

CRS Report for Congress

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

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Mark P. Sullivan, Coordinator
Foreign Affairs, Defense, and Trade Division

J. F. Hornbeck, K. Larry Storrs,
Maureen Taft-Morales, and Connie Veillette
Foreign Affairs, Defense, and Trade Division

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

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 several countries. They maintain that the United States, faced with other pressing foreign policy problems like the war in Iraq and the global anti-terrorist campaign, has fallen back to a policy of benign neglect of the region. In contrast, others maintain that the United States has an active policy toward Latin America and point to the considerable assistance and support provided to Colombia and its neighbors as they combat drug trafficking and terrorist groups. They also point to the momentum toward free trade in the region through negotiation of 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, Congress approved implementing legislation for a bilateral free trade agreement with Chile in July 2003. 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 the Andean region. 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 has remained a congressional concern. Finally, Congress has maintained 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 several years, with 2002 registering a gross domestic product (GDP) decline of 0.6% and a per capita income decline of almost 2%, the worst economic performance in almost two decades. Argentina, Uruguay, and Venezuela suffered the deepest recessions, skewing the regional data downward, while most other countries had slow, but positive, growth rates. For 2003, regional economic growth is expected to be 1.5%, with steep economic decline in Venezuela lowering the region's average.¹

In South America, especially, 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. The Andean governments of Bolivia and Peru have faced violent protests. 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. Venezuela has been plagued by political polarization between supporters and opponents of President Hugo Chavez, although a recent political accord for a possible recall referendum has the potential of diffusing political tensions. Argentina's democratic political system was under considerable stress after social protests over economic conditions led to the resignation of a democratically elected President in December 2001. The political and financial situation has now stabilized, but the newly elected government of President Néstor Kirchner, inaugurated in May 2003, faces the task of building the political consensus needed for long-term reform efforts in order to ensure sustainable economic growth and financial stability.

¹ U.N. Economic Commission for Latin America and the Caribbean (ECLAC.) "Proyecciones de América Latina y el Caribe, 2003," April 2003; "U.N. Body Revises Down LatAm Economic Outlook," *Reuters*, August 7, 2003.

In Central America, countries such as El Salvador, Honduras, and Nicaragua emerged from the turbulent 1980s and 1990s with democratic institutions more firmly entrenched, yet corruption and violent crime is rampant. While the 1996 peace accords in Guatemala brought an end to the 36-year civil conflict, the government has not fully implemented substantive reforms associated with the peace plan and the human rights situation remains poor. According to Freedom House, although Guatemala's civil war is over, assassinations and death threats are common, deaths squads have reappeared, and hundreds of street children continue to be murdered or mutilated.²

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. As a result, the two sides have not found a common basis for new elections. 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, with the arrest and imprisonment of 75 dissidents.

U.S. Policy

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

U.S. counter-narcotics efforts in the region has continued to focus on the Administration's Andean Regional Initiative that supports Colombia and its neighbors with foreign assistance in their struggle against drug trafficking and drug-financed terrorist groups. Congress has been increasingly concerned about the intractable problem of illegal narcotics in the Andean region and has been divided over an appropriate policy. Congress has expressed repeated concerns over the capture and killing of various U.S. citizens by the Revolutionary Armed Forces of Colombia (FARC). In addition to the Andean region, President Bush determined on January 31, 2003, that Guatemala and Haiti had "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, however, lauded the country's commitment to improving its counternarcotics operations. This issue will be addressed again when President Bush designates, by September 15, 2003, countries that have "failed demonstrably" to adhere to international counternarcotics agreements within the previous 12 months.

² Freedom House. "Freedom in the World, 2003."

