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Uruguay: An Overview

Uruguay, a small nation of 3.6 million people, is located on the Atlantic coast of South America between Brazil and Argentina (see **Figure 1**). 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

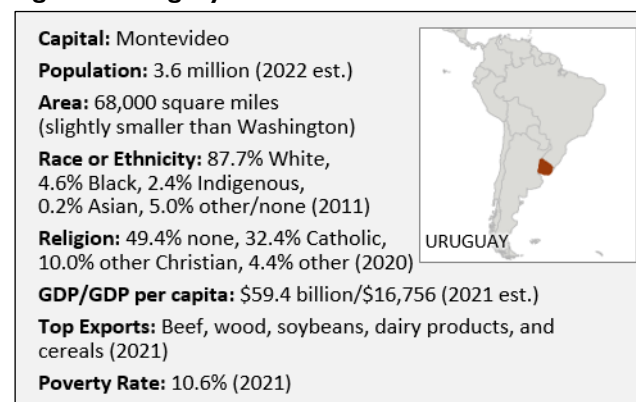
Uruguay has a long democratic tradition but experienced 12 years of authoritarian rule following a 1973 coup. During the dictatorship, tens of thousands of Uruguayans were forced into political exile, 3,000-4,000 were imprisoned, and several hundred were killed or “disappeared.” The country restored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

President Luis Lacalle Pou of the center-right National Party took office for a five-year term in March 2020, bringing to an end 15 consecutive years of governance by the center-left Broad Front coalition. A former legislator and the son of a former president, Lacalle Pou narrowly defeated the Broad Front’s Daniel Martínez (50.8% to 49.2%) in a November 2019 runoff election. Lacalle Pou’s coalition, which, in addition to his National Party, includes the centrist Colorado Party, the right-wing populist Open Town Hall party, and two smaller parties, also won majorities in both houses of the Uruguayan General Assembly; it holds 56 of 99 seats in the Chamber of Representatives and 17 of 30 seats in the Senate.

Shortly after taking office, Lacalle Pou’s multiparty coalition passed a far-reaching legislative package that enacted many of the market-oriented economic reforms and hard-line security policies included in the president’s campaign platform. Among other changes, the legislation established a fiscal rule to limit public expenditures, made structural changes to the education system, created a new environment ministry, increased some criminal penalties, gave greater powers to the police, banned blockades that prevent the free movement of persons or goods, and prohibited labor unions from impeding workers or owners from entering businesses during strikes. The political opposition, led by the Broad Front and the national labor federation, sought to repeal portions of the law through a national referendum held in March 2022. The referendum captured nearly 49% of valid votes but fell short of the absolute majority needed to repeal the reforms.

The Lacalle Pou administration has been widely credited for its relatively effective response to the Coronavirus Disease 2019 (COVID-19) pandemic, which helped Uruguay weather the health and economic effects of the pandemic better than many other South American countries. Uruguay successfully contained the spread of the virus for much of 2020 but experienced a significant wave of cases and deaths during the first half of 2021, before the country’s vaccination campaign had reached a majority of the population. According to Johns Hopkins University, as of July 1, 2022, Uruguay had recorded more than 957,000 cases and 7,300 COVID-19 deaths (211 per 100,000 residents), and more than 83% of Uruguay’s population was fully vaccinated.

Figure 1. Uruguay at a Glance



Sources: CRS Graphics, *Instituto Nacional de Estadística de Uruguay*, *Latinobarómetro*, International Monetary Fund, and Trade Data Monitor.

The pandemic also contributed to a steep economic downturn initially. The Uruguayan economy contracted by 6.1% in 2020, pushing the poverty rate up from 8.8% to 11.6%, according to government statistics. The Uruguayan government enacted an emergency support package worth about 2.7% of gross domestic product (GDP) that included tax cuts, enhanced unemployment insurance, and income transfers to help businesses and households through the downturn. That policy response and Uruguay’s successful vaccination campaign supported economic recovery in 2021, with GDP growth of 4.4%.

The International Monetary Fund forecasts 3.9% economic growth for Uruguay in 2022, driven by strong international demand and high prices for the country’s meat and grain exports. Tourism has yet to return to pre-pandemic levels, however, and disruptions in global fertilizer markets stemming from the Russia-Ukraine war could hamper growth. Uruguay is also contending with relatively high inflation (9.4% in the 12 months through May 2022), which is weighing on consumers and may be taking a toll on the

president's political support. A May 2022 poll conducted by the Uruguayan firm Cifra found 50% of Uruguayans approved of Lacalle Pou's performance in office and 40% disapproved—an 11 percentage point decline in his net approval rating compared with February 2022.

