

BTI 2016 | Uruguay Country Report

	scale	score	rank	trend
Status Index	1-10	9.26	# 4 of 129	
Political Transformation	1-10	9.95	# 1 of 129	➔
Economic Transformation	1-10	8.57	# 10 of 129	➔
Management Index	1-10	7.56	# 1 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	3.4	HDI	0.790	GDP p.c., PPP \$	20884.3
Pop. growth ¹	% p.a.	0.3	HDI rank of 187	50	Gini Index	41.9
Life expectancy	years	77.1	UN Education Index	0.712	Poverty ³	% 1.6
Urban population	%	95.2	Gender inequality ²	0.364	Aid per capita \$	10.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The period under review covers the final stretch of the government of President José Mujica. The ruling party remains Frente Amplio, a leftist political party in the Uruguayan sense: i.e. a coalition of rather autonomous factions. The party won the presidency for the first time in the 2004 election and was re-elected in the following presidential elections held in 2009 and 2014. Tabaré Vázquez took office on 1 March 2005, and was succeeded by José Mujica five years later. Vázquez came back to power in 2015 after winning the last election.

Both presidents are members of the same coalition, but they belong to different political traditions. Nevertheless, most public policies followed by Mujica were the same as those Vázquez promoted during his period in office. When Mujica won the presidency, some observers anticipated that the second government of the Frente Amplio (FA) would take a leftist turn, orienting the Uruguayan government along the lines of the political model developed by Chavez in Venezuela. However, this did not happen. The main orientations of the Mujica administration did not show significant innovation in comparison to the Vázquez administration, mainly because of the obstacles existing in the structures of the government party. Mujica did not control all of FA, but only of a part of it. Policies that his administration could approve should reflect the preferences of the median legislator of the ruling party. The government party is also a coalition of groups and factions with different preferences.

The first years of the Mujica government were characterized by a mix of continuity and striking new decisions driven by the particular style of the president. In 2012, significant differences in the approach to economic policies could be noticed that were attributed by the press to the existence of “two economic teams” – the official team that controls the ministry of economics and the central bank, and the alternative team made up by a group of the president’s advisors and collaborators. This alternative economic team promoted a number of taxation initiatives that were considered inconsistent with the official team’s policies. The main initiative, a law that imposed a tax on large extensions of land, was approved in parliament with very difficult negotiations within the ruling

party. These tensions were rather visible during 2012 and 2013, but calmed down when the national election approached. The need to retain the government forced the president to silence his alternative economic team so as to prevent opposition parties from using these differences as an electoral argument. The underlying differences within the government during this time did not hinder the unity of the legislative majority of FA in its voting in favor of the major government laws.

Mujica's administration was, however, characterized not only by the obstacles in his own party. The president developed the initiative on issues related to the "new rights agenda." As a result of this, in 2012 and 2013, parliament approved laws on the marriage between individuals of the same sex, abortion, legalization of marijuana, quotas for Afro-descendants, paternity leave, etc.

Despite an unfavorable international context, the Uruguayan economy performed quite well. The impact of the global economic crisis was minor in Uruguay, and the growth that began in 2003 has continued without any major upheavals until the present year. The adequate management of economic and financial policies (workable fiscal deficits, favorable climate for investors, strength of the banking system) permitted good socioeconomic performance during this period, with growing GDP, falling poverty and unemployment levels at a historic low. In particular, Uruguay has been quite successful in terms of investment during the review period. Overall investment in 2012 and 2013 reached its highest level after 64 years, accounting for 23.6% of GDP. By the same token, foreign direct investment (FDI) amounted to \$2.796 billion in 2013, equivalent to 5% of GDP, compared to 5.4% in 2012. However, the continuation of these trends depends on diverse internal and external factors. While the external factors – such as commodity prices or demand from China – are out of the government's control, the main challenge the country has is to maintain and further enhance sound economic policies, aimed at maintaining control of inflation, strengthening the favorable conditions for investment, and developing strategies for the promotion of a more diversified non-traditional mix of industries and services.

History and Characteristics of Transformation

Uruguay has the longest democratic history of any Latin American country. In the 20th century, Uruguay suffered only two institutional breakdowns. The first, in 1933, was a civil coup that sought rapid re-institutionalization through constitutional and legal reforms. However, the lack of legitimacy of the two elected governments (1934 and 1938) under these norms implied that effective democracy was only achieved in 1942, with a new constitutional reform. The second rupture, between 1973 and 1984, led to a military dictatorship similar to others (of the bureaucratic-authoritarian type) that devastated the continent at that time. The period of military dictatorship was the only time in the 20th century when governments were not elected and when traditional political parties were excluded from power. This fact underlines the country's remarkable political development within the regional context. Uruguay shares with Colombia the striking characteristic of having been governed by only two different political parties before 2004:

the Partido Colorado (PC, Red Party) and the Partido Blanco o Nacional (PN, White or National Party). In the long run, the Uruguayan political system has demonstrated a level of political stability and continuity that makes it stand out in the regional context.

Along with early democratization, Uruguay developed a welfare state that implied a joint process of building political and social citizenry. During the first decades of the 20th century, under the leadership of José Batlle y Ordóñez, various political (universal and secret suffrage, free and fair elections), social (separation of church and state, eight-hour working day) and economic reforms were implemented. In the absence of strong *de facto* powers, the state acquired a central role in the economy and in the provision of all kinds of public services. By these means, the country forged a wealthy, integrated and modern society during the first half of the 20th century. Prosperity based on the strong performance of agricultural and cattle exports was associated with an “import substitution development model.” This was intended to promote industrial development but fell into crisis at the beginning of the 1950s, a consequence of a significant drop in commodity prices. A long period of economic stagnation and social turmoil followed.

The solid bipartisan political system that Uruguay has had for more than a century began to undergo changes during the 1960s. In a context of strong social and political conflict, minor leftist parties joined with other groups and dissident leaders from traditional parties to form Frente Amplio (FA, Broad Front). Following the 1971 election, the traditional parties began to systematically lose votes to the leftist opposition, which went on to win the 2004 general election with a majority of votes.

However, at the beginning of that process, the economic, social and political crises, the fragmentation of power, weak leadership and the delegitimation of traditional party politics provoked a military coup in 1973. This led to twelve years of dictatorship, ending in 1985. When the constitution was restored, a double transition process took off. The country’s re-democratization was rapid and the rule of law was restored – with the exception of the prosecution of human rights violations during the dictatorship – along with the previous political and party system and all its complexities. In addition, a process of economic and state reform was gradually implemented by successive governments of the traditional parties. However, while the democratic transition was rapidly concluded, various privatization and state reform attempts were blocked by a coalition between the leftist opposition and social organizations – mainly labor unions, frequently resorting to mechanisms of direct democracy. In that context, the traditional parties were increasingly grouped together at the center-right of the ideological spectrum, since they jointly advocated and conducted pro-market reforms (such as de-monopolizing the assurance market, privatizing the state-owned airline, contracting private companies for port services and creating a mixed, state-private, social security system), and the FA increasingly assumed the role of defender of state-owned enterprises, along with the rights of the workers and the poor. Even though during most of the 1990s, economic growth rates were around 5%, and inflation and unemployment rates were both contained at about 10%, the process ended in 2002 with a deep recession and a financial crisis.

