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EL SALVADOR'S ECONOMIC STABILIZATION AND REFORM PROGRAMMES HELP PAVE THE WAY TOWARDS NEW GROWTH

El Salvador's macro-economic stabilization and structural adjustment programmes, accompanied by trade reforms and privatization of traditional marketing boards for coffee, sugar and cotton, are now resulting in new opportunities for expanded trade and increased investment. According to a WTO Secretariat report on El Salvador's trade policies and practices, this new economic environment has resulted in strong economic growth of 6.5 per cent in 1995, with inflation falling to 11 per cent.

El Salvador has progressively rationalized and reduced its tariffs since 1989, when applied most-favoured-nation rates ranged from 5 to 290 per cent. They now range from 1 to 30 per cent, with an unweighted average of 10.1 per cent in 1995. Few duties are higher than 25 per cent and further reductions are planned to bring the range of applied tariffs to 0 to 15 per cent by 1999. El Salvador bound most of its tariffs on accession to the GATT in 1990 and extended its binding coverage to 100 per cent in the Uruguay Round.

Most non-tariff barriers have been eliminated. According to the report, authorization is required for the importation of sugar, import licences remain only for jute sacks and salt and import controls remain for the duty-free entry of some sensitive products from other members of the Central American Common Market (CACM).¹ The report also notes that licence procedures have yet to be developed for the implementation of tariff quotas under El Salvador's WTO tariffication commitments for agriculture. El Salvador has been approving various laws on rules of origin, anti-dumping, and safeguard procedures to bring its legislation in line with WTO requirements. Work continues on customs valuation.

The agricultural, industrial and services sector have been undergoing a process of adjustment in El Salvador as the past protectionist, state-controlled régime has been dismantled and market forces have become more relevant. The agricultural sector, traditionally important, suffered badly in the 1980s as a result of the armed conflict, an ill-advised land reform and the creation of marketing boards.

¹CACM members include: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

El Salvadorian industry, developed under an import-substitution strategy to serve the Central American market, has faced difficulties in adjusting to the new trading environment, and some sectors continue to receive high effective tariff protection in the home market. Industries utilizing benefits provided by the free-zone and tax-free area régimes have been successful. Exports from the free-zones and tax-free areas rose to some 40 per cent of the total in 1995, and they continue to increase. The United States and the European Union are El Salvador's major markets for agricultural products and clothing. Industrial goods are mainly sold to Central American countries.

Services account for 62.1% of El Salvador's GDP. The Government is presently engaged in a process of reconstructing and renovating infrastructure such as roads, ports and airports, which are essential for trade. The rôle of the State in other services sectors has become secondary because of the privatization programme.

El Salvador has unified its exchange rates and eliminated exchange controls. The Central Reserve Bank's main objective now is to control inflation and the level of the exchange rate, a task which has been complicated by large inflows of remittances from Salvadorians working in the United States. While inflation has been substantially reduced, it still exceeds international levels. Foreign direct investment is allowed in all sectors in El Salvador, with very limited areas reserved for nationals. No trade-related investment measures are applied. At the same time, there is no explicit legislation to regulate competition conditions in the Salvadorian market and there is no competition authority.

The report notes that in 1993 a law concerning intellectual property rights came into force but that enforcement has been difficult because of insufficient resources and a lack of awareness that the law is being infringed. The government is, however, making efforts to enforce the law.

El Salvador has pursued its trade policy objectives through its unilateral reform programme, as well as through regional, bilateral and multilateral trade and investment negotiations. While multilateral activity has been intensified through the WTO, regional trade negotiations at the Central American level and within the framework of the Free Trade Area for the Americas (FTAA) are seen as very important.

Efforts under CACM include a process of convergence towards a common external tariff. Harmonized legislation exists in several areas, including customs valuation, intellectual property, and dumping and countervailing measures. El Salvador, together with Guatemala and Honduras, is negotiating a free trade agreement with Mexico.

El Salvador's trade relationships with developed markets depend to a great extent on its participation in bilateral trade agreements. It benefits from duty-free privileges in the United States under the Caribbean Basin Initiative and with the EU under the Generalized System of Preferences.

Since 1989, the objective of the Salvadorian authorities has been to create an efficient and diversified economy, driven by export-led growth. The solid growth since the reform is testimony to the success of the macroeconomic stabilization, the extensive trade liberalization and the deregulation policies pursued. However, real appreciation of the exchange rate in the face of substantial financial inflows (mainly remittances) may create difficulties for export development and diversification.

