

Winners and Losers in El Salvador: A Window on Our Future?

A Report of the
Free Trade Area of the Americas
(FTAA)
Reality Tour of El Salvador



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I. Executive Summary

BACKGROUND

On October 22-31, 2003 a delegation of Mainers from Penobscot and Hancock Counties traveled to El Salvador to gather information about the impact of free-trade policies on that country. The sixteen-member delegation represented a spectrum of organizations concerned about Maine jobs, services, and natural resources placed at risk by international trade agreements. The delegation chose El Salvador because both the Salvadoran and U.S. governments portray this small, Massachusetts-sized Central American country as a free trade “success story” – a model for economic development that its neighboring countries should adopt. We were also interested in exploring whether this free-trade showcase might provide a window on how our own economy and society are affected by global trade pacts. In particular, the delegation was concerned about possible impact of the proposed FTAA (Free Trade Area of the Americas) that would extend features of NAFTA to every country in the Western Hemisphere, with the exception of Cuba.

WINNERS AND LOSERS

Free trade has primarily benefited U.S. and other foreign corporations who export basic goods to El Salvador, as well as a wealthy minority of Salvadoran importers who serve as their middlemen. Besides these large importers, other Salvadoran winners are bankers; private owners of what were formerly public services, and maquila (garment assembly plant) owners.

The losers have been the rural population, the maquila workforce, unemployed and under-employed members of the “informal economy”, the economic refugees who have had to emigrate to the U.S, and the families they left behind.

JOBS

The majority of new jobs created are in the maquilas, located in free-trade zones. While working conditions in these factories range from good to abusive, what remains constant is that the maquila worker's wages are poverty wages. At \$150 per month, a maquila salary provides just over half the cost of barebones necessities of food and housing for a family of two (\$250 per month), and roughly 25% of an “expanded basket” of necessities that adds water, electricity, minimal healthcare, and telephone service (\$550 per month). Thus, the notion that Maine manufacturing jobs exported to El Salvador are at least helping Salvadoran workers is not borne out.

BALANCE OF PAYMENTS

Free trade policies have created extreme trade imbalances for El Salvador. Last year El Salvador incurred a \$1.9 billion dollar trade deficit importing nearly twice what it was able to export. This otherwise unsustainable trade imbalance is offset by the \$2.3 billion sent home by Salvadorans working in the United States, an average of \$1,000 annually per emigrant. It is these workers' "off-the books" remittances that balance the trade deficit and keep the Salvadoran economy afloat.

CONSUMER ADVANTAGE

The benefits that free-trade advocates argued would accrue to Salvadoran consumers have not materialized. Instead, the cost of basic goods have been rising, not falling, due to a value-added sales tax on most items including food, clothes and medicine. Recently boosted from ten to thirteen percent, this consumer tax was imposed by the government to help offset deep cuts in income, property and corporate taxes.

IMPACT ON COMMUNITIES

Free trade policies have caused widespread dislocations of families and entire communities. The rural areas in particular are losing out, as women leave their communities, migrating to the cities, and men illegally migrate to the U.S. – all in search of work. 2.3 million Salvadorans, unable to support themselves and their families at home, have left their country to work in the United States. One in four Salvadorans now lives in the U.S.

ENVIRONMENT

Free-trade policies adversely affect El Salvador's environment. Already the second most deforested country in the hemisphere, after Haiti, El Salvador is courting further environmental damage through (1) infrastructure projects that may destroy remaining aquifers, (2) unregulated development in zones at high risk for natural disasters, and (3) relaxed or un-enforced pollution standards.

ECONOMIC PARALLELS

Salvadoran social and economic trends echo those we see in our own country, including:

- Rapidly increasing concentration of wealth
- Depletion of the budget through steep tax cuts, followed by deep cuts in social spending and reductions in public services
- Privatization of essential services with resulting lack of access to basic needs
- Deregulation of business practices causing the erosion of labor and environmental protections
- Consignment of “less competitive” sectors of the economy to elimination as the price of “development”

A WINDOW ON OUR FUTURE

Having witnessed these parallels, we conclude that we, too, suffer from the same social and economic maladies that we once thought were reserved for poor countries that couldn't pay their bills. These phenomena appear to be linked to free trade policies, regardless of which country adopts them. Salvadorans certainly suffer more than most Americans do; many basic services are out of reach for most Salvadorans and their government has become unwilling or unable to protect them from health, safety and environmental hazards.

However, these twin dangers – the lack of access to basic services and lack of protection from corporate excesses – are trends that the FTAA would exacerbate, propelling our own country toward the same economic and social anguish we witnessed in El Salvador.

II. Introduction

Who We Are

On October 22-31, 2003 a delegation of Mainers from Penobscot and Hancock Counties traveled to El Salvador to gather information about the impact of free-trade policies on Maine and Central America. The trip was dubbed the “FTAA Reality Tour.”

The sixteen-member delegation represented a wide spectrum of organizations concerned about Maine jobs, services, and natural resources placed at risk by international trade agreements. More specifically, the represented groups are concerned with healthcare, the workforce, the environment, immigration, poverty, consumer protection, corporate transparency, international trade policy, government sovereignty, and community integrity.