The shifts in the party system that started in 1971 gained strength, as the FA moved toward more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. Finally, the electoral reform of 1996, which adopted the majority runoff presidential election system, provided the country with the institutional framework to consolidate a system of political competition between two blocks that were ideologically opposed, the FA on the center-left and both traditional parties on the center-right. The most relevant, long-term process of change in Uruguayan politics has led to a radical transformation of the country's party system and to the advent of a new, leftist political actor in the national government. This process is rooted in the electorate's ongoing disenchantment with traditional elites, which was originally most evident among younger voters and educated and urbanized sectors, and has been manifested in broad political support for a left-wing party that has learned how to moderate its discourse and to move gradually toward the center of the ideological spectrum. Nevertheless, there are at least two different conceptions within FA of how to govern the country, which could potentially lead to conflicts and political deadlock. However, to date, party leaders have been able to process these differences and reach basic agreement about the direction of public policy.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Uruguayan state exerts the control and monopoly of the use of force over its entire territory.

Question
Score

Monopoly on the
use of force
10

The population accepts the legitimacy of the nation-state. The access to the citizenship includes all individuals born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Nobody is denied citizenship on the basis of race, gender, language, religion, political or other opinions, national or social origin, etc.

State identity
10

Religious dogmas do not play a relevant role in the functioning of Uruguayan institutions. The Catholic Church was separated from the state more than a century ago. The state is secular and religious dogmas have no influence on the legal order. The Catholic Church, like others religious communities, tries to exert influence on public opinion in issues like sexual education or abortion, but it has not had relevant results.

No interference of
religious dogmas
10

All basic functions of the state are performed by the different levels of government. Since 1830, Uruguay has been a republic with a classic division of powers. The country has 19 subnational (departmental) governments, more than 100 municipalities, and a variety of autonomous public institutions specialized in areas such as education, public services, and regulatory agencies, whose directors are appointed by parliament.

Basic
administration
10

2 | Political Participation

There are no constraints on free and fair elections. The election of all government posts is performed by secret ballot and with universal suffrage. The Electoral Court, appointed by parliament with a two-thirds majority, has a long tradition of impartiality and effectiveness. Voting is mandatory for resident citizens and the turnout rates are usually high (over 90%). Political parties have fair and equal access to the media and the election outcome is accepted without complaint.

Free and fair
elections

10

The most recent elections took place in November 2014. Tabaré Vázquez of the FA coalition was elected president in a free and fair runoff election following the October 2014 first-round election among the four leading parties, which were also considered free and fair. In the parliamentary elections in October, FA won 50 of 99 seats in the Chamber of Deputies and 15 of 30 seats in the Senate.

Democratically elected political representatives have effective power to govern. There are no nonpartisan actors with capacity to challenge government decisions. The military, once powerful, are under civilian control and the budget for national defense has consistently fallen since the restoration of democracy. Economic groups exert some influence on the parties but not enough to change government decisions. In general, the Uruguayan political process has developed within institutional framework set out by the constitution.

Effective power to
govern

10

Association and assembly rights are guaranteed by the constitution. Governments fully respect these rights regardless of the interests of associated citizens or the type of social sectors involved.

Association /
assembly rights

10

Freedom of expression is fully guaranteed for citizens, groups and the press, without any kind of censorship. This freedom of expression also extends to the Internet. The media are ideologically and politically diverse, so that all relevant opinions are present in the public agenda. However, in late 2014, parliament passed a law that regulates the functioning of the media. While opposition parties claim this decision could cause problems for freedom of expression, the party of government assures this will not happen. Some international observers, including the United Nations Special Rapporteur on Freedom of Expression, have praised the approval of this law. For now, it is too early to assess how this law will impact freedom of expression in Uruguay.

Freedom of
expression

10

3 | Rule of Law

There is a clear division of functions among the judiciary, the executive and the legislative branches of government in Uruguay, with mutual checks and balances. Inter-branch conflict is unusual and resolved according to the constitution. There are no significant informal institutions which could undermine the separation of powers or the rule of law as such, and also no tradition of delegative democracy in Uruguay.

Separation of
powers
10

The judiciary is fully independent from the executive and capable of accomplishing its function. The Supreme Court is appointed by a two-thirds majority in parliament, and can declare laws as unconstitutional. Since 1985, the Supreme Court declared 29 laws unconstitutional (7 in the last period), most initiated by the executive. The Contentious-Administrative Tribunal is appointed by the same procedure as the Court, and can declare administrative acts null and void. The justice system is rather professionalized and differentiated, though generally slow. The subordinate courts are the Courts of Appeal, District Courts (Juzgados Letrados), Peace Courts (Juzgados de Paz) and Rural Courts (Juzgados Rurales). The Americas Barometer 2012 report shows that 58% of citizens trust the Supreme Court of Justice and 53% trust the justice system. Furthermore, 49% of citizens believe that the courts guarantee a fair trial.

Independent
judiciary
10

Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws. In general terms, Uruguay has low levels of corruption, even though some scandals occur. For example, in late December 2013, following a complaint made by opposition legislators, the courts ordered the imprisonment of the owners of the national airline, PLUNA, on charges of fraud. In March 2014, the former Minister of Economy (2010-2013) and the president of the Bank of the Republic (2005-2014) also were processed without detention on charges of abuse of authority. Both officials were accused of committing serious errors in the process of closing down the airline. The criminal proceedings against these officials remain open until the courts declare the final verdict. These events were widely covered by the media. Since 1999, Uruguay has had an anti-corruption agency (the Transparency and Public Ethics Board) which performs an important role in the fight against corruption. According to the Americas Barometer 2014 report, Uruguay had the third-lowest level of perceived corruption out of all countries (behind Canada and Haiti). It also had the third-lowest degree of corruption victimization in the Americas, behind Canada and Chile.

Prosecution of
office abuse
10

Civil rights are guaranteed by the constitution and generally respected by the state. All citizens have equal access to justice and due process. There is no significant discrimination based on gender, sexual orientation, religion, ethnicity or political preferences. The last governments have made efforts to redress crimes committed under the last dictatorship (1973-1985). These crimes had gone entirely unpunished due to an amnesty approved in 1986, but are now being prosecuted by the courts.

