

Sector guide

Manufacturing

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Introduction and overview

El Salvador has established itself as an attractive destination for investment in the manufacturing sector, offering a series of significant advantages and opportunities for potential investors. With a strategic location in the heart of Central America, preferential access to key markets through free trade agreements and a highly trained workforce, the country offers a conducive environment to establish successful operations in the industry.

This sector in El Salvador is characterized by its diversification and experience in the production of a wide range of products that include auto parts, electronic components, plastic and rubber products, medical devices, among others. In addition, the country has a favorable legal framework for foreign investment, including tax incentives and facilities for the repatriation of profits.

In this guide, we will explore in detail the competitive advantages and investment opportunities offered by the country's manufacturing sector, highlighting its infrastructure, access to international markets, skilled labor, government incentives and other key aspects that make this country an attractive option. for those investors interested in expanding their operations in the region.

Be part of this story! Invest in a country that spreads its arms to welcome you with enthusiasm and promises a return not only financial, but also social and human.

Location and characterization of El Salvador

El Salvador is located in the Central American region, bordering Honduras to the north and east, Guatemala to the west, and the Pacific Ocean to the south. Its strategic location makes it a bridge between North America and South America. In demographic terms, the country has a diverse population of 6.3 million inhabitants and an Economically Active Population of approximately 3 million, of which 54% are under 40 years of age. The capital, San Salvador, is the cultural and economic center of the country.

In the manufacturing sector of El Salvador, the notable advantage of having low turnover rates in companies (<10% in general terms) stands out. This job stability provides investors with greater predictability and continuity in their operations, allowing for efficient human resource management and greater retention of knowledge and experience within organizations.

The Salvadoran workforce, recognized for its commitment and technical skills, contributes significantly to this job stability, which translates into greater productivity and quality in production, as well as a reduction in costs associated with personnel turnover. This favorable work environment provides investors with a solid foundation for sustainable growth and long-term success in El Salvador's manufacturing sector.

Delimitation of the sector

The delimitation of the manufacturing sector in El Salvador is characterized by a wide diversity of industrial activities, with a particular and prioritized focus on the manufacture of auto parts (harnesses, automotive trim, security systems, sensors, among others), electronic components (electronic capacitors tantalum and ceramics, transistors, resistors, etc.), manufacturing, assembly, reconditioning and medical devices (medical-hospital supplies, orthopedic products, sanitary and hygiene products, among others).

This strategic approach reflects the specialization and strength of the Salvadoran manufacturing industry in sectors with high added value and global demand. The production capacity and technical expertise in these specific areas position El Salvador as an attractive destination for investment in the manufacturing and assembly of high-tech and precision products, with a high level of quality and competitiveness in international markets.





