in the Caribbean and Africa. In the Caribbean, the new program will include bilateral efforts in Guyana and Haiti and regional efforts through the Caribbean Regional Epidemiological Center.[9]

In addition to USAID, the Department of Health and Human Services (HHS) has a number of programs to help combat HIV/AIDS in developing countries. In

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[9] U.S. Department of State, International Information Programs, "Transcript: Bush Announces New HIV/AIDS Program for Africa, Caribbean," *Washington File,* June 19, 2002.

April 2002, HHS Secretary Tommy Thompson signed a "Pan-Caribbean Partnership Agreement" in Guyana intended to expand the reach of HHS cooperative programs for the Caribbean.[10]

For more information on the "Third Border Initiative," see the U.S. Department of State, Washington File, Fact Sheet: Caribbean "Third Border Initiative" on the State Department Web site [http://usinfo.state.gov/regional/ar/summit/factb.htm]. Also see CRS Report RS21166, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

Cuba

Cuba, a hard-line communist state with a poor record on human rights, has been led by Fidel Castro since the 1959 Cuban Revolution. Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. These were made stronger with the Cuban Democracy Act (CDA) in 1992 and the Cuban Liberty and Democratic Solidarity Act in 1996, often referred to as the Helms/Burton legislation. 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.

Under U.S. sanctions, commercial medical and food exports to Cuba are allowed but with numerous restrictions and licensing requirements. The 106th Congress passed the Trade Sanctions Reform and Export Enhancement Act of 2000 (P.L. 106-387, Title IX) that allows for one-year export licenses for shipping food and medicine to Cuba, although no U.S. government assistance, foreign assistance, export assistance, credits, or credit guarantees are available to finance such exports. The law, furthermore, denies exporters access to U.S. private commercial financing or credit; all transactions must be conducted in cash in advance or with financing from third countries. Since November 2001, Cuba has purchased over $100 million in agricultural products from U.S. companies; in addition, a September 2002 U.S. food and agribusiness exhibition in Havana reportedly yielded almost $100 in additional contracts for U.S. exports to Cuba.[11]

Although President Bush has announced stronger measures to enforce the embargo, he also has continued in the same vein as the Clinton Administration by suspending implementation of Title III of the Helms-Burton legislation. On July 13, 2001, President Bush asked the Treasury Department to enhance and expand the enforcement capabilities of the Office of Foreign Assets Control. The President noted the importance of upholding and enforcing the law in order to prevent "unlicensed and excessive travel," enforce limits on remittances, and ensure that humanitarian and cultural exchanges actually reach pro-democracy activists in Cuba. Just three days later, on July 16, 2001, President Bush decided to continue to suspend

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[10] U.S. Department of State, International Information Programs, "Text: U.S., Caribbean Forge Partnership in Fight Against HIV/AIDS," *Washington File*, April 24, 2002.

[11] "Foreign Trade and Payments: Cuba Imports More Food from the United States," Cuba Country Report, Economist Intelligence Unit, November 2002.

for a 6-month period the Title III provisions of the Cuban Liberty and Democratic Solidarity Act (P.L. 104-114) that allows U.S. nationals to sue for money damages in U.S. federal court those persons who traffic in property confiscated in Cuba. He cited efforts by European countries and other U.S. allies to push for democratic change in Cuba. Since then, President Bush has continued to suspend the right to file lawsuits under Title III at six-month intervals, most recently on July 16, 2002.

On May 20, 2002, President Bush announced a new initiative on Cuba that includes four measures designed to reach out to the Cuban people: (1) facilitating humanitarian assistance to the Cuban people by U.S. religious and other non-governmental organization (NGOs); (2) providing direct assistance to the Cuban people through NGOs; (3) calling for the resumption of direct mail service to and from Cuba; and (4) establishing scholarships in the United States for Cuban students and professionals involved in building civil institutions and for family members of political prisoners. President Bush also called on Cuba to take steps to ensure that the 2003 National Assembly elections are free and fair and to adopt meaningful market-based reforms. If those conditions were met, the President maintained that he would work with Congress to ease the ban on trade and travel. However, the President maintained that full normalization of relations (diplomatic recognition, open trade, and a robust aid program) would only occur when Cuba has a fully democratic government, when the rule of law is respected, and when the human rights of all Cubans are fully protected. The President's initiative did not include an explicit tightening of restrictions on travel to Cuba that some observers had expected. The President, did state, however, that the United States would "continue to enforce economic sanctions on Cuba, and the ban on travel to Cuba, until Cuba's government proves that it is committed to real reform."[12]

Although there appears to be broad agreement in Congress on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island – there have been several schools of thought on how to achieve that objective. Some advocate a policy of keeping maximum pressure on the Cuban government until reforms are enacted, while continuing current U.S. efforts to support the Cuban people. Others argue for an approach, sometimes referred to as constructive engagement, that would lift some U.S. sanctions that they believe are hurting the Cuban people, and move toward engaging Cuba in dialogue. Still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo.

Legislative initiatives introduced in the 107th Congress reflect these divergent views on the direction of U.S. policy toward Cuba (whether sanctions should be eased or intensified) and also cover a range of issues including human rights, drug interdiction cooperation, and broadcasting to Cuba. On July 25, 2001, in action on the Treasury Department Appropriations for FY2002 (H.R. 2590), the House approved an amendment that would prohibit the Treasury Department from using funds to enforce restrictions on travel to Cuba, but it rejected another amendment that would prohibit enforcement of the overall economic embargo. The Senate version

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[12] U.S. Department of State, International Information Programs, "Transcript: President Bush Urges Cuba to Hold Free Elections, Allow Dissent," *Washington File*, May 20, 2002.

of the bill did not include the travel provision, and ultimately it was not included in the conference report to the bill.

In the second session of the 107th Congress, the Senate version of the "Farm Bill," H.R. 2646, included a provision that would strike language from U.S. law that prohibits private financing of agricultural sales to Cuba. Although the House version of the bill did not contain the financing provision, on April 23, 2002, the House approved (273-143) a nonbinding motion offered by Representative Calvin Dooley to instruct the conferees to accept the Senate provision. Ultimately, however, the conference report to the bill (H.Rept. 107-424, filed May 1, 2002) did not include the Senate financing provision.

During July 23, 2002 consideration of the FY2003 Treasury Department appropriations measure, H.R. 5120, the House approved three Cuba sanctions amendments that would ease restrictions on travel, remittances, and agricultural sales. The Senate version of the bill, S. 2740, as reported out of committee, included a provision that would prevent funds from being used to enforce Cuba travel restrictions. Secretary of State Colin Powell and Secretary of the Treasury Paul O'Neill said that they would recommend that the President veto legislation that eases restrictions on travel and on the financing of agricultural exports to Cuba. The White House also stated that President Bush would veto such legislation. Final action on the FY2003 Treasury Department appropriations measure was not completed by the end of the 107th Congress; a series of continuing resolutions continued funding through January 11, 2003, but final legislative action will be completed in the 108th Congress.

