

ANALYSIS

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**EL SALVADOR: FACING COFFEE LOSSES**

[Redacted]  
[Redacted] A one-crop economy

El Salvador's economy is uniquely vulnerable to the fall in coffee prices caused by the collapse of the International Coffee Agreement quota system. With other exports essentially stagnant and little or no upturn in foreign investment in sight, the loss of coffee earnings will leave the country even more dependent on US economic aid and on remittances from emigrants. The loss will also imperil Cristiani's export-led growth strategy and could weaken his hand in negotiating with the guerrillas, for whom destruction of the economy remains a top strategic goal.

Over the past decade coffee has accounted for nearly two-thirds of El Salvador's export earnings, about one-third of its agricultural output, and some 7% of its gross domestic product. El Salvador sold off its coffee stocks in 1987 to compensate for falling world prices. This season, strong spring winds cut the 1988-89 crop by as much as 45%. Total coffee production in 1988-89 was less than El Salvador would have been allowed to export under ICA quotas.

**Losses across the board**

El Salvador is the Latin American country most heavily dependent on coffee exports and the least prepared to deal with the collapse of coffee prices. Preliminary projections indicate that El Salvador's export earnings, which totaled \$600 million in 1988, could drop by \$50 million this year and \$100 to \$150 million in 1990 because of the coffee-price collapse. This loss in foreign exchange will weaken El Salvador's balance of payments at a time when the Cristiani administration is encouraging increased investment, which will draw in imports.

Early prospects for the 1989-90 coffee harvest are encouraging, but with prices down Cristiani is seeking special compensatory aid from the IMF.

**Unrest and inefficiency**

A decade of war with FMLN guerrillas has taken its toll on the Salvadoran coffee industry. Coffee farms and their elite owners have been frequent targets of guerrilla attacks, and coffee acreage has been lost to armed conflict. Domestic instability has discouraged investment in new planting, use of fertilizers, and insecticides. Many of El Salvador's coffee trees are now overmature. A temporary surge in investment by Salvador's wealthy coffee growers prompted by the March ARENA election victory may have been cut short by the July ICA collapse.

The loss of foreign exchange also will make it more difficult for El Salvador to keep up with payments on its \$1.7 billion foreign debt. A related loss of \$10 to \$20 million in export-tax revenues could hinder Cristiani's ambitious \$150 million national rescue plan, aimed at easing the country's housing, hunger, and unemployment problems. Low coffee prices will depress income and employment in rural El Salvador, increasing discontent, and pressure on Cristiani to live up to his campaign pledge to continue land reform—but also probably increasing the number of emigrants.

Salvador's coffee industry suffered further blows under the Duarte administration's corrupt control of coffee exports through the government coffee marketing monopoly, INCAFE. Despite a July supreme court ruling that found INCAFE's monopoly to be illegal, declining coffee prices could hamper Cristiani's ability to keep a campaign pledge to privatize coffee exports. Independent ex-

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porters can now compete in the market, but lower world prices will make it more difficult for them to offer growers better

prices and break INCAFE's hold on exports.

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