Invest in
El Salvador

AGENCIA DE PROMOCIÓN DE INVERSIÓN Y EXPORTACIONES

The Manufacturing Industry in El Salvador

Manufacture
Sector Guide

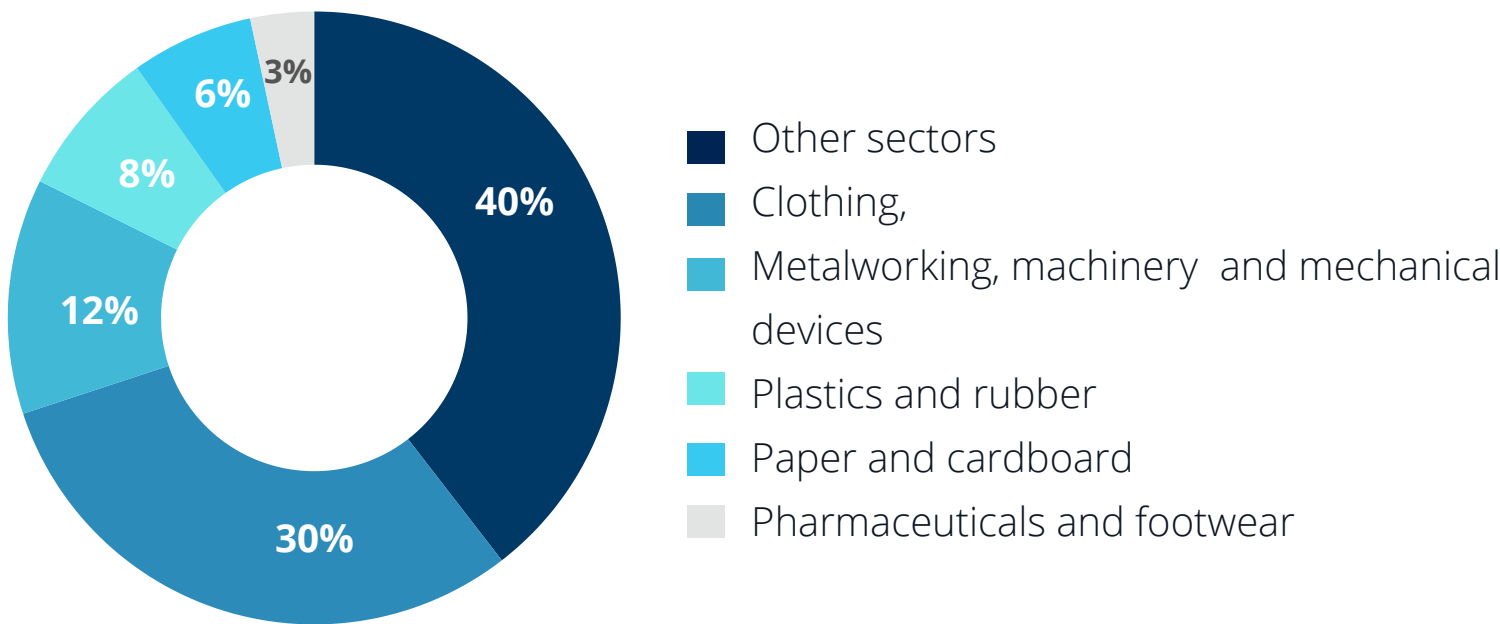
Main performance indicators 2023

El Salvador's manufacturing sector is diversified and dynamic, playing a crucial role in the country's economy. It is made up of a wide range of industrial activities ranging from the production of a variety of items, such as pharmaceuticals, medical devices, electronics, plastics, rubber and more. These industries are driven by a combination of national and foreign investment, as well as government support through industrial promotion and foreign trade policies.

Below are key indicators of the sector's performance in El Salvador:



Participation of manufacturing in total exports (%)



Source: Own elaboration with data from the Central Bank

El Salvador's manufacturing sector is distinguished by its notable diversification, covering a wide range of industries ranging from clothing to the manufacture of electronics, medical devices, plastics and more. This diversification offers potential investors a unique opportunity to take advantage of a market with multiple aspects and specialized niches.

In addition, the diversification of the Salvadoran manufacturing sector also provides the possibility of establishing strategic alliances and developing integrated value chains, which can generate synergies and increase competitiveness in the global market. In summary, the diversification of manufacturing in El Salvador offers potential investors a variety of options to enter a dynamic and constantly evolving market, with ample opportunities for success and long-term growth.

Salvadoran manufactures by subsector



Sector	Exports 2023 (MUSD)	Exports (Tons)
Clothing	\$1,978	148,446
Metalworking, machinery and mechanical devices	\$807	280,153
Plastics and rubber	\$508	231,911
Paper and cardboard	\$420	215,185
Chemical industries	\$183	25,574
Footwear	\$35	2,678
Total Manufacture	\$3,930	903,948

Source: Own elaboration with data from the Central Bank

Destination countries for Salvadoran manufactures

49% United States



15% Honduras



13% Guatemala



24% rest of the world



El Salvador has stood out for its ability to compete in international markets, taking advantage of its strategic location in the heart of Central America and its preferential access to various free trade agreements. The country's highly qualified and cost-competitive workforce has been a key factor in the success of the Salvadoran manufacturing sector.

Manufacturing exports by destination country 2023

Country	Exports 2023 (MUSD)	Stake (%)
UNITED STATES (USA)	\$1,907	48.5%
HONDURAS	\$581	14.8%
GUATEMALA	\$515	13.1%
NICARAGUA	\$256	6.5%
COSTA RICA	\$196	5.0%
REST OF THE WORLD	\$475	11.9%
Total Manufactures	\$3,930	100%

Source: Own elaboration with data from the Central Bank

Exports in prioritized sectors

El Salvador is implementing a long-term investment promotion strategy in the manufacturing sector, exploiting its strategic position to integrate its industries and supply chains. The adaptation and diversification of these industries makes it possible to take advantage of the synergies between the different sectors, increasing efficiency and competitiveness in production and reducing logistics costs. In addition, it encourages specialization and expansion of the economy, promoting job creation and sustainable development.

