



TRADE POLICY REVIEW

REPORT OF

URUGUAY

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Uruguay is attached.

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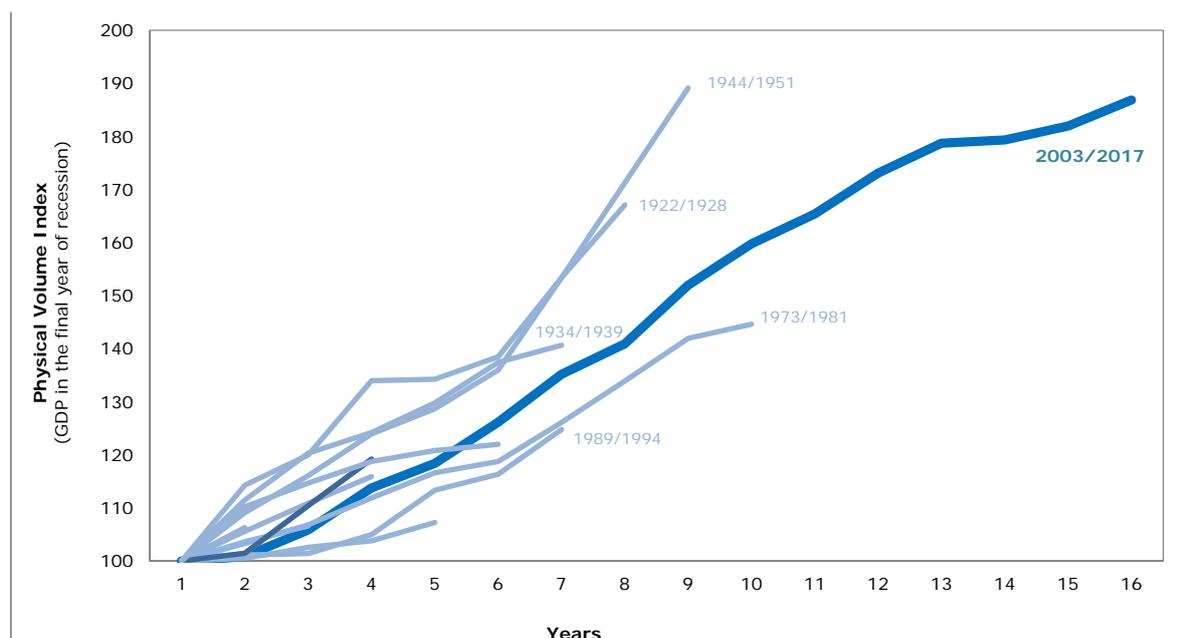
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1 MACROECONOMIC ENVIRONMENT AND ECONOMIC POLICY

1.1 Introduction

1.1. Over the last 15 years Uruguay has experienced continuous economic growth (see chart below), a trend without precedent in the country's history. During that period the economy recovered from the serious crisis of 2002, dealt with the global financial crisis of 2008 and successfully managed significant regional macroeconomic tensions and imbalances. The strong performance of the Uruguayan economy is the result of prudent management of public policies (especially economic policy) when external conditions were favourable, and the profound national structural changes that are now in place or pending.

Chart 1.1 Change in GDP by period, 1916-2017



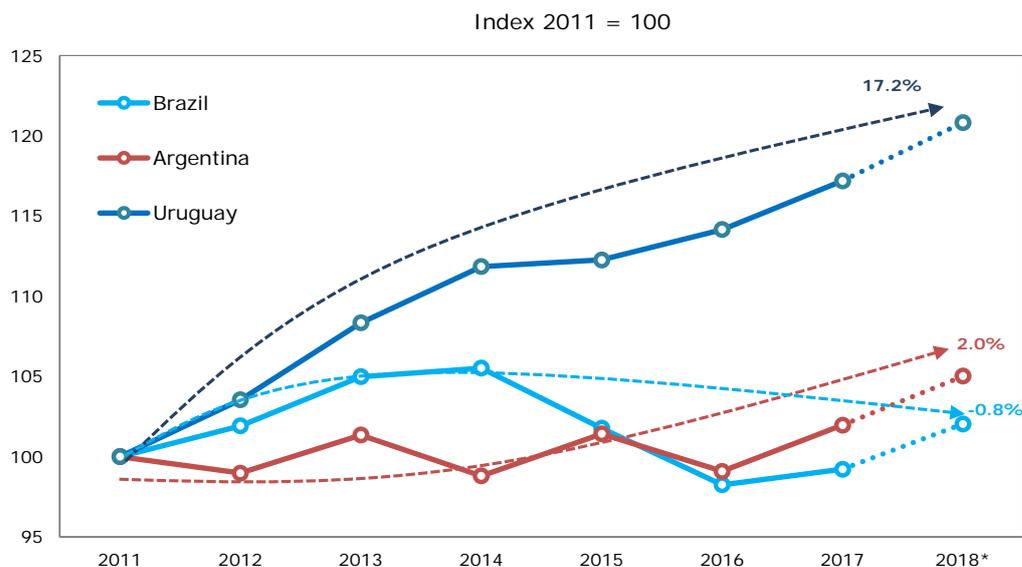
Source: Bonino, N.; Román, C.; and Willebald, H. (2012); and BCU.

1.2. Despite the generally worsening external outlook, especially at regional level as a result of Brazil's deepening economic crisis, the Uruguayan economy has continued to expand, and closed 2017 with the level of activity up by 2.7%. The main driver behind this growth was the commerce sector, which was 7.5% larger than in 2016 and is recovering from the 7.2% cumulative fall it experienced in 2014-2016. Also worthy of note is the transport and communications sector, which recorded 8.5% growth in annual terms. The main drivers of growth on the demand side were private consumption and exports, which rose by 4.4% and 7.6% respectively.

1.3. This year the Government projects that the Uruguayan economy will grow by 3.2%, while private analysts predict a rate of 3.4% for 2018 based on the mean response to the survey of economic expectations conducted in March by the BCU.

1.4. One important factor to note is the "decoupling" of Uruguay from Argentina and Brazil in recent years. Uruguayan economic performance has historically been contingent upon that of its neighbours and there used to be lengthy periods when it was possible to take the average of their performance to project how Uruguay's economy would behave.

Chart 1.2 Cumulative GDP growth, 2011-2018



* Projections based on data from BCRA Argentina (market expectations survey), Brazil BCB (market expectations survey), provisional estimates for Uruguay from the MEF.

Source: Argentina: INDEC; Brazil: IBGE; Uruguay: BCU.

1.5. The changes that have made Uruguay stand apart in the region include greater diversification of exports in terms of both markets and products, and the strong inflows of foreign direct investment from various countries over the last 15 years, reflecting confidence in the country's institutional framework and economic policy.

1.6. Thanks to the incorporation of technology and knowledge into the various stages of the production system (in traditional sectors such as agriculture), exports of goods from Uruguay succeeded in diversifying into buoyant new international markets. As a result, between 2003 and 2017 exports of goods and services grew at an annual cumulative rate of 10%.

1.7. The economic policy of recent years has focused on maintaining macroeconomic balances through coordinated action in the three areas of monetary and exchange-rate policy, fiscal policy and incomes policy. Monetary policy still focuses on keeping inflation (measured by monetary aggregates) within a target range of 3% to 7%. Having exceeded 11% in May 2016, annual inflation has been falling sharply and in March this year reached an annualized rate of 6.6%, within the target range. This trend reflects a slowing of non-tradables inflation (rise in prices of goods and services that are not traded abroad) from close to 11% down to 7%, and a reversal in the rise in the prices of fruits and vegetables as a consequence of climate-related factors.

