El Salvador and SSC Initiatives

*Franccesca Celine Caceres Escolan**

Within the framework of cooperation, and in tune with the spirit of development compact, El Salvador is promoter for generation of local and institutional capacities within social and productive realities of the development partners.

El Salvador is the smallest and most densely populated country in Central America. As of 2015, the country had a population of approximately 6.38 million, consisting largely of Mestizos of European and Indigenous American descent. Its capital and largest city is San Salvador. As a lower middle income country, its GDP is $24 million USD and the income per capita is $3,800 a year.

As of 2010, El Salvador ranks 12th among Latin American countries in Human Development Index and fourth in Central America (after Panama, Costa Rica, and Belize) due to rapid industrialization. The country, however, continues to face high poverty, inequality and crime rate.

Its political framework is presidential representative democratic republic with a multiform, multi-party system. The President (at present Salvador Sánchez Cerén), is both the head of the state and the head of the government. Executive poweris exercised by the government. Legislative poweris vested with both the government and the legislative assembly. The country has also an independent judiciary and Supreme Court.

After the Civil War and the Chapultepec Peace Accords (1992), El Salvador began a new era of economic transition, based on stabilization and macroeconomic programme. This programme was considered an economic and social development plan, centred around the global goals to achieve sustainable economic growth.

In 1989, El Salvador adopted an economic model based on the following five pillars:

- Comparative advantage, based on the workforce
- Free Trade: to raise efficiency levels related to national production
- Salary adjustments according to the workforce productivity, instead of the cost of life or inflation
- Positive real interest rate, to escalate investments and savings
- Real exchange rate and increment competitiveness of national products to reduce or eliminate export and import distortions.

* Author is affiliated to Centro Nacional de Registros, El Salvador. The views are personal.

This model has had its support on two pillars: the stabilization and the macro-economic reorientation. The former grouped five policies to be implemented. They were regarding prices, fiscal, monetary and credit, and financial and commercial system. The pricing policy aimed at readjusting prices of water, electricity and sewerage. The fiscal pillar involved efforts to reduce fiscal deficit; the value-added tax (IVA) was the most important one, which led to stronger tax administration. The thrust of monetary and credit policies, was to allocate resources for productive activities, limiting financing of the public sector. The policies of the financial system were created for state deregulation and subsequent privatization. Finally, the trade policies were to reduce trade imbalance through elimination and reduction of taxes on exports, simplification in procedures and gradual reduction mainly of import tariffs.

With regard to inflation and GDP, since the end of the eighties, the country showed lower inflation rate, which allowed real GDP growth; which increased by 5.2 percentage points, but since the 1990s it has been fluctuating (Figures 1 and 2).

During 1990s, the economy grew at 4.5 per cent; and inflation reduced instead from 24.7 per cent to 3.00 per cent.

In 2009, GDP declined by 3.3 per cent, and exports and remittances by 17 per cent and 9 per cent, respectively; more than 30,000 jobs were lost in the formal, and there was fiscal deficit and public debt.

During 1999-2003, GDP growth was weak, but then accelerated in response to strengthening of external and domestic demands; mainly due to private consumption. El Salvador is among the ten countries with the highest rate of private consumption in relation to the GDP of the world (World Bank), and is one of the few countries where consumption exceeds production.

The economy of El Salvador has undergone developmental changes through the implementation of three economic models - one of them is the primary agro-export model (from late nineteenth century to early twentieth century; and was in force until before World War I). This model was characterized as it revolved around the coffee production. After the World War II, the Industrialization for Importation Substitution (ISI) model was introduced, which lasted around three decades (1950-1979).

Then there was a breach, the so-called lost decade, its name was attributed to the Armed Conflict; it was till early 1990s, when the country adopted a new economic model, which as William Pleitez stated in his report, "this model since it implementation has not been able to get the country out of underdevelopment". Between 1999 and 2007, the country showed signs of strengthening its macroeconomic stability low level of inflation, absence of financial and exchange rate crises and manageable level of public debt. Other macroeconomic variables, such as savings and investments, however, presented low rates, which were a constant challenge for consolidating and guiding long term gains generated to boost investments and to encourage savings.

