

Report for Congress

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

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Summary

This report, which will be updated periodically, examines issues in U.S. policy toward Latin America and the Caribbean, focusing especially on the role of Congress and congressional concerns. For more details and discussion, see the listed CRS products after each section.

The Latin American and Caribbean region has made enormous strides over the past two decades in political development, with all countries but Cuba led by democratically-elected heads of state. But several nations face considerable challenges that threaten political stability, including economic decline and rising poverty, violent guerrilla conflicts, drug trafficking, and increasing crime.

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

Congressional attention to Latin America in the 108th Congress has continued to focus on counter-narcotics and counter-terrorism efforts in the Andean region, trade issues, and potential threats to democracy and stability. U.S. counter-narcotics efforts focus on continuation of the Andean Regional Initiative supporting Colombia and its neighbors in their struggle against drug trafficking and drug-financed terrorist groups. With regard to trade, now that negotiations with Chile for a bilateral free trade agreement are completed, Congress will likely consider implementing legislation for the agreement under fast track procedures. Congressional oversight also may focus on negotiations for a Free Trade Area of the Americas agreement, scheduled for completion in January 2005, and on negotiations for a free trade agreement with Central America. Congress may also pay increased attention to economic, social, and political tensions in South America that could threaten democratic order, particularly in Venezuela and Argentina. In the Caribbean, Congress will likely continue to debate the appropriate U.S. policy approach to Cuba, the region's only holdout to democracy, as it has for the past several years, while Haiti's persistent poverty and political instability may also remain a congressional concern. Finally, Congress will likely maintain an active interest in neighboring Mexico, with a myriad of trade, migration, border and drug trafficking issues dominating U.S.-Mexico bilateral relations.

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Introduction

Conditions in the Region

Latin America has made enormous strides over the past two decades in political development, with all countries but Cuba led by democratically-elected heads of state. But several nations face considerable challenges that threaten political stability, including economic decline and rising poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

The region as a whole experienced slower economic growth over the past two years, and 2002 saw the worst economic performance in almost two decades. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), gross domestic product (GDP) declined by 0.5% in 2002, while per capita income declined almost 2%. Argentina, Uruguay, and Venezuela suffered the deepest recessions, skewing the regional data downward, while many other countries had slow, but positive growth rates.¹ Some 44% of the region's population live in poverty, according to ECLAC.²

In South America, the economic downturn has increased political pressure on elected governments and led some in the region to question democracy and the democratic free-market model of development. Argentina's democratic political system has been under considerable stress since social protests over the country's deteriorating economy led to the resignation of a democratically elected President in December 2001. The current administration of President Eduardo Duhalde has struggled with a difficult economic situation, which resulted in an agreement to hold the next presidential election several months early. There also has been growing concern over the extent to which Argentina's instability has spread to neighboring Uruguay and Paraguay. The economic downturn also fueled the electoral campaigns of populist candidates: in Brazil, former labor leader Luis Inácio Lula da Silva was elected president in October 2002, and in Ecuador, former coup leader and populist Lucio Gutierrez was elected president in November 2002. In Bolivia, about 30 people, including nine striking police officers, were killed in anti-austerity riots in mid-February 2003.

¹ U.N. Economic Commission for Latin America and the Caribbean. "Balance preliminar de las economías de América Latina y el Caribe, 2002," December 2002.

² U.N. Economic Commission for Latin America and the Caribbean. "Social Panorama of Latin America, 2001-2002." SEPAL News, November 2002.

Colombia is facing challenges not only from a troubled economy and from drug trafficking organizations, but also from two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, are responsible for thousands of deaths each year.

Political tensions in Venezuela (the third largest supplier of foreign oil to the United States in 2001) remain high as opposition groups have been demanding a referendum on the rule of President Hugo Chavez, who had been ousted briefly from power in April 2002 after massive opposition protests. Chavez's rule has been marred by controversy as he has revamped Venezuela's government institutions and polarized the nation with his leftist rhetoric and programs.

In the Caribbean, the government of Jean-Bertrand Aristide in Haiti continues to be plagued with disputes over the 2000 elections. Political turmoil has increased in the country and both economic and human rights conditions have worsened. Cuban President Fidel Castro retains tight control over the Communist government of Cuba, with a poor human rights record that has deteriorated significantly in 2003.

U.S. Policy

Congressional attention to Latin America in the 108th Congress will likely focus on counter-narcotics and counter-terrorism efforts in the Andean region, security cooperation with Latin America, trade issues, and potential threats to democracy and stability in the region. Congressional consideration of the annual foreign operations appropriations legislation that funds foreign aid will remain an important way for Congress to influence U.S. policy toward the region. Congress also will likely maintain an active interest in neighboring Mexico, with a myriad of trade, migration, border and drug trafficking issues dominating U.S.-Mexico bilateral relations.

U.S. counter-narcotics efforts in the region will likely focus on continuation of the Administration's Andean Regional Initiative supporting Colombia and its neighbors with foreign assistance in their struggle against drug trafficking and drug-financed terrorist groups. Congress has expressed repeated concerns over the capture and killing of various U.S. citizens by the Revolutionary Armed Forces of Colombia (FARC); the most recent case occurred on February 13, 2003. In addition to the Andean region, President Bush determined on January 31, 2003 (pursuant to P.L. 107 — 228, Section 706), that Guatemala and Haiti have "failed demonstrably" to take action over the past year to counter international narcotics trafficking, but the President waived the suspension of foreign assistance to both countries. Subsequent U.S. statements on Guatemala have lauded the country's commitment to improving its counternarcotics operations.