Tour delegates are active in the following organizations: Maine Association of Interdependent Neighborhoods, Union River Watershed Coalition, Maine Global Climate Change, Maine People's Alliance, Food and Medicine, H.O.M.E. Coop, the Bangor Clean Clothes Campaign, Environment Magazine, Maine Fair Trade Coalition, PICA, Teamsters local 340, the Bangor-El Salvador Sister Cities Project, and the office of U.S. Congressman Mike Michaud. The individual delegates were Margaret Baillie, Kathleen Caldwell, Dennis Chinoy, Jimmy Cook, Meredith DeFrancesco, KC Edes, Katie Greenman, Katherine Kates, Robert Kates, Lesley Lichko, Alexandra Lounsbery, Celia McLay, Janet Redman, Rachel Sherman, Sara Stalman, and Francine Wickes.

The U.S. – El Salvador Sister Cities Network staff in San Salvador, El Salvador coordinated the delegates' meeting schedule, transportation, housing, translation services and other logistics. Locally, the tour was coordinated by Peace through Interamerican Community Action (PICA), a non-profit Bangor-based group whose current projects include the Bangor Clean Clothes Campaign, the Bangor-El Salvador Sister Cities Project, and participation in the Maine Fair Trade Campaign.

Free-Trade in a Nutshell

Free-trade oriented economics has given rise to familiar buzzwords: open markets, tariff elimination, trade barriers, privatization, deregulation, and lowered social spending. The common denominator here is the belief that it is business, unencumbered by government interference, that creates wealth. In turn, free-trade advocates conclude that reducing government meddling with market forces maximizes economic benefit.

Ten years after the North American Free Trade Agreement (NAFTA), many Americans have become more circumspect about the universal benefits of free trade. The fact that Maine has lost over 20,000 manufacturing jobs since NAFTA went into effect – with plant closings devastating many communities – suggests at the very least that free-trade policies create a system of winners and losers. The continuing flood of Latin Americans, risking the perils of emigration to the United States because they cannot support their families by working at home, likewise suggests that the benefits of free trade are not enjoyed equally.

In this context, the delegation focused on what effects the Central American Free Trade Agreement (CAFTA) and the Free Trade Area of the Americas (FTAA) might have on both the U.S. and El Salvador.

Free Trade Area of the Americas (FTAA)

The FTAA proposes to extend the features of NAFTA geographically from the U.S., Canada and Mexico to every country in the Western Hemisphere except Cuba. Substantively, this agreement would graft elements of NAFTA to those of GATT (General Agreement on Tariffs and Trade) and apply the principles of "structural adjustment" to the economies of all participating trade partners. These features include:

- Privatizing public resources (e.g., minerals, rain forest land, water supplies) and services (e.g., education, health, police, social security) by selling them to private, often foreign, corporations
- Opening local producers' markets to competition with trans-national agribusiness and industrial corporations
- De-regulating business practices so that corporations are less restricted regarding wages, working conditions or pollution controls

Finally, FTAA proposes a bold legal twist to international law: the hemisphere-wide implementation of NAFTA's Chapter 11 restraint-of-trade provision. Chapter 11 permits a corporation to sue a government directly for billions of dollars in "lost anticipated profits," based on its assertion that the government's regulation of corporate behavior is creating a "barrier to trade," even when that regulation was implemented in the interests of public safety.

The FTAA is still a work in progress, being negotiated in private by a consortium of trade representatives and corporate consultants. Resistance to certain provisions by some Latin American countries has raised doubt as to its final form.

Central American Free Trade Agreement (CAFTA)

CAFTA, which includes Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica, is a piece in the FTAA puzzle and based on the model of recent U.S. free trade agreements with Singapore and Chile. The agreement covers five main negotiating points: market access; investment and services; government procurement and intellectual property rights; labor and environment; and institutional issues (including dispute settlement). A sixth area of discussion centered on trade "capacity" building.

CAFTA presents an unusual challenge in bilateral negotiations. Through a trade ministerial committee, the Central American countries have agreed to bring a unified position to the negotiating table, while still acknowledging the specific needs of each country. This method of negotiation has caused several breakdowns in the talks when various countries have felt pressured by the others to commit to a unified position that did not best suit their home country.

On December 17, 2003, CAFTA negotiators for the U.S., Guatemala, El Salvador, Nicaragua and Honduras reached a final agreement in all areas, including textiles and agriculture. Only Costa Rica did not complete the agreement; its representatives abruptly left the talks on December 16 after complaining about excessive demands being made by the United States for the nation to open up its market to foreign competition in the telecommunications and insurance sectors. It is expected, however, that an agreement with Costa Rica will be reached before CAFTA is submitted to Congress next year. The Dominican Republic is also expected to be added to the CAFTA package, once the U.S. Trade Representative completes separate bilateral negotiations with it in March.

Why El Salvador?

