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URUGUAY

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated) 1/ 2/

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP 3/	22.5	21.0	20.8
Real GDP Growth (pct)/4	4.6	-3.2	0.0
GDP Growth by Sector (pct):			
Agriculture	6.9	-7.8	-3.0
Manufacturing	2.3	-8.4	-2.5
Services	3.6	1.3	2.0
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,827	6,348	6,267
Labor Force (000s)	1,238	1,220	1,225
Unemployment Rate (pct)	10.1	11.3	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.4	8.9	5.5
Consumer Price Inflation	8.6	4.2	5.7
Exchange Rate 5/	10.5	11.3	12.1
Balance of Payments and Trade:			
Total Exports FOB	2.8	2.2	2.4
Exports to U.S. (US$ millions)	158	153	200
Total Imports CIF	3.8	3.4	3.7
Imports from U.S. (US$ millions)	432	375	320
Trade Balance (FOB-CIF)	-1.0	-1.2	-1.3
Balance with U.S. (US$ millions)	-274	-222	-120
External Public Debt (Net)	2.4	2.4	2.5
Fiscal Deficit/GDP (pct)	0.9	3.9	3.3
Current Account Deficit/GDP (pct)	2.1	2.9	2.5
Debt Service Payments/GDP (pct)	2.6	4.3	4.0
Gold and Foreign Exchange Reserves (net)	2.1	2.4	2.4
Aid from U.S. (US$ millions)	8.1	2.8	3.9
Aid from All Other Sources (US$ millions)/6	12.9	N/A	N/A

1/ Data in Uruguayan Pesos was converted into U.S. dollars at the average interbanking selling rate for each year.
2/ 2000 figures are all estimates based on available data as of October 2000.
3/ At producer prices.
4/ Calculated based on GDP in constant 1983 pesos.
5/ Annual average Uruguayan peso/U.S. dollar.
6/ Non-reimbursable.

Sources: Uruguayan Central Bank, Uruguayan National Institute of Statistics (INE) and U.S. Embassy Montevideo.

1. General Policy Framework

Uruguay is a market-oriented economy. The current administration, which took office in March 2000, has declared its intent to intensify an economic liberalization process that has been ongoing for a decade. Regional integration (MERCOSUR and FTAA), reduced deficit spending, government downsizing and lower inflation are goals of the two political parties in the ruling coalition and the past three administrations.

Social indicators place Uruguay among the most advanced countries in Latin America. Uruguay has the highest literacy rate, the most equitable income distribution and the lowest urban poverty in Latin America. Although down from 1998's level, 1999 per capita gross domestic product (GDP) of $6,350 puts Uruguay in the World Bank's upper-middle income grouping. The UNDP Human Development report places it in the category of countries with high human development.

Uruguay's risk rating for long-term debt issued in foreign currency improved in 1997 to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA and, Baa3 by Moody's), reaching Investment Grade Status and enabling U.S. pension funds to invest in Uruguay's sovereign debt. Uruguay accesses funds in the international financial market at one of the lowest rates in Latin America.

The economy has performed well in the last decade with good rates of per capita GDP growth, relatively low budget and current account deficits and declining inflation rates. But in 1999 it entered what has become its worst recession in fifteen years. GDP fell 3.2 percent, finishing the year at $21 billion, and declined by a further 1 percent in the first half of 2000. Zero growth is likely in 2000. Reasons for the decline include reduced export competitiveness from the Brazilian devaluation, diminished activity in Argentina and Brazil, higher international interest rates and historically low commodity prices. Harsh weather and electoral-year uncertainty throughout most of 1999 contributed to the poor economic performance. 1999 exports fell roughly 20 percent to $2.2 billion, and imports declined by 12 percent to $3.4 billion. Imports from the United States fell 18 percent, a significant shift from 16 percent annual average growth between 1993 and 1998. The public sector deficit grew from 0.9 percent of GDP in 1998 to 3.9 percent in 1999 and to 4.6 percent in June 2000 (on a 12-month basis), due to a decline in tax collection (resulting from the slowdown in economic activity) and an increase in public expenditure (generated by a counter-cyclical fiscal policy in 1999 and increased expenditures in an electoral year).