1.8. Uruguay has a floating exchange rate regime with occasional government intervention to cushion volatility. The dollar has tended to depreciate over the past few years, in line with its trend globally, leading the Central Bank of Uruguay (BCU) to purchase dollars in order to prevent undue pressure on the exchange rate.

1.9. Public finances continue to be the Government's main focus. The consolidated public sector balance for 2017 was -3.5% of GDP, an improvement of 0.4% compared to end-2016. The Government's objective for the period continues to be fiscal consolidation.

1.10. Until 2013 the Uruguayan economy had for many years been growing faster than its long-term growth rate (3%), resulting in historically extraordinarily favourable rates of employment and unemployment. In recent years when growth has been lower, the labour market has become less buoyant.

1.11. At end-2017 the employment rate was 57.9% compared to 59.3% in 2013, while the unemployment rate was 7.8% compared to 6.5% in 2013. Despite falling employment, the wage bill is still rising and in 2017 represented 49.8% of GDP.

1.12. On incomes policy, this year sees the opening of the Seventh Collective Bargaining Round (CCSS) where 203 groups will be negotiating wage agreements (representing around 80% of the economically active population), making it the largest ever round of negotiations. The collective bargaining guidelines proposed by the Government set out the following targets in a balanced way, in this order of priority: improved levels of employment; promotion of differential wage rises having regard both to the lowest-paid workers and to the actual situation in each sector; and protection of the wage improvements secured in recent years in order to preserve real-term wage levels.

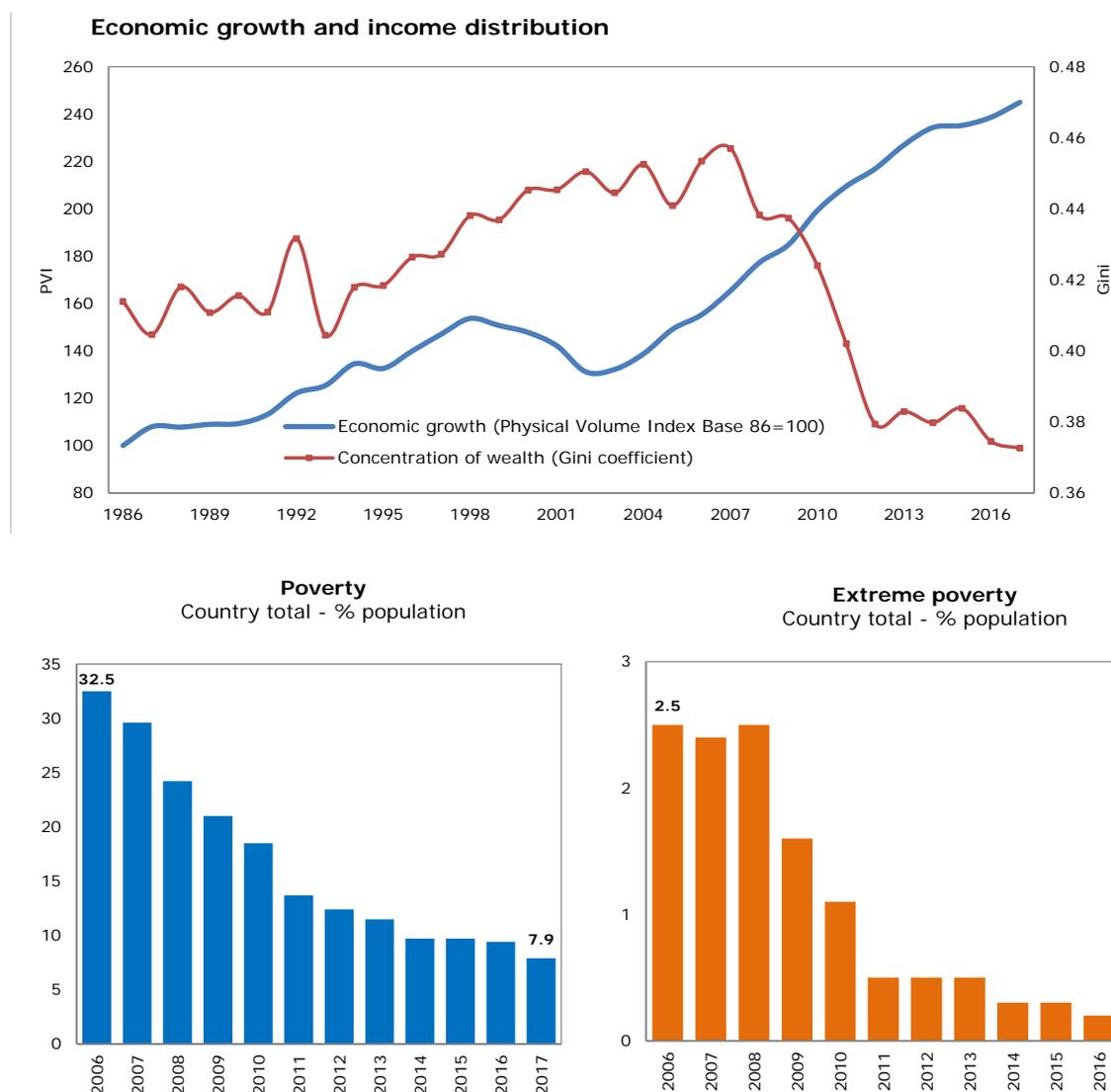
1.13. Although the significant economic growth of the last decade enabled Uruguay to sustain a buoyant labour market with high employment rates and historically low unemployment, in recent years that buoyancy has been falling and is one of the major challenges currently facing the Government. At end-2017 employment was 57.9%, a loss of around 3,000 jobs compared to 2016. In 2017 unemployment averaged 7.9%, the highest figure since 2009.

1.14. The delivery of social policies and the strong process of sustained, dynamic growth in economic activity also enabled the country to reduce inequality and improve social indicators. It is clear from the following chart that compared to 2004 there is now greater fairness in the final distribution of household income, and poverty and extreme poverty have fallen to historically low levels.

1.15. Traditionally Uruguay has analysed poverty and extreme poverty through income, measuring whether a household's per capita income is sufficient to cover minimum food and non-food needs. In recent years the poverty rate thus measured has fallen significantly. In 2006, 32.5% of people were considered poor, in 2012 the figure was 12.4% and in 2017 it had fallen to 7.9%. In 2006, 2.5% of Uruguayans were living in extreme poverty; in 2012 the figure was 0.5%, and in 2017 it was just 0.1%.

1.16. As for inequality, using the Gini coefficient where 1 represents the total concentration of wealth in a single individual and 0 represents uniform income distribution, Uruguay's Gini coefficient was 0.455 in 2006, 0.384 in 2013, and 0.38 in 2017.

Chart 1.3 Economic growth and social inclusion



Source: INE.

1.2 Macroeconomic outlook 2018-2022

1.17. Following weak growth in 2016, the global economy experienced an upswing in 2017. Given this scenario, the projection for the coming years is for moderate growth, but not without risks. In an international trading environment that is already uncertain and financially more volatile those risks – should they materialize – could give rise to a more difficult trading environment for Uruguay and to difficulties in the consolidation of economic growth processes in neighbouring countries.

1.18. Growth in developed economies will continue to be sluggish, largely because of the poor performance of the eurozone countries. For the United States the projection is for growth to accelerate in 2018 as consumer confidence picks up. The performance of the emerging and developing market economies will continue to be uneven among countries. Despite the fact that the data on China in 2017 were better than originally forecast, the medium-term projection is for the Chinese economy to continue on its rebalancing course towards lower growth rates, although those rates will still be high by international comparison.

1.19. The economies of Latin America and the Caribbean recovered in 2017, although not as much as expected. The Argentine economy is expected to build on the growth that began in 2017, while in Brazil growth rates in 2018 are expected to be better than in 2017.

