

The first presidential term of Nayib
Bukele in El Salvador (Part II)
El Salvador on the international scene

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On June 1, 2024, the second term of Nayib Bukele as president of El Salvador began. His sudden rise and radical reordering of the post-1992 establishment of the small, densely populated Central American republic baffled many analysts. It is important to highlight his achievements and attempt to define his project of rebuilding the Salvadoran state. His core goal is apparently building and stabilizing a new national coalition that redefines political sides, the established rules, and power balances of parliamentary democracy established since the end of the Civil War. He asserted a global and regional role by projecting a special soft power and presenting his handling of internal security as a model to emulate. This two-part series examines Bukele's attempts to build a national and international coalition to support his efforts in nation-building. This second part of the series look at important elements of the economic and foreign policies of the Bukele government.

Introduction

This second and final part of the series on Nayib Bukele's first term seeks to outline and explain his exercises in nation-building in Central America, focusing on his foreign and economic policies. Two highlights of these will be outlined as special characteristics of his first term: the management of relations with the two great powers influencing Central America, the U.S., and China, respectively, and the case of introducing Bitcoin as a legal currency of El Salvador. His endeavors with the great powers, and his futurist campaign to be the first state to accept and adopt cryptocurrency into the financial system are organized around the same set of goals: enhancing national sovereignty and bringing in new resources for the stabilization of his system.

El Salvador's Bitcoin Adventure

The adoption of Bitcoin as a legal tender in El Salvador on September 7, 2021, generated outsized media attention worldwide. Alongside the radical suppression of gangs, this is the second feature that brought global recognition to the small country. From the media narratives, the country "stands out" in its decision, being an exceptional and overaggressive player in the futurist adaptation of the currency.

Several apparent incentives motivated this decision, including the symbolic accentuation of sovereignty, economic development, and streamlining the Salvadoran economy for the apparent benefit of its inhabitants and external players.

First, finding a stable and sovereign currency is a huge dilemma for all Latin American states. Dependent on global markets and having weak institutional safeguards against the abuse of monetary policies, Latin American governments jockey between the extremes of monetary liberalism and the rigid control of the exchange rates. Since its independence, El Salvador has grappled with dilemmas arising from being a small and open economy. The country opted for dollarization in 2001 after a long period of high inflation rates. The introduction of the new currency was conducted through low-level channels, using the remittances of Salvadorean emigrants working in the U.S., which are a major element of income for the country's economy. The dollar drove down loan interest rates and inflation but obviously made the country dependent on U.S. monetary policies.¹

Bukele follows through this path of leaving the national currencies behind, but he is also opting for a currency that supposedly allows more sovereignty. Bitcoin is obviously not dependent on the U.S. but on international cryptocurrency markets for its stability. Bukele took a big step toward having an independent but nevertheless internationally convertible reserve currency with the introduction of bitcoin. However, the destiny of the project was strongly tied then to the situation of the cryptocurrency market, which lived through high volatility between 2021 and 2024. Still, the commencement of the project hints at the existence of Bukele's ideology as a project transcending traditional solutions, both from the statist Left and the neoliberal Right in the hemisphere, building on the capabilities of a strong leader and the utilization of futurist approaches. Bukele himself advertised Bitcoin as a currency independent from political "abuse" in his CPAC speech on February 22, 2024.² As the speech was a major summary of his purported achievements, it is clear that he takes pride in a supposedly sovereign and technically "superior" currency.

