



# El Salvador: Political, Economic, and Social Conditions and U.S. Relations

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## Summary

Throughout the last few decades, the United States has had a strong interest 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 Farabundo Marti National Liberation Front (FMLN) insurgency during a 12-year civil war. A 1992 negotiated peace accord brought the war to an end and formally assimilated the FMLN into the political process as a political party. After the peace accords were signed, U.S. involvement shifted towards helping the government rebuild democracy and implement market-friendly economic reforms.

Successive National Republican Alliance (ARENA) governments, including that of the current president, Tony Saca, have maintained close ties with the United States. The Saca Administration has cooperated in counter-narcotics operations, supported the U.S. coalition forces in Iraq, and implemented the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). However, ARENA governments—including the Saca Administration—have struggled to reduce violence and poverty in El Salvador.

FMLN candidate Mauricio Funes won a close election for El Salvador's presidency in March 2009, marking the first FMLN presidential victory and the first transfer in political power between parties since the end of El Salvador's civil war. Funes' victory followed strong showings by the FMLN in the January 2009 municipal and legislative elections, in which the party won a plurality of the seats in National Assembly and the largest share of the municipal vote. Funes will take power in June 2009 and has pledged to govern in a moderate fashion. He will likely need to confront the high levels of violence and poverty in the country as well as deal with the effects of the global financial crisis.

Although some Members of Congress have expressed reservations about working with an FMLN administration, relations between El Salvador and the United States will likely remain friendly during the Obama Administration. President-elect Funes has pledged to remain in CAFTA-DR and expressed his willingness to work with the United States on immigration and counter-narcotics issues. Following his election, the Obama Administration congratulated President-elect Funes for his victory and pledged to work with him to build on the already strong ties between the United States and El Salvador.

For more information, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck, CRS Report R40135, *Mérida Initiative for Mexico and Central America: Funding and Policy Issues*, by Clare Ribando Seelke, and CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

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## Background

El Salvador, nearly the size of Massachusetts, is the smallest nation in Central America, and the most densely populated, with some 7.1 million people. With a per capita income of \$2,540, 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 and resulted in some 75,000 deaths.<sup>1</sup>

## Political Situation

The current president of El Salvador, Antonio (Tony) Saca of the conservative ARENA party, was elected in March 2004, along with Ana Vilma de Escobar, El Salvador's first female vice president. Saca, a well-known businessmen and sports announcer, won the Salvadoran presidential election handily in the first round with 57.7% of the vote. His nearest rival, Shafick Handal of the FMLN, a 73-year-old former guerrilla and Communist party member, obtained 35.7% of the vote. Neither of the two third-party candidates received even 5% of the vote. President Saca's first round victory was a serious setback for the FMLN, which had gone into the campaign with high expectations based on its strong performance in the March 2003 legislative elections. In 2005, tensions within the party resulted in defections to a new party, the Democratic Revolutionary Front (FDR). However, in the March 2006 legislative elections, the FMLN, recaptured left-leaning electoral support from the FDR, winning 32 of 84 legislative seats.<sup>2</sup> The FMLN's electoral fortunes continued in 2009 as the party won a plurality in the legislature with 35 seats and its presidential candidate, Mauricio Funes, won the presidency.

## Legislative Record

Early in his term, President Saca garnered broad support for criminal justice reforms and used multiparty negotiations to facilitate passage of some aspects of his reform agenda, including an anti-terrorism law and electoral reform. Saca used support from third parties in order to ratify the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) over FMLN objections. He also used that support to secure passage of sweeping legislative reforms backed by the United States as prerequisites for CAFTA-DR implementation.<sup>3</sup> President Saca has since struggled, however, to gain legislative approval for some of his budget proposals and foreign loans, which has left some social programs underfunded. There are also mounting frustrations that neither President Saca nor the Legislative Assembly has effectively addressed the country's persistent crime problem. Legislative activity stalled in late 2008 as attention shifted towards the 2009 elections.<sup>4</sup>

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<sup>1</sup> Central Intelligence Agency, "World Factbook," 2009.

<sup>2</sup> "Country Profile: El Salvador," *Economist Intelligence Unit*, 2008.

<sup>3</sup> For more information on CAFTA-DR, see CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)*, by J. F. Hornbeck.

<sup>4</sup> "Country Report: El Salvador," *Economist Intelligence Unit*, November 2008.

