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A Look at a Small Southern Country: Uruguay

Abstract: In this work we take a look at a small southern country in Latin America: Uruguay, located between two large neighbors: Argentina and Brazil. In the paper some socio-economic features and historical facts about Uruguay were presented. Historically, the agricultural sector and export specialisation have been quite important for the country's economic growth. Recently, services have become important too. The second part of the paper is entirely dedicated to the present situation, namely from March 2019, in which it was described how the COVID-19 pandemic has been dealt with in terms of the health and economic measures. Finally, some questions about the future of the pandemic and the country's economy were posed.

Keywords: Latin America, emerging economies, country studies, COVID-19, Uruguay.

1. Introduction

Uruguay's economy is based on the country's natural resources, a highly literate population, and a strong state presence. The population of nearly 3.5 million are mostly descendants of European immigrants. The country is located between the two biggest Latin American countries: Brazil and Argentina. Although production was historically mainly based on the agricultural sector, in recent decades the weight of other economic sectors has grown considerably. As in most developed and emerging economies, the rural population has decreased drastically in the last 50 years. The objective of this work is thus to describe some of the country's features, its evolution and the situation when the pandemic broke out and how it was tackled. Finally we pose some questions about the future and how to resume the path of growth and economic equity.

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2. Some features of the Uruguayan economy

Uruguay has abundant natural resources and it prospered due to its agrarian activities. Economic growth was thus initially supported by agricultural exports along with a strong international demand. By the last decades of the 19th century Uruguay had achieved similar or higher levels of per capita income to those of several European economies (Sandonato and Willebald 2018). The next challenge for the Uruguayan economy was to change from a settler society, highly specialized in commodities, to more diversified production. According to Maddison (2008), in 1900 a period with an evolution of per capita GDP much higher and with faster growth than that of the other countries such as Spain and other European countries such as England and France began. This period ends in 1912. During those years Uruguay consolidated its democracy and reached high levels of well-being. This period also included the nationalization of some banks.

In the early 1930s Uruguay adopted an inward-oriented policy aimed at industrializing the country by the substitution of imports to foster growth and economic development. Like most countries in Latin America, the manufacturing industries in Uruguay were developed in the context of import-substitution policies, which implied a high level of protection for domestic production. The manufacturing sector increased, reaching one third of GDP. In the decade following WWII the country experienced rapid growth based on manufacturing until the end of the 50s, when a long period of stagnation and high inflation started (Sandonato and Willebald 2018).

This situation continued until 1970, when new economic measures were implemented based on a gradual opening of the economy, increasing financial liberalization and regional trade agreements. In 1973 there was a military coup followed by a dictatorship but the economic liberalization and trade openness continued. Since 1974 Uruguay has experienced a continuous reduction in the tariff barriers that had protected domestic production (Peluffo 2016). In the 1980s and 1990s, along with the liberalization process, the manufacturing sector drastically declined. During these decades the economy underwent two deep crises, one in the 1980s and the other in the 2000s. In the 1990s regional integration, and financial liberalization policies were implemented. In 1991 Uruguay signed the Asuncion Treaty aimed at creating the Southern Common Market (MERCOSUR) with Argentina, Brazil and Paraguay, which implied a deepening in the liberalization process, though so far it is still an imperfect customs union. Between 1999 and 2002, the economic crisis and the Argentinean corralito (freezing of bank accounts) also affected the Uruguayan economy, 40% of the population fell below the poverty line, and there was a financial collapse. From 2003–2004 until 2019 Uruguay experienced a long

expansion cycle based on high rates of fixed capital formation, due to foreign investment in the agro-industrial sectors and export growth supported by higher volumes and prices (Bertola, Isabella and Saavedra 2014).

The Uruguayan economy has continued to specialize in commodities and services based on natural resources, which comprise 70% of total exports (Paolino, Pittaluga and Mondelli 2014). The expansion has mainly been driven by agriculture, which experienced important increases in productivity, technological change and transport activities, along with public policies directed at the sector. From 2005 to 2015 the Uruguayan economy grew at an unprecedented rate along with high prices of agricultural goods and a strong demand from China. After 2015, the growth rate slowed but the economy continued to grow until 2019. This economic growth, along social policies aimed at helping the poorest segment of the population would be due to Uruguay's political stability, the historical intervention of state welfare policy, and high prices for exports. Furthermore, the development of trade relations with China helped to promote exports, enhancing economic growth.

