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EL SALVADOR

For El Salvador, a taste of free trade

Exports are up, but the benefits of free trade are not fully clear in El Salvador 18 months after it implemented an accord with the United States.

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AHUACHAPAN, El Salvador --

Way up a jagged dirt road, on a mountain top hidden beneath a canopy of trees, bits of brilliant blue, fluorescent yellow, white and lime green flutter through the wind like splotches of paint on their way to a canvas.

The colors are on the wings of butterflies shipped to South Florida as part of a growing market that offers unique Salvadoran products and a free-trade agreement that has sparked growth in the mercado nostálgico -- typical goods such as food, crafts and sweets that remind the 2.5 million Salvadorans living in the United States of their homeland.

Since this U.S.-friendly nation implemented the Central American-Dominican Republic Free Trade Agreement last year, the nation has seen a 68 percent increase in overall exports, from \$240 million in 2005 to \$404 million in 2006.

Ethnic or nostalgic products, such as typical foods, alone notched an 85 percent increase in exports, according to the Ministry of Economy. Other growth sectors under CAFTA-DR included agriculture and services.

"The implementation of CAFTA marked the beginning of a new chapter in the economic history of El Salvador," said a recent report by the Ministry of Economy.

"Within this growth, it is important to highlight the role that nontraditional [export] products have played, especially ethnic and nostalgic products," the report added.

"CAFTA has helped strengthen the exporting culture of our country."

El Salvador was the first Central American nation to implement the CAFTA-DR accord in March 2006, followed by Honduras, Nicaragua and Guatemala.

The Dominican Republic implemented the accord this year, and Costa Rica is awaiting ratification. The agreement eliminates most tariffs on two-way trade between the United States and the five nations that have ratified the accord.

While experts say it is too soon to effectively measure the impact of CAFTA-DR, both exports and investments have clearly climbed in El Salvador. The United States is El Salvador's largest trading partner outside of Central America, and the region is now the second-largest U.S. export market in Latin America, behind Mexico.

But even as owners of small and medium-size businesses acknowledged that the accord has increased trade, many said CAFTA-DR requirements benefit mostly large companies with lots of capital to invest in upgrading their products and implementing requirements such as nutrition labels for food products.

NEW EXPORTERS

About 60 Salvadoran companies began to export to the United States for the first time after CAFTA-DR was implemented.

U.S. imports have also increased about 23 percent. Foreign investment, too, has seen a spike, with as many as 29 new operations in sectors such as call centers, software, textiles and electronics.

Among the bigger firms profiting from CAFTA-DR, according to the Ministry of Economy, are Pasteles de El Salvador, which began operations in 1998 with three workers and now has 120 employees who prepare ethnic foods, and Exportaciones Agrícolas, which exports dried shrimp. The United States, now the company's largest export market, receives about 300,000 pounds of dried shrimp each year.

While smaller businesses also get breaks, some owners say they are minimal. "My business has grown, but it has little if anything to do with CAFTA," said Francisco Serrano, who opened his Bioproductores butterfly company with a partner in 1989 and began exports in 1990. "I do not see true incentives."

"Here, we survive on our own," said Elsa Fidelina Hernández de España, who owns a 20-employee company in San Salvador that makes traditional sweets. "CAFTA hasn't helped at all."

Matias Quinteros, one of seven members of the CASSAL cooperative, which sells arts and crafts, said that what CAFTA-DR has done "is to awaken the curiosity of businesses."

Jerry Haar, a professor of management and international business at Florida International University, said it is too soon to determine whether trade increases or decreases can be linked directly to the agreement.

"It's difficult to attribute gains or losses to a specific agreement," Haar said. "The principal drivers for any successful business comes from within the country, not outside."

Hernández de España, who opened her Dulces La Negrita shop in 1996, complains of inadequate government support.

She said that government representatives visited her several times to persuade her to participate in trade fairs and other events that would give her more access to U.S. markets.

But sales deals have "never come through."

She also complained of expensive CAFTA-DR requirements for goods bound for the U.S. market. She spends about \$600 a year on nutritional labels that must go on every bag of sweets headed to the United States, and also pays for the required bar codes on each bag.

The government has offered to help pay her costs to attend business courses, but Hernández de España said that she would much rather have help to pay for commodities such as sugar and fruit and a packinghouse to prepare the goods for shipment.

"I need to produce and to sell, not sit in a classroom," she said.

Hernández de España, who began her business with six types of sweets, now makes 25 varieties of typical dulces -- including sugarcoated nuts, fruit-laced concoctions and the popular dulce de leche, or caramel.

She said she struggled for months to persuade local supermarkets to sell her confections.

But after her sweets made it there, she was able to slowly gain entry into the export market.

Her packaged goodies can now be found in parts of Canada, Australia and Honduras and in several cities in the United States, including New York, Los Angeles, Houston and Miami -- which gets about 20,000 small bags of sweets every two months that represent earnings of about \$9,000.

"We're making our business grow little by little," she said. "I needed the help in the beginning, not when the company is already known."

For the 5-year-old CASSAL handicraft makers' co-op, trying to decipher and take advantage of CAFTA-DR benefits remains a challenge. "The door [to free trade] is open," said treasurer Guadalupe de Cubillas. "But many haven't had the courage to knock, much less figure out how to go through it."

Under CAFTA-DR so far, the makers of leather wallets, woodwork, painted feathers, bamboo designs and ceramics have attracted two clients in California, one in Napa and the other in San Diego, and are looking for more despite initial concerns.

"When we began hearing of CAFTA, rumors were that it would benefit the big companies and we would be devoured," Cubillas said. "Now we need to penetrate the market in the United States and find customers in Europe. That's our dream."

In the meantime, the real beneficiaries of free trade are the consumers, said Haar of FIU. More goods are now on sale in El Salvador.

"The benefit of globalization is that it puts choice in the hands of customers," Haar said. "CAFTA has created competition. So, the consumer is no longer a prisoner of shoddy goods with limited variation. Now, the consumer has a choice."

For Serrano, the only butterfly exporter in the country, the colorful winged insects hold lots of economic promise: The life span of a butterfly is about 12 days. So, customers need a steady resupply.

"Ecology has tremendous economic potential, if you know how to apply it," Serrano said. "No country in continental Latin America is more damaged or has so devastated its natural heritage than El Salvador. . . . This is one reason why we wanted to emphasize the productive side of our natural wildlife."

The butterflies are bred on a farm near the southwestern city of Ahuachapán, next to El Imposible National Park, a tropical forest with elevations of 984 to 4,600 feet above sea level.

At Serrano's packinghouse in the capital, San Salvador, cocoon-like chrysalises as bright as multicolored jewels are gently wrapped in cotton and packed in cardboard boxes for export. Many end up at Butterfly World in Coconut Creek.

"He has species that no one else has," said Ron Boender, owner of Butterfly World, who began to import Salvadoran butterflies about 15 years ago. He receives about 400 chrysalises of different types every two weeks.

MORE BUTTERFLIES

When Serrano began to export in 1990, about 12,000 pupae -- the insect inside the chrysalis that later transforms into a butterfly -- were shipped out of the country. In 2000, exports increased to 67,000, and last year, 71,000 pupae found homes overseas, where they transformed into butterflies.

"This is not a crop," Serrano said. "This is a remarkable representative of the biodiversity that remains in the . . . tropics of Central America. We expect the demand for butterflies to increase."