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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 faces the challenges of restarting a stagnating economy, passing legislation in a polarized political environment, and combating gang violence. Although 54% of Salvadorans approve of his overall job performance, a majority disprove of his decision to maintain a contingent of 380 Salvadoran soldiers in Iraq. The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, possibly through the proposed United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 17, 2004, El Salvador became the first country in Central America to ratify DR-CAFTA. On January 6, 2005, the U.S. government extended the Temporary Protected Status (TPS) of undocumented Salvadoran migrants living in the United States until September 9, 2006. This report will be updated as events warrant. For further information, see CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*.

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.¹ 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 handily 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 continuing polarization of the country between the FMLN and ARENA.

Future of the FMLN. Throughout the campaign, 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 and cause for assessment 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. In those elections, the FMLN won more seats in the Legislative Assembly than ARENA, the mayoralty of San Salvador for the third consecutive time, and seven of the 14 departmental capitals. Despite Handal's poor electoral showing, his orthodox faction of the FMLN, led by ex-guerrilla Medardo Gonzalez, prevailed over a more moderate candidate (the mayor of Santa Tecla, Oscar Ortiz) in the party's internal leadership elections on November 7, 2004.

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 build up his country as a logistical hub in order to boost employment and economic growth. At his inauguration, boycotted by the FMLN, he called for dialogue to achieve consensus and invited the FMLN to the presidential palace for a meeting. 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. Designed along the lines of former President Flores's "Firm Hand" plan passed

¹ El Salvador, is among a handful of Latin American countries currently relying on remittances for more than 10 % of its GDP. "All in the Family: Latin America's Most Important International Financial Flow," *Inter-American Dialogue*, January 2004.

in July 2003, the package includes reforms stiffening the penalties for gang membership to up to five years in prison (gang leadership is punishable by nine years). The anti-gang legislation was approved despite vocal criticisms by the United Nations and other religious and humanitarian groups that its tough provisions, especially those allowing convictions of minors under 12 years of age, violate international human rights standards.²

While some 54% of Salvadorans approve of President Saca's overall job performance, he will face a number of significant challenges in 2005. In October 2004, the FMLN, which controls 31 of 84 seats in the Legislative Assembly, withdrew its support from the multiparty commission developed by President Saca to discuss important national social, economic, and political issues. On December 17, 2004, Saca was able to muster enough support in the legislature from small parties to ratify the DR-CAFTA agreement over FMLN objections. On January 27, 2005, the country's 2005 budget was finally approved. The budget had stalled in El Salvador's Legislative Assembly amidst FMLN opposition to its provisions for increased foreign borrowing. The party is also likely to oppose any presidential proposals for further privatization, or to change El Salvador's public health or education programs.³

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 has registered only 2% growth the past few years.⁴ While remittances and reconstruction projects remained steady in 2004, high oil prices and a slump in the maquiladora sector (large assembly plants operating in free-trade zones) kept growth at a modest 1.8% in 2004. Remittances now contribute 15% of El Salvador's annual GDP, making the country's economic success increasingly dependent on the global economy.

El Salvador's recent economic stagnation may be 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 in particular caused the country significant damage, leaving more than 100,000 people homeless and tens of thousands without jobs. Total damage estimates were placed as high as \$3 billion.⁵ This series of natural disasters occurred as El Salvador's coffee industry was recording record losses when international coffee prices fell nearly 70% since 1997. 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.

² Stephen Temple, "Legislative Success for El Salvador's New President as Anti-Criminal Gang Reforms Passed," *WMRC Daily Analysis*, July 30, 2004.

³ Economist Intelligence Unit, "Country Report: El Salvador," January 2005.

⁴ "El Salvador Lags Despite Trade Winds," *Chicago Tribune*, March 24, 2005.

⁵ USAID, "El Salvador Earthquakes: Final Fact Sheet (FY2001)," Sept. 7, 2002.

