

Relations between El Salvador and European Union

**Identification of TOP 10 imported/exported products.
The analysis of a possible market extension.**

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Introduction

Economical cooperation is a complex form of collaboration between states, a intergovernmental grouping that operates on the basis of non-binding commitments, open dialogue and equal respect for the views of all entities. It includes measures to eliminate discrepancies between different national economies of countries.

The relations between European Union and Central America are getting more strength since 1980's EU's support for Central America regions. European Union has supported its policy objectives for Central American countries in order to facilitate bilateral commerce and intensify the process of regional integration within the regions.

Taking into the consideration the topic of this term paper, I have tried to relate about commerce activity and relations of El Salvador with European Union, which were concluded on the basis of the EU-Central America Association Agreement, signed on 29th June 2012. The Agreement has three basic aims called "pillars". These pillars are: political dialogue, cooperation and trade. In the European Commission's vision, these tools are vital to support economic growth, democracy and political stability in Central America (European Commission, 2014). The Association Agreement has been applied conditionally since 1st August 2013 with Honduras, Nicaragua and Panama, since 1st October 2013 with Costa Rica and El Salvador and since 1st December with Guatemala.

El Salvador overview

The official name of the country is Republic of El Salvador and it is the smallest and the most populated country in the Central America. According to ECLAC El Salvador has 6.3 million inhabitants with a constant tendency of increase,

(ECLAC, 2013). El Salvador is the 153rd country¹ in the world taking in consideration its area of 21 040 km². The most predominant ethnical group is Mestizo that consists of approximately 86% of population, 12% of whites, 1% of indigenous and other ethnical groups.

El Salvador is a Unitary Presidential Constitutional Republic². El Salvador has a democratic and representative government, whose three bodies are:

- The Executive Branch, headed by the President of the Republic. The President is elected by direct vote and has a mandate for five years. He can be elected to only one term. The president has a Cabinet of Ministers whom he appoints, and is also the Commander-in-Chief of the Armed Forces.
- The Legislative Branch, called El Salvador's Legislative Assembly (unicameral), consisting of 84 deputies.
- The Judiciary, headed by the Supreme Court, which is composed of 15 judges, one of them being elected as President of the Judiciary.

Agreements between El Salvador and European Union

In 1986 the European Community negotiated an agreement for commercial and economic cooperation and development with the countries of the Central American Economic Integration or so called San José Group (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). On 29 June 2012, an Agreement was signed denoting an Association between the European Union and its Member States, on the one hand, and Central American countries on the other hand (Decision 2012/734 and Agreement). The objectives of the Agreement are to:

- Strengthening and consolidating the relations between the Parties through an association based on three interdependent and fundamental parts: political dialogue, cooperation and trade, based on mutual respect, reciprocity and common interest

¹ NATIONS ONLINE. *Countries of the World by Area*. [online]. [cit. 2014-05-26]. Retrieved from: http://www.nationsonline.org/oneworld/countries_by_area.htm

² SPILLAN, John E. *Doing business in Latin America: challenges and opportunities*. 1 Edition. pages cm. ISBN 978-0-415-89598-9.

- Developing an advanced political partnership based on values, principles and common objectives, in particular respect and promotion of democracy and human rights, sustainable development, good governance and the law respect.

After the successful Association Agreement which has been applied since 1st October 2013 with El Salvador, a new negotiation and cooperation era came for El Salvador and European Union According to the official press releases of European External Action Service, *“The EU-Central America Political Dialogue and Cooperation Agreement (PDCA) entered into force on the 1st of May 2014. The EU and Central America have maintained close and comprehensive relations for decades, reaching back to the EU’s support to the regions successful peace process in the 1980’s. The entry into the force of the PDCA represents a further step in the process of strengthening relations between the EU and Central America and will allow both sides to conduct political dialogue and pursue comprehensive cooperation at bi-regional level.”* (EEAS, 2014)

As the international trade is a framework of wealth, free trade policies open up new areas to competition, innovation and market development. The free trade influence to better jobs, to new markets and to increased investment. Free trade spreads values and beliefs as well as goods and services. Since international trade is based on traders keeping their agreements, countries and companies are more accountable to each other and therefore more stable.