## 2009 Elections

### Municipal and Legislative Elections

Municipal and legislative elections were held in El Salvador on January 18, 2009. Sporadic political confrontations and the murders of three activists—two supporters of the FMLN and one of the FDR—in the weeks leading up to the elections raised fears of violence at the polls.<sup>5</sup> However, the elections were conducted largely without incident under the supervision of 110 observers from the Organization of American States (OAS), 80 observers from the European Union (EU), and observers from a variety of other organizations including the Association of Election Bodies from Central America and the Caribbean and the Inter-American Union of Election Bodies. The FMLN won a plurality in the 84-seat National Assembly with 35 seats, three more than it previously held. ARENA won 32 seats, the rightwing National Conciliation Party (PCN) won 11, the centrist Christian Democratic Party (PDC) won 5, the center-left Democratic Change (CD) won 1, and the FDR dissolved after failing to win a single seat. The new legislators will take their seats for three year terms on May 1, 2009.

At the local level, ARENA won 122 municipalities, the FMLN won 96 (21 in alliances with the PDC and/or CD), and minor parties won the other 44. While ARENA won more municipalities than the FMLN—including a surprise upset in the capital, San Salvador—the FMLN won 49.5% of the municipal vote to ARENA's 40% and was the only party to increase its representation nationally. Although turnout exceeded that of several recent non-presidential elections in which nearly 60% of the population abstained, only half of the eligible population voted.<sup>6</sup>

### Presidential Election

The presidential election was held on March 15, 2009. Despite some concerns about potential fraud and some inter-party violence in the run up to the vote, the election was conducted relatively peacefully. Some 5,000 national and international electoral observers supervised the proceedings while 20,000 members of the Salvadoran military and police provided security.<sup>7</sup> The chief electoral observer of the European Union asserted that the election functioned more smoothly than the January municipal and legislative vote and declared that allegations of fraud were unfounded.<sup>8</sup> Around 61% of the Salvadoran population turned out to vote, giving Mauricio Funes of the FMLN a narrow 51.3%-48.7% victory over Rodrigo Ávila of ARENA.<sup>9</sup> Funes will begin his five year term on June 1, 2009.

The electoral campaign was extremely polarizing, with Ávila and Funes both seeking to moderate their own images while simultaneously raising doubts about their opponents. Ávila presented a somewhat populist plan of governance in order to convince Salvadorans that he would do more to

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<sup>5</sup> "Asesinan a dos militantes del FMLN en El Salvador," *Agencia Mexicana de Noticias*, January 11, 2009.

<sup>6</sup> "Arena and FMLN both claim victory," *Latin American Caribbean & Central America Report*, January 2009; "Country Report: El Salvador," *Economist Intelligence Unit*, February 2009; "FMLN falls short of legislative majority," *Latin American Weekly Report*, January 22, 2009.

<sup>7</sup> "El Salvador prepares to vote," *Latin News Daily*, March 13, 2009; "El Salvador: 20,000 policías y soldados en comicios," *Associated Press*, March 4, 2009.

<sup>8</sup> "Destaca UE normalidad en elecciones salvadoreñas," *Agencia Mexicana de Noticias*, March 17, 2009.

<sup>9</sup> "FMLN wins in El Salvador," *Latin News Daily*, March 16, 2009.

address social inequities than previous ARENA administrations. Ávila and ARENA also argued that Funes would be controlled by the more orthodox members of the FMLN, such as his running mate and former guerilla Salvador Sánchez Cerén. In addition, they asserted that a Funes victory would lead to a deterioration in relations with the United States and the installation of a political system like that of Venezuela, Cuba, or Nicaragua. Funes, a former television journalist and the first FMLN presidential candidate who did not participate in the country's civil war, attempted to project a moderate image throughout the campaign while calling for a change in government and an end to ARENA's 20-year rule.<sup>10</sup>

## **Prospects for Governance**

President-elect Funes will have to deal with a closely divided legislature when he takes office. Since the FMLN will hold only 35 of the 84 seats in the National Assembly for the next three years and ARENA's 32 legislators will likely form a solid opposition, smaller parties such as the PCN, PDC, and CD will likely play crucial roles in determining what legislation passes. Although the PCN and PDC are ideologically closer to ARENA and have formed governing alliances with it in the past, they may be willing to strike bargains with the FMLN and Funes. Indeed, many mayors and other party leaders of the PCN and PDC endorsed Funes despite the formal endorsement of Ávila by their parties' leaderships.<sup>11</sup> Given that a two-thirds vote is needed to pass some measures—including the national budget—the new president will also need to work with members of ARENA. Furthermore, Funes also will likely have to reign in the more orthodox factions of his own party, making political negotiation and compromise keys to the success of the administration.<sup>12</sup>

