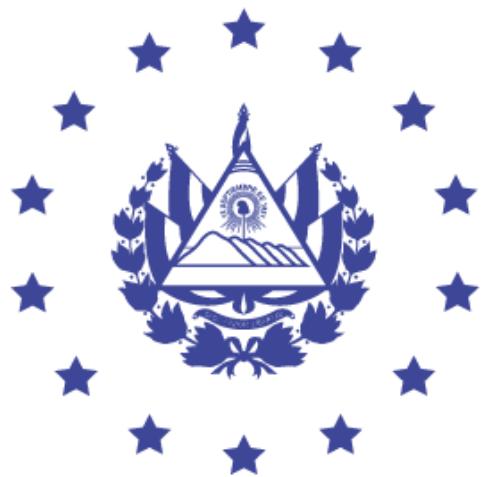




GOBIERNO DE  
EL SALVADOR

# Sector Guide Manufacturing



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## Contact

Emilio Márquez  
Investment Specialist  
[emilio.marquez@investelsalvador.com](mailto:emilio.marquez@investelsalvador.com)

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# Introduction

El Salvador is a platform for exporting to large markets. The country offers investment opportunities for companies in various sectors (auto parts, electronic components, plastics, medical devices, among others) that want to establish manufacturing plants and export their products to large markets in the region, such as the United States, Canada, Mexico and South America.



## **Sector delimitation**

### **Prioritized subsectors:**

**Autoparts** Harnesses, automotive clothing, safety system and sensors

**Electronic components** Tantalum and ceramic electronic capacitors, transistors, resistors, etc.

### **Manufacturing, assembly and reconditioning**

**Medical devices:** medical-hospital supplies, orthopedic products, sanitary and hygiene products, among others.

# El Salvador's demographic indicators<sup>1</sup>

	Total	Urban Area
Population (inhabitants and % of total population)	6,330,947	3,906,194 (61.7%)
Labour force (economically active population)	2,997,102	1,936,128
Unemployment rate	5%	4.8%



## Main areas<sup>2</sup>

64.3% of the population is concentrated in 5 of the 14 departments: San Salvador, La Libertad, Santa Ana, Sonsonate and San Miguel.

## Age structures

54.4% of the workforce is under the age of 40, the most productive age range.

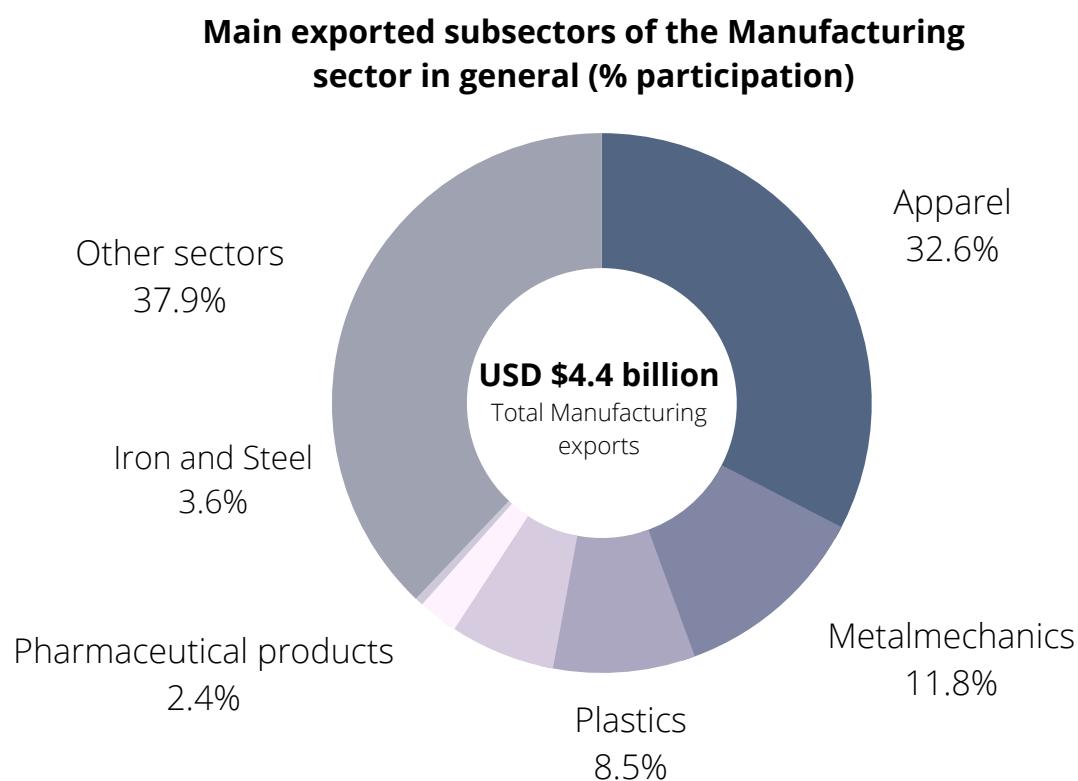
<sup>1</sup> **Source:** Dirección General de Estadísticas y Censos (2022).

