

El Salvador

Status Index (Democracy: 7.35 / Market economy: 6.64)	7.00	Management Index	6.24
HDI	0.722	Population	6.6 mn
GDP per capita (\$, PPP)	4.781	Population growth²	1.7 %
Unemployment rate¹	18.7 %	Women in Parliament	10.7 %
UN Education Index	0.76	Poverty³	31.1 %
		Gini Index	53.2 (2000)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Calculated according to the data of the Banco Central Reserva de El Salvador/ IMF for 2003. ² Annual growth between 1975 and 2003. ³ Population living below \$ 1 (1990-2003)			

A. Executive summary

Even though democracy in El Salvador can be considered rather stable with no relevant anti-democratic actors threatening the system as such, and the population slowly regaining its confidence in the state's institutions, some very alarming deficiencies can be observed. Continuously high crime rates keep undermining the state's monopoly on the use of force, while the political leadership has not been able to address this problem adequately. Gross socioeconomic differences, with 31% of the population living with less than \$1 per day and 12% of all children suffering from chronic malnutrition, are not being compensated by the state. The realization of human and civil rights regarded as optional by a majority of the people, since the government and the judiciary keep ignoring widespread child labor, discrimination of trade unionists and weak labor law enforcement. In general, the judiciary is inefficient, mainly due to corruption, and is not able to bring about reconciliation between the victims and perpetrators of past injustices.

In economic terms, on the other hand, the Salvadoran government showed its capability for policy innovation and reforms, thus making El Salvador one of Central America's best economically performing nations. The political leadership is one of the main driving forces behind several bilateral and multilateral free trade agreements; it follows a consistent pro-liberalization and pro-privatization course on its international and domestic policy agendas. The conclusion of the Central Agreement Free Trade Agreement (CAFTA) in 2003 can be regarded as a milestone for the further economic development of El Salvador. Nevertheless, several democratic and certain economic improvements, such as the fight against oligarchies, remain to be made before El Salvador becomes a substantial socially responsible free market democracy.

B. History and characteristics of transformation

With the 1992 peace agreement, the civil war in El Salvador, which lasted from 1980 to 1991, officially ended and the decisive step in El Salvador's

transformation process towards democracy was taken. Approximately 75,000 individuals are estimated to have fallen victim of the conflict and several thousand people remain “disappeared”.

The rather lengthy process of democratization, however, had already started at the end of the 1970s and beginning of the 1980s, with the coup by a group of young, radical reformist officers in 1979 and elected civil presidents ruling the country since 1984. Ever since, their elections have not only been conducted in an increasingly competitive manner, but the power of the civilian presidents has increased in the course of time as well. While the presidential powers of José Napoleón Duarte (1984-1989) were still strongly restricted by the military, his successors' powers became significantly greater. Duarte's successors in office were Alfredo Cristiani (1989-1994), Armando Calderón Sol (1994-1999), Francisco Flores (1999-2004) and Elias Antonio Saca (since 2004). Except for Duarte himself, who had been member of the Partido Demócrata Cristiano (Christian Democratic Party, PDC), all presidents since the end of the civil war have been candidates of the right wing Partido Alianza Republicana Nacionalista (Nationalist Republican Alliance, ARENA). ARENA's main opposition party has been the Frente Farabundo Martí para la Liberación Nacional (Farabundo Martí National Liberation Front, FMLN), a left wing guerilla movement that was successfully transformed into a major political party.

The deep polarization and distrust between the two major parties, ARENA and FMLN, which reflects a deep division within society according to the prevalent socioeconomic cleavage of rich and poor, has quite substantially hindered the development of a more democratic political culture. After the FMLN had won a plurality of seats in the Legislative Assembly in the parliamentary elections of 2000 and 2003, it began a loose partnership with the Partido de Conciliación Nacional (National Conciliation Party, PCN) in 2003. This partnership, however, seems to have been rather short-lived because the PCN started supporting ARENA's political plans again, for instance when the budget for 2004 was passed by the votes of ARENA and PCN following concessions by ARENA. It therefore remains to be seen, depending a great deal on which side the PCN will henceforth be taking, how far El Salvador's two major parties will have to cooperate, as the president's office is currently being held by ARENA candidate Elias Antonio Saca and parliament could again be dominated by the FMLN and PCN partnership.

Regarding El Salvador's economic policies, ARENA has consistently pursued privatization and liberalization since 1989 and from 1996 onwards has started to include the former public service sector, such as electricity distribution. Nowadays, the Salvadoran economy is among the most liberal in Latin America and best performing in Central America. High rates of poverty nevertheless remain, due to the lack of coherent anti-poverty policies that allow a small, oligarchic, business elite to benefit the most from El Salvador's transformation process toward a free market economy.

C. Assessment

1. Democracy

1.1. Stateness

Since the end of the civil war, the state's monopoly on the use of force has covered the entire territory of El Salvador and it has not been significantly threatened by any major guerilla or paramilitary group. Nevertheless, the high crime rate keeps undermining the state's authority. Despite the government's policy of firstly *Mano Dura* ("Strong Hand", implemented in 2003) and secondly of *Super Mano Dura* ("Super Strong Hand", implemented in 2004) against criminals, the National Civil Police of El Salvador reported 44,751 incidents of crime and 2,024 homicide victims in 2002, increasing to 2,762 in 2004. Thus, the crime rate of El Salvador is one of the highest in Latin America.

The government attempts to reduce the use of criminal force by significantly tightening up its jurisdiction. This attempt found its high point in the passing of the highly controversial *Ley Anti-Maras* (Anti-Maras Act) by the Legislative Assembly in October 2003 to deal with criminal activities of youth gangs, which allows children aged 12 to 18 to be sentenced no differently from adults at the discretion of the judge. Alternative methods of dealing with criminals in a less rigorous way, such as the *Plan Mano Amiga* that attempts to reintegrate former gang members with the aid of the Protestant Church, are hardly appreciated. Because the criminal acts committed in El Salvador are not based on political, ideological, ethnic or religious reasons but instead on poverty, tightening up control is an inadequate means to reduce the high crime rate. The continuously increasing number of criminal activities thus demonstrates the government's incapability of dealing adequately with criminals.

According to the constitution, all Salvadorans over the age of 18 are considered citizens of the state. Nobody is formally denied his or her civil rights on the grounds of belonging to certain religious, political or ethnic groups, gender or sexual orientation. However, despite this constitutional guarantee, there have been several reports that members of the police force and judges in fact tolerate civil rights' violations of certain parts of the society and deliberately do not bring those responsible to justice. In particular, cases of discrimination or violence against homosexuals, disabled persons and women were not legally prosecuted.

De facto, indigenous people, who officially make up only 1% of the population, are often discriminated against, particularly in hiring, salaries and educational opportunities. Consequently, they belong to the poorest sector of society. On the other hand, there were no reports of violations of civil rights involving religious minorities (the vast majority of the population - 83% - are registered Roman Catholic). As surveys by *Latinobarómetro* show, the preponderant majority of the Salvadoran people recognize the constitution (66% in 2004).

Even though the Constitution of El Salvador explicitly recognizes the juridical status of the Catholic Church, while mentioning all other churches solely as having the right to be officially acknowledged, church and state are widely separate. Religious dogmas have no noteworthy influence on politics or law, as evidenced by the last presidential elections in March 2004, the lack of religious issues in ARENA (right) FMLN (left) electoral campaigns, and the unexpected failure of the Christian parties. Furthermore, the relationship of the Salvadoran people towards the Catholic Church remains ambiguous. The fact the pope turned away from Archbishop Oscar Romero, who was assassinated during the civil war, left a deep impression on many believers who now honor Romero as a national hero. The community of Protestant believers keeps growing, but does not have any noteworthy influence on politics or law, either.