The introduction of the currency into the daily life of Salvadoreans was not a smooth process, highlighting common problems with arbitrary top-down decisions across Latin America in the field of economic restructuring, from which problems Bukele's project was not free, either. The new state-backed firm Chivo launched a Bitcoin-based ATM network and banking app for Salvadorean nationals. However, the currency was slow to get adopted, given its high volatility and digital nature. Chivo amassed substantial losses in its first period due to the huge bonuses that were paid to new clients while not gaining significant numbers of regular users. By the middle of 2022, only around \$500 were transacted daily in the system, most not in Bitcoin.³ Bitcoin, in its current form, is far too volatile to be a currency.⁴ A field survey conducted in the first months of the introduction of the currency in the small city of El Zonte, a.k.a Bitcoin Beach, one of the more crypto-saturated territories of the country, found general rejection of the currency for its volatility. Locals explained that without the buffer of saving portfolios, Bitcoin would be unhelpful for them in daily use, having such a non-stable situation vis-à-vis the U.S. dollar.⁵ Analysts have long warned that the drivers of the value of cryptocurrencies are quite hard to uncover and differ substantially from the features of traditional fiat currencies. Due to this, they may be inappropriate for standard value accumulation and planning on the micro-level, where the relative stability of the currency is essential.

However, Bitcoin was apparently more beneficial for El Salvador in a different usage. The currency is much better on a macro level. Bukele's government was heavily criticized for spending huge monies on Bitcoin. According to a website dedicated to the Bitcoin purchases of El Salvador, around \$130 million was spent on purchasing around 5810 Bitcoins.⁶ Due to the sustained fall of Bitcoin prices between the first months of 2022 and the end of 2023, the country accumulated an apparent loss, exacerbated by the optics of these purchases made by executive order, without societal consultation. In the last half-year, however, the bet seems to have paid off, with El Salvador's portfolio gaining around 43% in value above the overall purchase price.

Having an apparently profitable asset of national savings is not all in Bitcoin's effects and purported goals. Bitcoin is aimed not just at interior but also at international audiences, primarily in the United States. Latin America, in general, plays an outsized role in the developmentalist imaginations of North Americans. The region is repeatedly seen as a "carte blanche" to project on imaginations on all sorts of new projects involving new societal structures and economic experiments, not to mention the exoticizing imaginations concerning Rousseau-like imagination of local communities. This is especially true in Central America, a destination of U.S. adventurers and businessmen throughout centuries. The cryptocurrency boom, which, as Olivier Jutel said, provides the "last utopian narrative of the digital in the current "Techlash" is building heavily on Global South projects.⁷ The precarious state of Global South financial systems and the urgent need for unorthodox solutions empower many tech-solutionist imaginations. Some imagine blockchain systems as helping create stable savings for inhabitants in chaotic Subsaharan societies independent of the infrastructure of their politically unstable environment.⁸ Others see the crypto economy as a resource-light solution to revitalize local economies. Such attempts were made in Puerto Rico, too.⁹ Overall, El Salvador was clearly well-positioned to achieve these goals. It is a peripheral country, culturally separate but nevertheless recognizable by U.S. citizens, positioned comfortably close to its most important global partner, and also less saturated with tourism until recently.

The launch of Bitcoin as an incentive for U.S. businesspeople to move to El Salvador built on these dreams, and also on the fact that the transnational network of “digital nomads” spurs a type of international economy in itself across the continent. Capturing U.S. imagination and the transnational network of new cosmopolitan communities, both in a financial and ideological sense, clearly played a role in introducing Bitcoin. According to some estimates, tourism is up by 95% in El Salvador by the end of 2023.¹⁰ While it is hard to distinguish between the effects of radical security measures and niche features such as Bitcoin, it is clear that Bukele can use these numbers to emphasize the benefits of Bitcoin adoption. There are also secondary benefits, such as nurturing the country’s image as “Bitcoin Country” with Bitcoin influencers flocking to the nation executing tourism advertisement free of charge. Even more important the frequent presence and the apparent goodwill of important cryptocurrency investors, such as Jack Mallers or Changpeng Zhao, CEO of Binance.