Civil rights
10

4 | Stability of Democratic Institutions

Uruguayan democratic institutions perform their functions in an effective manner and in accordance with the constitution and laws. The relationship between the levels of government and the distinct branches of administration does not present significant frictions.

Performance of
democratic
institutions
10

Democratic institutions in Uruguay are accepted as legitimate by all relevant actors. There are no relevant actors with veto power outside the constitutional framework. Several military officers have been imprisoned or are being judged for crimes committed under the dictatorship, and the armed forces themselves have permitted and accepted searches inside military areas with the aim of looking for remains of people who went missing during the dictatorship. The armed forces are subject to civilian control.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Since 1971, three political parties have captured about 95% of votes. Parties are internally divided into institutionalized factions with high visibility and autonomy. These groups are ideologically consistent and disciplined in parliament. The last two elections, held in 2009 and 2014, showed the lowest volatility scores in decades. The system seems to have reached a multiparty equilibrium with two main blocks that have developed intense competition. On the one hand, there is a center-left bloc, composed by the ruling FA and some minor parties (environmentalists and radicals) and on the other, a center-right block, composed of the traditional parties. Despite this dynamic, the policy-making process shows that parties usually reach agreements that are sustained over time.

Party system
10

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations. Most unions are organized in a single national labor association, PIT/CNT, created in the mid-1960s. Business chambers do not have a single top association, but there are a few very influential associations based on the most relevant economic activities of the country (agriculture, industry, banking and the export sector). From 2005 onwards, unions

Interest groups
10

and employers have negotiated wages and work conditions inside an institutional framework (wage boards) with government mediation, and most of them have reached long-term agreements. Along with union and business associations, there are other influential social organizations, mainly for pensioners, students, and a variety of professional organizations (physicians, lawyers, and so on). In addition, there are also a number of more specific associations, such as those for women, people of African descent and environmental organizations, which have acquired growing visibility lately. In general terms, social groups are inclusive, tend to balance one another, and have pragmatic and cooperative attitudes.

Citizens' support for democracy is the highest in Latin America. Comparative public opinion surveys such as Latinobarómetro or the Americas Barometer, place Uruguay at the top positions in regional rankings. The 2013 Latinobarómetro report indicates that Uruguay was the Latin American country with the strongest support for democracy (78%) and the highest level of satisfaction with democracy (82%) between 1995 and 2013. This report also shows that 88% support a "Churchillian" definition of democracy ("democracy can have problems but is the best system of government"), placing the country at the top of the rankings in this category. Similarly, LAPOP's Americas Barometer 2014 report also places Uruguay in first position for the same indicator (86.5%). Uruguay also appears in the first places in LAPOP's index of political system support, indicating that the political system enjoys legitimacy among the citizenry. Finally, the main Uruguayan political institutions (the government, the parliament and the judiciary) enjoy high levels of trust in both reports. The 2013 Latinobarómetro survey also shows that only 11% of citizens believe that in some circumstances an authoritarian government can be preferable to a democratic one.

Uruguay has a long tradition of autonomous, self-organized groups, devoted to diverse goals. In addition to interest groups, there are numerous associations related to schools or to neighborhoods, based on voluntary work and oriented to help the community. The level of interpersonal trust is high, as reported by Latinobarómetro (30% agree with the sentence "we can trust in most people") and the Americas Barometer (75% think that other people are somewhat or very reliable). In both cases, Uruguay ranks second in Latin America.

Approval of
democracy
10

Social capital
9

II. Economic Transformation

6 | Level of Socioeconomic Development

Uruguay has always been the most socially integrated country in Latin America. During the first half of the 20th century, it ranked among the most developed countries in the world. In the second half, a period of economic stagnation and social conflict arose. Despite this, Uruguay maintained its position in the regional context. The HDI ranked Uruguay fourth in Latin America in 2013 (0.792), classifying it as a country with high human development. The Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe, CEPAL) reported a 5.7% poverty rate in Uruguay for 2013, the lowest rate in the region, and in terms of income distribution, a Gini coefficient of 0.383, also the lowest rate in the region. These indicators had deteriorated during the first years of the century, but began to recover from 2005 onward. The economic growth demonstrated during the last decade as well as proactive policies to increase real wages and develop transfer programs were key factors in these achievements. In addition to poverty and income distribution, gender inequality is still present and a difficult problem to solve, even though the country has undergone significant improvements over the last years. For example, in the elections held in 2014, a gender quota was used to increase female representation in parliament, but the outcomes were modest (the design of the electoral quota was imperfect). While in the lower house the proportion of women increased from 12% to 15%, in the upper house it rose from 14% to 29%. The Gender Inequality Index of the Human Development Report 2013 shows that Uruguay ranks 70th out of 152 rated countries, with a score of 0.36 (fourth position in the region after Costa Rica, Cuba and Chile). Finally, Afro-descendants represent 9% of the population in Uruguay and their living conditions are associated with poverty and low levels of education. In 2013, parliament approved a law that seeks to contribute to the inclusion of this minority in the labor market and improve conditions for access to higher education.

Question
Score

Socioeconomic
barriers
8

Economic indicators		2005	2010	2013	2014
GDP	\$ M	17362.9	40284.5	57524.7	57471.3
GDP growth	%	7.5	7.8	5.1	3.5
Inflation (CPI)	%	4.7	6.7	8.6	8.9
Unemployment	%	9.0	7.2	6.6	-
Foreign direct investment	% of GDP	4.8	5.4	5.3	4.8
Export growth	%	16.3	7.2	0.2	1.9
Import growth	%	10.1	13.7	3.5	0.5
Current account balance	\$ M	42.3	-730.8	-2824.8	-2510.7
Public debt	% of GDP	83.9	59.4	60.2	61.3
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-1.5	-0.9	-	-
Tax revenue	% of GDP	17.9	18.9	-	-
Government consumption	% of GDP	10.9	12.6	13.6	13.7
Public expnd. on education	% of GDP	2.7	-	-	-
Public expnd. on health	% of GDP	4.2	5.4	6.1	-
R&D expenditure	% of GDP	-	0.41	-	-
Military expenditure	% of GDP	2.1	2.0	1.9	1.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The Uruguayan model of development and welfare, if traditionally oriented toward a market economy, had been based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity and communications). The liberalizing trend that began under the last dictatorship and slowly advanced under the subsequent democratic governments implied the incorporation of the private sector into a number of activities previously monopolized by the state. The insurance market, the pension system and the mobile telephone network, for instance, work as competitive markets with participation from

Market-based
competition

8

the relevant state-owned enterprises. Apart from the latter, there is no discrimination between enterprises.