Throughout his campaign and in his first interviews following the election, President-elect Funes pledged to govern as a moderate. He has cited President Lula of Brazil as a model for his administration, praising Lula's ability to maintain macroeconomic stability and combat poverty. Funes has called for national unity and a new social pact, saying that the problems El Salvador faces as a result of the global economic downturn can only be resolved through a joint effort of all sectors of society. During the campaign, Funes pledged to maintain the dollarization of the economy, continue to recognize El Salvador's sovereign debt obligations, and remain in all trade agreements, including CAFTA-DR. Since his election, Funes has restated his desire to work with President Obama and forge closer relations with the United States.<sup>13</sup>

## **Economic and Social Conditions**

In the 1990s, El Salvador achieved notable stability and economic growth. The Salvadoran government embraced a "neo-liberal" economic model, cutting government spending, privatizing state-owned enterprises, and adopting the dollar as its national currency. El Salvador is now one

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<sup>10</sup> Maureen Meyer, "Presidential Elections in El Salvador: Expectations for Change and the Challenges Ahead," *Washington Office on Latin America*, March 12, 2009.

<sup>11</sup> "Country Report: El Salvador," *Economist Intelligence Unit*, February 2009; "El Salvador Election Bulletin," *National Democratic Institute*, March 11, 2009; Marcos Aleman, "El Salvador: militares y ex rebeldes unidos contra Arena," *Associated Press*, March 10, 2009.

<sup>12</sup> "El Salvador politics: Leftists on the ascent," *Economist Intelligence Unit*, January 27, 2009.

<sup>13</sup> *Ibid*; Alberto Fajardo, "Funes quiere gobernar cerca Brasil y EEUU," *Reuters*, March 16, 2009; "Presidente electo El Salvador propone pacto social ante crisis," *Reuters*, March 16, 2009.

of the most open economies in the world, but, after posting strong growth rates in the 1990s, it registered only 2% growth from 2000-2004. 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.

El Salvador has posted moderate economic growth rates in recent years, but high food and energy prices, as well as the current slowdown in the U.S. economy are likely to have a negative impact on the Salvadoran economy. 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. GDP growth in El Salvador accelerated to roughly 4% in 2006, spurred by the implementation of the CAFTA-DR, diversification of the country's export sector, and high global prices for coffee and sugar. The economy again expanded by an estimated 4.7% in 2007, but analysts estimate that GDP growth slowed to roughly 3.2% in 2008. Remittances, largely sent from Salvadorans living in the United States, now contribute roughly 18% of El Salvador's annual GDP, making the country's economy increasingly dependent on the U.S. economy.<sup>14</sup> As the U.S. economy slows, remittances, investment, and U.S. demand for Salvadoran goods will decline. Analysts estimate El Salvador's economy will grow by just 1.1% in 2009 and 1.9% in 2010.<sup>15</sup> Although most decisions on how to confront the economic crisis will be left to the next President due to election season legislative inaction, El Salvador signed for a loan of \$400 million from the Inter-American Development Bank (IDB) in December 2008, which will be used to ensure access to credit for El Salvador's productive sectors.<sup>16</sup>

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 interest rates and easier access to capital markets, have not resulted in an overall decline in poverty levels. Between 1989 and 2004, poverty levels 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 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.<sup>17</sup>

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<sup>14</sup> "Government to Promote Inscription to Preferential Immigration Status for Salvadorans in the U.S." *Global Insight*, July 6, 2007.

<sup>15</sup> "Country Report: El Salvador," *Economist Intelligence Unit*, February 2009.

<sup>16</sup> "El Salvador: recursos del BID disponibles para sector productivo," *Associated Press*, February 12, 2009.

<sup>17</sup> 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.

## Gangs and Violence<sup>18</sup>

Pervasive poverty and inequality, unemployment and underemployment, drug trafficking, corruption, and illicit firearms 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). Salvadoran National Police officials have estimated that gangs are responsible for up to 60% of homicides, but evidence to support this assertion is lacking.<sup>19</sup> Gangs are increasingly involved in human trafficking, drug trafficking, and kidnapping, and threaten the country's stability.