Currently, the country directs its efforts especially to priority sectors such as electronic components and auto parts, metalworking and plastics. However, the country welcomes foreign investors in a wide range of manufacturing, from paper and cardboard, to cleaning products, cosmetics, rubber, wood and footwear, among others. We are committed to meeting the specific needs of each investor, providing tailored solutions and guaranteeing an exceptional experience in our country.

Top 5 export products of Electronic Components



Export of Tantalum Capacitors in 2023

Product	Exports 2023 (MUSD)	Exports 2023 (Tons)
Tantalum capacitors	\$154.7	543.4
Wire sets for spark plugs	\$89.2	4,341.2
Electrical conductors, for a voltage <= 80 V	\$33.7	5,634.3
Fixed capacitors	\$32.4	330.3
Semiconductor media, unetched	\$14.6	396.8

Source: Own elaboration with data from the Central Bank

Top 5 Metalworking export products

Product	Exports 2023 (MUSD)	Exports 2023 (Tons)
Flat alloy steel products, other than stainless steel.	\$145.6	19,932.9
Unalloyed iron or steel bars	\$71.8	41,950.2
Hollow, welded pipes and walls	\$40.9	22,513.9
Aluminum waste and scrap	\$33.7	11,657.5
Constructions and parts of construc., of cast iron or steel	\$30.2	9,498.9

Top 5 Plastic export products

Product	Exports 2023 (MUSD)	Exports 2023 (Tons)
Carboys, bottles, jars and similar of plastic	\$145.6	87,858.7
Sacks, bags and cones	\$71.8	25,629.7
Plates, sheets, sheets and strips, of propylene	\$40.9	20,147.8
Tableware and other table or kitchen articles, of plastic	\$33.7	7,542.8
Articles of plastic and articles of other materials...	\$30.2	5,647.9

Top 5 export products of Paper and Cardboard

Product	Exports 2023 (MUSD)	Exports 2023 (Tons)
Toilet paper in rolls	\$187.7	83,862.0
Paper or corrugated cardboard boxes	\$65.8	36,297.4
Tissues, makeup remover wipes and paper towels	\$22.6	8,933.9
Paper or cardboard folding boxes and cartons	\$20.8	5,558.1
Paper or cardboard bags and cones	\$13.2	4,214.9

Source: Own elaboration with data from the Central Bank

Infrastructure and Development

El Salvador has a privileged location in the heart of the Americas with developed infrastructure. According to the latest available World Economic Forum Global Competitiveness Index for 2019, the country occupies 1st place in road connectivity index and 2nd in infrastructure. In terms of air connection, it has 2 international airports that connect to more than 34 connected routes and 14 countries in America, the Caribbean and Europe. Recently, investments have been made in the expansion and improvement of roads, seaports and airports, thus facilitating the transportation of goods and raw materials. This has contributed to reducing logistics costs, delivery times and improving the country's connectivity with international markets.

Recent logistics development works

- Remodeling of the Las Chinamas border area, renovation of the connecting road to it.
- Implementation of X-ray inspections for means of transport in Land Customs.
- Expansion of the Cargo Terminal of the El Salvador International Airport through the first Public-Private Partnership in the country.
- Development of new and modern facilities at Aduana El Amatillo.
- Development of mega road works such as the Claudia Lars roundabout in San Juan Opico, Gerardo Barrios peripheral (San Miguel Bypass), overpass between the highway to the airport and the Litoral highway, among others.
- Modernization of pre-port facilities and access to the port of Acajutla.
- Solid progress towards the Customs Union through the start of operations of the binational Integrated Border Post in El Amatillo, which represents significant advances and improvements in the efficiency of procedures and operations in the flow of goods.

Works in development and planning

- Expansion of the Port of Acajutla.
- Pacific Train.
- Francisco Morazán Viaduct (Los Chorros)
- Pacific Airport
- Total renovation of the Troncal del Norte highway, among others.

Opportunities, advantages and incentives to invest in El Salvador

Investment opportunities in manufacturing

- Auto parts: car harnesses, vehicle seats, car safety systems (airbags, seat belts) and car sensors.
- Electronic components: tantalum and ceramic capacitors, transistors, resistors, etc.
- Manufacturing, assembly and reconditioning.



<10%

**Low employee
turnover in
Manufacturing**

Advantages of investing in El Salvador

- Strategic location in the center of the Americas to be used as an export platform.
- Free trade agreements with the main markets in the region.
- Installed capacity associated with maquilas and developed auxiliary industries (textiles and clothing, plastics, metalworking with the capacity to meet subcontracts or carry out co-investments).
- Low operating costs.
- Highly productive and qualified human capital.