For further information, see CRS Report RL30806, *Cuba: Issues for the 107th Congress*, by Mark P. Sullivan and Maureen Taft-Morales; CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives in the 107th Congress*, by Mark P. Sullivan; and CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

Haiti

Former President Jean-Bertrand Aristide was inaugurated on February 7, 2001 to a second, non-consecutive term. Aristide and his Fanmi Lavalas party swept presidential and legislative elections on November 26, 2000. All of the major opposition parties boycotted the elections, however, citing widespread fraud by Aristide supporters and the unresolved dispute over May 2000 legislative elections. Also on February 7, a coalition of 15 political parties, the Convergence Democratique, formed an alternative government and repeated its call for new elections. Almost two years into Aristide's five-year term, the dispute remains unresolved, and violence and human rights violations have increased. Violent protests have erupted around the country, with increased calls for Aristide's removal, even among Haiti's poor, usually considered Aristide's core supporters.

The Organization of American States (OAS) has made numerous efforts to encourage the democratic process in Haiti, but remains frustrated in its repeated attempts to mediate a resolution to Haiti's political crisis. At the Summit of the

Americas on April 22, 2001, hemispheric heads of state singled out Haiti as a country whose problems are limiting its democratic and other development, and urged President Aristide to carry through on his pledges to reform. OAS Resolution 806, adopted on January 16, 2002, established an OAS Special Mission in Haiti. The OAS conducted an independent investigation into a December 2001 attack on the presidential palace and the violence against opposition parties and leaders that followed. Its July 2002 report stated that the attack was not a coup attempt, as the Aristide administration had claimed; that the political opposition did not plan or execute the attack; and that government and Lavalas party officials armed militants who plundered and burned the homes and offices of opposition members following the palace attack. On September 4 the OAS passed Resolution 822, strengthening the OAS mission in Haiti and urging the Haitian government to comply fully with previous OAS resolutions and government commitments, including ensuring the climate of security necessary to holding free and fair elections. The resolution also frees the government to hold elections in 2003 without a prior agreement with the opposition on those elections. It also supports normalization of economic cooperation between the government of Haiti and international financial institutions, urging the resolution of the financial and technical obstacles that have precluded such normalization.

The United States and other international donors have said they will not provide aid directly to the Haitian government until Aristide carries out pledges he made in December 2000 to make several political, judicial, and economic reforms, including correcting the problems of the May elections, in which Aristide supporters were awarded 10 disputed Senate seats. Foreign assistance to Haiti continues but is currently provided mostly through non-governmental organizations. USAID currently provides humanitarian assistance to Haiti only through non-governmental organizations.

In the Foreign Operations Appropriations Act for FY2002 (P.L. 107-115, signed into law Jan.10, 2002), Section 520 prohibits providing assistance to Haiti except through regular notification procedures to the Committees on Appropriations. No other conditions on aid to Haiti are in the Act. Section 554 allows the Haitian government to purchase defense articles and services for the Haitian Coast Guard. The Senate version of the FY2003 foreign assistance appropriations bill (S. 2779) would have prohibited assistance to Haiti except through regular notification procedures and would have allowed Haiti to purchase defense articles and services for the Haitian Coast Guard. The House version (H.R. 5410) would not have required notification procedures except for the Coast Guard purchases. It would also have provided for "not less than $52.5 million" in food assistance programs to be allocated to Haiti. A final FY2003 foreign aid bill was not passed before session's end.

H.R. 1646, the Foreign Relations Authorization Act for FY2002 and 2003 (passed by the House May 16, 2001) would have authorized $6,000 to the Organization of American States for each fiscal year to be appropriated only for the investigation and dissemination of information on violations of freedom of expression by the government of Haiti. The Senate version, passed on May 1, 2002, with an amendment in the nature of a substitute, contained no such provision, nor did the final version, the Foreign Relations Authorization Act for FY2003, which was signed into law (P.L. 107-228) on September 30, 2002.

In February 2002, President Bush notified Congress that Haiti was among three nations that "failed demonstrably to make substantial counter narcotics efforts over the past 12 months." The Administration exercised a waiver, however, saying that continued aid to Haiti was vital to national interests.

The Department of State reported that the Haitian government's "generally poor human rights record worsened" in 2001, with the government continuing to commit serious human rights abuses, including extrajudicial killings by members of the Haitian National Police (*Country Reports on Human Rights Practices*, March 4, 2002).

For further information see CRS Issue Brief IB96019, *Haiti: Issues for Congress*, by Maureen Taft-Morales.

IV. Andean Region

Andean Regional Initiative (ARI)

In April and May 2001, the Bush Administration proposed $882.29 million in FY2002 economic and counter-narcotics assistance, as well as extension of trade preferences and other measures, for Colombia and regional neighbors in an initiative called the "Andean Regional Initiative" (ARI).

Critics of the Andean Regional Initiative argued that it overemphasized military and counter-drug assistance and provided inadequate support for human rights and the peace process in Colombia. Supporters argued that it continued needed assistance to Colombia while providing more support for regional neighbors and social and economic programs.

In 2001, Congress provided less than the President's request for the Andean Region Counterdrug Initiative (ACI), the major component of the ARI. As signed into law (P.L. 107-115), the FY2002 Foreign Operations Appropriations bill (H.R. 2506) included $625 million for the ACI, $106 million less than the President's ACI request, with $215 million earmarked for AID programs. The measure included a variety of conditions relating to human rights and aerial fumigation as well as an alteration of the cap on military and civilian contractors serving in Colombia. In its February 2002 budget submissions, the Bush Administration allocated $645 million to the ACI account for FY2002, including $20 million transferred from the general International Narcotics Control account.

In February 2002 budget submissions, the Bush Administration requested a total of $979.8 million in Andean Regional Initiative assistance for FY2003, including $731 million in counter-narcotics Andean Counterdrug Initiative assistance for the seven ARI countries, and $98 million in Foreign Military Financing for Colombia to train and equip a Colombian army brigade to protect an oil pipeline in northern Colombia.