El Salvador's stable macroeconomic environment needs to be supported by on-going efforts to further liberalize the economy and update the legal framework, speed up customs operations, facilitate trade and investment and enforce the intellectual property rights law. In its conclusions, the report notes that consideration should also be given to the more active promotion of competition in the domestic

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market. Efforts need to continue to rebuild and develop the country's physical and services infrastructure, as well as to deepen its human capital base.

Notes to Editors:

The WTO Secretariat's report, together with a report prepared by El Salvador will be discussed by the WTO Trade Policy Review Body (TPRB) on 25 and 26 November 1996.

The WTO's TPRB conducts a collective evaluation of the full range of trade policies practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

The two reports, together with a report of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of El Salvador and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover the development of all aspects of El Salvador's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992 & 1996), Cameroon (1995), Canada (1990, 1992, 1994 & 1996), Chile (1991), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), the Czech Republic (1996), the Dominican Republic (1996), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 & 1995), Kenya (1993), Korea, Rep. of (1992 & 1996), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990 & 1996), Nigeria (1991), Norway (1991 & 1996), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992, 1994 & 1996), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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TRADE POLICY REVIEW BODY

El Salvador

Report by the Secretariat - Summary Observations

Introduction

Since 1989, at the end of ten years of internal conflict, El Salvador has been following macro-economic stabilization and structural adjustment programmes, which have seen growth increase to 6.5 per cent and inflation falling to around 11 per cent in 1995. The economy has been liberalized through trade reforms and domestic de-regulation, reducing the anti-export bias of the previous trade and industrial policy régime. The new economic environment, together with the ongoing modernization of trade laws and regulations, have created opportunities for investment which are necessary to pave the way for stable long-term growth.

General Economic Developments

The progress achieved under the reform programme has allowed El Salvador to start rebuilding its economy after the conflict. Increased investment in infrastructure and in human capital has been achieved, inter alia, by the rationalization of expenditures, as part of a wide-ranging fiscal reform aimed at cutting government expenditure and increasing tax collection. These measures have resulted in a reduction of the fiscal deficit from 4.7 per cent in 1989 to less than 1 per cent of GDP in 1995.

Under the fiscal reform, the tax system has been simplified so that only a few taxes of general application remain in place (VAT, income tax and the tariff). The VAT has become the most important tax. Export taxes and sectoral tax incentives have been abolished; the only remaining tax incentives are those provided under the free-trade and tax-free areas régime and drawback system.

Cut-backs in expenditure have been achieved principally by reducing the rôle of the State. Thus, key sectors of the economy have been, or are in the process of being, privatized. The marketing boards in charge of coffee, sugar and cotton, the three traditional agricultural exports, have lost their monopoly power; in the financial sector all but one bank has been privatized; and Antel, the profitable public telecommunications monopoly, is in the process of being privatized, as are some services at the main airport and port.

As part of the wider economic deregulation, the exchange rate has been unified, exchange controls have been eliminated and the capital account has been liberalized. Interest rates are now essentially set by the market and credit rationing has been abolished. The Central Reserve Bank's main objective is to control inflation, a task which is complicated by large inflows of remittances from Salvadorians working in the United States. While inflation has been substantially reduced, it still exceeds international levels so that, taken together with the policy to maintain a stable nominal rate of exchange with the U.S. dollar, there has been a real exchange rate appreciation since the beginning of the 1990s. Persistent trade deficits are more than offset by the remittances and, more recently, by private capital inflows.

The Government has acted to facilitate foreign investment in the economy. FDI is allowed in all sectors in El Salvador, with very limited areas reserved for nationals. A new law is being drafted to simplify and expedite the process of registration and legalization of investment, and the opening up of a one-step window to simplify investment procedures is envisaged in the near future. El Salvador does not apply any trade-related investment measures.

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El Salvador in World Trade

El Salvador's trade is concentrated both in goods and in markets. Its major markets are the United States, mainly for agricultural products and clothing (the latter generally assembled in free zones); the European Union (EU), also for agricultural products; and the Central American countries, for industrial goods.

The concentration in trade can be attributed to three factors. First, El Salvador benefits from duty-free privileges in the United States under the Caribbean Basin Initiative and the EU under the Generalized System of Preferences. Second, the free zones have specialized in the assembly of clothing to be exported to the United States under the off-shore assembly programme, another preferential régime. Third, intra-regional trade is important because of the Central American Common Market (CACM).