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 they have set the goal of strengthening trade linkages with the region. On June 6, 2003, the United States and Chile signed a bilateral free trade agreement (FTA) that had been completed in December 2002. This paved the way for congressional consideration of implementing legislation for the Chile FTA, H.R. 2738, under so-called fast track procedures, with both the House and Senate approving the measure in July. The Administration also expects to complete negotiations by year end for a U.S.-Central America Free Trade Agreement (CAFTA) with five Central American countries — Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua — that began in January 2003. In early August 2003, United States Trade Representative Robert Zoellick announced that the United States would initiate a free trade agreement with the Dominican Republic and integrate it into CAFTA. The Administration also is continuing to negotiate with other hemispheric nations for the establishment of a Free Trade Area of the Americas (FTAA) by 2005, a goal first agreed to at the 1994 Summit of the Americas.

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, \$1.5 billion in FY2002, and an estimated \$1.6 billion for FY2003 (based on the Administration's request); \$1.7 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. (For further information, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*, by Larry Nowels.)

Congress has continued to 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 experienced economic and political crises that may threaten democratic order. The United States supported the OAS adoption of the Inter-American Democratic Charter in 2001, 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. Haiti's persistent poverty and political instability has remained a concern for Congress as has the political situation in Venezuela. And as it has for the past several years, Congress will likely continue to debate the appropriate U.S. policy approach toward Cuba, although the Castro government's human rights crackdown in 2003 could 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 several countries. 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 war in Iraq, 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 RL32001, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

CRS Report RL32038, *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Countries*, by K. Larry Storrs.

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

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

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

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

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. Success in controlling coca and coca base production in Bolivia and Peru seemed to be offset in the mid-to-late 1990s by the expansion of coca cultivation into uncontrolled areas of Colombia, which previously had served only for the refinement of coca base into cocaine. In the last few years, drug traffickers have also begun to cultivate opium poppies and transform them into 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. According to United States and Colombian officials, coca cultivation has dropped 15% in Colombia during 2002. This marked the first reduction in acreage devoted to coca cultivation in Colombia. Poppy cultivation was reduced by 10% in the same year. For the first five months of 2003, Colombian officials reported additional aerial fumigation of nearly 161,000 acres of coca, with the goal of eradicating 50% of all illicit coca cultivation by the end of 2003.

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 the increasing instability fueled by the drug trade. To the Bush Administration and its supporters, the assistance to Colombia is necessary to help shore up a democratic government besieged by drug-supported leftist and rightist armed groups. Substantial assistance to Colombia's neighbors is warranted,

they argue, because of an increasing threat from the spillover of violence from Colombia, and the possible resurgence of drug cultivation in some countries and its spread from Colombia to others.

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

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 also contains a variety of human rights and environmental conditions on the funding. Congress also approved an FY2003 Emergency Wartime Supplemental Appropriations Bill (H.R. 1559/P.L. 108-11) providing an additional \$105.1 million in counterdrug and counterterrorism funds for the Andean region.

As of late July 2003, allocations for ARI accounts are \$999.6 million, inclusive of FY2003 regular and supplemental appropriations. Congress appropriated \$700 million of the requested \$731 million for the ACI account and provided that an additional \$31 million can be transferred to ACI from the State Department's International Narcotics Control and Law Enforcement account. The ACI account funds, among other things, supports for the eradication of illegal crops and the destruction of laboratories, as well as economic and social development. Congress also appropriated \$93 million of the requested \$98 million for the FMF account. 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. In FY2003, Colombia would receive some \$597.3 million in regular and supplemental appropriations, consisting of \$467.2 million in ACI funding and \$130.1 million in FMF.

Also, on July 1, 2003, the White House suspended military aid to a number of nations, including Colombia, that had not met a U.S. deadline for signing agreements with the United States exempting U.S. citizens from the jurisdiction of the International Criminal Court. Such a requirement was part of the American Service Members Protection Act of 2002. For FY2003, the decision would affect only

unobligated funds that amounts to \$5 million, according to the State Department. The full effect will be felt in regard to FY2004 funding, unless an agreement between the government of Colombia and the United States is reached.

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. (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." On July 23, 2003, the House passed the FY2004 Foreign Operations Appropriations Bill (H.R. 2800/H.Rept. 108-222) providing the requested amount of \$731 million for accounts comprising ARI. The Senate Appropriations Committee reported out its version (S. 1426/S.Rept. 108-106) on July 17, 2003, providing \$660 million of the President's request with authority to transfer an additional \$37 million from the State Department's International Narcotics Control and Law Enforcement account to ACI.