Trade between European Union and El Salvador

The EU trade with Central American countries has increased in the last years because of a high potential in commerce and European Unions support within the Central American countries. The trade of goods between the EU and Central America has increased significantly, by 15% in average between 2008 and 2012, up to EUR 14,9 billion. The EU's share in Central American trade has been kept stable at 11.3% in 2012.

The most important products exported from European Union to El Salvador are machinery and transport equipment having the highest rate of export share to El Salvador - 49.1%, manufactured goods classified chiefly by material – 18.4%, chemicals and related products 13.3%, food and live animals - 8.7% and other miscellaneous manufactured goods – 7.6% (European Commission, 2014).

The most important products imported from El Salvador to European union are: food and live animals – 66.5%, machinery and transport equipment – 14.2%, manufactured goods classified chiefly by material – 8.1%, crude materials, inedible, except fuels – 5.5%, miscellaneous manufactured articles – 5.2%. (European Commission, 2013) A more detailed analysis and identification of product exports and imports between El Salvador and European Union was made on the basis of data provided by Trade Statistics for International Business development available on <http://trademap.org> as fellows bellow. The analysis is made on the basis of last tree years imports and exports data.

Imports

On the basis of provided data by trade map I have identified the TOP 10 imported products by El Salvador from European Union in 2013. The TOP 10 imported products by El Salvador from EU in 2013 are mentioned in the table below:

Table 1 TOP 10 imported products by El Salvador from EU, unit: US dollar thousand

Imported products by El Salvador from European Union (EU28)	Period		
	2011	2012	2013
1. Medicaments nes, in dosage	44671	39558	38779
2. Unwrought tantalium, incl. bars and rods of tantalium obtained simply	33843	32078	25745
3. Apparatus based on the use of X-rays for other uses	0	19	16557
4. Ammonium sulphate, in packages weighing more than 10 kg	33843	32078	15791
5. Optical media for the recording of sound or of other phenomena (excl. unrecorded and goods	0	11820	13558
6. Food preparations nes	11668	16488	13210

7. Tea or mate extracts, essences & concentrates & preparations thereof	6904	6568	9575
8. Malt extract & food prep of Ch 19 <50% cocoa & hd 0401 to 0404 < 10% cocoa	5805	7345	8991
9. Automobiles w reciprocated piston engine displacing > 1500 cc to 3000 cc	4954	7160	7527
10. Articles of iron or steel, forged or stamped, but not further worked	1926	6568	7277

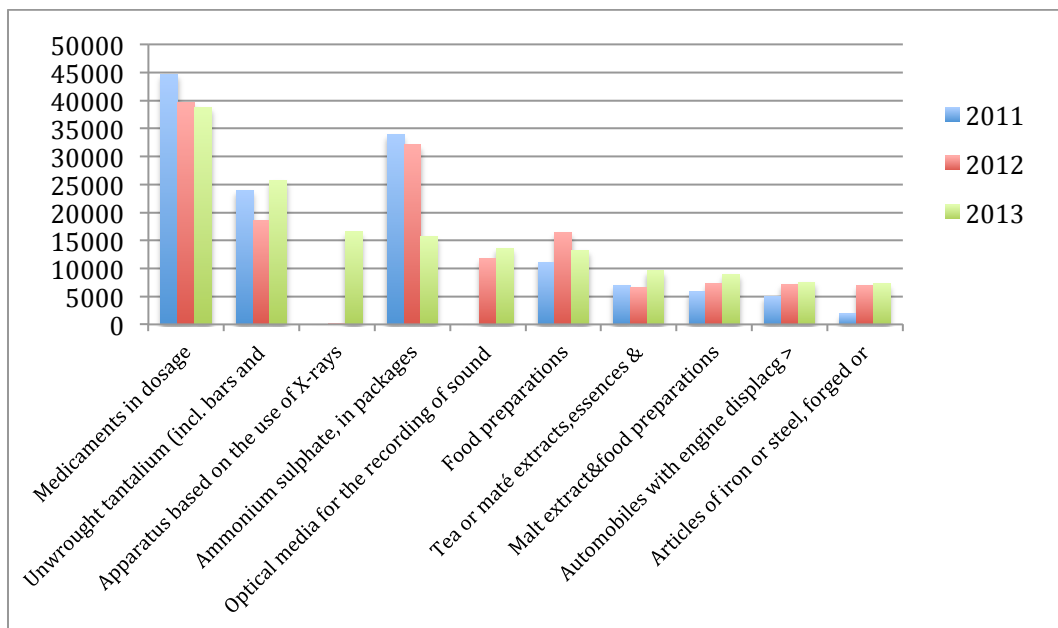
Source: Own table created on the base of data retrieved from www.trademaps.org