The last two leftist governments did not reverse this liberalizing trend, and rather continued it. In general terms, the Uruguayan economic order rests on tripartite consultations approximating the classic German model, providing for a high degree of consensus on a market economy with social safeguards and the role of the state as a guarantor. Except from the few state-monopolized or strongly regulated activities, there are no significant barriers to entry in markets and private, domestic and foreign investments are being increasingly stimulated. Foreign direct investment increased in Uruguay from an average of 2.2% of GDP for the 2001-2004 period to 5.7% in 2005-2013 (in 2013, Uruguay reached second place in the region after Chile). Due to public services being a state monopoly, there are some administered prices, representing about 25% of the goods and services basket. These include prices for electricity, fuel, drinking water, communications and health services.

According to the National Institute of Statistics, the informal economy decreased from 41% in 2004 to 21% in 2014. The improvement was achieved through labor market reforms and management reform of the Revenue Department (DGI), resulting in improved monitoring of labor regulations, the expansion of health insurance and unemployment insurance coverage, the strengthening of the family allowances program, and improved conditions of retirement. Minor factions inside the government party (such as communists) and the labor unions actively promote greater state participation in the economy, but President Mujica and Vice President Astori (who is in charge of economic policy) systematically resist this kind of pressure. The newly elected president, Tabaré Vázquez, who assumed the head of government for the second time in March 2015, has appointed Danilo Astori as future Minister of Economy, so the economic guidelines will not change in the near future.

Uruguay did not have any regulations against monopolies or in favor of competition until 2000. As various economic activities have become competitive in the context of the market-oriented reforms conducted in the 1990s, different rules began to be approved after 2000. The normative framework was completed in 2007 with the approval of law number 18.159 (Trade Freedom and Free Competition Preservation Act, or simply, the “Antitrust Act”), which entered into force in August 2007. The Antitrust Act introduced pre-merger control approval in certain cases of economic concentration. The main advance on this point is the opening and development of an electricity generation market from renewable sources, which allows private investment and the selling of energy to the public electricity enterprise. However, some activities, such as fuel or fixed line telephone networks, are still state monopolies, and the opening of markets in certain activities (data transmission, cable television) is slow.

Anti-monopoly
policy

8

Uruguay began a trend of liberalization of its foreign trade along with its integration into the Southern Cone Common Market (Mercosur) in the 1990s. As Mercosur became a free trade area, most Uruguayan exports went to Argentina and, particularly, to Brazil. As a consequence of the 2002 crisis, the country's foreign commerce policy increasingly diversified the destination of its exports. The country's foreign trade figures have been growing systematically since then. Non-tariff barriers and other measures that hamper trade are few. All inbound goods coming from non-Mercosur countries are subject to a common external tariff (CET) which varies between 0 and 20% according to the type of good. The average most-favored-nation tariff has been reduced, and improvements have been effected in areas such as import procedures, customs valuation and intellectual property protection (WTO Trade Policy Review). Beyond the limitations due to membership in Mercosur, the government has been promoting a number of trade and/or investment agreements with countries outside Mercosur, such as Mexico, the United States or Finland, and continues to insist on the lowering of Mercosur's CET. The openness indicator (exports plus imports over GDP) is above 50% and significantly exceeds the indicators of other Mercosur neighbors like Argentina and Brazil. During 2013, Uruguay exported goods and services worth \$13,600 million (approximately 24% of GDP) and imported goods and services worth approximately \$15,000 million. The main export products are soy, beef, cereals, milk products and cellulose, which together represent near 60% of total goods exports. Uruguay's main export destinations for goods are China and Brazil (representing approximately 40% of all exports). Almost 60% of goods imported to Uruguay are production inputs, 15% are capital goods, and the remaining 25% are consumer goods.

Liberalization of
foreign trade

9

Traditionally, the Uruguayan banking system acted as a regional financial center due to its liberalized regulations and reliability. However, as a consequence of the 2002 financial crisis, the system almost collapsed following a run on the banks by Argentine depositors and a severe lack of supervision. Since then, some requirements and control over the system have been increased, and the share of non-resident deposits decreased, thus strengthening its position. By the end of 2010, Congress had passed a law making inquiry into banking movements more flexible, thus accepting OECD requirements on the controlling of international financial movements. The central bank of Uruguay (BCU) regulates and supervises the financial system through the Financial System Regulatory Agency (SSF). It uses the standards of the Basel Committee on Banking Supervision as reference to define the regulatory framework.

Banking system

9

The banking system is composed of two public banks, ten private banks and a wide variety of non-banking institutions that have been established in the country, such as brokerage cooperatives, finance houses, offshore banks, consumer loan companies and currency exchange houses. The state banking institutes are the Banco de la República Oriental del Uruguay (BROU) and Banco Hipotecario del Uruguay (BHU, Mortgage Bank of Uruguay). The first operates as the state's commercial bank,

contributing to the country's productive, economic and social development. The latter is exclusively dedicated to mortgage loans. The system is well-capitalized, with high levels of international reserves and liquidity, and low non-performing loan ratios. The global crisis has had a limited impact on the country's financial sector, government debt ratios are declining and risks and vulnerability are low.

8 | Currency and Price Stability

The central bank has made inflation the main target of its monetary policy. The country began the fight against inflation at the beginning of the 1990s, in the light of the Washington Consensus policies. As a consequence, Uruguay reached low inflation rates at the end of the decade. However, the main instrument used to fight inflation was the exchange rate. Jointly with other Mercosur countries, Uruguay increasingly overvalued its national currency, thus lowering external competitiveness and increasing government debt. The process ended with the financial crisis of 2002, with a drastic devaluation of more than 100% and inflation rising up to 26%. During the Vázquez administration (2005 - 2010), the central bank enhanced the flexibility of the exchange rate policy, leaving the value of foreign currency to be determined by supply and demand. However, as a consequence of the 2008 global financial crisis, the national currency began to increase its value again, and the government applied different measures to avoid a significant drop. In trying to balance both targets, the value of foreign currency has been stabilized, but the fight against inflation has remained high on the government's agenda. During the past five years, inflation has moved between 7.5% (2012) and 8.6% (2011). At the end of 2014, the index had reached 8.3%, well above the established goal range of between 3% and 7%. As a complementary measure to fight inflation, the central bank raised its benchmark rate from 6.5% at the beginning of 2011 to 9.25% in December 2012. The following year, the central bank changed the monetary instruments, establishing a highly restrictive policy on the money stock. At the same time, a series of unorthodox measures were developed to control inflation, such as tax exemptions for electricity and telephony (2013 and 2014), and agreements with supermarkets to freeze the prices of 1,000 products (2014) for three months. Despite this, monetary policy has allowed economic policies to work consistently without inflation negatively affecting other aspects of the economy.

