



**TRADE POLICY REVIEW**

REPORT BY

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Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by El Salvador is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on El Salvador.

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## 1 INTRODUCTION

1.1. Since its last Trade Policy Review, El Salvador has continued to make substantial progress on the economic front. To that end it has pursued its implementation of a strategy of integration into world trade by becoming increasingly actively involved in multilateral, regional and bilateral trade negotiation processes; and it has also carried out policies to attract foreign direct investment (FDI) by introducing reforms to legislation that incentivize and promote trade in services and investment in order to generate employment, boost the establishment of businesses, and further the development of public-private projects.

1.2. This work has resulted in increased exports, greater diversification of Salvadoran products, and higher inflows of FDI.

1.3. El Salvador's trade policy will continue to focus on expanding access to external markets for Salvadoran products and services by deepening relations with our main trading partners and developing closer relations with new strategic partners, of which the Central American market is one of the most important. Additionally, in keeping with its renewed commitment to the multilateral trading system, El Salvador will continue to play an active role in multilateral negotiations and in implementing the agreements reached thus far at the WTO.

## 2 ECONOMIC ENVIRONMENT

2.1. Despite the challenges the country faced during the period under review, including the international financial crisis, the fall in commodities prices and the impact of climate on crops, many of El Salvador's economic indicators improved, with growth in the gross domestic product (GDP), exports and investment, for example.

2.2. In 2015, GDP at constant prices rose by 2.5%, the highest rate over the past decade (2005-2014). Following the global economic crisis of 2008-2009, growth has gradually stabilized, peaking in 2015.

2.3. The performance of the Salvadoran economy in 2015 reflected positive growth across all sectors, but principally in real estate and business services (3.7%); manufacturing industry (3.4%); and transport, storage and communications (3.3%)

2.4. Inflation began to decline in 2011, falling to 1.0%, making El Salvador the country with the second-lowest rate in the Central American region.

2.5. Trade in goods and services continues to be one of the main drivers of the economy. During the period under review, exports grew by 6.3% per year on average between 2009 and 2015.

2.6. Exports of goods grew by US\$212.2 million (4.0%) in 2015 compared to 2014: El Salvador was one of the few countries in Latin America and the Caribbean whose exports grew, and indeed recorded the highest growth in the Central American region. Manufacturing industry accounted for 95.7% of total exports, followed by agriculture, hunting, forestry and fishing with 3.9%. The main export products included sugar, coffee, shrimp, as well as made-up articles and other non-traditional products such as certain foodstuffs, beverages and leather footwear.

2.7. During the review period, imports have grown at an average rate of 6.3% per year. However, the deficit in the balance of trade in goods fell by US\$309.7 million (-5.9%), reflecting the increase in trade.

2.8. In 2015 the balance of trade in services was in surplus by US\$785.3 million, a rise of US\$44.6 million on 2014. The trade surplus in services arose from the fact that exports amounted to US\$2,329.7 million, reflecting a 4.6% (US\$103.4 million) increase on the 2014 figure, whereas imports totalled US\$1,544.4 million. The main export items were travel (US\$817.1 million), transport services (US\$492.0 million) and manufacturing on physical inputs (US\$463.9 million).

2.9. In 2015 the net flow of FDI totalled US\$428.7 million, an increase of US\$117.5 million (37.8%) on the figure for 2014. The main countries of origin of the investment flows were the

United States, Panama and Spain; the main recipients of FDI in 2015 were manufacturing industry, financial activities, and wholesale and retail trade.

2.10. Confidence among private investors is reflected in the substantial new investment projects announced in 2015. The official figures show that announced private investment (to December 2015) totalled US\$1,229.8 million, double the figure of US\$600 million for 2014. The sectors securing the largest shares of these investments were transport and communications, manufacturing industry, construction, electricity supply, commerce, restaurants and hotels.

### **3 OVERVIEW OF TRADE POLICY**

#### **3.1 Overall aim of trade policy**

3.1. El Salvador's main trade policy objectives are to create jobs, attract foreign investment, increase exports, strengthen competitiveness and promote supply linkages. The aim is to provide the people of El Salvador with greater and better employment opportunities and thus raise the standard of living, with a view to achieving sustainable development.

3.2. As part of the Policy to Promote, Diversify and Transform Patterns of Production (FDTP), the following sectors have been prioritized for short-term stimulus: chemicals and pharmaceuticals, plastics, footwear, food and drink, textiles and made-up articles, the creative industries and information technologies. In taking this action, the country is banking on diversification of the production pattern to underpin diversification of Salvadoran exports of goods and services.

#### **3.2 Investment**

3.3. In the period under review, El Salvador has continued to promote investment and strengthen the legal framework that underpins it, including by way of the Law on Legal Stability for Investment, the Law on International Services, the Special Law on Public-Private Partnerships, the Law on Electronic Signature, and the Law on Property Guarantees.

3.4. In addition, the Law on Free Zones and Inward Processing Warehouses was overhauled in order to bring it into line with El Salvador's international commitments, as well as to provide stability and predictability to investors.