In March 2002, the Bush Administration's Emergency FY2002 Supplemental for counter-terrorism included a request for $4 million of INC funding for Colombia police post support, $6 million of FMF funding for counter-terrorism equipment and training in Colombia and $3 million of FMF funding for Ecuador for similar purposes, and $25 million of Nonproliferation, Anti-Terrorism, and Demining funding for counter-kidnapping training in Colombia. Also included in the submission were requests to broaden the authorities of the Defense and State Departments to use FY2002, FY2003 assistance and unexpended Plan Colombia aid to support the Colombian government's "unified campaign against narcotics trafficking, terrorist activities, and other threats to its national security." Proponents of the Administration's requests argue that, in the context of the global war on terrorism, that Colombia and the region should be supported at this time with counter-terrorism assistance before Colombia's violence worsens and endangers other countries, particularly when leftist guerrillas have demonstrated little willingness to achieve peace. Critics argue that counter-insurgency and anti-terrorism assistance would thrust the United States into Colombia's major guerrilla conflict on the side of armed forces with links to rightist groups guilty of gross human rights abuse.

In legislative action in 2002, Congress passed two major measures in the summer, and made major progress on a third by the end of the session.

The FY2002 Emergency Supplemental Appropriations Act (H.R. 4775) was approved in July 2002, with expanded authorities in Colombia under human rights conditions, and it was signed into law (P.L. 107-206) on August 2, 2002.

The Andean Trade Preference Act (ATPA) extension and broadening was approved in July 2002 as part of an omnibus trade bill (H.R. 3009) including trade promotion authority and trade adjustment assistance, and the President signed it into law (P.L. 107-210) on August 6, 2002.

Appropriations Committees in both houses have approved the FY2003 Foreign Operations Appropriations bill. The Senate Appropriations Committee approved its version of the bill (S. 2779) in July 2002, but it is not clear how much of the total ARI request is to be funded or how the $637 million approved for the President's Andean Counterdrug Initiative, which is $94 million less than the President's request, is to be apportioned. The House Appropriations Committee passed its version (H.R. 5410, H.Rept. 107-663) on September 19, 2002, and fully funds the President's request.

For information on FY2002 assistance, see CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Nina M. Serafino. For information on FY2002 supplemental and FY2003 assistance, see CRS Report RL31383, *Andean Regional Initiative (ARI): FY2002 Supplemental and FY2003 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Nina M. Serafino. For an overview of U.S. assistance to Colombia since FY1989, see CRS Report RS21213, *Colombia: Summary and Tables on U.S.*

Assistance, FY1989-FY2003. Also see material available under Plan Colombia on the U.S. Department of State's International Information Programs Internet site [http://usinfo.state.gov/regional/ar/colombia/].

Andean Trade Preference Act (ATPA)

Following passage by the 102nd Congress, President George Bush signed into law the Andean Trade Preference Act (ATPA) on December 4, 1991 (P.L. 102-182, Title II), making it part of a multifaceted strategy to counter illicit drug production and to promote trade in Latin America. For 10 years, it provided preferential, mostly duty-free, treatment of selected U.S. imports from Bolivia, Colombia, Ecuador, and Peru. ATPA's goal was to encourage growth of a more diversified Andean export base, thereby promoting development and providing an incentive for Andean farmers and other workers to pursue economic alternatives to the drug trade. ATPA expired on December 4, 2001. Following a lengthy debate, the 107th Congress reauthorized the program (retroactively) and expanded it in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of the Trade Act of 2002 (H.R. 3009), which was signed into law (P.L. 107-210) on August 6, 2002, by President George W. Bush.

Prior to expiring, ATPA's trade preferences provided a small incentive-based part to a larger Andean counternarcotics strategy. Coca production was the primary target of these efforts and, because coca has been a highly profitable undertaking, a key element of the counternarcotics strategy is supporting the cultivation of alternative cash crops. ATPA's supporters argued before Congress that reduced tariffs played a part of the "alternative development" strategy by providing an additional financial incentive to substitute legal crops (asparagus has been one success story) for coca cultivation. The increase in non-agricultural exports (e.g., copper cathodes) also may reflect the effects of this preferential tariff program.

Others noted that through the life of the program, ATPA's benefits were quantitatively small, in part because they did not affect a large portion of Andean exports. Many Andean exports were either ineligible under ATPA or were eligible for preferential treatment under the Generalized System of Preferences (GSP) as well. The United States International Trade Commission (USITC) determined that if these two groups of Andean exports were excluded, those articles that entered the United States exclusively under the ATPA provisions (that is would not be eligible under the GSP in the absence of ATPA) would amount to only 10% of exports from the beneficiary countries. This did not change for 10 years, suggesting that ATPA's trade effects were unlikely to increase, unless the program's parameters could be modified.

Supporters of the ATPA program proposed that it be reauthorized to reinforce the U.S. commitment to the alternative development counternarcotics strategy and that benefits be extended to additional Andean exports to broaden their effects. Opponents raised concerns over the adverse impact its reduced tariffs would have on U.S. domestic producers. There was also interest in trying to rationalize treatment among countries in the region that were provided preferential treatment under different trade arrangements such as ATPA, the North American Free Trade Agreement (NAFTA), and the Caribbean Basin Trade Partnership Act (CBTPA).

On December 4, 2001, ATPA expired and U.S. tariffs were reimposed on affected Andean exports. On February 15, 2002, the Bush Administration deferred collection of these tariffs for 90 days in expectation that the 107th Congress would either reauthorize ATPA or provide a short-term extension of its trade preferences. In part because the ATPA legislation was eventually linked to the larger debate on trade promotion authority (TPA), Congress was unable to complete work on the bill before the deferral expired. The program was eventually reauthorized in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of the Trade Act of 2002 (H.R. 3009), which was signed into law by President Bush on August 6, 2002 (P.L. 107-210). All duty reductions that were in place prior to ATPA's expiration were made retroactive to December 4, 2001 and presumably any duties collected are reimbursable.

As passed into law, the Andean Trade Promotion and Drug Eradication Act reflects the findings of the 107th Congress that extending and expanding trade preferences to beneficiary countries is part of an effective U.S. foreign policy to counter illicit drug trafficking from the Andean region. To enhance the effects of the expired ATPA, it extends preferential treatment through December 31, 2006, and expands it to cover many Andean exports previously excluded, such as certain textile and apparel articles, footwear, leather products, petroleum, watches, and canned tuna. In general, the provisions provide treatment similar to that received by Caribbean countries under the Caribbean Basin Trade Promotion Act (CBTPA) and incorporates customs procedures, including more relaxed certificate of origin rules, similar to those found in the North American Free Trade Agreement (NAFTA). ATPDEA also tightens transshipment and safeguard provisions to address concerns of U.S. textile and apparel manufacturers.

For further reading, see CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck.