<sup>2</sup> El Salvador is divided into 14 geographic regions called "departments".

# Relative importance in foreign exchange generation

Salvadoran manufactures comprise a diversity of products, including clothing, metalworking, plastics, paper and cardboard, pharmaceuticals, and footwear. By the end of 2022, El Salvador exported a total of USD 4,416 million of diverse manufactured products, which represented a 62% share of the country's exports.

Within this sector, exports of products such as tantalum capacitors, automotive harnesses, fixed capacitors, electrical conductors, toilet paper, paper or cardboard boxes, plastic bottles and bags, among others, stand out. The main destinations for these exports are the United States and Mexico.

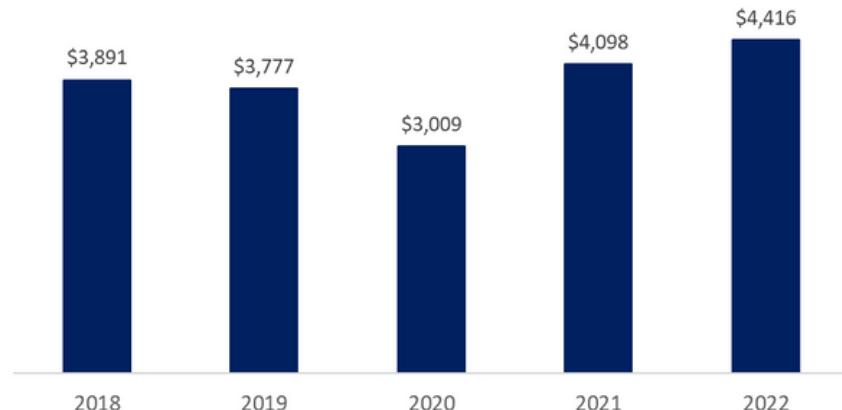


**Source:** Own elaboration with data from BCR.

## Sector's exports performance

The performance of the sector's exports during the last five years is shown below. It can be seen that they have maintained an average of USD\$ 3,838 million. Likewise, they have remained stable, leaving aside the drop registered during 2020, as a result of the world pandemic caused by Covid-19.

**Evolution of Manufacturing exports (MUSD)**



**Source:** Own elaboration with data from BCR.

**Top 10 recipient countries of Manufacturing exports (2022)**

Country	Value exported (MUSD)	% Share of the sector's exports
UNITED STATES OF AMERICA	\$2,294	51.90%
HONDURAS	\$659	14.90%
GUATEMALA	\$511	11.60%
NICARAGUA	\$256	5.80%
COSTA RICA	\$198	4.50%
MEXICO	\$150	3.40%
PANAMA	\$76	1.70%
DOMINICAN REPUBLIC	\$63	1.40%
CANADA	\$26	0.60%
JAMAICA	\$20	0.50%

**Source:** Own elaboration with data from BCR.

## Exports in prioritized sectors

### Top 5 exported products of the electronic components and auto parts subsectors

Product	Value exported 2022 (MUSD)
Tantalum capacitors	\$211,810,538
Ignition wiring sets	\$89,079,352
Fixed capacitors	\$38,505,685
Electrical conductors	\$26,781,142
Semiconductor media	\$14,507,659