Regarding to the productive structure of the country, sheep and cattle are the most important production activities. Meat, wool, leather and other by-products have always been the main exports. Sheep farming is concentrated in the north, in the departments of Artigas and Salto, although, to a lesser extent, it is also found in the rest of the country. Cattle are farmed throughout the country, though predominantly in the south and on the west coast.

From the beginning, one of the most important export industries was beef and wool. Beef exports have increased since Uruguay joined the Mercosur agreement in 1991 and the country has been able to access more distant, Asian markets. While wool exports have fallen in recent years, suffering from competitors in such as New Zealand, and fluctuations in demand during the 2007/08 recession in the developed world. Recently, timber processing has also developed and forestry has become a growth industry.

Uruguay has a per capita income of USD 17,029 (GDP per capita at nominal prices) and USD 23,581 in PPP in 2019 according to Banco Central de Uruguay (BCU). Historically production was mainly based on the agricultural sector, in recent decades the weight of other sectors has grown considerably. In 2019 agricultural activities represented 6.31% of GDP, manufacturing 11.74%, construction 9.74%, commerce 13.58%, transport 5.40%, and the rest 53.23%. Agricultural goods are very important as a proportion of total exports. According to Uruguay XXI, the government agency in charge of the promotion of trade and foreign investment, Uruguayan exports, including those from free-trade zones, recorded an increase of 0.7% in 2019, reaching a total of USD 9.146 billion. In a year marked by trade tensions between the main markets (China and United States) and a relative

slowdown in the world economy, Uruguay's export performance was similar rhythm to the rest of the region. The growth in soybean exports by volume and beef exports by value boosted external sales in 2019 and managed to compensate for the fall in exports of live cattle and forestry products (cellulose and wood), which faced a more negative impact in 2019.

Similarly to the previous year, China was the main trading partner in 2019, representing 31% of exports, at USD 2,872 million and a significant growth compared to 2018. This is followed by the European Union (17%), Brazil (13%), the United States (7%), Argentina (4%) and Mexico (3%). The agricultural sector is thus quite important in the country's export basket. Imports, excluding oil and derivatives, reached USD 7.2 billion, representing a 7% contraction with respect to 2018. The main imports were vehicles, clothing, plastics, telephones and chemicals.

Mineral resources are largely untapped, but the industry has grown thanks to imports of fuel and raw materials. In the north (Artigas) the extraction of agate and amethyst is being developed. In recent years the software industry in Uruguay has shown significant dynamism, reflecting a steady growth in exports. Today, the Uruguayan software industry represents 5.7% of the country's total exports. The Uruguayan software industry has a clear orientation on the development of commercial products and experience in development and marketing. Throughout history Uruguay has based its economy on livestock production, although in the last two decades the software industry has boomed, achieving considerable exports. Meanwhile, teleworking is experiencing a not insignificant level of activity, which has yet to be quantified.

The characteristics of the Uruguayan population are: low presence of the indigenous population, many descendants of European immigrants, high urbanization rates, high concentration of power and population in the capital contraction and low birth rates. Traditionally, Uruguay has had high levels of education, social welfare and healthcare, ranking 55 out of 189 countries, according to the Human Development Index (HDI), valued at 0.804, published by UNDP in 2012 (Lavalleya and Rosselat 2018). In the 2011 census the total population was 3,086,686 (95%) and the rural population was 164,840 (5%). Unlike other Latin American countries, Uruguay has a very low fertility rate, which fell from 2.6% in 1985 to 2.4% by 2000. The birth and death rates are equally low, and life expectancy is 79 years for women and 70 years for men. Uruguay has a marked urban composition, a phenomenon that began early – in comparison with other South American countries – at the end of the 19th century and was reinforced from the middle of the 20th century with the country's industrialization process. It currently has the largest share of urban population in Latin America (Instituto Nacional de Estadística; FAO 2003).

