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**EXECUTIVE FORUM ON  
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**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?  
IMPLICATIONS FOR STRATEGY- MAKERS**

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**El Salvador's Export: Services Exports**

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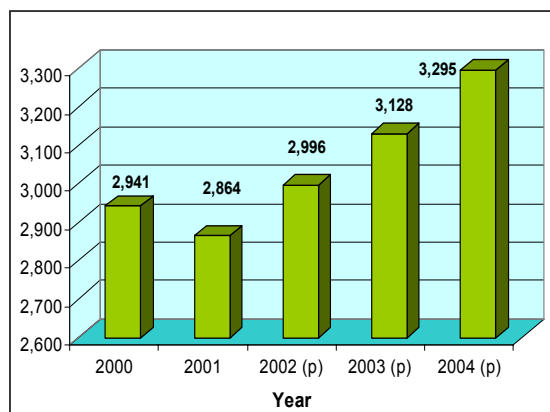
## EL SALVADOR'S EXPORT: SERVICES EXPORTS

### Overview of Salvadorian Exports

**Graph 1: El Salvador's Exports.**  
(US\$ million)

In the last years, the exports of El Salvador have had an ascending performance. For the year 2004, El Salvador reported US\$3,295.3 million in exports, which represents an increase of 5.3% regarding to exports in 2003 (US\$3,128.0 million).

The principal export *sectors* in 2004 were Maquila (55.25%), Food Products, Drinks, Alcoholic Liquids and Tobacco (8.22%); and Textiles and Textile Articles (6.77%). The sectors that experienced major growth were: Textiles and manufactures (42.2%), Metalworks (26.9%), Foods (12.9%) and Chemical products (6.3%).



The main export *products* are: Coffee (US\$123,416,583.0); Medicaments (US\$69,984,112.0); Petroleum oils and oils (US\$55,519,861); Toilet paper, cellulose fibers, cleansing tissues, towels, tablecloths (US\$47,743,229); Packing containers of paper, paperboard, cellulose wadding or webs of cellulose fibers (US\$47,307,074) and Cereal products (US\$44,291,343.0), among others.

The principal *commercial associates* of El Salvador are The United States (65.43%) and Central America (24.95%). Towards The United States, the principal export products are: Golden Coffee (30.1%), Cotton Vests for Women (19.1%), Cotton Sweaters for Men (12.0%) and Cotton Towels (7.9%). Towards Central America, the principal exported products are: Toilet Paper (15.1%), Medicines (13.9%), Detergents (11.3%) and Oils and Lubricants (9.9%).

Excluding Maquila, the main trading partners of El Salvador are: Guatemala (US\$387,167,450.0), United States (US\$335,436,586.0), Honduras (US\$206,006,572.0), Nicaragua (US\$128,635,878) and Costa Rica (US\$100,387,215.0).

### **EXPORTA: Export Promotion Agency of El Salvador**

Exporta was created by the Ministry of Economy in February 2004. With the new government, in June of the same year and with the creation of the National Commission of Exports and Investments (CONADEI), Exporta was taken under the leadership of the Vice-presidency of the Republic.

Exporta's mission is to facilitate and promote in an agile, opportune and effective way, the access of the companies to the services and mechanisms of support, both public and private that allow them to be inserted on a successful and sustainable way on the international markets, helping to increase the exports of the country.

#### **Services for exporters**

It is our belief that in order to promote service exports we need to have first a strong economy of services for exporters. That is why Exporta focuses its operations in the access to the following categories of services:

- 1) Identification of Business opportunities;
- 2) Adjustment of the supply to demand; and
- 3) Commercial promotion.

### **1. Identification of Business Opportunities**

Exporta provides market information services in foreign trade to facilitate exports. This area provides strategic information services about markets and business opportunities to the companies in order to support their export managers in decisions taking.

Some of the services that are given by the Market Information Office are the following:

- Intel Export: Export analysis of pre-feasibility, product profile, market profile, business profile, formulation of the exportation plan.
- Info-Comer: This service refers to specific commercial information about access conditions: import laws, market trends, legal aspects, logistics and transport, statistics, export steps and barriers, among others.
- Exporta-business: Provides information about business opportunities and commercial contacts. The information is obtained of sources like specialized databases, International Chambers of Commerce and the network of International Trade Points.

