



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 maintained a strong interest in El Salvador, a small Central American country with a population of 7.2 million. 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 peace accord negotiated in 1992 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 toward helping the government rebuild democracy and implement market-friendly economic reforms.

Mauricio Funes of the FMLN was inaugurated to a five-year presidential term in June 2009. Funes won a close election 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 the National Assembly and the largest share of the municipal vote.

President Funes still has relatively high approval ratings (69% in November 2010), but faces a number of political, economic, and social challenges. The National Assembly is fragmented, which means that Funes has to form coalitions with other parties in order to advance his legislative agenda. The global financial crisis and U.S. recession negatively impacted El Salvador's economy, increasing the country's already widespread poverty. A three-year \$790 million agreement signed with the International Monetary Fund (IMF) in March 2010 is helping support economic recovery, but will constrain the Funes' government's future fiscal policies. In addition to these political and economic challenges, El Salvador's violent crime rates remain among the highest in the world and still need to be addressed.

Maintaining close ties with the United States has been a primary foreign policy goal of successive Salvadoran governments. Although some members of Congress expressed reservations about working with an FMLN administration, relations between El Salvador and the United States have remained friendly. After a March 8, 2010, meeting with President Funes at the White House, President Obama said that he was "very favorably impressed by the steps that [Funes is taking] to try to break down political divisions within the country ... focusing on prosperity at every level of Salvadorian society." Both leaders pledged to continue working together to expand trade through the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), foster development, and combat organized crime. U.S. bilateral assistance, which totaled an estimated \$57 million in FY2010, as well as assistance provided through the Central American Regional Security Initiative (CARSI), is supporting those bilateral goals.

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Political, Economic and Social Conditions

FMLN Victory

On June 1, 2009, Mauricio Funes of the leftist Farabundo Martí National Liberation Front (FMLN), a party that was formerly an anti-government revolutionary movement, was inaugurated to a five-year term as President of El Salvador. Funes, a former television journalist and the first FMLN presidential candidate without a guerilla past, defeated Rodrigo Ávila of the conservative Nationalist Republican Alliance (ARENA) 51%-49% in a March 2009 election. Born in San Salvador in 1959, Funes earned a liberal arts degree from the Central American University (UCA) José Simeón Cañas. He then spent more than 20 years working as a print, radio, and television journalist, becoming one of the most popular and well-respected figures in his field. In 2007, he was chosen to serve as the FMLN's 2009 presidential candidate, reportedly because party leaders thought that he would bring a modern face to the party.

Despite some concerns about potential fraud and a few cases of inter-party violence in the weeks preceding the vote, the election was conducted relatively peacefully after an extremely polarizing campaign.¹ During the campaign, ARENA sought to tie Funes to the more hard-line members of the FMLN and asserted that an FMLN victory would lead to a deterioration in relations with the United States and the installation of an authoritarian political system. Funes attempted to project a moderate image, campaigning on the slogan, "hope is born, change is coming," but also promising to maintain close ties with the United States, implement CAFTA-DR, and keep the U.S. dollar as El Salvador's currency.²

Funes' presidential victory is a first for the FMLN, which fought a 12-year civil war against the U.S.-backed Salvadoran government before officially transforming into a political party following the signing of a peace accord in 1992. Some 70,000 Salvadorans (1.4% of the population) were killed during the conflict.³ The presidential victory followed a strong showing by the FMLN in the January 2009 municipal and legislative elections, in which it won 49.5% of the municipal vote and a plurality in the National Assembly. Funes' election has been described as a watershed moment in the history of El Salvador. However, a recent analysis of Salvadoran voting behavior since 1992 concluded that Funes' victory occurred at least partially as a result of a gradual shift leftward among Salvadoran voters that was already evident by early 2008.⁴

¹ Some 5,000 national and international electoral observers supervised the proceedings while 20,000 members of the Salvadoran military and police provided security. "El Salvador: 20,000 Policías y Soldados en Comicios," *Associated Press*, March 4, 2009; "El Salvador prepares to vote," *Latin News Daily*, March 13, 2009.

² Maureen Meyer, "Election Season in El Salvador," *Washington Office on Latin America*, January 15, 2009.

³ Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions*, (New York, NY: Routledge, 2002).