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 Revolutionary Armed Forces of Colombia (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 pilot and one of the contractors were shot, the other three contractors were captured by the FARC. Subsequently, in March 2003, three more American contractors were killed in a plane crash as they were searching for the captured contractors. Both planes involved in these crashes were Cessna 208s, which some contract employees 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.

Current U.S. law caps the number of military personnel and contractors at 400 each. However, 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) In a letter to Congress dated June 20, 2003, the President reported that as of May 13, there were 358 temporary and permanent U.S. military personnel and 308 U.S. civilian contractors in the country in support of Plan Colombia. Legislation in the House to authorize Department of Defense programs for FY2004 (H.R. 1588; Section 1208) raises the cap on military personnel to 500 while maintaining the number of contractors at 400. It includes exemptions for personnel involved in search and rescue operations, but their deployment may not exceed 30 days.

Air Bridge Denial Program. Following the April 2001 accidental shooting down of an airplane carrying U.S. missionaries in Peru by the Peruvian military working with U.S. assistance, the Air Bridge Denial Program, an effort to intercept drug trafficking flights, was suspended in both Peru and Colombia. Congress inserted language in the foreign aid funding bills requiring that safety enhancements be instituted before such flights could resume. Although discussions are still ongoing with Peru, Secretary of State Powell recommended to President Bush on August 5, 2003, that flights be resumed in Colombia after agreement was reached with Colombian authorities on protocols to ensure enhanced safety. U.S. officials announced August 19, 2003, that the President had approved the recommendation to resume the Colombia flights.

CRS Products:

CRS Report RL32021, *Andean Regional Initiative (ARI): FY2003 Supplemental and FY2004 Assistance for Colombia and Neighbors*, by K. Larry Storrs and Connie Veillette.

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 RL31016, *Andean Regional Initiative (ARI): FY2002 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.

U.S.-Latin American Trade Relations

Since the North American Free Trade Agreement (NAFTA) took effect in January 1994, its mixed reviews have been one factor that has 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 agreements was passed in August 2002. It was also seen in the debate that emerged over the implementing legislation for the U.S.-Chile and U.S.-Singapore FTAs that was passed by Congress in July 2003. In the meantime, the Bush Administration is pursuing other FTAs with Latin America, and since all will require congressional approval before they can take effect, the 108th Congress has followed each with some care.

U.S.-Chile FTA. On June 6, 2003, the United States and Chile signed a long anticipated bilateral free trade agreement (FTA) in Miami, Florida, concluding a 14-round negotiation process that began on December 6, 2000. Following hearings before the House Ways and Means, Senate Finance, and both Judiciary Committees, the House passed the U.S.-Chile Free Trade Implementation Act (H.R. 2738) by a

vote of 270 to 156, followed by the Senate one week later, 66 to 31. The bill awaits President George W. Bush's signature, at which time it will become law and take effect on January 1, 2004. The FTA allows 85% of all consumer and industrial goods to be traded duty free immediately, with 75% of tariffs on farm goods and Chile's luxury tax on automobiles to be eliminated within the first four years, and tariffs on sensitive goods traded between the two countries to be phased out over a period of up to 12 years. Chile's rules governing investment, services trade, intellectual property rights, labor, environment, dispute resolution, and other issues critical to the United States are also clarified and made more transparent. Importantly, there was no chapter on antidumping and countervailing duties, a trade issue of chief concern for Chile and Latin America in general. Because there are now multiple FTAs being contemplated, some Members of Congress expressed serious reservations about certain provisions in the U.S.-Chile and U.S.-Singapore agreements becoming "templates" for other FTAs that may follow. In particular, attention was focused on language governing dispute resolution treatment of labor and financial transfers, as well as the temporary entry for business persons.

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. Another complication arose on August 4, 2003, when the Bush Administration notified Congress of its intention to negotiate a bilateral FTA with the Dominican Republic, which its hopes to integrate into the CAFTA.