Other services in process of implementation are the following:

- Advising service for the calculation of the export prices chain;
- Virtual system to locate business opportunities;
- Virtual market of business opportunities; and
- Market research during international events.

### **2. Adjustment of Supply to Demand**

Exporta offers an External Network service. This is the “strategic allies” network of Exporta, composed by all those contacts that are placed in the target markets and will support the insertion of El Salvador products.

In this area, Exporta is looking for Embassies, consulates in the exterior, people with specific commercial requirements, chambers of commerce of other countries, chambers of commerce of resident Salvadorians in the exterior, institutions of support to the foreign trade on strategic markets or associations of resident Salvadorians in the exterior.

The Markets of work of the external network are countries with which El Salvador has a Free Trade Agreement, countries with high population of resident Salvadorians, countries with potential demand of Salvadorian products.

Exporta is also focusing efforts in looking for Internalization Strategies. Two clear examples of these activities are the promotion of Export Consortia and Ethnical Products Program. With Export Consortia, Salvadorian companies will have the opportunity to reduce costs and enter new markets, improving flexibility, efficiency, and commercialization knowledge and negotiation capability. With Ethnical Products Program, Exporta takes advance of the 2.8 million Salvadorian market in the world, specifically of the 2.5 million Salvadorian in the United States (88% of this population prefers Salvadorian products).

### **3. Commercial Promotion**

Exporta works in commercial promotion, basically in international events on prioritized markets in coordination with strategic allies (chambers of commerce and government institutions, among others).

Its mission is to facilitate the participation of productive sectors in fairs and commercial missions, in order to promote exports and to open international markets, positioning El Salvador as a competitive country, showing a unified country image and promoting its productive capacity.

**Action lines:**

- International Fairs: organizing and supporting the participation of companies in international fairs.
- Commercial Mission: assembling exporting companies to potential international buyers on the basis of a pre-established agenda.
- Visit guided to Fairs: Assisting in the fairground tour which object is to prepare the companies for their participation in next editions.

**Services offered in fairs and commercial missions:**

- Market Identification and objectives for the events (sectoral or multisectoral);
- Promotion and callings;
- Agenda on chosen markets;
- Organization and event coordination;
- Training to businessmen;
- Support;
- Evaluation and follow-up.

In this area, Exporta is looking to validate our Country Brand Image “El Salvador Works” as an integrated image (investment and exports) and Branding of Sectors. Exporta is also supporting the exporting companies in the expansion of its exports volumes and sales, through activities focused on commercial promotion allowing taking advantage of the Free Trade Agreements.

Exporta gives logistical support in the export process, with previous export documents, INCOTERMS, freight charges, insurances, local and foreign custom documentation and delivery coordination, among others.

**Exporting Services**

**El Salvador: Regional Distribution, Logistics and Value Added Hub**

New investments and development in exports will demand the integration of local products and services into competitive productive chains or clusters. This phenomenon will develop inner demand reinforcing local productive chains which at the same time will demand bigger and better logistics services, feeding this way this “virtuous circle”.

It is important to define three study areas:

- Legal Framework: every instrument or procedure that can be used in El Salvador to develop logistic activities and “in transit” merchandise handling.
- Benchmarking: Regional analysis of all determinant factors for logistic development.
- Chosen Market: profile identification of potential users.

The time to accomplish this must be as short as possible since there are a lot of interested companies in developing and using El Salvador as a LOGISTIC CENTER if all the conditions and legal safeties are provided.

**Legal Framework**

A deficient structure or poor logistic service companies could obstruct and slow the whole procedure if a proper legal environment is not provided. On the other hand, if proper instruments and legal frame are built, this will contribute to the creation or reinforcement of actual and new logistic services companies, which will always look for improvement and, that way, offer improved supply chains.

The main consideration for this phase is to establish a law that covers the following aspects:

- It must be clear and specific, allowing all kind of logistic services.
- It should not propose restrictions or make operative differences, tariff related or forced situations between the activities to be performed towards the region or the rest of the world that have El Salvador as a destination.
- It must offer and guarantee users that it will be maintained.
- It must consider possible restrictions that CAFTA (Free Trade Agreements) could suggest or impose on all countries that use El Salvador as a transit channel.

### **Benchmarking**

This phase must identify development factors of El Salvador's logistic procedures and compare them with the ones from other countries and best practices worldwide. It is necessary to analyze, among others, actual and projected port and airport structure, promotion tools, safety, technology and normalization.