⁴ Dinorah Azpuru, "The Salience of Ideology: Fifteen Years of Presidential Elections in El Salvador," *Latin American Politics and Society*, Summer 2010.

Figure I. Map and Data on El Salvador



Source: Map prepared by CRS. Data gathered from: U.S. Department of State, "Background Note: El Salvador," July 2010; World Bank, World Development Indicators; Economist Intelligence Unit.; U.N. Economic Commission for Latin America and the Caribbean.

President Funes and the Major Challenges Facing his Administration

Since the election, President Funes has pursued moderate policies, which has caused periodic friction between him and more radical members of his party, including Vice President Salvador Sánchez Cerén. President Funes has stated that he seeks to emulate President Lula da Silva of Brazil, a leader who has instituted social welfare programs while advancing market-oriented economic policies. According to observers, Funes' cabinet includes competent leaders from a

variety of ideological backgrounds. President Funes has also created a permanent Economic and Social Council, composed of leaders from business, academia, churches, unions, government, and popular organizations, to advise his government. Funes has generally been able to secure legislative support for his initiatives from the FMLN; the Grand Alliance for National Unity (GANU) party, a dissident faction that split from ARENA in October 2009; and the center-right National Conciliation Party (PCN). While the Funes Administration has restored diplomatic relations with Cuba, it has also sought to build ties with the United States by, in part, not aligning itself with the government of Hugo Chávez in Venezuela and the Bolivarian Alliance for the Americas (ALBA).⁵

President Funes continues to enjoy strong approval ratings (69% in November 2010⁶), but analysts remain divided over how well his Administration has performed thus far. Some observers have credited Funes' pragmatic approach to governance with helping his administration secure much-needed support from the International Monetary Fund (IMF). Others have expressed concerns, however, that he may be straying too far away from his FMLN base, particularly since forming a legislative alliance with dissident members of ARENA and forming his own political movement called the "Citizens' Movement for Change."⁷ Some analysts maintain that the Funes government has struggled to respond to the country's significant public security challenges without resorting to repressive policies.⁸ However, according to a November 2010 survey conducted by the University of Central America's Public Opinion Institute (IUDOP), 60% of Salvadorans polled felt that police performance had improved under President Funes. Most analysts concur that the Funes government needs to find a way to jumpstart the country's economy, which 52% of Salvadorans polled by IUDOP said had worsened in the past year.

Rebuilding a Faltering Economy

The Funes government is struggling to boost El Salvador's economy, which contracted by 3.4% in 2009, largely as a result of the U.S. recession. Since the United States is El Salvador's most important trading and investment partner, the U.S. economic slowdown caused remittances, investment, tourism revenues, and demand for Salvadoran exports to decline in 2009. According to El Salvador's Central Bank, remittances, which contribute some 16% of the country's GDP, fell by 8.5% in 2009 as compared to the year before.⁹ In November 2009, Funes' efforts to repair the Salvadoran economy were dealt a significant blow when Tropical Storm Ida and related flooding caused 190 deaths and wrought millions of dollars in damages to agriculture and infrastructure in the country. By the second quarter of 2010, however, an uptick in remittances,

⁵ President Chávez launched a Bolivarian Alternative for the Americas (ALBA) in 2004 as an alternative to the Free Trade Area of the Americas. ALBA advocates a socially oriented trade block that includes mechanisms for poverty reduction, and cooperation in a range of areas including health, education, culture, investment, and finance. Currently, eight countries in the region have joined ALBA. Venezuela and Cuba were the first countries to launch ALBA in 2004, while Bolivia joined in 2006, and Nicaragua in 2007. In 2008, the Caribbean nation of Dominica joined in January, while Honduras joined in August, but subsequently withdrew in January 2010 under the de facto government of Roberto Micheletti. In June 2009, Ecuador, St. Vincent and the Grenadines, and Antigua and Barbuda joined ALBA.

⁶ "Mantiene Funes Popularidad Pese a Deterioro Económico," *Agencia Mexicana de Noticias*, December 7, 2010.

⁷ "Is El Salvador's First Left-Leaning President Changing the Country's Internal Political Realities for the Better? Are U.S. Policy Makers About to Make a Major Mistake?" *Council on Hemispheric Affairs (COHA)*, February 17, 2010; "Confessions of a Leftist Party: The FMLN's Dilemma in the Face of Funes' Centrist Policies," *COHA*, June 28, 2010.