In response to the gang problem, El Salvador's Congress passed tough *mano dura* ("firm hand") anti-gang reforms in 2003 and 2004 that outlawed gang membership, enhanced police power to search and arrest suspected gang members, and stiffened penalties for convicted gang members. Changes in legislation have been accompanied by the use of joint military and police patrols to round up gang suspects. The Salvadoran government reported that its tough anti-gang legislation initially led to a 14% drop in murders in 2004, but murder rates and gang-related crimes have remained at elevated levels since that time. Many youth arrested under *mano dura* provisions have been subsequently released for lack of evidence that they committed any crime. Gang roundups have exacerbated prison overcrowding and inter-gang violence within the prisons has resulted in several inmate deaths. There have been credible reports that extrajudicial youth killings by vigilante groups have occurred since *mano dura* took effect. Moreover, in response to *mano dura*, gangs are changing their behavior to avoid detection.<sup>20</sup>

## 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 economy into a model of free-market economic development. 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. Successive ARENA governments have maintained close ties with the United States.

Some analysts had predicted that a Funes victory would complicate U.S.-Salvadoran relations. Indeed, a number of Members of Congress expressed dismay over alleged links between the FMLN and countries such as Venezuela, Russia, and Iran and suggested that a Funes victory may necessitate strict control over remittances to El Salvador and the termination of Temporary

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<sup>18</sup> For more information, see CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

<sup>19</sup> "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse*, January 5, 2004; United Nations Office on Drugs and Crime (UNODC), *Crime and Development in Central America: Caught in the Crossfire*, May 2007.

<sup>20</sup> "Central America: Maras Pose Greater Threat Than Ever," *Latin American Weekly Report*, February 7, 2008; United Nations Development Program (UNDP), "*Maras y Pandillas: Comunidad y Policia en Centroamérica*," October 2007; "Youth Gangs in Central America," *Washington Office on Latin America*, November 2006.



Protected Status for Salvadorans living in the United States.<sup>21</sup> However, other Members of Congress expressed their hopes that the Obama Administration would respect the will of the Salvadoran people by working constructively with whoever was democratically elected.<sup>22</sup> The Obama Administration reaffirmed its neutrality in the days before the election and announced it would respect the result.<sup>23</sup> Following the election, the Obama Administration and President-elect Funes both reiterated their desires to work together and forge stronger relations between the United States and El Salvador.<sup>24</sup>

## **U.S. Foreign Aid**

El Salvador received an estimated \$28.6 million in regular U.S. assistance in FY2008, as well as roughly \$6 million in FY2008 supplemental assistance for counternarcotics and anticrime efforts as part of the Administration's Mérida Initiative.<sup>25</sup> The FY2009 request for El Salvador was for \$37.0 million in bilateral assistance, as well as roughly \$17.3 million of the \$100 million in Mérida funds requested for the Central American region. An enacted continuing resolution (P.L. 110-329) funded U.S. programs in El Salvador at FY2008 levels through March 6, 2009, while a recently enacted FY2009 omnibus appropriations measure (P.L. 111-8) funds foreign aid through the end of the fiscal year.<sup>26</sup>

## **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 CAFTA-DR 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.<sup>27</sup>

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<sup>21</sup> "Funes critica amenaza de quitar TPS a salvadoreños," *Associated Press*, March 12, 2009. For more information on Temporary Protected Status, see "Migration Issues".

<sup>22</sup> "Piden legisladores de EU a Obama respeto electoral en El Salvador," *Agencia Mexicana de Noticias*, March 5, 2009.

<sup>23</sup> "EEUU dice que respetará resultado de elección en El Salvador," *Associated Press*, March 12, 2009.

<sup>24</sup> "Robert Wood, "Daily Press Briefing," *U.S. Department of State*, March 16, 2009; Blake Schmidt, "El Salvador's president-elect seeks close U.S. ties," *Miami Herald*, March 17, 2009.

<sup>25</sup> See CRS Report RS22837, *Merida Initiative: U.S. Anticrime and Counterdrug Assistance for Mexico and Central America*, by Colleen W. Cook and Clare Ribando Seelke.

<sup>26</sup> It is unclear how much bilateral and Mérida Initiative assistance El Salvador will receive in FY2009 since the omnibus appropriation does not fund foreign aid accounts at the same levels as the FY2009 request.