The delegation chose El Salvador because both the Salvadoran and U.S. governments portray this small, Massachusetts-sized Central American country as a free trade “success story” – a model for economic development that its neighboring countries should adopt. We were also interested in exploring whether this free-trade showcase might provide a new window on how our own economy and society are affected by global trade pacts. Specifically, the delegation was interested in the Free Trade Area of the Americas (FTAA), which would formalize and extend many components of free-trade policy into internationally binding agreements throughout the hemisphere.

Although El Salvador was not a party to NAFTA, it has been a free-trade laboratory since 1991, when its civil war ended with the signing of the peace accords. Since that time, the Salvadoran government has enthusiastically adopted the free-trade-related policies of open markets, privatization, deregulation, tariff elimination, and reduced social spending. Also beginning in the early 1990’s, El Salvador embarked on the U.S.-subsidized creation of “free-trade zones” featuring textile assembly plants, known as “maquilas,” where companies send fabric to be sewn into finished garments which are then exported back for sale—tax and tariff-free. This maquila sector has replaced agriculture as the mainstay of the Salvadoran economy.

In 1991, El Salvador replaced its traditional Colon with the U.S. Dollar as the official currency of the country, staking its economic future on the success of the U.S. economy and the free-trade policies both countries espouse. The Salvadoran Economic Ministry values its “special relationship” with its primary trading partner, the United States, which brings benefit, it says, to both countries. The closeness of this relationship was evident at the recent World Trade Organization meetings in Cancun, Mexico, when El Salvador became the sole country in the “Group of 21” developing nations to break away from this bloc and to support U.S. free-trade proposals in ongoing trade negotiations.

Given this recent history we speculated that by visiting El Salvador, we could learn a lot about how abstract-sounding free-trade policies translate into social realities. And since the FTAA promises to amplify the effect of free trade policies here at home, as well as throughout the hemisphere, the delegation hoped to get a glimpse of our own country's future.

Delegation Itinerary

The delegation met with a broad spectrum of groups and individuals in the capital city of San Salvador; in the regional capital of Chalatenango, one of the country's fourteen departments; and in the village of Carasque, Bangor's sister city since 1992. We visited national and local government officials, non-governmental organizations and social advocacy groups concerned with the environment, economic development, healthcare and privatization, with economists, maquila workers, clergy members, the U.S. Embassy staff and mountain farmers and villagers. The itinerary was as full and varied as was possible in a 10-day stay. These organizations and individuals were as follows:

Organizations

ARPAS	Association of Community Radio Stations
Carasque Directiva	Community Council of Carasque
CCR	Coordination of Rural Communities, Chalatenango
CORDES	Committee for Rural Development of El Salvador
CRIPDES	Association of Rural Communities for the Development of El Salvador
Melida Anaya Montes	Organization advocating for the rights of women and maquila workers
MPR12	Coalition of social movements mobilizing against free-trade agreements in El Salvador
Probusqueda	Association in Search of Disappeared Children
SIMITRISS	Union of Physicians against privatization of El Salvador's Social Security Hospital System
UNES	National Environmental Organization of El Salvador
Village of Carasque	Multiple informal visits with families

Individuals

Cesar Villalona	Economist
Father Donald Bahlinger	Priest for Parish of Municipalities of Nueva Trinidad and Arcatao, in Chalatenango
Father Javier Ibisate	Economics Professor and former rector, University of Central America
Johanna Hill	Under-Director of Trade Policy, Salvadoran Economic Ministry
Marco Tulio	National Legislative Representative from the department of Chalatenango
Ronald Greenberg	United States Agency for International Development, United States Embassy, El Salvador
Jessica Webster	Economics Officer United States Embassy, El Salvador

III. Impact of Free Trade on El Salvador

Economic Impact

Trade Balance: Importing Basic Goods, Exporting Salvadorans

El Salvador's ratio of imports to exports is approaching 2:1. With imports valued at \$4.9 billion and rising, while exports are only \$3 billion, this is clearly a troubled country running up an enormous deficit. An open market between El Salvador and the U.S. has meant, primarily, expanding the free flow of U.S. goods to large Salvadoran importers.

Historically an agricultural country, El Salvador no longer grows enough to feed its own population. Over the last ten years its imports of rice and beans rose by roughly 250%, while imports of sorghum, its basic animal feed, rose from 0% to 40%. For food, clothing, and many essentials, El Salvador now relies on U.S. suppliers.

A major Salvadoran export is garments. Maquila workers in the country's free-trade zones assemble these garments from materials shipped in by transnational clothing companies. The value of these exports is essentially equivalent to the low cost of paying workers to transform the cut fabric into clothing. This export revenue falls far short of the cost of basic goods that Salvadorans import from the U.S. The Salvadoran Economic Ministry proposes to remedy the country's \$2 billion dollar trade deficit by helping "medium size producers" create "niche" markets for local food products, such as pupusas and tamales, to be sold in the United States. Our judgment is that free trade in El Salvador has not been an engine of domestic development, as promised. Rather, its principal effect has been to create a target market for foreign goods – including basic necessities like corn and rice – and a source of profit for wealthy Salvadorans who import and sell them to their countrymen. We also learned that the most significant export of the Salvadoran economy is not shirts, or tamales, but Salvadorans themselves.