Colombia

In a marked departure from recent policy, in early 2002 President Bush sought, through the FY2003 annual budget request and the FY2002 supplemental appropriations request, to expand the scope of U.S. assistance, particularly military assistance, to Colombia. Until the FY2002 supplemental appropriations bill (H.R. 4775, P.L. 107-206) was signed into law on August 2, 2002, U.S. policy permitted funding, particularly for Colombia's security forces, almost exclusively for counternarcotics and related programs. In the supplemental request, submitted March 21, 2002, the Bush Administration sought authority that would allow State and Defense department funds to be used to assist the Colombian government counter any threat to its national security. More specifically, it would allow FY2002 and FY2003 assistance and unexpended Plan Colombia FY2000 supplemental assistance to support the Colombian government's "unified campaign against narcotics trafficking, terrorist activities, and other threats to its national security."

In passing the FY2002 supplemental (P.L. 107-206, signed into law August 2, 2002), Congress granted the requested authority for FY2002 for the use of both Department of Defense (DOD) and State Department International Narcotics Control funds. In the statement of the managers accompanying the conference report on the bill (H.Rept. 107-593), the managers stated that they expect that expanded authorities would continue into 2003 unless Colombia fails to make a good faith effort to fulfill commitments required by the bill and intend for authorities to continue in any continuing resolutions.[13]

The Bush Administration's request to enlarge U.S. policy towards Colombia renewed debate over the appropriate level and type of U.S. assistance, particularly military assistance, to Colombia. In its first year, the Bush Administration continued the policy developed in the Clinton Administration's "Plan Colombia" legislation (P.L. 106-246). In July 2000, Congress approved $1.2 billion in regular and supplemental FY2000 and FY2001 appropriations for "Plan Colombia" and previously funded programs in Colombia. Nearly half of the $860.3 million "Plan Colombia" supplemental funds from P.L. 106-246 was requested for a "Push into Southern Colombia" program to set up and train two new Colombian Army Counternarcotics Battalions (CACBs), which combined with an existing one set up earlier by the United States. The new battalions were to assist the Colombian National Police (CNP) in the fumigation of illicit narcotics crops and the dismantling of laboratories, beginning with coca fumigation in the southern provinces of Putumayo and Caquetá, where coca cultivation was spreading rapidly. The rationale for the program was to debilitate Colombia's powerful leftist guerrillas by depriving them of the substantial income they derive from taxing narcotics cultivation, processing, and marketing. In addition, Congress also provided substantial assistance for economic development, displaced persons, human rights monitors, and administration of justice and other governance programs, all intended to help Colombia counter the many threats to its stability and integrity from the trafficking of illegal narcotics.

In presenting requests for $35 million in FY2002 supplemental funds and $537 million in FY2003 regular budget funds, with expanded authority for military action, President Bush held that such assistance was necessary to shore up Colombia's beleaguered democracy. (The FY2003 State Department funding request for Colombia is $156.5 million higher than the State Department's FY2002 allocation for that country.) The Administration and other proponents of expanded aid and authority argued that the United States must help Colombia face its multidimensional security threats. Such assistance, however, revived some Members' concerns that the United States is being slowly drawn into a Vietnam-like morass, providing assistance to a government that does not have the credibility and political will to successfully wage its own war and conclude a just peace. Of particular concern to opponents were the human rights provisions in the Plan Colombia and subsequent legislation, not all of which would continue to apply under the Bush proposal. The FY2002 supplemental appropriations bill continues all previous or similar conditions from the FY2002 foreign operations appropriations act (P.L. 107-115) and the FY2002 defense appropriations act (P.L. 107-117).

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[13] Congress must re-authorize such support in FY2003 legislation, however. As of the first week of November 2002, no FY2003 legislation contained such a specific authorization. However, the House version of the Foreign Operations Appropriations bill (H.R. 5410, H.Rept. 107-663) would provide a blanket authorization for all appropriations in the bill that have not been authorized by prior legislation.

According to State Department sources, Congress fully funded the FY2002 supplemental request for Colombia, which included $25 million in anti-terrorism funds for an anti-kidnapping program for Colombian police and military forces; $6 million in FMF funds to initiate the infrastructure security program in FY2002; and $4 million in State Department International Narcotics Control (INC) funds to help the Colombian National Police establish posts in areas now lacking a government security presence. The bill modifies some existing reporting requirements and adds new ones.

In the FY2003 budget request, the President asked for $98 million in Foreign Military Financing (FMF) aid to fund units of Colombian soldiers to protect an oil pipeline and other infrastructure frequently sabotaged by leftist guerrilla groups. For counternarcotics activities, $ 439 million was requested under the State Department's INC account for continued support of "Plan Colombia" programs and for the formation of a new Colombian Army counternarcotics brigade of about 2,700 troops. The House and Senate have each passed a version of the FY2003 Foreign Operations appropriations bill containing funding for these purposes, but conference action has not commenced.

The House version of the bill (H.R. 5410, H.Rept. 107-663) appears to fully fund the President's $537 million ACI request for Colombia and would provide the $98 million in FMF money for the pipeline brigade. (The FMF money is to be transferred to the International Narcotics Control and Law Enforcement account for disbursement.) The House version retains the cap of 400 on the number of U.S. civilian contractors and on the number of U.S. military personnel that can be funded in Colombia during FY2003, and contains several restrictions on aid to Colombia. In stating that the FY2003 funds available to the State Department can be used to support the Colombian government's "unified campaign" against narcotics trafficking and terrorist organizations, the section of the bill on the Andean Counterdrug Initiative provides that such authority will be withdrawn if the Secretary of State "has credible evidence that the Colombian Armed Forces are not conducting vigorous operations to restore government authority and respect for human rights in areas under the effective control of paramilitary and guerrilla organizations." In order to release any of the funds contained in the bill, the Secretary of State must certify that Colombia is meeting human rights criteria pertaining to the military that are identical to those in the FY2002 foreign operations appropriations act, P.L. 107-115.

The Senate version of the Foreign Operations appropriations bill (S. 2779, S.Rept. 107-219) does not provide full funding for the Colombia component of the ARI. In particular, it provides $94 million less that the President's request for $647 for the entire Andean Counterdrug Initiative (ACI), with no mention in the bill or accompanying report as to how the money is to be apportioned among the recipient countries. It does fund the full $98 million requested for the pipeline brigade. The Senate bill retains the 400-person cap on U.S. civilian contractors and on U.S. military personnel, contains a human rights certification requirement, and requires various reports, including a report on the safety of aerial fumigation programs there. In order to release an initial tranche of 60% of the funds in the bill, the Secretary of State must certify that the Colombian military meets human rights criteria that are identical to those of the FY2002 foreign operations appropriations act, P.L. 107-115, and he must again certify that those criteria are met to later release the remaining 40% of funds.