In the table above was introduced import data since 2011 to be made a comparison and to understand how the import levels increased or decreased. The demand for medicaments in dosage decreased since 2011 to 2013 by 14%. The leading exporting country is Germany followed by Spain, France, United Kingdom and Italy. In comparison to 2011, new exporters appeared on the market (Cyprus and Greece) while the others lost an exporting quota. The level of imported unwrought tantalum, including bars and rods of tantalum obtained simply decreased by 24% since 2011. The only country from European Union exporting unwrought tantalum is Czech Republic. Apparatus based on the use of X-ray are exported from France and Germany since 2012 and the level of imports increased by 14%, in 2011 there was no interest in importing this product from European Union. Ammonium sulphate was mostly exported from Belgium, the total amount of exports from EU decreased since 2011 to 2013 by approximately 50% from \$33,843,000 to \$5,791,000. The import of optical media for recording of sound and other phenomena (excluding unrecorded and goods) started in 2012 and increased by 14% in 2013. They are the most imported from Germany United Kingdom and France. Food preparations hit the top in 2012 and decreased from \$16,488,000 to \$13,210,000 in 2013. The most imported food preparations come from Netherlands, Germany, Belgium, Spain, France and United Kingdom. Tea, maté extracts, essences, concentrates and preparations import levels increased in 2013 in comparison with 2011 after a small decrease in 2012. These products are imported mainly from Netherlands, Irelands and Germany. There is a constant increase demand on automobiles with reciprocate piston engine displace from 1500 cc to 3000 cc. It is likely El Salvadorans like more German cars because Germany is leading on car exports to El Salvador, followed by UK. The last

product imports “Articles of iron or steel, forged or stamped, but not further worked” increased by more than 340% since 2011 to 2012 and went up in 2013.

The table above and the chart below give a graphic interpretation of data regarding the imports from EU between 2011 and 2013 to understand the reporting process much easier and meaningful.

Graph 1 TOP 10 imported products by El Salvador from European Union, unit: US dollar thousand



Source: Own graph, created on the base of data retrieved from www.trademaps.org

To conclude, by analyzing the data extracted from Trade Map Org. I found out that on the one hand that the demand for some products increased at a relatively high level while other decreased considerable affecting the economical challenges.

Exports

The TOP 10 most exported products in 2013 from El Salvador to European Union are:

Table 2 TOP 10 exported products by El Salvador to EU, unit: US dollar thousand

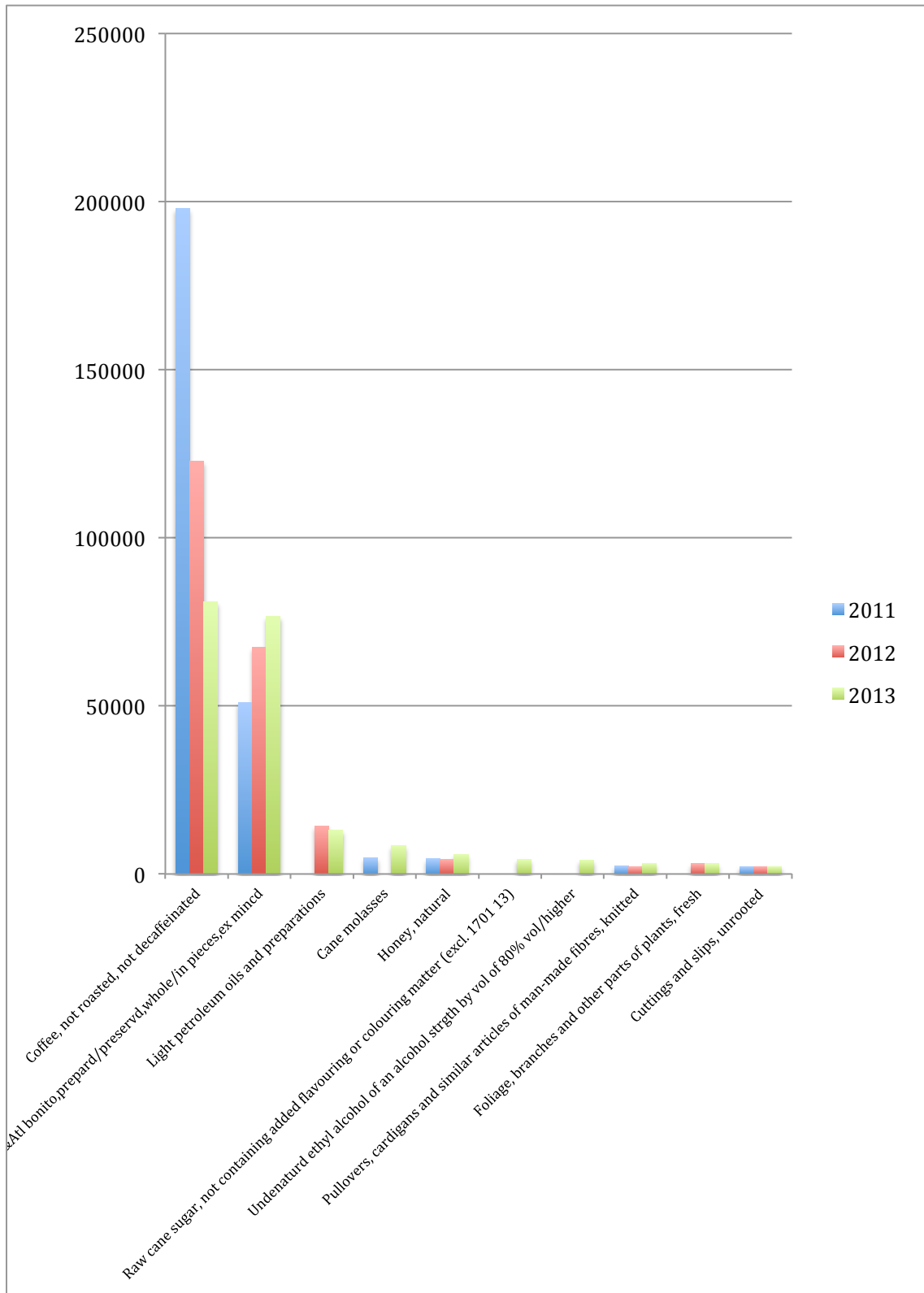
Exported products by El Salvador from European Union (EU28)	Period		
	2011	2012	2013
1. Coffee, not roasted, not decaffeinated	198050	122842	80891
2. Tunas, skipjack& bonito, prepared/preserved whole/in pieces	51069	67486	76731
3. Light petroleum oils and preparations	0	14273	12944
4. Cane molasses	4814	0	8465
5. Honey, natural	4548	4360	5896
6. Raw cane sugar, not containing added flavoring or coloring matter	0	0	4318
7. Undenatured ethyl alcohol of an alcohol strength by vol. of 80% vol/higher	0	0	4188
8. Pullovers, cardigans and similar articles of man-made fibers, knitted	2384	2072	3242
9. Foliage, branches and other parts of plants, fresh	0	3052	3052
10. Cuttings and slips, unrooted	2236	2157	2260