The state's infrastructure and its powers extend beyond maintaining law and order, but severe deficits such as the lack of economic and human resources and resulting inefficiency of administrative structures can be noted, particularly in rural areas. Significant parts of the population therefore have to be regarded as generally excluded from the state's infrastructure and its powers. Overcrowding prison facilities constitute a major, nationwide administrative problem.

At times of national elections, on the other hand, the administrative provisions to allow as many Salvadorans as possible to cast their vote can be called satisfying, according to international observers of the presidential elections in March 2004. Altogether 8,793 ballot boxes in 385 polling stations within the 14 Departamentos of El Salvador were set up. Approximately 130,000 party members helped at the polling stations, and about 17,000 members of the police guaranteed a calm atmosphere and the public's security. Major innovations included the implementation of the new Electoral Registry with digital photos and the first time introduction of the Documento Unico de Identificación (DUI) - a kind of passport in the form of a plastic card for all individuals belonging to the electorate, which is supposed to increase possibilities of technical control and the overall efficiency of the electoral progress - for adults as well as for the approximately 150,000 children who were allowed to cast their votes in special polling stations. These new technical and administrative provisions were overall satisfying despite the distribution of some faulty identity documents.

Harsh imbalances in the Salvadoran tax system can be observed, imbalances at the expense of the average consumer. While the income tax amounts to just 22.22%, the value added tax (VAT) amounts to 57.41% of the total tax base. This is a particularly grave maladjustment compared to other Latin American nations.

1.2. Political participation

According to the Constitution of the Republic of El Salvador and its Electoral Code, elections are to be free, direct, equal and anonymous. As reported by international observers, the parliamentary elections held in 2003 and the

presidential elections in 2004 can be regarded as generally free and fair, with a voter turnout of approximately 41% and 67% respectively. Furthermore, the presidential elections were conducted in an unexpectedly calm atmosphere despite several, partly very violent, clashes leading to casualties between sympathizers of ARENA and the FMLN during the previous electoral campaign. The calm atmosphere of the presidential elections can be attributed to the high number of police officers, additionally supported by security guards, who vigorously enforced the law, such as compliance with the Ley Seca (Dry Act), which prohibits anyone who has consumed alcohol or other toxic drinks at the day of elections to cast his or her vote.

On the other hand, there were several, although not many, instances of violations against the secrecy and fairness of the electoral procedures, as reported by the Centro de Intercambio y Solidaridad (CIS). Some of these instances included voter coercion and manipulation at work places or through party transportation to the polling station - as residential voting still is not optional, direct pressures from officials and party representatives, poor design or placement of ballot boxes so that other people could see inside the booths, and the distribution of faulty identity documents in some municipalities. Furthermore, the fact that Salvadorans living abroad at times of elections are not allowed to cast their vote, seriously limits the democratic character of the Salvadoran elections in general, as approximately 2.5 million Salvadorans are living and working in other countries, mainly in the United States.

A further severe de facto restraint on the free and fair character elections was the use of violence and dirty propaganda, such as insults and psychological aggression, by political activists of either of the two major parties, ARENA and FMLN, particularly during the 2004 presidential elections. Altogether more than 50 denunciations and nearly 20 instances of violence related to the electoral campaign were reported to the Tribunal Supremo Electoral (Supreme Electoral Tribunal). Following the presidential elections, the FMLN successfully sued those members of ARENA responsible for the defamatory campaign against the FMLN before El Salvador's Supreme Court.

U.S. government officials tried to influence the electoral outcome as well by making clear statements about possible negative consequences should ARENA's candidate for presidency, Saca, not win the elections. These statements included threats to cut U.S. financial assistance and foreign investment or to deport Salvadorans living in the United States if the FMLN's candidate Schafik Handal had won the elections. These threats de facto limited the free and fair character of the presidential elections as well.

Since the military and the police forces were successfully reformed in the 1990s and the last phase of politically motivated murders committed by former soldiers and guerrillas in 1993-1994, there have been no significant veto powers or political enclaves influencing the political process or blemishing democratic procedures as

such. Thus, the elected rulers of El Salvador can be judged as having the effective power to govern.

Nevertheless, anti-liberalization activists criticize the government's course, which favors further privatization and market liberalization. The critique the government is manipulated by major multinational enterprise lobbies based in the United States and the extortionate methods of international lenders such as the IMF or the World Bank. Government representatives' strong adherence to the positive effects of privatization and liberalization, however, make it credible that it lies indeed in the officeholders' own interests to pursue such strategies. For instance, ARENA's political program explicitly emphasizes that policies that further market liberalization and privatization are the means to improve El Salvador's economic situation and to ultimately guarantee wealth even for the poorest sectors of the population. This attitude also explains former President Flores' and current President Saca's efforts to encourage further progress of the CAFTA (respectively, in Spanish, Tratado de Libre Comercio Estados Unidos - Centroamérica TLC) and the Free Trade Area of the Americas (FTAA).

Even though the constitution guarantees the right for independent political and civic groups to associate and assemble freely in accordance with the law, severe de facto constraints of this guarantee can be observed. Particularly alarming is the situation of trade unionists, who are regularly discriminated against by employers - they might be paid less or even fired, and who do not get any support from the government's or judiciary's representatives. Consequently, employees do not associate with trade unions to avoid losing their jobs or to facing other forms of discrimination by their (potential) employers. Only 5% of Salvadoran workers are organized in trade unions. In this context, it is noteworthy that the Salvadoran government has not yet signed the International Labor Organization (ILO) Conventions 87 (concerning freedom of association and protection of the right to organize) and 98 (concerning the application of the principles of the right to organize and to bargain effectively) either.

Furthermore, under the Ley Anti-Maras, membership to a youth gang is considered an illegal association, thus limiting the constitutionally guaranteed right to assemble freely for young people. Apart from this, there are no further reports on restraints on the freedom of association and assembly. Instead, there are numerous independent political and civic groups that are partly known for their critical stand on the government's policies but do not face relevant disturbances in their activities by the state.

Citizens, organizations and the mass media can generally express their opinions freely, which might as well oppose the government's policies. The realm of the media in El Salvador is rather pluralistic, with five privately owned daily newspapers, of which four are publishing nationwide, one state owned and seven commercial television companies, two religious television stations, one state owned and approximately 150 private radio stations. The five daily newspapers circulate more than 250,000 copies daily, while two cable television systems

cover much of San Salvador as well as the major cities of San Miguel, Santa Ana and Sonsonate, and the state owned (as well as five of the private) VHF-operated television stations reach most areas of the country. Access to the Internet has not been restricted and no instances of censorship of the press have been reported.

Nevertheless, Reporters Without Borders got news from journalists being threatened or physically attacked by supporters of ARENA as well as of the FMLN in the context of the political campaigns for the presidential elections in March 2004. Another rather concerning instance was when TV Doce's "Sin Censura" program was taken off the air in March 2003 by order of the Mexican television station TV Azteca, TV Doce's 75% majority shareholder. As the program had criticized politicians and the government, Salvadoran Jorge Zedán, who owns the rest of the shares, accused President Flores of having exerted pressure on TV Azteca through the Mexican government. Even though TV Doce's director Alejandro González denied these accuses, doubts about the real background of the program's end have remained.

