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LADB Staff

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President Flores Declares Achievements

by LADB Staff

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On June 1, Salvadoran President Francisco Flores of the right-wing Alianza Republicana Nacionalista (ARENA) presented his report to the Legislative Assembly on his third year in office. Flores said his administration's achievements included the dollarization of the economy, the expansion of the maquila sector in the country's free-trade zones, the negotiation of free-trade agreements with other countries in the region, the reconstruction of schools and housing after the earthquakes of 2001, and the new construction of roads and highways. Meanwhile, labor unions and other social actors protested against the administration's economic policies.

Recent polls indicate that Flores' approval rating is at its highest point since 1999, but the polls also show that over 80% of Salvadorans believe Flores has done little to combat poverty, which affects over half the population. Flores said the dollarization law that went into effect in January 2001 (see NotiCen, 2001-07-26), brought down interest rates and protected the country from a currency devaluation. Defending dollarization in his address, Flores claimed that families that earned more than US\$1,030 per month find their living expenses markedly reduced because of the decline in interest rates on payments for credit cards, vehicles, and the like.

However, a recent poll by the Universidad Centroamericana Jose Simeon Canas (UCA) showed that more than 60% of Salvadorans believe that dollarization has been harmful. Flores also claimed that the broadening of the US Caribbean Basin Initiative (CBI) in 2000 (see NotiCen, 2000-10-12) led to the creation of eight new free-trade zones and 90,000 new jobs in the country's maquila sector.

In addition, he claimed that signing free-trade agreements with Mexico, the Dominican Republic, and Panama had significantly strengthened the country's exports. Flores suggested that his leadership had moved Central America toward possible free-trade agreements with Canada, the European Union (EU), and the US. He said that free trade with the developed countries would favor small Salvadoran companies and expand investment in the region. Flores said an opening of the US market could generate 250,000 jobs in El Salvador.

The conservative Salvadoran daily El Diario de Hoy seemed to share Flores' rosy assessment. The paper claimed that, in his efforts to achieve a free-trade agreement with the US, the president had "taken it upon himself to open the window of hope of all Salvadorans." The paper suggested that Flores' "close relationship" with President George W. Bush had brought the two countries nearer to a free-trade agreement. The friendship with Bush had permitted Flores to "not only achieve benefits for his country, but also to establish himself as a leader of international stature," said the newspaper.

Other benefits were the more than US\$100 million in earthquake relief from the Bush administration, as well as the US government's extension of Temporary Protected Status (TPS) to over 200,000 Salvadoran migrants who live in the US (see NotiCen, 2002-03-28). Another major achievement, said Flores, was the elimination of a gasoline subsidy for bus owners. He said that the

savings from eliminating the subsidy provided his government with the resources to construct 475 km of new highways and to rebuild many existing ones.

Polls show that road improvements and highway construction have been Flores' most popular policies. Flores also claimed that the government had reconstructed all 243,000 of the houses that had been damaged or destroyed by earthquakes at the beginning of 2001, and that 85% of damaged schools had also been rebuilt.

Flores criticized, policies said to violate sovereignty

Responding to Flores' address, Shafik Handal of the opposition Frente Farabundo Marti para la Liberacion Nacional (FMLN) noted that Flores did not mention poverty in his speech. A recent report by the Fundacion para el Desarrollo Economico y Social (FUSADES) said 1.3 million Salvadorans more than 20% of the population live in extreme poverty, meaning that they earn less than US\$1 a day. Low international coffee prices, which have displaced 87,000 Salvadoran coffee workers from their jobs, threaten to exacerbate the level of poverty. The UCA poll indicates that a significant majority of the population thinks unemployment and poverty have worsened since last year.

Beatrice de Carrillo, El Salvador's human rights ombud (Procuradora para la Defensa de Los Derechos Humanos), also criticized Flores' speech for being unrealistic. "When he speaks of a strata that makes more than US\$1,030 per month, he's already speaking of people with high incomes, while the majority of people only make the minimum wage." While Flores made his address, hundreds of Salvadorans participated in two protests in San Salvador against the president's economic policies. One march was organized by the Civil Society Forum (Foro de la Sociedad Civil) and joined by 60 union and social organizations, while the other protest was organized by the FMLN.

The head of the Foro, Margarita Posada, said Flores' policies have exacerbated poverty and compromised El Salvador's sovereignty. "Our autonomy has been violated; now we increasingly depend on export production, imports, and family remittances because Flores does not know how to strengthen the political economy of El Salvador." The Foro accused the government of "giving up our sovereignty to the interests of North American imperialism, which, by erroneous measures such as dollarization and servitude to the state terrorism of George Bush, is making our country into a North American colony."

Economic model called inequitable, uncompetitive

The health of the Salvadoran economy is largely dependent on family remittances from abroad, which currently account for 13.5% of GDP. Economist Hector Dada Hirezi maintains that family remittances, which last year amounted to US\$2.3 billion, are the major "social policy" of the country, as well as the major base of consumption. He says that the country has for some time consumed more than it has produced and that its growing level of indebtedness is dangerous. Dada Hirezi sees migration and the maquila industry as two forms of exploitation of the Salvadoran labor force that

have converted the country into one huge free-trade zone for international business. He says that the government's only success has been its propaganda.

UCA's weekly *Realidad Nacional* recently criticized Flores' economic policies for not inducing domestic competitiveness. The weekly claims that the Flores administration has based its policies on the erroneous notion that national productivity rests on macroeconomic indicators and not on the microeconomy. The weekly suggests that El Salvador's low wages are a product of a flawed economic structure, in which the concentration of wealth impedes competition and the development of domestic markets. "If businesses don't know how to compete on the local level, they won't be able to do it internationally," the weekly contends.

The *Fundacion para el Desarrollo Economico y Social (FUNDES)*, a Switzerland-based organization that assists small and medium-sized businesses in Latin America, concurs that local markets are important for the development of competitive enterprises. "Exporting, if you're not capable of selling in your own country, is very difficult; an enterprise has to demonstrate that its products are successful in its local market," says FUNDES director Rene Bronsil.

The Salvadoran weekly *Proceso*, which is also published by the UCA, claims that ARENA administrations have often discouraged free competition within the economy. The weekly contends that many privatizations and concessions carried out by the governing party have created and consolidated oligopolies such as the banking sector, dominated by a few banks. *Proceso* says the results of El Salvador's free-trade agreement with Mexico have been more negative than positive as El Salvador's trade imbalance with Mexico has worsened. *Proceso* is also skeptical that a free-trade agreement with the US would be wholly positive. The weekly points to Mexico as an example of trade liberalization with the US that has severely hurt the country's agricultural sector and increased the flow of migrants to the US, while improving neither vertical nor horizontal integration within Mexico's economy.

President Flores seems to have ignored the US Congress' recent approval of US\$180 billion in subsidies to US farmers over the next 10 years (see *NotiCen*, 2002-06-06). Nevertheless, Flores continues to express his optimism about an agreement, which may be of little comfort to the agricultural producers of his country who will face heavily subsidized US competition.

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