⁸ "Expectations for Change and Challenges of Governance: The First Year of President Mauricio Funes," *Center for Democracy in the Americas*, June 2010.

⁹ "Salvador's Central Bank Says Migrants Sent 8.5 Percent Less Money Home in 2009," *AP*, January 12, 2010.

domestic demand, and exports—particularly sales of non-traditional products—had helped the Salvadoran economy begin to expand. Although the economy now appears to be on an upward trajectory, annual Gross Domestic Product (GDP) growth is expected to reach just over 1.0% for 2010, and significant challenges remain, including how to spur private investment.¹⁰

The Funes government has taken both short and medium-term steps to respond to the country's economic challenges. Upon taking office, President Funes called for austerity, emphasizing the need to reduce excess spending, better target subsidies, and combat tax evasion and corruption. He also announced an "Anti-Crisis" plan focused on boosting social spending, constructing new housing, and improving public utilities and road infrastructure. President Funes and the IMF agreed to a \$790 million stand-by agreement in March 2010 premised on the idea that as the Salvadoran economy recovers, the government will strive to improve tax administration, restrict spending, and reallocate energy subsidies.¹¹ A medium-term challenge for the Funes government will be determining how to boost the economy with targeted social spending and infrastructure projects without exceeding the fiscal deficit targets recommended by the IMF. In addition to trying to raise tax revenues, President Funes has secured loans totaling approximately \$600 million from the World Bank and \$450 million from the Inter-American Development Bank to fund anti-poverty efforts, fiscal reform programs, and the creation of an export guarantee fund.

Should the Salvadoran economy continue to falter, broader debates may emerge within the Funes government about the proper economic course for the country to follow, including whether or not to maintain a dollarized economy.¹² El Salvador achieved notable stability and economic growth in the 1990s following the Salvadoran government's embrace of a "neo-liberal" economic model, cutting government spending, privatizing state-owned enterprises, and, in 2001, adopting the dollar as its national currency. As expected, dollarization led to lower interest rates, low inflation, and easier access to capital markets, but it also took away the government's ability to use monetary and exchange rate adjustments to cushion the economy from external shocks (such as the global financial crisis and U.S. recession). After posting strong growth rates in the 1990s, El Salvador registered only 2% growth from 2000-2004 and 3.6% growth from 2005-2008. Even before the economy contracted in 2009, El Salvador's growth rates had not been high enough to improve living standards among the Salvadoran people, approximately 48% of whom continued to live in poverty in 2009 (roughly the same percentage as in 2001).¹³ Emigration has reduced rural unemployment and infused some households with extra income in the form of remittances, but has also caused significant social disruptions.¹⁴

Confronting Crime and Violence

The Funes Administration is also confronting the related problems of crime and violence that have plagued El Salvador since its civil war. Pervasive poverty and inequality, unemployment and

¹⁰ "Country Report: El Salvador," *Economist Intelligence Unit (EIU)*, December 2010.

¹¹ International Monetary Fund (IMF), "Press Release 10/95: IMF Executive Board Approves US\$790 Million Stand-by Arrangement for El Salvador," March 17, 2010; IMF, *El Salvador: 2010 Article IV Consultation and First Review Under the Stand-By Arrangement*, IMF Country Report No. 10/307, October 2010.

¹² "Talk of Scrapping Dollar Spices up Budget Debate," *Latin American Weekly Report*, November 25, 2010.

¹³ U.N. Economic and Social Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2010*, December 2010.

¹⁴ Sarah Gammage, "Exporting People and Recruiting Remittances: A Development Strategy for El Salvador?," *Latin American Perspectives*, November 2006.

underemployment, drug trafficking, corruption, and illicit firearms have all contributed to the current situation. In 2009, El Salvador recorded approximately 4,365 murders, which is 34% higher than in 2008, a year in which the country had a murder rate of 52 per 100,000 inhabitants, one of the highest in the world.¹⁵ As many as 30,000 Salvadoran youth belong to *maras* (street gangs), which Salvadoran National Police (PNC) officials maintain are responsible for just under half of all homicides and a majority of extortion occurring in the country.¹⁶ In early September 2010, the MS-13 and 18th Street gangs¹⁷ jointly organized a three-day strike in response to new anti-gang legislation that paralyzed the country's transport system. Drug trafficking organizations and organized criminal groups, both Salvadoran and international, have also increased their illicit activities in the country, including money laundering.¹⁸ In September 2010, the PNC seized two plastic barrels containing a combination of Euros and U.S. dollars worth \$15 million.¹⁹