#### **3.3 Central American Common Market**

3.5. During the period covered by this Review, together with the other countries of the Central American region El Salvador continued to deepen the Central American economic integration process. The most recent headway includes the incorporation of Panama into the Central American Economic Integration Subsystem from 6 May 2013; the signature of the Second Protocol Amending the Treaty on Investment and Trade in Services between the Republics of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (TICS) incorporating the provisions on electronic commerce of 27 July 2011; and the adoption by the Council of Ministers of Economic Integration (COMIECO) of the Central American Strategy for Trade Facilitation and Competitiveness with Emphasis on Coordinated Border Management of 22 October 2015.

3.6. In June 2015 COMIECO approved a Roadmap for the implementation of a Central American Customs Union that provides for specific activities within the three stages of the establishment process set out in the Framework Convention for Establishing the Central American Customs Union, namely: promotion of free movement of goods and trade facilitation; regulatory modernization and convergence; and institutional development.

3.7. In 2015, 40.9% of Salvadoran exports were bound for other Central American countries. Taken together, these countries ranked second among the destinations of Salvadoran exports, while imports from Central American countries accounted for 21.2% of all Salvadoran imports.

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### **3.3.1 Central American Strategy for Trade Facilitation and Competitiveness with Emphasis on Coordinated Border Management**

3.8. On 27 June 2014, the Presidents of the region instructed COMIECO to adopt and implement a Central American Strategy for Trade Facilitation and Competitiveness that emphasized coordinated border management in the Central American logistics corridor.

3.9. Accordingly, on 22 October 2015 COMIECO approved the "Central American Strategy for Trade Facilitation and Competitiveness with Emphasis on Coordinated Border Management". The strategy aims to promote coordination between public and private sector agencies (including in matters of customs, sanitary and phytosanitary measures, migration, and policing) in order to improve revenue collection procedures, controls, and border security, and to further facilitate movement of goods and people within a framework of effective controls and efficient use of resources.

### **3.4 Preferential agreements signed and ongoing negotiations**

3.10. El Salvador is open to the world and the Government is working hard to reap the benefits available on the various international markets in order to stimulate Salvadoran exports and thus develop a diversified, consolidated, competitive export sector.

3.11. Since the last Trade Policy Review this approach has led El Salvador to maintain and deepen its trade relations with important trading partners such as Mexico, with which it completed a convergence process that opened the way for the entry into force of a free trade agreement between the Central American region and Mexico.

3.12. Additionally, relations with other important partners such as the European Union were bolstered by the signature of the first "region-to-region" trade agreement. The agreement further strengthens the trading relationship between these two regions, both of which are highly integrated. It addresses trade-related aspects as well as developing policy- and cooperation-related aspects. The latter two areas of the agreement have not yet entered into force.

3.13. Trade relations were also strengthened with Cuba, with which El Salvador has a Partial Scope Agreement (AAP) that has helped to identify new business opportunities. Work was also done to deepen the free trade agreements with Colombia and Chinese Taipei by improving conditions of access for Salvadoran products to those countries' markets.

3.14. All this work has boosted economic activity in our country and helped to generate a better business climate, promote domestic and foreign productive investment, and improve conditions of access to international markets for strategic products and sectors.

3.15. El Salvador is in the process of negotiating AAPs with Trinidad and Tobago, Ecuador and the Plurinational State of Bolivia, as well as a free trade agreement with the Republic of Korea, and is interested in continuing discussions with Belize, Canada and Peru.

3.16. Altogether, El Salvador's trade within the framework of these agreements accounts for approximately 94.4% of total exports and 77.3% of total imports. El Salvador therefore considers that one of the most important aspects of its trade policy must be to make better use of the opportunities these agreements provide in terms of its exports of goods and services and its attractiveness to FDI.

### **3.5 Multilateral trading system**

#### **3.5.1 Routine work and negotiations**

3.17. El Salvador takes an active role in the routine work of the WTO to monitor compliance with the agreements in force. Additionally, in order to promote a fairer, interdependent trading system that benefits people, the country is advocating a balanced outcome to the negotiations on outstanding issues under the Doha Development Agenda that takes account of its development needs and specific characteristics.

3.18. El Salvador promotes its trading interests within the Organization by tabling various proposals both on its own account and as a member of groups that share its approach such as the Group of Small, Vulnerable Economies and the Group of 33 on agricultural matters.

3.19. During the review period, El Salvador participated in the Ninth and Tenth Ministerial Conferences, at which important agreements were reached, chiefly in the areas of agriculture and trade facilitation. Also worthy of note is the decision in which Ministers reiterated their commitment to the Work Programme on Small, Vulnerable Economies. El Salvador is strongly committed to implementing the agreements reached at the Ministerial Conferences, including as regards future work, and is open to initiating a dialogue on current WTO-related issues that have a significant impact on the world in which our entrepreneurs operate. Nonetheless, we are of the view that discussions of that kind should not undermine the chief objective of concluding the outstanding items on our negotiating agenda, taking account of the interests and positions of all Members, and in accordance with the WTO rules.

