



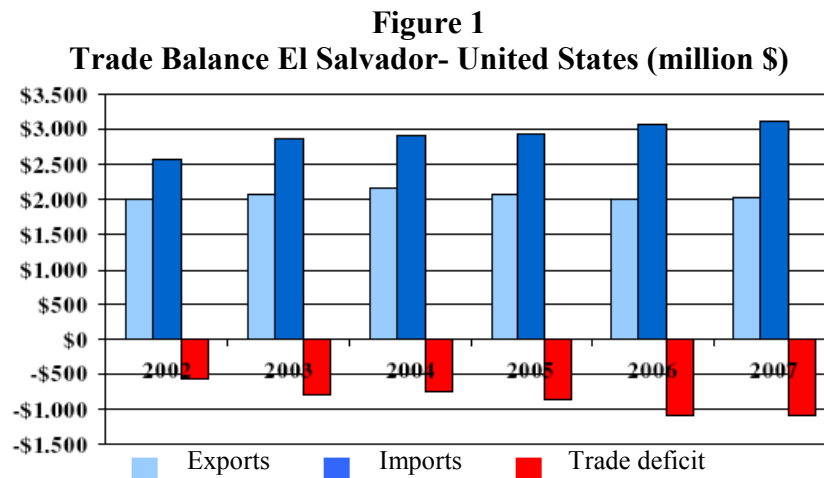
The SHARE Foundation: Building a New El Salvador Today *El Salvador Today: Advocacy Issues Series*

An Update on CAFTA Two Years after Implementation in El Salvador (2006-2007)

March 2008 marked the second anniversary of the Central American Free Trade Agreement (CAFTA-DR). When CAFTA policies were put into practice, trade officials saw them as beneficial to both Americans and Salvadorans, who would have new access to goods for lower prices because of the trade agreements. The level of Salvadoran exports to the US were expected to increase and stimulate the Salvadoran productive sector. Foreign Direct Investment (FDI) from the US to El Salvador was also expected to increase, making available large amounts of money that generate jobs greatly needed in country. Furthermore, CAFTA policies were expected to decrease the price of imported goods through free trade. In this issue, we will examine the promises made by CAFTA officials two years ago and the actual effects that the policies have had on Salvadorans.

1. Trade Balance United States/El Salvador

When CAFTA was implemented in March 2006, its main goals were to increase exports from El Salvador to the US and reduce the cost of imports of US-made items. However, two years later, instead of the Salvadoran trade deficit declining, it has increased by 44.1%.¹ On one hand, Salvadoran exports to the US have diminished over the course of the two years by \$34 million, and secondly, Salvadoran imports of US products have increased by \$161 million over the same period.² In other words, the US has been selling to El Salvador more than it has bought from it, therefore the US has benefited more from the treaty than El Salvador. Figure 1 shows how the Salvadoran trade deficit has increased in the last 6 years, particularly during the two years since CAFTA was implemented.



Source: CEICOM, 2008

It is important to point out the Salvadoran dependency on US trade. In 2007, 40.2% of the Salvadoran imports came from the US. On the other hand, 60% of the Salvadoran exports are sold in the US.³ This dependency makes El Salvador very vulnerable in the case of a US crisis: if the United States enters in a full recession it will probably buy less goods and services from El Salvador. In addition, Salvadoran industries cannot compete with the low production cost in China and therefore has lost exports to the US due to China's competition.

2. Foreign Direct Investment (FDI)

In addition, CAFTA aimed to increase the amount of US investment in El Salvador, attractive because of capital liberalization and cheaper labor supply. In 2006 FDI from the US increased by only 0.9%⁴. In the past year US investment increased about 38% when American banking giant CITIGROUP bought out the Salvadoran Cuscatlán Financial Group.⁵ However the purchase of the Salvadoran financial institutions could have taken place without CAFTA. Other sectors in which FDI have increased are communications, energy and services. Unfortunately there has not been any investment in agriculture, fishing, construction and even *maquilas* (offshore tax-free factories), which are El Salvador's main productive sectors. In fact, there has been a reduction of jobs in these sectors. Between 2001 and 2006, about 19,000 jobs were lost in the agricultural sectors and 8,000 industrial sectors.⁶ CAFTA is failing to stimulate El Salvador's productive sectors to generate sustained job creation as it was promised when the treaty was signed.

3. Inflation

Another promise made by CAFTA promoters is that the treaty was going to help to keep inflation down. It was assumed that by reducing and eventually eliminating import tariffs, El Salvador was going to enjoy cheaper imports, keeping inflation down. However inflation increased to 4.9% in 2006 and 2007. Since 2000, inflation has grown a staggering 30%. Staple foods prices have increase the most: from 2006 to 2007 the price of corn has risen by 39%, beans by 24%, and rice by over 10%. For the 32% of Salvadorans who live on less than \$1 a day, this increase in prices has been unbearable.⁷ Even the United Nations World Food Program is warning of a potential nutritional crisis in El Salvador. According to the agency, the actual calorie intake of a rural average meal in El Salvador is almost 60 % less of what it used to be in May 2006.⁸

The rise in inflation and the deteriorating trade deficit cannot be solely attributed to CAFTA but to El Salvador's policies which benefit the import and financial sectors over productive sectors such as agriculture. However CAFTA has exacerbated these problems by opening up El Salvador's economy, making it more dependent on US imports and making it more vulnerable to fluctuating international prices. As a result of this crisis, more and more people are either depending on remittances from family members living in the US or are themselves forced to leave El Salvador. According to former US Ambassador to El Salvador Douglas Barclay about 740 Salvadorans try to migrate to the US every day. Currently, over one third of Salvadoran lives overseas, most of them in the US.

These facts bring into question why CAFTA is still being supported by the US and Salvadoran governments? How long can El Salvador's poor endure this situation before they leave the country for good?

¹ Claros, Iván. 2008. Informe del Segundo Año de Implementación del CAFTA-DR en El Salvador. Centro de Investigación sobre Inversión y Comercio (CEICOM). El Salvador.

² La Página de Maíz, No. 184. 29/2/08. El Salvador

³ CEICOM, 2008.

⁴ Sención, Cesar A. 2008. El Salvador: Promesas y Fracasos del TLC con Estados Unidos. El Salvador.

⁵ Ibid

⁶ La Página de Maíz, 2008.

⁷ Cesar Augusto Sención. 2008.

⁸ UN News Centre. <http://www.un.org/apps/news/story.asp?NewsID=25766&Cr=food&Cr1=> Consulted 04/15/08