The CEPA (Comisión Ejecutiva Portuaria Autónoma) has the responsibility for handling ports and airports, which are an essential element within transport chain, and play a crucial economic role in developing countries.

The management of ports and airports must concentrate on marketing and electronic data exchange, improving the interaction between those aspects which determine general transport costs: cost, time and risk, offering to merchandise producers/exporters an environment with low cost, a reasonable timeframe and minimal risk.

As to airport-related issues, several experts consulted say that El Salvador counts with one of the best infrastructures in the region. Because of this, recommended action aims to convert that infrastructure into the solid base of an international business community.

There are key points which must complement the strategy of promoting distribution centers, including, for instance, the promotion of competitiveness among local companies, the reinforcement of the national normalization system, and the definition of a strategy to reach academic excellence in the area of logistics.

The main recommendations for this phase are as follows:

- Build an Institutional Development Strategy for CEPA to consider its future role of concessions administrator and infrastructure planner.
- Design a master plan for development of an international business community around Comalapa Airport.
- Reinforce the National System of Normalization with the goal of creating high quality, certified local products and services supply.
- Elaborate a strategy for education, research and development sectors, which is required as part of a long-term strategy for the logistics sector.

### **Choose the market**

This phase must identify logistic platforms users. This helps companies in the search of potential clients. Find below a list of potential investors for the development of distribution centers:

- Real estate developers, which invest in platforms and logistics parks.
- Global cargo operators. This group must be formed by multinational air and sea cargo ship lines, port operators, airport operators, couriers, etc.
- Industrial and commercial companies, which seek to establish their own distribution centers to attend the region.
- Logistic Operators.
- Industrial and services platforms related to distribution centers.

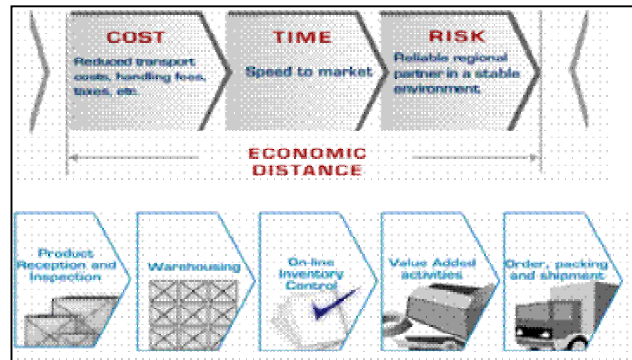
## A World Class Logistic Center

A World Class Logistic Centre is a set of resources and facilities on the basis of which operations and activities related to the competitive flow of goods are developed to optimize the location and opportunities in order to add value to goods before they are being sent to clients.

### **Why El Salvador?**

It has a clear country vision that refers to the importance of logistic platforms development capable to generate added value, as a way to diversify activities. El Salvador also has a strategic geographical location because 70 % of Central American trade is concentrated in the North Triangle and custom unions facilitate the regional flow of goods. Besides that, El Salvador possesses a modern infra and info-structure in telecommunications, port and airport infrastructures and with regard to the road network.

**Graph 2: El Salvador investment advantages**



## SWOT Analysis

### **Strengths**

- El Salvador is the only country of the region that has decided to foment the logistic sector and is developing a strategy in this sense.
- The Plan of Nation is a strategic definition that will guide the decisions of short, medium and long term.
- Suitable Airport Infrastructure.
- The customs of El Salvador are perceived like the best of the region.
- El Salvador is part of the most feasible inter-oceanic connection project of the region.

### **Opportunities**

- Except Panama, a clear modal does not exist in the region for the establishment of distribution centers.
- Panama possesses the infrastructure and the most developed logistic services of the region, but the distribution of products from this country to the north triangle presents operative troubles due to regulations imposed by Costa Rica.
- In the region, effective tools to accede to the Central American market with goods of the rest of the world do not exist
- The corridor The Union – Puerto Cortés places El Salvador in a good negotiate position to be a part of the global port net.
- In short term, El Salvador will possess the most modern port on the Pacific Ocean in Central America.
- There are financing sources to support programs of competitiveness strengthening of the companies.
- The maturity of the managerial sector and the government support can convert El Salvador into the regional modal for the establishment of safety standards applied to the logistic chain.
- The promotion of the logistic sector promotes the efforts of promotion in other sectors and is the base for the establishment of a platform of services.