Remittances: The Elephant in the Budgetary Living Room

At first our delegation was baffled as to how the El Salvadoran economy, with an annual \$2 billion trade deficit, could function at all. Then we learned the answer: \$2.3 billion in annual remittances from Salvadorans living in the U.S. compensates for the deficit and keeps the economy afloat. In other words, roughly 2.3 million Salvadorans who emigrated because they could no longer support their families are now annually sending back home a thousand dollars per person. This sum, which is "off the books," represents a large slice of the Salvadoran economic pie. By way of comparison, remittances exceed the national government's \$2.1 billion dollar annual revenues.

Professor Javier Ibisate, a well-respected economist and former Rector of the University of Central America, summed it up this way: “Imports are much greater than exports.” He explained that the only way El Salvador is able to balance its 2-billion-dollar trade deficit is through “poor” US dollars 2.3 million Salvadorans working in the U.S. send home to their families. “We call them ‘poor US dollars’ to clarify that they are not a donation from the United States, but rather the savings of poor people working in the U.S.”

Rural El Salvador: An Abandoned Sector

About a third of El Salvadorans are small farmers and their families. Already they cannot market their three major crops of maize, beans, and sorghum, so these have become subsistence crops, used to feed their families and animals. CAFTA and FTAA would accelerate this trend, as has NAFTA in Mexico, by flooding the country with even cheaper grains, leading to further abandonment of smallholder farms and rural communities and increasing the flow of small farmers to the United States. Government planners in the Ministry of Economics did not readily acknowledge these expected effects of free trade. Instead, they spoke of creating an export market for Salvadoran specialties for sale to the estimated two million Salvadorans in the United States.

Anticipating the collapse of the rural sector’s traditional economy, groups such as the CORDES foundation seek to create sustainable agriculture featuring organic production using few purchased inputs, local markets, and niche export crops such as organic shade-grown coffee. Government planners also advocate “sustainable agriculture,” describing the vision in similar terms.

Regardless of whether these initiatives succeed, the delegation concludes that free trade will accelerate the ongoing loss of agriculture, worker migration to the U.S., and the resulting disintegration of families and rural communities. In the case of Carasque, a remote village of 300, most families have seen at least one family member leave to find work because life in the village was unsustainable. Those (mostly young men) willing to risk their lives to emigrate to the U.S. are often the most motivated people in their communities. Five previous presidents of the community council are among the 61 villagers currently in the United States. Similarly, the free-trade economy forces young, single women to become internal migrants, as they head to the city to find work as domestics or as maquila workers.

Maquilas: Are These Jobs Better Than No Job At All?

A central feature of El Salvador’s free-trade economy is the “free trade zone,” where maquilas, or textile assembly plants, are clustered. The rationale was to create jobs for Salvadorans by attracting manufacturers to ready-to-occupy facilities, where they need pay no municipal, import, export or income taxes. Their expenses are, essentially, installing the machinery and paying the workforce and the utility bills.

Maquilas continue to proliferate. Today 264 maquilas employ 87,000 workers, up from 15,000 workers six years ago. Although maquilas are the second largest income producer for El Salvador behind remittances, they generate no additional revenues for the government due to their privileged tax and tariff-free status. Thus, it is the maquila owners and the clothing retailers (mostly in the U.S.) who benefit primarily from this economic sector. For the half of the maquilas that are foreign-owned, the only dollars that stay in the country are the minimal wages paid to the workers.

We learned from maquila workers that conditions in the factories vary depending on the owner. Managers range from respectful to abusive and degrading; working conditions from clean to hazardously polluted. The constant, however, is a paycheck that doesn't cover the most basic of human needs. The maquila wage hovers at about \$150 per month. By contrast, a "basic needs basket," including basic housing and food staples like oil, rice, beans and corn, costs \$250 per month for a family of two to three. The "expanded basket," which additionally includes telephone, water, minimal healthcare and electricity, costs \$550 per month for a family of four. The numbers make clear that, regardless of working conditions, maquila wages are poverty wages that cannot sustain even a family of two. The three maquila workers who spoke with us, all women and all soft-spoken and dignified, tearfully explained the despair they feel when they must explain to their children that there is no money for food.

Despite Salvadoran labor laws that give workers the right to bargain collectively, the everyday reality is much different. Workers suspected of union activity are fired routinely. Moreover, with little invested, manufacturers can leave the country as easily as they came, not infrequently disappearing over night – taking workers' wages with them. Companies threaten workers that they can easily "cut and run" if their demands are not met. And they make clear that union organizing will not be tolerated.

Consumers: Robbing Pedro to Pay Pablo

A cardinal claim of free trade advocates is that there is a trade-off between the "protectionism" of safeguarding vulnerable jobs with tariffs, and the benefit to consumers of paying the lowest price that market forces can offer.

In El Salvador we noted that this potential benefit to consumers was trumped by the consequences of a complementary free-trade tenet, that the government not constrain business or the wealthy classes with burdensome taxes that impede investment. The Salvadoran government has been an enthusiastic proponent of this second principle, and has made deep cuts in income, property and corporate taxes.