After the 2002 financial crisis, Uruguay reached its highest levels of fiscal deficit and external debts in more than a decade. The Vázquez administration took advantage of the favorable external situation and the country's economic growth and managed to reduce the fiscal deficit to low levels while increasing public expenditure, especially on education and health. However, the policy of "growth with income distribution" developed by the last two governments led to accumulated deficits in fiscal outcomes (2.5% on average over the last five years). Although this situation has been criticized

Anti-inflation /
forex policy

9

Macrostability

9

by the opposition parties, the government has suggested that the fiscal deficits are manageable over time, given the growth rates maintained by the economy. In addition, the leftist government developed a complex strategy to reshape external debt, postponing due dates, changing to lower interest rates and replacing foreign with national currency instruments. In that sense, debt management policy came to be the strongest area of economic policy. In 2003, the overall public debt represented the 107% of GDP (68% net debt), in comparison to 58% in 2013 (23% net debt). In 2012, the increased confidence in the growth and management of the Uruguayan economy led the most important risk-rating agencies to award the investment grade rating (BBB/Baa3) to long-term sovereign securities. Although macroeconomic stability is solid, the next government must address an important issue inherited from the outgoing administration. Last year, the fiscal deficit reached 3.5% of GDP, which represents a serious problem in an economic context of inflationary pressure and slowing growth. Historically, public spending in Uruguay changes according to the proximity of the election year. However, in 2014, the government exceeded all permissible levels, and in the coming months must launch a series of adjustments to balance spending, which could affect some aspects of certain public policies.

9 | Private Property

Since the origins of the Uruguayan nation-state, property rights have been constitutionally protected and enforced at the same level as other fundamental rights (life, freedom, honor, security and work). Regulations on acquisition, benefits, use and sale are well-defined and enforced. Property rights can be limited solely by law and based on reasons of public interest. The constitution establishes that, in the event of expropriation, payment of fair compensation must be made in advance. Uruguay has not registered cases where foreign investments have been expropriated. In recent years, the country has been improving its property rights regulations for economic activities to promote private investments, especially from abroad.

Property rights
10

During the 20th century, Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted a liberalizing trend in the context of the Washington Consensus policies. However, the process was gradual and some privatizations were blocked by opposition parties and social movements, using direct democracy mechanisms. The leftist governments, under the Vázquez and Mujica administrations, have not followed a strategy that includes the privatization of state-owned enterprises, although they have actively promoted private investments and public-private joint ventures in infrastructure developments. The Investment Promotion Law 16.906 (1998) and the Decree 455/007 (2007) have played a crucial role here. In recent years, the government has shown interest in attracting additional investments to develop the country port facilities in order to exploit its comparative advantages and become a regional logistics center. President Mujica made the

Private enterprise
10

construction of an oceanic port near the border with Brazil the center of his agenda. The purpose of this port was to provide a commercial outlet to the mining production projects based in the Northeast of the country. To do this, he offered Chinese entrepreneurs, and later members of Mercosur, the opportunity to invest in the enterprise. However, changes in the international iron market slowed the mining project, thus delaying the construction of the aforementioned port. On the other hand, the Uruguay Round II program has also progressed in promoting the exploration and prospecting of newly discovered oil fields off the Uruguayan coast. Private companies, specifically foreign ones, are viewed institutionally as primary engines of economic development. However, progress in this area has been modest due to the intrinsic difficulties of the process, the currently low dynamism of the world oil market, and the emergence in Uruguay of an alternative market of renewable energy.

To promote this kind of investment, the government is improving the regulatory framework and signing international treaties to give such investments the appropriate legal safeguards. Between 1991 and 2014, Uruguay signed 27 agreements for the promotion and protection of investments with different countries such as the United States, China, Britain, France, Italy, India, Korea, Israel, Finland, Australia, Mexico, Brazil, and Chile.

10 | Welfare Regime

Uruguay had long been a traditional welfare state with social democratic characteristics, but it suffered severe deterioration due to neoliberal policies and recurrent economic crises. Nevertheless, social spending in Uruguay has continued to be the highest in Latin America.

The pension system in Uruguay was already universal by the middle of the twentieth century, but the purchasing power of pensions systematically decreased during the 1960s and under the dictatorship. In addition, in the post-war decades, the performance of the pension system was fragmented due to the particularistic policy promoted by the parties. In 1989, an organization of pensioners successfully called for a plebiscite to introduce the indexation of pensions in the national constitution. As a consequence, the purchasing power of pensions rose considerably, so the government had to create new taxes to meet its increased obligations. The situation was complicated further because the social structure of the country changed dramatically over the last decades. In 1990, Uruguay had an age pyramid with a relationship of 1.3 workers for every pensioner. In an effort to solve the chronic system deficit, a structural reform of the pension system was passed by parliament in 1995 and is still in force. The reform introduced private pension funds, creating a mixed public–private system that preserved the pay-as-you-go pillar for low wages and introduced a personal account savings pillar for higher wages.

The leftist government made important reforms in safety networks, especially increasing money transfers for the poor and expanding health coverage. The “equity plan” (Plan de Equidad) covers all children whose families have incomes under the poverty line with a “family allowance” (Asignaciones Familiares) of about \$50 per child. The traditional health care system in Uruguay had low coverage that only included formal workers of private enterprises through private providers and poor people through public hospitals. The last two administrations also created and developed an “integrated national health system” (SNIS) that expanded coverage to include public servants, spouses and children of workers (2008), and pensioners with low incomes (2012). The SNIS put public and private providers on the same level, in order to supply health care in a competitive manner. The SNIS and the equity plan, together with the improvement and expansion of wages, contributed to a significant reduction in poverty, which dropped from more than 30% in 2004 to around 8% in 2013. In addition, an official report from the National Institute of Statistics (2014) shows that while 52% of the population under age 12 lived in poverty in 2006, only 21% of this segment lived in poverty in 2013. These changes indicate that social policies have succeeded in reversing the historical bias that disadvantaged younger people and favored older people.

Uruguay has no significant ethnic or religious minorities. The country adopted a law in 2004 aimed at combating racism, xenophobia and discrimination. The main differences in opportunities for people are those derived from income and gender. Male and female literacy and enrollment rates are almost identical except for in college, where female students almost double males. Despite this, unemployment is higher than average among women and citizens of African descent. The presence of women in public office is low. Nevertheless, some improvements have been made. A law was passed in 2009 that demands a one-third gender quota for the election of party authorities and the same quota for the next legislative and subnational elections. In addition, three women were elected as mayors (Intendente Departamental) for the first time in the 2010 local elections. In recent years, the Uruguayan parliament has passed some laws to recognize the rights of minorities. In 2013, a new law legalized marriage between persons of the same sex, and another law created mechanisms designed to improve Afro-descendants’ access to the labor market and provide them access to higher education scholarships. Parliament also passed a law legalizing abortion in recognition of women’s rights over their own bodies.