The inflation rate decreased from 130 percent in 1990 to 4.2 percent in 1999, the lowest in five decades, but is expected to range between 5.5 percent to 6.0 percent in 2000. Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels.

The historical basis of the Uruguayan economy has been agriculture (10 percent of GDP), particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather, meat and forestry). Industry (18 percent of GDP), has undergone a strong reconversion process fostered by MERCOSUR (the Southern Cone Common Market) integration. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay’s open financial system.

Uruguay is a founding member of MERCOSUR, a common market created in 1991 and composed of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. Montevideo is the administrative capital of MERCOSUR, and Uruguay is the geographical center of MERCOSUR's most populated and richest area. Uruguay’s trade with its MERCOSUR partners now accounts for over 40 percent of Uruguay’s overall trade. Tariff rates were lowered to zero for most MERCOSUR products on January 1, 2000. A MERCOSUR common external tariff (CET) entered into effect on January 1, 1995 for imports from non-MERCOSUR countries, ranging between zero to 20 percent. The 20 percent level was raised to 23 percent in late 1997 and is due to be reduced to 20 percent again on December 31, 2000. The MERCOSUR CET does not yet cover capital, informatic and telecommunication goods. Full coverage is scheduled for 2006.

MERCOSUR faced serious growing pains in late 1998 and all of 1999 that seriously harmed the trade flows amongst its partners. Intra-MERCOSUR trade declined 25 percent in 1999 due to Brazil's devaluation, lack of effective macroeconomic coordination, political problems in Paraguay, the imposition of trade-restrictive measures in Argentina and Brazil, and a war of incentives between Argentina and Brazil to attract foreign investment. The MERCOSUR Presidents "re-launched" MERCOSUR at the July 2000 Buenos Aires Presidential Summit by addressing several pressing issues, including the elimination of trade-restrictive measures, improving macroeconomic coordination and reducing tariffs on capital goods not produced in the region, among others.

The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union, and has enjoyed a rapidly growing trade surplus with Uruguay since 1991. The U.S. share of Uruguay's imports has increased slightly over the last decade, from 9 percent to 11 percent ($375 million), and the new government favors expanding trade with the United States, Mexico and Canada. The most significant U.S. exports to Uruguay are mechanical and electrical machinery, especially high-tech items. The United States provides roughly one-fourth of Uruguay's overall imports of those goods and roughly forty percent of overall imports of optical and medical instruments. The United States bought seven percent of Uruguay's exports ($153 million) and the most significant purchases from Uruguay include leather, frozen and chilled meat, footwear and fish.

The United States is the largest foreign investor in Uruguay, according to a recent government study, with a 32 percent share of overall foreign direct investment (FDI). Argentina and Spain are next in the ranking with 20 percent and 11 percent of overall FDI, respectively. More than 100 American firms operate in Uruguay, and a few are using Uruguay as a regional office or have MERCOSUR-integrated production.

2. Exchange Rate Policy

The Uruguayan government allows the peso to float against the dollar within a three-percent range. This system has been in effect since 1991 and the band's width and rhythm of growth have been modified on several occasions. The band currently rises by 7.4 percent per year and the Central Bank may buy and sell dollars to keep the peso's value within the band. Devaluation outpaced inflation by three percent in 1999. Total net foreign exchange reserves amounted to $2.6 billion as of September 2000, equivalent to more than double the money in circulation and enough to service external debts for two years; these reserves offer a strong backup for the exchange rate.

Uruguay's monetary policy is geared at keeping inflation under control, using the nominal exchange rate as the main instrument. Central Bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short-term paper. A large part of the economy is dollarized. There are no restrictions on the purchase of foreign currency or remittance of profits abroad and foreign exchange can be freely obtained.

3. Structural Policies

Uruguay switched from an import-substitution model that depressed growth in the sixties to an export-led model in the early seventies, when it launched a tax reform, liberalized foreign trade and the financial sector and opened the economy to foreign investment. The eighties was a "lost decade" for Uruguay (and for many other Latin American countries). The need to finance high public deficits and to maintain the exchange rate, along with the existence of easily available international funds, induced the government to borrow heavily from abroad. In November 1982 the crawling-peg exchange rate system was abandoned and the peso was devalued almost 100 percent from 14 to 28 pesos per dollar. GDP plunged 9.4 percent in 1982 and further declined by 5 percent and 1 percent in 1983 and 1984.

