

Uruguay

Uruguay is a phenomenon among emerging markets in Latin America. In the last two decades, this small, export-driven economy has come back from economic stagnation to become one of the most politically, economically, socially and legally stable countries in Latin America with one of the most open investment environments.

*Uruguay – Open for Growth*¹

Introduction

- 8.1 A former colony of Spain, along with Argentina, Uruguay fought against Spain for independence from 1810. From 1814, Uruguay sought its own destiny, separated from Argentina, declared independence in 1825 and in 1828 the state of Uruguay was created, and its first Constitution was drawn up in 1830.
- 8.2 During the early 20th century, along with Argentina, Uruguay was one of the most prosperous and progressive nations in South America. Uruguay was largely unaffected by the Great Depression of 1929 and it was not significantly involved in the Second World War. Economic and social unrest during the 1960s fuelled inflation and led to division within the country. After 1973, the military had a much greater role in civil political life, and civilian democracy was not restored until early 1985.
- 8.3 Following the elections of October 1999, and the subsequent run-off elections, Uruguay has been governed by a coalition of the Partido

¹ Campomar, Andreas and Andersen, Brian Muggeridge, *Uruguay – Open for Growth*, Euromoney Publications PLC, England, 1999, p. 1.

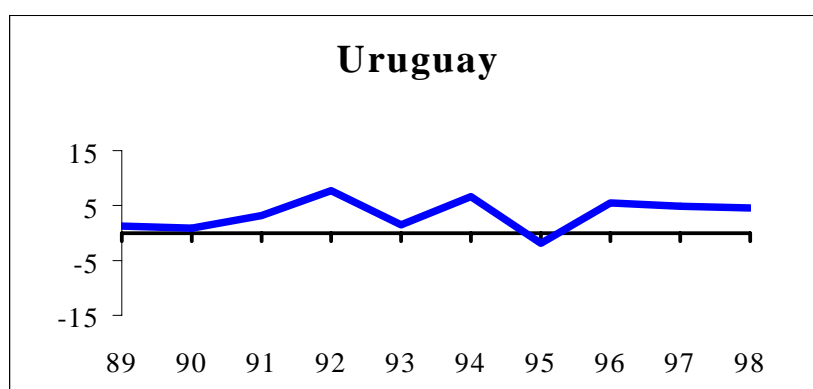
Nacional and the Partido Colorado, the party of current President Jorge Batlle Ibáñez. The President was sworn in on 1 March 2000.

- 8.4 Except for the military intervention in the 1970s Uruguay has had a long history of democracy. Throughout the 1970s a series of reforms were launched designed to reduce the government's role in the economy, increase efficiency and reduce inflation.² Uruguay's entry into Mercosur has perhaps been, according to commentators, the single most important event in the recent economic history of the country. It has given the country the opportunity of transforming itself from one of the smallest economies in Latin America into a vital component of one of the world's largest trading blocs, and has further strengthened Uruguay's ability to attract foreign investment.³

Overview of the Economy

- 8.5 Uruguay has a relatively transparent and stable economy, characterised by unimpeded capital transfers and foreign exchange transactions. Inflation fell consistently throughout the 1990s, while GDP growth was strong, if not consistent. Figure 8.1 shows real GDP growth for the ten-year period to 1998.⁴

Figure 8.1 Real GDP Growth – 1989-1998



Source *Australia's Trade with the Americas, 1993-94 & 1998, Department of Foreign Affairs and Trade, Canberra.*

- 8.6 After Argentina, it has the highest GDP per capita in South America, and is one of the most egalitarian societies in the region. In addition to its natural advantage of geography, Uruguay has a highly literate population and is a member of Mercosur.

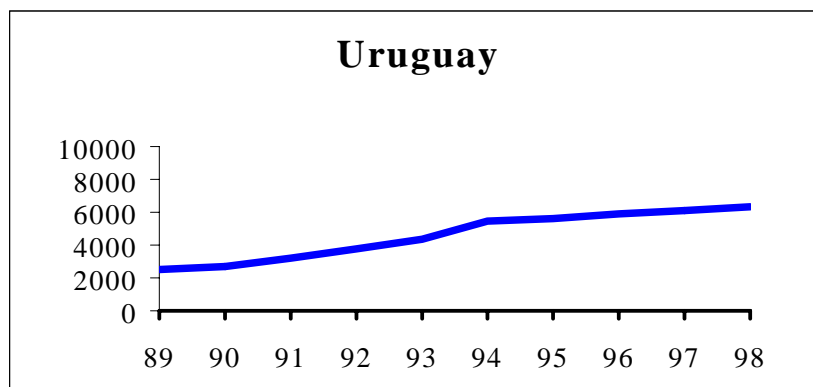
2 *ibid.* p. 6.