Obviously, with Bukele tying so much of his country’s destiny to the crypto industry, the uncomfortable question of the influence of foreign capital and foreign players arises. A survey conducted by the Universidad Francisco Gavidia in the summer of 2021 clearly accentuated the citizen’s conviction that the introduction of Bitcoin would only serve the “big firms” only.¹¹ Given that the rollout was botched, the infrastructure was inconsistently built, and the eventual usefulness of Bitcoin was found more in alternative government saving assets than transforming everyday transactions, the notion can resonate in El Salvador. However, the handling of one of the flagship projects of the Bitcoin program shows that Bukele still wants to emphasize the strength of national sovereignty through its projects.

The flagship project is obviously Bitcoin City, which is planned to be built on the slopes of the volcano Conchagua on the eastern edge of the country, alongside the Gulf of Fonseca. The plan of the city was announced in November 2021, in the heyday of the Bitcoin project, intended to be funded by “Volcano Bonds” issued specifically for the purpose. This city reflects but, at the same time, contradicts a broader trend in Central America. The idea of charter cities, special economic zones outside of regular jurisdiction, was espoused by Paul Romer in 2009 as a tool to incentivize economic development in low-income countries. This caught on especially strongly in Honduras in the early 2010s, with several special economic zones (ZEDEs) created to enable new, “anarcho-capitalist” cities.¹² The most concrete realization of these is Próspera, an embryonic project on the island of Roatán, lying off the northern shores of the country. However, the special status and supposed harmful economic effects of these “neocolonial” spaces generated a heavy backlash in the country, and now the investors of Próspera fighting rearguard actions to recover their invested money, as the new government of President Xiomara Castro outlawed these special zones.¹³

The history of the development on the site of “Bitcoin City” was originally a similar idea to the Honduran cities, first espoused in 2017 by the vice-president of the FMLN government, Oscar Órtiz. Later, another international angle of the project appeared. After El Salvador recognized the People’s Republic of China and established diplomatic relations, the city’s plan was changed to a Chinese-funded one. During this period, Nayib Bukele – still a mayor of San Salvador – heavily criticized these projects, highlighting their “neoliberal” nature.¹⁴ After his inauguration, the Chinese version of the charter city was dropped, while the lively engagement with Beijing continued.

The new version of the Bitcoin City plan, in contrast with these plans, was imagined as a city characterized by his own personal initiative and also offering

infrastructural benefits to Salvadorans, such as the “Pacific Train” running along the coast from the capital to Bitcoin City, and the “Pacific Airport” near the city. However, while the “Volcano Bonds” were announced alongside the city, with \$500 million to fund the construction and an equal amount to buy bitcoin, they were suspended before introduction in March 2022. There was another promise by the end of 2023 to introduce them in the first trimester of 2024, but then they were delayed again without explanation.¹⁵ Overall, the story of the indefinitely delayed Bitcoin City project points to Bukele's lack of experience in the management of large-scale projects and the precarious state of El Salvador's economy throughout the years. The plan still seems to be on the table, so the delay may not be a terminal failure.

Bukele and the Superpowers

After the discussion of the Bitcoin project, we have to move on to Bukele's place in the international system. The Bitcoin project has already demonstrated his approach to renegotiating El Salvador's standing in the international system by building new alliances that are directly tied to his political circle. In this theme, we need to assess his policies in relation to the two superpowers of our age: China and the U.S. Not only are these the most important powers globally, but both were directly invested in dealing with El Salvador and its new political system in one way or another.