President Funes had hoped to move away from the *mano dura* (firm hand)²⁰ policies towards gangs and crime enacted by previous ARENA administrations, but escalating violence, including two gang attacks on buses that killed 17 people in June 2010, has forced him to adopt a number of tough measures.²¹ In November 2009, President Funes issued an emergency decree deploying military troops to assist police forces in fighting crime on the streets until enough police can be recruited, trained, and equipped to handle the task alone, a process which may take several years. Several thousand troops are now involved in securing border crossings, carrying out joint patrols with police in high-crime areas, and, since July 2010, in securing the country's prisons.²² In September 2010, El Salvador's Congress enacted a law outlawing the MS-13, 18th Street, and other criminal gangs and the financing of their activities. Human rights organizations have opposed the law, predicting that it will result in a return to repressive police tactics against gangs.

¹⁵ "El Salvador: President Mauricio Funes to Fight Crime with Guns, Phone Taps, and More Police," *Noticen: Central American & Caribbean Affairs*, March 11, 2010. U.N. Development Program (UNDP), "Informe Sobre Desarrollo Humano Para América Central 2009-2010: Abrir Espacios a la Seguridad Ciudadana y el Desarrollo Humano," October 2009.

¹⁶ CRS Interview with Salvadoran National Police officials, December 2010.

¹⁷ The major gangs operating in Central America with ties to the United States are the "18th Street" gang (also known as M-18), and their main rival, the Mara Salvatrucha (MS-13). The 18th Street gang was formed by Mexican youth in the Rampart section of Los Angeles in the 1960s who were not accepted into existing Hispanic gangs. It was the first Hispanic gang to accept members from all races and to recruit members from other states. MS-13 was created during the 1980s by Salvadorans in Los Angeles who had fled the country's civil conflict. Both gangs later expanded their operations to Central America. CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

¹⁸ Stephen S. Dudley, *Drug Trafficking Organizations in Central America: Transportistas, Mexican Cartels, and Maras*, Woodrow Wilson International Center for Scholars, Working Paper Series on U.S.-Mexico Security Cooperation, May 2010; "Salvadoran Leader Speaks of Criminal Gangs' Links to Drug Cartels," *Los Angeles Times*, September 11, 2010.

¹⁹ CRS Interview with Salvadoran National Police officials, December 2010.

²⁰ El Salvador's Congress passed strict *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 were accompanied by the use of joint military and police patrols to round up gang suspects. While these reforms initially provided a way for Salvadoran leaders to show that they were cracking down on gangs, recent studies have cast serious doubts on their effectiveness. Gang roundups exacerbated prison overcrowding. Most youth arrested under *mano dura* provisions have been subsequently released for lack of evidence. In addition, many gang members are now hiding or removing their tattoos, changing their dress, and avoiding the use of hand signals, making them harder to identify and arrest.

²¹ "Funes Loses Patience with Gangs," *Latin American Weekly Report*, June 24, 2010.

²² "El Salvador: Investment Depends on Fighting Crime," *Oxford Analytica*, September 3, 2010.

Salvadoran government officials have discounted those predictions, maintaining that the law is focused on helping police build stronger anti-gang investigations that will stand up in court.²³

These highly publicized crime control efforts have been accompanied by other, less visible, changes in the areas of prevention, prison reform and rehabilitation, and institutional/legal reform. For 2011, the Funes government increased funding for prevention programs to roughly 14% of the Ministry of Security's budget (from a historic average of just over 1%).²⁴ In order to deal with the dire situation in the country's prisons, three new prisons are under construction, corrupt prison staff have been purged, and a draft law to provide more rehabilitation programs in the prison system is being developed. Many argue that more needs to be done in this area, however, given that the prisons currently house close to 25,000 prisoners, a significant percentage of whom have yet to be sentenced, in facilities designed to hold roughly 8,000 inmates.²⁵ With respect to institutional reform and anti-corruption efforts, the Inspector General of the PNC has dismissed at least 20 police officers found guilty of corruption or ties with criminal groups and suspended hundreds more pending ongoing investigations.²⁶ In order to provide additional tools for law enforcement to use in criminal investigations and prosecutions, President Funes shepherded a wiretapping law through the National Assembly. He is reportedly considering whether or not to propose a security tax to fund government efforts to enhance public security as was done by President Álvaro Uribe in Colombia.²⁷ Perhaps partially as a result of these efforts, statistics indicate that El Salvador's murder rate from January 2010 to October 2010 was 8 percent lower than the same period in 2009.²⁸