Security issues became a higher-profile aspect of U.S. relations with Latin America in the aftermath of the September 11, 2001 terrorists attacks in the United States. Bilateral and regional cooperation on anti-terrorism issues increased, and the United States expanded its assistance to Colombia beyond a strictly counternarcotics focus to also include counterterrorism support. In June 2002, the United States and other members of the Organization of American States (OAS) signed an Inter-American Convention Against Terrorism that would improve regional cooperation.

President Bush submitted the convention to the Senate for its advice and consent in November 2002.

U.S. officials maintain that the most effective and rapid means to stimulate economic development in Latin America is through trade, and have set the goal of strengthening trade linkages with the region. This includes establishing a Free Trade Area of the Americas (FTAA) by 2005, a goal first agreed to by hemispheric nations at the 1994 Summit of the Americas; signing the Chile free trade agreement (FTA) that was completed in December 2002; and completing negotiations on the bilateral agreement with Central America begun on January 27, 2003. Now that negotiations with Chile for a bilateral FTA are completed, Congress will likely consider implementing legislation for the agreement under fast track procedures. In addition, congressional oversight may focus on negotiations for the FTAA and on negotiations for an FTA with Central America.

In addition to trade policy, the United States supports development in the region through foreign assistance programs largely administered by the U.S. Agency for International Development (USAID). The agency supports such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counter-narcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. The Peace Corps is active in many Latin American and Caribbean nations. Overall U.S. foreign aid to the Latin America region amounted to about \$862 million in FY2001, \$1.4 billion in FY2002, and an estimated \$1.6 billion for FY2003; \$1.6 billion has been requested for FY2004.

The Bush Administration has proposed a new foreign aid initiative, the Millennium Challenge Account, that would significantly increase U.S. foreign assistance worldwide to countries that have strong records of performance in the areas of governance, economic policy and investment in people. If approved in the 108th Congress, the initiative could dramatically increase foreign assistance to several Latin American countries.³

Congress will likely pay attention to potential threats to democracy and stability in the region. As noted above, while Latin America has made significant progress over the past two decades in strengthening institutions, several nations have economic and political crises that may threaten democratic order, particularly Argentina and Venezuela. Haiti's persistent poverty and political instability will also likely remain a concern for Congress. In September 2001, the United States supported the OAS adoption of the Inter-American Democratic Charter, which made democracy a defining characteristic of hemispheric states and called for collective action whenever democracy is threatened. Since then, the charter has been used to help deal with the political situations in both Haiti and Venezuela. As it has for the past several years, Congress will likely continue to debate the appropriate U.S. policy

³ For further information, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*, by Larry Nowels.

approach toward Cuba, although the government's human rights crackdown in 2003 will likely slow the momentum behind legislative proposals to ease Cuba sanctions.

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

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

CRS Products:

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

CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn.

CRS Report RL30971, *Latin America and the Caribbean: Legislative Issues in 2001-2002*, Coordinated by K. Larry Storrs.

CRS Report RL31637, *Spreading Financial Instability in South America*, by J. F. Hornbeck and Martin A. Weiss.

CRS Report RS21166, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

Regional Issues

Colombia and the Andean Regional Initiative

Congress is increasingly concerned about the thus far intractable problem of illegal narcotics in the Andean Region and divided over an appropriate policy. For over two decades, U.S. policy towards the Andean Region has focused almost exclusively on counternarcotics efforts, i.e., curbing the cultivation of coca leaf and its transformation into cocaine. Successes in controlling coca and coca base production in Bolivia and Peru seemed to be offset in the mid-to-late 1990s by the

expansion of coca cultivation into uncontrolled areas of Colombia, which previously had served only for the refinement of coca base into cocaine. In the last few years, drug traffickers have also begun to cultivate opium poppies and transform them into heroin in Colombia. In 2000, the 106th Congress approved expanded political, economic, and military assistance to combat drug production and trafficking in Colombia under the Clinton Administration's "Plan Colombia" (P.L. 106-246). In 2002, it approved the Bush Administration's Andean Regional Initiative (ARI), the continuation of the Clinton policy in Colombia and a sizable expansion of assistance to six of Colombia's neighbors: Brazil, Bolivia, Ecuador, Panama, Peru, and Venezuela (P.L. 107-206 and P.L. 107-115). The 107th Congress also approved a major shift in U.S. Andean policy by authorizing, for the first time in recent years, the use of U.S. assistance to help Colombia counter threats to its stability from illegal armed groups of the left and right which substantially finance their operations through the drug trade.

The 108th Congress is continuing to scrutinize indicators of the ARI's effectiveness, and to debate the policy's wisdom. According to Administration officials, coca cultivation has dropped 15% in Colombia over the past year to almost 357,000 acres (with at least another 303,000 acres eradicated), marking the first reduction in acreage devoted to coca cultivation in Colombia. However, according to the Administration, during 2002, coca cultivation again picked up in Peru and Bolivia, reversing a declining trend there. As the overall cultivation in the Andean Region has appeared to have changed little over the past several years, despite changes in individual countries, some policymakers have argued that the "supply side" policy of stemming drug production at the source is inevitably a losing battle. They argue that policy should focus on the "demand side" because they view providing treatment for the users of illegal narcotics as the only permanent solution.