There is concern about the lack of export diversification. While the United States preferential sugar quota and off-shore assembly régime provide benefits to El Salvador, they also inhibit diversification in production and trade; resources that might be put to other uses are allocated to the production of sugar and the clothing industries located in the free zones. In addition, the real appreciation of the currency in recent years has also become a constraint on broadening the export base because of the loss in competitiveness for Salvadorian exports.

Trade Policy Objectives

El Salvador's trade policy objectives include moving toward a more outward-oriented trade régime, strengthening and increasing overseas market access for Salvadorian products, and deepening the integration of El Salvador in the world economy. It has pursued these objectives through its unilateral reform programme, as well as through regional, bilateral and multilateral trade and investment negotiations. Regional trade negotiations at the Central American level and within the framework of the Free Trade Area for the Americas (FTAA) are seen as very important, but El Salvador has also intensified its participation at the multilateral level through the WTO.

El Salvador acceded to the GATT in 1991, but did not participate in any of the Tokyo Round Agreements. It became a member of the WTO in May 1995, participating in all Multilateral Trade Agreements but not in the Plurilateral Agreements. The Government intends to implement the WTO Agreements within the time periods available to developing countries.

As an international treaty in El Salvador, the WTO Agreements constitutionally take precedence over any conflicting domestic legislation; however, the authorities are progressively introducing amendments aimed at bringing specific laws into line with the provisions to the WTO. For example, new legislation has been approved since the entry in force of the WTO in the areas of rules of origin, anti-dumping and safeguard procedures, while areas that still require attention include customs valuation.

The Central American Common Market (CACM) is the centrepiece of El Salvador's regional trade relations, and El Salvador has put special emphasis in revitalizing the CACM. In this context, a process of convergence has been engaged towards the CACM common external tariff, negotiated in 1993, and common legislation exists in several areas, including customs valuation, intellectual property, and dumping and countervailing measures.

El Salvador, together with Guatemala and Honduras, is negotiating a free trade agreement with Mexico; it is also participating in the negotiations to establish a Free Trade Area for the Americas, and has also signed bilateral investment agreements with several countries.

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Institutional Framework

Principal responsibility for trade policy lies with the Ministry of Economy, which absorbed the previous Ministry of Trade in 1989. Within the Ministry, the Trade Policy Directorate, created in 1994, has responsibility for formulating, implementing and reviewing trade policy, as well as negotiating trade agreements. Initiatives in specific areas affecting trade may be proposed by any relevant ministry but must be approved by the Economic Committee, formed by the President, Vice-President, various Ministers and the President of the Central Reserve Bank.

There is no independent body to provide the Government with formal advice regarding trade policies. Nevertheless, the private sector, through producer groups and research institutions, provides advice to the Government on an informal basis.

Evolution of Trade Policies and Instruments

Since 1989, El Salvador has progressively rationalized and reduced its tariffs. Whereas, prior to 1989, applied m.f.n. rates ranged from 5 to 290 per cent, they now range from 1 to 30 per cent, with an unweighted average of 10.1 per cent in 1995. Few duties are higher than 25 per cent. It is planned to reduce the range of applied tariffs to 0 to 15 per cent by 1999; this seems feasible since, as noted above, El Salvador does not rely on trade taxes to finance its fiscal deficit. In fact, in spite of the reduction in tariffs, duty collection has increased because of the whole process of liberalization and a decrease in smuggling. Despite the reduction in tariffs, escalation persists, providing certain Salvadorian industries with higher effective protection than is evident from the moderate nominal rates.

El Salvador bound most of its tariffs on accession to the GATT in 1990 and extended its binding coverage to 100 per cent in the Uruguay Round, albeit at "ceiling" rates, generally at 40 per cent, which are substantially higher than those currently being applied.

Most non-tariff barriers have been eliminated. Authorization is required for the importation of sugar, import licences remain only for jute sacks and salt, and import controls remain for the duty-free entry of some sensitive products from other members of the CACM. These procedures have not been notified to the WTO Secretariat and appear to lack transparency. Licence procedures have yet to be developed for the implementation of tariff quotas under El Salvador's WTO tariffication commitments for agriculture.

Anti-dumping, countervailing and safeguard procedures derive from Central American legislation, which the authorities believe to be WTO-consistent. Only one countervailing action has been reported in the last five years.

Customs procedures are at present being modernized, but, while normal processing time seems moderate, delays at customs are reportedly a concern to imports.

El Salvador currently applies international standards, but national standards, based on international standards, are now being developed.