Source: Own table created on the base of data retrieved from www.trademaps.org

The most exported product from El Salvador to European Union in 2013 was coffee (not roasted, not decaffeinated). In comparison with 2012 the exports suffered a decrease of 35% and in comparison with 2013 to 2011 decreased by 60%. The most important coffee importer from El Salvador is Germany (approx. 58.65%) followed by Belgium, Sweden, Italy, UK, Netherlands France and other small importers. There is a good trade perspective with tunas (skipjack & bonito, prepared/preserved) exports. Since 2011 the imports of tuna increased by 32% in 2012 and with 12% in 2013. The exports of light petroleum oils and preparations started in 2012 and there was a small decrease in 2013. The only light petroleum importer from EU countries is Spain. I think there is no perspective for the closest future because the demand on El Salvadoran light petroleum oils decreased in other regions around the world too and if to take in consideration the EU external policies and political issues in the Eastern Europe and US implication to maintain the European energy security it's hard to predict El Salvadoran light oil exports to EU. In 2011 the cane molasses were exported in a value of \$4,814,000, in 2012

there wasn't any export of this product but in 2013 the export of molasses was double of exports in 2011. The main cane molasses importers are UK, Netherlands and Spain. There is a lower constant increase of natural honey exports from El Salvador to the rest of the world. The natural honey export from El Salvador to European Union increased by 23% from 2011 to 2013 after a small decrease in 2012, 85% of natural honey was exported to Germany in 2013. The interest of export of raw sugar cane started in 2013 and it's difficult to predict without knowing El Salvadoran export policies since the importer is Portugal, while other EU members import from other countries. The undenatured ethyl alcohol of an alcohol strength of 80% started to being exported in 2013 and the main importer is Netherlands. Textile industry is also an key element of the TOP 10 exported products, knitted pullovers and cardigans for men had a value of \$3,242,000 in 2013 exports. Most foliage branches and other plants are exported mostly to Netherlands with an increase of 7% from 2012 to 2013. The tenth position is taken by unrooted cuttings and slips with a constant trend of export. See the chart below to compare the data.

Graph 2 TOP 10 exported products by El Salvador to EU in 2011-2013



Source: Own graph, created on the base of data retrieved from www.trademaps.org

Analysis of the possible expansion of the market

European Union with its 28 member states and with 500 million inhabitants is the result of integration and an expansion process for the last decades, being in a continuous development. The European Unions policy is referred not only to the internal development within the Union but also to the market expansion out of the EU. It is cooperating with external partners and opening new commerce paths for a better internal market supply and an exchange of products and services with external partners. According to the second Article objectives of the Association Agreements signed between Central America and European Union and its Member States the parties agreed on strengthening and consolidating the relations between the Parties through an association which is based on three main pillars: political dialogue, cooperation and trade. According to the 4th article of this Agreement of Association was agreed on expanding and diversifying trade between European Union and Central America by bi-regional relation in conformity with the World Trade Organization, which will contribute to the economic growth, improvement of the life quality level in both regions and to a better integration of both regions in the world economy. (EUR-Lex, 2012)

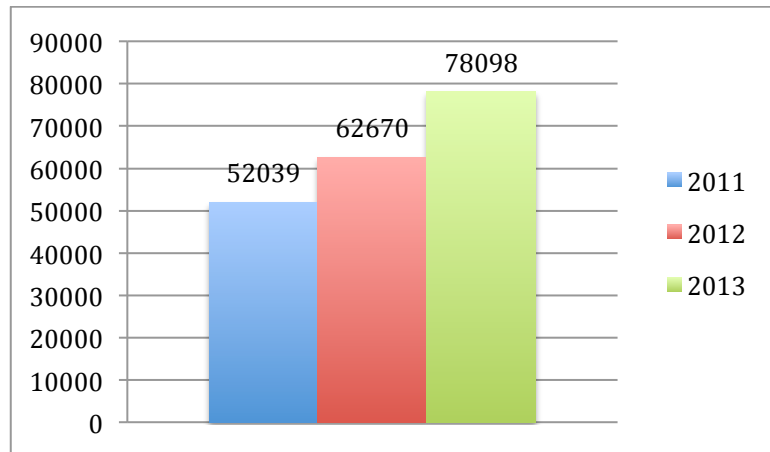
In my opinion European Union is being a successful model of integration and thus makes it cooperating with other partners and countries in order to promote its principles and values.