Furthermore, Article 25 of the Ley de Defensa (National Defense Law), adopted by the Legislative Assembly in August 2002, raised serious concerns regarding its implications for freedom of the press. According to this article, "in matters pertaining to national defense, government officials, public or municipal authorities, members of the court and private individuals will be required to provide the information required by the governmental department in question", a stipulation which threatens the confidentiality of sources.

1.3. Rule of law

The separation of powers in El Salvador is formally recognized, but structural deficits of the judiciary - in particular inefficiency and corruption - make it a comparably weak institution. Impunity of people with good political, economic or institutional connections remained one of the most serious problems, hence undermining the judiciary's autonomy from "influential" persons. Besides inefficiency and corruption, the lack of financial resources, a highly centralized structure, investigation errors, illegal enforcement of testimonies, long process times and impunity of perpetrators of past injustices give further evidence for the judiciary's severe dysfunction.

Attempts to solve malfunctions in the judiciary, such as the dismissal of judges with irregular diplomas or investigations against members of the judiciary who might have been involved in criminal activities, were only partly successful and significantly have to continue. Despite public criticism, no comprehensive effort has yet been made to fight corruption in the judiciary. Such efforts, however, have to be made to guarantee a balanced and substantial system of separate powers.

On the other hand, the situation of checks and balances between the executive and legislature improved significantly. Since the parliamentary elections of 2003 the

FMLN not only controls a number of key mayor positions, including those in most major population centers, but also holds a plurality of seats (31 of 84) in the Legislative Assembly (compared to ARENA: 28). In addition, the president's office is continuously held by party members of ARENA, at the time of this writing by Saca, a 39-year-old entrepreneur. Even though ARENA tried to form a majority-voting bloc with right wing PCN after the parliamentary elections in 2003, the latter, which had won 15 seats in, began a loose partnership with the FMLN.

Although this partnership seems to have been rather short-lived, ARENA's power within the legislature was limited for a certain time. This is because the PCN started supporting ARENA's political plans again when the budget for 2004, following concessions by ARENA, was passed by the votes of ARENA and PCN. In addition, the partnership still depends a great deal on which side the PCN will henceforth be taking and how far El Salvador's two major parties (ARENA and FMLN) will have to cooperate within the legislative assembly. Since ARENA has to rely on the PCN's support and goodwill to enforce its policies in parliament, cooperation between the legislature and the office of the president has to improve as well, while checks and balances between these two institutions are comparatively well guaranteed in the current situation.

Even though the judiciary's independence is constitutionally recognized, the judiciary's dysfunctions significantly undermine its formally stated status. In particular, continuous practices of impunity of people with good political, economic or institutional connections seriously threaten the judiciary's autonomy from "influential" persons. Improvements are being made, for instance to dismiss unqualified judges or investigate involvements into criminal activities, but these are taking place on a somewhat initial level.

As noted by Transparency International, the fight against corruption as perceived by Salvadorans and foreign entrepreneurs or international organizations improved significantly during the last two years (2003-2005). On a scale from one to 10, with 10 being the least perception of corruption, El Salvador had a score of 4.2 on the Corruption Perception Index in 2004, compared to a score of 3.7 in 2003 and 3.4 in 2002. Furthermore, the Salvadoran government substantially improved its fiscal transparency by completing the regulatory framework for fiscal management, making privatization subject to independent audit and publishing full information on the level and composition of the public debt.

Nevertheless, even though corrupt officeholders are supposed to be prosecuted under established law, authorities often can avoid being legally prosecuted. They can do so because of certain legal loopholes, such as the lack of a law that would oblige political parties to make their incomes and expenses public, and having the "right connections" in the judiciary, which itself is characterized by corrupt practices, just as most other public offices such as the Human Rights Ombudsman or the police forces.

Civil rights of certain groups of society are violated continuously. Trade unionists are openly discriminated against by their employers and they cannot seek compensation from the state that is either not willing or incapable of guaranteeing their rights. Working conditions in general can often be called very poor, with numerous reports about unpaid overtime or the lack of fixed working hours, deficient health and security provisions for workers and weak labor law enforcement with only 37 labor inspectors covering a workforce of roughly 2.6 million people.

Furthermore, rates of violence and discrimination against women continue to be alarmingly high. Domestic violence increased: 311 spouses or partners were killed in 2003, motivated by jealousy, compared to 238 in 2002, making it a topic for national debate. Women are furthermore being disadvantaged regarding economic opportunities, earning on average \$3,350 per year, while men earn on average \$7,381, and only rarely have access to higher positions.

A particularly worrying problem, however, is the tremendously high rate of child labor, especially in poor, rural areas, with a majority of the children denied rights such as fixed working hours, pay for overtime, health insurance, etcetera. According to a study by the ILO's International Program on the Elimination of Child Labor (IPEC), altogether 11% of children are working (16% of boys and 7% of girls). In September 2003, the Salvadoran Minister of Labor reported, that 67 of 100 children were engaged in some form of work, including family household work. Child labor is a stronger phenomenon in rural areas (15.7% compared to 7.7% in urban areas), while reports of long hours of work and physical as well as psychological abuse are very common anywhere. Child labor and the fact that most of the children are not able to combine work and school do not only violate El Salvador's Constitution and Labor Code but international law as well. International human rights organizations like Human Rights Watch and Amnesty International continued their reports on these practices and asked the Salvadoran government to take steps to eradicate child labor. Nevertheless, no significant reaction has followed from the Salvadoran government yet. On the contrary, children's rights are further violated by the passing of the Ley Anti-Maras.

Since the judiciary can generally be characterized as inefficient and corrupt, the cases of those seeking compensation for human rights' violations will not be pursued adequately or not pursued at all. Consequently, many victims of human rights' violations do not dare to bring their case in front of the court or to otherwise accuse those responsible.

Regarding instances of human rights violations during the civil war, including the disappearance of approximately 2,600 children of El Salvador, no progress to investigations or prosecutions has been made by the Salvadoran state. In February 2001, the Inter-American Commission on Human Rights urged the government of El Salvador to investigate the case of two young girls who had disappeared in 1989 and to bring those responsible to justice. As the Salvadoran authorities failed

to comply with these recommendations, the case was submitted to the Inter-American Court of Human Rights, with a public hearing taking place in September 2004. A small gesture was nevertheless made by the inauguration of a monument to the victims of human rights violations during the armed conflict in December 2003.

After a gap of 17 months without a human rights ombudsman in July 2001, this office is currently facing problems of inefficiency due to the lack of financial resources, staffing problems, corruption and the government's unwillingness to respond to its requests for information. Further problems are the partly inhumane prison conditions, mainly due to overcrowded prison facilities, -people trafficking, particularly child prostitutes, and acts of violence against homosexuals. Moreover, the police force is repeatedly accused of abusing and even torturing detainees, arbitrary arrests and committing crimes themselves, including homicide.

Even though, in principle, civil and human rights are protected in El Salvador, they are violated and are properly protected only within limited enclaves. The fact that the government does not show any willingness to solve these problems is alarming. Many Salvadorans thus consider civil and human rights "optional".

1.4. Stability of democratic institutions

In El Salvador, democratic institutions show several malfunctions, due to inefficiency and corruption as well as the lack of administrative structures or resources to make them work adequately in some rural areas. The fact that serious national problems, such as 31% of the population living on less than \$1 per day, widespread chronic malnutrition of children (12% of children are underweight) or violations of constitutionally guaranteed rights have not been dealt with adequately, puts a considerable restraint on the state's institutions' efficient and democratic performance. Nevertheless, political decisions are, as a rule, prepared, made and implemented in legitimate procedures. The state's institutions do perform their fundamental functions despite dysfunction; their transparency as well as the system of checks and balances has partly improved.

