EL SALVADOR
Economic Transformation and the Environment:
From Agro-Exports to Labor Exports

Hermán Rosa

El Salvador has experienced a dramatic economic transformation in the last two decades, with strong impacts on the environment. The country has seen tumultuous changes, including a civil war, broad land redistribution, rapid urbanization, large-scale out-migration and an orthodox economic reform. As a result, the country shifted from an agro-exporting economy to a remittance-driven urban-based economy. Traditional agro-exports generated 80 percent of foreign exchange in 1978, but only 6 percent in 2002. Remittances, on the other hand, went up from 8 percent of foreign exchange in 1978 to 67 percent in 2002. The maquila, or assembly industry, which grew from 3 percent of foreign exchange in 1978 to 16 percent in 2002, is now more important than the traditional agro-exporting sector.

With an estimated one-fifth of the Salvadoran population having emigrated abroad – 90 percent to the United States – remittances have generated an abundance of foreign exchange that facilitated the application of an orthodox economic reform package since 1989 and the full dollarization of the economy in 2001. This economic reform consolidated a pattern of economic growth that favored the financial sector and import-intensive urban-based economic activities, while at the same time deepening the crisis in the agricultural sector, which saw a major erosion in its purchasing power vis-a-vis other sectors in the economy.

These changes have had a mixed impact on the environment. On the one hand, land-use pressures have eased in the countryside, and the agricultural crisis has reduced some of the more environmentally damaging agricultural practices, such as in cotton. On the other hand, urbanization is generating significant environmental damage, from air pollution through expanding automobile use to encroachment on sensitive land outside urban areas. Thus far, El Salvador has failed to manage this rapid economic transformation in a way that can revitalize rural communities while reducing the environmental costs of urbanization.

From Agro-Exports to Remittances

The transformation of the Salvadoran economy has been dramatic. The participation of agriculture in GDP was reduced from 32.6 percent in 1982 to 14.2 percent in 1992 and 8.7 percent in 2002. Macroeconomic conditions since the eighties depressed relative prices in agriculture; during 1980-2000,
agricultural prices lost more than 70 percent of their value relative to overall prices. This affected crops both for export and for the internal market. Cotton production, previously one the country’s main agro-exports, fell to near zero by the early 1990s. Coffee, another important export crop, has been more resilient, though low international coffee prices since 1989 have made such activities more precarious.

Corn production has also declined in recent years after steady expansion through the 1980s. Despite the land distributions associated with the 1992 Peace Accords, the amount of land dedicated to corn production has decreased nearly 30 percent since 1992. This is partly the result of low prices; real producer prices in 1999 were just 30 percent of 1980 prices, and about half the prices in 1990. Labor shortages associated with male out-migration have also contributed to this decline.

While the maquila sector has expanded in importance, remittances from migrants to the United States have become the primary driver of the Salvadoran economy. El Salvador now receives more remittances than any other country in Central America. Remittances began to grow during the 1980s – the years of the civil war – when El Salvador experienced a major out-migration. By 1990, remittances had surpassed the value of coffee exports – the single most important export for more than a century. That growth continued unimpeded during the 1990s when the government implemented an aggressive economic reform package.

The vast majority of Salvadoran migrants go directly to the United States or Canada. Only about one-quarter of migrants move to other parts of El Salvador. By 2002, one-fifth of Salvadorans lived in the United States, and their annual remittances totaled nearly US$2 billion, four times the net income from the maquilas and more than ten times the value of the country's traditional agro-exports. Remittances represent 13.5 percent of the country's GDP. These transfers represent an important source of income for nearly one-quarter of Salvadoran households, in both urban and rural areas. For those receiving remittances, the funds represent 40-60 percent of total household income.

Environmental Impacts

The sweeping changes in the patterns of economic activity, sources of income, and settlement of the population have altered environmental dynamics in the country. In the 1970s, rural environmental problems - deforestation, land degradation and contamination from agro-chemicals - were the most pressing issues. Now, urban problems have become more critical.

The shift away from agriculture may have destroyed traditional rural livelihoods, but it has eased pressure on scarce and vulnerable land, reducing...
some important sources of environmental damage. Contamination related to the use of chemical inputs has decreased, in large part due to virtual elimination of cotton production. With its extremely high use of agrochemicals, cotton was responsible for contaminating local water bodies and polluting mangroves. Much of former cotton land, which has regained its fertility, was distributed to ex-combatants in the land redistribution of the early 1990s. Some of these new farmers have introduced organic farming techniques and tapped into niche international markets for some products, such as cashews. The declining corn production has been good for the environment as it eases pressures on marginal lands. Corn production expanded in the 1970s onto marginal lands, contributing to erosion and deforestation. It expanded further in the 1980s with the initial land reform programs turned over new lands for small-scale agriculture.

Coffee remains a significant environmental resource under threat. Coffee trees represent one of El Salvador’s most important sources of stable forest cover, contributing important ecological services in the area of groundwater recharge. Some coffee lands are being lost to urban sprawl as the urban population increases.

According to satellite images of forest density, about one-third of El Salvador has shown decreases in forestation while about 55 percent has shown increasing forest density. This can be seen as a positive environmental impact of the recent economic changes. However, some of the losses have come in coffee lands on the outskirts of urban areas, where low coffee prices and the high demand for housing and industrial and commercial operations is displacing important sources of forest cover. These may be irreversible losses.

Other urban environmental problems, such as air contamination, are also on the rise. With increased availability of foreign exchange due to remittances and with lower tariffs, many small-scale entrepreneurs are importing scrapped motor vehicles from the United States. These are then repaired and sold in the local market. The number of vehicles in El Salvador almost doubled from 1994 to 1999 – from 242,000 to 468,000 – and the total now may exceed 600,000. Since most of the vehicles circulate in the San Salvador Metropolitan region, where one-third of the population resides, it comes as no surprise that air quality has deteriorated in the Metropolitan region and respiratory diseases are on the increase.

**Conclusions**

The direct export of labor – through migration – has been the most significant feature of the present form of economic integration, rather than the development of a strong export sector to take over the role, which agro-exports played in the past.
The collapse of the traditional rural economy and the rise of migration and remittances have changed land-use patterns and the way the population and communities relate to the resource base. While further degradation remains a pattern in some areas, particularly in urban and peri-urban areas where environmental degradation has accelerated, in some rural areas the result is environmental regeneration. So far, El Salvador has not been able to take advantage of the new dynamics in rural areas to develop them in ways that revalue the environmental contributions of peasant agriculture.

Given the importance of remittances for the Salvadoran economy, the impact of trade agreements probably is not that significant. Already, the country has several free trade agreements in force: with Mexico (March 2001), the Dominican Republic (October 2001) and Chile (June 2002). While great expectations were created with the end of the negotiations of the free trade agreement with the United States (CAFTA) in 2003, in the years ahead it is likely that continued migration to the United States will be El Salvador’s most important form of further economic integration. This may be true as well for most Caribbean and Central American countries.

The export of labor remains one of the few areas in which deregulation and liberalization are not considered. Nonetheless, such labor movements are proving more important to economic development in many countries than expanding trade and investment. As remittances grow in importance, so too will the desire to win more favorable conditions for illegal migrants in the United States.