However, faced with a consequent lack of funds, the government also opted to recoup some of its lost revenue by levying a value-added sales tax that extends to virtually all consumer items including food, clothes and medicine. Last year this tax was increased from ten percent to thirteen percent. Besides causing widespread economic pain for the majority of Salvadorans struggling to get by, it has offset any significant advantage to consumers from lowered tariffs.

Social Impact

Concentration of Wealth: The “Fourteen Families Downsize”

Until the end of their civil war in 1992, Salvadorans commonly referred to “the fourteen families” who controlled El Salvador’s wealth. These were the fourteen family groups who were the largest landowners and agricultural growers in the country, at a time when El Salvador’s economy was based on coffee and sugar cane production.

In the eleven years of a free-trade oriented economy following the war, this concentration of wealth has accelerated. The top 10% of the population owns 39% of the country’s assets. This figure probably obscures the most significant concentration of wealth at the very top. The “fourteen families” have now morphed into the “seven financial groups,” as many of the more traditional land barons have seen their fortunes appropriated by the up-and-coming banking and import sector. The big “seven” own the large companies that import basic staples from the United States, where El Salvador’s free-trade economy has channeled the greatest flow of incoming dollars. These same groups own the banks that charge 20% interest on the remittances the Salvadoran emigrant community sends home to their families, accruing them \$460 million dollars annually.

At the low end of the economy, poverty overall was estimated to be at 46% in 1998 and has increased 1% per year to the current 51% (65% in rural areas). The bottom 10% of the population owns 1.4% of the country’s resources. A few thousand Salvadorans, who represent far less than 1% of the population, control 62% of the country’s wealth. The official unemployment rate of 10% is the tip of the underemployment iceberg, which is not tallied. However, it is clear that large numbers of people now work in the “informal” economy, hawking what they can to get by. Having cut corporate and income taxes, the government instead taxes foods, medicines, clothes and other staples, insuring that the gap between rich and poor will continue to widen.

Privatization: Upper Class Salvadorans Sell the Country to Themselves

During the three administrations since the end of the civil war in 1991, the government has sold off virtually all of its profitable assets such as coffee, sugar, and petroleum, as well as basic services, including the national banks, telephone and electricity operations, government pension management, and the airport. Not coincidentally, the owners of these companies are recent ex-presidents of El Salvador (Cristiani, Calderon Sol) and other ruling party officials (Boma, Siman, Meza) who presided over the sale of El Salvador’s public assets to themselves.

The extent to which an extremely small cluster has private control of El Salvador’s economy is impressive. The most outstanding example might be ex-president Alfredo Cristiani, who owns El Salvador’s second largest bank, fertilizer, seed, pesticide, rice, grain and auto parts importing companies, plus a healthy share of the country’s cement industry.

To date, the education and water systems have escaped privatization. A major struggle this past year has centered on the government’s attempt to privatize the public hospital system. Public sector physicians led national strikes that warded off this change for the present.

During our tour we observed the expected results of an unregulated privatized economy; most Salvadorans are struggling and cannot afford to buy all of the basic goods and services they need, including food, medicine, healthcare, and agricultural inputs like seed, fertilizer and pesticide.

Basic Services: Healthcare and Other Disappearing Acts

The Salvadoran government's serial privatization of basic services since 1994 has made those services less available to the average Salvadoran. The list includes petroleum, food staples like sugar (production) and basic grains (storage), electricity, and telephone and transportation services. Unlike the United States, where privately owned companies providing essential public services, like basic utilities, must answer to state oversight commissions, private owners in El Salvador are free to charge whatever the market will bear.

The mismatch between the purchasing power of ordinary Salvadorans and the cost of essential goods and services is striking. The minimum wage in a country of 10% unemployment and ubiquitous underemployment is \$151 a month. The cost for a family of four for housing, basic grains, beans, oil, telephone, water, basic health expenses plus educational fees is \$550 per month. Salvadorans who cannot reconcile this mismatch pose no problem for the private owners who sell to those who can afford, or to the government which is out of the business of providing for its citizens' basic welfare. Impoverished Salvadorans are simply off the radar.

Healthcare, which has yet to be completely privatized, offers a pertinent example. The wealthy obtain their healthcare through private hospitals, which are not obligated to care for those who cannot afford care. A "Social Security" hospital system serves the 11% of Salvadorans who can pay for, or have subsidized, health insurance through their employment. This last system has been the most recent target of privatization by the government. The Ministry of Health operates public hospitals and clinics, which still offer care to the poor majority, though medication is not included and must be purchased privately. Likely this system has not been targeted for privatization because it is not profitable. The struggle for healthcare access for the majority may ultimately turn on the issue of the government simply closing down public hospitals and clinics as unaffordable to maintain.

One of the many inspiring Salvadorans who spoke with us was Dr. Armando Lucha, recently elected director of the Salvadoran physician's union. Dr. Lucha was among the 453 physicians whose strike, lasting nine and a half months, broke the government's efforts to privatize health care. He was also one of the seven doctors on a hunger strike, refusing to eat for eleven days until the Salvadoran Legislature voted to reinstate jobs to health care workers who had gone out on strike in sympathy with the physicians.