To promote production of non-traditional exports for markets outside Central America, a duty drawback system has been established and the free-zone and tax-free area régimes have been reformed. The duty drawback scheme is based on a fixed re-imbusement equivalent to 6 per cent of the f.o.b. value. There are no explicit export subsidies.

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Export procedures have been substantially streamlined by the opening-up of a one-stop window where all documents are processed. Export taxes have been eliminated. Export controls remain only for subsidized diesel and gas for domestic consumption. A special export document showing a quota entitlement is required for preferential sugar exports to the United States and textiles and clothing exports subject to quotas in importing countries. Export permits are required for certain products, including Portland cement, clinker and sugar cane to ensure domestic availability. Coffee exports are covered by the retention plan of the Association of Coffee Producing Countries.

Most domestic price controls were abolished in 1989, and, in practice, only certain petroleum products are now subject to price controls.

Other than the constitutional prohibition on monopolies and regulatory provisions in certain services areas, there is no explicit legislation to regulate competition conditions in the Salvadorian market and there is no competition authority.

In 1993 a law regarding intellectual property rights came into force. Enforcement of this law has been difficult because of insufficient resources and a lack of awareness that the law is being infringed. However, the Government has been making efforts to enforce the law, and, when cases have been brought to their attention, the authorities have taken action.

Sectoral developments

The agricultural, industrial and services sector have been undergoing a process of adjustment in El Salvador as the past protectionist, state-controlled régime has been dismantled and market forces have become more relevant. The agricultural sector, traditionally important, suffered badly in the 1980s as a result of the armed conflict, an ill-advised land reform and the creation of marketing boards. Certain crops such as cotton, formerly an important export, seems to have totally disappeared. However, agricultural production is now being re-activated as a result of reforms undertaken since 1992, such as the guaranteeing of land property rights, the privatization of marketing boards and the elimination of export taxes. El Salvador has also promoted the production of non-traditional export crops for markets outside Central America.

Salvadorian industry, developed under an import-substitution strategy to serve the Central American market, has faced difficulties in adjusting to the new trading environment. Those industries, including textiles and clothing, that have been able to develop and compete in markets outside the Central American region, continue to receive high effective tariff protection in the home market. Industries that have availed themselves of the benefits provided by the free-zone and tax-free area régimes have been successful, and the number of industries under these two régimes has been increasing. Exports from the free-zones and tax-free areas have risen to some 40 per cent of the total in 1995, and they continue to increase.

The services sector is the largest sector in El Salvador, and its importance has increased since the beginning of the 1990 because of the growth in construction. Today, the Government is engaged in a process of reconstructing and renovating infrastructure such as roads, ports and airports, which are essential for trade. The rôle of the State in other services sectors has become secondary because of the privatization programme.

Conclusion

Since 1989, the objective of the Salvadorian authorities has been to create an efficient and diversified economy, driven by export-led growth. The solid growth since the reform is testimony

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to the success of the macroeconomic stabilization, the extensive trade liberalization and the deregulation policies pursued. However, the real appreciation of the exchange rate in the face of substantial financial inflows (mainly remittances) creates difficulties for export development and diversification.

Providing a stable macroeconomic environment is a sine qua non for sustaining or even accelerating growth and development, as the authorities would wish, but this needs to be supported by continuing the liberalization of the economy. In this regard, efforts are being made to update the legal framework, speed up customs operations, facilitate trade and investment and enforce the intellectual property rights law. Consideration should also be given to the more active promotion of competition in the domestic market. Efforts need to continue in rebuilding and further developing the physical and services infrastructure of the economy, as well as deepening the human capital base, to eliminate the constraints that weaknesses in these areas impose on development efforts.

TRADE POLICY REVIEW BODY

EL SALVADOR

Report By the Government

Executive Summary

El Salvador has progressed dramatically since the end of the 1980s. In 1989, the country was immersed in an armed conflict, per capita income was 15 per cent lower than in 1978, and the economy was depressed, plagued by serious macroeconomic imbalances and distortions.

Thanks to a number of far-reaching economic reforms initiated in June 1989 with a view to liberalizing the economy, and a policy of peace and democratization, the Government put an end to the armed conflict and was able to re-establish economic stability, restore economic growth and launch a systematic offensive against extreme poverty. These efforts permitted El Salvador to emerge from the serious economic crisis of the 1980s and achieve solid economic growth accompanied by macroeconomic stability.