Since October 1, 2002, funding for Colombia has been covered by a continuing resolution (H.J.Res.111, P.L. 107-229) and subsequent resolutions extending it, which provide for the continuation of projects and activities, albeit with some limitations. One limitation affecting Colombia is that funding can continue only at the FY2002 level, which in the case of funding for the pipeline brigade - which was $6 million in the FY2002 supplemental appropriations bill - is much less than provided in the House or Senate appropriations bills.

Other legislative measures contain certain provisions on Colombia. These include the House version of the National Defense Authorization Bill for FY2003 (H.R. 4546), passed May 10, 2002, which would cap the number of DOD-funded U.S. military personnel involved in operations in Colombia at 500, and the Foreign Relations Authorization Act for FY2003 (H.R. 1646, H.Rept. 107-671) signed into law September 30, 2002 (P.L. 107-228), which has several reporting requirements.

For more information, see CRS Report RS21213, Colombia: Summary and Tables on U.S. Assistance, FY1989-FY2003; CRS Report RL31383, *Andean Regional Initiative (ARI): FY2002 Supplemental and FY2003 Assistance for Colombia and Neighbors*, which tracks legislative action during 2002 on Colombia; CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors*, which tracked action during 2001; and CRS Report RL30541,*Colombia: Plan Colombia Legislation and Assistance (FY2000-FY2001)* for information on legislation approved in 2000, and CRS Report RS21242, *Colombia: The Uribe Administration and Congressional Concerns*, which provides information on the Colombian administration that took power August 7, 2002.

Peru

Alejandro Toledo was inaugurated as President of Peru on July 28, 2001, following two-round presidential elections in April and June 2001 that were widely regarded as free and fair. Toledo's primary tasks are seen as stimulating economic growth, maintaining stability, and restoring the independence of democratic institutions – and public confidence in them – by continuing to root out the widespread political corruption that is part of the legacy left behind by President Alberto Fujimori. The former Executive fled to Japan and resigned in November 2000, following allegations of electoral fraud and a series of corruption and human rights scandals involving his top aide. An interim government was formed according to constitutional rules of succession and was praised for maintaining calm, attacking corruption, and organizing presidential and legislative elections in its eight months in office. An anti-Fujimori opposition leader, Toledo was elected with 53% of the valid vote, against left-leaning former Peruvian President Alan Garcia with 47% of the vote.

Peruvian and Wall Street analysts said that the Toledo Administration's "prudent" 2002 budget, ambitious privatization plan, and agreement for a new standby loan from the International Monetary Fund were creating conditions for growth. Indeed, under Toledo Peru has exhibited one of the highest growth rates in

Latin America, with an increased economic output of more than 3% expected for 2002, following 4 years of stagnation under his predecessors. In the face of public protests against privatization and other aspects of his economic policy, however, Toledo fired his Finance Minister, the internationally respected economist Pedro Pablo Kuczynski, replacing him with Javier Silva Ruete, who held the post during the interim government. In another setback for Toledo, his Peru Posible party was soundly defeated in elections for new regional governments in November 2002. Garcia's American Popular Revolutionary Alliance (APRA) and other opposition parties appeared to win all but one of the 25 new regional seats, with APRA winning the most at 11. Toledo pushed for the creation of regional governments to decentralize the government.

Toledo's popular approval rate has dropped dramatically, to 20%, since he took office. Toledo has been widely criticized as having weak leadership skills and for making promises he cannot keep. Toledo pleads for patience and says he cannot be expected to deliver in the short-term what he committed to deliver over 5 years. His image was also damaged by personal issues, such as finally admitting, after a long public denial, that he fathered a child out of wedlock in the 1980s.

Since the fall of the Fujimori government, many observers have expressed concern regarding the former head of the Peruvian intelligence service, Vladimiro Montesinos, and his relationship to U.S. agencies, especially the Central Intelligence Agency, and to counter narcotics operations. Montesinos also fled, was captured in Venezuela and returned to Peru, where he faces some 168 criminal investigations into crimes including money laundering, illicit enrichment and corruption, organizing death squads, protecting drug lords, and illegal arms trafficking. In their oversight of counter narcotics programs in Peru, Members of the 107th Congress monitored these investigations, especially as they related to relations between Montesinos and U.S. agencies. The United States provided the Peruvian congressional committee investigating Montesinos' activities with declassified State Department documents, which showed U.S. officials as wary of dealing with Montesinos in light of unconfirmed allegations of his involvement in corruption and human rights violations. In July 2002 Montesinos was convicted of usurping office, the first of over 70 criminal charges he faces. In August the Swiss government repatriated some $78 million from Montesinos' Swiss bank accounts to the government of Peru.

Congressional support for a U.S.-Peruvian aerial drug interdiction program waned following an accident on April 20, 2001, in which an American missionary plane was accidentally shot down in Peru, killing a U.S. missionary woman and her infant daughter. The program, which involves intelligence sharing between Central Intelligence Agency-contracted private military personnel and Peruvian authorities, was suspended and put under review. Peru's Foreign Minister at the time reportedly asked that the program be resumed, arguing that it was the only practical way to combat narcotics traffickers in Peru. Others argue that the flight interdiction program's impact is minimal because traffickers use a variety of other means to export coca from Peru. The U.S. and Peruvian governments conducted a joint investigation into the accident. Their report, released August 2, 2001, concluded that lax procedures, including the inability of Peruvian and U.S. personnel to communicate in the same language, contributed to the erroneous shoot down. According to the State Department's Bureau of International Narcotics and Law

Enforcement Affairs (INL), a Letter of Agreement outlining new procedures is being drafted, and Peruvian crews began training in July 2002. INL hopes to have the Agreement completed in spring 2003, with resumption of aerial interdiction to follow shortly thereafter.

The Andean Counterdrug Initiative, incorporated into the Foreign Operations appropriations bill for FY2002 (P.L. 107-115, signed into law Jan.10, 2002), prohibited funding of a Peruvian air interdiction program until the Secretary of State and Director of Central Intelligence certified to Congress, 30 days before resuming such a program, that enhanced safeguards and procedures were in place to prevent the occurrence of any incident similar to the one of April 2001. It also set forth health and safety guidelines for aerial coca fumigation and specified that not less than $215 million should be applied to USAID economic and social programs in the Andean region. Then-U.S. Ambassador to Peru John Hamilton said U.S. counter narcotics assistance to Peru would triple in 2002 to over $150 million. Of that aid, $77.5 million was for alternative development programs, and $75 million was for law enforcement, interdiction, and eradication operations. In July Peru's government abruptly halted forced eradication of coca and suspended crop substitution programs. According to the State Department's INL, both programs resumed in September after Peruvian concerns were addressed.