The Bush Administration has, however, recast the debate, arguing that the United States faces not only a threat from drug production and trafficking in the Andean region, but also from increasing instability. To the Bush Administration and its supporters, the assistance to Colombia is necessary to help shore up a democratic government besieged by drug-supported leftist and rightist armed groups. Substantial assistance to Colombia's neighbors is warranted, they argue, because of an increasing threat from the spillover of violence from Colombia, and the possible resurgence of drug cultivation in some countries and its spread from Colombia to others. Although some critics agree with this assessment, they argue that the Bush plan overemphasizes military and counter-drug assistance and provides inadequate support for protecting human rights and encouraging a peace process in Colombia. In particular, they express concern that current military assistance is drawing the United States into Colombia's guerrilla conflict in support of armed forces which, they charge, have substantial ties to rightist groups guilty of gross violations of human rights. This concern grew with the August 2002 inauguration of President Alvaro Uribe, who is viewed by some as tolerating, if not favoring, the actions of rightist armed groups. Critics also voice skepticism that U.S.-funded alternative development projects can provide adequate livelihoods to induce growers to voluntarily give up coca cultivation, and view the lack of such alternatives as fueling the growth in political power of opponents of U.S. policy in the region.

ARI Funding. The 108th Congress' first task regarding the ARI was to decide on funding for the President's FY2003 \$979.8 million ARI request. In the omnibus FY2003 appropriations bill (H.J.Res. 2/P.L. 108-7, signed into law February 20, 2003), covering the 11 unfunded FY2003 spending bills which includes foreign operations appropriations, Congress provided most of the requested funding for the key Andean Counterdrug Initiative (ACI) and the Foreign Military Financing (FMF) accounts. The bill contains a variety of human rights and environmental conditions on the funding.

As of late April 2003, FY2003 allocations for ARI accounts are \$928.5 million, some \$51.3 million under the original request. Congress provided \$695.5 million of the requested \$731 million for the ACI account and \$93 million of the requested \$98 million for the FMF account. (The ACI account funds, among other things, support for the eradication of illegal crops and the destruction of laboratories, as well as economic and social development. The FMF funding will be used to train and equip a Colombian Army brigade to protect the Caño-Limón oil pipeline in Colombia.) Of the requested \$102.8 million for development aid, \$97 million has been allocated.

For Colombia, Congress appropriated some \$526.2 million in regular appropriations for FY2003 (P.L. 108-7), and \$105.1 million in the FY2003 supplemental appropriations (H.R. 1559, P.L. 108-11, signed into law April 16, 2003). Of this funding, in FY2003 annual appropriations, \$433.2 million was ACI funding and \$93 million in FMF, as cited above. Of the supplemental appropriations, \$34 million was in ACI funding, \$37.1 million in FMF funding (although \$20 million of this was earmarked as available for transfer to the ACI account), and \$34 million was Department of Defense funding. House floor action on the conference version of the supplemental appropriations bill appeared to indicate the increasingly contentious nature of funding for Colombia, as an amendment offered by Representative Jim McGovern to cut \$61 million from Colombia's ACI funding lost by a close vote of 209-216.

For FY2004, the Bush Administration has requested \$990.7 million for Andean Regional Initiative countries in the accounts comprising ARI funding, including military funding for Colombia that, for the first time since Plan Colombia was adopted, is not requested for a very specific purpose. (For FY2004, the Administration has not, as in previous years, labeled this amount as the "Andean Regional Initiative.") This includes some \$731 million requested for the Andean Counterdrug Initiative, of which \$463 million is for Colombia, \$116 million for Peru, \$91 million for Bolivia, \$35 million for Ecuador, and the remaining \$26 million for Brazil, Panama, and Venezuela. It also includes \$133.5 million in FMF, of which \$110 million is for Colombia, \$15 million for Ecuador, with the remaining \$8.5 million requested for Bolivia, Panama, and Peru. The Administration request states that FMF for Colombia is intended "to support counter-terrorism operations and protect key infrastructure such as the oil pipeline." Other amounts, none of which is requested for Colombia, are \$47.8 million in Development Aid, \$43.4 million in Child Survival and Health programs, and \$35 million in Economic Support funds.

The Killing and Capture of U.S. Citizens. Congress has expressed repeated concerns over the capture and killing of various U.S. citizens by the FARC, the most recent case occurred on February 13, 2003. On that morning, a Cessna 208

aircraft carrying four American contractors and a Colombian pilot crash landed in the Colombian province of Caquetá. The FARC claims that members of its Southern Bloc shot the aircraft down, and asserts that they were working for the CIA (as did Robert Novak in a column published in the *Washington Post*⁴); Bush Administration officials state that the aircraft experienced a mechanical problem, and that the Americans were Department of Defense (DOD) contractors. The Americans worked for California Microwave Systems, a subsidiary of the Northrup Grumman Corporation that provides surveillance systems for the U.S. military, according to a news report.⁵ The pilot and one of the contractors were shot, the other three contractors were captured by the FARC. In response, the Administration announced that it had sent more U.S. military personnel to Colombia (first reports indicated 150, but the DOD later denied that figure and would not give another) to assist 4,000 Colombians in a search and rescue operation. (Military personnel engaged in search and rescue operations are not subject to the limit of 400 on the number of troops that can be deployed to Colombia at one time, as the cap applies only to personnel engaged in Plan Colombia operations. [P.L. 106-246, Section 3204(b)through(d) as amended by P.L. 107-115])

Subsequently, in March 2003, three more American contractors were killed in a plane crash as they were searching for the captured contractors. Both planes involved in these crashes were Cessna 208s, which some contract employees complained last year are not suitable for use in Colombia because they cannot perform the steep climbs required by mountainous terrain. A fifth American was killed in April 2003 when his T-65 air tractor crashed while spraying opium poppies.