Even though political activists of the ARENA party accused the FMLN of planning to establish an authoritarian communist regime in El Salvador during its presidential election campaign, and even though the FMLN officially states in its program that the "democratic revolution" is one of its main objectives, it does not seriously reject the current democratic system as such. In general, there is no relevant political party or civic organization that principally opposes democracy. Nor have the military or the police force shown any tendency to try to replace the Salvadoran democratic system. On the contrary, they have been overall successfully reformed (despite repeated accusations of the lawlessness of the police force) and integrated into the democratic system since the 1990s. All relevant political and social players hence seem to accept democratic institutions as legitimate and do not threaten to set up any authoritarian regime.

1.5. Political and social integration

The last presidential elections underlined the long existing thesis that El Salvador has to be called a de facto two party system. The electoral coalition of the PDC and the social-democratically orientated Centro Democrático Unido (CDU), formed in autumn 2003, was intended to become a new force of the political center and expected to gain between 10% and 12% of the votes under favorable circumstances. It was surprising that it did not receive more than 3.87% of the votes, which according to the current electoral law, would have meant that the PDC and the CDU would lose their status as legally recognized parties. Even though there are five representatives of the PDC and five of the CDU holding seats in parliament, they would have had to gain altogether 6% (two times 3%, with 3% being the official barring clause for each single party) of the votes to retain their legal status. After the PDC as well as the PCN, which had gained only 2.72% in the presidential elections, had appealed to the Corte Suprema de Justicia (Supreme Court of Justice), the court finally ruled in December 2004 that both parties were allowed to keep their legal status. At the same time, the CDU is trying to find another way to secure its status as political party by promoting modifications to the electoral law.

While ARENA had won only 28 of 84 seats in the Legislative Assembly in the parliamentary elections of 2003 (FMLN: 31, PCN: 15, CDU: 5, PDC: 5), its presidential candidate Saca won an overwhelming majority of votes in the presidential elections in 2004. With 57.74% of the votes he held a clear majority before FMLN's candidate Handal (35.65%), Héctor Silva of the PDC/CDU electoral coalition (3.87%) and Rafael Machuca of the PCN (2.72%). ARENA and FMLN thus, as usual, split the vast majority of the votes between them. Consequently, the polarization of the party system is very high, as the two parties can be located on the opposite sides of the political spectrum.

Since this situation of a de facto two party system has been in place since the end of the civil war (not including the internal splits of the two major parties, particularly between "orthodox" and "moderates" within the FMLN), El Salvador's party system can be called rather stable. Despite continuous tendencies of high voter volatility, certain strong affinities between the political parties and groupings of the civil society, such as the FMLN with an increasing number of anti-liberalization activists and of ARENA with representatives of employers' interests, give evidence for some social rooting of the party system.

The network of interest groups in El Salvador is multidimensional, but not very closely knit. There are a growing number of groups attempting to realize workers' rights - even though not in the form of trade unions, as these are regularly discriminated against and even partly forbidden by the employer, to empower women and protest against continuous processes of privatization and market liberalization. Especially the latter might deepen the already existing polarization between the rich and poor sectors of the population. Interest groups, however,

particularly those that are trying to realize the interests of the economically deprived and victims of human rights violations, face severe problems to take actions on behalf of their members' interests. These problems are mainly caused by the government's indifference or its inability to respect their demands.

According to the latest survey of *Latinobarómetro*, the 2001 "crisis of faith" in democracy had slowly recovered by 2004, with 50% of interviewed individuals agreeing that the democratic system is preferable to any other form of government. Compared to 1998, when the consent to democratic norms and procedures amounted to 79%, these results are still rather low. The fact, however, that in 2001 only 25% of the interviewed individuals preferred democracy compared to 40% in 2002 and 45% in 2003, is evidence of a growing tendency toward more agreement on democratic norms and procedures. Furthermore, there are no political protests calling the constitutional framework into question.

Even though only 16% of the population believes that they can trust a majority of people, according to *Latinobarómetro's* survey in 2004, the web of autonomous, self-organized groups, associations and organizations is surprisingly robust, but not very closely knit. Altogether, a growing strength of civil society can be noted during recent years, with a variety of most different, new groups and associations evolving, even though they face severe difficulties in realizing their interests due to the government's indifference or opposition to their demands. The civil society in El Salvador does, however, have a rather "dark side" to it, as there are approximately 35,000 people organized in more than 300 maras (gangs).

2. Market economy

2.1. Level of socioeconomic development

The last survey by *Latinobarómetro* shows that social exclusion, due to poverty, prevails: 56% of interviewed individuals considered poverty to be the main reason that not everybody in El Salvador is treated equally. According to an IUDOP (Instituto Universitario de Opinión Pública) survey conducted at the end of 2004, 70% of those interviewed consider poverty (as well as unemployment and inflation) the biggest challenge for the country. These statements are even more alarming considering the fact that 31% of Salvadorans are living on less than \$1 per day, accounting for 48% of people living below the national poverty line. The idea that the socioeconomic cleavage of rich and poor is the most important one in El Salvador is underlined by its rather bad Gini coefficient score (0.532) in 2004, increased in comparison to 1999 (0.518).

Even though the value of the Gender-related Development Index is not too bad (0.709), reports about social exclusion of women continue. Women are discriminated against in earnings (they earn on average \$3,350 per year compared to \$7,381 for men) and have only limited access to higher positions. Small indigenous groups face discrimination in educational and economic opportunities,

particularly in hiring and salaries. Consequently, they belong to the poorest segment of the population. Since the government has not yet taken any major steps to address these problems, these kinds of social exclusion are to some degree structurally ingrained. Nevertheless, the Comision Economica para America Latina y el Caribe (Economic Commission for Latin America and the Caribbean, CEPAL) ranks El Salvador's overall socioeconomic development as second best in Central America after Costa Rica, mainly due to El Salvador's comparatively high economic development.

2.2. Organization of the market and competition

El Salvador was scored highest by the *Indice de Desarrollo Democrático Latinoamericano (IDD-Lat) 2003*, followed by Chile and Argentina, regarding its realization of the free market system. Indeed, ARENA has constantly been pursuing policies of market liberalization and privatization. Former President Flores and current President Saca tried to speed up this process by further pushing the establishment of CAFTA as well as bilateral free trade agreements with other Central American and Caribbean nations. Economic ties with the European Union are also increasing in strength. Currently, there are 15 free trade zones in El Salvador. There are approximately 220 maquilas in El Salvador, employing at about 88,700 people - mainly in the textile industry exporting to the United States - and amounting to nearly 60% of the Salvadoran overall export value.

Even though several organizations of civil society oppose liberalization and privatization, the rules for market competition are well established and guaranteed by the state, hence increasing El Salvador's attractiveness for investment. Consequently, El Salvador achieves the best score of all Latin American nations by the *IDD-Lat 2003*. There is no explicit discrimination of any market participant, even though domestic enterprises are in a clearly disadvantaged position for resources and power compared to the various multinational, foreign-based enterprises that have settled in El Salvador. The state does not intervene in processes of the market, even if demanded for by parts of the population - as, for example, the prices for electricity increased for 221% since privatization - but rather continues limiting its own role in the economic sphere.

There is still no anti-monopoly law in El Salvador. Instead, some of multinational, foreign-based enterprises were able to achieve some kind of a monopoly status. In general, one has to speak of oligarchic structures of the Salvadoran economy: the main share of enterprises, haciendas and banks is owned by five family-entrepreneur groups (Cristiani-Burkard-Llach-Hill, Mathies-Regalado-Duenas-Baldocchi, Murray-Meza-Ayau and de Sola). *Asociacion nacional de la empresa privada (National Association of Private Enterprise, ANEP)* is the biggest entrepreneur association in El Salvador and satellite of ARENA, exercises great influence in the economic arena.

