Executive Memorandum
Published by The Heritage Foundation
No. 944
October 8, 2004

Improving Trade with Uruguay: Cementing Economic Reforms and Advancing a Hemispheric Pact

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The Oriental Republic of Uruguay is an important South American ally of the United States, even though it is barely the size of Oklahoma and has a population of only 3.3 million. Uruguay has a long history of stable democracy, and following Chile's example, it is reducing its foreign debt and gradually moving toward a free market economy. This year, President Jorge Batlle Ibañez's administration negotiated a bilateral investment treaty (BIT) with the United States.

- Uruguay is a stable, democratic ally that has steadily liberalized its economy.
- October Uruguayan presidential elections could result in a populist government.
- The United States should help to protect market reforms by ratifying the U.S.–Uruguay Bilateral Investment Treaty.

However, elections in Uruguay this fall could bring in a populist president who could steer the country away from free markets. Sandwiched between the precarious economies of neighboring Argentina and Brazil, Uruguay needs foreign investment and expanded markets for its products. Moreover, the United States needs close friends in the Southern Cone to cement prospects for a hemispheric free trade zone. U.S. congressional approval of the U.S.–Uruguay Bilateral Investment Treaty and active U.S. engagement can help to protect Uruguay's market reforms and to keep the Free Trade Area of the Americas (FTAA) negotiations on track.

Important Democratic Ally. Uruguay has been friendly toward the United States ever since its founding father, José Artigas, dreamed of creating a U.S.-style federation of states in southern South America. That never happened, but Uruguay has had democratic government, supported the Allies in World War II, has contributed peacekeeping troops to the United Nations since 1952, and, more recently, has joined international conventions on combating terrorism. It has also backed U.S. initiatives on free trade such as the 1990 Enterprise for the Americas Initiative and the FTAA now under negotiation.

Despite a historic embrace of democracy and free enterprise, socialist dreams are part of Uruguay's history. Growing rich on beef and wool sales in the early 1900s, it was known as the Switzerland of South America for utopian social programs such as fictitious government jobs and expansive labor benefits. However, such policies proved unsustainable in the more competitive global environment following World War II. Steady economic decline stoked unrest as urban guerrillas called Tupamaros

This paper, in its entirety, can be found at:
www.heritage.org/research/tradeandforeignaid/em944.cfm
Produced by the Kathryn and Shelby Cullom Davis Institute for International Studies
Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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tried to overthrow the government, which prompted a military takeover that began in 1973.

When Uruguay returned to democracy in 1985, the traditional National and Colorado parties fought to consolidate civilian rule, open markets, and limit Uruguay's expansive public sector. Yet, socialists and former Tupamaros, united under the Broad Front (now subsumed into the Progressive Encounter coalition), have sought a return to the 1930s welfare state. They include current presidential candidate Tabaré Vázquez, who is leading in polls only weeks before the October 31 presidential election.

Economic Freedom at Stake. Uruguay could be a tipping point in the Southern Cone. Battered by trade dependence on Brazil, which devalued the *real* in 1998, and Argentina's economy that collapsed from corruption and mismanagement in 2001, Uruguay's gross domestic product declined by nearly 11 percent in 2002 and remained flat in 2003. It needs expanded access to external markets to restart growth and restore confidence in economic freedom as opposed to failed populist policies of the past.

In February 2002, Presidents Batlle and George W. Bush met in Washington to discuss strengthening U.S.–Uruguay commerce. A bilateral free trade agreement is unfeasible because Uruguay is a full member of Mercosur, a South American common market that includes Argentina, Brazil, Paraguay, and Uruguay. This restrictive customs union prohibits outside trade pacts without the other members' approval, which is unlikely as long as Brazil and Argentina have yet to improve trade relations with the United States.

Thus, U.S. and Uruguayan negotiators agreed on a bilateral investment treaty that guarantees equal treatment for domestic and foreign businesses for broad commercial sectors and establishes methods to redress commercial grievances. Legal texts are expected to be finished this month, after which the agreement can be signed. The BIT will strengthen investment and trade between the two countries and further open the door to U.S.–Southern Cone commerce, ultimately supporting negotiations for the FTAA.

Time Is Short. Falling outside Trade Promotion Authority, the U.S.–Uruguay BIT does not change any U.S. law and should easily win Senate approval. However, the U.S. should act quickly, or a valuable opportunity may be lost. If Vázquez wins the first round of Uruguay's presidential elections October 31, the General Assembly—now in recess—will not be able to reconvene to ratify the treaty before he is inaugurated in March. Vázquez claims Batlle's warming relations with a "hegemonic" United States is a mistake and promised to "review" the BIT. He favors closer ties with Mercosur partners, higher external tariffs, import quotas, and public works projects financed by higher taxes.

Some of those plans could be moderated by his proposed minister of economy and finance, Senator Danilo Astori, a pragmatic economist. Even if Uruguayan ratification of the BIT is delayed until next year, Washington should still engage Vázquez and his advisers. U.S. acceptance will show American commitment to free trade relations and a willingness to promote prosperity—when Uruguayans are ready for it—through expanded market opportunities. Meanwhile, the U.S. Trade Representative should pursue a similar investment treaty with Mercosur member Paraguay and work to resolve differences with Argentina and Brazil about the proposed FTAA.

Conclusion. A prosperous, free-trading Chile would be a model for other South American countries. Uruguay has been slowly moving in that direction since 1985, but is poised to return to spendthrift socialist economics and public sector bloat. To encourage Uruguay's future government to leave hard-won reforms intact and proceed with hemispheric trade integration, the President should sign the recently negotiated U.S.–Uruguay Bilateral Investment Treaty and urge the Senate to ratify it as soon as possible. Negotiations are already proceeding toward bilateral free trade agreements with Bolivia, Colombia, Ecuador, Panama, and Peru, and the Dominican Republic and Central American Free Trade Agreement has already been successfully negotiated. Although short of a free trade agreement, a bilateral investment treaty with Uruguay can be another step in securing a prosperous, stable neighborhood of the Americas.

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