3. The context when COVID-19 broke out

As mentioned above, the Uruguayan economy grew steadily from the 2002 crisis up to 2019. After this period of growth, 2019 ended with a small variation in the Gross Domestic Product (GDP), 0.2%. At the end of 2019, the growth prospects for 2020 were auspicious, with a projected growth rate of 1.75% of GDP, according to the Central Bank of Uruguay (BCU). Nevertheless, there was an important fiscal deficit of approximately 5% of GDP and increasing unemployment, which were two important concerns for the government. In early February the Uruguayan economy began to feel the first effects of the global health crisis caused by the COVID-19, with a fall in exports, especially to China, which, in addition, had a strong downward effect on the price of beef, the main Uruguayan export.

The economic crisis caused by COVID-19 is an unprecedented event and internationally probably the most disruptive since World War II, or even since the Great Depression. The crisis will have significant consequences on production and employment, generating disruptions in global supply and payment chains. Moreover, since the impacts are, asymmetrical it is likely that poverty will increase and will exacerbate existing inequalities.

The COVID-19 transmission channels are external and internal. There are two main external transmission channels through which the effects of the global health crisis impact on the Uruguayan economy: commercial (goods and services) and financial. In both cases, the impacts have already begun to manifest themselves in the domestic economy, although the first may be aggravated in tourism in view of a prolongation of the pandemic in the coming months.

Regarding tourism, which is an export of services, a major blow is expected as a result of the current health situation. However, it is difficult to gauge its impact, as uncertainty regarding the duration of lockdown economies – including border closures – will continue to be high given the non-economic nature of the shock and the importance of Argentinean tourists for the country.

Financially, like other emerging economies, Uruguayan exchange rates and risk premiums suffered as a result of the “flight to quality”. For the exchange rate, the depreciation has been one of the most intense so far this year, although it is important to bear in mind that Uruguay had been lagging behind in terms of its exchange-rate correction. Although Uruguay’s risk has increased in recent weeks, in line with what has happened in the rest of the emerging countries, the proper management of public debt in recent years has allowed the development of a solid financial profile and reduced the risk associated with this transmission channel.

4. The appearance of COVID-19 and the measures taken

On 1 March 2020 a new administration took office and on 13 March four people were diagnosed as the COVID-19 positive. This quickly triggered a number of measures such as a decree on a State of Health Emergency and the adoption of social distancing measures that seek to limit the rate of spread of the virus. The new government urged the maintenance of physical distancing, frequent hand-washing and the use of face masks. There was an exhortation to work from home, and to avoid gathering and meetings.

The physical distancing measures included:

- 1) Mandatory 14-day quarantine for people from countries declared to be at risk or symptomatic.
- 2) Closing of borders with Argentina and Brazil and suspension of flights from Europe.
- 3) Suspension of travel outside the country for tourism for Uruguayan citizens and foreign residents.
- 4) Suspension of shows, campsites and public vacation centers.
- 5) Closure of shopping centers and reduction in public transport.
- 6) Suspension of classes at all educational levels.
- 7) Extension of special construction license until April 13.
- 8) Transfer of elderly homeless people to shelters on a permanent basis.
- 9) Public servants over 65 years of age should not attend work. Encouraging dependent workers in private activity to do the same in this period.

Furthermore, as mentioned above, the government has exhorted the population to reduce their journeys as well as their daily social contact – both at work and for leisure – to the indispensable minimum, though without making it mandatory. The population took the government exhortation to use “freedom with responsibility” and adopt a sort of generalized quarantine during the first month seriously. Also the Public University closed its doors and fostered teleworking and virtual teaching.

The rapid response to implement these measures is remarkable, since it has helped to reduce the risk of contagion. On the other hand, there is no doubt that economic activity in Uruguay has been particularly affected by these measures. The confinement of people, paralyzes activity, and has a severe economic impact, which is essential to contain COVID-19, so the government is faced with a very hard trade-off, particularly in emerging countries.

Interesting measures were adopted, such as the development of a mobile-phone software app to detect if a person has been exposed to someone else with the virus and the help of a group of renowned scientists for the government to take the most effective and suitable measures to deal with the virus. By the end

of April, after the sudden halt in economic activity had slowly has returned to the “new normality”. In a way, a new contract between the government and academia emerged due to the outbreak of COVID-19 and the importance of science started to be acknowledged by the population.