Relations with the United States

Throughout the last few 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. military aid in Latin America as its government struggled against the FMLN insurgency. After the 1992 peace accords were signed, U.S. involvement and assistance shifted toward helping successive ARENA governments rebuild democracy and implement market-friendly economic reforms. The Administration of Tony Saca (2004-2009) cooperated in counternarcotics operations, supported the U.S. coalition forces in Iraq, and implemented the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

Although some analysts predicted that a Funes victory could complicate U.S.-Salvadoran relations, most others predicted that bilateral relations would remain friendly regardless of who won the March 2009 elections. During his inauguration, which was attended by Secretary of State Hillary Clinton, Funes asserted his desire to "broaden, strengthen, and renew" El Salvador's

²³ Alex Renderos, "El Salvador Moves Against Criminal Gangs," *Los Angeles Times*, September 4, 2010. CRS interview with officials from El Salvador's National Civilian Police, December, 2010.

²⁴ *Ibid.*

²⁵ Benjamin Witte-Lebhar, "Deadly Blaze Underscores Crisis in El Salvador's Prison System," *Noticen: Central American & Caribbean Affairs*, December 2, 2010.

²⁶ Rep. Jim McGovern, "Many Challenges Facing El Salvador: President Funes Deserves U.S. Support," House Proceedings, *Congressional Record*, vol. 156, part 132 (September 28, 2010).

²⁷ Christian Völkel, "Government Proposes Security Tax in El Salvador," *IHS Global Insight Daily Analysis*, November 11, 2010.

²⁸ Homicide statistics are from the Department of Forensic Statistics at the Institute of Legal Medicine in El Salvador.

relations with the United States.²⁹ While some FMLN officials have made anti-American remarks, Funes has repeatedly referred to the United States as a “strategic partner.” Funes has also pledged to maintain El Salvador’s dollarized economy, to continue the implementation of CAFTA-DR, and to allow the continued use of Comalapa International Airport as a Forward Operating Location (FOL) for U.S. anti-drug forces in the hemisphere.

President Obama has spoken with President Funes several times since his election, congratulating Funes on his victory and meeting him in person at the Fifth Summit of the Americas. El Salvador’s Foreign Minister Hugo Martinez met with Secretary of State Hillary Clinton and Assistant Secretary Arturo Valenzuela in December 2009 to discuss U.S. relations with El Salvador, particularly those concerning migration. These high-level contacts culminated in President Funes’ first visit to the White House, which took place on March 8, 2010. After that meeting, President Obama thanked President Funes for his help in resolving the situation in Honduras and expressed “how interested the United States is in continuing to be an equal partner with El Salvador and other countries in the region.”³⁰

Evidence of the strong ties between El Salvador and the United States also emerged in the aftermath of Hurricane Ida, when the Obama Administration gave \$840,000 in emergency aid and the House passed H.Con.Res. 213 (Mack), expressing solidarity with the people of El Salvador who were victimized by the storm. This initial assistance was followed by the inclusion of an additional \$25 million for reconstruction efforts in El Salvador in the FY2010 supplemental appropriations measure (P.L. 111-212).

U.S. Foreign Aid

Recent bilateral funding to El Salvador amounted to roughly \$59.3 million in FY2009 and \$57.1 million in FY2010, including \$25 million in supplemental assistance for reconstruction efforts associated with Tropical Storm Ida. The Obama Administration requested \$36.2 million in bilateral assistance for El Salvador for FY2011. In the absence of FY2011 appropriations legislation, Congress has passed a series of continuing resolutions (P.L. 111-242 as amended) to fund government programs, with the latest CR set to expire on March 4, 2011. The CRs continue funding most foreign aid programs at the FY2010-enacted level, with some exceptions.

