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Uruguay: An Overview

Uruguay, a small nation of 3.5 million people, is located on the Atlantic coast of South America between Brazil and Argentina. The country stands out in Latin America for its strong democratic institutions; high per capita income; and low levels of corruption, poverty, and inequality. Due to its domestic success and commitment to international engagement, Uruguay plays a more influential role in global affairs than its size might suggest. Successive U.S. Administrations have sought to work with Uruguay to address political and security challenges in the Western Hemisphere and around the world.

Political and Economic Situation

Uruguay has a long democratic tradition but experienced 12 years of authoritarian rule following a 1973 coup. During the dictatorship, tens of thousands of Uruguayans were forced into political exile; 3,000-4,000 were imprisoned; and several hundred were killed or “disappeared.” The country restored civilian democratic governance in 1985, and analysts now consider Uruguay to be among the strongest democracies in the world.

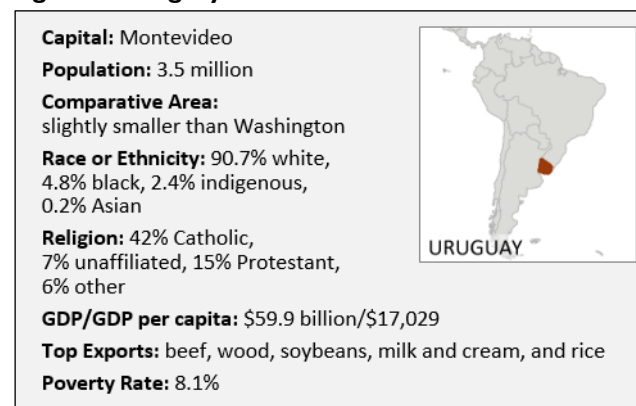
President Tabaré Vázquez of the center-left Broad Front was inaugurated to a five-year term in March 2015. This is his second term in office—he previously served as president from 2005 to 2010—and the third consecutive term in which the Broad Front holds the presidency and majorities in both houses of the Uruguayan General Assembly. Vázquez’s initial election ended 170 years of political domination by the National and Colorado parties.

The Broad Front governments have maintained orthodox macroeconomic policies while gradually expanding social welfare programs, establishing a more progressive tax system, and implementing union-empowering labor laws. This policy mix, combined with a boom in international demand for Uruguay’s agricultural commodity exports, has contributed to strong economic growth and considerable improvements in living standards. Uruguay is in the midst of the longest economic expansion in its history, with real gross domestic product (GDP) growth averaging 4.3% per year since 2005 according to the International Monetary Fund (IMF). Government statistics indicate that the poverty rate, which had spiked during a 1999-2002 economic and financial crisis, fell from 39.9% in 2004 to 8.1% in 2018. Uruguay’s middle class now encompasses 60% of the population, making it the largest in Latin America in relative terms according to the World Bank.

The Broad Front also has enacted several far-reaching social policy reforms, some of which have been controversial domestically. The coalition has positioned Uruguay on the leading edge of lesbian, gay, bisexual, and transgender (LGBT) rights in Latin America by allowing LGBT individuals to serve openly in the military, legalizing

adoption and marriage for same-sex couples, and granting legal protections and rights to transgender people. Under the Broad Front, Uruguay also legalized abortion in the first trimester of pregnancy and become the first country in the world to legalize and regulate every aspect of the marijuana market, from production to consumption.

Figure 1. Uruguay at a Glance



Sources: CRS Graphics, Instituto Nacional de Estadística de Uruguay, Pew Research Center, and the International Monetary Fund.

President Vázquez has spent much of his second term in office dealing with economic challenges. Uruguay’s economic growth slowed to an annual average of 1.6% from 2015 to 2018, depressed by recessions in Argentina and Brazil—two of Uruguay’s top trading partners and fellow members of the Common Market of the South (Mercosur) customs union. The economic slowdown has contributed to higher levels of unemployment, depressed revenue collection, and larger budget deficits. In an attempt to stabilize public-debt levels, the Vázquez Administration enacted a fiscal adjustment that deferred some public spending and increased taxes on businesses and higher-income earners. At the same time, the government has sought to bolster economic growth by encouraging increased investment in infrastructure through public-private partnerships. Nevertheless, the IMF forecasts that economic growth will slow to 0.4% in 2019.

Vázquez has lost much of his popular support over the past four years. In September 2019, 37% of the population approved of his performance in office and 47% disapproved, according to the polling firm *Cifra*. Slow growth has contributed to a sense of economic stagnation, and the government’s austerity measures have alienated Broad Front voters who expected Vázquez to increase funding for education and other public services. Many Uruguayans also are alarmed by rising levels of crime and violence. The homicide rate has more than doubled since the Broad Front took power, rising from 5.7 per 100,000 residents in 2005 to 11.8 per 100,000 in 2018.