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 (presumably WTO-plus) framework for reducing tariff and nontariff barriers to trade and investment. Formal negotiations commenced in 1998 and the process so far has led to two draft texts, with a third draft expected to be completed for the eighth trade ministerial scheduled

for November 17-21, 2003 in Miami. 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. The FTAA negotiations are at a crossroads, however, with Brazil and the United States at odds over how to proceed. As the two largest regional economies with perhaps the most divergent perspectives on the FTAA, resolving their differences will be crucial for meeting the January 2005 deadline.

Brazil has taken strong exception to three U.S. trade policies. First is the U.S. strategy of pursuing subregional trade arrangements. Brazil sees NAFTA, the Andean Trade Promotion Act (ATPA), the Caribbean Basin Initiative (CBI), and bilateral agreements or negotiations with Chile, Central America, and the Dominican Republic as having an isolating effect on the Mercosur countries, and especially Brazil. Second, the United States has said it cannot deal with agricultural subsidies in the FTAA, insisting instead on negotiating them in the Doha Round of the WTO in order to include other major subsidizing countries (the European Union and Japan, among others). An identical stand has also been taken with respect to antidumping, in part because of congressional opposition. Brazil considers this position to be in conflict with the FTAA's single undertaking provision. Third, the United States is insisting on a "differentiated access" approach to market access, which places Brazil a group of South American countries with the least favorable tariff phase-out schedule. Brazil has responded with its own "Three Track Proposal," which would include bilateral market access talks between Mercosur countries and the United States, adding more issues to be sent to the WTO (government procurement, investment), and allowing the remaining issues to be negotiated in the FTAA. The United States has not agreed to this approach and it is unclear whether a compromise might entail moving toward a so-called "FTAA light" that is far less of an inclusive arrangement, or staying with a deeper agreement, as originally envisioned, that can accommodate all 34 countries.

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, which was referred to the Senate Foreign Relations Committee (Treaty Doc. 107-18). In the aftermath of 9/11, the OAS reinvigorated the Inter-American Committee on Terrorism (CICTE), which has cooperated on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence.

The State Department, in its annual report on worldwide terrorism (*Patterns of Global Terrorism*, April 2003), highlights terrorist threats in Colombia, Peru, and the tri-border region of Argentina, Brazil, and Paraguay. In the aftermath of 9/11, U.S. attention focused on potential links in the region to the Al Qaeda terrorist network, but the *Patterns* report maintains there is no confirmed, credible information regarding an established Al Qaeda presence in the region. 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, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is generally provided through the annual foreign operations appropriations measure. In FY2002, a total of \$27.5 million was provided for the region, with \$25 million for an anti-kidnapping program in Colombia (appropriated through an FY2002 supplemental appropriations measure, P.L. 107-206) and \$2.5 million for the regular Western Hemisphere program. For FY2003, the Administration requested \$8.4 million for the Western Hemisphere, and for FY2004 it requested almost \$2.3 million. The State Department announced in December 2002 that up to \$1 million would be provided for counter-terrorism finance training for the tri-border area because of concerns that illicit activities are funding terrorism.³

In the 108th Congress, the Senate Foreign Relations Committee report (S.Rept. 108-56) to S. 1161, the Foreign Relations Authorization Act for FY2004, urges the Department of State to pay particular attention to training and related equipment for countering terrorist financing, transitional crime intelligence sharing, and border security in the tri-border area.

³ "U.S. Concerned that Tri-Border Area of South America Funds Terrorism," U.S. Department of State, International Information Programs, Washington File, December 20, 2002.

For background information, see “Inter-American Community United Against 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.

Country Issues

Argentina

Argentines went to the polls on April 27, 2003, choosing two Peronist Party leaders to advance to a runoff election on May 18, an event that never transpired because former president Carlos Menem, facing a clear electoral defeat, dropped out of the race. Governor Néstor Kirchner was inaugurated president on May 25, 2003 by a plurality of 24% of the votes cast in the primary, but is enjoying a much higher approval rating. The new administration faces a daunting challenge of having to make politically difficult decisions if Argentina is to return to economic health in the aftermath of one of the worst financial crises in Latin American history. The overarching challenge is to balance the need for deep political reform and economic austerity, with calls for social action, justice, and economic growth.