3 *ibid.* pp. 6-7.

4 The fall in growth in 1995 was the result of the Mexican 'tequila crisis'.

8.7 Figure 8.2 shows GDP per capita for the period 1989 to 1998.

Figure 8.2 GDP Per Capita – 1989-1998



Source *Australia's Trade with the Americas, 1998, Department of Foreign Affairs and Trade, Canberra, and IMF/IFS and EIU Country Reports.*

- 8.8 Besides the government policies aimed at further reducing inflation and the size of the public sector, the most important reform in recent years has been to the social security sector that accounted for the equivalent of 6 per cent of GDP in 1996. The introduction of private pension plans to the public system and other reforms is expected to eventually reduce social security expenditure to one per cent of GDP.⁵
- 8.9 Traditionally much of Uruguay's economy has been devoted to agricultural production and accounts for some 50 per cent of Uruguay's export earnings. The primary industries of agriculture, livestock, fishing and mining made up 9 per cent of Uruguay's GDP in 1998. Sixty nine per cent of Uruguay's economy was in service based industries, manufacturing accounted for 18 per cent while 4 per cent was in construction.⁶
- 8.10 Uruguay's major export item is beef accounting for 14.6 per cent of exports. This is followed by rice and other grains making up 10.7 per cent, and skins, hides and leather products accounting for 9.0 per cent. Uruguay is well known for its leather products especially handbags and clothing.
- 8.11 Uruguay is a major importer of machinery and appliances, electrical materials that account for 22.4 per cent of imports. Transportation materials account for 14.5 per cent of imports followed by chemicals and connected products making up 13.5 per cent.

5 DFAT, Country Brief.

6 Presentation by Uruguay XXI Investment and Export Promotion Agency, p. 21.

The Nature of the Trade and Investment Relationship

- 8.12 Trade between Uruguay and Australia is modest and investment flows have been limited. Uruguay was ranked 115th in 1999 on the value of merchandise trade with Australia, behind Brazil, Chile, Argentina, Peru, Colombia and Venezuela. During the same year, Uruguay bought \$7.776 million of Australia's merchandise exports, making it Australia's 109th largest market for merchandise exports. This represents a decrease of 35.3 per cent over the previous year's exports, while the trend for Australian exports to Uruguay from 1994 to 1999 decreased by 0.5 per cent.
- 8.13 In 1999, Uruguay ranked 97th as a source of merchandise imports for Australia, worth some \$4.305 million. This is a fall of 9.2 per cent over the previous year, although the trend from 1994 to 1999 shows that the value of imports from Uruguay rose by 13.4 per cent.
- 8.14 Major Australian imports from Uruguay in 1998 included leather - \$1.989 million; tanned or dressed furskins - \$1.170 million; pearls and gems - \$0.320 million; and leather manufactures - \$0.210 million. Australia's main exports to Uruguay in that year included wool - \$3.321 million; iron and steel - \$2.444 million; uncoated flat-rolled steel - \$1.118 million; and bovine meat - \$0.873 million.
- 8.15 Although trade and investment may be modest, eucalyptus trees are highly predominant. The eucalypt is the most common tree in Uruguay and is a significant forestry tree with 80 per cent of the forestry industry – an emerging industry – eucalypt based.
- 8.16 Australia's business presence in Uruguay is fairly limited. Australian investments include mining, agriculture and entertainment. The Australian firm Uruguay Gold has been in Uruguay for four years because of the geological potential. Rio Tinto is prospecting in diamonds through share ownership of a Canadian company and Majors Drilling, an Australian-Canadian joint venture, is involved in mining equipment.
- 8.17 Members of the Trade Sub-Committee met with Uruguay Gold in Montevideo. Uruguay Gold said that Uruguay is open for business with foreigners considered the same way as locals. There is no hindrance to repatriation of profits and the labour force has a high standard of education – there is a 97.5 per cent literacy rate in Uruguay and a high incidence of learning English within the workforce. Furthermore Uruguay has very good roads and infrastructure.
- 8.18 An interesting aspect that arose in discussions was the awareness factor. Uruguay Gold says that Uruguay has a greater knowledge of Australia

than vice versa. They also pointed out that the Buenos Aires-Sydney air link has made things a lot easier.

