

# Report for Congress

Received through the CRS Web

## Latin America and the Caribbean: Issues for the 108<sup>th</sup> Congress

January 30, 2003

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

J. F. Hornbeck, Nina M. Serafino,  
K. Larry Storrs, and Maureen Taft-Morales

# Latin America and the Caribbean: Issues for the 108<sup>th</sup> 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 such countries as Argentina and Venezuela. They maintain that the United States, faced with other pressing foreign policy problems like the confrontation with 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 108<sup>th</sup> Congress will likely 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 will 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.

# Contents

Introduction .....	1
Conditions in the Region .....	1
U.S. Policy .....	2
Regional Issues .....	4
Colombia and the Andean Regional Initiative .....	4
U.S.-Latin American Trade Relations .....	6
U.S.-Chile FTA .....	6
U.S.-Central American FTA .....	7
Free Trade Area of the Americas .....	7
Terrorism .....	8
Country Issues .....	9
Argentina .....	9
Brazil .....	10
Cuba .....	11
Haiti .....	13
Mexico .....	14
Peru .....	15
Venezuela .....	17

# Latin America and the Caribbean: Issues for the 108<sup>th</sup> Congress

## 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.<sup>1</sup> Some 44% of the region's population live in poverty, according to ECLAC.<sup>2</sup>

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, on April 27, 2003. 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.

---

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

<sup>2</sup> U.N. Economic Commission for Latin America and the Caribbean. "Social Panorama of Latin America, 2001-2002." CEPAL 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, which has a poor record on human rights.

## **U.S. Policy**

Congressional attention to Latin America in the 108<sup>th</sup> 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. 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.

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 \$1.6 billion was requested for FY2003.

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 108<sup>th</sup> Congress, the initiative could dramatically increase foreign assistance to several Latin American countries beginning in FY2004.<sup>3</sup>

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 approach toward Cuba, the region's only democratic holdout.

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

---

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

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, Colombia also became the site of the cultivation of opium poppies and their transformation into heroin. In 2000, the 106<sup>th</sup> 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 107<sup>th</sup> 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 108<sup>th</sup> Congress will likely continue to scrutinize indicators of the ARI's effectiveness, and to debate the policy's wisdom. Annual indicators of the amount of coca under cultivation in each Andean country, usually released by early March, will factor into the 108<sup>th</sup> Congress' debate on the policy's effectiveness. 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.

The 108<sup>th</sup> Congress' first task regarding the ARI is to decide on funding for the President's FY2003 \$980 million ARI request. In its amendment to H.J.Res. 2, a bill making further continuing appropriations, the full Senate on January 23, 2003, approved an omnibus appropriations bill covering the 11 unfunded FY2003 spending bills which includes foreign operations appropriations. Although it is not clear how much funding the Senate version of H.J.Res. 2 would provide for the total ARI, it would provide \$650 million for the key "Andean Counterdrug Initiative" (ACI) account of the \$731 million requested, and \$88 million in Foreign Military Financing (FMF) of the \$98 million requested. (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 Cano-Limón oil pipeline in Colombia.) These ACI and FMF amounts total some \$14 million more than that provided for Colombia and other Andean countries in the Senate Appropriations Committee's version of the FY2003 foreign operations appropriations in the 107<sup>th</sup> Congress, S. 2779, which was never acted on by the full Senate. The version approved by the House Appropriations Committee in the 107<sup>th</sup> Congress, H.R. 5410, fully funded the President's ARI request, but it was not acted on by the full House. Both versions contain a variety of human rights and environmental conditions on the funding. Further action on this funding will occur in early 2003 in the context of conference action on H.J.Res. 2.

**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 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 108<sup>th</sup> 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. As required under the Trade Act of 2002 (P.L. 107-210), President Bush formally notified the 108<sup>th</sup> 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, and may have some negative repercussions on firms that compete directly with Central American imports.

**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 TNC will meet in April 2003 in Trinidad and Tobago and the eighth FTAA

ministerial meeting will convene in Miami, Florida on November 20-21, 2003; the ninth is scheduled for the following year in Brazil.