In the case of El Salvador, the commerce influenced positively country's economy by opening new markets and simplifying the process of trade between the regions. According to my personal data mining and analysis I think that there is a big potential in product and service exchange between EU and El Salvador. I see there is a commercial potential in trade with tuna between this regions because the product demand on the global market is increasing constant and slowly. Also a potential in my opinion is trade with natural honey as its demand is also increasing. I can't see a future prospective for El Salvador in coffee trade because of a continuous decrease of coffee demand on European Market. Since 2011 EU members coffee imports from world decreased by 32% in 2013 and exports from

El Salvador to EU decreased by approx. 60%. By analyzing the market of cane molasses I think that there is a potential too, this being caused by a higher demand on European markets even on global ones. According to trade map the indicative potential is high and it's in a constant growth since 2011. Netherlands being the center of the floral industry has the interest in importing foliage branches and other fresh plants as being the most important importer of the El Salvadoran product mentioned above. Also a big potential according to the trade map indicative potential trade might bring the commerce of pullovers and cardigans produced in El Salvador.

On the other hand EU member states are exporting a considerable quantity of goods to El Salvador. According to the trade map indicators, the El Salvadoran demand on automobiles with engine volumes between 1500 cc and 3000 registered a constant increase last years. In the chart below is showed how the demand on this good increased since 2011.

Graph 3 European automobiles (engine vol. 1500cc-3000cc) import by El Salvador



Source: Own graph, created on the base of data retrieved from www.trademaps.org

In order to specify some new products for El Salvadoran market I believe that there is a perspective in importing automobiles to El Salvador from other European countries like France (Renault, Peugeot, Citroen), Italy (Alfa Romeo, Fiat) or Spain (Seat). This will create a competition for El Salvadoran car market; there will be a bigger variety of European quality products with lower emissions of CO2 as the European Union Environmental policies are very strict the

Environmental situations might be improved in El Salvador; a good brand image will be created for European automotive industry and new market pathways will be opened. Also a potential product might be medical equipment (for instance the German equipment which is well known around the world as top in this field) in order to save lives, offer higher quality medical services and modernize the public health sector.

When thinking about El Salvadoran new exports to EU, I believe there is a perspective in agro industry, especially in fruit farming (avocado, Persian lime, coconut), aquaculture, ornamental plant farming and food beverages as the El Salvadoran government offers attractive opportunities in this fields. The quality of agro industrial products is higher than other products sold on the European markets because of favorable climate conditions of El Salvador. These products will diversify the quality food products in EU and will help El Salvador to create more job opportunities, increase exports quota and develop their economy. Another industries that might bring a bright future perspective are: food wear industry, energy, light manufacturing products as auto parts as harnesses, safety belts, inflators and modulators for airbags, shock absorbers, brake drums and rotors; medical devices as medical supplies, orthopedic products and hospital furniture and passive electronic components.

The Foreign Direct Investment plays an important role in El Salvadoran economy development. There are established a lot of well known global brands as 3M (Minnesota Mining and Manufacturing Company), Lacoste, Kimberly-Clark, AeroMan, Swisstex and other important companies that produce their goods in El Salvador then the goods are being exported.

Also a great potential will have for sure investments in IT and country access to Internet. According to the Internet World Stats, just 24.5%³ of population has access to Internet. I believe there is a big potential in computing industry so that European countries might export products related to computing industry. As the

³ Internet World Stats. [online]. [cited. 2014-05-27]. Retrieved from: <http://www.internetworldstats.com/am/sv.htm>

IT/ICT modernization is the future of a developed country the European exports of IT/ICT equipment will have a great effect on El Salvadoran economy and social systems.

Conclusion

Trade between El Salvador and European Union members support markets diversification of both regions, according to the Trade Map data, the most important trade partners of El Salvador are: UK, Germany, Spain, Portugal, Czech Republic, Belgium and Netherlands. While these partners import from El Salvador and Export to this country goods, other European member states do not have this opportunity. I would see a future prospective if other EU members will be involved in the trade process with El Salvador. El Salvadoran exporters might win a better export quota on the European markets in case the goods will respect the European quality standards, European Law and will have key factors to face the EU's market competition. The bi-lateral trade between these two regions is bringing benefits for them both. In order to maintain and increase the trade I think both regions should take in consideration existing Agreements and respect their objectives. As a developing country, El Salvador has to improve lots of policies to be a successful economy model. I believe that the cooperation between EU and Central American countries will be strengthened more on the basis of the agreements signed eliminate discrepancies between different national economies of countries.

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