- 8.19 Burns Philp, through Levaduras Uruguayas, is active in the market having established in Uruguay in 1956 to produce and distribute yeast for baking to bakers and industry. Besides yeast the company sells fruits, emulsifiers etc and equipment and baker's clothing. By the mid-1990s the company had achieved 50 per cent of market share. The Trade Sub-Committee visited Levaduras Uruguayas in Montevideo and was told the advantages of being a Burns Philp company were an increase in the value and variety of products commercialised, penetration of new market segments and improvement in financial results.
- 8.20 Hoyts have a joint venture with a local operator in cinemas. The Uruguay firm Los Cipreses-Buquebus is a customer of Incat having purchased a number of catamarans from the Tasmanian company. P & O applied for a tender for a container terminal in Montevideo's harbour and Bishop Austrans Ltd was one of four companies pre-qualified for a suburban railroad project. Some important Australian resource businesses have shown interest in port development on the Rio de la Plata waterway.⁷
- 8.21 Uruguay is a member of the Cairns Group of Agricultural Fair Traders and currently an Investment Promotion and Protection Agreement is under negotiation. An Extradition Treaty was signed on 7 October 1998 and is yet to enter into force. The Senate Committee on International Affairs in discussions with the Trade Sub-Committee expressed the wish for a cultural agreement between Uruguay and Australia as well as the establishment of a parliamentary friendship group in the Uruguay Parliament and for an exchange of visits. The Australian Parliament has an Australia-Uruguay Parliamentary Group and the Committee hopes that the Uruguay Parliament will set up its group in the very near future to increase the dialogue at a parliamentary level.
- 8.22 In discussions with Uruguay XXI⁸ and COSUPEN⁹ it was suggested to members of the Trade Sub-Committee that from Australia's perspective we should concentrate on Mercosur to develop the Uruguay-Australia trade and investment partnership. There was the sense that a formal establishment of links with Uruguay would be beneficial.
- 8.23 At the meeting it was pointed out that farm organisations in Uruguay are working closely with farm groups in the Cairns Group. A matter of some considerable concern to Uruguay was canvassed with the Trade Sub-

7 Uruguayan Ambassador, Transcript, 13 August 1999, p. 58.

8 Uruguay XXI – Investment and Export Promotion Agency.

9 COSUPEN – umbrella organisation representing all the industry chambers.

Committee. Like Australia, Uruguay suffers from drought and was in the throes of drought and facing very severe difficulties with pasture, that would be exacerbated going into winter. The impact on their beef industry was going to be substantial. Uruguay has a 20,000 tonne beef quota into the US that could not be increased to allow them to sell more cattle rather than slaughter them due to the drought. Uruguay XXI and COSUPEN made a request for Uruguay to use part of Australia's unfilled beef quota into the US for this year. The Chairman of the Joint Committee conveyed this request to the Minister for Agriculture, Fisheries and Forestry and received a sympathetic hearing. The Federal Government was not able to accede to the request.

- 8.24 The Trade Sub-Committee met with the Minister for Industry, Energy and Mining and in discussions he mentioned he is considering sending a *roadshow* to Australia that he may possibly lead. The Committee commended the Minister on this proposed initiative and looks forward to increasing the ties.
- 8.25 The headquarters for Mercosur are located in Montevideo and the Trade Sub-Committee took the opportunity to visit the headquarters and held discussions with the Secretariat.
- 8.26 It is interesting to note that Uruguayans make up the second largest Latin American group in Australia and the last census showed there are some 16,000 persons with Uruguayan nationality living in Australia.

Opportunities for Australian Business

- 8.27 Uruguay has a stable economy and political outlook. With its preferential access to the two large markets of Brazil and Argentina under Mercosur, and the relative openness of its economy to trade and investment, Uruguay presents opportunities for Australian companies particularly those willing to establish a presence in the market. The Australia-Uruguay Chamber of Commerce (AUCC) in its evidence demonstrated the significance of Uruguay:

The MERCOSUR, with its population of well over 200 million, brings together Brazil, Argentina, Paraguay and Uruguay – 70% of South America's surface area and 78% of its Gross Domestic Product – in a growing customs union. A circle drawn with centre in Uruguay and radius of 1,600kms (1,000 miles) includes all the major cities of the MERCOSUR and 85% of its Gross Domestic Product. With its extensive paved network of roads, the planned bridge uniting Buenos Aires and Colonia, the autoroute which will

cross Uruguay and proceed to São Paulo, and its existing river and sea port structure, Uruguay is in a privileged geographical position.¹⁰

- 8.28 Companies may consider piggy backing on existing interests in the Brazilian and Argentine markets. The close commercial ties that these markets have with Uruguay may help facilitate entry into the Uruguayan market.