1.20. Taking into account the changes that are expected to occur at international level and in the chief domestic economic variables, and having regard to the 2.7% growth in the Uruguayan economy in 2017, our forecast is that economic activity will further accelerate in 2018, achieving the projected long-run trend rate and maintaining it in the medium term (3%).

1.21. There are also important domestic challenges. First, the economic growth of the last two years was not spread across the board. Levels of activity fell in sectors such as commerce and repairs, construction, transport, and personal services, which probably also explains the drop in employment over that period since these areas are among the biggest employers. Nonetheless it is expected that future growth in activity will be more evenly spread, giving rise to conditions that are conducive to creating more employment.

1.22. Moreover, the fiscal accounts continue to be strained. The consolidated structural public-sector balance has shown improvement over the last year but remains at around -3.5% of GDP, while the recent upward trend in the public debt needs to be reversed. This places constraints on the budget and calls for extremely prudent handling of the fiscal accounts in order to attain the fiscal balance target of -2.5% of GDP in 2019.

1.23. The fiscal balance target set by the Government for the end of the period is designed to moderate the growth of public debt, with the ultimate objective of ensuring the sustainability of the public finances – one of the cornerstones of macroeconomic stability and any development strategy that is sustainable over time. Over the last ten years there have been plentiful examples at international level where sustained fiscal imbalances have drifted into unsustainable debt, leading to deep cuts in social spending and across-the-board tax rises with negative repercussions on employment, wages, pensions, and the quality of life of all citizens, especially the most vulnerable.

1.3 Economic policy framework

1.24. Investment promotion, poverty reduction and the elimination of extreme poverty have been the core pillars of the Government's development strategy to achieve inclusive, sustained economic growth. With that in mind the Government pursued stable, credible public policies that would develop conditions conducive to institutional, social and macroeconomic stability in order to facilitate business decision-making and incentivize investment.

1.25. A number of challenges arose during the review period, including how to improve the public finances and maintain their sustainability, and how to incentivize private investment.

1.26. In order to improve the consolidated public sector fiscal balance by almost 1% of GDP and achieve the 2019 target of 2.5% of GDP, the Budget and Accounting Report for 2015 proposed a comprehensive fiscal consolidation plan that was carefully designed to distribute the additional savings effort across the various stakeholders in society. This is reflected in the balanced distribution of that effort between the public and private sectors and between personal and corporate income. Where income is concerned, the tax instruments selected were specifically geared to improving income distribution and progressivity in the system so that those who could afford to do so paid more. This year a new Budget and Accounting Report will be underpinned by prudence and fiscal responsibility.

1.27. Thanks to proactive and efficient administration of the public debt during the period under review the Government succeeded in returning to liquidity, reducing the debt/GDP ratio and improving the profile and composition of the debt. Sound debt management coupled with fiscal consolidation enabled Uruguay rapidly to overcome the effects of both the international crisis of 2008-2009 and the regional crisis of recent years and keep its investment-grade rating from the principal international ratings agencies.

1.28. Additionally, monetary and exchange rate policy will aim to stabilize prices in the economy in order to protect the lower income sectors and the economy as a whole from inflationary pressures.

1.29. At the social level, the policy applied during the period 2005-2017, backed by a sharp increase in social spending, helped to extend and strengthen social safety nets while reducing

poverty and extreme poverty, and increasing employment and household income. The Government's current social policy priorities revolve around teaching, housing, public security and further strengthening the social safety net.

1.30. Education has a significant place in the country's development project. The measures being taken in this area include the expansion and improvement of infrastructure and equipment in educational establishments, creation of new full-time schools and pre-school education establishments, computer literacy training, decentralization of educational services, including new universities and expansion of technical courses, changes to the teaching profession and improvements in real wages.

1.31. Where investment incentives are concerned, measures were recently announced to improve the business climate and strengthen those aspects where economic performance has been flagging in the last two years, namely investment and employment, thus making the economy more dynamic. These measures go hand in hand with the implementation of a new Regulatory Decree pursuant to the Law on the Protection and Promotion of Investment, No. 16.906 of 1998, which aims to enhance the benefits granted to businesses in order to promote investment and employment.

1.32. The proposals also include a set of measures to improve access to these incentives and lessen the cost of compliance with tax obligations for smaller businesses.

1.33. With 29 investment agreements currently in force, Uruguay clearly attaches considerable importance to foreign investment in its development strategy. The countries with which agreements have been concluded are: Armenia, Australia, Belgium and Luxembourg, Canada, Chile, China, the Czech Republic, El Salvador, Finland, France, Germany, Hungary, Israel, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Panama, Poland, Portugal, Romania, Spain, Sweden, Switzerland, the United Kingdom, the United States, the Bolivarian Republic of Venezuela and Viet Nam.

1.34. One of the Government's priorities during the review period was investment in public goods, in particular the repair and maintenance of the road infrastructure. This involves both public and private investment. The Ministry of Transport and Public Works is investing in extending the road network that was restored during the review period, and its plans include the repair and maintenance of the country's main road corridors.

1.35. With a view to attracting private investment for these projects in 2011 the Law on Public-Private Partnership (PPP) was enacted to provide a specific legislative framework for investment in public infrastructure using private funds. This promotion of public-private partnership aims to channel extensive investment into logistical, port and airport infrastructure in order to help establish the country as a regional logistics platform.

1.36. The Government considers the development of the country's production system to be fundamental, and has therefore allocated resources to the implementation of programmes to strengthen the production base for goods and services, and innovation-intensive value chains.

1.37. Finally, in the area of international integration, the Government's strategy is directed towards deepening integration through MERCOSUR while remaining on the lookout for new markets that offer better access to international markets for Uruguayan products. This involves pursuing the negotiation of trade agreements with other countries that are important to Uruguay in terms of trade, or strengthening the agreements already concluded by Uruguay in the framework of the LAIA.

1.38. In an effort to overcome some of the major challenges facing the country, Uruguay will seek to improve its trade management by organizing high-level missions to promote trade and attract investment; as part of the strategic association with the People's Republic of China, it will seek to further deepen its trade links with that country and to finalize the trade agreement between MERCOSUR and the European Union. It will also seek to engage in trade negotiations with other countries and to strengthen its relations with the emerging countries, while continuing to promote Uruguay as one of MERCOSUR's entry and logistical services gateways.