China is a relatively new player in El Salvador. Several Latin American countries were slow to recognize the People's Republic of China after the rapprochement of Washington and Beijing and the official establishment of relations on January 1, 1979. Those who rode the waves of the “Third World Moment” in the 1960s and 1970s were even earlier in establishing relations with Beijing than the U.S. itself, but those who remained firmly in the U.S. orbit prolongedly delayed this move. Some, like Paraguay and Guatemala, still withhold their recognition while being targets of intensive lobbying from China. El Salvador was one of the latecomers to recognition, given that the country and its conservative political system were held above the water by the U.S. in the Civil War of the 1980s, and the country remained reliant on the giant northern power ever since. However, the latecomer “Pink Tide” government of the FMLN from 2009 changed this, too. In October 2018, the country recognized the East Asian power and established relations. As it is customary in such cases, huge Chinese economic aid and “gifts” were promised in return. First, a \$3 million rice shipment reached El Salvador as economic aid. Soon, the plans for infrastructure-based, state-led Chinese cooperation took shape, valued at US 150 million. With some changes, as demonstrated, Bukele followed up with this. He enjoyed good ties with the coming Trump administration, but he did not let Chinese investment go, especially since the groundwork was laid and the potential risk of steering a pro-Chinese turn was already taken by the previous administration. His first international visit was to Washington, but the second was to Beijing in December 2019. He brought back an economic package extended to \$500 million. This included high-profile projects, some already included in FMLN plans. Two projects were aimed at the capital, and three others were at key points in the country. The Chinese promised to fund and construct a new National Library and a new National Stadium in the capital city. Close to the capital, a comprehensive new water-filtering system was planned to extract potable water from the huge, contaminated volcanic pool of Lake Ilopango. On the coast, a tourist pier

was planned in the municipality of La Libertad, aligning with the goal of vitalizing the country's tourism sector. A similar promise was the construction of “Surf City” near the later planned “Bitcoin City” similarly on the shores of the Gulf of Fonseca.¹⁶ The Chinese plans were a comprehensive package of symbolic giga-projects aimed at broadening public services but also contributing to the productive capacity of the economy.

Compared to the Bitcoin project, most of these plans actually materialized, or at least the groundwork was laid. The National Library is ready, situated in a key position, the main plaza of San Salvador. The National Stadium is making progress, too, as well as the tourist pier and the water filtration plant, with the ground broken in December 2023. The Fonseca Gulf development projects, like Bitcoin City itself, are all delayed, but it is not a surprise given the number of overlapping projects and plans in the region, which are waiting to be sorted out and the boundaries defined.

Still, Bukele did not go all-in with Chinese alignment. The most consequential and irreversible infrastructural project was calmly delayed. El Salvador was in negotiations with the Chinese giga-firm Huawei to build 5G infrastructure in the country, but these plans were dropped in mid-2023, and Bukele signaled that he is ready to accept U.S. companies to create the system later in the year.¹⁷ According to local political commentary, the destiny of the Chinese project was used as leverage to initiate rapprochement with Washington, extracting at least a calm consent for Bukele to run for reelection. This illustrates well the softening of the U.S. tone in ideological and symbolical issues when it comes to hard results in the great power competition. Bukele used his leverage from developing Chinese relations well, getting new infrastructure funding, and forcing the U.S. to change its tone. Salvador also did not sign into the Belt and Road initiative until October 2023,¹⁸ which can be considered a sign of evaluating the seriousness of the U.S. response.

The Washington relations were not going well for El Salvador during Bukele. It is probable that the harsh tone of the Biden administration played a part in that Bukele openly sided with the Republican party in his relations with U.S. politics, appearing in the CPAC meeting in February 2024. Given the ideological differences between U.S. progressives and the strong-arming nature of the Bukele administration, the clash may have been inevitable. Not only were ideological differences expressed, but Bukele also had an opportunity to emphasize his sovereign status. In this sense, the U.S. Left may have made a mistake in power politics by engaging in rhetorical battles with Bukele that could not be converted into any real-life concessions but actively antagonizing the Salvadoran president with their circles.

An illustrative case of these battles was Bukele's Twitter clash with U.S. representative Norma Torres. The Guatemalan-born politician, representative of the 35th district of California since 2015, lashed out at Bukele in relation to the migrant crisis on the border of the United States. Bukele, in turn, accused Torres of serving the interests of Soros and interfering in the internal affairs of El Salvador. The Salvadoran president then called on the Salvadoran community of California to vote against the congresswoman in the 2022 primaries and the general election.¹⁹ Ms. Torres accused Bukele of election interference and claimed that the torrent of hate speech aimed at her made her “sleep

near a gun” while at home in Southern California.²⁰ While it was improbable that the criticism of Ms. Torres would have any impact on Bukele’s standing, the clash further inflamed Salvadoran relations with the Biden administration and the Democratic party.