In order to sustain the high economic growth rate, efforts were made to deepen the process of opening up the economy as part of a new development strategy based on productivity and international competitiveness. El Salvador aims as soon as possible to achieve growth rates similar to those of the most dynamic economies of the world, and rapidly to establish a politically, economically and socially stable environment which would permit the country to integrate itself into the global production chain and become an attractive geographical area for investment.

Major Economic and Social Reforms (1989-1994)

The stabilization and structural adjustment programme implemented during the period 1989-1994 provided the impetus for a trade reform involving a reduction of tariffs from a range of 5 to 290 per cent to a range of 5 to 20 per cent, and a reduction in the number of tariff levels from 25 to only 4. The vast majority of tariff exemptions, non-tariff barriers and price controls were eliminated, together with all export taxes, exchange controls and import deposits. State monopolies on foreign trade and State enterprises controlling the marketing of agricultural products were also abolished.

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In the field of taxes, steps were taken to adjust to a tax structure based on few taxes, low rates and a broad tax base. Thus, the stamp tax was replaced by a value-added tax; a number of taxes were eliminated, including the wealth tax and the inheritance tax; the income tax brackets were simplified, the maximum marginal rate reduced to 25 per cent and the exemption floor raised. A register of major taxpayers was created, the Law on Tax Evasion adopted, and other steps were taken to reduce distortions and rationalize tax breaks.

During this period, El Salvador completed its accession to GATT and participated actively in the Uruguay Round, thereby providing its trade regime with greater reliability and transparency, and helping to ensure the irreversibility of its economic reform process.

In the monetary and financial area, the Central Reserve Bank (*Banco Central de Reserva, BCR*) completely liberalized deposit and lending interest rates and eliminated all rediscount windows. The exchange rate was liberalized and unified and the BCR's loan portfolio was transferred to a second-tier bank, the Multisectoral Investment Bank (*Banco Multisectorial de Inversiones, BMI*). The Central Reserve Bank successfully completed the process of restructuring, recapitalizing and privatizing the five trade banks that had been nationalized at the beginning of the 1980s, as well as four savings and loans associations.

The Government carried out an aggressive privatization programme, and succeeded in selling the President Hotel, the assets of the *Instituto Regulador de Abastecimiento* (Supply Regulation Institute) which had been wound up, and more than 70 per cent of the San Bartolo Free Zone, and in selling the previously mentioned banks and financial associations to the private sector.

A number of social welfare programmes, essentially implemented through the Social Investment Fund and other components of the Poverty Relief Action Plan, were introduced with a view to attending to the most vulnerable social sectors and relieving poverty.

After more than a decade of economic disarray, structural adjustment measures have caused the real growth rate of GDP to rise from 1 per cent in 1989 to 3.5 per cent in 1991, and from 5.2 per cent in 1993 to 5.8 per cent in 1994. The per capita GDP growth rate rose from -1 per cent in 1989 to 3.5 per cent in 1994. Inflation fell to 10 per cent in 1994 after having reached 33 per cent in 1986. The current account deficit fell from 7 per cent of GDP in 1990 to 3.5 per cent in 1994.

New Development Strategy and Outlook

Since 1994, the present Government's basic objective has been to deepen the major economic reforms introduced since 1989 while maintaining the conditions necessary to ensure a high growth rate, preserving the macroeconomic balance and transforming the increased pace of economic activity into equitable economic development.

The Government aims to boost economic growth, making it sustainable and equitable, while at the same time raising the economy's overall competitiveness, proceeding from the premise that restored peace and the new international economic reality provide an excellent opportunity for the country's future development.

El Salvador's target is to create the necessary conditions for really consolidating the rule of law, to give priority to investment in human capital and the building of a forward-looking economic and social infrastructure, to ensure complete openness to foreign investment and technology and to carry out a thorough modernization of the public sector strictly based on a market economy model. These measures will be carried out in full respect for environmental conservation, which will as far

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as possible be transformed into a profitable economic activity, in order to ensure that a permanent balance is struck between the satisfaction of current material needs and a better standard of living for future generations.

El Salvador is currently working to build an economy equipped with a diversified, efficient and flexible production capacity capable of adapting to changing domestic and international market situations. In order to be able to compete properly in a more dynamic and interdependent world economy, efforts are being made to build an economy specializing in production processes and trade in high value-added services which, with the incorporation of advanced technology and backed by a steady increase in productivity, will underpin economic activities capable of generating robust, dynamic and sustainable long-term economic growth.

The objectives of the Social Development Plan are based on the fundamental premise that the transformation of economic growth into increased opportunities for all in a context of equity, social mobility and freedom to move ahead is a prerequisite to the achievement of social well-being and building of a permanent peace.

