

# CRS Report for Congress

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## **El Salvador: Political, Economic, and Social Conditions and Relations with the United States**

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### **Summary**

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca is seeking to restart the country's stagnating economy, pass legislation in a polarized political environment, and combat gang violence. His legislative agenda should face continuing opposition from the Farabundo Marti National Liberation Front (FMLN), which recovered seats it had lost due to defections in 2005 in the March 2006 legislative elections. ARENA also increased its representation in the legislature, but lacks a majority and will continue to have to rely on support from small parties to enact President Saca's agenda. In 2005, despite its tough anti-gang legislation, El Salvador posted a murder rate of 15 people per day, the highest in the hemisphere. In February 2006, the Bush Administration extended the Temporary Protected Status (TPS) of eligible Salvadoran migrants living in the United States until September 9, 2007. On March 1, 2006, El Salvador became the first country in the region to implement the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) with the United States. This report will be updated periodically.

### **Background**

El Salvador, nearly the size of Massachusetts, is the smallest nation in Central America, and the most densely populated with 6.3 million people. With a per capita income of \$2,050, it is considered a lower middle-income country. In the past dozen years, El Salvador posted solid economic growth, held free and fair presidential and municipal elections, and survived a series of natural disasters. Significant problems remain, however, such as endemic poverty and rampant gang violence. These social problems, as well as a polarized political system, are inextricably linked to the country's devastating civil war, which lasted throughout the 1980s.

## Political Situation

El Salvador achieved notable stability and economic growth in the 1990s, but its growth has stagnated for the past six years, making it increasingly dependent on remittances from citizens living abroad. A 1992 negotiated peace accord brought the country's protracted 12-year civil war, which had resulted in 75,000 deaths, to an end. The agreement formally assimilated the former guerrilla forces, the FMLN, into the electoral process. The current president, Antonio (Tony) Saca, was elected in March 2004, along with Ana Vilma de Escobar, El Salvador's first female vice president, and was inaugurated as president on June 1, 2004, for a five-year term. He is the fourth consecutive, democratically elected president from the conservative ARENA party, which has governed the country since 1989.

**2004 Presidential Elections.** In March 2004, Saca (ARENA), a well-known businessman and sports announcer, won the Salvadoran presidential election with 57.7% of the vote. His nearest rival, Shafick Handal, an aging former guerrilla and Communist party member, of the Farabundo Marti National Liberation Front (FMLN) obtained 35.7% of the vote. The failure of either of the two third-party candidates to receive even 5% of the vote reflected the polarization of the country between the FMLN and ARENA.

**Future of the FMLN.** In 2004, Shafick Handal vocally opposed ARENA's privatization schemes, the dollarization of the economy, participation in DR-CAFTA, and sending Salvadoran troops to Iraq. President Saca's first round victory was a serious setback for the FMLN that had gone into the campaign with high expectations based on the party's strong performance in the March 2003 legislative and municipal elections. Despite Handal's poor electoral showing, his orthodox faction of the FMLN prevailed over a more moderate candidate in the party's internal leadership elections held in November 2004. In 2005, tensions within the party resulted in defections from the FMLN to a new party, the Democratic Revolutionary Front (FDR). Handal's death in January 2006 may have helped the FMLN recapture left-leaning electoral support from the FDR and other small parties in the March 2006 legislative and municipal elections.

**Legislative Record.** President Saca is maintaining the free market economic policies of his predecessors, but is also looking for ways to increase tourism and to reform healthcare and education. Less than three weeks after his inauguration, President Saca crafted an agreement that led to the passage of the long-stalled 2004 budget, largely by agreeing to spend more funds on health and education sectors and to channel a larger share of the funds to the municipalities. The budget approval was followed quickly by an increase in the country's minimum pension, and, in late July, by the unanimous approval of the "Super Firm Hand" package of anti-gang reforms.<sup>1</sup> On December 17, 2004, Saca mustered enough support in the legislature from small parties to ratify the DR-CAFTA agreement over FMLN objections. In December 2005, President Saca again gathered enough votes to pass a package of sweeping legislative reforms, including tighter intellectual property restrictions, backed by the United States as prerequisites for DR-CAFTA implementation despite vehement FMLN opposition. President Saca will

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<sup>1</sup> Stephen Temple, "Legislative Success for El Salvador's New President as Anti-Criminal Gang Reforms Passed," *WMRC Daily Analysis*, July 30, 2004.

continue to have to use negotiation and conciliation in order to pass his legislative agenda in 2006 as ARENA lacks a majority in the National Assembly.

**2006 Legislative and Municipal Elections.** On March 12, 2006, El Salvador held elections for its 84-member Legislative Assembly, 20 delegates to the Central American parliament, and 262 mayorships. In elections that were deemed to be free and fair, Salvadoran voters divided their support between candidates from the two major parties rather than supporting those from small parties. ARENA performed marginally better than the FMLN, winning 34 of the 84 seats in the National Assembly as well as a number of mayorships, but narrowly failing to wrest the mayorship of San Salvador from the FMLN.