Mining

- 8.29 Mining in Uruguay has become a newly developed resource. The Uruguayan Ambassador pointed out that the industry has experienced enormous growth – some 664 per cent between 1995 and 1996 and over 100 per cent between 1997 and 1998. The government has been promoting the mining sector and its foremost objective is to accelerate the exploration process and strengthen current national output by attracting foreign mining companies to make the most of the opportunities the sector has to offer.¹¹
- 8.30 According to Uruguay XXI, Uruguay's mining industry presents foreign investors with sundry business opportunities both in the exploration for new minerals or in the production of those already existing.¹²
- 8.31 These opportunities range from the possibility of making direct investments to entering into partnerships with local corporations to explore joint undertakings. Furthermore according to Uruguay XXI, they provide specific advantages in addition to the general benefits that Uruguay offers to foreign businesses wishing to invest in this field. The opportunities include:
- Metallic minerals and diamonds:
 - ⇒ Direct investment or joint ventures for new explorations.
 - Granite:
 - ⇒ Direct investment or joint ventures aimed at setting up new processing plants;
 - ⇒ New exploitations;
 - ⇒ Commercial agreements with firms that use modern technology and are currently in production.

10 AUCC, Submission, p. 430.

11 Uruguay XXI, *Uruguay, Business Opportunities, The Mining Sector*, Montevideo.

12 *ibid.*

- Semi-precious stones (amethysts):
 - ⇒ Direct investment or production and/or marketing agreements for the exploitation of existing and/or new deposits.
 - Construction materials:
 - ⇒ Direct investment and/or marketing agreements for the exploitation of existing and/or new deposits.
 - Dolomite:
 - ⇒ Direct investment or agreements for exploration and/or exploitation of dolomite deposits.
- 8.32 Very little exploration work has been done so far and the Uruguayan Ambassador is keen to see more Australian mining investment in Uruguay. Moreover Uruguay has advanced mining legislation – there is no difference between foreign and national mining ventures, a favourable tax system, import duties are exempted, property tax is exempt on the assets incorporated by the investment project, and there are good government support services.¹³

Agribusiness

- 8.33 Moreover similarities in the primary exports of Uruguay and Australia presents opportunities for export of agriculture related products and services.¹⁴ As the eucalypt afforestation projects mature there will be opportunities for Australia to provide the technology and the marketing know-how to exploit this new resource.
- 8.34 There is further scope for R & D collaboration in such areas as wool and eucalypt. Uruguay is the third largest world exporter of wool and the second largest in wool apparel after Australia and is the only remaining associated member of the former IWS, currently the Woolmark Corporation. Uruguay has learnt a lot from Australian researchers and one such area is red and white clover development.
- 8.35 The Uruguayan Ambassador mentioned other promising fields such as agricultural machinery and goods including genetic and veterinary products.
- 8.36 Uruguay's agricultural production, like barley, wheat, pastures, seeds and citrus, is carried out in a similar climate to Australia's with similar plant and animal breeds and similar production systems. There are a host of opportunities to capture market share with technical know-how and

13 Uruguay, Submission, p. 455.

14 DFAT, Submission, p. 300.

associated equipment. The New Zealanders have captured agricultural equipment market share with electric fencing materials, milking equipment and ear clips.¹⁵

Tourism and Education

- 8.37 Uruguay has a substantial growing market in tourism and education. The Uruguay government is promoting and expanding the tourism industry and has embarked on a number of initiatives. These include developing the tourism infrastructure, promoting other areas of interest outside the most popular coastal resorts of Punta del Este and Piriápolis, promoting visits outside the traditional tourist season (December to March) and promoting Uruguay as a destination in Brazil, North America and Europe.¹⁶
- 8.38 Improvements in the standard of service have become a priority and this is an area where Australia is particularly well placed to take up opportunities. The government is also trying to secure foreign investment in new areas for tourism and again this provides avenues of opportunity for Australian business. Considerable investment in hotels is being sought by the government as well as investment for city redevelopment to attract the tourist dollar. A number of the concessions outlined further on are tourist related such as the venture for tourism and sailing at Riachuelo Brook.
- 8.39 The government is also trying to diversify the tourist industry and promote the country's rural hinterland. Eco-tourism and rural travel are becoming more popular but are relatively limited at this stage.
- 8.40 The AUCC pushed education as an opportunity and in so doing reinforced the fact that Spanish is the second most spoken language in the world and that Australia needed to show greater interest in the delivery of it in language training curriculums in Australian secondary and tertiary institutions. The visa issue is an important factor that mitigates against increasing tourism for Australia and the AUCC says the visa process must be streamlined and without cost to grow trade and development between the two countries.
- 8.41 In discussions with Uruguay's Senate Committee on International Affairs, the Trade Sub-Committee raised the development of tourism and Uruguay's tax breaks on hotels and Australia's internationally recognised expertise in eco-tourism and hospitality education.