Among Kirchner’s early initiatives is a wholesale effort at institutional reform aimed at restoring public trust in the government. So far this has included replacing top police, prison, and military officials, supporting the impeachment proceeding against a member of the Supreme Court, and reversing legislation that has protected members of the military accused of human rights abuses during the 1976-83 military dictatorship. Although the legislative and judicial hurdles that must be cleared before former military leaders can be tried are daunting, President Kirchner has lifted the ban on the extradition of former officers to face trial in Spain, and the fact that Kirchner has attempted to combine restoration of justice with institutional reform has apparently served to increase his political support.

The economic and financial problems facing Argentina are paramount. Argentina is experiencing a fast-paced but unsure recovery following the worst financial crisis in its history that began on December 20, 2001. In addition to broad economic reform, the country faces huge financial problems including devising a plan to work out its massive foreign debt and more immediately, coming to terms with the International Monetary Fund (IMF) before a \$2.9 billion payment comes due on September 9, 2003. Currently Argentina is living off a \$6.6 billion interim stand-by arrangement with the IMF, which tided it over during the presidential cycle. A longer term arrangement is needed as part of its overall debt restructuring effort, which hinges on settling numerous complicated and politically sensitive reforms in such areas as the tax code, provincial fiscal relations, and utility contracts. Even if the IMF and Argentina can come to an agreement, the country has a \$136 billion

foreign debt obligation, including \$92 billion owed by the national and provincial governments.

Although Argentina's political and economic life has begun to stabilize and the government has made major strides in cleaning up its financial mess, such as beginning to remove the provincial bonds used as currency, major steps are still needed to return the country to financial credibility. Whether this can be done in a politically charged atmosphere where social issues also underlay many problems is yet to be determined.

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: Political Conditions and U.S. Relations*, 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 to maintain the restrained fiscal and monetary policies associated with Brazil's \$30 billion IMF loan, announced in August 2002, that was provided to guarantee that Brazil would be able to continue to pay its considerable foreign debt. During the first months of his administration, the President 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. Turning to his legislative initiatives, the President has indicated that his legislative priorities include reforming the social security system to make it self-sustaining and modifying the tax system to make it more effective and fair. In a major domestic victory for the government, on August

7, 2003, the Chamber of Deputies approved the social security reform measure by 358-126, which was 49 votes more than the 309 or three-fifths needed for constitutional reforms. The reform raises the age for retirement, caps pensions for future retirees, and taxes the retirement benefits above a certain level.

In the foreign policy area, President Lula da Silva has met with most of the presidents in the region and seems to be working to create a strong South American bloc that would merge the Southern Common Market (Mercosur), composed of Argentina, Paraguay and Uruguay (with Bolivia and Chile as associate members) with the Andean Community, composed of Venezuela, Colombia, Ecuador, Peru and Bolivia. He wants to revitalize Mercosur, even though the regional economies have been struggling, and Argentina and Paraguay are experiencing leadership changes.

Despite past criticisms of U.S. policy, Presidents Lula da Silva and Bush indicated at an early point that they want a constructive relationship. United States Trade Representative Zoellick visited Brazil in January 2003 and Treasury Secretary Snow visited in April, with much of the discussion relating to the Free Trade Area of the Americas (FTAA). Since November 2002, Brazil and the United States have had responsibility for co-chairing the FTAA Trade Negotiation Committee in the final phase of negotiations that are 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. In recent months, there seems to be some agreement that the broader issues, including agricultural issues, will be resolved in the Doha round of WTO talks scheduled to be completed in 2005, regional issues will be resolved through the FTAA mechanisms, and some issues will be resolved essentially at a bilateral level in the so-called 4+1 talks between Mercosur countries and the United States. On counter-terrorism issues, while Brazil demonstrated solidarity with the United States following the September 2001 terrorist attacks by leading the effort within the Organization of American States (OAS) to invoke the collective security Rio Treaty, President Lula da Silva favored a more multilateral effort to disarm and to reconstruct Iraq.

