El Salvador Trade Brief

Trade Policy

El Salvador's trade regime is relatively open as reflected in the latest MFN Tariff Trade Restrictiveness Index (TTRI),[1] on which it scores 5.8 percent and is ranked 67th out of 125 countries. The country is more open than an average Latin America and Caribbean (LAC) or lower-middle-income country with TTRIs of 7.8 and 8.6 percent, respectively. Agricultural products (16.0 percent) are much more protected than non-agricultural goods (3.8 percent). The 2008 simple average MFN tariff is low at 5.9 percent. When taking into account the preferences, it is 5.7 percent. El Salvador increased its maximum tariff (excluding alcohol and tobacco) from 73 to 164 percent in 2008. The trade policy space, measured by the wedge between bound and applied tariffs (the overhang), rose slightly to 30.6 percent. Regarding the extent of its commitment to trade liberalization in services, El Salvador ranked 101st out of 148 countries according to the GATS Commitment Index.

In response to the food crisis, in February 2008, El Salvador and three of its fellow Central American Common Market countries canceled import taxes on wheat flour until the end of 2008 or up to a maximum of 10,000 imported tons.[2]

External Environment

According to the Market Access TTRI[3] (including preferences), on which it is ranked 38th (out of 125 countries), El Salvador's exports enjoy low tariff barriers, with a MA-TTRI of 1.6 percent, compared to the LAC and lower-middle-income country group averages of 2.0 and 2.3 percent, respectively. The 2008 rest of the world simple average applied tariff (including preferences) on El Salvador's exports has decreased slightly in the past year to 9.8 percent, after increasing gradually from its value of 2.9 percent in 2004. When taking into account the level of exports, the tariff is much lower at 2.0 percent, with El Salvador's agricultural exports facing 5.8 percent and its manufactured exports 0.9 percent tariffs.

El Salvador's most important trade arrangement is the DR-CAFTA with the United States that became effective in 2006. DR-CAFTA consolidates and expands the current access that Central American countries currently have to the U.S. market, while extending broadly reciprocal access for U.S. goods to their own markets. The decision to make the provisions of the agreement applicable multilaterally is deepening regional integration efforts and facilitating the creation of a Central American Customs Union.[4] Additionally, a free trade agreement (FTA) between Taiwan (China) and El Salvador that was signed in 2007 entered into force in El Salvador at the beginning of 2008.[5] Finally, negotiations for an Association Agreement between the EU and six Central American countries, including El Salvador, which began in 2007 and include a FTA, have been postponed as of July 2009, due to the political instability in Honduras.[6] Since 2001, El Salvador has used the U.S. dollar as its official currency.

Behind the Border Constraints

El Salvador ranked 84th in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. Additionally, the Logistics Performance Index, a measure of the ease of trade facilitation, rates El Salvador at 2.66 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.47 for countries in the lower-middle-income group. It ranked 66th in the world and 7th in the LAC region (with Chile leading the regional group). The area in which it performed the best was timeliness of shipments in reaching their destinations and the country needs most improvement in increasing the efficiency and effectiveness of customs procedures, notwithstanding the fact that El Salvador has a well

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

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established structure for customs and trade facilitation with standardized electronic customs forms.[7]

Trade Outcomes

El Salvador's real (in constant 2000 U.S. dollars) growth in total trade of goods and services reached 6.4 percent in 2007, decelerating to 5.9 percent in 2008. E Exports grew by a low 3.9 percent in 2007 in real terms, and then accelerated to 6.9 percent in 2008. Imports of goods and services grew by a relatively high 8.1 percent in 2007 in real terms, decelerating to 4.4 percent in 2008. Both exports and imports are expected to decline in 2009, by 3.9 and 4.6 percent, respectively.

The nominal growth of total trade (in U.S. dollars) accelerated from 9.9 percent in 2007 to an estimated 10.9 percent in 2008. Nominal export growth was an estimated 8.2 percent in 2008. Exports remained strong in the fourth quarter when they grew by 6.8 percent over the same quarter 2008 in nominal U.S. dollar terms, while many of its regional neighbors suffered declines.[8] However, the global economic slowdown led to a dramatic deterioration in export performance in 2009. Exports receipts declined over the first half of 2009 by 16.5 percent with respect to the same period of 2008. *Maquila* exports were the largest component of all exports for a number of years, until 2007, when non-traditional exports overtook them on the back of such subsectors as ethyl alcohol, medicines, and laminated iron and steel products. *Maquila* exports now account for just over 40 percent of the total, while non-traditional exports account for less than 50 percent.[9] The growth of trade excluding *maquiladoras* (twin plants) accelerated in the last quarter of 2008 and the first quarter of 2009, at 11.4 and 0.1 percent, respectively, on a year-on-year basis. However, exports are expected to shrink by 4.1 percent in 2009. Export markets have diversified in recent years, although the bulk of all exports are still sent to the United States (over 50 percent) and regional neighbors. Nominal import growth in 2008 was an estimated 12.5 percent and is expected to fall further in 2009. Remittances are important to the economy, accounting for 17.2 percent of GDP in 2008. This decrease from 18.2 percent of GDP in 2007 was largely due to the financial crisis, and remittances are expected to further decline to 15.4 percent of GDP in 2009. FDI inflows accounted for 7.5 percent of GDP in 2007.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
4. SICE, 2009.
5. SICE, 2009.
6. Bilaterals.org, 2009, and European Commission, 2009.
7. Storz, et al., 2009.
8. All quarterly data from IMF, 2009.
9. EIU, 2008.

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