Within this conceptual framework, social policies are reflected in two types of programmes: immediate impact programmes which contribute directly to social welfare and support human achievement; and human resources investment programmes aimed at achieving full development of individuals and enhancing their productivity, and designed to bear fruit in the medium and long-term. The first type of programme is conducted by the Local Development Corporation, whose objective is to address the challenge of local development with the added innovative concept of productive development. Resources are being channelled through the Corporation in order to create conditions favourable to productive investment in the communities, generating employment and income and improving the standard of living of the population. The second type of programme is essentially being implemented via the decentralization of the administration of services by creating projects in which private citizens or foundations are responsible for implementation and budget management.

The economic programme comprises policies aimed at a steady increase in productivity leading to enhanced competitiveness, thereby helping to create a "virtuous circle" resulting in high, distortion-free economic growth with low inflation and steadily rising remuneration of the productive factors. This, in its turn, will lead to greater social justice and a higher standard of living for all Salvadorians.

In order to attain this goal, El Salvador has designed a development strategy based on productivity, and is implementing an economic policy directed towards the achievement of sustained growth, with rates exceeding 6 per cent in real terms, while maintaining a stable macroeconomic environment and making the country attractive for domestic and foreign investment by deepening the structural reforms and lowering the costs of operating in the country.

The attraction of investment and the efforts to integrate the country into the global production chain reflect policies aimed at making the country more competitive, but without basing its competitiveness on low wages, which would be inconsistent with its social development objectives.

Productivity is being stimulated through promotion of investments in human resources; increased investments in physical infrastructure; promotion of free and healthy competition; reduction of all production costs that do not represent added value in terms of international prices; and development of the physical and institutional infrastructure for science and technology.

A vigorous programme of investment in human resources is currently being implemented. The current Government's target is to increase expenditure on human resources development from

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approximately 31 per cent of the country's master budget in 1996 to 50 per cent in 1999. There is a keen awareness that the educational system will have to play a leading role in improving the distribution of income and social justice and in generating economic growth, especially now that economic globalization has made a country's worldwide competitiveness contingent on a better educated labour force with far more in the way of skills and abilities.

El Salvador's educational system is being thoroughly reformed with a view to improving the quality of education, increasing coverage and modernizing the entity responsible for its administration. This reform includes a programme of modernization of basic education financed by loans from the World Bank and the InterAmerican Development Bank totalling more than US\$75 million and aimed primarily at increasing enrolment in preschool and primary education and decreasing the repetition and drop-out rates. The programme also involves a reform of the curriculum aimed at raising the quality of secondary education, and provides for teacher training courses.

Worker education and training (non-formal education) together with the improvement of the country's scientific and technological capacity are being dealt with through the National Competitiveness Programme. Financed by a loan from the World Bank exceeding US\$16 million, this Programme's objective is to support the Government's economic programme aimed at accelerating the development process that is being driven by the private sector, and at increasing productivity.

Another programme currently being implemented is the State Modernization Programme aimed at creating a competitive market in the country, guaranteeing an efficient supply of essential public goods and services, redirecting public resources towards supporting economic growth, and addressing the most pressing needs of the poor.

The key elements of the Programme are the privatization of public services, the granting of concessions and decentralization. Privatization of the National Telecommunications Administration (ANTEL) and four electricity distribution companies should be completed within the next six months at the latest. Moreover, in connection with a comprehensive reform of the pensions system currently under way, the administration of pension funds will be handed over to private management companies. Private companies will also be granted licences for the administration of the ports, airports and certain highways. The supply of water, health and educational services, currently under State control, will be opened up to private participation.

Efforts to reduce bureaucratic procedures in connection with the reform of the State currently under way involve the modernization and streamlining of the public sector in order to increase its capacity and efficiency.

The State Reform and the National Competitiveness Programmes embody a new vision of development, "El Salvador 2021", which is destined to turn into a National Programme, supported by all sectors, to help El Salvador attain levels of economic, social, political, technological and cultural development as close as possible to those of the developed countries by the year 2021, 300 years after achieving independence.

In addition to these reforms, which could be described as "second generation" reforms, a number of other measures have been taken to improve the business climate and reduce the costs of doing business in the country; to increase the technological capacity of private sector companies and of the labour force in order to boost productivity and international competitiveness; and to build a consensus on the implementation of the new development strategy by facilitating the flow of public information and fostering dialogue between private sector, public sector and labour.