**Source:** Own elaboration with data from BCR.

### Top 5 exported products of the medical devices subsector

Product	Value exported 2022 (MUSD)
Textile articles (incl. protective clothing such as surgical masks and disposable masks)	\$3,833,121
Bandages, plasters, gauze, gauze pads and bandages	\$868,809
Medical, surgical or veterinary instruments and appliances	\$631,648
Bandages and other adhesive-coated, impregnated or coated with pharmaceutical substances	\$415,299
X-ray generating devices, voltage generators, control consoles and others	\$333,154

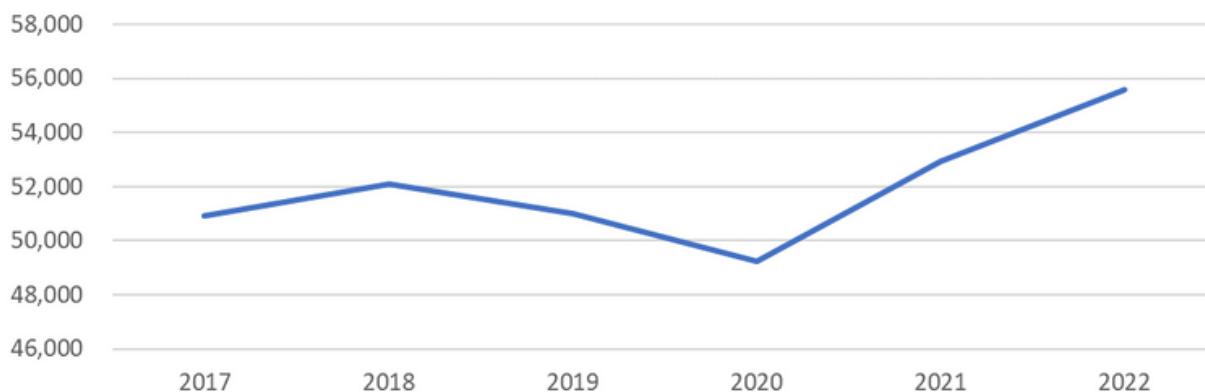
**Source:** Own elaboration with data from BCR.

# Business outlook: sample of companies in the sector

Among the main manufacturing companies in the country are representative of the prioritized subsectors: AVX Industries (electronic components) and Yazaki (auto parts), both of which are foreign-owned. Other outstanding companies include Aeroman (aeronautical maintenance), Termoencogibles (plastics), Condusal (electrical conductors), and Alas Doradas (paper and cardboard), among others.

The sector is of great significance in the generation of jobs, given that **there are currently more than 1,400 companies that directly employ more than 55,500 people.**

**Employment trends in the sector**



**Source:** Own elaboration with data from ISSS.

## Main companies Manufacturing sector (2022)

Top 10



Companies	Sector	Employees
AEROMAN	AERONAUTICAL MAINTENANCE	4,444
AVX INDUSTRIES	ELECTRONICS	1,828
TERMOENCOGIBLES	PLASTICS	1,814
YAZAKI	AUTOPARTS	1,217
SIGMA Q	PACKAGING	994
EMPRESAS ADOC	FOOTWEAR	692
INDUSTRIAS CAPRI	FURNITURE	614
IMACASA	METALWORKING	609
MATRICERÍA ROXY	PLASTICS	519
INDUSTRIAS CARICIA	FOOTWEAR	514

**Source:** Own elaboration with data from ISSS.

## Costs

Manufacturing industry wages

Position	Average wage	50th percentile
Quality Supervisor	\$1,653.78	\$1,650.00
Manufacturing Engineer	\$1,608.75	\$1,600.00
Maintenance supervisor	\$1,944.66	\$1,900.00
Human resources specialist	\$1,809.62	\$1,800.00
Production Manager	\$4,765.41	\$4,620.00
Production Supervisor	\$1,815.94	\$1,782.00
Occupational health and safety specialist	\$1,861.50	\$1,800.00
Coating Supervisor	\$1,671.26	\$1,644.50
Cutting Supervisor	\$1,637.54	\$1,635.01
Plant Manager	\$4,932.81	\$4,895.00
Quality Manager	\$3,591.04	\$3,630.00
Logistics Manager	\$4,007.14	\$4,050.00
Manufacturing Engineering Manager	\$3,805.91	\$3,850.00
Financial Manager	\$4,510.00	\$4,400.00
Human resources manager	\$3,801.54	\$3,600.00