CRS Products:

CRS Report RL31383, *Andean Regional Initiative (ARI): FY2002 Supplemental and FY2003 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Nina M. Serafino.

CRS Report RS21213, *Colombia: Summary and Tables on U.S. Assistance, FY1989-FY2003*, by Nina M. Serafino.

CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Nina M. Serafino.

U.S.-Latin American Trade Relations

Since the North American Free Trade Agreement (NAFTA) took effect in January 1994, its mixed reviews were one factor that caused the U.S. Congress to adopt a more cautious attitude toward future trade negotiations. This outlook was reflected in the spirited debate over Trade Promotion Authority (TPA), which continued for eight years before legislation permitting “fast-track” approval of trade

⁴ Robert Novak, “America’s Forgotten War,” *Washington Post*, February 20, 2003, p. A39.

⁵ “Rebels: Americans May Die in a Rescue Try,” *Associated Press*, February 27, 2003.

agreements was passed in August 2002. In the meantime, select free trade agreements have been pursued by the Executive Branch and currently there are three potential FTAs with Latin American countries in different stages of development. Since all will require passage of implementing legislation before they can take effect, the 108th Congress will likely follow each closely.

U.S.-Chile FTA. Completed on December 11, 2002 after two years and 14 rounds of negotiations, this is the FTA likely to see the most immediate congressional consideration (the text may be found at [<http://www.ustr.gov>]). As required under the Trade Act of 2002 (P.L. 107-210), President Bush formally notified the 108th Congress on January 30, 2003 of his intention to sign the agreement. This initiated a legally required 90-day review period prior to congressional consideration of implementing legislation, which is expected later in the year. As proposed, the FTA would allow 85% of all consumer and industrial goods to be traded duty free immediately. Also, 75% of tariffs on farm goods and Chile's luxury tax on automobiles would be eliminated within the first four years, and tariffs on sensitive goods traded between the two countries would be phased out over a period of up to 12 years. Chile's rules governing investment, services trade, intellectual property rights, labor, environment, dispute resolution, and other issues critical to the United States would also be clarified and made more transparent. Importantly, there was no chapter on antidumping and countervailing duties, a trade issue of chief concern for Chile and Latin America in general. Because this is the first U.S. FTA with a Latin American country in nearly a decade and also because it broached new ground in some areas, it will be an important document in the context of other FTAs being considered, particularly the region-wide Free Trade Area of the Americas.

U.S.-Central American FTA. On January 8, 2003, the Bush Administration announced that the United States would begin negotiating an FTA with the five Central American Common Market (CACM) nations — Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The first of nine scheduled negotiation rounds began January 27, 2003 in San Jose, Costa Rica and both sides have expressed optimism that an agreement can be concluded by year end. The U.S.-Central American Free Trade Agreement, or CAFTA, presents a complicated challenge to bilateral negotiations because the five republics must agree among themselves to bring unified positions to the negotiating table. Although the CAFTA countries currently qualify as beneficiaries under the Caribbean Basin Initiative (CBI), an FTA with the United States would potentially allow for further reduction in trade barriers, make permanent benefits in CBI legislation that requires periodic reauthorization, and provide a more conducive environment for U.S. foreign investment. In the United States, proponents of the agreement see CAFTA as supporting U.S. exports and providing less expensive imports, while also advancing the FTAA agenda and solidifying regional political and economic reforms that strengthen democracy and promote stability. Still, Central America accounts for only 1% of U.S. trade and so CAFTA will have only a small effect on the U.S. economy overall. CAFTA critics also note that Central America suffers from pervasive economic and social inequality, which could be addressed in part in the labor and environment chapters, and that the agreement could create adjustment issues for certain import competing firms.

Free Trade Area of the Americas. The Free Trade Area of the Americas is a regional trade proposal among 34 nations of the Western Hemisphere that would promote economic integration by creating a comprehensive (WTO-plus) framework for reducing tariff and nontariff barriers to trade and investment. Formal negotiations commenced in 1998 and the first draft of the agreement was adopted at the Third Summit of the Americas in Quebec, Canada in April 2001. The second draft text was accepted on November 1, 2002 at the seventh trade ministerial in Quito, Ecuador. The negotiating schedule calls for a final agreement to be adopted by January 2005, with its entry into force to occur no later than year end. Five major milestones were reached in the most recent trade ministerial in Quito: 1) Brazil and the United States became co-chairs of the Trade Negotiations Committee (TNC), which will guide the final phase of the overall negotiation process; 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) the 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 eighth FTAA ministerial meeting will convene in Miami, Florida on November 20-21, 2003, at which time the third draft of the agreement is expected to be ready.