Equal opportunity
9

11 | Economic Performance

In spite of an unfavorable international context, the Uruguayan economy continues to function quite well. During the review period, GDP continued to grow, although at lower rates. The government estimates that GDP grew 3% in 2014 (4.4% in 2013 and 3.7% in 2012). Unemployment remains at historically low levels, scarcely 7% at the end of 2014. Inflation, which is among the government's main concerns, exceeded the defined target (of between 3% and 7%), reaching 8.3% in 2014, and 8.5% in 2013. The current account balance ended with moderately negative figures in 2012 and 2013 (-2.6% and -2.4% of GDP respectively), but strong foreign direct investment inflows have proven sufficient to finance the current account deficit and also allow for the significant accumulation of international reserves by the central bank. FDI stood at \$2.6 billion in 2012 and \$2.7 billion in 2013, representing 5.4% and 5.5% of GDP. In the last 10 years, FDI averaged 5.2% of GDP annually. Gross capital formation is growing above the overall increase in demand, in part due to the relevance of the FDI, but also because of a significant increase in public investments, which in turn explains part of the budget deficit. The budget deficit growth within 2014 was higher than expected, reaching 3.5% of GDP. The increase is completely explained by the government's expenditure growth in an electoral year. Public debt is still high (foreign and domestic) but has been significantly reduced in recent years, reaching about 58% of GDP at the end of 2013.

Output strength
8

12 | Sustainability

Environmental concerns have been increasingly taken into account by Uruguayan policies. The country has had an environmental protection law since 2000 and a governmental agency (a department inside a ministry) to enforce the law and promote the care of the environment and sustainable growth. The government has sought alternative energy sources, promoting the production of biofuels and wind-generated electricity through investment in public and private enterprises. This policy has been very successful in recent years. The first projects began to run in 2011 and the government approved investment projects in this area totaling \$1,300 million in 2013. The government estimated that, in 2016, Uruguay would have a higher percentage of wind energy in its energy mix than any other country. At the end of 2014, wind power covered 24% of the country's general energy consumption. Another significant improvement in this field was the implementation of a National System of Protected Areas (SNAP), which has incorporated twelve areas since 2008.

Environmental
policy
8

Environmental awareness has made some progress within the population, and the issue is increasingly present in public debate. When the government tried to boost the Aratirí mining project (an open iron mining pit), a broad social movement opposed the initiative, resulting in a slower legislative process. Although parliament adopted

the initiative as well as a mega-mining act in 2013, the implementation of the project is still suspended. As a result of this social mobilization, a Green Party (PERI) was founded in the elections held in 2014. This party promoted an agenda focused on the care of the environment, and its performance in the election almost gained it a seat in parliament (0.8% of the electorate). Notwithstanding overall progress, some other problems remain, such as wastewater treatment and extensive use of pesticides and fertilizers in agribusiness. The 2014 Environmental Performance Index ranks Uruguay 70th out of 178 countries.

The leftist government increased public spending in education (4.5% of GDP) and in R&D (still far below 1% of GDP) and created an independent governmental agency to promote scientific research and innovation (ANII). The country has a strong nationwide education system and almost 100% enrollment rates in primary and secondary schools. In 2009, the Tabaré Vázquez administration launched a plan promoting the availability of one laptop per child, which was implemented for all children in primary school. This plan was expanded by the Mujica administration to cover all children in secondary schools. However, according to the Program for International Student Assessment (PISA), performance in education showed significant stagnation in 2013 and 2014. The traditional weakness of the tertiary system of education has been addressed to a certain degree by significant curriculum reforms and the institutionalization of programs for postgraduate studies at the University of the Republic. However, progress has been limited by an overall scarcity of resources affecting teaching as well as research. However, the outgoing legislature approved the creation of a technical university, which was opened in 2013. In the recent elections of 2014, education was one of the central issues of the campaign. In debates, politicians and technical experts of all parties showed significant agreement on the type of reforms that should be implemented. By the start of its third administration, FA had identified education as the biggest challenge for the government, not only due to the worrying situation but also because of the campaign compromises made by the elected president.

Education policy /
R&D

7

Transformation Management

I. Level of Difficulty

In Uruguay there are no structural constraints, such as natural disasters or pandemic diseases. The country enjoys a privileged geographic location (even though it is strongly dependent on large neighboring countries) and has an educated and relatively wealthy population (in the Latin American context). Given the current conditions of development, the country has to strengthen its education system and develop its infrastructure.

Structural
constraints

2

Uruguayan civil society has a long tradition of civic engagement and a participatory civic culture. There are numerous and active civic associations and a significant level of social trust (among the highest in the Americas, according to the Latin American Public Opinion Project 2012).

Civil society
traditions

2

Uruguay has no relevant ethnic or religious conflicts. The main social conflict is over income distribution, conducted by labor unions in a legal and peaceful way (with demonstrations or strikes). This conflict is translated into politics as an ideological cleavage between left and right, which is solved in a democratic manner and, normally, by agreement and consensus instead of confrontation.

Conflict intensity

1

II. Management Performance

14 | Steering Capability

All post-dictatorship Uruguayan governments have been committed to democracy and the rule of law, as well as to a market economy, showing a broad consensus among political elites. Beyond that, since the 1990s, governments have shown an increasing tendency to establish strategic priorities in order to stabilize and develop democracy as well as a market economy with social safeguards. With respect to the latter, the governments first focused on the control of inflation, followed by the setting of conditions to promote FDI. The leftist governments (since 2005) have continued these strategic goals, adding as priorities the fight against poverty,

Question
Score

Prioritization

9

reduction of the informal sector, reforms of the labor market and investment in education and health. These policies have now been conducted for 10 years, and have been largely accompanied by intensive consultations as well as organizing expertise, impact assessments, monitoring and evaluation.

Even though substantive spending increases were developed in electoral years in the hope of obtaining electoral support for the governing parties, this has not eroded the consistency of strategic priorities. Although the last two governments built their cabinets assigning positions to different factions to balance partisan interests, government leadership (presidents Vázquez and Mujica) has managed to maintain legislative support for the main policy goals.

However, during the Mujica administration, it was clear that political coordination no longer functioned as smoothly, or at least as orderly, as it usually did in the Vázquez administration. Infighting between factions became more visible and the synergies between the teams of the president and of Vice President Danilo Astori (who was in charge of economic policy) were not realized. The proximity of the national elections forced the factions to rally behind the president and the presidential candidate, so these problems did not look as dramatic as they had in previous years. The return of Tabaré Vázquez as president can bring a new balance to the functioning of government. However, the distribution of government positions between partisan factions will continue to be a delicate matter for the next government.