U.S.-Uruguay Relations

The United States and Uruguay typically have enjoyed friendly relations. During an April 2022 meeting in Washington, DC, Secretary of State Antony Blinken and Uruguayan Foreign Minister Francisco Bustillo expressed support for bilateral efforts to deepen commercial ties and discussed various global issues, including Russia's invasion of Ukraine and its potential impact on the global food supply chain. The leaders also agreed to launch an annual bilateral Interministerial Dialogue to coordinate cooperative efforts on political, economic, technological, academic, and cultural issues.

Trade and Investment Relations

President Lacalle Pou took office pledging to better integrate Uruguay into the global economy. He has repeatedly pushed the Common Market of the South (Mercosur) customs union, which also includes Argentina, Brazil, and Paraguay, to reduce the common external tariff applied to non-Mercosur goods and to adopt more flexible trade rules that would allow individual members of the bloc to negotiate trade agreements with external partners. Although Argentina has resisted such changes, Uruguay has pressed forward unilaterally and is currently negotiating free-trade agreements with China and Turkey. Lacalle Pou also has expressed interest in expanding commercial ties with the United States, but lamented in a May 2022 BBC interview that the U.S. government “is not looking south.”

The United States and Uruguay engage on commercial issues under a 2007 Trade and Investment Framework Agreement (TIFA) and two protocols to the TIFA related to trade facilitation and the environment. In August 2021, the countries agreed to review those agreements and negotiate a new protocol to the TIFA that may include higher standards in areas such as trade facilitation, regulatory practices, anti-corruption, and digital trade.

According to U.S. Census Bureau data, total U.S.-Uruguay merchandise trade declined by 17% in 2020 due to the pandemic but bounced back in 2021, growing by 38% to reach a record high of \$2.4 billion. In 2021, U.S. exports to Uruguay amounted to nearly \$1.8 billion and U.S. imports from Uruguay totaled \$634 million, resulting in a nearly \$1.2 billion U.S. trade surplus. Mineral fuels, pharmaceutical products, and machinery were the top U.S. exports to Uruguay. Meat, wood, and fruit were the top U.S. imports from Uruguay. According to Uruguay's Central Bank, the United States accounted for 7% of Uruguay's total merchandise trade in 2021 and was Uruguay's fourth-largest trading partner behind China (23%), Brazil (19%), and Argentina (9%); the European Union accounted for 10% of Uruguay's total trade.

The United States and Uruguay signed a bilateral investment treaty in 2005, which entered into force in November 2006. According to the U.S. Bureau of

Economic Analysis, the accumulated stock of U.S. foreign direct investment in Uruguay increased from \$609 million in 2005 to \$2.2 billion in 2015, coinciding with an economic boom in Uruguay. It has declined by 55% since then, however, amounting to \$998 million in 2019 (latest U.S. data available). According to the U.S. Department of State, the Uruguayan government “recognizes the important role foreign investment plays in economic development and offers a stable 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 high-income consumers make the country a good test market for U.S. products. About 120 U.S.-owned companies currently operate in Uruguay.

Foreign Affairs and Defense Cooperation

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 forums. Since taking office, the Lacalle Pou administration has joined the United States in supporting several U.N. and Organization of American States resolutions condemning human rights abuses and anti-democratic actions in Venezuela. Uruguay also denounced Russia's invasion of Ukraine as a “grave and unjustifiable violation of international law” and joined the United States in cosponsoring a U.N. General Assembly resolution, adopted in March 2022, that demanded Russia immediately withdraw its forces.

Uruguay is one of the largest per capita contributors of forces globally to U.N. peacekeeping missions. As of April 2022, Uruguay had nearly 1,100 military troops, police, and advisers deployed to seven countries, more than 800 of whom were supporting the U.N. Organization Stabilization Mission in the Democratic Republic of the Congo. Uruguay also hosts a National Peace Operations Training Institute, which provides specialized peacekeeping training to Uruguayan and foreign security forces. The United States has encouraged Uruguay to maintain its contributions to U.N. peacekeeping missions and has provided more than \$27.5 million of equipment and training to Uruguay through the Global Peace Operations Initiative since FY2008, according to the State Department.

The United States also has provided additional military aid to Uruguay. In FY2021, the United States allocated \$400,000 of International Military Education and Training (IMET) aid to Uruguay intended to enhance the country's peacekeeping, disaster response, and national defense capabilities. The Biden Administration has requested \$350,000 of IMET aid for Uruguay in FY2023; FY2022 allocations are not yet available. In addition to providing training, the United States plans to transfer three coastal patrol boats, worth an estimated \$8.7 million, to Uruguay under the Excess Defense Articles program to support the modernization of Uruguay's naval fleet in 2022.

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