In March 2002, the United States and Peru signed a Bilateral Peru Riverine Plan to increase joint police and naval operations against narcotics traffickers on Peru's rivers. The government of Peru is to maintain a regional Riverine Training School, and the United States will provide $3 million in annual support of river operations and maintenance programs.[14]

Members of Congress also expressed concern regarding the case of Lori Berenson, an American jailed in Peru. Berenson was convicted in 1996 by a secret military tribunal of helping plan a thwarted attack against the legislature by the Tupac Amaru Revolutionary Movement (MRTA), a guerrilla group, and she was given a life sentence. In 2000, a higher military tribunal overturned the ruling and sent the case to a civilian anti-terrorism court, which in June 2001 convicted Berenson on charges of collaboration with terrorists, reducing her sentence to 20 years, including time already served. Berenson's appeal was denied by Peru's Supreme Court in February 2002. In July 2001, 143 Members of Congress signed a letter to the Peruvian government asking for the immediate release of Berenson, who maintains her innocence. Reportedly, both President Bush and Secretary of State Colin Powell asked Toledo for her release on humanitarian grounds (*Miami Herald*, February 19, 2002). Others, including former U.S. Ambassador to Peru Dennis Jett, who was serving in Peru when the MRTA took hundreds of people hostage at the Japanese ambassador's residence in 1996, say it would be "a major mistake" to make Berenson's pardon a high priority in U.S.-Peru relations and would risk making President Toledo appear to be soft on terrorism or as interfering with the courts.

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[14] U.S. Department of State, Washington File, "Fact Sheet on U.S.-Peruvian Cooperation on Counternarcotics," March 25, 2002.

During his trip to Lima in March 2002, according to the White House, the President did not ask Toledo to grant Berenson clemency but told Toledo she was given due process in her second trial and that he was awaiting the recommendation of the Organization of American States' Inter-American Commission on Human Rights. The Commission found that Berenson's human rights were violated during both her military and civilian trials and that the Peruvian government had the "international obligation" to ensure Berenson reparation. Peru said the decision had no legal basis and, in an extremely unusual move, filed suit against the Commission before the Inter-American Court of Human Rights. The Inter-American Court of Human Rights agreed in September to consider her case.[15] The Court has one year to make a decision, which will be legally binding on OAS member state Peru. The Court could uphold the sentence, order a retrial, or order Peru to set Berenson free – her only option for release other than a presidential pardon, which Peru has indicated is unlikely.[16]

President Bush became the first U.S. President to visit Peru when he traveled to Lima on March 23, 2002. Presidents Bush and Toledo pledged to jointly fight terrorism and narcotics trafficking . President Toledo, along with the Presidents of Colombia and Bolivia and Vice President of Ecuador, urged President Bush to extend and expand the Andean Trade Preference Act, which expired in December 2001. Congress later reauthorized – with duty reductions retroactive to the expiration date – and expanded the program, and the President signed it into law (P.L. 107-210) on August 6, 2002.

President Bush discussed several other U.S. initiatives involving Peru during his visit, including the provision of $50 million over the next 5 years to support consolidating democratic reform; $3.5 million to support the Truth and Reconciliation Commission in investigating past human rights abuses; the continued declassification and delivery of State Department documents requested by Peru's Congress to support its investigation into corruption and abuses under the Fujimori government; and the re-establishment, after a 27-year absence, of the Peace Corps program in Peru. A debt-for-nature swap, which was agreed to at the meeting, was signed on June 26. Under the agreement, part of Peru's foreign debt was cancelled in return for the Peruvian government's commitment of resources to conserve and maintain wildlife reserves and other protected areas.

For further information, see CRS Report RL30918, *Peru: Recovery from Crisis*, and CRS Report RS20536, *Peruvian Elections in 2000: Congressional Concerns and Policy Approaches*, by Maureen Taft-Morales.

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[15] Inter-American Court of Human Rights, Press Release CDH-CP-09/02 ENGLISH, Sept. 24, 2002, San Jose, Costa Rica.

[16] Jude Webber, "Lawyer: Latam Rights Court to Reopen Berenson Case." Reuters, July 15, 2002; Craig Mauro, "Peru to bring case of American prisoner to international court." Assoc. Press, July 16, 2002.

Venezuela

Massive opposition protests and military pressure led to the ouster of President Hugo Chavez from power on April 12, 2002, but Chavez ultimately was restored to power two days later, again with the support of the military. Chavez was ousted from office after protests by hundreds of thousands of Venezuelans and the death of 19 people, allegedly shot by pro-government supporters. Senior Venezuelan military leaders expressed outrage at the massacre of unarmed civilians and blamed President Chavez and his supporters. Business leader Pedro Carmona was appointed by the military to head an interim government but quickly lost the support of the military when he took such hardline measures as dismantling the National Assembly, firing the Supreme Court, and suspending the Constitution. Carmona stepped down just a day after he took office, paving the way for Chavez's return to power early in the morning of April 14. The interim government's hardline polices as well as strong support in the streets from Chavez supporters convinced military commanders to back Chavez's return. Moreover, some military factions had continued to support Chavez during his ouster.

Since the election of Chavez as President in 1998, Venezuela has undergone enormous political changes, with a new constitution and revamped political institutions. Critics and other observers have raised concerns about his government and fear that the President is moving toward authoritarian rule with his domination of most government institutions. Chavez's popularity has eroded since mid-2001, amid concerns that his government has been ineffective in improving living conditions in Venezuela. Opposition to his rule has grown into a broad coalition of political parties, unions, and business leaders, along with several senior military officers, while Chavez maintains strong support among the poor.

Upon his return to power after his two-day ouster in April 2002, Chavez appealed for reconciliation and promised new lines of communication with the opposition, yet his government also began purging the military of officials who had supported his ouster. Disparate opposition groups united in an effort to remove Chavez from power, focusing on efforts to hold Chavez accountable for the death of civilian protestors in April and to push for a national referendum on the Chavez presidency. U.S. officials expressed concerns about continued polarization in Venezuela, urged the Chavez government and the opposition to engage in dialogue to overcome their differences, and called on the Organization of American States (OAS) to play a role in resolving the political crisis.

As of late November 2002, political tensions in Venezuela remained high, with increased polarization between Chavez supporters and opponents. OAS Secretary General Cesar Gaviria has been involved in mediating negotiations between the government and the opposition. Chavez maintains that, according to the constitution, a referendum on his rule can take place no earlier than halfway through his term, in August 2003. Opposition leaders are calling for a non-binding referendum early in 2003, which they believe will force Chavez to resign. Polls show that two-thirds of

Venezuelans have little or no confidence in the Chavez government.[17] Labor leaders have called for a general strike December 2, 2002 to force Chavez to hold the referendum. Chavez has denounced the planned strike and accused opposition leaders of trying to destabilize the nation.