### **3.5.2 Ratification and deposit of the Agreement on Trade Facilitation**

3.20. During the period under review, El Salvador has continued to make significant progress in customs modernization, as illustrated by the establishment of a platform for electronic payment of import duties and other applicable taxes, and the SICEX computer system that enables businesses to obtain the documents they require for their exports in a single online procedure. It is anticipated that the work under way to implement a similar computerized system for imports (SIMP) will be completed in March 2017.

3.21. These factors contributed to the positive assessment of El Salvador in the OECD survey of Trade Facilitation Indicators in 2015, which ranks the country's performance above that of Latin America in areas that include information availability, cooperation, governance and impartiality, advance rulings, and automation of formalities.

3.22. Against that background, on 4 February 2016 the Legislative Assembly ratified the WTO Agreement on Trade Facilitation, making El Salvador the third Central American country to do so. Ratification marked the completion of El Salvador's domestic legal formalities in this matter. El Salvador will shortly deposit its instrument of acceptance of that Agreement with the Organization.

3.23. With the direct involvement of the private sector, all Government institutions are working to implement the Agreement and the Central American Strategy for Trade Facilitation and Competitiveness. These initiatives are expected to produce real benefits and savings for intra-regional trade and Central American businesses, as well as furthering the economic development of each country in the region.

### **3.5.3 Withdrawal of the reservation on the application of multilateral agreements with China and entitlement to Most-Favoured-Nation status**

3.24. On 2 July 2014, El Salvador withdrew the reservation it had lodged with respect to the People's Republic of China upon its accession to the WTO in 2001 on the application of the Multilateral Agreements with that country. That action led to an improvement in El Salvador's competitiveness in terms of access to the Chinese market, and El Salvador secured the same tariff treatment as other WTO Members. This led to an increase of over 600% in exports to the People's Republic of China in 2015, from an average US\$5 million in 2012-2014 to almost US\$45 million in 2015.

## **3.6 Progress in intellectual property rights**

3.25. The country continues to make significant progress in intellectual property rights, including reforms to the Law on Trademarks and Other Distinctive Signs (LMOSD) that strengthen protection for geographical indications by granting them specific protection.

3.26. Additionally, in 2014 a National Intellectual Property Policy was drawn up that recognizes intellectual property as a key element of national development; used appropriately, intellectual property rights and protection can help make better use of the Salvadoran people's capacity to

create knowledge, and can generate conditions that improve the country's competitive position. The basic principles aim at an intellectual property policy that should be instrumental, cross-cutting, balanced and properly articulated.

3.27. As regards ratification of and accession to international agreements relating to the protection of intellectual property, on 1 October 2014 El Salvador became the first Latin American country and the second country in the world to ratify the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired, or Otherwise Print Disabled.

3.28. On 25 February 2016 the country ratified the Beijing Treaty on Audiovisual Performances, which protects performers in audiovisual performances, and will shortly deposit its instrument of ratification.

#### **4 TRADE POLICY OUTLOOK**

4.1. El Salvador will continue to seek better access conditions to international markets for its goods and services that will help to integrate the country into the international economy, while having regard to compliance with its international commitments, and promoting best use of the opportunities provided under its trade agreements whether at multilateral, regional or bilateral level. It will also continue to seek to attract greater FDI by fostering a more transparent, favourable business climate that provides investors and the general public with predictability and certainty.

4.2. Accordingly, as set out in the FDTP, El Salvador is looking to improve the business climate, reduce the costs of setting up a business, promote public-private partnerships, and simplify the process of business registration. Additionally the Government is providing business advice services in matters of internationalization, innovation and quality.

4.3. Opportunities have also been identified in strategic sectors such as tourism, renewable energies and manufacturing. In renewables, El Salvador is promoting investment with a view to becoming the "energy hub" of Central America. In manufactures, not only does it seek to continue to promote the traditional textiles industry but also the footwear, auto-parts, electronic and medical components industries; it is also looking to export these manufactures to its trading partners.

4.4. El Salvador will continue to prioritize reductions in trade transaction costs, mainly through improvements to the administrative processes linked to trade facilitation, by fulfilling its commitments under the WTO Agreement on Trade Facilitation, among others.

4.5. A small economy such as El Salvador faces huge challenges in an international environment because its small domestic market means that it is more dependent on international trade and more exposed to exogenous demand and supply shocks, changes in access conditions to other markets such as mega-regional agreements, changes in technical regulations and private rules, natural disasters, and other factors.

4.6. We recognize the importance of external trade to the country's economic growth, and that the multilateral approach is the regulatory cornerstone of foreign trade. Accordingly we will continue to take measures to deliver on the objectives set by the Government, including active involvement in the bilateral, regional and multilateral trade negotiations that are currently under way, in order to diversify export destination markets and reduce the country's vulnerability to changes in the world economic situation.

4.7. Finally, we would like to reiterate that the Government of El Salvador has maintained and will continue to maintain close communication with its production sectors and civil society in general, and will seek to work with them to implement Salvadoran trade policy in a fair and transparent manner that will enable all stakeholders to enjoy the benefits of international trade.

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