The most important recent negotiating milestone was the initiation of detailed market access talks, which involve five separate groups. Initial market access offers were due by February 15, 2003. The United States submitted its proposal on February 11, 2003, making “differentiated offers” in which tariff phase outs would be quicker for different parts of Latin America based on the development level of each country. The Mercosur countries, and particularly Brazil, expressed deep dissatisfaction with the U.S. proposal because it isolated their countries, offering little trade barrier relief for their exports in the first five years of the agreement. Brazil has also expressed unhappiness with the understanding reached in Quito that the sensitive agricultural negotiations will have to be done with an eye on parallel discussions being undertaken by the WTO, which also have a completion deadline of January 2005. A third issue of some concern has been raised by the smallest developing countries, which are concerned about their capacities to meet specific rules in the FTAA. Although the 108th Congress is not expected to deal with implementing legislation on the FTAA, the relevant committees will oversee this last phase of the negotiations through the extensive consultation process outlined in TPA legislation. In this respect, the 108th Congress will play an important role in determining if the FTAA is to be brought to completion by 2005.

CRS Products:

CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.

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

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

CRS Report 98-840, *U.S.-Latin American Trade: Recent Trends*, by J. F. Hornbeck.

CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn.

Terrorism

In the aftermath of the September 2001 terrorist attacks on New York and Washington D.C., U.S. attention to terrorism in Latin America has intensified, with an increase in bilateral and regional cooperation. Latin American nations strongly condemned the attacks, and took action through the Organization of American States to strengthen hemispheric cooperation. In June 2002, OAS members signed an Inter-American Convention Against Terrorism that would improve regional cooperation, including a commitment by parties to deny safe haven to suspected terrorists. President Bush submitted the convention to the Senate in mid-November 2002 for its advice and consent. A meeting of the newly invigorated OAS Inter-American Committee Against Terrorism took place in January 2003 in El Salvador to discuss the scope of the Convention and the anti-terrorism approach for the hemisphere.

The State Department, in its annual report on worldwide terrorism (*Patterns of Global Terrorism*), highlights terrorist threats in Colombia, Peru, and the tri-border region of Argentina, Brazil, and Paraguay, and notes that allegations of Osama Bin Laden or Al Qaeda support cells in the region remain uncorroborated. The State Department also has designated four terrorist groups (three in Colombia and one in Peru) as Foreign Terrorist Organizations, and Cuba has been listed as a state sponsor of terrorism since 1982.

Through the State Department, the United States has provided Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management and bomb detection and deactivation. In December 2002, the State Department announced that counter-terrorism finance training would be provided to the tri-border region of Argentina, Brazil, and Paraguay because of concerns that illicit activities are funding terrorism. In addition, the Bush Administration has expanded its assistance to Colombia beyond a strictly counternarcotics focus to also include counter-terrorism support. (See discussion above on “Colombia and the Andean Regional Initiative.”) Finally, cooperation with Mexico on border security will be a key component on U.S. homeland defense strategy.

For background information, see “The Americas’ Response to Terrorism,” on the OAS web site at [http://www.oas.org/OASpage/crisis/crisis_en.htm].

CRS Products:

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

CRS Report RL31549, *Department of Homeland Security: Consolidation of Border and Transportation Security Agencies*, by William J. Krouse.

Country Issues

Argentina

On December 20, 2001, Argentina’s financial collapse and escalating social unrest forced President Fernando de la Rúa’s resignation from office. After several interim presidents, on January 1, 2002, the Argentine Congress selected Eduardo Duhalde to complete de la Rúa’s December 2003 term. Over the past year and a half, Duhalde has struggled to find a credible response to deep-seated economic and political problems. The seeds of Argentina’s financial and political crisis were planted in 1991 with adoption of its currency board to fight hyperinflation (under former President Carlos Menem), a plan that rested on the guaranteed convertibility of peso currency to U.S. dollars at a one-to-one fixed rate. Argentina, however, proved unable to enforce the economic policies needed to support the convertibility plan and when it was beset by numerous external shocks, it went from prolonged recession to default and financial crisis, despite repeated financial assistance from the International Monetary Fund (IMF).

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 different rates. A 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, among other structural problems, proved to be an obstacle both to developing a credible plan to rebuild the financial system and to working out a major new IMF assistance package. By the close of 2002, the economy had declined by 11%, leaving 60% of the population below the poverty line and 18% unemployed.

By May 2003, Argentina’s political and economic life has begun to stabilize. The International Monetary Fund (IMF) approved, with some reservations, a seven-month “transitional” \$6.6 billion stand-by arrangement on January 24, 2003. This arrangement, however, only bought a little time for Argentina to conclude its presidential elections and work out a longer-term agreement, which will be needed for Argentina to make a \$2.9 billion payment to the IMF due September 9, 2003. Argentina has made strides in fixing its economy. In part because of court orders, the

remaining dollar deposits have been unfrozen and the treasury is also mopping up many of the regional bonds that have been used as currency over the past few years. The government is issuing new bonds to pay for the related costs of both efforts. These are major steps in returning the country's financial system to a credible position and should also help defuse some of the social tensions that sparked the crisis. Economic growth, largely export driven, has returned, but long-term stability is not guaranteed. Argentines went to the polls on April 27, 2003, choosing two Peronist Party leaders to advance to a runoff election on May 18, with the inauguration planned for May 25. Former President Menem and Governor Kirchner won 24% and 22%, respectively, of the popular vote, which was split very closely among the five top candidates. The runoff election may be close, but Kirchner has a comfortable lead in the early polls. The winner, however, faces a daunting challenge of having to make politically difficult decisions, if Argentina is to return to economic health.

CRS Products:

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

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

CRS Report RS21113, *Argentina's Political Upheaval*, by Mark P. Sullivan.