## Economic and Social Conditions

In the 1990s, El Salvador adopted a “neo-liberal” economic model, cutting government spending, privatizing state-owned enterprises, and adopting the dollar as its national currency. El Salvador is considered the 12<sup>th</sup> most open economy in the world, but, after posting strong growth rates in the 1990s, it has registered only 2% growth the past few years.<sup>2</sup> While remittances, agricultural exports, and reconstruction projects increased in 2005, high oil prices, natural disasters, and a slump in the maquiladora sector (large assembly plants operating in free-trade zones) kept growth at a moderate 2.8% in 2005 (up from 1.8% in 2004). Remittances contribute 16.5% of El Salvador’s annual GDP, making the country’s economy increasingly dependent on the global economy.

Between 2000 and 2003, El Salvador’s economic stagnation was linked to disruptions that resulted from Hurricane Mitch in 1998, two major earthquakes in 2001, a decline in coffee prices, and the slowdown in the U.S. economy following September 11, 2001. The earthquakes left more than 100,000 people homeless and tens of thousands without jobs. Total damage estimates were placed as high as \$3 billion.<sup>3</sup> This series of natural disasters occurred as El Salvador’s coffee industry was recording record losses. Since the United States is El Salvador’s most important trading partner, the U.S. recession and sluggish recovery in 2001-2002 lowered the demand for Salvadoran exports. Although the U.S. economy has recovered since 2003, increasing competition for access to the U.S. market from Asian producers has limited the demand for Salvadoran exports. This may change in 2006 if high prices for coffee and sugar continue to benefit export earnings and U.S. demand increases as a result of DR-CAFTA.

Although El Salvador has fared better than other countries in the hemisphere, when population increases are taken into account, the country’s modest growth, averaging 2% or less for the past four years, is not enough to produce dramatic improvements in standards of living. With 48% of the population living in poverty and more than 25% reportedly feeling they must migrate abroad in search of work, some critics have argued that the average Salvadoran household has not benefitted from neoliberalism.<sup>4</sup>

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<sup>2</sup> “El Salvador Lags Despite Trade Winds,” *Chicago Tribune*, March 24, 2005.

<sup>3</sup> USAID, “El Salvador Earthquakes: Final Fact Sheet (FY2001),” Sept. 7, 2002.

<sup>4</sup> Joseph Contreras, “A Country’s Rebirth,” *Newsweek International*, July 21, 2003; U.S. (continued...)

Dollarization has raised the cost of living while its primary benefits, lower interest rates and easier access to capital markets, have not resulted in an overall decline in poverty levels. Between 1989 and 2004, poverty levels actually rose from 47% to 51%.<sup>5</sup> With prices rising, privatization has been vigorously opposed. Finally, the fruits of stable economic growth have not been equitably distributed as the income of the richest 10% of the population is 47.4 times higher than that of the poorest 10%.<sup>6</sup>

**Gangs and Violence.**<sup>7</sup> Pervasive poverty and inequality, combined with 15% unemployment and significant underemployment, have contributed to the related problems of crime and violence that have plagued El Salvador since its civil war. As many as 30,000 Salvadoran youth belong to *maras* (street gangs).<sup>8</sup> In 2004, the Salvadoran National Police estimated that 2,756 homicides were committed in the country, 60% of which were gang-related.<sup>9</sup> These gangs are increasingly involved in human trafficking, drug trafficking, and kidnaping, and pose a serious threat to the country's stability.

The Salvadoran government reported that its "Super Firm Hand" anti-gang legislation led to a 14% drop in murders in 2004. However, El Salvador recorded a total of 3,697 murders in 2005, 34% more than in 2004.<sup>10</sup> In February 2005, El Salvador's Legislative Assembly passed an amendment tightening gun ownership laws, especially for youths, to complement its existing anti-gang measures. On March 18, 2005, President Saca of El Salvador and President Oscar Berger of Guatemala agreed to set up a joint security force to patrol gang activity along their common border. In April 2005, the FBI created a liaison office in San Salvador that will coordinate regional information-sharing and anti-gang efforts. In August 2005, President Saca enlisted army reservists and police academy cadets to support the police in the anti-gang struggle. In 2005, in response to criticisms that law enforcement efforts alone were not solving the country's gang problem, the Saca government began to allocate 20% of the government's anti-gang funds for prevention and rehabilitation programs.

## Relations with the United States

Throughout the last two decades, the United States has maintained a strong interest in the political and economic situation in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the

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<sup>4</sup> (...continued)

Embassy San Salvador, "El Salvador's Economic Update: Second Quarter 20002," Sept. 16, 2003.

<sup>5</sup> "Election 2004: El Salvador's Ruling Party Maintains Narrow Lead over Former Rebel Leftists," *WMRC Daily Analysis*, Feb. 18, 2004.

<sup>6</sup> United Nations, *Human Development Report 2005*.

<sup>7</sup> For more information, see CRS Report RS22141, *Gangs in Central America*, by Clare Ribando.

<sup>8</sup> Christ Kraul, "El Salvador Comes to Grips with Gangs," *Los Angeles Times*, December 13, 2004.