**Source:** Own elaboration with figures from human resources recruiting company (2022)

# Advantages of investing in El Salvador

El Salvador offers

- Strategic location in the center of the Americas to be used as an export platform.
- Free trade agreements with the main markets.
- Installed capacity associated with the maquilas and auxiliary industries developed (textile and apparel, plastics, metal-mechanics with capacity for subcontracting or joint ventures).
- Low operating costs
- Highly productive and qualified human capital



# Tax incentives

Manufacturing companies may benefit from the incentives of the Law of Industrial Free Zones and Commercialization, since among the benefited sectors are the production, assembly or maquila, manufacturing, processing, transformation or commercialization of industrial goods, included in Chapters 25 and onwards of the Harmonized System.

## Benefits of the Free Zones Law:

- Exemption from customs duties and other taxes on the import of machinery and equipment necessary for exportable production during the period in which they carry out their operations.
- Exemption from customs duties and other taxes on the import of raw materials and other equipment necessary for the execution of the incentivized activity during the period in which they carry out their operations.
- Exemption from customs duties and other taxes on lubricants, fuels and other substances necessary for the productive activity during the period in which they carry out their operations.
- Total exemption from real estate transfer tax for the acquisition of real estate to be used in the promoted activity.
- Income tax exemption according to the following table:

<b>Location of the Free Zone Free Trade Zone or DPA</b>	<b>Exemption rate</b>	<b>Exemption period for established companies established in free trade zone</b>	<b>Exemption period for companies established in DPA</b>
Metropolitan Area of San Salvador	100% 60% 40%	For 15 years For the next 10 years For the next 10 years	For 10 years For the next 5 years For the next 10 years
Outside the metropolitan metropolitan area of San Salvador	100% 60% 40%	For 20 years For the next 15 years For the next 10 years	For 15 years For the next 10 years For the next 10 years

Additionally, the partners or shareholders benefit, since the profits or dividends distributed from the favored activity are exempt from income tax during the first 12 years.

→ Exemption from municipal taxes, according to the following table:

<b>Location of the Free Zone Free Trade Zone or DPA</b>	<b>Percentage of exemption</b>	<b>Exemption period for established companies established in free trade zone</b>	<b>Exemption period for companies established in DPA</b>
Area metropolitan area of San Salvador	100% 90% 75%	For 15 years For the next 10 years Thereafter	For 10 years For the next 5 years Thereafter
Outside the metropolitan area of San Salvador	100% 90% 75%	For 20 years For the next 15 years Thereafter	For 15 years For the next 10 years Thereafter

The municipal councils, within their legal powers, may grant additional benefits in order to promote the development of their respective municipalities.

After the expiration of the term of the total exemptions, free zone users will be entitled to an additional term of five years if it is proven that during the last five years of the total exemption they have increased their investment by 100% in relation to their initial investment.



## **Requirements for users of free trade zones and for DPA:**

Natural or juridical persons requesting to be qualified as Free Zone Users must comply with at least one of the following requirements:

1. Initial investment in fixed assets for an amount equal or greater than five hundred thousand dollars of the United States of America (US\$500,000.00), attainable in the first two years of operations;
2. To operate with a number equal to or greater than fifty (50) permanent jobs, from the first year of operations;
3. Operate with a number equal to or greater than five (5) permanent jobs, from the first year of operations, in the case of marketers.