The most important recent negotiating milestone was the initiation of detailed market access talks, which involve five separate groups. Initial market access offers are due by February 15, 2003. Agriculture and the market access groups were given instructions to coordinate their efforts and to have final revised offers completed by July 15, 2003. As was recognized at Quito, the 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. Much attention is also focused on how Brazil and the United States (with the two largest economies) will undertake their duties as co-chairs of the TNC given their significant differences of opinion on many issues, including sensitive topics such as the treatment of steel and agricultural products. Although the 108<sup>th</sup> Congress is not expected to deal with implementing legislation on the FTAA, the relevant committees will oversee this last phase of the negotiations. In this respect, the 108<sup>th</sup> Congress will play an important role in determining if the FTAA is to be brought to completion by 2005.

**CRS Products:**

CRS Electronic Briefing Book, *Trade* "The U.S.-Central America Free Trade Agreement," by J. F. Hornbeck, available online at [ <http://www.congress.gov/brbk/html/ebtra132.html>].

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 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. An OAS meeting to discuss the scope of the Convention and the anti-terrorism approach for the hemisphere took place January 22-24, 2003, in El Salvador.

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](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 term until December 2003. Over the past year, 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, 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.

Argentina's economy appears to have stabilized at the close of 2002. However, GDP declined by 12% last year, and unemployment and poverty rates were at 18% and 60% respectively. On January 17, 2003, the IMF reached a new "interim" \$6.8 billion agreement. The arrangement was supported by the United States and other Group of 7 countries as necessary to keep Argentina from defaulting on a \$1 billion payment due to the IMF the next day. The loan package has few new conditions attached and provides sufficient financial resources only to "roll over" Argentina's current commitments to the IMF through August 2003. It was timed to support Argentina during its presidential elections scheduled for April 27, 2003. The program has been criticized by some as being economically questionable, allowing Argentina to avoid the harsh consequences of defaulting to the IMF, without being required to tackle difficult structural policy issues such as private and public sector financial reform. Consequently, under these conditions it remains to be seen if Argentina is on a true path to political and economic recovery, or merely biding time.

**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).

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 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. Since his election, he has designated well respected and moderate individuals to his economic team, while stressing that one of his main priorities will be the eradication of hunger through a program called Zero Hunger.

In the foreign policy area, President Da Silva 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 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 other regional action, Lula da Silva, while attending the inauguration of Lúcio Gutierrez as President of Ecuador on January 15, 2003, pressed successfully for the Brazilian initiative to create a group of nations known as the "Friends of Venezuela" to facilitate dialogue between President Chavez of Venezuela and the opposition that is demanding a referendum on his presidency.

**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. 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. Over the past two years, the economy has been hard hit by the effects of Hurricane Michelle, the effect on the international tourism industry of the September 11 2001 terrorist attacks in the United States, and a cutback in Venezuela's preferential oil exports.

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 106<sup>th</sup> Congress enacted legislation allowing for commercial food and medical exports to Cuba (P.L. 106-387, Title IX), and over the past year, Cuba has purchased over \$100 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.<sup>4</sup>

As in past years, the main issue for U.S. policy toward Cuba in the 108<sup>th</sup> Congress will likely be how best to support political and economic change. In the debate over U.S. policy, there have been different schools of thought about how to achieve that objective. Some advocate keeping maximum pressure on the Communist government of Fidel Castro by maintaining the current U.S. embargo until reforms are enacted, while continuing efforts to support the Cuban people. Others argue for an approach, sometimes referred to as constructive engagement, that would lift some U.S. sanctions they believe are hurting the Cuban people, and move toward engaging Cuba in dialogue. Still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo. Legislative initiatives over the past few years have reflected these various approaches. Congress will likely continue its high level of interest in Cuba in 2003, with a variety of legislative initiatives regarding sanctions and human rights that will be of interest to various groups with differing interests.