Brazil

Luis Inácio Lula da Silva of the leftist Workers' Party (PT) was inaugurated as President of Brazil on January 1, 2003, pledging to bring fundamental change to the country while maintaining sound economic policies. He won the October 2002 elections decisively, with twice as many votes as the runner-up in the first round election, and with 61.3% in the second round election, with the support of leftist parties and a variety of centrist elements. He defeated José Serra who was running as the favored candidate of two-term President Fernando Henrique Cardoso (1995-2002) with support from the center-left Brazilian Social Democratic Party (PSDB) and the centrist Brazilian Democratic Movement Party (PMDB). Since his election, President Lula da Silva has sought to fashion support for his programs in Congress by reaching out beyond the parties that supported him in the election to other centrist parties, including the PMDB.

During the campaign, while advocating a change in policy and greater attention to social issues, Lula da Silva promised on several occasions to maintain the fiscal and monetary policies associated with Brazil's most recent IMF loan. The \$30 billion IMF loan, announced in August 2002, was provided to guarantee that Brazil would be able to continue to pay its considerable foreign debt. During the first 100 days of his administration, President Lula da Silva has pursued cautious economic policies and has met IMF targets, while stressing that one of his main priorities will be the eradication of hunger in the country through a program called Zero Hunger. As a result of his policies, the country has experienced lower inflation, a strengthening of the currency, and a dramatic lowering of Brazil's credit risk rating.

At the same time he has indicated that his legislative priorities include strengthening the autonomy of the Central Bank, reforming the social security system to make it self sustaining, and modifying the tax system to be more effective and fair.

In the foreign policy area, he has indicated that he wants to strengthen ties to Argentina and to revitalize the Southern Common Market (Mercosur). He has softened his previous opposition to the Free Trade Area of the Americas (FTAA) and has indicated that he wants constructive relations with the United States. Beginning in November 2002, Brazil and the United States have responsibility for co-chairing the FTAA Trade Negotiation Committee in the final phase of negotiations that is scheduled to conclude by January 2005. In the past, Brazil has taken the position that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties to be acceptable. Brazil complains that the United States has utilized these and other protectionist measures, including the recent Farm Bill subsidies and the steel safeguard tariffs, to erect barriers to Brazilian shoes, orange juice, steel, and other products. In relations with other countries in the region, one of President Lula da Silva's initiatives was the formation of the six- nation Group of Friends of Venezuela that helped the OAS Secretary General to facilitate an agreement in April 2003 between President Chavez and opposition groups in the country.

CRS Products:

CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by K. Larry Storrs.

CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

CRS Report RL31637, *Spreading Financial Instability in South America*, by J. F. Hornbeck and Martin A. Weiss.

Cuba

Cuba remains a hard-line Communist state, with a poor record on human rights that has deteriorated significantly in 2003. Fidel Castro has ruled since he led the Cuban Revolution, ousting the corrupt government of Fulgencio Batista in 1959. With the cutoff of assistance from the former Soviet Union, Cuba experienced severe economic deterioration in the early 1990s, although there has been some improvement since 1994 as Cuba has implemented limited reforms.

In March 2003, the government began a massive crackdown that resulted in the imprisonment of over 100 independent journalists and democracy activists, with about 75 receiving sentences between 6 and 28 years. On April 11, 2003, the government executed three men who had hijacked a ferry in an attempt to reach the United States. The executions, conducted after a swift and secret trial, were condemned around the world.

Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through economic sanctions, including a trade embargo, and the Bush Administration has essentially continued this policy. The sanctions were made stronger with the Cuban Democracy Act (CDA) of 1992 (P.L. 102-484, Title XVII) and the Cuban Liberty and Democratic Solidarity Act of 1996 (P.L. 104-104), often referred to as the Helms/Burton legislation. The 106th Congress enacted legislation allowing for commercial food and medical exports to Cuba (P.L. 106-387, Title IX), and since late 2001, Cuba has purchased more than \$160 million in U.S. agricultural products. 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. In May 2002, President Bush announced a new initiative that includes several measures designed to reach out to the Cuban people.

There appears to be broad agreement on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island. But there are 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.

Congress will likely continue its high level of interest in Cuba in the 108th Congress, with a variety of legislative initiatives regarding sanctions, human rights, drug interdiction cooperation, and broadcasting to Cuba. The final version of the FY2003 omnibus appropriations measure, H.J.Res. 2 (P.L. 108-7), included funding for Radio and TV Marti broadcasting to Cuba and democracy and human rights projects for Cuba. However, the measure did not include funding for U.S.-Cuban anti-drug cooperation or provisions that would have eased Cuba sanctions. The White House had threatened to veto the omnibus bill if it contained provisions weakening the embargo on Cuba. While policy debate in the 107th Congress focused on whether to lift restrictions on travel and on financing for agricultural exports, Cuba's human rights crackdown in 2003 will likely slow momentum behind legislative proposals to ease Cuba sanctions. In early April 2003, both houses approved resolutions, S.Res. 97 and H.Res. 179, condemning the recent crackdown in Cuba and calling for the release of political prisoners.

CRS Products:

CRS Report RL31740, *Cuba: Issues for the 108th Congress*, by Mark P. Sullivan.

CRS Trade Briefing Book, *Cuba Sanctions*, by Mark P. Sullivan
 [<http://www.congress.gov/brbk/html/ebtra108.html>].