Natural or legal persons requesting to be qualified as DPA, in accordance with the provisions of the Law, must comply with at least one of the following requirements:

1. Initial investment in fixed assets for an amount equal to or greater than eight hundred thousand dollars of the United States of America (US\$800,000), attainable in the first two years of operations. The acquisition of existing infrastructure shall not be counted as an initial investment.
2. To operate with a number equal to or greater than seventy-five (75) permanent jobs, from the first year of operations.
3. To operate with a number of not less than fifteen (15) permanent jobs, from the first year of operations, in the case of marketers.

Likewise, in order to be declared as a Processing Warehouse, other requirements must be met in terms of facilities, location, structure and area, which are detailed in Article 18 of the FTZ Law.

## Success Stories



A KYOCERA GROUP COMPANY

### AVX Kyocera

AVX Kyocera AVX Kyocera has been in El Salvador for more than 30 years, which has given the country the experience in the manufacture of ceramic and tantalum electronic capacitors that meet international standards. This company started operations with 900 employees, and currently has more than 3,600. They have concentrated in the country much of its business volume in production of electronic capacitors, as well as have transferred production lines from Mexico, England and Czech Republic. AVX Kyocera in the country went from assembly to chemical processing, molding, testing and packaging. The implementation of the new production lines has been done in 10 months, a short time compared to the two years it has taken in other countries. One of the main reasons why AVX is in El Salvador is the high production efficiency, which is over 97%.



## Success Stories



### Yazaki

Yazaki is a leading Japanese company worldwide in automotive wire harness and cable systems. It has plants in 44 countries around the world, employing a total of 257,100 people. The company began operations in El Salvador in 2006 in Santa Ana. It currently generates more than 2,500 direct jobs. Approximately 72% of them are women, producing between 300 to 400 harnesses per day, with a turnover rate of 0.48% per year. It broke installation records, and its first export to the United States was made only nine months after starting its construction, reaching to date an 80% efficiency and quality in its operations, surpassing the standards of other Yazaki plants worldwide. Harnesses for brands such as Subaru, Jeep (chassis harnesses) and Chrysler (door harnesses) have been manufactured in El Salvador.

"After having carried out the necessary studies to determine the location of our new international operation, YAZAKI decided to establish operations in El Salvador, as it offers the necessary conditions to be globally competitive."

Luis Carlos Silveyra  
General Manager of Yazaki



## Success Stories



**Indufoam**

Indufoam began in 1982 with North American and Central American capital. In 1984, Salvadoran investors bought the shares, turning Indufoam into a 100 percent Salvadoran company. Then in 1993, the Toruño family acquired the company.

Today, Indufoam produces 1,200 beds (2,400 pieces) and 4,000 accessories (pillows, sheet sets, mattress protectors, quilts, among others) every day. Fifty percent of production is sold in the local market, and the rest is for export; it also manufactures 400 pieces of living room furniture per month, an item through which it serves the local market, but for which it already has export plans.

The company produces the Indufoam bed brand, as well as private lines, such as Sueña (local), Simmons (from the United States), Pikolín (from Spain); and some exclusive lines for La Curacao, such as Smart Support. In the Salvadoran market, the manufacturer has a 60% share.

The Indufoam seal arrived in the United States, in order to gain more ground in that market. The company's first export was to a hotel chain in Florida, which has expansion plans for several markets in the American continent.

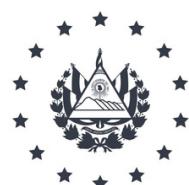
The high-end beds now offered by the hotel chain were manufactured with anti-mosquito, anti-bacterial and fireproof fabrics, among other technological features. And although not even a year has passed since the first shipment to that market, Indufoam is already preparing the second shipment. This time, it seeks to serve a hotel chain based in New York City.

In addition to the hotel segment, Indufoam is exploring the direct sales channel to consumers in several regions of the country. In this segment, it plans to sell mattresses and accessories.

As for new markets, it closed a deal with a hotel chain in the Dominican Republic, a country where it has extensive growth plans, and in Peru it has also supplied several hotel chains and the retail market, but with high-end products.

The company is exporting spring units of the BeautyRest Black line to Simmons licensees in Panama, Ecuador, Colombia, Peru and the Dominican Republic. Indufoam currently exports to Mexico, Belize, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, Colombia and Peru, markets in which it expects to grow by around 12%.





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