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Aware of the need to enhance macroeconomic stability, the country is continuing to develop an economic policy agenda aimed at improving budget performance, internationalizing the financial sector, enhancing the macroeconomic management capacity to deal with the problems arising from the steady and increasing inflow of family remittances, and relieving the pressure on the interest rate and prices.

In this respect, El Salvador has made considerable progress. Last August, the risk rating company, Standard and Poors included El Salvador among the world economies with good prospects for maintaining long-term economic stability and offering a good investment climate. The country's foreign currency debts were rated BB, and its national currency debts BBB. The debt burden is now modest, and well below the average similarly-rated sovereign debt. Traditionally, El Salvador has always been scrupulous and punctual in fulfilling its international financial obligations.

Trade policy under this new strategy is based on a tariff-cutting programme aimed at reducing domestic production costs, contributing to the modernization of industry and turning the country into a competitive production area. The tariffs applied to capital goods and raw materials were reduced from 5 per cent to 1 per cent and from 5 per cent to 3 per cent respectively, and will reach zero per cent in December of this year. In other words, more than 55 per cent of the tariff universe will be unilaterally reduced to zero per cent. The tariff-cutting programme that has been introduced provides for a unilateral reduction of the ceiling by 1 per cent every six months starting in June 1997, so that by June 1999, the tariff structure will have a floor of zero per cent and a ceiling of 15 per cent, reflecting a reduction in the dispersion and average levels.

A comprehensive review of the administrative procedures and formalities affecting exports and imports is also being conducted with a view to introducing greater transparency and flexibility and reducing red tape. Plans are under way for the creation of a "Trade Point" to be administered by the private sector, by the end of 1997, by which time the Customs Modernization Programme, calling for the privatization of certain services, should have been completed as well.

Other steps worth mentioning in connection with trade policy are the planned submission to the Legislative Assembly next October of a Draft Law on Free Competition and the preparation of a new Law on Investments, designed to bring the legal benefits and guarantees offered to investors into line with the new economic reality in the country.

In 1996, the Heritage Foundation rated El Salvador, together with Chile, as the country with the second freest economy in Latin America thanks to its perseverance in deepening the process of liberalization of the Salvadorian economy.

Multilateral, Regional, Subregional and Bilateral Trade Links

In response to the challenges of globalization, considerable efforts and resources are being directed towards the improvement and expansion of the Central American economic integration process. The region is more than simply a natural market for non-traditional exports from El Salvador: it is the most important market (excluding the *maquila* (in-bond processing) sector). Total exports from El Salvador to the Central American region increased from \$257 million in 1990 to more than \$430 million in 1995.

Central American integration is viewed as a prerequisite to the full integration of the country into the international economy, as a contribution to the effort to establish balanced economic relations with other regions of the world, and as a boost to the economic and social reforms currently under way. El Salvador has therefore actively backed and participated in efforts to modernize the institutional

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framework of Central American integration together with the substantive legal arrangements by which it is governed, and to adopt trade regulations fully consistent with the provisions, rules and disciplines of the WTO.

El Salvador also participates in other regional integration schemes such as the Free Trade Area of the Americas (FTAA). The FTAA will transform the western hemisphere into the largest and most powerful integrated economic area in the world, with a combined GDP of over \$7.7 trillion and a market of more than 745 million consumers. The fact that three important working groups - investments, intellectual property and market access - are chaired by Costa Rica, Honduras and El Salvador respectively is an indication of the commitment of El Salvador and the Central American countries to achieving free trade in the western hemisphere by the year 2005.

At the subregional level, El Salvador, Guatemala and Honduras have resumed the negotiation of a free-trade agreement with Mexico covering trade in goods and services, and are also negotiating in new areas (intellectual property, government procurement and investment).

El Salvador recently concluded bilateral agreements for the promotion and reciprocal protection of investments with Argentina, Ecuador, Spain, Peru, the Republic of China and Switzerland. Similar agreements are currently being negotiated with Germany, Brazil, Canada, Chile, Colombia, Korea and the United States.

El Salvador's policy with respect to trade negotiations focuses on the strengthening and diversification of economic relations with trade partners and economic groupings throughout the world, in the belief that integration processes no longer form part of a strategy of inward-looking development, but constitute, rather, a means of achieving more effective integration into the globalization process by revitalizing trade and investment flows by means of outward-looking development.