<sup>9</sup> "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse*, January 5, 2004.

<sup>10</sup> "El Salvador: Murder Rate Soars in 2005," *Latinnews Daily*, January 4, 2006.

armed FMLN insurgency. After the 1992 peace accords were signed, U.S. involvement in El Salvador shifted towards helping the government transform the country's struggling economy into a model of free-market economic development. Successive ARENA governments have maintained a close relationship with the United States.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country to ratify DR-CAFTA. It recently became the first country in the region to implement the trade agreement, which took effect on March 1, 2006. In addition to trade cooperation, El Salvador has maintained a troop presence in Iraq since 2003 despite popular opposition to that policy. In February 2006, the Bush Administration rewarded that continued support for the war effort by extending the Temporary Protected Status (TPS) of eligible Salvadoran migrants living in the United States until September 9, 2007. The United States is in the process of establishing an International Law Enforcement Academy (ILEA) based in El Salvador to train police officials from across Latin America. The Salvadoran government is seeking further assistance from the Bush Administration in dealing with the problem of criminal gangs. President Sacca is also seeking the recognition of El Salvador as a "major non-NATO ally" of the United States.

**U.S. Foreign Aid.** In the 1990s, total U.S. foreign assistance to El Salvador declined from wartime levels (\$570.2 million in 1985), and shifted from military aid towards development assistance and disaster relief. Military aid to El Salvador reached a peak of \$196.6 million in 1984, but fell to \$0.4 million a decade later. The United States provided \$37.7 million in assistance to El Salvador following Hurricane Mitch in 1998 and an additional \$168 million in reconstruction assistance since the two earthquakes in 2001. For FY2006, Congress appropriated an estimated \$45.1 million for El Salvador, and the Administration has requested \$35.1 million in assistance for FY2007. These amounts support a wide variety of Development Assistance and Child Survival and Health Programs, as well as 169 Peace Corps volunteers.

**Counter-Narcotics Issues.** Not a major producer of illicit drugs, El Salvador serves as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States. El Salvador, along with Ecuador, Aruba, and the Netherlands Antilles, serves as a Forward Operating Location (FOL) for U.S. anti-drug forces. In 2004, El Salvador's National Police seized 2,703 kilograms of cocaine, 20 percent more than in 2003. In 2005, the FOL facilities helped seize 46 metric tons of narcotics. Also in 2005, Salvadoran law enforcement cooperation with U.S. officials led to the conviction of some 711 individuals on U.S. drug charges.<sup>11</sup>

**Support for U.S. Military Operations in Iraq.** El Salvador immediately supported the United States following the September 2001 terrorist attacks and sent a first contingent of 360 soldiers to Iraq in August 2003. Since that time, while all other Spanish-speaking countries have withdrawn their troops, El Salvador has maintained a constant troop presence in Iraq. The sixth contingent of Salvadoran troops departed for Iraq in February 2006.

**Migration Issues.** The United States responded to the natural disasters in El Salvador in 2001 by granting Temporary Protected Status (TPS) to an estimated 290,000

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<sup>11</sup> U.S. Department of State, *International Narcotics Control Strategy Report 2005*, March 2006.

eligible Salvadoran migrants living in the United States. In February, 2006, the U.S. government extended the TPS of eligible Salvadoran migrants living in the United States until September 9, 2007. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home roughly \$2.8 billion in remittances in 2005. The exodus of large numbers of poor migrants to the United States has also eased pressure on the Salvadoran social service system and labor market.

**U.S. Trade and DR-CAFTA.** The United States is El Salvador's main trading partner, purchasing 60% of its exports and supplying 50% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 17 free trade zones. Since the 1980s, El Salvador has benefitted from preferential trade agreements, such as the Caribbean Basin Initiative and later the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which have provided some of its exports, especially apparel and related items, duty-free entry into the U.S. market. As a result, the composition of Salvadoran exports to the United States has shifted from agricultural products, such as coffee and spices, to apparel and textiles. The government of El Salvador hopes that these trade opportunities will expand throughout 2006 as the DR-CAFTA agreement enters into force.

Critics are concerned, however, that insufficient environmental and labor protections, as well as the likely inability of Salvadoran farmers to compete with U.S. agricultural producers, could offset any potential job or investment gains that may result from the agreement. While DR-CAFTA has provisions providing for the enforcement of domestic labor and environmental laws and creating cooperative ways to bring those laws up to international standards, critics note that the penalties for countries not enforcing their laws are relatively weak.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify DR-CAFTA.<sup>12</sup> In December 2005, President Saca again gathered enough votes, despite FMLN opposition, to pass a package of sweeping legislative reforms, including tighter intellectual property restrictions; the reforms were backed by the United States as prerequisites for DR-CAFTA implementation. DR-CAFTA was scheduled to enter into force on January 1, 2006, but its implementation with El Salvador was delayed until March 1, 2006. Other countries will enter into the agreement over the next few months on a rolling basis.

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<sup>12</sup> "El Salvador First to Ratify CAFTA, but Followers May Be Few," *Noticen: Central American and Caribbean Affairs*, January 6, 2005.