Growth recovered in 1985, averaging 3.5 percent between 1985 and 1999. Uruguay implemented tight monetary and fiscal policies in the nineties, which included a reduction in size and scope of the public sector, reduced inflation and a transformation of the pension system intended to lower a structural government deficit in the long run. (Prior to the reform the social security deficit amounted to six percent of GDP). Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale.

Since taking office in March 2000, the Batlle administration has demonopolized cement and asphalt production and has announced plans to deregulate and demonopolize other areas such as public works, telecommunications and labor insurance. There is, however, no timetable for the announced de-monopolization of public monopolies. The government has also announced its intention to transfer public works projects to the private sector under the build, operate and transfer system (BOT), but has provided no concrete deadlines.

4. Debt Management Policies

Uruguay has never defaulted on its debts. Net external debt has been decreasing steadily as a percentage of GDP since 1988 and Uruguay has been extending the maturity of its debt since 1996. As of first quarter 2000, Uruguayan net external debt was $2.9 billion, 86 percent of which is public. While all private sector debt is short-term (one year or less), public sector debt has a longer maturity (fifty-eight percent of the latter matures after the year 2002). Debt service in 1999 was $900 million, equivalent to 4.3 percent of GDP. The vast majority of public debt is dollar-denominated. In the mid-term, the current administration plans to lower the national debt and the budget deficit.

Reimbursable external loans amounted to $1.2 billion between 1994 and 1998. The Inter-American Development Bank was the single most important lender with half of overall external loans in the period, followed by the World Bank with one-fourth. An IMF stand-by program is in place until 2001. Uruguay does not usually draw funds from IMF credits but keeps them in reserve as a precaution.

5. Aid

Uruguay receives little non-military aid from the United States. During 1999 it received almost three million dollars from the United States for peacekeeping, training and equipment assistance. Bilateral counter narcotics assistance totaled $100,000. A Peace Corps program closed in 1997.

Using six million dollars from a debt reduction program, the U.S. and Uruguayan governments jointly manage the Fund of the Americas. This Fund is designed to use monies that would otherwise be due to the U.S. government for local environmental and child welfare programs. Since 1993 it has given out over four million dollars to 70 projects, directly benefiting over seventy thousand people. The Fund is a big player in Uruguay's non-governmental sector, having provided 82 percent of all environment-related international grants to non-governmental organizations (NGOs) and 54 percent of all international grants to childhood-related NGOs between 1995 and 1998. It has also provided training to 650 people throughout the country belonging to NGO members since 1998.

Total non-reimbursable aid received amounted to 129 million dollars between 1994 and 1998, according to the 1998 United Nations Annual Report on Cooperation for Development. Table 1 shows the most important donors and the amount of their donations from 1994 to 1998 in millions of dollars. The German Agency for Technical Cooperation (GTZ) was the most important single donor, followed by the United Nations Development Program (UNDP) and the United States.

Table 1 - Main donors. Total grants from 1994 to 1998 (in US$ millions)

	Accumulated 1994-98
TOTAL	129
German Agency for Technical Cooperation (GTZ)	16.5
United Nations Development Program UNDP	9.6
United States	8.6
European Union (EU)	5.0
Organization of American States (OAS)	4.7
United Nations Fund for Childhood (UNICEF)	3.2
International Organization for Migrations	2.9
World Health Organization (WHO)	2.2
International Agency for Atomic Energy	2.0
Inter-American Foundation (IAF)	1.6

Source: United Nations Annual Report on Cooperation for Development, 1998.

6. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "de-bureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. Restrictions on professional services such as law, medicine or accounting are similar to most countries. Persons with non-Uruguayan credentials who wish to practice their profession in Uruguay must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance (except work-related injury) coverage in Uruguay was passed in October 1993, although the former monopoly provider still maintains a big market share and regulation of the insurance sector is weak.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. However, passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Both private consortia and the state-owned phone company (ANTEL) operate cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately owned companies.