On June 20, 2003, President Lula da Silva made an official visit to Washington, D.C., and the countries' leaders resolved "to create a closer and qualitatively stronger [bilateral] relationship." Leaders agreed on a framework for regular high-level discussions on a wide range of issues, including agreements to enhance cooperation in science and nuclear energy; to jointly promote HIV/AIDS treatment in the Portuguese-speaking African countries of Mozambique and Angola; and to establish an energy partnership for cooperation on alternative energy sources.

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 from 1989 to 1993. While there has been some improvement since 1994 as Cuba has implemented limited reforms, the economy remains in poor shape.

In March 2003, the government began a massive crackdown that resulted in the imprisonment of some 75 independent journalists and democracy activists, who received 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 \$235 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 included several measures designed to reach out to the Cuban people.

While there appears to be broad agreement on the overall objective of U.S. policy toward Cuba, to help bring democracy and respect for human rights to the island, there are several schools of thought on how to achieve that objective. Some advocate 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.

Since a 1995 U.S.-Cuban migration accord, the U.S. Coast Guard has interdicted thousands of Cubans at sea trying to enter the United States and returned them to Cuba, while those deemed at risk for persecution have been transferred to Guantanamo and then found asylum in a third country. Those Cubans who reach shore usually are allowed to apply for permanent resident status in one year pursuant to the Cuban Adjustment Act of 1966 (P.L. 89-732). This so-called “wet foot/dry foot” policy has been criticized by some as encouraging Cubans to risk their lives in order to make it to the United States and as encouraging alien smuggling. Others maintain that U.S. policy should welcome those migrants fleeing Communist Cuba whether or not they are able to make it to land. On July 21, 2003, the U.S. Coast Guard repatriated 15 Cubans who had been interdicted on a Cuban government vessel that had been stolen on July 15. The United States returned the Cubans after assurances from the Cuban government that no one would face execution and no one would serve more than 10 years in prison. The repatriation of the migrants prompted widespread criticism of the Administration in Florida and among some Members of Congress.

Congress is continuing its high level of interest in Cuba in the 108th Congress, with a variety of legislative initiatives introduced 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.

Several legislative initiatives have been introduced that would ease sanctions on Cuba (H.R. 187, H.R. 188, H.R. 1698, H.R. 2494, S. 403, and S. 950), and as in past years, attempts are likely in appropriations bills to ease some Cuba embargo restrictions. S. 1427, the Senate version of the FY2004 agriculture appropriations bill, includes a provision allowing travel to Cuba under a general license for travel related to the sale of agricultural and medical goods. Attempts to ease the Cuba embargo are also expected during consideration of the Transportation-Treasury appropriations bill, H.R. 2989.

Cuba’s human rights crackdown in 2003 could have an impact on momentum behind such legislative proposals to ease Cuba sanctions. Demonstrating congressional concern about the poor human rights situation, three resolutions on the human rights situation have been approved: S.Res. 97, H.Res. 179, and S.Res. 62.

Among other bills with Cuba provisions: the Senate committee version of the FY2004 foreign operations appropriations measure, S. 1426, would provide assistance for counter-narcotics cooperation with Cuba, while the House-passed version, H.R. 2800, would prohibit such assistance; H.R. 2799, the FY2004 Commerce, State, and Justice appropriations bill, would continue funding for Cuba broadcasting.

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.

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

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. Two and a half 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.

In August 2003, the Haitian government announced in August plans to hold elections in November. The U.S. Embassy in Haiti said that elections that did not comply with conditions of an OAS-negotiated agreement, including creating a safe environment, would be "unacceptable." Two-thirds of Haitian legislators' terms

expire in January 2004; without elections the Parliament will not be able to function legally.