Social Fabric: Tearing Apart Communities and Families

A quarter of El Salvador's population, 2.3 million people, has emigrated to the United States to find work. Moreover, the number of internal refugees who have left their communities seeking work in the cities as babysitters, housecleaners, or maquila workers is not documented, but anecdotal evidence suggests that this trend is also on the rise. Social dislocation threatens the very fabric of Salvadoran rural communities putting families and children at great risk.

The lives of Salvadoran immigrant families are obviously difficult. The men live in an alien culture for years, most often illegally. Their wives and children, who receive remittances, suffer in other ways, as do their communities, which are deprived the leadership and companionship of their young men.

Because women who take their children with them risk falling victim to poverty wages that cannot sustain a family, young women forced to seek work in the city commonly leave their babies and young children with other family members – returning periodically to visit. We listened to painful stories of maquila workers who told us that in order to support their children, they and their co-workers must supplement their income by working during their limited off-hours. Lucky women, we were told, find additional work taking in laundry, sewing, or making handicrafts. Those less fortunate are often forced into prostitution.

Government Role: Malign neglect

The Salvadoran government has complied with the central tenets of free-trade policy by essentially sidelining itself as provider of the most basic social services to its citizens. By privatizing its most profitable assets and by radically lowering taxes, the government has bled its capacity to lend a hand even if it were more philosophically inclined to do so.

By way of comparison, the government of Switzerland spends 50% of its budget on its citizens. Germany and France use 40% of their national budgets to provide public services. The U.S. government spends 25%. With its reduced revenues El Salvador has only 12% to spend on services.

The government's role in regulating industry for the health and safety of its citizens is equally discouraging. Although the right to organize and other worker protections are explicitly written into Salvadoran law, the government is not enforcing these rights effectively for maquila workers. In the rural areas, the government does not comply with legal guarantees of basic supplies for schools, nor does it consistently provide legally mandated aid to the municipalities.

The most virulent strain of malign neglect shows up in the government's relationship to its own émigrés. Officially, the Ministry of Economics insists, "Salvadorans don't leave because they're doing badly here. They leave because they want to do better." Perhaps more to the point is that, for the government, every Salvadoran who leaves the country represents a two-fold opportunity: a source of remittances to redress the country's balance of payments, and another citizen who – due to his absence – does not require basic services.

Civil Society: Refusing to be Invisible

The Salvadoran people are extraordinarily resilient and persistent – qualities they sometimes express with a deceptively simple phrase, "Estamos aqui." That is, "We are here." This statement is a potent one. It comes from a people who, in the face of military reprisals, willfully re-populated their villages during the recent civil war. Though they had been forced to flee into the hills earlier in the war, their refusal to disappear contributed significantly to the stalemate that ultimately ended the war.

This history foreshadows the ongoing robust public resistance to free-trade policies in El Salvador. With the exception of 2.3 million Salvadorans living in the U.S., the rest of the people have nowhere to go, and they refuse to go away. In 2003, the privatization of the social security hospital system was blocked by peaceful action in the streets, including hunger strikes led by Social Security physicians. Pedro Juan Hernandez, an economist and activist working for a group called Citizenship and Society, told the delegation, “And that’s the way we’re going to stop the privatization of education and water: by the struggle of the organized population in the streets. And that’s how we’re going to dismantle the FTAA, whether it’s signed or not.”

We may have a skewed sense of the depth of mobilization against current economic policy based on our 10-day sampling of conversations and meetings. Nonetheless, we were impressed by what we saw: sizeable, highly organized coalitions of civil society groups who are actively resisting policies they view as destructive and proposing constructive alternatives. This level of mobilization extends from organized groups in the capital city to remarkably well-informed peasants in mountain villages like Carasque.

Environmental Impact

Health and Safety: Trickle-down School Buses

Though they are often disguised in bright new colors and snappy slogans, the yellow school bus is everywhere in El Salvador. But these are hand-me-downs, buses that no longer meet safety, air quality, or maintenance standards for U.S. school kids and find their way to Salvadoran markets. They contribute directly to the high risks of Salvadoran traffic and the dense air pollution of their cities. But they also serve as a metaphor for the environmental risks that have already increased with the arrival of the free trade zones: smog and air pollution, dangerous vehicles, unhealthy workplaces, and widespread use of toxics as pesticides.

The Changing Landscape: Dangerous Sprawl

El Salvador is the most deforested of all Central American countries and one of the most threatened by earthquakes, landslides, and floods. Two types of sprawl – some of it trade-induced – will lead to further deforestation, the loss of aquifers, and risky housing location. The Pueblo Panama Plan (PPP) roads, specifically the Anillo Periférico, are a ring of some 60 interconnected highways around the capital city of San Salvador. The government says that it will reduce traffic jams in the city, enabling people to get to work and return home more quickly. But buses, the basic mode of travel for Salvadorans, will not be permitted on the highways. Instead, free trade zones and their maquilas will be built up along this ring road, and the highway will be used to deliver raw materials coming from other countries to these factories and to transport finished goods to port or highway for sale abroad.