Policy debate in the 107<sup>th</sup> Congress focused on whether to lift restrictions on travel to Cuba and on private financing for agricultural exports. In the second session, the House approved three amendments to the FY2003 Treasury Department appropriations bill (H.R. 5120) that would have eased restrictions on travel, remittances, and commercial agricultural and medical sales to Cuba. The Senate Appropriations Committee version of the bill, S. 2779, would have eased restrictions on travel. Final action on the measure was not completed before Congress adjourned.

In the 108<sup>th</sup> Congress, the Senate version of the FY2003 omnibus appropriations bill (H.J.Res. 2, as amended by S.Amdt. 1, approved January 23, 2003) does not include the Senate Appropriations Committee provision from the 107<sup>th</sup> Congress that would have eased travel restrictions. However, the Senate omnibus bill includes several provisions affecting U.S. policy toward Cuba: 1) a provision would provide \$24.996 million for Radio and TV Marti broadcasting to Cuba (Division B, Commerce, Justice, and State appropriations); 2) a provision would provide \$3 million for international narcotics control and law enforcement assistance for preliminary work to establish cooperation with Cuba on counter-narcotics matters (Division E, Foreign Operations appropriations, Sec. 580); 3) a provision would

---

<sup>4</sup> White House, Office of the Press Secretary, "President Bush Announces Initiative for a New Cuba," May 20, 2002.

expedite action, within 90 days, by the Treasury Department's Office of Foreign Assets Control on license applications for travel (Division J, Treasury appropriations, Section 124). In addition, while the bill does not earmark funding for human rights and democracy projects for Cuba, the Administration's FY2003 foreign aid request included \$6 million for such projects. Final action on these provisions is subject to a House-Senate conference on H.J.Res. 2.

**CRS Products:**

CRS Report RL30806, *Cuba: Issues for Congress*, by Mark P. Sullivan and Maureen Taft-Morales.

CRS Trade Briefing Book, *Cuba Sanctions*, by Mark P. Sullivan  
[<http://www.congress.gov/brbk/html/ebra108.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 will likely 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. Aristide has said elections will be held by June 2003. 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.

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. In the 108<sup>th</sup> Congress, the Senate-approved FY2003 omnibus appropriations bill, H.J.Res. 2 (Division E, Foreign Operations) approved on January 23, 2003, would prohibit assistance to Haiti except through regular notification procedures, and would allow Haiti to purchase defense articles and services for the Haitian Coast Guard. The 107<sup>th</sup> Congress did not complete action on the FY2003 Foreign Operations appropriations measure, but the House Appropriations Committee's version, H.R. 5410, would have not required notification procedures except for the Coast Guard purchases, and would have provided for "not less than \$52.5 million" in food assistance programs to be allocated to Haiti.

**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 108<sup>th</sup> Congress is likely to focus 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. 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 migration agreement between the countries. Relations cooled to some extent when migration talks stalled following the September 2001 terrorist attacks, and this lack of action was reported to be one reason for the resignation of Foreign Minister Jorge Castañeda in mid-January 2003. In cabinet-level bilateral meetings in November 2002, both countries reaffirmed the intention to continue talks toward a migration agreement; Mexico indicated concern about the impending reduction of tariffs on sensitive agricultural products under NAFTA; and the United States indicated concern about Mexico's continuing failure to provide water in South Texas as required by a 1944 treaty. In January 2003, Mexico brought a case against the United States in the International Court of Justice in the Hague. Mexico argued that the United States has violated the Vienna Convention on Consular Relations by systematically failing to inform 54 Mexican nationals sentenced to death in the United States of their right to consular assistance as required by the Convention. President Fox had cancelled a scheduled meeting in August 2002 with President Bush in Texas to protest the execution by Texas authorities of convicted police killer Javier Suarez Medina despite Mexican claims that he was a Mexican citizen and was never afforded Mexican consular assistance.