Major donors, including the United States, have directed most aid to Haiti through non-governmental organizations, withholding most 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. Haiti and the Inter-American Development Bank (IDB) took steps to normalize relations in July 2003. After Haiti paid \$32 million in arrears, the IDB announced it would begin releasing \$196 million in loans. Haiti must still meet certain conditions to receive segments of the loans.

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 in the 108th Congress is focusing on trade, migration, drug trafficking, and political and human rights issues. Mexico is the United States’ second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA), but Mexican farmers have recently indicated concern about the elimination of tariffs on sensitive agricultural products. Other disputes relate to trucking, telecommunications, tuna, sugar, and corn sweeteners.

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 Mexico and the United States were especially warm during the visits of President Bush and President Fox in 2001, when hopes were high for some sort of bilateral migration agreement. Relations cooled to some extent when migration talks stalled following the September 2001 terrorist attacks. In the cabinet-level November 2002 Binational Commission meetings, country spokesmen reaffirmed the intention to pursue the high-level talks on migration issues, and following the deaths of 19 migrants in Texas in May 2003, the countries agreed on joint measures to warn migrants of the dangers and to prosecute smugglers. On August 13, 2003, Mexican special agents arrested a number of key people in a major organization accused of smuggling people into the United States, including those found dead in Texas.

In migration-related action, the House passed the Foreign Relations Authorization for FY2004-FY2005 (H.R. 1950) on July 16, 2003, with provisions relating to Mexico. These included a sense of Congress provision supporting a bilateral migration accord with Mexico, without reference to Pemex; two amendments stating the sense of Congress on joint pollution control on the border and Mexican extradition policy; and restrictions on Mexico's issuance of consular identification cards. There are no similar provisions in the bill (S. 925) considered by the Senate on July 9-10, 2003, but the Senate approved an amendment authorizing \$100 million to support rural development in Mexico.

On drug trafficking issues, President Fox presented a tougher, more comprehensive, multi-year National Drug Control Plan in November 2002, which recognized Mexico's growing drug problem and the need for greater cooperation among agencies while noting Mexican successes against major drug traffickers. U.S. officials praised Mexico's counter-narcotics efforts when President Bush's drug certification determinations were made in late January 2003 and when the State Department issued the International Narcotics Control Strategy Report in early March 2003. In mid-March 2003, Mexican law enforcement authorities captured alleged drug kingpin Osiel Cardenas-Guillen. On July 31, 2003, Mexican and U.S. officials announced the dismantlement of the Zambada Garcia drug cartel after a 19-month investigation that led to the arrest of 240 people in Mexico and the United States. On August 17, 2003, Mexican troops arrested drug kingpin Armando Valencia and key lieutenants near Guadalajara.

On political issues, in July 6, 2003, nation-wide elections to renew the Chamber of Deputies, President Fox's conservative National Action Party (PAN) fared poorly, while the previously dominant centrist Institutional Revolutionary Party (PRI) and the leftist Party of the Democratic Revolution (PRD) increased representation, making it even more difficult for President Fox to obtain legislative support for his programs. On human rights issues, President Fox previously welcomed a report by the National Human Rights Commission on human rights violations in the 1970s and 1980s and designated a special prosecutor in early 2002 to prosecute those responsible for the past abuses. Although a number of suspects have been arrested for past abuses, Human Rights Watch issued a report in late July 2003 arguing that the special prosecutor has failed to produce significant results and that the office has received inadequate support from the government. On August 12, 2003, Amnesty

International released a report asserting that Mexican police have mishandled the investigations into a decade of slayings of up to 370 poor young women in the border town of Ciudad Juarez across from El Paso, Texas. This action came three weeks after the Fox administration sent 300 federal police officers to the area to bolster local prosecution efforts.

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 RS21561, *Mexico's Congress and July 2003 Elections*, 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 attacked 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, Toledo's 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. Toledo's public support sank to a low 11% in 2003, and some observers wondered whether he would be able to survive politically until the end of his term in 2006.

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. Toledo has declared two states of emergency, using the military to contain widespread protests by teachers, farmers, and others for higher wages.

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 shootdown 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.