The leftist governments have implemented many reforms effectively. Outstanding reforms (such as of tax, health and financial reforms, among others) were set in motion during the Vázquez government and were continued by the Mujica administration, without relevant obstacles from opposition groups. Human rights policies (allowing the judgments of crimes committed during the dictatorship era, as well as the search for the remains of missing people) were implemented despite military opposition, which has since become isolated. In 2013, the government supported the legalization of same-sex marriage and marijuana. However, the government encountered significant obstacles with the implementation of administrative and civil service reforms (Reforma del Estado). The privileges public servants enjoy and the mobilization of their powerful unions have prevented any major advances in reforms. Generally speaking, all reforms in Uruguay are implemented in a gradual and mixed way to maintain a broad consensus. So far, no insurmountable gridlock has arisen, but in a number of sectors, the speed of reforms has increasingly slowed down.

The leftist governments have demonstrated a great ability to learn and act in a flexible manner. The traditional leftist conception of economic policies (state-centered and with a weak commitment to a balanced budget) was radically modified by President Vázquez, who assumed a more pragmatic position. The government showed an important predisposition for innovation, setting in motion original reforms (e.g., the integrated national health system) and programs (e.g., wind energy). Most of the reforms implemented were publicly debated and designed with the relevant participation of experts and the organizations implicated. Those reforms are being monitored and evaluated in a systematic way, adding gradual adjustments. The outgoing government followed the same criteria and, in some issues, appeared to be even more flexible, also in its relationship to the opposition parties. For example, the Mujica administration achieved agreements with the opposition to renew the composition of the Electoral Court, and with departmental mayors to unify municipal fees for vehicles, issues that could not be solved by the previous governments. Another example of innovation in the Mujica administration was the policy of legalizing marijuana as a way of combating drug trafficking. This government initiative combined innovation and political leadership, although public opinion did not support the policy.

Policy learning
9

15 | Resource Efficiency

Traditionally Uruguay has had a clientelistic system of appointment in public administration, conducted by the traditional parties. Since reforms in the 1990s, governments have strived to tackle this by reducing the number of state employees and privatizing state-owned enterprises. The FA governments, first at the level of the Montevideo government (Intendencia Municipal de Montevideo) and then at the national level, have made significant changes, incorporating more competitive recruiting procedures without completely removing political influence. So far, however, the government has been unable to reform the civil service in a modern and efficient way. In these years, despite the development of a broad debate about the advisability of creating a system of open competition with transparent rules and criteria for the various echelons of the civil service, the government has met strong resistance from officials and it has not had a clear strategy to address this problem. In general terms, the government makes efficient use of most of its available human, financial and organizational resources. However, the state personnel is still oversized, and many agencies are not efficient in relation to their costs. Nevertheless, the budget deficit is low, has remained within target range and is under control most of the time, and there have been no significant deviations from planned expenditures. The leftist governments have assigned priority to decentralization in establishing a third level of government, which was elected for the first time in the May 2010 local elections. However, this level has no budget autonomy.

Efficient use of
assets
8

The leftist governments coordinated conflicting objectives effectively and acted in a mostly coherent manner. Both governments introduced forms of horizontal coordination through specialized cabinets (research and innovation cabinet, social cabinet, etc.). In these, different ministries coordinate their policies to avoid redundancy and reach more efficient outcomes. Some of the main reforms launched by the previous government needed considerable effort in coordination, such as the tax and health reforms, both of which affected the rights of workers and wages. Some horizontal coordination agencies were also created, for example the Agency for Electronic Government and the Information Society (AGESIC), which successfully expanded IT policy throughout the state over the last four years, monitoring compliance and developing e-government. The outgoing government continued the former's coordination style and has made no significant innovation in this point. The government infighting observed in 2012 and 2013 was constrained by the proximity of the national election.

Policy
coordination
9

Uruguay has been making progress in the fight against corruption since the mid-1990s, and is seen as one of the least corrupt countries in the region. The country has had an anti-corruption law since 1998. This law (with subsequent modifications) established that acts of corruption are a criminal offense, and created a specialized independent agency to fight corruption (Junta de Transparencia y Ética Pública, JUTEP). Under the law, sworn financial statements are required from high-ranking public servants, including the president, and public officials are subject to financial disclosure rules. In 2009, specialist courts and prosecutors began work against organized crime. In recent years, the media has uncovered some corruption scandals and the judiciary has acted accordingly, showing that anti-corruption institutions actually work. Complementary to this, there has been a law in force since 2008 guaranteeing access to public information. There is also a special Unit for the Access to Public Information as part of AGESIC, which monitors and promotes compliance with the law. In addition, a political-party financing law approved by parliament in March 2009 created clear rules of transparency and accountability, determining a limit on private donations. Political parties also receive public funding to finance election campaigns and their regular activities. However, the institution in charge of guaranteeing the compliance with these rules (the Electoral Court) lacks the required human and material resources to efficiently check the financial statements of political parties. Finally, an institution dealing with human rights was established in 2012, pursuant to the provisions of a law passed in 2009 (modified in 2011). The institution depends on the budget of legislative branch but functions autonomously and acts as ombudsman and advisor of the parliament in human rights matters.

Anti-corruption
policy
9

16 | Consensus-Building

Consensus on democracy is almost unanimous in Uruguay. Furthermore, democracy works in a highly consensual manner, with broad agreement on major issues. The last election, held in 2014, showed a broad range of programmatic agreements between the four main parties in areas such as economics, education, infrastructure and energy development.

Consensus on goals
10

No Uruguayan political party proposes the abolition of a market economy. The dissent in this area focuses on the role to be played by the state. The leftist ruling party believes the state should play an important role not only in market regulation but also in leadership for economic development and the establishing of opportunities in certain strategic areas. The center and right parties are more suspicious of the state and promote more liberal policies.

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when such an actor publicly appears, they are immediately condemned and isolated. For example, in 2012, the Uruguayan Party was founded, whose principles defended the coup of 1973. The Electoral Court did not accept its registration and all political actors rejected its emergence. Thereafter, the media showed that this party just represented a few tens of fanatic activists.

Anti-democratic
actors
10

Uruguay has no relevant regional, ethnic or religious conflicts. Class or distributive conflict is the only cleavage that is active and reflected in the political system. The political leadership manages to maintain the conflict inside the rule of law, avoids excessive or violent demonstrations, and expands consensus across the dividing lines.

Cleavage /
conflict
management
9

The leftist governments have given high priority to social participation in policy formulation and implementation. Some relevant public policies were subject to public debate through the creation of specific discussion environments, such as the National Dialogue for Social Security (2006-2008) or the National Congress of Education (2007-2008), which counted on the broadest participation of social and political actors. The education law passed in 2008 required the presence of representatives of teachers in the directive councils that govern the education system and which were elected in 2010. In addition, investment projects that have the potential to alter the environment have to develop forums to present and evaluate the initiative with the affected public. In general, these events are attended by well-organized groups concerned about the environmental impact of the enterprises. To further promote participation, parliament approved an executive initiative that created a third level of government (municipal councils and a mayor in cities and towns with a population over 5,000). In May 2010, elections for local authorities were held for the first time. Finally, during the second part of the mandate of President Mujica, opposition parties and some civil society organizations collected

Civil society
participation
10

10% of all citizens' signatures to promote a constitutional amendment to lower the age of criminal responsibility for minors. The constitutional referendum was held along with the election of 2014 but the reform initiative was rejected. Nevertheless, citizen participation has been as intense as in every instance of direct democracy that Uruguay has had since 1985.