Since macroeconomic reforms encompassed both fiscal and monetary and exchange rate policies, tax reforms simplified the tax system to reduce and reorient expenditure and modernize the state; mainly focusing on education, housing and basic services (World Trade Organization, 1996).

With regard to monetary and exchange rates, the Central Reserve Bank (BCR) transferred medium and long-term loans to financial institutions rather than to economic activities. And in 2001, the Law of Monetary Integration came into force, bringing with it the introduction and circulation of the United States dollars as the official currency as the part of the monetary reforms, which were envisaged in early 1990s to reactivate economy and for contributing to a healthier financial system with lowering interest rates and reducing risks.

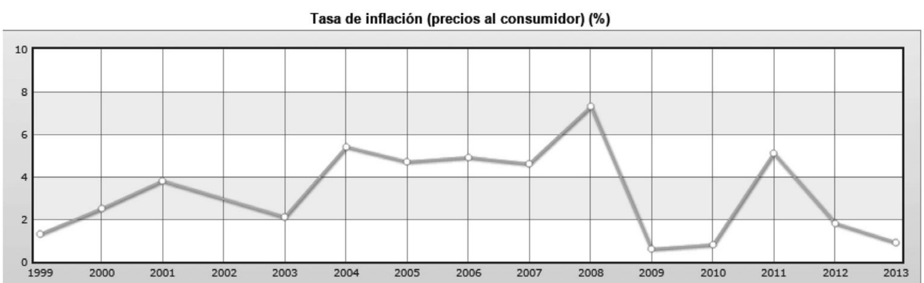
Commercial policy

As discussed earlier, macroeconomic reforms have led to changes in legal regime, which impacted trade and investment. The positive and negative changes have helped solidify foreign trade policy, advanced integration process and strengthened trade and investment flow between El Salvador and the world. El Salvador has been actively involved in bilateral, regional and multilateral trade.

Instead of a productive economy, there is a strong consolidation of a service and consumption economy due to excessive imports and family remittances. In Five-Year Development Plans, formulation of an integral policy to promote export sector was through Free Trade Agreements (FTAs) (Figure 3), expansion of trade relations and strengthening of Central America Common Market.

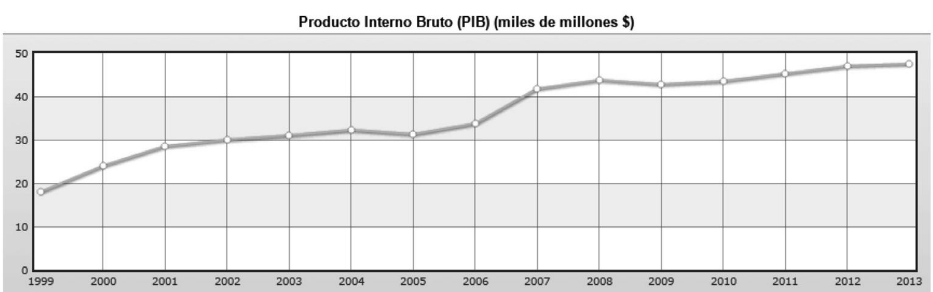
In terms of trade policy, El Salvador, within the objective set- out in the FiveYear Development Plan 2009-2013, aimed at strengthening the spirit of integration with a broader vision not limited to the Central American region but projected into the Caribbean, largely by establishing new trade relations with the emerging economies.