The location of these plants will encourage new settlement along a highway that runs on top of six major active geological faults and high-risk seismic zones. Unless legal enforcement of planning regulations and building codes improve, this development will invite a net increase in risks such as those that resulted from Hurricane Mitch in 1998, and the 2001 earthquakes. Similarly the squatter settlements and subdivisions that have grown up already to accommodate the spread of free trade zones have, in many cases, put additional families at risk. And more than half a million trees that are instrumental for infiltration into the key aquifer recharge zones for San Salvador will be destroyed in road construction.

Winners and Losers

Not surprisingly, the Salvadoran Ministry of Economics gave the delegation an upbeat assessment of the country's free-trade policies – that they are a boon to all Salvadorans. Among the other people we spoke with, there was a general consensus that free trade in El Salvador rewards some and punishes others. The following is our sense of where different groups fall within the win/lose categories.

Winners

- Large importers of basic grain seeds, agro-inputs, food and clothing, now immunized against loss from currency devaluation because the Salvadoran currency has been dollarized.
- Bankers who finance free-trade infrastructure projects, who double-tithe \$2.3 billion in remittances, and who administer previously public pension funds.
- Private owners of once publicly owned coffee, sugar, petroleum, basic grain, electricity, phone, and transportation companies. This group includes high ex-government officials who presided over the sale of much of the country's assets to themselves.
- Trans-national companies with easy and often subsidized access to Salvadoran markets, including the maquila sector's poverty-wage labor market.
- Maquila owners through whom these trans-national corporations contract, though their profit margins are considerably leaner than those of the retailers who exact the terms of the contract.

Losers

- The rural population, which has been largely excluded from the current economic plan. These small growers are unable to compete with large agribusiness, much less subsidized companies. These communities are becoming increasingly depopulated, as their young adults migrate, internally and externally, to find paying work.
- The maquila workforce which continues to grow. While working conditions vary widely, maquila wages are uniformly low and do not sustain families.
- The unemployed and much larger numbers of underemployed, who are sliding into the world of the “informal economy” as internal immigration to the cities swells.
- The emigrant population, risking the perils of illegal crossing to the U.S., and enduring years in an alien culture in order to sustain their families.

Economist Pedro Juan Hernandez summarized succinctly his view of current free trade policies: “Corporate globalization is basically a world in which the big fish eat the little fish.” While this assessment may be overly simplistic, based on what we have seen and heard in both El Salvador and the U.S., it seems reasonable to conclude that the economic elites in both countries are making deals that enrich each other, at the expense of their own citizens.

IV. Can We Humanize Free Trade Policies?

Glimmers of Hope

For the past several years a consortia of civil society groups throughout the hemisphere have proposed positive alternatives to existing global trade proposals based on different underlying assumptions. One is that market forces, given free rein, do not always generate development, let alone social justice. Another, that the total wealth of a society can be measured not exclusively in monetary currency, but additionally by indices that include work with dignity, community integrity, environmental sustainability and the health of its children. The goal should be a fair, workable and just society, and to get there, we must prioritize democratic participation and basic human rights and needs, as well as economic development.

The delegation looked for signs of humanizing influence on corporate globalization and found a few. One such improvement might be found in the terms of the proposed Central America Free Trade Agreement (CAFTA). While many of the CAFTA provisions evoke widespread resistance by mainstream social movements throughout Central America, U.S. Embassy officials pointed out that its language on compliance with labor rights and the environment provides for fines if these are violated. This is noteworthy. Including human-rights and environmental priorities in a similar manner to those for investment rights, rather than according them honorable (and dismissible) mention as a NAFTA-style "side agreement," would be a tremendous step in the right direction.

Despite this assurance, however, the final text of the agreement has not been seen outside of the secreted group of negotiators. Therefore, it is impossible to say what, if any, improvements have been made to labor and environmental standards. Similarly, the final version of the FTAA is still under negotiation and will tell the rest of the story when its details are released sometime in 2005.

A second development is activity at the local level – small initiatives that might be termed "people's" globalization, rather than corporate globalization. For example, the State of Maine has enacted the Anti-sweatshop Selective Purchasing Bill. Passed in 2001, the bill mandates that prospective bidders for garment contracts with the State of Maine affirm their compliance with established international standards of ethical production and with local law at the site of production. While imperfect, this legislative first attracted the attention of the U.S. Embassy staff prior to our meeting with them. They stated that such efforts, if amplified, could provide additional pressure for reform in the maquila sector. Mainers and their legislature can be proud of taking this modest first step.

Finally, the delegation was impressed by the depth and breadth of Salvadoran popular resistance to policies that adversely affect their lives. For the past two years, all of the countries in Central America have staged annual coordinated demonstrations against CAFTA and the FTAA. This strong and unified movement was also on display at the recent WTO conference in Cancun, where developing countries said "no" to policies that they felt betrayed the interests of their populations. These events may foreshadow the kind of sustained, counter-pressure that could threaten current policy trends and put alternative models of globalization on the table.