The government of former President Flores and current President Saca has attempted to push bilateral and multilateral free trade agreements further, emphasizing privatization and liberalization as being the means for achieving El Salvador's economic wealth and progress. The conclusion of the CAFTA negotiations in 2003 was considered one of the most decisive milestones for the future economic development of El Salvador and for other Central American countries. CAFTA sets clear rules for trade with the United States as well as with the other Central American countries, including mechanisms for the solution of possible conflicts over regulations about imports and exports of certain goods and services. Hence, the already greatly advanced liberalization of foreign trade will continue even further.

Institutional foundations are laid for a solid banking system and capital market, oriented towards international standards. Foreign banks are allowed to establish subsidiaries in El Salvador, which receive the same treatment as domestic banks (foreign banks include Citibank and the Canadian Scotiabank). In general, privatization of the banking system has been considered one of the most important free market policy initiatives of the ARENA government recently. While the share of foreign controlled assets in the Salvadoran domestic financial system has risen to about 80%, majority foreign ownership is estimated to account for only 14% of commercial bank assets. As pointed out by a policy discussion paper published by the IMF in October 2003, this is mainly due to "prudentially motivated" limits on foreign ownership.

The biggest share of Salvadoran banks, however, is owned by the oligarchy dominating El Salvador's economy. The most important and powerful bank owners are Cristiani (Banco Cuscatlán), Baldocchi Duenas Regalado (Banco Agrícola), Belismelis García Prieto (Banco de Comercio, recently been bought by Scotiabank), Salvarría (Banco de Desarrollo) and the so-called árabes (Arabs), such as Simán and Salume (Banco Salvadoreño), Zablah (Bancasa) and Samour (Banco Cuscatlán).

2.3. Currency and price stability

With the passing of the Ley de Integración Monetaria (Monetary Integration Law) in November 2000, the U.S. dollar became legal tender alongside the colon with a fixed exchange rate of 8.75 colones per U.S. dollar beginning January 1, 2001. According to the law, the Central Bank lost its power to issue new colones or coins on the same date. Consequently, the dollar started gradually replacing the colon, the latter now only being used in isolated rural areas. Other aspects of the Ley de Integración Monetaria include: the freedom to contract in any currency; the U.S. dollar becoming the unit of account for the Salvadoran Financial System; all deposits, credits, pensions and other operations of the financial system automatically being converted into dollars as of January 1, 2001; the freedom to denominate and pay salaries either in dollars or colones, etcetera.

As had been hoped for by the Salvadoran government, these measures indeed improved El Salvador's economic performance. This is because it contributed to a reduction of interest rates to historic minimums (in 2003 the active interest rate was 6.6% and the passive interest rate for deposits was 3.5%) by eliminating the exchange risk and reducing external vulnerabilities, which in turn facilitated international commercial and investment integration. Between 2003 and 2004, the amount of foreign investment in El Salvador increased by 9.2% and foreign direct investment by 22.6%. As the Inter-American Development Bank points out, the adoption of the U.S. dollar as legal tender helped stabilize the Salvadoran inflation rate, making it the lowest in Central America in 2003 with 2.5%. By December 2004, however, inflation had risen up to 5.4%, putting quite a severe constraint on the previous successes. Furthermore, critics warn against El Salvador's economic and fiscal vulnerability due to its dependence on the US fiscal policy. According to an IUDOP survey conducted at the end of 2004, 80% of interviewed individuals in El Salvador considered this "dollarization" as having a negative impact on the Salvadoran national economy.

Nevertheless, compared to the other Central American countries that have all been suffering due to the recession in the United States and falling coffee and increasing petrol prices, El Salvador still performs rather well, with its government pursuing a consistent and at least partly successful inflation and foreign exchange policy. The Banco Central de Reversa de El Salvador (Central Reserve Bank of El Salvador) is an autonomous entity within El Salvador, which is not allowed to grant loans to the government.

According to Saca's Plan de Gobierno (Plan of Government), an effective fiscal policy is considered as basis for the realization of the government's general objectives. It furthermore states the macroeconomic stability already achieved is a "solid platform" the current government can build upon. Thus, the government gives strong signals of intending to continue policies of macroeconomic stability consistent with the course led until the time of this writing.

2.4. Private property

As pointed out by the Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible (Latin American Center for Competitiveness and Sustainable Development), property rights and the regulation of the acquisition of property are well defined in terms of acquisition, benefits, use and sale. This also contributed to El Salvador's attractiveness for the establishment of foreign-based multinational corporations and of foreign investment, which increased by 9.2% between 2003 and 2004, and of foreign direct investment, which increased by 22.6% in the same period. Apart from these formally very satisfying definitions of property rights and the fact that the state does not intervene into the sphere of private property, the high crime rate (including criminal acts such as robbery and theft accounting for approximately 50% of all committed crimes), and the state's

incapability to deal effectively with it, put a certain de facto restraint on the assurance of private property.

Private companies are permitted and they are undergoing a continuous process of privatization consistent with market principles. After the process of privatization had begun in 1989 with the banking sector, state enterprises that did not provide strictly public services were sold between 1990 and 1993, while the privatization of public services, such as electrical energy distribution, telecommunications and pensions, began in 1996. El Salvador will furthermore implement the Ley de Competencia (law on economic competition) in 2006. As reassured by previous President Flores and current President Saca, privatization and market liberalization are regarded by the government as the most important means to guarantee the economic progress and wealth of El Salvador. Critics, however, regard these processes as rather reassuring and strengthening the power of the oligarchy in El Salvador than increasing the wealth of all Salvadorans.

2.5. Welfare regime

The current social security system of El Salvador is based on the Ley del Sistema de Ahorro para Pensiones (Law on the System of Pension Savings) that was approved in December 1996. It established a new private insurance system - the first in Central America - in which private insurance is mandatory. Both the employee and the employer are required to contribute a percentage of earnings plus an administrative fee to an individual account in a pension fund management company that is supposed to invest that money. This social security system, however, is neither very comprehensive nor working efficiently, as numerous reports about employers and employees not paying into these funds show. The ILO and Human Rights Watch point out as well, that a high number of individuals, including those working in hazardous activities, do not have any health, accident and life, pension and unemployment insurance. This is particularly common in rural areas where the poorest parts of the population live.

Measures to avert social risks thus have to be called rather rudimentary and extremely segmented depending on territory and social stratum. Furthermore, the government's measures to reduce poverty have only partly been effective, and family, friendship or neighborhood ties are not able to compensate satisfyingly for the prevailing gross socioeconomic inequalities. President Saca's Plan Nacional de Educación 2021 (National Education Program 2021) and Plan contra la pobreza (Program against Poverty) were enforced at the end of 2004. They are raising hopes to reduce poverty and to provide for improved medical care as well as for better access to educational opportunities particularly for those families, who are living in extreme poverty in the poorest regions of the country - the population whom these programs focus on. In contrast to his predecessor, President Saca is considering social policies, but it remains to be seen to what extent these programs will be successful.

