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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 for a five-year presidential term in June 2004. President Saca is seeking to promote trade-led economic growth, combat gang violence, and improve El Salvador's public finances. His ARENA party is the largest party in the legislature but lacks a majority and generally relies on support from small parties to enact legislation. Saca's agenda is facing continued opposition from the leftist Farabundo Marti National Liberation Front (FMLN), the second largest party in the legislature. In 2006, despite tough anti-crime legislation, there were reportedly 3,671 homicides in El Salvador, the same as in 2005. 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). In late November 2006, El Salvador signed a five-year, $461 million compact with the Millennium Challenge Corporation for development of its impoverished northern border region. 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 by the World Bank to be a lower middle-income country. Since the early 1990s, El Salvador has posted economic growth, held free and fair 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 political 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 businessmen and sports announcer, won the Salvadoran presidential election with 57.7% of the vote. His nearest rival, Shafick Handal of the FMLN, an aging former guerrilla and Communist party member, 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 continuing 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 its 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 to a new party, the Democratic Revolutionary Front (FDR). In the March 2006 legislative elections, the FMLN, galvanized by the surprise death of Handal in January 2006, recaptured left-leaning electoral support from the FDR and other small parties, winning 32 of 84 seats in the National Assembly.

Legislative Record. President Saca has generated broad, cross-party support for criminal justice reforms and used multiparty negotiations to facilitate passage of other aspects of his reform agenda. In mid-2004, he crafted an agreement that led to the passage of the long-stalled budget, by consenting to spend more funds on health and education sectors and to channel more 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. On December 17, 2004, Saca mustered enough support in the legislature from small parties to ratify the DR-CAFTA 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.

Despite these achievements, President Saca has struggled to gain legislative approval for his budget proposals, which have, until the 2007 budget, included bond issues to cover government expenses. The FMLN has vigorously opposed further debt issuance, noting that El Salvador's public-sector debt is already 45% of GDP, up from 35% in 2000. In addition, there has been significant frustration that neither President Saca nor the Legislative Assembly has effectively addressed the country's persistent crime problem. In mid-October, a prominent business leader called for "national unity" on confronting crime, asserting that "polarization" among the country's politicians had hindered past anti-crime initiatives.[1]

2006 Legislative and Municipal Elections. On March 12, 2006, El Salvador held legislative and municipal 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 12th most open economy in the world, but, after posting strong growth rates in the 1990s, it registered only 2% growth from 2000-2004.[2] While remittances, agricultural exports, and reconstruction projects increased in 2005, high oil prices, natural disasters (including Tropical Storm Stan), and a slump in the maquiladora sector (large assembly plants operating in free-trade zones) kept growth at a moderate 2.8% in 2005. Remittances contribute roughly 17% 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.[3] This series of natural disasters occurred as El Salvador's coffee industry was recording record losses. Although the U.S. economy has recovered since 2003, increasing competition from Asian and other Central American producers has limited Salvadoran exports to the United States. Growth has accelerated somewhat in 2006 to roughly 3.5%, spurred by public investment in reconstruction projects, the implementation of the DR-CAFTA, and high global prices for coffee and sugar.

El Salvador's economy has fared better than some other countries in the hemisphere, but the country's growth rates have not been high 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. Dollarization has raised the cost of living while its primary benefits, lower

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[1] "El Salvador: Crime Busted?" *Economist Intelligence Unit*, Dec. 18, 2006.

[2] "El Salvador Lags Despite Trade Winds," *Chicago Tribune*, Mar. 24, 2005.

[3] USAID, "El Salvador Earthquakes: Final Fact Sheet (FY2001)," Sept. 7, 2002.

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%. Additionally, 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%. Although migration has reduced rural unemployment and infused some households with extra income in the form of remittances, it has caused social disruptions and resulted in a "passive and dangerous dependency" in some communities.[4]

Gangs and Violence.[5] 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).[6] In 2004, the Salvadoran National Police estimated that 2,756 homicides were committed in the country, 60% of which were gang-related.[7] These gangs are increasingly involved in human trafficking, drug trafficking, and kidnaping, and threaten the country's stability.

The Salvadoran government reported that its tough anti-gang legislation led to a 14% drop in murders in 2004. In 2005, to complement that legislation, El Salvador's legislature tightened gun ownership laws, especially for youths, and President Saca initiated joint military and police patrols in high-crime areas. Despite those efforts, El Salvador recorded 3,697 murders in 2005, 34% more than in 2004. Salvadoran police estimated that more than 10,000 of 14,000 suspected gang members arrested in 2005 were released for lack of evidence. In 2006, President Saca created a new Ministry of Public Security and Justice, increased joint military and police patrols, and unveiled a draft law against organized crime. Despite those measures, some 3,761 murders occurred in 2006.[8]

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 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 close ties with the United States.