The United States has traditionally had close relations with Venezuela, characterized by an important trade and investment relationship and cooperation in combating the production and transit of illicit drugs. Under the Chavez government, however, there has been friction in U.S.-Venezuelan relations. In November 2001, the U.S. Ambassador to Venezuela was recalled for consultations as a sign of displeasure with Chavez's statement regarding the war in Afghanistan that the United States was "responding to terror with terror."[18] The State Department also expressed concern in early 2002 about attempts by Chavez supporters to intimidate the opposition and the press. U.S. officials emphasized that those seeking political change in the country should pursue it democratically and constitutionally.[19]

In the aftermath of Chavez's brief ouster in April 2002, the United States expressed solidarity with the Venezuelan people, commended the Venezuelan military for refusing to fire on peaceful demonstrators, and maintained that undemocratic actions committed or encouraged by the Chavez administration provoked the political crisis.[20] With Chavez's return to power, the United States called on President Chavez to heed the message sent by the Venezuelan people by correcting the course of his administration and "governing in a fully democratic manner."[21] In contrast to the United States, many Latin American nations condemned the overthrow of Chavez, labeling it a coup. However, the United States did support an OAS resolution that condemned the "alteration of constitutional order in Venezuela." Amid subsequent opposition protests to Chavez's rule, the State Department stressed that the United States "does not and will not condone an unconstitutional, undemocratic interruption in the democratic order by any party in Venezuela."[22]

The Bush Administration has expressed strong support for the work of the OAS Secretary General to bring about a resolution to the crisis. Assistant Secretary of

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[17] "Venezuela: Last Days for Chavez as Support Falls Away," *Oxford Analytica*, November 14, 2002.

[18] Andy Webb-Vidal, "Intimidation of Chavez's Critics Alarms Washington," *Financial Times*, January 9, 2002, p. 6.

[19] Juan O. Tamayo, "U.S. Opposes Move to Oust Chavez," *Miami Herald*, February 28, 2002, p. 8A.

[20] U.S. Department of State, "Venezuela: Change of Government," Press Statement, April 12, 2002.

[21] U.S. Department of State, International Information Programs, "White House Calls on Venezuela's Chavez to Preserve Peace, Democracy," Washington File, April 14, 2002.

[22] U.S. Department of State, "Venezuela: June 15 Demonstrations," Press Statement, June 13, 2002.

State Otto Reich called for early elections in Venezuela in order to resolve the country's difficulties "peacefully, democratically, and constitutionally."[23]

Key U.S. interests in Venezuela include continued U.S. access to Venezuelan oil reserves, the largest outside of the Middle East; promotion and protection of U.S. trade and investment; the preservation of democracy; and continued close anti-narcotics cooperation. The Bush Administration allocated $5.5 million in FY2002 assistance for Venezuela as part of the anti-drug strategy of the Andean Regional Initiative and requested $8.5 million in FY2003 assistance.

For additional information, see CRS Report RS20978, *Venezuela: Political Conditions and U.S. Relations*, by Mark P. Sullivan.

V. Brazil and the Southern Cone

Brazil

President Fernando Henrique Cardoso of the center-left Brazilian Social Democratic Party (PSDB) will complete his second term in the last days of 2002, ending an eight-year period (1995-2002) that, despite criticisms and difficulties, has been recognized as an era of political stability and free market economic reform. Following two rounds of elections in October 2002, Cardoso will be replaced by President-elect Luis Inacio Lula da Silva of the leftist Workers Party (PT) who will be inaugurated as President on January 1, 2003.

Cardoso was first elected in 1994 and was resoundingly reelected in 1998, largely because of the broad coalition of support, the success of his anti-inflation Real Plan, and voters' confidence that he could best deal with mounting national and international economic difficulties. In 1999, he maintained austere budgets, experienced a serious devaluation of the currency, and obtained a $41.5 billion loan from the International Monetary Fund (IMF). In 2001, he suffered an energy crisis and uncertainty in Argentina, and once again obtained a $15.6 billion loan from the IMF with tough fiscal and monetary targets.

In 2002, the country continued to experience difficulties associated with the crisis in Argentina and the stagnant growth in the United States, compounded as the year advanced by doubts about the likely economic policies of the leading presidential candidates. In this environment, investors sought to reduce their exposure in Brazil, with resulting pressure on the real and the current account and Brazil's level of indebtedness. By early August 2002, with the real falling about 25% since the first of the year, indexed dollar-denominated debt increasing with the decline of the real, and banks unwilling to roll over debt, Brazil's credit rating fell so low that it was lower than any other nation's except Argentina and Nigeria. Facing the prospect of serious financial difficulties, on August 7, 2002, the IMF announced that Brazil had negotiated a new $30 billion stand-by credit package,

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[23] Tim Johnson, "U.S. Urges Chavez to Call Early Elections to End Crisis," *Miami Herald*, November 1, 2002.

under similar fiscal and monetary targets, with $6 billion to be available in 2002 and $24 billion to be available in 2003, under a new president. Although the markets were initially skeptical of this agreement because of the lack of commitment by the leading presidential candidates, at meetings between the candidates and President Cardoso on August 19, 2002, the candidates agreed to the fiscal targets spelled out in the agreement, without fully committing to the agreements.[24]

In the foreign policy area, Brazil's relations with the neighboring countries of Argentina, Uruguay, and Paraguay, which together with Brazil form the Southern Common Market (Mercosur), strengthened significantly in the 1990s, although Brazil's devaluation of the *real* and Argentina's economic difficulties are posing new challenges to the subregional bloc. Brazil and members of Mercosur have emerged as the major advocates of a slower approach to achieving an agreement on a Free Trade Area of Americas (FTAA), insisting that free trade must include agricultural products and must establish limits to unilateral actions of various sorts. Even so, relations with the United States are friendly as demonstrated by President Cardoso's visits with President Bush in Washington, D.C. and Quebec, Canada The two countries are cooperating in many areas, despite trade disputes, including the Bush Administration's imposition of temporary safeguard tariffs on foreign steel products and the agricultural subsidies in the new U.S. Farm Bill. Beginning in November 2002, Brazil and the United States became the co-chairs of the FTAA Trade Negotiating Committee (TNC) responsible for bringing the negotiations to a conclusion.