The reconciliation between victims and perpetrators of past crimes has been one of the most challenging issues for the Uruguayan political system. The amnesty law passed shortly after the end of the dictatorship failed to solve this problem, as it never achieved consensus. Thus, the issue has reemerged repeatedly over the last 25 years. Governments from 2000 on have made efforts to redress crimes committed under the last dictatorship, which went fully unpunished until this moment. President Jorge Batlle (2000 – 2005) created the Commission for Peace, intended to obtain information about kidnapped children and the remains of missing people. The FA governments changed the executive criteria to apply the amnesty law, allowing the judiciary to prosecute some crimes, with the result that a number of civil and military criminals were jailed. Finally, after the Supreme Court declared the amnesty law unconstitutional, the legislature passed a new law in 2011 that voided the former one and established that those crimes were nonlapsable crimes against humanity. However, in turn, this law was declared unconstitutional by the Supreme Court. Today, the victims of the dictatorship present their claims before the courts and the result is subject to the criteria applied by judges regarding these events or are not considered crimes against humanity. Some claims progress but others remain stalled. President Mujica tried to convince the public that the real solution to the problem will come with time and the death of all actors from that period. His pessimism was based on the fact that the older leaders of dictatorial military government refuse to give information on crimes. This view is not satisfactory to the families of the victims who demand that the ruling party act with greater determination on the issue. The newly elected government has taken up the issue, forming a new Peace Commission, composed of individuals committed to human rights.

Reconciliation
9

17 | International Cooperation

Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not vital to the country's development. In the context of the economic crisis, as a medium-income country, Uruguay became non-eligible for a number of funding sources. Dozens of countries and multilateral agencies provide aid, but the most relevant are the Inter-American Development Bank (IDB), the World Bank, the European Union, Spain and Japan.

By 2013, the country was executing almost 400 projects for \$190 million, \$60 million of which was used that year alone. The Uruguayan political leadership has made well-focused use of international assistance, in accordance with its long-term strategy of

Effective use of
support
10

development and its domestic policy agenda, focusing the aid on environmental issues, gender issues, cultural development, human rights and the promotion of R&D. The previous and the current governments have made efforts to improve the coordination of programs and efficiency in the use of resources gained by international cooperation. In 2010, the Uruguayan Agency for International Cooperation (AUCI) was created. As a result, excellent information on the topic is provided by the “map of cooperation,” available online.

The Uruguayan government is considered a credible and reliable partner by the international community. The country has built a reputation for respecting commitments, contracts and the rule of law, which was reflected in the solutions to the financial crisis of 2002 and the dispute with Argentina over pulp mills in 2010. As a consequence, FDI has been growing significantly and Uruguay has maintained its investment grade status since 2012.

Credibility
10

The Uruguayan political leadership has always shown a strong predisposition to cooperate with neighboring countries, reflected in the country’s participation in most international or regional initiatives. Uruguay was a founding member of the United Nations, the Organization of American States (OAS) and Mercosur. In particular, the country strongly promotes regional and international integration, not only supporting Mercosur but also looking for trade agreements outside the region. In recent times, the country’s cooperation policy has demonstrated an interest in new forms of cooperation, such as triangular and south-south cooperation, and created the Uruguayan Fund for International Cooperation. The Uruguayan Agency of International Cooperation was designated as the head office of the Ibero-American Program for the Strengthening of South-South Cooperation (PIFCSS) in 2012 – 2014. As regards the relationship with neighboring countries, two very different scenarios can be observed. While relations with Brazil are characterized by intense cooperation and political convergence, relations with Argentina remained problematic. While the dispute regarding the installation of cellulose processing plants has been managed through diplomatic channels, new areas of friction have emerged, such as trade policy, the dredging of common rivers and the ports policy. The outgoing government made great efforts to improve the bilateral relationship, but the internal political conditions of Argentina have prevented this.

Regional
cooperation
10

Strategic Outlook

Uruguay is successfully advancing in its transformation, and its main challenge remains to achieve sustainability for its economic development. Outstanding economic performance during the last decade and recent structural reforms have brought institutional and financial solidity to the country. The continuous growth, rising exports and strong foreign investment inflows, have allowed the country to reduce its public debts substantially. The investment grade status awarded by the main risk-rating agencies is a proof that performance is on track. In 2015, the country will reduce its global public debt level to close to 40% of GDP. The Uruguayan economy grew by 3% in 2014, and similar figures are estimated for the next two years, according to the Inter-American Development Bank (IADB). If the current trends are confirmed, investment will continue to rise in the coming years, achieving 25% of GDP by the end of 2015.

Nevertheless, Uruguay's economy is still structurally vulnerable due to its size, its dependency on the performance of neighboring countries and foreign markets, and its high dollarization. Therefore, careful debt management, strict supervision of the financial system and a well-balanced budget are needed to ensure the sustainability of private investment, economic growth and social welfare.

The current government, which took office in March 2015, has several challenges in its policy agenda. It needs to improve and consolidate the reforms made under the last two administrations. For instance, tax reform must make progress in unifying income tax from different sources (wages and capital) and reducing value-added tax to 20%. The achievement of those goals will improve the efficiency and fairness of the tax system. Health reform should also make progress by broadening coverage, ensuring the financial viability of the system. In addition, the new budget to be approved in 2015 should take into account lower economic growth due to changes in international conditions, while containing public spending.

The government also has to accelerate reforms in other areas. Education reform will be the primary goal of the next administration. This reform will not be achieved without difficulty, mainly due to potential resistance from teachers' unions. Investment in R&D should also be increased without impinging other areas of public spending.

The new government should tackle the constantly postponed civil service reforms, where labor unions operate as a powerful veto player. Finally, the country needs to develop a process of strong investment in infrastructure (roads, railways and ports) in order to sustain economic growth.

However, beyond the need to adequately manage public policies, the government will need to manage its own internal differences. This is not a challenge exclusive to FA, but rather a structural problem caused by the factionalized nature of Uruguayan political parties. As factions are well-institutionalized and have political autonomy to make decisions, building party discipline is a complex process which tests the ability of presidential leadership. Some presidents have

successfully resolved this challenge but others have failed. Vazquez did well in his first administration and is likely to do so again in the next period, although in this case he will have a legislative majority controlled by the group led by outgoing President Jose Mujica. An important part of the governance of the coming period will depend on how Vázquez faces this institutional dilemma.