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[4] Dovelyn Agunias, "Remittance Trends in Central America," *Migration Policy Institute,* April 2006; Sarah Gammage, "Exporting People and Recruiting Remittances: A Development Strategy for El Salvador?," *Latin American Perspectives,* November 2006.

[5] For more information, see CRS Report RS22141, *Gangs in Central America,* by Clare Ribando.

[6] Christ Kraul, "El Salvador Comes to Grips with Gangs," *Los Angeles Times,* Dec. 13, 2004.

[7] "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse,* Jan. 5, 2004.

[8] "El Salvador: Murder Rate Soars in 2005," *Latinnews Daily,* Jan. 4, 2006; "Most of 14,000 Gang Members Arrested in El Salvador Were Released," *EFE News Service,* Dec. 27, 2005; "El Salvador: Crime Busted?" *Economist Intelligence Unit,* Dec. 18, 2006; "Salvadoran Murder Rate in 2006 Remains Unchanged,: *Global Insight Daily Analysis*, Jan. 3, 2007.

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. The Administration requested $35.1 million in assistance for FY2007, but Congress has not yet completed action on the FY2007 Foreign Operations spending measure. These amounts support a wide variety of Development Assistance and Child Survival and Health Programs, as well as 169 Peace Corps volunteers.

Millennium Challenge Account (MCA) Compact. In late November 2006, El Salvador signed a five-year, $461 million compact with the Millennium Challenge Corporation to develop its northern border region, where more than 53% of the population lives in poverty. The compact includes (1) $88 million for technical assistance and financial services to farmers and rural businesses; (2) $100 million to strengthen education and training and improve public services in poor communities; and (3) $233 million to rehabilitate the Northern Transnational Highway and some secondary roads. The MCC compact has been designed to complement the DR-CAFTA and regional integration efforts. Although many have praised its potential, some have questioned why the compact was not designed to encourage communities to channel remittance flows into collective projects that could generate employment and improve local infrastructure.[9]

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.[10]

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. Five Salvadorans solders have been killed in Iraq and 20 have been wounded. Despite polls indicating that 81% of Salvadorans oppose sending more troops to Iraq, El Salvador's legislature recently approved President Saca's request to extend the country's troop commitment through the end of 2007.[11]

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[9] The MCC compact also includes $45 million to cover program administration and evaluation. See [http://www.mcc.gov/press/factsheets/2006/factsheet-112906-elsalvador.php]; Marcela Sánchez, "Putting Remittances to Work," *Washington Post*, Dec. 9, 2006.

[10] U.S. Department of State, *International Narcotics Control Strategy Report 2005*, March 2006.

[11] "Salvadorans to Keep Troops in Iraq Until at Least End of 2007," *EFE*, Dec. 15, 2006.

Migration Issues. The United States responded to the natural disasters in El Salvador in 2001 by granting Temporary Protected Status (TPS) to eligible Salvadoran migrants living in the United States. In February 2006, the U.S. government extended the TPS of an estimated 220,000 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 are expected to send home some $3.3 billion in remittances in 2006. 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 the DR-CAFTA. The United States is El Salvador's main trading partner, purchasing 65% of its exports and supplying close to 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. Since the expiration of global textile quotas on December 31, 2004, Salvadoran apparel producers have had trouble competing with goods from cheaper Asian producers.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify DR-CAFTA.[12] 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. On March 1, 2006, El Salvador became the first country to implement the DR-CAFTA. The Saca government expects the DR-CAFTA to help rejuvenate its apparel industry, provide expanded opportunities for its producers to export ethnic foodstuffs to Salvadorans living in the United States, and encourage increasing foreign investments in information technology, communications, and other growth sectors.

Critics are concerned, however, that the likely inability of Salvadoran farmers to compete with U.S. agricultural producers may offset any potential job or investment gains that may result from the agreement. Proponents maintain that the MCC compact, as well as existing trade capacity building programs funded by the United States and other donors, should help ensure that vulnerable sectors benefit from the agreement.

Critics also argue that although 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, the penalties for countries not enforcing their laws are relatively weak.

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[12] "El Salvador First to Ratify CAFTA, but Followers May Be Few," *Noticen: Central American and Caribbean Affairs*, Jan. 6, 2005.