In the October 2002 presidential elections, Luis Inacio Lula da Silva of the leftist Workers Party (PT) led in the polls from the beginning to the end and emerged from the second round as the clear victor, with 61.3% of the valid vote, compared to Jose Serra, the candidate of the governing coalition, with 38.7% of the vote. A former metal worker, union organizer, and unsuccessful presidential candidate in 1989, 1994, and 1998, Lula da Silva made alliances with centrist and leftist parties, and he has promised to maintain sound economic policies while carrying out anti-hunger and other social programs. He will be inaugurated President on January 1, 2003.

For additional information, see CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by K. Larry Storrs; and CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J.F. Hornbeck.

Argentina

In December 2001, Argentina's financial collapse and escalating social unrest forced President Fernando de la Rua to resign from office. Following a short period of confusion over presidential succession, on January 1, 2002, the Argentine Congress selected Eduardo Duhalde to complete the December 2003 term and face the country's economic rebuilding. As Peronist Party leader, a former Vice President (under Menem), and Governor of Buenos Aires Province, Duhalde has been a

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[24] See Brazil Candidates Stop Short of IMF Endorsement, Reuters, August 20, 2002.

longtime political force and, at times, a vocal critic of Argentina's market-based reforms, which he at one time blamed for many of the current problems. He has since struggled to find the correct policy mix to restore economic growth to Argentina and address growing social issues.

The seeds of Argentina's financial and political crisis were planted in 1991 with adoption of its currency board to fight hyperinflation. The Convertibility Law, which enacted the currency board, legally guaranteed the convertibility of peso currency to dollars at a one-to-one fixed rate, and monetary policy was forcibly constrained to uphold that promise. Although this program achieved its goal of reducing inflation, to remain credible over the long run, it required continuing strong economic growth and disciplined macroeconomic policies, particularly if it were to weather the inevitable external shocks.

Argentina proved unable to enforce the economic policies needed to support the convertibility plan and was eventually beset by numerous external shocks. Nagging fiscal deficits, growing debt obligations, and deteriorating current account deficits combined with the 1999 Brazilian devaluation, the real appreciation of the U.S. dollar, rising interest rates, and the global downturn in 2001 to effectively trap the country in a four-year recession, with little policy room to effect a solution. Over time, and despite repeated financial assistance from the International Monetary Fund (IMF), confidence waned in Argentina's ability simultaneously to reverse its recession, correct its fiscal deficit, honor its foreign debt obligations, and maintain the convertibility plan. Last ditch financial policies, such as forced debt restructuring and limiting bank withdrawals, strained credibility abroad and incited rioting at home that culminated in the economic and political crisis, including Argentina's default on over $90 billion of sovereign debt.

President Duhalde's economic program initially centered on abandoning the currency board and the peso's 1-to-1 peg with the dollar in favor of a dual exchange rate system. This soon gave way to a floating exchange rate system but included bank deposits and loans being converted at a rate of 1.40 pesos and 1.00 pesos to the dollar, respectively. The freeze on bank deposits was also maintained. The mismatch in the conversion rate between bank loans (assets) and deposits (liabilities) caused banks to become technically bankrupt despite government assurances that it would provide assistance. This arrangement proved to be a lingering issue for both rebuilding the financial system and working out a plan for additional assistance from the IMF. President Duhalde faces other problems including restructuring Argentina's massive foreign debt, tax reform, fiscal tightening, and establishing a monetary anchor to manage inflation, all of which are considered cornerstones to Argentina's financial credibility and receiving approval for IMF assistance.

As the first anniversary of the crisis approaches, the Duhalde program continues to face many challenges, both political and economic, and is highly unpopular given the financial hardships it has placed on the Argentine people. The economy has shrunk by over 12% in 2002, unemployment has reached 22%, and half the population is below the poverty line, resulting in mounting social tension. Foreign investors are also unsure whether to continue operating in Argentina. Recapitalizing and eliminating restrictions on the banking system are critical aspects of restarting the economy and reducing social tensions. This will require IMF and other international assistance, which has been impeded by questions over Argentina's policy direction. The November 14, 2002 default on an $800 million World Bank loan payment made matters worse. In addition, the Argentine government faces deep institutional reform before it is likely to win back the confidence of the Argentine people, many of whom have expressed distrust of the state for abandoning fundamental social, legal, and economic contracts. The implications for broader policy issues, such as moving ahead on the Free Trade Area of the Americas (FTAA) and maintaining close ties with the United States, remain uncertain. Under these circumstances, the world is watching to see if Argentina's economic and political situation deteriorates further. The crisis has also raised questions about the role of the IMF and whether it might have encouraged a different course for Argentina at an earlier date, when the costs of transitioning from its convertibility plan would have been much lower.

For more information, see CRS Report RS21072, *The Financial Crisis in Argentina*, by J. F. Hornbeck, CRS Report RL31582, *The Argentine Financial Crisis: A Chronology of Events,* and CRS Report RS21113, *Argentina's Political Upheaval,* by Mark P. Sullivan.

Chile

U.S.-Chilean relations, which improved considerably with the nation's return to democracy in 1990, are close and continue to strengthen given their strong commercial ties. Since 1994, U.S.-Chilean relations have centered on negotiating a free trade agreement, with the expectation initially that Chile would accede to the North American Free Trade Agreement. Although this did not come about, the United States and Chile did commence formal negotiations on a bilateral free trade agreement (FTA) on December 6-7, 2000 in Washington, D.C. Negotiations have continued at a brisk pace and what is expected to be the final round will take place again in Washington between December 2-6, 2002. Progress has been made in many of the major negotiating areas, but significant differences need to be resolved in the areas of labor and environmental dispute resolution, agriculture, investment, and intellectual property rights. Despite these pending challenges, both sides are optimistic that an agreement can be reached by early 2003, which Congress would have to approve by passing implementing legislation.

Chile is an important regional leader for Latin America as a model for political and economic reform in the region. At a time when these reforms are coming under increasing criticism and populism appears to be returning to the region, Chile stands apart in persevering with its program. Chile has been rewarded with long-term economic growth, reduced poverty levels, and at least partial immunity from the financial instability that currently challenges its neighbors. Still, with the economy slowing, social pressures could lead to political changes that are less welcoming of Chile's current development path. Many believe that the status of the Chilean story as a paradigm of liberal economic and political reform will have an important influence on the rest of the region. How Chile fares in the short term, therefore, is a critical indicator to watch in Latin America, an issue not lost on the U.S. Congress.

For background information, see CRS Report RL30035, *Chile: Political/ Economic Conditions and U.S. Relations,* by Mark P. Sullivan. For information on

U.S.-Chile trade relations, see CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck; and CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*, by Charles E. Hanrahan, Geoffrey S. Becker, and Remy Jurenas.