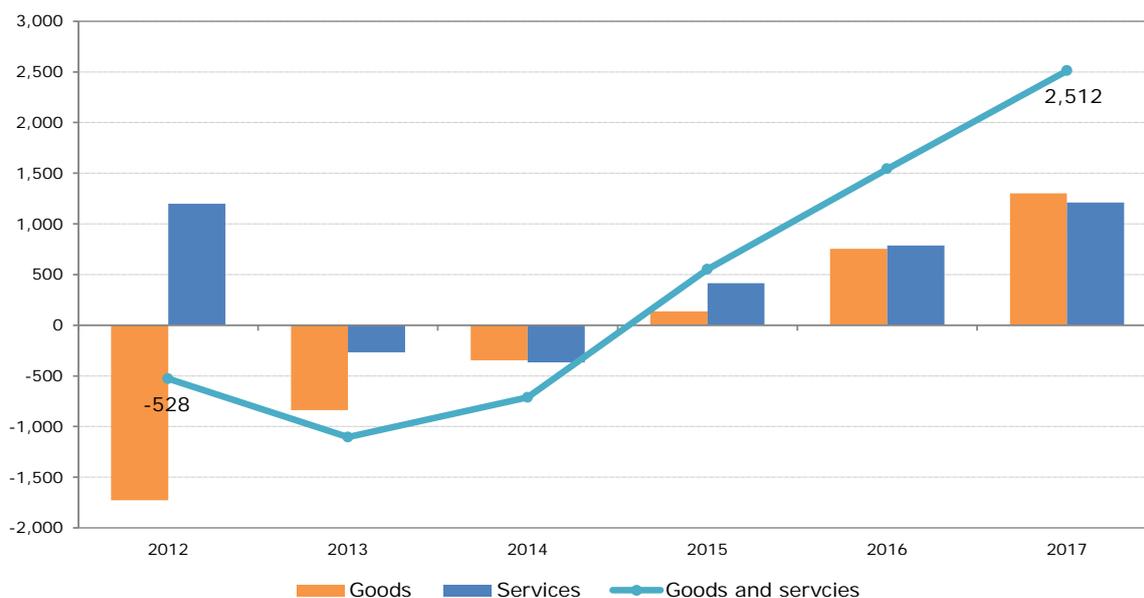
2 TRADE ENVIRONMENT AND TRADE POLICY

2.1 Trends in foreign trade and investment

2.1. Against an international backdrop of low oil prices, cheaper agricultural commodities and political and economic tensions in various countries in the region, Uruguay's economy continued to grow at a sustainable rate, although more slowly than in the previous five-year period. Between 2012 and 2017 the balance of trade in goods and services has trended upwards with changes becoming apparent from 2015. That change can be observed in trade in goods but especially in services.

Chart 2.1 Trade balance of Uruguay, 2012-2017

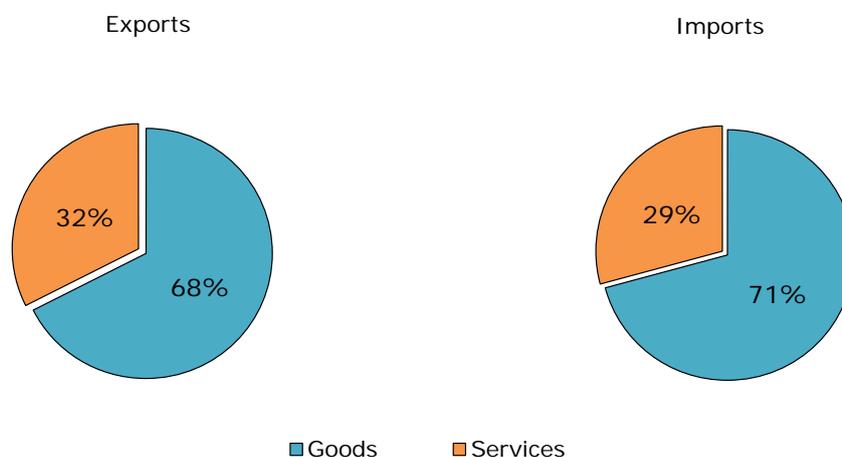
(US\$ million)



Source: Prepared by Uruguay XXI based on BCU data.

2.2. Between 2012 and 2017 exports fell by an annual average of 1.8% in dollar terms, while imports fell by 6.1%. When analysed in real terms, external sales in fact rose by 2.0% while imports did fall but to a lesser extent (2.1%). The degree of trade openness declined compared to the previous five-year period because the rise in exports did not offset the fall in imports in a context of rising GDP. Accordingly, external trade accounted for 45% of Uruguay's GDP in 2017.

Chart 2.2 Imports and exports of goods and services to/from Uruguay, 2017



Source: Prepared by Uruguay XXI based on BCU data.

2.3. It is evident that a paradigm shift has occurred in Uruguayan exports as a result of a marked rise in the weight of sales of services, which in the last ten years have risen by an average 7% in dollar terms. Exports of services grew by 15% compared to 2016 and reached US\$4,763 million in the last year.

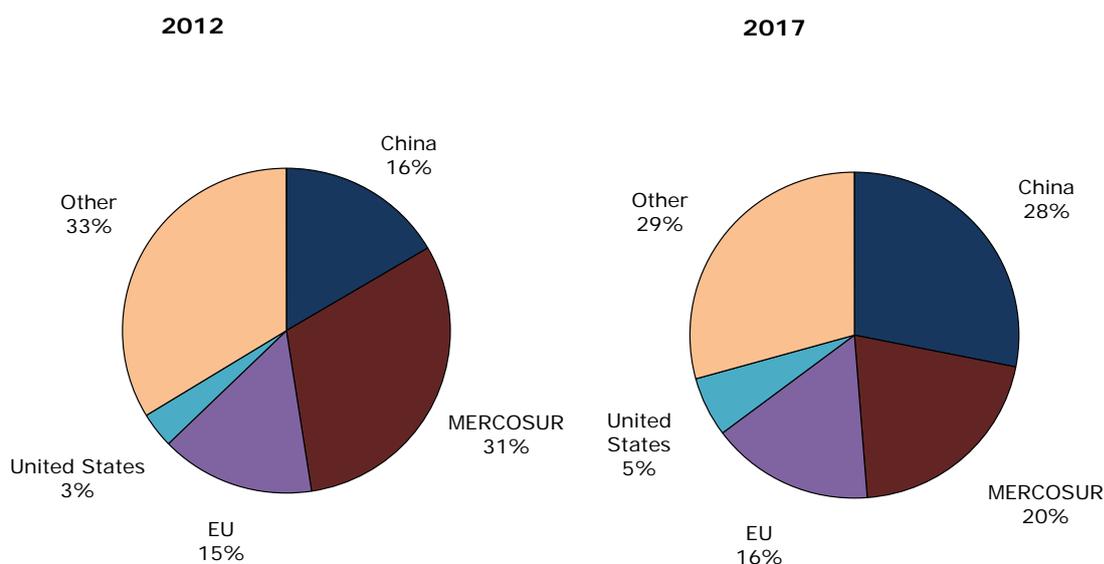
2.4. The surplus in the balance of services was chiefly due to inbound tourism income, which accounted for some 50% of Uruguay's total exports, followed by transport services (10%). There was also strong growth in dollar terms in exports of services linked to telecommunications and computer equipment (10% on average).

2.5. Transportation and travel accounted for the bulk of services imports at 27% and 30% respectively, reflecting the high cost of international freight for Uruguayan importers.

2.6. In the goods market, exports were stimulated by foreign demand, especially for agro- industrial products, while the slowdown in imports was a response to the depreciation of the Uruguayan peso, among other factors. In 2017, Uruguay bought US\$8,607 million worth of goods, and sold US\$9,908 million worth of goods.

2.7. Between 2012 and 2017 goods were exported to approximately 200 countries, among which China featured prominently, consolidating its place as Uruguay's chief trading partner.