There are no institutions to compensate for gross social differences. On the contrary, the guarantee of the Salvadoran Constitution that basic education and that of children with special needs have to be free of charge is reportedly being violated by many schools implementing fees to cover budget shortfalls or to pay for required books, uniforms and activities. Altogether 895 cases of illegal school fees were reported to a special hotline of the Ministry of Education in 2003. Thus, poor children who cannot afford to pay these charges are prevented from attending school, which leads to a vicious circle that poor children have to work to be able to pay the school fees but are only irregularly able to attend school classes due to work or fatigue during lessons. Besides young girls' pregnancy, work attainment is therefore the major cause for high rates of school dropouts. While working children completed an average of 5.6 years of school, non-working children finished 8 years of school. Twenty-three point three percent of interviewed families said that their children could not attend school due to economic problems.

Furthermore, instances of discrimination against women persisted. According to a United Nations Development Program (UNDP) study in 2002, women held only 25.7% of higher-level positions and 19.7% of municipal seats. There are currently only nine seats in parliament held by women, and with a Gender-related Development Index result of 0.709, El Salvador scores rather badly. Furthermore, women's literacy amounts to 77.1% compared to 82.4% for men. As El Salvador's gender empowerment measures rank 60 of 78 (according to the Human Development Report 2004) and the lack of major initiatives to compensate for gross social differences show, equality of opportunity is not a prioritized topic on the government's political agenda.

2.6. Economic performance

Despite its classification as a lower-middle income country according to the World Development Report 2005, El Salvador's economic performance was rather successful compared to other Latin American nations. Even though costs involved for reconstruction after the impact of hurricane Mitch in 1998 and two earthquakes in 2001, the fall of coffee prices, formerly major Salvadoran export good, the recession of the U.S. market and the increase of petrol prices, El Salvador recovered comparably well. Therefore, the following factors were significant: the stabilization of the inflation rate, international aid for reconstruction after the natural disasters, remittances from Salvadorans living and working abroad reached an all-time high of \$2.1 billion in 2003 (approximately 14% of the GDP), and a successful reform and diversification of the export sector (with coffee exports amounting to only 3.4% of all exports compared to more than 50% in 1988). On the other hand, estimates by the World Development Report 2005 show that nearly one-quarter of the Salvadoran national GDP was lost to crime.

El Salvador's per capita GDP growth rate accounts for 2.0% in 2003, compared to 2.1% in 2002 and 1.7% in 2001. After a significant stabilization of the inflation rate down to 2.5% in 2003, it reached 5.3% in 2004. While urban unemployment remained at its level around 6.2%, total unemployment increased from 16% in 2002 to 18.7% in 2003. The total debt decreased by 23.7% from 2003 to 2004. The external debt amounts to more than 40% of the GDP in 2004. Exports make up 27% of the GDP, with the United States remaining El Salvador's largest trading partner, importing a value of roughly \$2.05 billion annually, or approximately 67% of El Salvador's exports. Compared to other Central American countries, El Salvador thus performs rather well - even though it has not yet returned to the economic level of the early 1970s, and showed the capability of quick economic recovery.

2.7. Sustainability

From the government's perspective, ecological concerns are definitely subordinate to growth efforts. On the one hand, ecological considerations do not play a significant role (and perhaps even no role at all) on the major party's political agenda. On the other hand, even though Saca's Plan de Gobierno emphasizes the need to respect the environment, no coherent or concrete environmental policy has been outlined. There are, however, some non-governmental organizations (NGOs) trying to raise attention to environmental issues and to realize ecological projects. The Fundación Nacional para el Desarrollo (FUNDE), constituted in 1992, is the most important NGO in this regard.

The situation regarding schools in El Salvador is rather worrying. Particularly in rural areas, schools are only few and very difficult to reach for children, who have to walk up to four kilometers each day to and from school, or they illegally charge school fees. The poorer parts of the population face discrimination, thus restricting their access to educational institutions and requiring a wider and more closely-knit educational infrastructure.

According to the World Bank, El Salvador's 19 universities are underperforming in terms of innovation and scientific publication, mainly due to insufficient investments in research and development as well as deficits in El Salvador's National Innovation System (NIS), which is supposed to involve multiple actors in the public and private sector and research organizations such as universities. According to the World Bank, the NIS's biggest failure is poor collaboration between universities and private firms. Government spending on education accounted for 2.5% of the GDP, 19.4% of the total government expenditure between 1999 and 2001, which is a slight increase compared to 1990 when government spending amounted to 1.9% of the GDP and 16.6% of the total government expenditure. On the other hand, the Red de universidades de El Salvador para el Desarrollo sostenible a Nivel Local, REDULOCAL (Network of

Universities of El Salvador for Local Development) could record several significant achievements, for instance in Ahuachapán and Chalatenango.

A modern infrastructure does exist in urban areas but not in rural areas, where the poorest parts of the population have hardly any access to improved water sources, sanitation and electricity. Regarding the entire territory of El Salvador, the percentage of people without access to improved water sources amounts to 23, 18% do not have access to improved sanitation. Thus, the poor rural areas are cut off from modern infrastructure.

3. Management

3.1. Level of difficulty

The political leadership's governance capacity is severely constrained. The rates of poverty are very high, with 31% of the population living with less than \$1 per day, 58% living with less than \$2 per day. Chronic malnutrition of children and high dropout rates at school are widespread. Twelve percent of all children and 40% of children under five years old are chronically underweight, and working children complete an average of only 5.6 years of school. This results in a rather badly educated labor force, with El Salvador scoring 0.75 on the UNDP's Education Index in 2004. High crime rates (44,751 reported crime instances in 2002) are the result of widespread poverty. This does not only undermine the state's monopoly on the use of force, but furthermore constrains the political leadership's governance capacity as well. Furthermore, hurricane Mitch (1998) and two earthquakes (2001) demonstrate that El Salvador is vulnerable due to its geographic location.

El Salvador is also vulnerable concerning its need for remittances, which accounted for approximately 14% of the GDP in 2003. This is evidenced by U.S. officials' threats to restrict the flow of remittances from Salvadorans living and working in the United States if FMLN's candidate, Handal, had won the 2004 presidential election. Additionally, there are severe infrastructural deficiencies in some rural areas. Pandemic infections, such as influenza, are the main cause of death to children under five years old as well as to adults aged over 65.

There are certain but rather weak traditions of civil society in El Salvador. Once an important political actor at the beginning and towards the end of the civil war, its performance in the 1990s was rather weak, but it has been gaining new strength thanks to the establishment of various new associations and organizations during the last years. This re-strengthening of the Salvadoran civil society, however, is proceeding rather slowly, and civic organizations (currently quite unstructured) still have only little influence on the government's policies. The government's continuous indifference towards the Salvadoran civil society becomes evident if one looks at the Ley de Asociaciones y Fundaciones (Law on Associations and Foundations) of 1996, which was implemented to complicate the

establishment of NGOs and is still being enforced. A certain imbalance in the strength of various civic organizations can be noted, as the United States Agency for International Development (USAID) used to support NGOs (except those politically close to the FMLN and PDC).

While ethnic or religious cleavages are of hardly any importance in El Salvador, the society is deeply divided according to conditions of economic and social inequality. Individuals belonging to the poor segment of the population regularly report discrimination in different spheres due to their economic background. According to Latinobarómetro's last survey, 56% of individuals interviewed regarded poverty as being the main reason that not everybody is treated equally. Up to now, however, there have been no radical political actors trying to mobilize the poor parts of society into violent conflicts, nor do the anti-liberalization movements, which tend to deepen the polarization between employers' and employees' interests, yet threaten to do so. Hence, the social cleavage along the rich-poor spectrum has not reached a critical confrontational level.

Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	2
System of government:	<i>Presidential</i>	Electoral system disproportionality:	11.26
		Latest parliamentary election:	01.03.2003
		Effective number of parties:	3.5
1. Head of State:	<i>Francisco Flores</i>	Cabinet duration:	03/99-03/04
Head of Government:	<i>Francisco Flores</i>	Parties in government:	1
Type of government:	<i>divided government</i>		
2. Head of State:	<i>Elias Antonio Saca</i>	Cabinet duration:	03/04-present
Head of Government:	<i>Elias Antonio Saca</i>	Parties in government:	1
Type of government:	<i>divided government</i>		
		Number of ministries:	12
		Number of ministers:	12
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

Former President Flores' and current President Elias Saca's, official objectives have been to realize an effectively and efficiently functioning democracy and free market system. This goal is pursued consistently through continuous processes of privatization and market liberalization. On the other hand, the interests of the socially weak segments of the population hardly are being addressed, as the continuous lack of means to adequately compensate gross social differences or to

empower women shows. The government's argument that liberalization and privatization will be the means to finally achieve economic progress and wealth for all parts of the population obscures the fact that there are no effective measurements yet taken to eradicate poverty, malnutrition and other severe national problems. Just how far President Saca's Plan Nacional de Educación 2021 and Plan contra la pobreza (enforced at the end of 2004) will realistically contribute to the effective reduction of poverty remains to be seen. Thus, El Salvador currently still stands far away from realizing a socially responsible market economy.

All presidents since the end of the civil war have been members of ARENA. Therefore, it has been an easy task for them to continue their reform policies consistently. Even during the loose partnership between the FMLN and the PCN after the parliamentary elections of 2003, there was no major incidence of vetoing the executive's decisions. Instead, the PCN supported ARENA's budget plans for 2004, following concessions by ARENA. Just how far the FMLN/PCN partnership might be revived, potentially blocking further decisions of the government, also remains to be seen.

The inability to solve or at least reduce continuous problems such as poverty, high crime rates and malnutrition of children shows that the government is only partially capable of acting flexibly, except for in the economic sphere. While it proved its ability to innovate economically and fiscally by successfully restructuring its export market and making the U.S. dollar legal tender, acute social needs of the Salvadoran population are hardly taken into account. Even though the policy of Super Mano Dura has not been successful and the statistics report a very high level of crime (44,751 incidents in 2002), the government continued to tighten up jurisdiction by means such as the approval of the Ley Anti-Maras in 2003.

Furthermore, the disastrous impact of hurricane Mitch in 1998 and the two earthquakes in 2001 shows that El Salvador is ineffective in managing risks of natural disasters and remains particularly vulnerable to human and economic losses from natural disasters, according to a new system of risk indicators presented at the World Conference on Disaster Reduction in January 2005. Thus, the government's ability to learn from the negative impact of natural disasters seems to be rather low.

3.3. Resource efficiency

The government is successfully trying to make efficient use of a major part of the economic resources with respect to opportunities for El Salvador. Challenges have been successfully met, for instance, after the fall of coffee prices the export market was reformed. In addition, El Salvador's attractiveness for investments was increased by the "dollarization" of the economy and continuous processes of privatization and liberalization, so that El Salvador has been one of the nations

least influenced by the negative impacts of the economic recession in the entire Western hemisphere in recent years.

On the other hand, human resources are hardly being used efficiently. Education and the realization of workers' rights remain "optional" for a significant part of the population. Malnutrition and further risks of health, such as those involved in working on coffee or sugar plants, are not being dealt with effectively by the government due to a lack of coherent policies and only weak law enforcement. A severely deficient infrastructure in rural areas also lowers opportunities to use human resources efficiently. Workers' migration to the United States, high crime rates and oligarchic structures of the economy hinder the profound use of resources actually available in El Salvador and they are not being addressed adequately by the government, either.

The executive is coordinating its policies effectively and acting in a coherent manner. The short-lived partnership between the FMLN and PCN in parliament did not affect the government's capability to act according to its own political plans.

As the improvement of El Salvador's score regarding the Corruption Perception Index by Transparency International (4.2 in 2004 compared to 3.7 in 2002 and 3.4 in 2002) indicates, some progress in the fight against corruption has been made, increasing the government's integrity. Among the most successful measures was the increase in transparency of the state's fiscal management by making annual reports public. On the other hand, corruptive practices reportedly continued in all state institutions, particularly in the judiciary. It remains to be seen if these major enclaves of corruption will be fought against successfully or not.

3.4. Consensus-building

There is fundamental agreement among all major political actors that democracy is a long-term strategic aim. Accusations in the context of the last presidential elections by ARENA activists that the FMLN would plan to set up a communist regime cannot be taken seriously. On the contrary, in economic terms the two major political parties ARENA and the FMLN have very different objectives. While for example ARENA pursues free market policies as long-term strategic aims, FMLN continuously opposes this aim, demanding more state intervention. Other political actors, such as the military or representatives of civil society, do not have an explicitly coherent stand on economic strategies, with various independent associations agreeing and others disagreeing upon the benefits of the market economy.

There are no significant anti-democratic veto actors.

The political leadership does not act to consciously prevent severe socioeconomic differences, constituting the main cleavage in society, a fact that might escalate

into serious conflict. Instead, it is not taking any coherent steps to compensate for gross social and economic inequalities, or to address poverty, malnutrition of children and the deficient infrastructure in rural areas. Nevertheless, there currently does not seem to be any risk of serious conflicts escalating along this socioeconomic cleavage, as there have been no radical political actors to mobilize the interests of the poor, yet. In case the anti-liberalization movements in El Salvador become more important political actors in future, however, the government would have to broadly improve its social policies to accommodate socially vulnerable people's interests and needs.

The political leadership does nothing to promote social capital and is rather indifferent with respect to the relevance of civic engagement and solidarity. It furthermore undermines certain attempts to mobilize solidarity between individuals by ignoring widespread discrimination against trade unionists. Those trying to build solidarity in the working sphere are hence being left alone by the political leadership, and as they have to fear severe sanctions by their employers, they do not associate. Thus, only 5% of the workers in El Salvador are officially members of a trade union. Other civic organizations can associate and act freely, but do not get any support from the political leadership either.

Consequently, the political leadership does not integrate organizations of civil society into the political process, because it treats them consistently indifferently.

As pointed out by several human rights organizations, such as Amnesty International, the government and judiciary of El Salvador are incapable of bringing about reconciliation between the victims and perpetrators of past injustices. This is partly due to inefficient structures and corruptive practices within the state's institutions. Therefore, regarding instances of human rights violations during the civil war, no progress of investigations or prosecutions has been made. Instead, the case of two young girls who had disappeared in 1989 had to be brought in front of the Inter-American Court on Human Rights in 2004, as the Salvadoran authorities had failed to investigate the case and bring those responsible to justice. The inauguration of a monument to the victims of human rights violations during the armed conflict in December 2003 thus seems to be only a very small compensation for the victims of past injustices.

3.5. International cooperation

It is not so much international aid, but rather international cooperation, the Salvadoran political leadership is using very efficiently to realize its domestic policy agenda, particularly in economic terms. Indeed, the political leadership of El Salvador can be considered as being one of the main driving forces behind several bilateral and multilateral free trade agreements. The most important bilateral agreements are those with Honduras and Guatemala, El Salvador's major trading partners in the region, as well as with Mexico, the Dominican Republic and Chile. Regarding multilateral free trade agreements, El Salvador's

outstanding commitment to international cooperation is being acknowledged in the context of CAFTA, of negotiations to establish the FTAA and those concerning economic and trade relations between Central America and the European Union.