The health crisis will affect the lives of many people around the world. As well as every country defining a different health scheme to deal with the pandemic, more or less following World Health Organization (WHO) guidelines, in economic matters, governments have been instituting different strategies. The economic measures have focused on three main objectives: financing health expenditure, reducing the negative impact of the pandemic on commercial and productive activity, and, mitigating the effects on household income (Lanzilotta, Merlo and Mordecki 2020).

Uruguay’s measures to reduce the negative impact of COVID-19 on the commercial and productive activity include:

- The government established new subsidized credit lines with state guarantees with emphasis on small and medium-sized enterprises.
- Postponement of maturities and subsidies to micro and small enterprises.
- Extension and flexibility of the unemployment insurance regime. Furthermore, a form of “partial unemployment insurance”, which provides for the possibility of the worker to cut the working day by half or reduce the days worked so the company pays half of the salary and the other half is paid by the state insurance, was added to the existing system. Workers are also allowed to enter the system for periods of less than a month.

The measures to soften the impact on household income and homeless people were a doubling of payments and delivery of food baskets. People vulnerable to COVID-19 were moved to permanent residence in hotels. Moreover, a subsidy was introduced for formal workers over 65 years of age who must remain at home because of illness.

Most of these measures have been further extended during recent months. Measures to avoid job layoffs by a flexible insurance and a devolution from the state to enterprises that rehire workers has also recently been designed.

To fund these measures as well as others associated with diagnosing the virus the country has resorted to loans from multilateral institutions such as the Inter-American Development Bank (IADB) and the World Bank (WB). The government proposed the creation of a “Covid Fund” supported by international loans, the profits of the national bank (BROU) and the Comisión Nacional de Desarrollo (CND) of 2019, and a new two-month tax on the wages of public servants and politicians with salaries over 120,000 Uruguayan pesos. This will affect 15,000 civil servants and has raised nearly \$12 million, which is clearly insufficient to fund the emergency.

From the above, it seems that, as in many emerging countries, the main source of financing for the country will be loans from multilateral organizations. Fortunately, Uruguay has the financial backing to address this, as (since at least 2010) it has several pre-approved credit lines for negative contingencies, for more than \$2,500 million (from organizations such as the IDB, CAF and FLAR (MEF 2020), to which the WB and the International Monetary Fund (IMF) would add). In this way, the country's debt-to-GDP ratio will also rise.

Regarding GDP, Mordecki (2020) shows the fall in production and trade in the second trimester of 2020, followed by a recovery in economic activity in the next trimesters.

Official government figures show that the cost of the health emergency is \$768 million, and the fall in GDP for 2020 is estimated at 3.5%, with a rise of the fiscal deficit to 6.5%. Uruguay's fiscal effort is thus 1.6% of GDP. The informal economy is lower than in other Latin American countries, and formal workers in Uruguay are protected by a security system with insurance. There is also national health insurance for the whole population.

The prediction from official sources as well as some consultant offices, is thus that the Uruguayan economy will go through a recession in 2020, there will be a real depreciation of the peso and higher inflation. All of this will have negative effects on employment, income, poverty and inequality. While the measures taken so far are in the right direction in light of the experience and the restrictions that the country faces, they are still insufficient to compensate for the activities affected and to mitigate the impact on the most vulnerable population.

The big issue is how to recover economic activity and employment. Regarding the economy, gradually and with the advice to the government from the Group of Scientific Counselors (*Grupo de Asesores Honorarios Científicos*), several activities have been resumed, starting by construction and schooling in rural areas, and the most recent activities resumed by the end of August were public shows, but complying with strict protocols.

The general strategy has been one of progressive opening, regulated, constantly monitored and, if possible, based on evidence, which seeks a balance between some central elements, such as optimal control and management of the disease individually and collectively and the restoration of functioning in the transition to the "new normality".

It seems that the success of the measures taken has been due reacting very quickly based on scientific advice to the government. Furthermore, the Institute Pasteur and the University of the Republic have developed two diagnostic kits. One at the beginning of the pandemic, and the most recent approved by the end of August.

In the period since the COVID-19 hit the country until 31 August, 1,595 people were infected, 1,409 recovered, and 44 died.