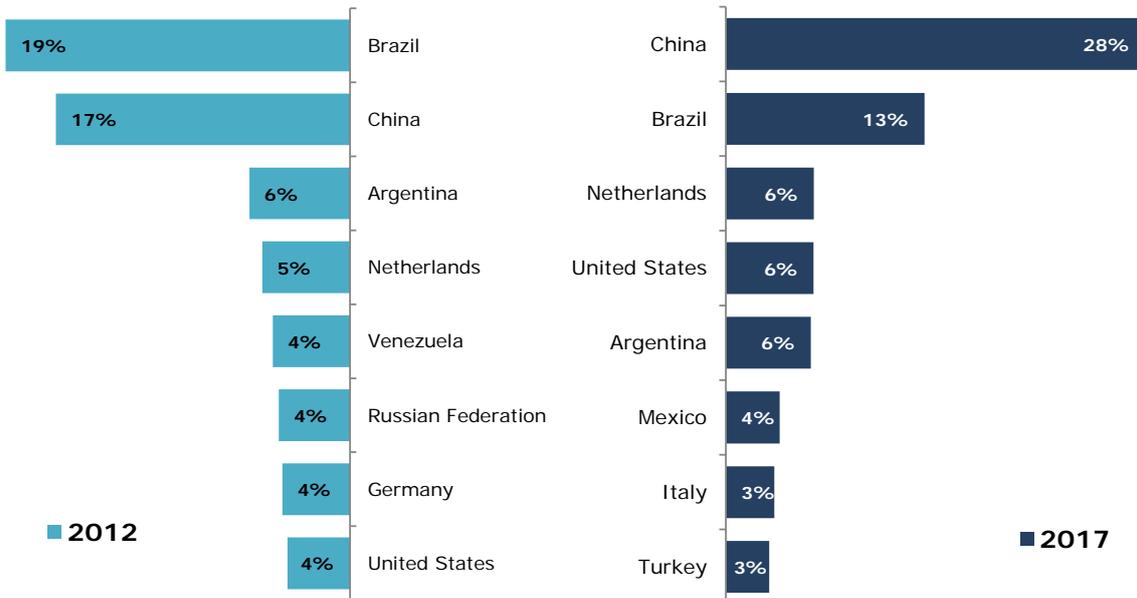
Chart 2.3 Change in Uruguay's export matrix by destination, 2012 and 2017



Source: Prepared by Uruguay XXI based on data from the National Directorate of Customs and Free Zones.

2.8. As noted in the preceding chart, exports to China in 2017 were nearly double the figure for 2012, whereas sales to MERCOSUR fell considerably.

Chart 2.4 Main export destinations, 2012 and 2017

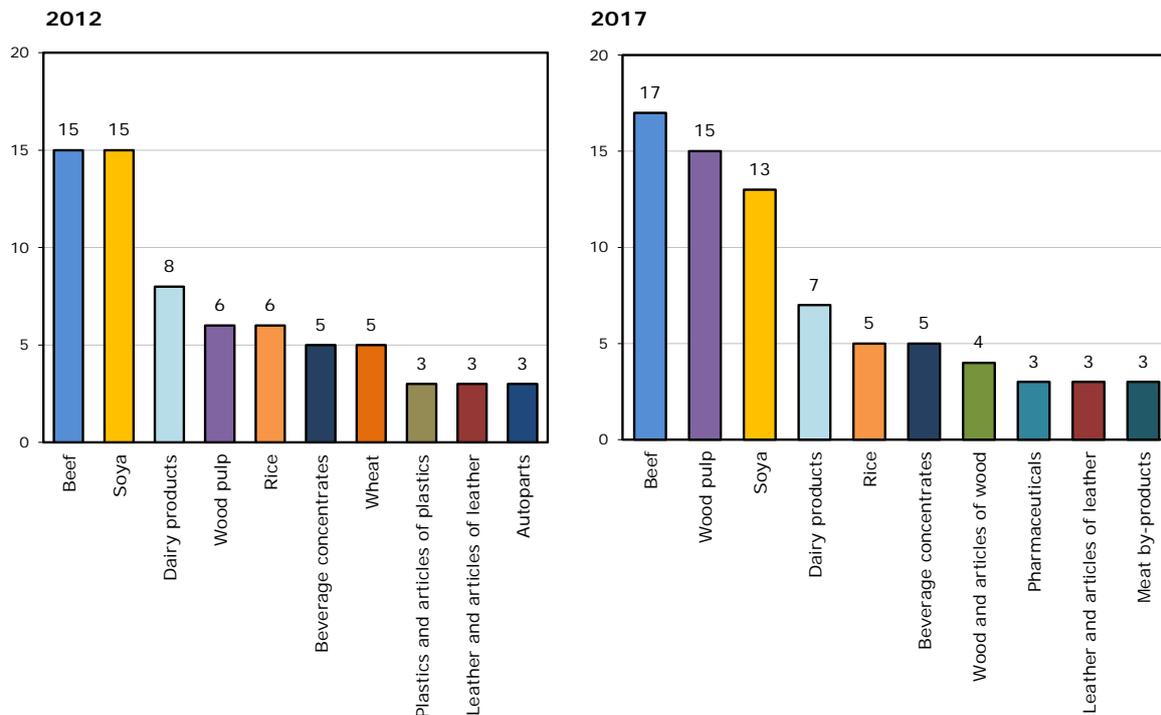


Source: Drawn up by Uruguay XXI based on data from the National Directorate of Customs and Free Zones.

2.9. The United States' market share in 2017 was higher than in 2012; the growth in exports in dollar terms to that country averaged 9.6%.

2.10. Uruguay's chief exports are products of agro-industrial origin, which accounted for 79% of the total value of goods exported in 2017. In that year, agro-industrial sales were around US\$7,176 million, foremost among them being beef, wood pulp and soya. That figure represented a 1.4% rise in dollar terms compared to 2012. Manufactures have fallen slightly as a proportion of external sales, from 22% in 2012 to 20% in 2017.

Chart 2.5 Main export products, 2012 and 2017



Source: Prepared by Uruguay XXI based on data from the National Directorate of Customs and Free Zones.

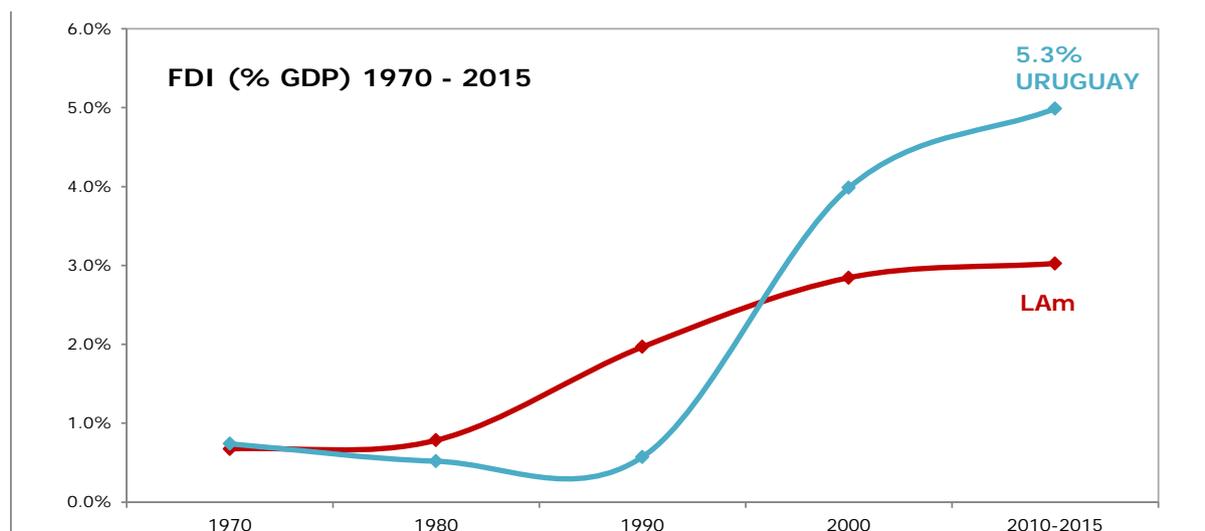
2.11. In contrast, manufactures account for a large share of imports – over 60% of the total in 2017. They include imports of vehicles, clothing and footwear, and plastics. The share of total imports accounted for by oil and petroleum products fell by over 50%, from 25% to 11% in 2017, owing to a change in the demand structure that resulted in more efficient use of oil.