Government procurement practices are well defined, transparent and closely followed. Bid awards, however, often are drawn out and caught up in controversy. Tenders are generally open to all bidders, foreign and domestic. A government decree, however, establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil.

Reference prices were eliminated in 1994, but minimum export prices are still applied on a few items, namely textiles, clothing and sugar.

7. Export Subsidies Policies

The WTO agreement on Subsidies and Countervailing Measures has been adopted by law but no regulations implementing the agreement have been issued.

The government provides a nine-percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports.

Enterprises that export vehicles (or motor parts) wholly or partly constructed in Uruguay may benefit from a customs concession, applicable to the importation of motor vehicles assembled abroad.

8. Protection of U.S. Intellectual Property

Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Bern Convention, the Universal Copyright Convention (UCC,) and the Paris

Convention for the Protection of Industrial Property. Uruguay's intellectual property rights (IPR) regime does not, however, yet meet international standards.

The most serious lack of IPR protection is the lack of a modern copyright law. Uruguay's copyright law dates to 1937. Uruguay affords copyright protection to artistic works, including movies, books, records and videos. Software is subject to judicial interpretation each time a case is presented. Since it was not explicitly mentioned in the 1937 law, not all judges accept that software should be protected. Despite legal protection, enforcement of copyrights for software is still weak. The International Intellectual Property Rights Alliance (IIPA) estimates pirating of business application software and entertainment software of 67 percent and 70 percent in 1999. It also estimated losses due to software piracy of $23 million in 1999. There is also considerable pirating of videotapes and music discs and cassettes. IIPA estimated that trade losses from copyright piracy of books, motion pictures, sound recordings and musical compositions were over $8 million for 1999.

A new copyright bill was sent to Parliament in 1999, but was not approved. In 2000 Parliament split the copyright bill in two pieces, the first one regulating software and the other one on other copyright-related issues. The software bill entered the House of Representatives in October 2000. The Executive is pushing for approval of both bills in 2000.

Uruguay was placed on the "watch list" during the 1999 "Special 301" review due to its failure to meet its international obligations for IPR protection. It remained on the watch list in 2000. IIPA petitioned USTR to review Uruguay´s Generalized System of Preferences (GSP) benefits due to its continued failure to meet its TRIPS obligations.

The government approved a trademark law in 1998 that upgrades trademark legislation to TRIPS standards. Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. The law provides that the registration of a trademark will last ten years and that it can be renewed as many times as desired. It also provides for six month-to-three years in prison for violations. Registering a foreign trademark without proving a legal commercial connection with the trademark is not possible and enforcement of trademark rights is good.

The government also passed a patent law in 1999 that provides that invention patents have a 20-year term of protection from the date of filing. Patents of utility models and industrial designs have a 10-year term protection from the date of filing, that may be extended once for five more years. The law provides a lax definition of compulsory licensing and a vague determination of the "adequate remuneration" to be paid to the patent holder. U.S. pharmaceutical industry representatives are unhappy with the law, believing that its compulsory licensing requirements are not TRIPS consistent.

9. Worker Rights

a. *The Right of Association:* The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government control.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and in practice.

d. *Minimum age for employment of children:* Children as young as 12 may be employed if they have a special work permit. Children under the age of 15 may not perform industrial jobs. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work:* There is a legislated minimum monthly wage ($86 as of September 2000). The minimum wage functions, however, more as an index for calculating wage rates than as a true measure of minimum subsistence levels, and it would not provide a decent standard of living for a worker and family. This wage is not binding for the vast majority of the economic sectors that pay significantly higher salaries. The industrial and commercial standard workweeks are 48 hours and 44 hours, respectively with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice. There are tax incentives for companies that hire young people.

f. *Rights in Sectors with U.S. Investment:* Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		154
Food & Kindred Products	32	
Chemicals & Allied Products	37	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	3	
Other Manufacturing	82	
Wholesale Trade		67

Banking	231
Finance/Insurance/Real Estate	120
Services	(1)
Other Industries	16
TOTAL ALL INDUSTRIES	614

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.