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

CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

Haiti

The main issues for U.S. policy toward Haiti during the 108th Congress continue to be how to promote democratic development, economic growth, and political stability in hopes of alleviating poverty, limiting illegal immigration from Haiti, and reducing drug trafficking through Haiti. Almost two years into President Jean-Bertrand Aristide's five-year term, election disputes from 2000 remain unresolved, political turmoil has increased, the economy is in crisis, and human rights conditions have worsened. Opposition parties and international observers said the electoral council manipulated the results of the 2000 elections to give President Aristide's Lavalas party 10 more Senate seats in the first round than they had won. Over domestic and international objections, the Lavalas government treated the disputed results as final.

OAS members, including the United States, the Haitian government, and the Haitian opposition have agreed that holding elections is key to resolving the 2000 election dispute and Haiti's resulting political impasse. OAS Resolution 822, passed in September 2002, called for elections to be held in 2003. A high-level OAS/Caribbean Community (CARICOM) delegation said in April that the Haitian government must take immediate steps to improve public security and that the opposition must help form the Provisional Electoral Council, or the opportunity to hold elections this year would be lost. More than 180 civil society groups, comprising thousands of members, say the conditions for safe, free, transparent, and credible elections have not been established. Haitian bishops, labor unions, and student groups are among those calling for President Aristide to carry out serious reforms quickly or resign. Aristide says he will not step down before his term ends in February 2006. The OAS warned the opposition that it would not support efforts to remove President Aristide through violence.

Major donors, including the United States, have directed aid to Haiti through non-governmental organizations, withholding direct aid to the government until Aristide enacts promised political, judicial, and economic reforms. Critics argue that withholding aid to the government is contributing to Haitian poverty, instability, and illegal migration. The 108th Congress passed the FY2003 consolidated appropriations bill (P.L. 108-7/H.J.Res.2, signed into law February 20, 2003) with

three provisions regarding Haiti. The Foreign Operations bill (Division E, Sections 551 a) and b)) allows Haiti to purchase defense articles and services for the Haitian Coast Guard, and provides for “not less than \$52.5 million” from food assistance funds to be allocated to Haiti. The legislation contains no other conditions on aid to Haiti. The Commerce, Justice, State, and Judiciary appropriations bill (Division B, Federal Prisons section) makes available an amount “not to exceed \$20 million” of Contract Confinement funds for the care and security in the United States of Haitian (and Cuban) entrants.

Congress may have to decide whether to authorize additional FY2004 funding to support the OAS Special Mission for Strengthening Democracy in Haiti. The mission currently has pledges from 17 countries, including the United States, for less than half of the \$12 million it says is needed to fulfill its mandate. The mission was created to support, monitor, and report on the Haitian government’s implementation of commitments it made in OAS agreements to strengthen democratic institutions and processes. This includes helping the government to improve security, investigate political crimes, and prepare for elections.

CRS Products:

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

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

Mexico

Congressional interest in Mexico is generally focusing on trade, migration, border, and drug trafficking issues. Mexico is the United States’ second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA). Mexico shares a busy border with the United States and it is the source of numerous undocumented migrants, and a major transit point for the flow of illicit narcotics to the United States. Relations between the two countries were especially warm during the visits of President Bush and President Fox in 2001, when hopes were high for some sort of migration agreement. Relations cooled to some extent when migration talks stalled following the September 2001 terrorist attacks, and when Mexico took a position in the U.N. Security Council in March 2003 that Iraq should be disarmed by peaceful means and through multilateral mechanisms.

U.S. officials praised Mexico’s counter-narcotics efforts when President Bush made drug certification determinations in late January 2003 and when the State Department issued the International Narcotics Control Strategy Report in early March 2003. On April 22, 2003, President Fox, speaking to foreign reporters, argued that the bilateral relationship remained strong and friendly. He noted that Secretary of Homeland Security Tom Ridge would be meeting with Secretary of Government Santiago Creel on April 23-24, 2003, to discuss progress on border and security

issues, and he called for a new vision of NAFTA to be discussed at a June 2003 meeting of the NAFTA partners.

CRS Products:

CRS Report RL31876, *Mexico-U.S. Relations: Issues for the 108th Congress*, by K. Larry Storrs.

CRS Report 98-174, *Mexican Drug Certification Issues: U.S. Congressional Action, 1986-2002*, by K. Larry Storrs.

CRS Report RL31412, *Mexico's Counter-Narcotics Efforts under Fox, December 2000 to April 2002*, by K. Larry Storrs.

CRS Report RL30852, *Immigration of Agricultural Guest Workers: Policy, Trends and Legislative Issues*, by Ruth Ellen Wasem and Geoffrey K. Collver.

CRS Electronic Briefing Book, *Terrorism, "Border Security,"* by Lisa Seghetti and William Krouse. [<http://www.congress.gov/brbk/html/ebter124.html>]

CRS Electronic Briefing Book, *Trade, "NAFTA,"* by J. F. Hornbeck. [<http://www.congress.gov/brbk/html/ebtra42.html>].

Peru

Peru maintained a remarkable level of stability as it navigated serious constitutional and political crises in 2000-2001, and continued its transition back to democratic processes in 2002. After President Alberto Fujimori fled the country in the wake of scandals, an interim government began to restore public confidence in democratic institutions, and President Alejandro Toledo, elected in June 2001, followed suit. Peru has restored confidence in the electoral process, reestablished a free press, increased transparency in governance, and is attacking corruption. Nonetheless, President Toledo has been widely criticized as having weak leadership skills, and his image has been damaged by personal issues. In a major setback for Toledo, his Peru Posible party was soundly defeated in elections for new regional governments in November 2002 by left-leaning former Peruvian President Alan Garcia's American Popular Revolutionary Alliance (APRA) and other opposition parties.