2.12. The markets of origin of imports have essentially remained unchanged and relatively concentrated in the Americas and China. The MERCOSUR countries are the main suppliers, although they have lost some ground and in 2017 accounted for 34% of Uruguay's total imports compared to 41% at the beginning of the period. This relative decline in imports from Argentina and Brazil is due to the increase in the importance of China as a supplier; imports from that country accounted for 20% of Uruguay's total imports in 2017. The European Union, with 16% of total imports, and the United States, with 11%, are among Uruguay's other major suppliers.

2.13. Between 2012 and 2017 FDI slowed and as a result its share in GDP dropped by 0.2%; nonetheless, Uruguay continues to be among the countries in the region that receives the greatest proportion of FDI compared to the size of its economy. In 2016 the main sources of FDI were Argentina and Brazil, Europe, Panama and the United States. The main target sectors for investment are real estate, information and communications, and commerce.

2.14. FDI flows into Uruguay are expected to bounce back in 2018 and 2019, reflecting the renewed dynamism in public and private investment, especially in real estate in line with regional drives and the Finnish company UPM's project for a second wood pulp plant.¹

Chart 2.6 FDI trend in Uruguay



Source: Prepared by Uruguay XXI based on data from the BCU and UNCTAD.

2.2 Trade policy and integration

2.15. Twenty-first century globalization, a product of new information and communications technologies (ICTs), has led to the consolidation of "Global Value Chains" (GVCs) and the offshoring of tasks that until a few years ago were "non-tradable" internationally, such as non-traditional services. Currently, external trade comprises a combination of goods/services/ideas² that cross countries' borders several times before emerging as an end product. This shift is obviously also linked to an investment dynamic that is designed to generate these combinations of goods/services/ideas. The traditional dynamics involved in end-goods crossing the customs borders between the exporting and importing countries are becoming a thing of the past.

2.16. In response to this new globalization, trade policy, that is to say, the system of instruments and measures that determine the external integration of an economy, has become broader and

¹ From *Informe de IED 2017* [FDI Report 2017], Uruguay XXI.

² Baldwin (2016).

more complex in recent years. Globalization and technological development are currently such that the countries seeking to improve their international integration are not negotiating solely or chiefly on simple (tariff) preferences for goods because they would have a low impact on trade. Trade policy has shifted away from merely determining tariffs and support for sectors, towards the coordinated and consolidated construction of competitive, virtuous disciplines that sustain and promote the virtuous link between trade in goods/services/ideas and associated investment.

2.17. Trade policy prescriptions are evidently subordinate to national economic development objectives and strategies. A fair and sustainable growth strategy calls for the creation of the right conditions for the expansion of productive investment, which in the case of an economy such as that of Uruguay, presupposes an export drive to achieve the scale that makes efficient and competitive production possible. In this respect, the priority objective in terms of external integration is, at the international level, improved market access for Uruguayan goods and services and, at the domestic level, the production of a range of exports that satisfy the nature and requirements of the foreign demand.

2.18. Consequently, Uruguay has set as a basic objective of its external negotiations the achievement of stable and predictable access conditions to growing markets at all levels: regional, multilateral and bilateral. In this respect, the economic and trade dimension of the integration process is critical from the standpoint of its growth strategy, and the various negotiations in progress are not mutually exclusive but complementary. Its external strategy seeks to achieve competitive integration into both the regional and world economies at the same time, by promoting the marketing both of products with static comparative advantages and of products with a greater technological content that exploit Uruguay's dynamic comparative advantages. The idea is also to secure a competitive supply of affordable, efficient information technology and telecommunications goods, inputs and capital goods for domestic producers.

2.19. Uruguay is a founding member of MERCOSUR, and to a certain extent its specific trade policies are determined by those adopted by the bloc. Together with its partners, Uruguay has been doing its utmost to deepen and improve the customs union as a prerequisite to the creation of the common market provided for in the Treaty of Asunción.

2.20. The priority that Uruguay gives to the external market in its development strategy is linked to its conviction that the customs union should be coupled with open regionalism on as broad a scale as possible. Indeed, not only Uruguay itself, but MERCOSUR as a whole, has been reaching out to third parties either unilaterally – with the consensus of the partners – or through the bloc's negotiating structure.

2.21. The negotiations conducted in the framework of MERCOSUR during the review period notably produced the entry into force of the agreement with Egypt and the signature of the MERCOSUR-Colombia Agreement.

2.22. MERCOSUR's external agenda is extensive, with ongoing negotiations at different stages with a number of countries or blocs. Foremost among these is the negotiation of the bi-regional association agreement for free trade with the European Union, to which Uruguay attaches considerable importance. Also under negotiation is a trade agreement between MERCOSUR and the EFTA countries. Negotiations have recently begun for an inclusive, progressive free trade agreement (under the name of Comprehensive Trade Agreement) between MERCOSUR and Canada. It is expected that during the current year negotiations will also be opened with South Korea and Singapore. MERCOSUR is undertaking exploratory work with a large number of strategic partners.

2.23. Over this period, Uruguay has focused on negotiating tax information exchange agreements and double taxation agreements, on the grounds that they are vitally important for services, and may help to expand the country's range of exports and encourage major transnational corporations to establish their head offices in Uruguay.

2.24. On the multilateral front, the Doha Round negotiations are of the utmost importance to Uruguay since they constitute one of the main mechanisms for promoting the country's offensive trade interests in the agricultural area in pursuit of the gains to be made from commitments to

eliminate agricultural production subsidies and aids, as well as from the dismantling of technical barriers to market access.

2.25. One major multilateral achievement during the review period was the approval of measures at the Bali Ministerial Conference in December 2013. The text of the Protocol on Trade Facilitation for inclusion in the WTO Agreement was officially opened for acceptance on 27 November 2014. After two thirds of Members ratified and notified their acceptance to the WTO, the Agreement entered into force on 22 February 2017.

2.26. The Protocol seeks to simplify, harmonize and modernize customs procedures and practices, reduce barriers, and improve the physical infrastructure and the information and communications technology in use. It was incorporated into Uruguayan law under Law 19,414 of 30 June 2016.

2.27. In compliance with the commitments entered into under Article 23 of the Bali Agreement, Uruguay has established an Interministerial Trade Facilitation Committee with responsibility for domestic coordination and implementation of the provisions of the Agreement. It was established under Decree No. 252/15 of 23 September 2015, as amended by Decree No. 156/2017 of 12 June 2017.

2.28. At the same time, a new Protocol was concluded in 2010 by member countries of UNCTAD's Global System of Trade Preferences among Developing Countries (GSTP), which aims to promote trade between developing countries by the granting of tariff preferences on an extensive list of products. Uruguay is also a founding member of the Cairns Group, together with Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines and South Africa. Alongside the other members of MERCOSUR it is also a member of the agricultural G-20.

2.3 Related policies

2.29. Trade in goods/services/ideas in the 21st century entails democratic development of ICTs, adjusting external trade regulations to fit the new situation and facilitating the incorporation of the new technologies into external trade processes. Accordingly, the Government's initiatives on electronic government, the new Uruguayan customs code and the Single Window for Foreign Trade are described below.

2.3.1 Electronic government

2.30. The Agency for the Development of e-Government and the Information and Knowledge Society (AGESIC) reports to the Office of the President of the Republic and has independence in technical matters. AGESIC was established to lead the way on matters associated with digital government and the information and knowledge society in Uruguay. Its strategic objectives include: promoting wider public access to all ICTs; promoting the acquisition of skills and knowledge in order to make best use of ICTs, achieve greater social integration and better prepare young people for the future; using ICTs to simplify procedures and processes and work on matters associated with e-Government; drawing up and proposing IT policies, rules and standards for the State; enforcing the IT regulations in force; and enhancing synergies between the State and businesses.