In addition to funding reconstruction efforts, U.S. bilateral assistance to El Salvador seeks to help enhance citizen security, promote trade and investment, reduce poverty, improve healthcare and education, and strengthen government institutions.

²⁹ Mauricio Funes, “Discurso Toma de Posesión,” *Gobierno de la Republica de El Salvador*, June 1, 2009.

³⁰ The White House, Office of the Press Secretary, “Remarks by President Obama and President Funes of El Salvador after Meeting,” March 8, 2010.

Table I. U.S. Assistance to the El Salvador: FY2009-FY2011

U.S. \$ millions

Account	FY2009	FY2010 (est.)	FY2011 req.
INCLE	0.0	0.0	0.0
ESF	27.0 ^a	25.0 ^b	0.0
FMF	3.5	1.0	4.8
IMET	1.6	1.8	1.8
GHCS	6.0	5.5	3.1
DA	21.2	23.9	26.5
TOTAL	59.3	57.1	36.2

Sources: U.S. Department of State, Congressional Budget Justification for Foreign Operations: FY2011.

Notes: GHCS= Global Health and Child Survival (includes total funds provided by the U.S. Agency for International Development and the State Department); DA=Development Assistance; ESF=Economic Support Fund; FMF=Foreign Military Financing; IMET=International Military Education and Training; INCLE=International Narcotics Control and Law Enforcement; NADR=Non-proliferation, Anti-terrorism and Related Programs.

- a. This \$27 million is from a pot of \$255.6 million included in the FY2009 Supplemental Appropriations Act (P.L. 111-32) to assist developing countries affected by the global financial crisis.
- b. This supplemental assistance was provided for reconstruction efforts in P.L. 111-212.

El Salvador receives some foreign assistance beyond the bilateral funds appropriated annually through the foreign operations budget. There are approximately 175 U.S. Peace Corps volunteers serving in El Salvador who are engaged in projects related to health and sanitation, environmental issues, and municipal development. USAID's Office of Foreign Disaster Assistance (OFDA) provides assistance in response to natural disasters, including, most recently, \$100,000 provided in May 2010 in response to Tropical Storm Agatha. In November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation (MCC), which is discussed below.

El Salvador also benefits from regional trade capacity building assistance and regional anti-gang assistance funded through global funds appropriated to the State Department's Bureau of International Narcotics and Law Enforcement. El Salvador also receives assistance under the Central America Regional Security Initiative (CARSI, formerly known as Mérida-Central America), a package of counternarcotics and anticrime assistance for the region. CARSI programs in El Salvador focus on bolstering government capacity to inspect and interdict unauthorized drugs, goods, arms, and people; implement anti-gang programs; and carry out police and judicial reform. From FY2008-FY2010, Congress appropriated \$248 for Central America, a portion of which was intended for El Salvador. For FY2011, the Obama Administration requested \$100 million for CARSI.

Millennium Challenge Corporation (MCC) Compact

In late November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation (MCC) 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.³¹ By the end of September 2010, some \$112.5 million in MCC assistance had been disbursed for programs in El Salvador.³²

Counter-Narcotics Issues

Although El Salvador is not a major producer of illicit drugs, it does serve as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States via land and sea. In 2009, Salvadoran officials seized 3.8 kilograms of cocaine/crack cocaine (a majority seized at sea by the Salvadoran Navy), 323 kilograms of marijuana, and 5 kilograms of heroin.³³ Both the Anti-Narcotics Division (DAN) of the PNC and the Salvadoran Navy coordinated closely with their U.S. counterparts. U.S. counternarcotics assistance focuses on improving the interdiction capabilities of Salvadoran law enforcement agencies; increasing transparency, efficiency, and respect for human rights within the criminal justice system; and aiding Salvadoran efforts to fight transnational gangs. Insufficient funding and equipment for the PNC continued to hinder bilateral efforts, as well as a lack of progress on investigating and prosecuting money laundering crimes.³⁴ In 2010, the Salvadoran National Assembly passed an asset forfeiture law, as well as a law allowing the Attorney General's office to perform wiretapping. On December 8, 2010, the U.S. and Salvadoran governments announced the creation of a new Wiretapping Center in El Salvador to help officials in the Attorney General's office intercept and analyze telecommunications.³⁵

Comalapa International Airport in El Salvador serves as one of two Forward Operating Locations (FOLs) for U.S. anti-drug forces in the hemisphere. The FOL extends the reach of detection and monitoring aircraft into the Eastern Pacific drug smuggling corridors, through which more than half of the narcotics destined for the United States transit.³⁶ Although the U.S. lease on the airport was set to expire in 2010, El Salvador signed an agreement in April 2009 that will allow the United States to continue using Comalapa as an FOL for an additional five years.³⁷ El Salvador is also the home of the U.S.-backed International Law Enforcement Academy (ILEA), which provides police management and specialized training to officials from all of the countries of the region.