At the multilateral level, the Legislative Assembly of El Salvador approved, on 9 March 1995, the Final Act of the Uruguay Round and the Marrakesh Agreement Establishing the World Trade Organization (WTO) with its Annexes. After completing the necessary formalities, El Salvador acceded to the WTO as a full Member on 7 May 1995. This important step, like its accession to GATT in 1991, has played an important role in the development of El Salvador's trade regime by making it possible for the country to adopt a policy of promoting greater openness and ensuring the continuity of that process, using multilateral principles as one of its primary legal foundations.

The WTO Agreements are considered critical to ensuring proper access to the markets of our trading partners, to obtaining reciprocity in connection with the unilateral trade liberalization process and, in general, to safeguarding the country's trade interests against any restrictive measures which undermine its rights as a Member of the WTO.

El Salvador is particularly concerned that all of the Members of the WTO should strictly apply all of the Uruguay Round Agreements, in particular the Agreement on Textiles and Clothing. Compliance with the Agreements is essential to the Organization's credibility and to obtaining the confidence of the private sector in the WTO as a forum for discussion, negotiation and dispute settlement.

In spite of the obvious budgetary restrictions due to the relatively small size of our economy and to the financing of the Peace Agreements, which have cost the Government more than US\$2 billion over the past three years, El Salvador is trying to direct resources towards building and improving the entire institutional infrastructure and legal framework needed to administer and fully respect all of the WTO Agreements. On the domestic front, considerable progress has been made in adopting laws and revising provisions relating in particular to the protection and promotion of intellectual property;

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sanitary and phytosanitary regulations; regional arrangements governing rules of origin, unfair trading practices and safeguard clauses; customs procedures; and agricultural policy.

Given the critical importance, as mentioned above, of the WTO Agreements, the increasingly frequent application of unilateral and extraterritorial trade restrictions are a source of deep concern. Such measures hinder and often block access of our principal exports to the markets of the countries that impose them.

Another source of concern is the exaggerated use of the safeguard mechanisms provided for in the Uruguay Round multilateral agreements on trade in goods, in particular the continuous calls for consultations to limit exports of textiles and clothing since the entry into force of the Agreement on Textiles and Clothing. Quantitative export restrictions are causing enormous damage to the potential development to one of the branches of industry in which the country is competitive at the international level and which offers the best prospects for the generation of employment and economic growth, economies of scale, vertical integration and high-value-added production.

Nevertheless, an initial overall assessment of the first two years following the entry into force of the WTO leads to the conclusion that on balance, the revitalized world trade system has had a positive effect. Today, the rules are clearer and more transparent and the dispute settlement mechanism reinforced, two essential elements in the opening up of markets, and even more important, an organization has been created which has a greater capacity to ensure compliance with the Agreements. In the final analysis, all of this has led to greater reliability and predictability of trade.

There can be no doubt that the creation of the WTO has contributed greatly in helping the Member countries to deal more effectively with the opportunities and challenges of economic globalization and in placing them in a better position to pursue their economic and social aims. However, much still remains to be accomplished if the Marrakesh Agreements are to be implemented in full and on time, at the pace which has been set by the WTO's work programme for dealing with the tasks deriving from the Uruguay Round, including the negotiations that have not yet been completed.

El Salvador takes the view that the Singapore Ministerial Meeting to be held next December should concentrate above all on the comprehensive review of the reports presented by the different councils, committees and working groups, on the progress made in implementing the Agreements, and on deciding on how to support the countries that are having difficulty fulfilling them. It should also consider ways of finding better trade opportunities for the developing countries.

El Salvador is particularly worried that new issues will be included in the Singapore Agenda before sufficient information has been gathered on the benefits of the system and before any analytical studies have been carried out to provide a broader and clearer view of the problems and limitations faced by the Member countries in fulfilling the concessions granted and the commitments assumed. We think it would be wrong to extend the scope of the WTO to cover subjects such as labour rights, which should be dealt with in other multilateral forums specialized in labour issues, such as the International Labour Office. We have observed with deep concern that in many cases, the perfectly legitimate concern for the promotion of labour rights is being exploited for other purposes. Indeed, we have noticed that in practice, the assertion of the genuine rights of workers - which the Government of El Salvador protects, respects and promotes - is used as a cover for protectionist aims, impeding market access.

El Salvador will certainly come to the Singapore Ministerial Meeting in a positive and contributive frame of mind, thoroughly committed to fulfilling the WTO's work programme and cooperating towards enhancing the Organization's strength and credibility. The WTO is crucial to

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the completion of the deep-seated economic and social reforms introduced by El Salvador with a view to improving its capacity to take advantage of the new opportunities offered by economic globalization and liberalization.

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