Figure 1: Inflation between 1999 and 2013



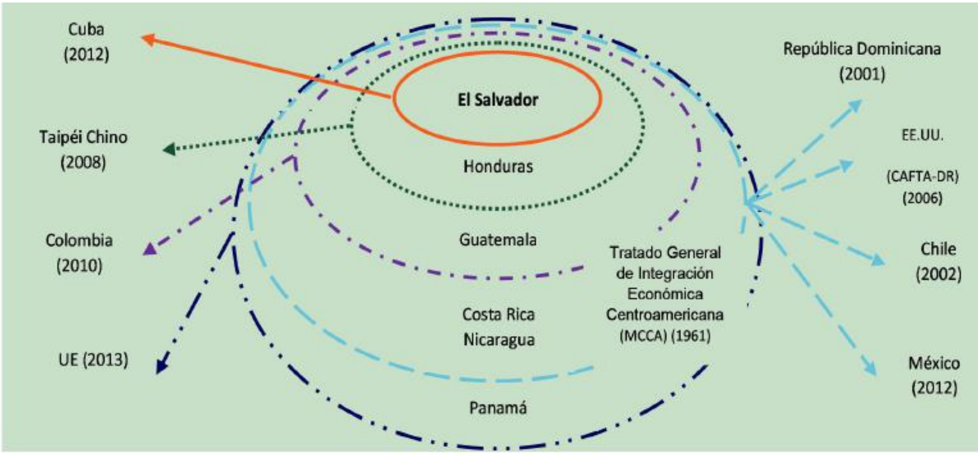
Source: www.indexmundi.com

Figure 2: Gross Domestic Product (GDP) between 1999 and 2013



Source: www.indexmundi.com

Figure 3: Trade Agreements (1961 – 2013)



Source: WTO.

Within the strategies envisaged to achieve the objective in the commercial matters, they are as follows:

- National development and solidarity contribution to the world through strengthening of international relations of El Salvador projected to the Caribbean, Asia and the United States.
- Economic and social integration of the Central American region: Promoting a Central American strategy for mobility, logistics, transport and ports, which may later translate into facilitation of trade in the Central American region.
- Strengthening of the national defense system.

South-South and triangular cooperation

Within the framework of the above cooperation, and in tune with the spirit of development compact, El Salvador is promoter for generation of local and institutional capacities within social and productive realities of the development partners. In this, the search for structural changes in the development process of the peers has a great relevance.

In the framework of South-South and Triangular Cooperation the country seeks to identify, design, implement, monitor and evaluate integrated and integrated development initiatives, which would promote substantive changes and would impact transformation into specific products or public policies for development.

For this reason, the new tools prioritise transfer of capacities and strengths that accompany establishment of development processes from execution of projects of integrated nature and valuing an accompaniment of greater scope through consistent and continuous exchange, leaving aside specific actions.

The main objective of the trade policies centres around Central American integration, which is why the strategies for negotiating regional, multilateral and bilateral treaties are aimed at achieving a concordance between goals adopted at the Central American level which reflect in the coordination of government institutions with commercial areas and the private sector for formulation of the policies mentioned (World Trade Organization, 2003).

This coordination resulted in the introduction of new regulations on customs procedures, intellectual property and investment. Mainly creation of the National Investment Office (ONI), (Investment Law, 2001), seeks to guarantee freedom of investment and national treatment, streamline procedures and reduce transaction costs for the investor, through the ONI, which functions as a one-stop shop, where the investor performs all paperwork.

Conclusion

India's mission approach aims to identify growth drivers, which support partner development efforts. The first step is to identify partner countries based on the macroeconomics paradigms, the key of growth. It was interesting how they put in perspective two philosophies, the OECD based on economic cooperation with the new wave called South-South cooperation (SSC), based on the partnership, more than donor-recipient (the North-South way).

The SSC has emerged as an important mechanism for collective advancement of developing countries to help them to become the new growth poles of global economy referring to three-quarters of the world. What makes unique this type of cooperation is that it brings to the table a fresh perspective of development based on a spirit of solidarity, transparency and self- reliance.

As India has been contributing annually with almost a 1 billion USD supporting SSC, El Salvador started this year a new catalogue where 20 public institutions participate to enable services for Latin America and the Caribbean countries among other regions of the South. The supply built is compounded by 43 diversified capacities based on the issues of SSC. El Salvador is making a collective effort.