Of course, Bukele also made moves vulnerable to serious criticism. His botched move of parading the military in the Salvadoran congress in February 2020 presented a prime opportunity for his opponents to raise the specter of authoritarian transformation, as well as his tendencies to make arbitrary decisions. After the inauguration of the Biden administration, the core point of conflict was the demotion of judges and the appointment of people close to the Nuevas Ideas party across the judicial system. The charge against Bukele was led by Juan Gonzalez, Biden’s special advisor on Latin American affairs and member of the National Security Council.

Gonzalez did not shy away from criticizing Bukele in public, using quite strong terms, comparing Bukele with Venezuelan dictators. Parallel to this, the new judges of the Supreme Court were sanctioned, alongside Carlos Marroquín, a member of the government, for allegedly helping high-profile gang members escape in the framework of a secret treaty of Bukele and the gangs.²¹ The longtime U.S. ambassador to the country, Jean Manes, personally stated to Bukele that the U.S. sees a “democratic backslide” in El Salvador.²²

However, all this did not deter Bukele from pressing forward with the centralization of power, or generated any backtracking. Bukele instead declared that El Salvador is “nobody’s backyard”.²³ It is clear that the U.S. symbolic pressure did more to give Bukele the aura of anti-imperialism than to cause real changes.

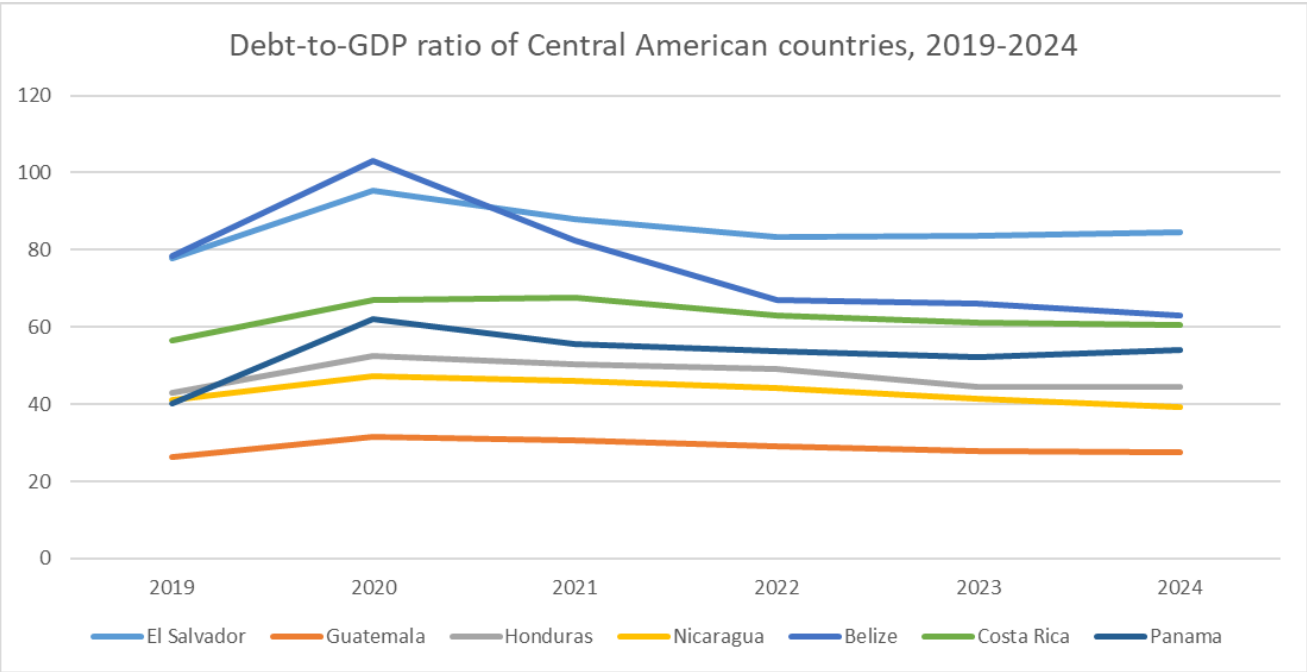
Later, the Biden administration backtracked, extracting some concessions related to Bukele's foreign policy, as we have seen. Juan Gonzalez left the government and has actively been criticizing Biden's Latin American policies ever since. After a hiatus, the Biden administration again appointed an ambassador to the country, keeping a much lower profile. The Biden administration released a quite soft-spoken text on El Salvador’s human rights record, a point of contention in debates about the country.²⁴ The security policy successes helped El Salvador to widen its foreign policy independence and thus acquire new resources for economic development. Biden, for now, appears to follow a rapprochement policy with El Salvador, keeping the conflicts at bay.