### **Weaknesses**

- Deficient port Infrastructure.
- The Only country of the region without east coast.

- The highest effective airport Tariff of the region.
- Logistic services supply poorly developed.
- Limited Use of technologies applied to the management of the chain of supply.
- National System of normalization poorly developed.
- Costa Rica, Panama and Mexico possess better telecommunications infrastructure.

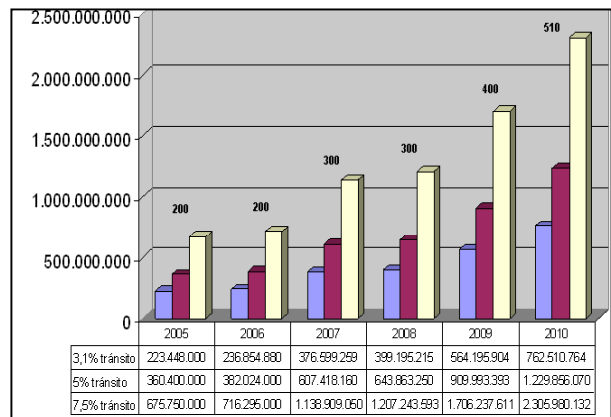
### Threats

- Panama, Mexico and the United States are strong rivals to catch the load coming from the Pacific Ocean.
- Cancellations and recent delays in the processes of Acajutla's grant, La Union, the terminus of charges of the airport and in the energetic sector can affect the interest of potential suppliers of La Union tender process.
- The entry of China to the OMC will provoke the dismantlement of several units of production installed in El Salvador and in the region.
- Costa Rica has positioned the country as the regional leader for the attraction of investments, production and high technology services.
- If the airport Juan Santamaría solves its grant problems, it will turn into the most modern airport of the region. On the other hand, the tourist success of Costa Rica, makes it the most travelled airport of the region.
- If the strategies of infrastructure, education, investigation and commercial managerial development can't be coordinated with the strategy of the logistic sector promotion, efforts could disperse and the objectives would not be fulfilled.

### Expected Results

- For each 9 containers that go in transit through El Salvador, 1 direct job is generated plus 1 or 2 indirect jobs.
- Each container in Regional Distribution Centers will generate 300 working hours in direct jobs.
- If light manufacturing operations were made, this would generate 510 working hours of direct job for each container.
- The average sale price for a Salvadorian logistical working hour would be US\$8.5/direct working hour.
- An average of US\$2,500 to US\$4,400 is added to each container through logistical operations.
- 2,000 containers transit Central America.
- Getting 3.1% of the regional transit would create 20,000 jobs and 5% of the transit would generate 32,000 jobs.

Graphic 4: Logistical Services Export.



## Conclusions

In the last years, efforts in export promotion have been expanded in El Salvador, as a result of the increasing demand for Salvadorian products that comes with commercial agreements. In order to fulfil these expectations, Exporta offers services to help Salvadorian exporters throughout the entire process: from the moment of identifying markets until the final delivery. These efforts can be grouped into three lines of action: identification of business opportunities (providing international market information), adjustment of the supply to demand (working on internalization strategies) and commercial promotion (marketing).

The services for Salvadorian exporters are expanding. As a little example of this, we can mention a few new services the exporters will soon be able to count on: a virtual system of business opportunities identification, a virtual market of business opportunities and an exporter's price chain calculation.

A new door opens for El Salvador's exports in the area of export services. In this area, El Salvador has a big potential to become a regional distribution, logistics and value added hub: because of the relatively advanced infra and info-structure characteristics, geographic location and trade opportunities in the Central American region.

The country still has to face some problems like port infrastructure, tariffs schemes, poorly developed technologies and deficient legal frame s in order to show a better image than other competitive countries like Costa Rica, Mexico, Panama and the United States, which clearly represent a big threat to El Salvador development as a regional distribution center.

To realize its potential in the services area, the country still has to engage in a strategic effort with the following two steps: first, El Salvador has to consolidate its *local* services market as high quality ones and then *export* these services.

Export services, and specifically the aim of becoming a regional logistics centre, are just one of the ways in which investment can support exports and allows the country to enter into a virtuous circle that reinforces El Salvador's economic growth and development.