Support for democracy and human rights also is a U.S. concern in Peru. U.S. initiatives 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 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.

The \$1.6 billion Camisea natural gas project in Peru has generated controversy. Critics, including Members of Congress, some U.S. officials, and international

environmental groups, express concern about its negative impact on indigenous societies and the environment, including a pristine tropical rain forest and Peru's only marine sanctuary for endangered birds and mammals. Supporters of the project say it will contribute greatly to Peru's economy, including some \$5.5 billion in tax revenues, and \$100 million annually to affected communities, and will reduce pollution in Lima. Two Texas energy companies are involved in the project: Hunt Oil Company, and the Kellogg Brown and Root unit of Halliburton Company. The Inter-American Development Bank (IDB) postponed until early September deliberations on \$135 million loans to the project, at the request of the U.S. representative to the IDB, to allow for more complete reviews of the project.

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 anti-Chavez protest in April 2002, the Venezuelan military took Chavez into custody, and business leader Pedro Carmona declared himself interim President, but Chavez was restored to power in days with 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.

OAS Secretary General Cesar Gaviria began in October 2002 to facilitate 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. The agreement was ultimately signed by the government and the opposition on May 29, 2003. In the accord, both parties agreed to adhere to the Venezuelan Constitution, to undertake a campaign to disarm the civilian population, and to urge the National Assembly to establish a Truth Commission to investigate the outbreak of violence in April 2002.

Most significantly, the parties agreed to resolve the political crisis through application of Article 72 of the Constitution, which provides for potential recall referenda on officials holding elected positions. For such a referendum to take place, Article 72 requires a petition with 20% of registered voters, which would require the signature of 2.4 million voters out a registry of 12 million. For the official to be recalled, the number of voters must be equal to or greater than the number of votes that the official received when elected. This would mean that for Chavez to lose the presidency, more than 3.75 million voters (the amount that Chavez received in the July 2000 election) would have to reject him in the referendum. Observers point out that while Chavez received almost 60% of the vote in 2000, some 43% of

Venezuela's registered voters abstained.⁴ The abstention rate for a recall referendum would likely be much lower.

While President Chavez lauded the agreement as an indication that the opposition was returning to democratic means to express their dissatisfaction, many members of the opposition are disgruntled with the agreement. They are concerned that there are no binding commitments in the accord and fear that the Chavez government will find ways perpetuate its control of the government. If the opposition succeeds in recalling President Chavez in a referendum, the next step would be for new elections to be held. One of the problems that has plagued the opposition is that it has not had a well organized or coherent political coalition. As a result, it could be difficult for the opposition to present a single candidate that could defeat Chavez in new elections. Moreover, polls indicate that Chavez retains core support of about 30-36% of Venezuelans who are loyal and generally from the poorer classes.

A major hurdle in implementing the May 2003 political agreement was the selection of a 15-member National Electoral Council (CNE) that would oversee the referendum process. Venezuela's National Assembly, in which Chavez supporters maintain a slim majority, was unable to select the CNE members by August 14, 2003, a deadline imposed by Venezuela's Supreme Court. The Supreme Court is now slated to appoint the CNE members by August 25 or 26. On August 20, Venezuela's opposition presented more than 3 million signatures calling for a recall referendum for President Chavez (as noted above, the signatures of 2.4 million or 20% of registered voters are needed for a recall referendum). President Chavez has questioned the validity of the signatures, while the new CNE to be selected by the Supreme Court will have the task of verifying the signatures, supposedly within 30 days. If the signatures are deemed valid, the CNE will then have 60 days to hold a referendum. Polls indicated that almost 69% of Venezuelans would vote to recall President Chavez.

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 welcomed the May 2003 political agreement, and maintained that the United States would continue to work to facilitate a peaceful, constitutional, democratic, and electoral solution to Venezuela's political impasse.

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. There also has been concern about the guerrilla conflict in Colombia spreading to Venezuela.

⁴ Mike Ceaser, "Some in Opposition Unhappy with Success; Chavez Recall Vote Too Weak," *Washington Times*, June 1, 2003.

CRS Products:

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