Nevertheless, it will not be easy to recover, and increase the level of activity and employment. In 2014 while the level of activity continues increasing, employment has slowly been falling. Employment was already an issue when the COVID-19 first broke out.

During the health emergency, almost 220,000 people were covered by unemployment benefits. Meanwhile, 13,931 workers have fallen out of insurance and have no activity registered in the Banco de Prevision Social (BPS).

The Banco de Prevision Social received 44,100 unemployment requests between August 1 and 18. Of the total, 18,897 requests were for unemployment benefits, 5,328 (41.3%) for suspension, 4,948 (38.4%) for reduction and 2,621 (20.3%) for dismissal. Thus, although there has been a recovery in activity and employment, the impact is still important.

5. The regional context

Uruguay is located between two big countries: Brazil and Argentina. When COVID-19 broke out these countries were going through major economic crises. Nevertheless, they took quite different measures. Brazil, led by the president Jair Bolsonaro, has denied the importance of the virus for human health and sought to keep the economy working. On the other hand, the Argentinian president Alberto Fernandez implemented a compulsory quarantine even though the economic situation was even worse than in Brazil.

Nevertheless, this quarantine was ineffective and the number of people infected and fatalities is quite high. By 31 August, there had been 8,500 fatalities in Argentina due to COVID-19 and the longest quarantine in the world (six months compulsory quarantine). With different measures in Brazil and Argentina we have the same result: high infection and death rates. This poses an important danger for Uruguay, mainly from the land border with Brazil, since infected people cross the border every day. To tackle this issue customs controls were reinforced and a strict protocol was implemented.

Unlike Argentina, there was no compulsory measures but a call to use freedom with responsibility. When the virus broke out there were very few diagnostic kits. Thus an important effort, mainly by the Institute Pasteur in Uruguay and the University of the Republic, was carried out to make the diagnostic kits available at a low cost. When an infected person is identified there is also epidemiological monitoring of all their contacts and swabs to identify infected persons. In addition, all contacts are quarantined. There is an important effort to increase diagnosis and

following the epidemiological threat to reduce the spread of the contagion. There were some outbreaks mostly in the health system and imported from Brazil.

6. Some final remarks

Today the situation is relatively stable, with some COVID-19 outbreaks, but this equilibrium can be easily disturbed by inappropriate behavior and by infected people coming into the country and not complying with the health protocols. In recent days bilateral agreements between Uruguay and Brazil have been negotiated to care for and benefit the population of both countries. Epidemiological monitoring is being carried out and each outbreak is subject to careful control. Most activities have slowly resumed, beginning with construction and following with rural schools, but with strict protocols regarding physical distance and sanitization, and in recent days extending to public shows.

Nevertheless, we still do not know how long the pandemic will last, and when a safe vaccine will be available. This affects the possibility to return to full economic activity. Thus the question remains: when and how we will return to economic growth and employment? Perhaps the most difficult issue will be to recover full employment. Currently, the national budget is being discussed by the new administration. It emphasizes a tight budget to reduce the fiscal deficit and facilitate private investment in order to recover growth and employment, and good management of the public enterprises. Thus the big question is what will happen in the coming months and whether this good record remains or shows signs of changing.

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Spojrzenie na niewielki południowy kraj: Urugwaj

Streszczenie: Praca została poświęcona Urugwajowi, niewielkiemu państwu położonemu w Ameryce Łacińskiej, między dwoma dużymi sąsiadami: Argentyną i Brazylią. W artykule przedstawiono wybrane informacje społeczno-ekonomiczne i historyczne. Szczególną uwagę poświęcono sektorowi rolnemu i specjalizacji eksportowej, które są od dawna ważnymi czynnikami wzrostu gospodarczego kraju. W ostatnim czasie podobną rolę zaczęły odgrywać usługi. Druga część artykułu w całości poświęcona jest obecnej sytuacji, związanej z pandemią COVID-19, która rozpoczęła się w marcu 2020 r. W artykule przedstawiono sposoby radzenia sobie z pandemią w dziedzinie zdrowia i ekonomii. Artykuł kończy się pytaniami o perspektywy zakończenia pandemii i dalszego rozwoju gospodarczego kraju.

Słowa kluczowe: Ameryka Łacińska, gospodarki wschodzące, badania krajów, COVID-19, Urugwaj.