<sup>27</sup> The MCC compact also includes \$45 million to cover program administration and evaluation. See <http://www.mcc.gov/documents/factsheet-112906-elsalvador.pdf>; Marcela Sánchez, "Putting Remittances to Work," *Washington Post*, December 9, 2006.

## 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. It is also the home of the U.S.-backed International Law Enforcement Academy (ILEA), which provides police management and specialized training to the region. In 2008, El Salvador's National Civilian Police seized 1.35 metric tons of cocaine, 430 kilograms of marijuana, and 8.4 kilograms of heroin.<sup>28</sup>

## Support for U.S. Military Operations in Iraq

El Salvador sent 360 soldiers to Iraq to support the U.S.-led coalition in August 2003 and maintained a constant troop presence there for five and a half years, the longest contribution of any Latin American nation. President Saca announced in December 2008 that the last contingent of Salvadoran soldiers would leave Iraq following the expiration of the U.N. Security Council mandate on December 31, 2008.<sup>29</sup> The final Salvadoran soldiers to serve in Iraq—the 200 members of the 11<sup>th</sup> Contingent of the Cuscatlan Battalion—returned to El Salvador in February 2009. During their time in Iraq, the 11 Salvadoran contingents carried out 30 reconstruction projects worth \$1.2 million in the cities of Al Hillah and Al Kut. Five Salvadoran soldiers were killed and 20 were wounded.<sup>30</sup> The FMLN continually opposed sending Salvadoran soldiers to support the U.S.-led coalition, and most polls indicate that a majority of Salvadorans were against sending troops to Iraq.<sup>31</sup>

## 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.<sup>32</sup> In October 2008, the U.S. government extended the TPS of an estimated 220,000 eligible Salvadoran migrants living in the United States until September 9, 2010. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home some \$3.9 billion in remittances in 2008, an increase from 2007.<sup>33</sup> 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. In contrast, observers are concerned about the impact Salvadoran deportees from the U.S. are having on the country's gang problems. In FY2008, 20,959 Salvadorans were deported from the United States.<sup>34</sup>

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<sup>28</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, February 27, 2009.

<sup>29</sup> "Presidente de El Salvador anuncia retiro de tropas de Irak," *Reuters*, December 23, 2008.

<sup>30</sup> "200 Soldiers of last El Salvador detail in Iraq return home," *EFE News Service*, February 7, 2009.

<sup>31</sup> "El Salvador to cut Small Troop Presence in Iraq," *Reuters*, August 7, 2008.

<sup>32</sup> For more information on TPS, see CRS Report RS20844, *Temporary Protected Status: Current Immigration Policy and Issues*, by Ruth Ellen Wasem and Karma Ester.

<sup>33</sup> "Latin America: Remittances slide," *Economist Intelligence Unit Business Latin America*, January 26, 2009.

<sup>34</sup> Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Detention and Removal.

## **U.S. Trade and the CAFTA-DR**

The United States is El Salvador's main trading partner, purchasing 48% of its exports and supplying close to 34% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 13 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 CAFTA-DR. In December 2005, the Salvadoran Legislative Assembly passed a package of sweeping legislative reforms, including tighter intellectual property restrictions, which were backed by the United States as prerequisites for CAFTA-DR implementation. On March 1, 2006, El Salvador became the first country to implement the CAFTA-DR. Salvadoran officials have attributed recent increases in some jobs, exports, and investments to CAFTA-DR. In 2006, although apparel exports to the United States declined, El Salvador saw a 21% increase of non-apparel exports to the United States—including ethanol, food stuffs, and metal products—much of which has been attributed to CAFTA-DR. A slight recovery in some textile and apparel exports to the United States combined with increases in non-traditional exports to result in a 10% increase in Salvadoran exports to the United States in 2007 and a 9% increase in 2008. At the same time, U.S. exports to El Salvador increased by 16% in 2006, 7.5% in 2007, and 6.5% in 2008.<sup>35</sup> The Saca government expects CAFTA-DR to continue encouraging foreign investments in information technology, communications, and other growth sectors.

Critics are concerned, however, that the inability of some Salvadoran farmers to compete with U.S. agricultural producers may offset the job and investment gains that are resulting 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 CAFTA-DR 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. Some have challenged the assertion that labor rights and working conditions have improved in the region as a result of CAFTA-DR.

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<sup>35</sup> U.S. Department of Commerce statistics, as presented by *World Trade Atlas*, 2009.

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