During the 107<sup>th</sup> Congress, U.S. congressional action focused on strengthening border security, and alien admission and tracking procedures through the USA Patriot Act of 2001 (P.L. 107-56), and the Enhanced Border Security and Visa Entry Reform Act of 2002 (P.L. 107-173). With a similar security focus, the Homeland Security Act of 2002 (P.L. 107-296) incorporated the INS/Border Patrol, Customs, and other agencies into the new Department of Homeland Security. In the Department of Transportation Appropriations Act for FY2002 (P.L. 107-87), Congress required the Administration to impose stringent safety inspections on Mexican trucks for NAFTA-required access to U.S. highways. In the Foreign Relations Authorization Act for FY2003 (P.L. 107-228) the Congress permanently modified the annual drug certification requirements, a past irritant in the bilateral relationship, to require the President to designate only those countries that have failed demonstrably to make substantial counter-narcotics efforts, while leaving the President the discretion to utilize the old procedures.

**CRS Products:**

CRS Issue Brief IB10070, *Mexico-U.S. Relations: Issues for 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 10-year 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, Toledo has been widely criticized as having weak leadership skills. His image has also 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 more than 3% expected for 2002, 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.

President Bush became the first U.S. President to visit Peru when he traveled to Lima on March 23, 2002. Presidents Bush and Toledo pledged to fight terrorism and narcotics trafficking jointly. Peru is a major illicit drug-producing and -transit country. 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 daughter. The Andean Counterdrug Initiative (P.L. 107-115, signed into law Jan.10, 2002) prohibited funding of the program until the Secretary of State and Director of Central Intelligence certified to Congress, 30 days before resuming such a program, that enhanced safeguards and procedures were in place to prevent the reoccurrence of such an incident. It also set forth health and safety guidelines for aerial coca fumigation. For the FY2003 ACI, the Senate's version of the FY2003 omnibus appropriations bill, (H.J.Res. 2, as amended by S.Amdt. 1, Division E, Foreign Operations) approved by the Senate on January 23, 2003, drops the aerial interdiction prohibition, sets forth expanded fumigation guidelines.

Presidents Bush and Toledo discussed several U.S. initiatives involving Peru during the Bush visit. 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, the continued declassification and delivery of State Department documents requested by Peru's Congress to support its investigation into corruption and abuses under the Fujimori government, and the re-establishment, after a 27-year absence, of the Peace Corps program in Peru. A debt-for-nature swap, which was agreed to at the meeting, was signed on June 26, 2002. Under the agreement, part of Peru's foreign debt was cancelled in return for the Peruvian government's commitment of resources to conserve and maintain wildlife reserves and other protected areas. 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. Bush and Toledo also discussed the case of Lori Berenson, an American jailed in Peru. 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.

## 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.

As of late January 2003, political tensions remained high, with increased polarization between Chavez supporters and opponents. Since early December 2002, the opposition, some 40 disparate groups united in a coalition known as the Democratic Coordinator, has orchestrated a general strike that has severely curtailed Venezuela's oil exports. The opposition had been calling on Chavez to hold a nonbinding referendum on his rule in early February 2003, in hopes that the results would compel Chavez to resign, but on January 22, Venezuela's Supreme Court rejected such a referendum. The opposition is now calling for early elections to force Chavez from office. 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, in August 2003. Chavez has agreed to hold such a referendum and believes that he will 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.

Since October 2002, Organization of American States Secretary General Cesar Gaviria has been involved in facilitating negotiations to resolve the crisis through democratic constitutional mechanisms. The Bush Administration has expressed strong support for the work of the OAS, and helped establish a group of "Friends of Venezuela" (consisting of the United States, Brazil, Chile, Mexico, Portugal, and Spain) to lend support to the work of the Secretary General.

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 is 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. But the ongoing general strike has drastically cut Venezuela's overall oil exports. Potential U.S. military action against Iraq could be more costly because without Venezuelan oil exports, oil prices could increase more than they would otherwise.<sup>5</sup>

---

<sup>5</sup> James Dao and Neela Banerjee, "Venezuela Crisis Complicates Iraq Situation, Experts Say," *New York Times*, January 11, 2003.

**CRS Products:**

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

CRS Issue Brief IB87050, *Strategic Petroleum Reserve*, by Robert Bamberger.