Given Uruguayans' current discontent, the Broad Front may struggle to hold on to power in presidential and legislative elections scheduled for October 27, 2019. Polls suggest the governing coalition's candidate, former Mayor of Montevideo Daniel Martínez, is favored to win a plurality of the presidential vote, but his coalition may lose its majorities in Congress. A second round runoff election, scheduled for November 24, 2019, likely would pit Martínez against Senator Luis Lacalle Pou of the center-right National Party. The outcome may depend on Lacalle Pou's ability to unite the rest of the political opposition, which ranges from the center to the far right. The winner is to be inaugurated in March 2020.

U.S.-Uruguay Relations

U.S.-Uruguayan relations are generally friendly, though some sectors of the Broad Front distrust the United States, which provided aid to repressive security forces and sought to undermine the coalition's electoral prospects during the 1970s but later supported Uruguay's return to democracy. Uruguayan public opinion toward the United States has deteriorated since President Trump took office, with just 17% of Uruguayans approving of U.S. leadership in 2018, according to Gallup. This could hinder U.S. efforts to conclude bilateral agreements or obtain Uruguayan support for U.S. initiatives in the region.

Trade and Investment Relations

The United States and Uruguay have sought to forge closer commercial ties over the past 15 years but have faced some obstacles. In 2007, during President Vázquez's first term, the countries signed a Trade and Investment Framework Agreement (TIFA), which is designed to ensure ongoing consultations on issues such as trade facilitation, food safety, intellectual property rights, trade in services, and government procurement. Vázquez initially sought to negotiate a free trade agreement with the United States but was unable to overcome resistance from leftist sectors of the Broad Front and fellow members of Mercosur. Vázquez also withdrew Uruguay from a potential Trade in Services Agreement with the United States and more than 20 other nations in 2015 due to opposition within his coalition.

Total U.S.-Uruguay merchandise trade has increased by 73% since the TIFA was signed, reaching nearly \$2 billion in 2018, according to the U.S. Department of Commerce. U.S. exports to Uruguay totaled \$1.4 billion and U.S. imports from Uruguay totaled \$509 million, resulting in a \$936 million U.S. trade surplus. Machinery, refined oil products, pharmaceutical products, cosmetic products, and medical instruments were the top U.S. exports to Uruguay. Beef, wood, prepared meat, medical instruments, fruit, and leather were the top U.S. imports from Uruguay. In 2018, the United States accounted for 7% of Uruguay's total trade and was Uruguay's fourth-largest trading partner behind China (19%), Brazil (17%), and Argentina (9%).

U.S.-Uruguayan investment ties have increased substantially since the countries signed a bilateral investment treaty in 2005. According to the Department of Commerce, the accumulated stock of U.S. foreign direct investment in Uruguay increased from \$609 million in 2005 to \$1.3 billion in 2018. According to the U.S. Department

of State's 2019 *Investment Climate Statement*, Uruguay "recognizes the important role foreign investment plays in economic development and continues to maintain a favorable investment climate that does not discriminate against foreign investors." The State Department notes that Uruguay is strategically located between Mercosur's largest economies (Argentina and Brazil) and that the country's special import regimes make it a well-situated distribution center for U.S. goods into the region. The State Department also asserts that Uruguay's middle-class consumers make the country a good test market for U.S. products. More than 120 U.S.-owned companies currently operate in Uruguay.

International Affairs

Uruguay is a strong proponent of democracy and human rights, the peaceful resolution of disputes, international law, and multilateralism, and it often seeks to advance those values by serving as a consensus builder and mediator in international institutions. Although Uruguay and the United States often seek similar objectives in international affairs, the countries sometimes disagree on tactics.

On Venezuela, for example, the Vázquez Administration has condemned the undemocratic actions of Nicolás Maduro and backed diplomatic initiatives, such as the International Contact Group, intended to facilitate a peaceful path toward a free and fair presidential election. It has opposed U.S.-backed efforts to impose sanctions against Venezuelan officials, however, expressing concerns that sanctions could exacerbate polarization within the country and potentially spark a military confrontation. Uruguay's political opposition has called on Vázquez to take a more forceful stand against the Maduro government.

Uruguay is one of the largest per capita contributors of forces globally to U.N. peacekeeping missions. As of September 2019, Uruguay had 983 military troops, police, and advisers deployed to six missions, 941 of whom were supporting the U.N. Organization Stabilization Mission in the Democratic Republic of the Congo. The country also has established a National Peace Operations Training Institute, which provides specialized peacekeeping training to Uruguayans and foreign students.

The United States has urged Uruguay to maintain its contributions to U.N. peacekeeping missions and has sought to strengthen Uruguay's peacekeeping capabilities. Since FY2013, the U.S. government has obligated nearly \$17.5 million in assistance for Uruguay through the Global Peace Operations Initiative to provide equipment and training for Uruguayan peacekeepers and support to Uruguay's peacekeeping training center. The United States also provides International Military Education and Training (IMET) aid to Uruguay, focused on strengthening Uruguay's peacekeeping, disaster response, and national defense capabilities. IMET appropriations for Uruguay totaled \$401,000 in FY2018. FY2019 assistance levels are not yet available.

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