2.31. Over the past ten years Uruguay has implemented a strategy for digital transformation. In conjunction with AGESIC, the Government has established the principles that will underpin further progress in this area, namely a comprehensive regulatory framework to provide guidance and foundations for regulations governing the digital transformation; a strong institutional system incorporating government bodies and organizations with roles that are defined as part of a cooperative framework; and a technological infrastructure that can handle high demand while providing the security required to protect governmental and private citizens' data.

2.32. This framework has served as the umbrella for the development of e-Government strategies to introduce new on-line procedures and services, based on a one-stop approach for all State bodies, thus standardizing processes and the quality of service provided to the public. Some examples of services affected are: electronic notifications and communications; electronic filing;

the integrated administrative management system; competitive funds; the Maturity Model; and the e-Government master plans.

2.33. Uruguay's socio-demographic situation is similar to that of the developed countries but its economy is much smaller and less significant within a highly competitive global system. Accordingly, in order to maintain or increase economic growth while also improving the population's well-being, it is vital for us to make intelligent use of the new technologies to improve the quality of education, government services and production development. In 2016 the Government of Uruguay approved the Uruguay Digital Agenda 2020³ under the title "Equitable Transformation", which propounds an inclusive, sustainable digital transformation for the country, making intelligent use of technologies.

2.34. The Digital Government Plan 2020⁴ is part of the Uruguay Digital Policy that coordinates, supports and incentivizes other government bodies' digital plans. It contains the various objectives and priority initiatives that will enable the Uruguayan Government to make progress in digital transformation across the board as we move forward. It aims to create public value through services that meet the needs, expectations and preferences of the public in an equitable, efficient, transparent and innovative manner.⁵

2.35. Telecommunication infrastructure coverage in Uruguay is extensive, making available increased fibre-optic connections for households and free Internet plans to the public; connection fees are the lowest in the region and the speeds are the highest. Moreover, all children in the public education system have their own computer with Internet access that they share with their families; the population has basic digital literacy skills and initiatives have been introduced in other areas such as 100% traceability of individual cattle, progress in digital government, and the plan for national electronic medical records. These measures have had a significant effect in correcting disparities, closing access gaps between higher and lower income groups, and democratizing services; digital development has become one of Uruguay's hallmarks, both within and beyond the country's borders.

2.36. In order for Uruguay to become a State that puts forward innovative measures and makes good use of ICTs, a State where optimizing, consolidating and sharing are basic principles, the Government has developed a platform for interoperability and a high speed network (REDuy) for use by government authorities, laid down standards for good IT practice, created a spatial data infrastructure for Uruguay (IDEuy), and consolidated IT and services in the State cloud.

2.37. Uruguay has the infrastructure and necessary enabling regulatory framework required for the public to feel secure and confident in the use of ICTs. To that end, AGESIC developed the National Centre for Responses to Information Technology Security Incidents (CERTuy), the national infrastructure for electronic identification and certification⁶, while also drafting laws on information security, privacy and personal data protection.⁷

2.3.2 Customs reform

2.38. The reform of the National Customs Directorate (DNA) formed part of the strategy of international integration and greater competitiveness in the production of goods. In the light of its foreign trade strategies, Uruguay had to implement a customs management system that would facilitate foreign trade and was aligned with current international trends in the areas of trade agreements, security, cargo risks, sanitary and environmental conditions trends in, and trade logistics.

³ Viewed at: <https://www.agesic.gub.uy/innovaportal/file/6122/1/agenda-uruguay-digital---enero-final.pdf>.

⁴ Viewed at: https://www.agesic.gub.uy/innovaportal/file/6539/1/plan_de_gobierno_digital.pdf.

⁵ The priority initiatives may be viewed at: <https://www.agesic.gub.uy/innovaportal/v/6670/1/agesic/iniciativas-prioritarias.html?padre=3712&idPadre=3712>.

⁶ Viewed at: <https://www.agesic.gub.uy/innovaportal/v/311/1/agesic/ley-n%C2%B0-18600-de-21-de-setiembre-de-2009.html>.

⁷ Viewed at: <https://www.agesic.gub.uy/innovaportal/v/46/1/agesic/proteccion-de-datos-personales.html?padre=42&idPadre=42>.

2.39. In 2010 work began on the strategic guidelines for customs modernization. They were as follows:

- to improve processes and procedures;
- to update the institutional and organizational framework;
- to improve human and physical resources;
- to improve infrastructure and equipment.

2.40. As part of this first planning process, the DNA implemented a comprehensive results-based management system that drew on the most widely accepted conceptual developments, tailoring them closely to the reality of the Uruguayan customs and Uruguay itself.

2.41. The strategic initiatives that emerged from this plan targeted the overall objectives, namely smarter controls and measures to facilitate the entry and exit of goods into and out of the country. Those initiatives included:

- the digital Single Customs Document (DU);
- the Single Window for Foreign Trade (VUCE);
- the Authorized Economic Operator (AEO) programme;
- the Integrated Customs Intelligence System (SIIA);
- the electronic seal for secure transit;
- the automation of customs controls in port.

2.42. These projects have now been 100% implemented and the results have had a huge impact on control and facilitation. The outcomes include:

- paperless customs - 99% of procedures are now digital;
- according to World Bank estimates, the use of the digital DU represents a saving of US\$10 million per year for Uruguay's foreign trade;
- the networking of 15 government agencies involved in foreign trade processes that are managed through the VUCE platform – 60 processes are now virtual as a result;
- 48 businesses with AEO certification, which enjoy reduced inspection times, priority clearance, preferential lanes and personalized attention.

2.43. The SIIA is a system of foreign trade data analysis that uses econometric models and allows us to conduct fewer, better controls. The system establishes risk management rules that are then applied to foreign trade transactions and the results feed back into the system.

2.44. The electronic seal helped Uruguay to become the only country in the Americas regarded as having 100% control of its transit operations.

2.45. The New National Customs Code (CAROU) was adopted as a way of bridging the institutional and organizational regulatory gap. The Code amends the country's customs legislation to bring it into line with the Mercosur Customs Code (CAM) and introduces provisions aimed at aligning customs regulations with current reality. The Code contains four elements that embody the DNA's trade facilitation approach:

- Binding Consultations: the Code provides for the opportunity to consult the DNA on the application of customs legislation to a specific set of circumstances. The DNA is obliged to apply the outcome of the consultation process;
- AEO: the Code provides for and formalizes the status of Authorized Economic Operator (CAROU, Article 40);
- Logistics warehouses: the Code empowers Customs to conduct goods inspections on warehouse premises. They become customs zones;
- Free Zones: these form part of the customs territory; the DNA may conduct selective controls.

2.46. Additionally, a new methodology has been developed for process management, resulting in the attainment of Quality Management System certification ISO 9001:2008 for the customs audit process used by the Inspection Division that pioneered its use. All offices are now following this process-based approach to management.

2.47. Through the customs modernization process, the DNA has created its own team of experts in best practice in smart controls, simplification of customs procedures and target-based management methodologies. It has positioned the Uruguayan DNA as a customs management modernization benchmark for the region and the world.

2.3.3 New Uruguayan Customs Code (CAROU)

2.48. The Customs Code of the Eastern Republic of Uruguay – Law No. 19.276 of 19 September 2014 (CAROU) – responded to the need to streamline rules spread across several legal instruments and to bring customs regulations into line with the new requirements and procedures of international trade in the 21st century. The starting point was the MERCOSUR Customs Code (CAM), a set of regulations that is aligned with the most modern rules in the multilateral arena as well as the instruments drafted by other economic groupings, such as the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), the World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade (2005), the European Customs Code, and the Central American Customs Code. These instruments were the template that forged the principles and guidelines underpinning the CAROU.