Peru has been more stable economically than its neighbors. Under Toledo, Peru has exhibited one of the highest growth rates in Latin America, with an increased economic output of over 4% expected for 2003, following four years of stagnation under his predecessors. The public is impatient, however, for a rapid improvement in its standard of living: 54% of the population lives in poverty, and 43% are underemployed. Public protests and opposition in Congress — where no party holds a majority — may limit the President's ability to push through his economic reforms.

Peru is a major illicit drug-producing and transit country. According to the State Department's March 2003 international narcotics report, Peru made progress on

many components of the U.S.-Peru counternarcotics program. The Bush Administration hopes to resume a U.S.-Peruvian aerial drug interdiction program in 2003, which was suspended following an accidental shutdown in 2001 that killed a U.S. missionary woman and her infant, after enhanced safeguards and procedures are in place to prevent the reoccurrence of such an incident. The FY2003 Andean Counterdrug Initiative sets forth expanded health and safety guidelines for aerial coca fumigation (FY2003 Consolidated Appropriations Resolution, Div. E, Foreign Operations, P.L. 108-7(H.J.Res. 2) signed into law February 20, 2003). The United States and Peru signed a five-year cooperative agreement in September 2002 that links alternative development to coca eradication more directly than past programs have. After weeks of unrest in which thousands of coca growers protested against forced coca eradication, the government and growers signed an agreement calling for the “gradual and fixed” reduction of coca leaf cultivation.

Several U.S. initiatives involving Peru currently exist. These include 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, and the continued declassification and delivery of State Department documents requested by Peru’s Congress to support its investigation into corruption and abuses under the Fujimori government. In January 2003, the U.S. Embassy in Lima reportedly delivered classified documents to the Truth Commission. The trial of Vladimiro Montesinos, Fujimori’s spy chief who had ties to U.S. agencies, began in February, on the first of dozens of charges ranging from influence peddling to directing a death squad.

The Peace Corps program was re-established in Peru in 2002, after a 27-year absence. Under a debt-for-nature agreement, signed in June 2002, 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. The Andean Trade Preference Act, which President Toledo had pressed for, was reauthorized, expanded, and signed into law (P.L. 107-210) on August 6, 2002. The case of Lori Berenson, an American jailed in Peru is an ongoing issue in bilateral relations. Berenson’s 1996 conviction by a secret military tribunal was overturned but she was convicted again by a civilian court on charges of collaboration with terrorists. The Inter-American Court of Human Rights agreed in September 2002 to consider her case. Peru’s highest court released a review of four Fujimori-era anti-terrorism decrees in January 2003, rejecting one completely, and ruling parts of the others unconstitutional. Several analysts said they did not believe Berenson’s case would be affected, although many other retrials would probably occur.

Venezuela

Since the election of Hugo Chavez as President in 1998, Venezuela has undergone enormous political changes, with a new constitution and revamped political institutions. Although Chavez remained widely popular until mid-2001, his popularity has eroded significantly since then as a result of his inability to improve living conditions and opponents’ fears that he is trying to impose a leftist agenda on the country. Following massive protests, Chavez resigned under pressure from the

Venezuelan military on April 12, 2002, but was ultimately restored to power two days later, again with the support of the military.

From early December 2002 until early February 2003, the opposition orchestrated a general strike that severely curtailed Venezuela's oil exports and disrupted the economy, but was unsuccessful in getting President Chavez to agree to a non-binding referendum on his rule or early elections. President Chavez maintains that, according to the constitution (Article 72), a binding referendum on his rule can take place no earlier than halfway through his term, which is in August 2003. Chavez has agreed to hold such a referendum and believes that he would win, since the Constitution requires that at least as many voters who voted for him in the 2000 elections must vote against him in the referendum.

OAS Secretary General Cesar Gaviria has been involved since October 2002 in facilitating negotiations between the government and the opposition in order to resolve the crisis through democratic mechanisms under the Constitution. A breakthrough was reached on April 11, 2003, when Gaviria announced that an agreement had been reached for a possible recall referendum on Chavez's rule after the halfway point of his term, August 19, 2003. Subsequently, however, the Chavez government has backed away from signing the April 11 accord, calling for more time to study the agreement. OAS negotiators are working to salvage the accord.

The Bush Administration has expressed strong support for the work of the OAS and helped establish a group of nations called the "Friends of Venezuela" (consisting of the United States, Brazil, Chile, Mexico, Portugal, and Spain) to lend support to the work of the Secretary General. U.S. officials have called for Chavez to sign the April 11 agreement, but Venezuelan officials have dismissed any foreign pressure.

In addition to the preservation of democracy, key U.S. interests in Venezuela include continued U.S. access to Venezuelan oil reserves, the largest outside of the Middle East, and continued close anti-narcotics cooperation. Since Venezuela has been a major supplier of foreign oil to the United States (14.1% of total U.S. net oil imports in 2001), a key U.S. interest is ensuring the continued flow of oil exports at a reasonable and stable price.

CRS Products:

CRS Report RS20978, *Venezuela: Political Conditions and U.S. Policy*, by Mark P. Sullivan.