³¹ 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.

³² Millennium Challenge Corporation, "Compact Implementation Status Report: El Salvador Compact Progress," July – September 2010.

³³ U.S. Department of State, *International Narcotics Control Strategy Report*, March 1, 2010.

³⁴ *Ibid.*

³⁵ "U.S. and El Salvador Sign Agreement for New Wiretapping Center," *Targeted News Service*, December 8, 2010.

³⁶ U.S. Southern Command, "Fact Sheet: Forward Operating Locations," February 5, 2009.

³⁷ "Amplián Permanencia de Centro Antidrogas de EU en El Salvador," *Agencia Mexicana de Noticias*, April 2, 2009.

Migration Issues

Beyond financial linkages, the United States is home to some 2.5 million Salvadoran migrants, approximately one-third of El Salvador's population. The movement of large numbers of poor Salvadorans to the United States has eased pressure on El Salvador's social service system and labor market while providing the country with substantial remittances. Remittances sent from Salvadoran workers totaled some \$3.5 billion in 2009, some 8.5% lower than in 2008.³⁸ Through November 2010, remittances sent from the United States to El Salvador were reportedly 2.4% higher than last year, although still much lower than in 2008.³⁹

Following a series of earthquakes in El Salvador in 2001 and a determination that the country was temporarily incapable of handling the return of its nationals, the U.S. government granted Temporary Protected Status (TPS) to an estimated 220,000 eligible Salvadoran migrants. TPS has been extended several times, and is currently scheduled to expire in March 2012.

Nonetheless, many Salvadoran migrants continue to be deported from the United States, including 20,830 in FY2010, 41.4% of which were deported on criminal grounds.⁴⁰ The United States is working with the Salvadoran government in a joint effort to improve the deportation process. In December 2009, a bi-national working group consisting of migration authorities from both countries was formed in Washington, DC. Two of the group's goals are to expedite the deportation process in order to avoid immigrants spending unnecessary time in U.S. detention centers and to address more general concerns about the current deportation process.⁴¹

U.S. Trade and 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 the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). El Salvador was also the first country to pass the agreement's required legislative reforms, implementing CAFTA-DR on March 1, 2006. Some Salvadoran officials have attributed increases in employment, exports, and investment to the agreement's

³⁸ "Salvador's Central Bank Says Migrants Sent 8.5 Percent Less Money Home in 2009," *AP*, January 12, 2010.

³⁹ "Central American Officials Show Mixed Feelings on Remittances," *Business News Americas*, December 21, 2010.

⁴⁰ Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Detention and Removal.

⁴¹ Grupo de Trabajo Binacional El Salvador - Estados Unidos Verifica Proceso de Deportacion," Ministerio de Relaciones Exteriores de El Salvador, January 12, 2010.

implementation. Although the country's apparel exports to the United States declined during the first year CAFTA-DR was in effect, El Salvador saw a 21% rise in non-apparel exports to the United States, with significant increases in ethanol, food stuffs, and metal products. Salvadoran exports to the United States increased by 10% in 2007 and 9% in 2008 as a result of a slight recovery in textile and apparel exports and an increase in non-traditional exports. U.S. exports to El Salvador have also increased, rising by 16% in 2006, 7.5% in 2007, and 6.5% in 2008. These positive trends were reversed in 2009, however, as a result of the U.S. recession. Salvadoran exports to the United States fell by 3.9% and U.S. exports to El Salvador fell close to 18%.⁴² Exports to the United States have recovered in 2010, however, with sales from January to September roughly 21% higher than during the same period in 2009.

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⁴² U.S. Department of Commerce statistics, as presented by *World Trade Atlas*, 2010.