Given that Bukele is so strongly associated now with international Conservative circles, it would be interesting to see how Salvadoran-U.S. relations play out under a possible new Republican administration. Trump and Bukele first met in September 2019, which was Bukele’s first international trip. Throughout successive years, the relationship escalated positively to the repeatedly mentioned CPAC visit in February 2024, and the visit of Donald Trump Jr. to the inauguration of Bukele for his second term.²⁵ While he built amicable ties with the party and his security policies are widely praised, it needs to be noted that the Economic Freedom Index of the venerable Heritage Foundation continuously downgraded El Salvador in almost all sectors.²⁶ This shows the concern of U.S. conservatives over his management of the economy, which could potentially lead to tensions. Almost all GOP politicians speaking about Central American relations accentuated reservations with Bukele’s policies, but their picture is rosy overall.²⁷ The

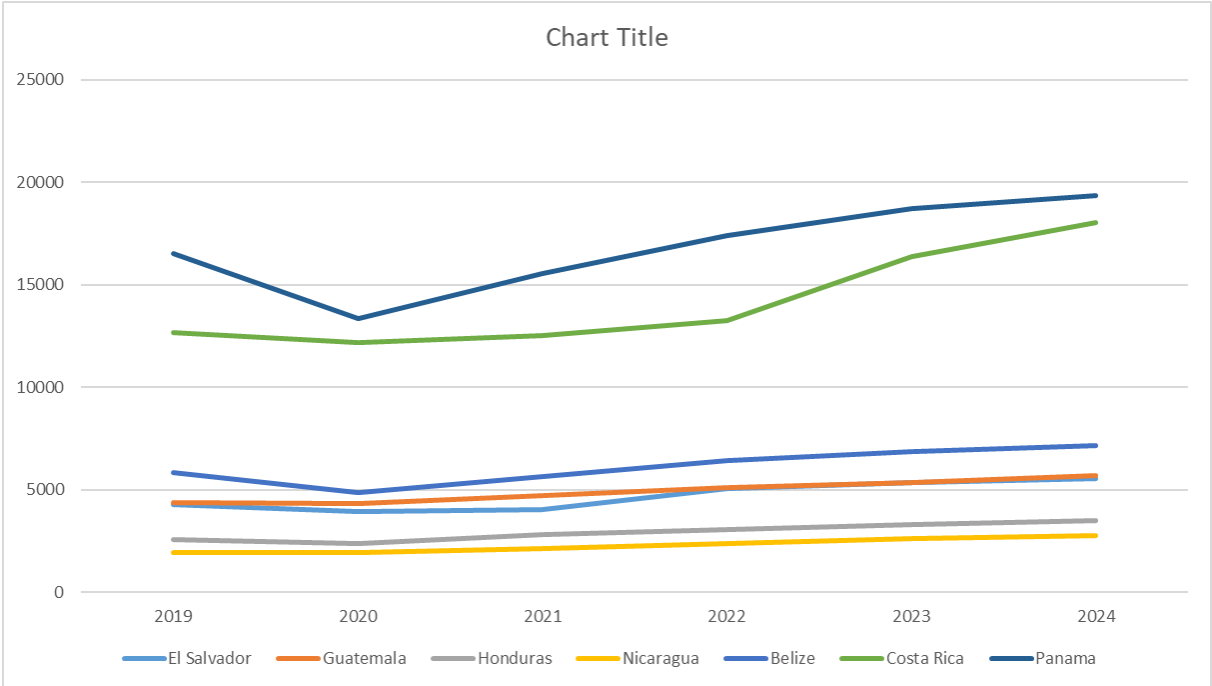
economic policies of the president did not help his image in the U.S., but the security is considered by American conservatives as a huge positive sign.