In terms of development of the manufacturing sector, El Salvador has promoted the training and training of specialized labor, with educational and training programs oriented to the needs of the industry. This has helped improve the quality and productivity of the workforce, as well as promote innovation and the adoption of advanced technologies in production processes.



Sample of graduates and enrollment related to the sector

Career	Enrollment 2020	Graduates 2020
INDUSTRIAL ENGINEERING	9,196	613
CIVIL ENGINEERING	3,237	299
MECHANICAL ENGINEERING	1,152	54
CHEMICAL ENGINEERING	1,002	72
MECHATRONICS ENGINEERING	666	73

In addition to university education programs, there are shorter and specific educational programs that allow students to obtain specialized technical training of a shorter duration in areas such as industrial, civil, mechanical, electrical engineering, among others. These programs provide students with the skills necessary to perform effectively in technical roles within the manufacturing industry.

Source: Own elaboration with data from the National Directorate of Higher Education, 2020 SINIEES report (latest available)

Tax incentives

Manufacturing companies that decide to locate in El Salvador can enjoy the incentives of the Law of Industrial and Marketing Free Zones, since, among the benefited sectors, is the production, assembly or maquila, manufacturing, processing, transformation or commercialization of industrial goods, included in Chapters 25 onwards of the Harmonized System.

Benefits of the Free Zone 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 goods 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 productive activity during the period in which they carry out their operations.
- Total exemption from the tax on real estate transfer, for the acquisition of those properties that will be used in the promoted activity.
- Income tax exemption according to the following table:

Location of the Free Zone or DPA	Exemption percentage	Exemption period for companies established in the free zone	Exemption period for companies established under DPA
San Salvador metropolitan area	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 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, 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:

Location of the Free Zone or DPA	Exemption percentage	Exemption period for companies established in the free zone	Exemption period for companies established under DPA
San Salvador metropolitan area	100% 90% 75%	For 15 years For the next 10 years Onwards	For 10 years For the next 5 years Onwards
Outside the metropolitan area of San Salvador	100% 90% 75%	For 20 years For the next 15 years Onwards	For 15 years For the next 10 years Onwards

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

Once the term of the total exemptions has expired, free zone users will be entitled to an additional period 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 free zone users and for DPA:

Natural or legal persons who request to be classified as Free Zone Users must comply with at least one of the following requirements:

1. Initial investment in fixed assets for an amount equal to or greater than five hundred thousand dollars of the United States of America (US\$500,000.00), achievable in the first two years of operations;
2. 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 who request to be classified as DPA, in accordance with the provisions of the Law, must meet 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), achievable in the first two years of operations. The acquisition of existing infrastructure will not be counted as an initial investment.
2. Operate with a number equal to or greater than seventy-five (75) permanent jobs, from the first year of operations.
3. Operate with a number of no less than fifteen (15) permanent jobs, from the first year of operations, in the case of marketers.

Likewise, for your establishment to be declared an Improvement Depot, other requirements must be met in terms of facilities, location, structure and area, which are detailed in article 18 of the ZF Law.

Success stories and support for investors



AVX Kyocera AVX Kyocera has been in El Salvador for more than 30 years, which has given the country experience in manufacturing electronic ceramic and tantalum capacitors that meet international standards. This company began operations with 900 employees, and currently has more than 3,600. They have concentrated a large part of their volume business in the production of electronic capacitors in the country, as well as having transferred production lines from Mexico, England and the Czech Republic. AVX Kyocera in the country went from assembly to chemical processes, 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 efficiency in production, which is greater than 97%.





Yazaki is a Japanese company that is the world leader in automotive wiring systems and harnesses. It has plants in 44 countries around the world, employing a total of 257,100 jobs. 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 women, producing between 300 to 400 harnesses daily, with a turnover level of 0.48% annually. It broke an installation record, and its first export to the United States was carried out just nine months after its construction began, reaching 80% efficiency and quality in its operations to date, exceeding the standards of other Yazaki plants worldwide. In El Salvador, harnesses have been manufactured for brands such as Subaru, Jeep (chassis harnesses) and Chrysler (door harnesses).

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

Luis Carlos Silveyra General Director of Yazaki





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

Currently, Indufoam produces 1,200 beds (2,400 pieces) and 4,000 accessories (pillows, sheet sets, mattress protectors, duvets, among others) every day. 50% of the production is sold in the local market, and the rest is destined for export; as well as manufacturing 400 living room furniture per month, an area through which it serves the local market, but for which it already has export plans.

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

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



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