The Present Reality

The delegation recognizes that these rays of hope are only glimmers set against a backdrop of grim economic realities and social dislocation. The Salvadoran government officials who manage the country's economy appeared to be indifferent to the desperation of their own poor citizens. By contrast, U.S. Embassy personnel with whom we met recognized the misfortune of the free-trade "losers," left behind by the "evolving" Salvadoran economy. However, they did not acknowledge the U.S. government's role in creating this free-trade economy. When the delegation asked what our government might do to ensure that El Salvador enforces its own labor laws, the answer was: "For that, we depend on the vigilance of groups like you."

We have heard many heart-breaking stories of displaced factory workers in our own state, who are forced to choose between food, heat, medicine, or shoes for their children. The group has also heard the orthodox free-trade argument that this large-scale decline in the manufacturing sector is an economic speed bump, the unfortunate but necessary price to pay for a more efficient and ultimately more productive economy. In El Salvador, the delegation heard similar assurances from those willing to write off the "unproductive" farmers and the "challenged" maquila workers, who become the dispossessed.

After hearing Salvadorans' painful personal stories, as well as those of our fellow Mainers, we cannot accept either government's casual attitude toward millions of displaced workers. Despite a few fragile tendrils of hope for a more humanized global economy, the major theme was a free-trade economy rooted in inequity.

V. El Salvador's Lessons for US

Reflecting Back on the U.S.

Most Americans would chafe at the idea that the United States is some kind of “banana republic,” hustled by self-serving elites or the plaything of large trans-national corporations. After all, this is America. Yet, throughout the “Reality Tour,” we kept hearing themes that sounded very familiar, prompting a fresh look at our “reality” back at home. Consider the following parallels between El Salvador and the U.S.:

- Rapidly increasing concentration of wealth and growing disparity between rich and poor
- Deep cuts in social spending, making basic services like housing, education, healthcare, public transportation, veteran’s benefits, and public assistance increasingly inaccessible to growing numbers of people
- Extravagant tax cuts for the wealthy and corporations, resulting in a depleted budget, with government unable to provide basic services for its citizens
- A campaign of deregulation, reducing corporations' public accountability for health and safety, pollution control, and consumer protection
- A steady erosion of labor rights in order to create a more “flexible” workforce
- The placing of what were formerly considered public trusts, including natural resources, social security, and media access, into private hands
- A willingness to consign “less competitive” sectors of the population (e.g., small farmers and the manufacturing industry in the U.S.) to elimination as the price of “development.”

Our delegation speculated that El Salvador might offer a window on our future. Now we realize that El Salvador also offers us a lens through which we can take a fresh look at our own present economic and social reality. It is not just the people of third-world countries like El Salvador, but also our own first-world majority, that falls victim to harsh economic and social policies that we once thought lending agencies like the IMF reserved for poor, debt-ridden countries.

Yet America was neither economically blackmailed nor militarily coerced into accepting this package of concentrated wealth, social spending cuts, decreased access to basic services, privatized public resources and a laissez-faire approach to corporate accountability. We seem to have arrived here on our own. How this has happened in the U.S., how these policies have been marketed, and by whom, should be our concern and a concern of all Americans.

A Window on Our Future

El Salvador is certainly more extreme than the United States in the extent to which many basic services are out of reach for most of its citizens, and to which its government has become unwilling or unable to protect them from labor abuses and environmental dangers. But these two phenomena – lack of access and lack of protections – are precisely the risks to which the FTAA could expose Americans.

While the final form of the FTAA awaits further negotiation, its current form as conceived by U.S. trade negotiators features two new provisions that previous agreements have not. First, the FTAA may dramatically expand the menu of what private corporations can buy. Anything that Americans have always assumed we held in common or that cannot be bought could well be opened for private bids, including public schools, police departments, public water supplies, social security system, IRS, public libraries, prisons, the postal service, non-profit hospitals, Niagara Falls, and even the rights to any number of life forms. And, as we have seen, unregulated privatization translates directly to lack of public access.

Secondly, the deregulation of corporate behavior could become much more extreme, recalling the early days of the industrial revolution. Laws that could modify current or anticipated profits could be challenged as a “restraint of trade” under the FTAA rules, including regulations pertaining to most basic health and safety standards, environmental pollution, and the minimum wage. Likewise, current Maine laws including the Maine RX law, the Dirigo Health Plan, the Maine Anti-Sweatshop Purchasing Law are fair game for annulment.

We are already half way towards a world in which corporations run free; the FTAA could take us the rest of the way – and make it legal. The delegation hopes that this report sheds light, through the window of El Salvador’s experience, on what has already happened to our own economy and society, and where we could be headed.

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A note on documentation and availability:

All of the delegation’s formal meetings were audio-recorded. Several are transcribed. This report and transcriptions or transcription excerpts can be found on the PICA website at WWW.PICA.WS. Inquiries regarding specific references made by this report may be addressed to PICA by phone at 207-947-4203, by mail to PICA at 170 Park St., Bangor, ME 04401, or by email at info@pica.ws.