15 Uruguay, Submission, p. 454.

16 Campomar, Andreas and Andersen, Brian Muggeridge, *Uruguay – Open for Growth*, Euromoney Publications PLC, England, 1999, p. 136.

Construction Industry and Telecommunications

8.42 Opportunities are not limited only to tourism and education. The construction and building material areas have scope for foreign investment as do sectors where privatisation is likely, such as energy and telecommunications. The telecommunications sector is not completely open but is working to moving from a state-owned monopoly towards privatisation. Uruguay leads Latin America with 100 per cent digitalisation of its telephone system, basic telephones per head of population are 28 per cent and mobile telephones per head of population are 3.4 per cent.¹⁷

8.43 On the housing and construction front there is opportunity for Australia with its know-how in providing very affordable and easy-to-build housing. As the AUCC told the Committee:

At the moment, Uruguay has a sudden shortage of housing, and the expensive way they build houses could be improved by bringing in Australian know-how.¹⁸

8.44 The AUCC pointed out there are opportunities in joint ventures between consultants from both countries in planning and developing community projects in Latin America. Areas that may be considered include ground water supply, waste water treatment and fire proofing/engineering of buildings. Uruguay Gold said there are opportunities for Australian investment in the promising solar heating market. While Uruguay is not big enough yet they said it is very receptive.

Financial Services

8.45 The banking system in Uruguay is well developed but there are several areas in financial services such as personal investment counselling, retirement counselling that would lend themselves to development by small Australian organisations.¹⁹ Furthermore the AUCC says there is the opportunity for the development of serviced offices for small and medium sized businesses and Australian firms have significant experience in this area.

8.46 The President of Uruguay is keen to open up the services sector and this is an area for Australia to invest. The Uruguayan Ambassador told the Committee that the biotechnology sector is booming as well as the information technology sector, 'for which Uruguay is becoming one of the

17 AUCC, Submission, p. 428.

18 AUCC, Transcript, 3 September 1999, p. 143.

19 AUCC, Submission, p. 430 and see Transcript, 3 September 1999, p. 144.

hubs of Latin America in particular, in the Spanish speaking software market.²⁰

Concessions

- 8.47 Uruguay offers a range of business opportunities in infrastructure works. The Uruguayan Ambassador told the Committee that there is an enormous window of opportunity for Australian companies but he did point out it is a 'window that closes rapidly and towards which many competitors have already come.'²¹ Some Australian companies have been involved in tendering for a number of the concessions.
- 8.48 In relation to energy the Trade Sub-Committee was told in Montevideo, that power generation is state-owned but joint ventures are now possible. For instance, gas concessions have been awarded to British Gas and the gas is distributed by a French and a Spanish company.
- 8.49 One of the biggest projects is the design, construction and operation of the Buenos Aires-Colonia international bridge. There are a range of services associated with this project such as petrol stations, duty-free shops, restaurants, loading and off-loading areas that would form part of the concession and could be contracted by the successful bidder to other private agents. Such sub-contracting may present opportunities for Australian firms.
- 8.50 Other concessions include:
- Construction and operation of the Salto (Uruguay)–Concordia (Argentina) international bridge with the impact of this undertaking possibly leading to other infrastructure works such as an international airport in Salto and further development of the tourist sector based on the natural springs in the region;
 - railway lines for the transportation of timber;
 - highways;
 - construction and operation of the deep water port of La Paloma;
 - operation and maintenance of the ports of Punta del Este, and Piriápolis;
 - construction and maintenance of Montevideo cargo terminal;
 - yacht mooring facilities at Riachuelo Brook;

20 Uruguayan Ambassador, Transcript, 13 August 1999, p. 58.

21 Uruguay, Submission, p. 456.

- construction and operation of a major international road connection linking the cities of Porto Alegre in Brazil and Buenos Aires in Argentina with the Uruguay section crossing the entire country (some 600 kilometres long);
- inter-city commuter passenger train; and
- power-electrical interconnection and power generation plants.

Market Access Issues

8.51 In relation to market access issues the only area is in relation to some tariff peaks. These tariff peaks, according to DFAT can be found in some toys, shoes, dairy products, information technology equipment and vehicles and automotive parts.

Free Trade Zones

8.52 Like Argentina and Chile, Uruguay has an FTZ that can provide an entry point for Australian companies and will give the advantage of no tax obligations until items leave the zone for delivery. The FTZ is at Colonia, the location of the Buenos Aires-Colonia international bridge and concession area.