Bukele’s Challenges in a Second Term

Compared to his security policies, Bukele managed his economic and foreign policies with mixed success. While he acquired new funds for infrastructural development and gained profit on his Bitcoin gamble, the overall state of the economy has not improved since 2019. The COVID-19 crisis obviously hurt the economy, as it did others. Unlike others, the Salvadoran economy, however, has not recovered. The government managed to improve the debt-to-GDP ratio since 2020. However, it is still slightly above the 2019 rates, and the highest in region since 2021.



Another key metric is GDP, which is best illustrated in per capita terms, as it is adjusted then with the impact of the population growth, which is a challenge in Central America. While El Salvador enjoys a GDP not seriously lower than its neighbors, the growth has not taken off since 2020-21, and with the high levels of public debt, it needs much more dynamism.



GDP per capita as measured in thousand American dollars (nominal) between 2019 and 2024 in Central American countries. Created by the author based on World Bank data, <https://data.worldbank.org/>

Conclusion

Bukele's first years brought many innovations and clever maneuvering between the superpowers, but also left many challenges for the second term of the president, which he has earnestly tried to tackle since his second inauguration in June. The unorthodox thinking of the president created in El Salvador to a special case of "technocratic" and, at the same time, ideologically oriented system. Bukele heavily built on the concept of national sovereignty and the idea of a strong executive solving problems for the society. The examination of this model is important for the nature of the new quality that Bukele brought to Central American politics. The alliance of Bukele with U.S. conservatism makes it also peculiar, as most strong-state, sovereigntist projects in Latin America was launched by left-wing, anti-U.S. parties. Bukele's regime thus illustrates a novel form of sovereigntist politics in Latin America, and in a more generalized sense, throughout the global South. It is probable that the regime can actually benefit from more emphasis on professional policymaking, improving the efficiency of its unorthodox projects. El Salvador's example helps us to understand the possible new forms of domestic and international policymaking across peripheric

countries in the 21st century. Obviously, along general overviews, it is equally necessary to look at the shifts of societal coalitions in these countries in order to understand the changes of global society underlying the birth of these innovative political systems. Nevertheless, this short overview of Nayib Bukele's first term in power in this series intends to be a part of a dialogue about the characterizations of these new types of regimes and their effectiveness in solving novel challenges.



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²⁵ *El Salvador in English*. "Donald Trump Jr. to Attend Nayib Bukele's Inauguration in El Salvador." *El Salvador in English*, May 31, 2024. <https://elsalvadorinenglish.com/2024/05/31/donald-trump-jr-to-attend-nayib-bukeles-inauguration-in-el-salvador/> (Accessed: 2024.08.29)

²⁶ See the trends on <https://www.heritage.org/index/pages/country-pages/el-salvador>

²⁷ See some comments in Sanz, José Luis, and Roman Gressier. "State of Exception Confirms Divide between U.S. Dems and GOP over Bukele." *El Faro*, September 2, 2022.

https://elfaro.net/en/202209/el_salvador/26376/State-of-Exception-Confirms-Divide-between-US-Dems-and-GOP-over-Bukele.htm (Accessed: 2024.08.29)