With 12% of total trade, the European Union is the second most important trade and investment partner for Central America after the United States. The Generalized System of Preferences (GSP), extended in 2001 for a three-year period from 2002 to 2004, dominates commercial relations between the European Union and Central America. The New Political Dialogue and Cooperation Agreement, signed in December 2003, the First Summit European Union Troika Central America in May 2004 and the 13th meeting of the European Union Central America Joint Committee in January 2005 have been further important steps to intensify the economic cooperation and political dialogue between Central America and the European Union. Moreover, El Salvador has been one of the main driving forces behind the 2002 Action Plan for Economic Integration, which proposes the establishment of a Central American Customs Union covering Costa Rica, El Salvador, Guatemala and Nicaragua.

Besides such economically-dominated international cooperation, El Salvador was chair of the Organization of American States (OAS) anti-terrorism coordinating body *Comite Interamericano Contra el Terrorismo* (Inter-American Committee Against Terrorism, CICTE) from 2002 to 2003, and has been a member of various organizations, such as the *Conferencia de las Fuerzas Armadas Centroamericanas* (Conference of Central American Armed Forces, CFAC) and the *Sistema de la Integración Centroamericana* (Central American Integration System, SICA) for some years. El Salvador's significant participation in several bilateral and multilateral free trade agreements has always been in the interest of former President Flores and current President Saca, as they both regard market liberalization as means to guarantee Salvadoran economic progress and wealth. Thus, they have demonstrated a rather impressive ability to combine and utilize international cooperation for their domestic policy agenda.

El Salvador established itself as a credible and reliable international partner, not only in the context of economic and trade agreements, but also due to its commitment to political dialogue with other Central American countries within the framework of SICA and by providing military and humanitarian aid on a global scale. Regarding the provision of military aid, the Salvadoran political leadership proved to be particularly reliable towards its main trading partner, the United States, by maintaining its troops in Iraq, while all other Central American countries that had sent military support have already withdrawn their soldiers.

The Salvadoran political leadership maintains and promotes stable economic and political relations with neighboring countries within the framework of several international organizations such as the *Parlamento Centroamericano* (Central American Parliament, PARLACEN, which is still currently facing some crises), SICE, CFAC and SICA. During a meeting of the latter in February 2004,

members agreed upon a plan to deal with migration between El Salvador, Guatemala and Honduras, the simplification of tariff regulations between Guatemala and El Salvador, the establishment of a committee to evaluate the integration mechanisms of the region and an agreement concerning the prosecution, imprisonment and extradition of criminals.

Furthermore, El Salvador is now enjoying normal diplomatic relations with Honduras, with which it has previously had territorial disputes. In 2003, the International Court of Justice finally settled border disputes in favor of Honduras. Even though they continue to disagree about their maritime borders in the Gulf of Fonseca, there is no risk of a new conflict breaking out thanks to otherwise well established economic and political ties between the nations.

4. Trend of development

4.1. Democratic development

As high crime rates keep undermining the state's monopoly on the use of force, as interest and civic groups can only hardly influence the decisions of the political leadership and as the judiciary keeps facing problems arising from inefficient structures and corruptive practices, stateness, political participation and the rule of law have remained at their former levels of quality. Small improvements have been made, such as to investigate judges with irregular diplomas or those involved in criminal activities, but these are taking place on a preliminary level and have not yet had a significant impact. The government demonstrates continuous indifference to demands from civil society and keeps pursuing its policy of *Super Mano Dura* toward criminals, even though its enforcement has not been shown to be very effective.

The level of El Salvador's democratic consolidation has not changed significantly. The following positive factors have emerged: the "crisis of faith" in democracy has started to slowly recover, an increasing number of people put their trust in the state, and voter turnout in the last presidential elections was comparably high. Nonetheless, relevant cornerstones indicate the consolidation of democracy, such as the passing of Huntington's two-turnover-test, are still lacking, particularly considering ARENA's candidate is president for the fourth time in a row.

4.2. Market economy development

The Human Development Index score for El Salvador has changed only slightly, amounting to 0.713 in 2000 and 0.720 in 2002. In general, it remains a grave problem that the Salvadoran government is doing hardly anything to compensate for gross socioeconomic differences in its country, but rather keeps promising long-term benefits for the entire population thanks to continuous processes of privatization and liberalization. The institutional framework for market-based

action within El Salvador has remained very satisfying. The conclusion and ratification of several bilateral and multilateral free trade agreements, such as CAFTA, have been important steps to further improve and expand the institutional framework of economic international cooperation.

With a GDP annual growth rate of 2.3% between 1990 and 2002, El Salvador's overall economic development has improved in recent years. Compared to other Central American countries, the Salvadoran government showed its capability to be economically flexible and to implement innovative policies, such as making the U.S. dollar legal tender and significantly reforming the export sector. Thus, El Salvador's economic performance was rather good, taking the overall difficulties of falling coffee and increasing petrol prices, recession of the U.S. economy and the impact of natural disasters into account.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004*
Growth of GDP in %	2,0	1,7	2,1	2,0	1,8
Export growth in %	16,4	-2.0	5.9	6.8	5.3
Import growth in %	20,9	1.6	3.3	10.8	8.9
Inflation in % (CPI)	4.3	1.4	2.8	2.5	5.3
Investment in % of GDP	17.5	17.5	17.6	17.6	16.8
Tax Revenue in % of GDP	10.4	11.0	11.0	n.a.	n.a.
Unemployment in %	6.5	7.0	6.2	6.2	6.3
Budget deficit in % of GDP	-2.3	-3.6	-3.1	-2.3	-2.6
Current account balance in billion US \$	-0.431	-0.190	-0.384	-0.737	-0.615

* Preliminary data.

Source: CEPAL, Balance preliminary 2004; Banco Central de Reserva de El Salvador; IMF; Ministerio de Economía de El Salvador; Inter-American Development Bank; Dresdner Bank Lateinamerika.

D. Strategic perspective

The loose partnership between FMLN and PCN was rather short-lived, so initial hopes that the Legislative Assembly could be dominated by the FMLN/PCN partnership in opposition to ARENA's President Saca has not come about. The hope this might lead, under favorable circumstances, to a more pragmatically motivated cooperation, and thus at least partly reducing the deep polarization of the party system, could not be fulfilled. On the contrary, the PDC and CDU were not able to establish themselves as new force at the political center in the latest elections. In addition, the FMLN is still being challenged by internal splits. Therefore, the outlook for increasing cooperation between the Salvadoran political parties has diminished.

Regarding its domestic policies, the government ought to reconsider foremost its policy of *Super Mano Dura*, which is not only proving to be ineffective, but also violating fundamental human rights. On the other hand, President Saca's *Plan Nacional de Educación 2021* and *Plan contra la pobreza* seem to prove that the current executive is putting a slightly greater emphasis on social policies to improve the living conditions of the poor in El Salvador than previous governments. It can be questioned, though, if these programs are likely to be successful. Just how far the Chinese market will pose a serious threat to the Salvadoran economy, as predicted by the Inter-American Development Bank, despite its advanced economic integration in several bilateral and multilateral agreements, remains to be seen.

By acknowledging the Salvadoran political leadership's various efforts to expand and improve international cooperation, trading partners such as the European Union or the United States could put more pressure on El Salvador's government to enhance civil society's political participation, to compensate for the gross socioeconomic inequalities or to guarantee the realization of human (particularly workers') rights by integrating certain conditioning clauses into CAFTA. Whether or not the socioeconomic situation will improve depends a great deal on other nations' attitudes towards El Salvador and its attempts to empower the socially marginalized and oppressed.