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.⁶ 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%.⁷ With prices rising, privatization has been vigorously opposed. A nine-month doctors' strike, the longest in the country's history, ended in June 2003, when the privatization of the country's social security system was halted. 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%.⁸

Gangs and Violence. 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).⁹ In 2004, the Salvadoran National Police estimated that 2,756 homicides were committed in the country, 60% of which were gang-related.¹⁰ 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 552 murders in January and February 2005 alone.¹¹ 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. Although most of El Salvador's anti-gang initiatives have focused on improving law enforcement and stiffening penalties for gang activities, NGOs have urged the Salvadoran government to focus more on rehabilitation of gang members and less on enacting tough measures that criminalize youth and may violate human rights.

⁶ Joseph Contreras, "A Country's Rebirth," *Newsweek International*, July 21, 2003; U.S. Embassy San Salvador, "El Salvador's Economic Update: Second Quarter 20002," Sept. 16, 2003.

⁷ "Election 2004: El Salvador's Ruling Party Maintains Narrow Lead over Former Rebel Leftists," *WMRC Daily Analysis*, Feb. 18, 2004.

⁸ United Nations, *Human Development Report 2004*.

⁹ Christ Kraul, "El Salvador Comes to Grips with Gangs," *Los Angeles Times*, December 13, 2004.

¹⁰ "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse*, January 5, 2004.

¹¹ Chris Kraul, "El Salvador Comes to Grips with Gangs," *Los Angeles Times*, December 13, 2004; "El Salvador Experiences 552 Homicides in Two Months," *WMRC Daily Analysis*, March 3, 2005.

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 a close relationship with the United States. On December 17, 2003, El Salvador, signed the CAFTA, which later was changed to now include the Dominican Republic and is referred to as "DR-CAFTA," that, if approved by all parties to the agreement, could strengthen the economic linkages between all parties to the agreement. On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country to ratify DR-CAFTA. El Salvador has maintained a troop presence in Iraq since 2003 despite protests from the FMLN and terrorists threats against the ARENA government from an extremist group claiming to be linked to Al Qaeda.¹² On April 29, 2005, Secretary of State Condoleezza Rice, while on an official visit to El Salvador, praised the country as a "strong ally in the war on terror...[a country] that has come through so much to have a democratic president and a democratic future."¹³

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 FY2005, Congress appropriated an estimated \$40.2 million for El Salvador, and the Administration has requested \$42.5 million in assistance for FY2006. 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. Also in 2004, the FOL facilities helped seize 2.2 metric tons of narcotics and prevented the deliver of 71 metric tons of narcotics to the rest of the region.¹⁴

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 and a replacement contingent of 380

¹² "El Salvador: Troops Head to Iraq Amid Threats from Extremists," *Latin American Regional Report*, August 17, 2004.

¹³ "Rice Praises El Salvador as Friend and Ally," State Department Press Release, April 30, 2005.

¹⁴ U.S. Department of State, *International Narcotics Control Strategy Report 2004*, March 2005.

soldiers in February 2004. While all other Spanish-speaking countries have withdrawn their troops, the first part of a third contingent of 380 Salvadoran troops departed for Iraq on August 19, 2004. A fourth contingent of troops was sent to Iraq on February 10, 2005.

Migration Issues. The United States responded to the recent natural disasters in El Salvador by granting Temporary Protected Status (TPS) to an estimated 290,000 undocumented Salvadoran migrants living in the United States. On January 6, 2005, the U.S. government extended the TPS of undocumented Salvadoran migrants living in the United States until September 9, 2006. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home roughly \$2.5 billion in remittances in 2004. 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 reportedly fears that although it would still benefit from the CBTPA and its proximity to the United States, fierce Asian competition could overtake its nascent textile industry.

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. In December 2003, Human Rights Watch reported that only 5% of the labor force in El Salvador is unionized, and even those that are unionized are minimally protected by a weak Ministry of Labor (MOL) and a corrupt judicial system.¹⁵ 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.¹⁶

¹⁵ "Deliberate Indifference: El Salvador's Failure to Protect Worker's Rights," *Human Rights Watch*, vol. 15, no. 5(B), December 2003.

¹⁶ "El Salvador First to Ratify CAFTA, but Followers May Be Few," *Noticen: Central American and Caribbean Affairs*, January 6, 2005.