2.49. Cutting-edge features of international customs law consistent with domestic objectives for the modernization of foreign trade management were thus incorporated into the domestic legal order. These include in particular: the introduction of the status of authorized economic operator; the use of risk-analysis based selection mechanisms in customs controls; the preferential use of computerized systems and electronic data transmission for recording customs operations and for exchanging information with individuals; the recognition of certified digital signatures or secure electronic signatures; and the incorporation of a system of binding prior consultation on the application of customs legislation in specific situations.

2.50. Among the specific provisions of the CAROU that illustrate the modernization process are those concerning the scope and definition of customs territory. They are in line with the Kyoto Convention, which provides that national territory coincides with customs territory, superseding the previous concept which enshrined the existence of customs exclaves and enclaves in law.

2.51. Similarly, the CAROU organizes the territory into three types of customs zones: a primary zone, a secondary zone and special customs surveillance zones, thereby providing the National Directorate of Customs (DNA) with powers of control that match efficiency and trade facilitation requirements.

2.52. It also provides for the category of authorized economic operator, a status whereby operators who have been approved and authorized enjoy certain benefits such as simplified customs procedures based on their record of compliance with customs requirements. This instrument was taken from the WCO Framework of Standards to Secure and Facilitate Global

Trade. Thus special authorization may be granted to manufacturers, importers, exporters, brokers, carriers, intermediaries, port or airport administrators, integrated transport operators, warehouse operators and others who have an appropriate record of compliance with customs requirements, a demonstrated commitment to supply chain security and a satisfactory system for managing their commercial records. The potential of AEO status is greater when there is mutual recognition by customs authorities because it prompts reciprocal benefits for operators in the countries concerned.

2.53. In terms of the documents required for the various customs procedures, the CAROU has introduced more relaxed criteria that can mould to the dynamics of international trade without the need to amend the law, and it empowers the DNA to demand specific documents or other documents having equivalent effect. Priority is also given to the use of IT and electronic data transmission systems; when recording customs operations, declarations must be presented electronically, additional documents can also be submitted electronically and the preliminary opinion issued by the DNA is preferably delivered using IT systems. Any additional paperwork required must be limited only to that which is necessary to apply the customs legislation, thus consolidating the objective of trade facilitation.

2.54. The Code also includes the option of simplified customs clearance depending on the declarant's status, the characteristics of the goods or the circumstances of the operation.

2.55. On customs controls, the CAROU provides for smart, modern control techniques using risk-analysis based selection mechanisms that are applied using a random control system; it also includes the option for the DNA to carry out inspections of goods after release.

2.3.4 Single Window for Foreign Trade

2.56. The Single Window for Foreign Trade (VUCE) is a trade facilitation mechanism whereby information and documents are electronically optimized and combined at a single entry point for the purpose of fulfilling all import, export and transit formalities.

2.57. The project was launched in Uruguay in 2011 and entered into operation in 2013, when the first electronic procedure was made available on the platform. The Law on the Budget and Accounting Report for 2013, No. 19.149 of 11 November 2013, formally established the Single Window for Foreign Trade, operating with technical autonomy within the Institute for the Promotion of Investment and Exports (Uruguay XXI), which was tasked with implementing it.

2.58. The project was designed not only with the target of establishing an electronic facilitation platform but also to play the role of coordinator for the various actors involved and thereby ensure cooperation and optimization in business processes. Accordingly the VUCE has signed 19 interinstitutional cooperation agreements with public and private stakeholders and has incorporated into the platform 18 of the 25 Uruguayan State Agencies involved in supervising foreign trade operations.

2.59. The VUCE's work procedure provides a cooperative approach that embeds three cornerstones, namely a client-centred approach, cross-sectoral processes and ongoing improvement. Before each new procedure is introduced all stakeholders are called together to gain an understanding of the various customers' needs and expectations of the process so that they can be squared with making foreign trade procedures more efficient by rationalizing, harmonizing and simplifying them.

2.60. From that starting point the platform and the project generally have been growing in terms of user numbers, procedures covered and services offered to the foreign trade community. In December 2017, there were 114 procedures available on the VUCE – equivalent to 71% of all procedures available and 43% of the volume of customs operations requiring documents.

2.61. The number of users has grown exponentially in recent years, testing not only the platform but also the service structure, including customer service staff and the call system. Many initiatives have been implemented (and are still under way) to monitor the service provided and improve quality in order to increase customer satisfaction. Currently there are more than 17,000 platform

users, chiefly in the following categories: customs brokers, importers, exporters, individuals, and government officials.

2.62. Another aspect illustrating the growth of the platform is the volume of procedures carried out by users on the VUCE. This indicator is monitored to determine which procedures are more popular and, therefore, prioritize improvement work. At December 2017, more than 425,000 documents were issued through the platform: licences, permits, certificates and other documents used at later stages of customs operations.

2.63. The incorporation of the procedures and the rise in the number of registered users generated demand for user training. Accordingly the VUCE has trained over 5,300 users (public and private sector) and continues to improve its training programme and courses. The areas dealt with include not only how to use the system, but also aspects associated with trade facilitation, re-engineering processes, digitalizing procedures, electronic signature and other relevant areas of interest.

2.64. In addition to its complexity, measuring the impact of an initiative like VUCE involved constructing a triple set of impact indicators: private sector impact, public sector impact and environmental impact.

2.65. Many benefits have flowed from managing documents through the VUCE, some of which are easier to measure than others. Since its introduction the VUCE has generated private sector savings of over US\$6.5 million merely from the reduction in journeys, man-hours involved in processing and unnecessary waiting. This is equivalent to savings averaging approximately US\$22 for each procedure conducted through the VUCE and more than 400,000 man hours on low-value tasks.

2.66. A user satisfaction survey is conducted to evaluate the quality of the service provided by VUCE and its impact on operations. In the latest survey (December 2017), 90% of users identified improvements in processes that have been incorporated into VUCE; 88% said the platform is good or very good, and 93% described the service provided by VUCE as good or very good.

2.67. Public-sector impact measurement began in 2016, with the aim of looking at the number of hours it takes for an official to review a procedure. Although the number of hours that a procedure is pending at an agency is not the same as that spent by an official working on that procedure, it is a means of identifying not only public-sector efficiency improvements but also any reduction in private-sector waiting time. Although this indicator cannot be used to measure the impact of incorporating a procedure into the VUCE, it does provide information on the impact of improvements following upgrades to automated procedures. In 2016 the average response-time in VUCE procedures was 30.6 hours, falling to 24.5 hours in 2017 (20% less) thanks to improvement initiatives worked on by the VUCE in conjunction with the various agencies involved in the procedures available on the platform.

2.68. One impact of an initiative such as the VUCE is the reduction in the amount of paper used, which generates significant environmental benefits. The benefit is measured by assessing the main inputs in the paper production process (trees, water and energy). Since the platform became operational, the number of sheets of paper used in procedures has fallen by more than 14 million, which translates into savings of more than 1,700 trees and more than 4 million litres of water.

2.69. The VUCE initiative should be viewed as a process whose results go beyond its achievements in response to demand from the various stakeholders in the foreign trade community. It is important to note that the approach taken is cooperative and coordinated, thus making it possible to construct a facilitation instrument that matches the expectations and needs of the various stakeholders involved.

2.3.5 Micro, Small and Medium Enterprises (MSMEs)

2.70. Under Law No. 16.201 Uruguay declared the promotion, development and modernization of micro, small and medium enterprises to be a matter of national interest in order to ensure their geographical decentralization, increase the productivity of their resources and generate employment throughout the territory.

2.71. In Uruguay micro, small and medium enterprises (MSMEs) are promoted by the National Economic Development Agency (ANDE) using effective, efficient and transparent programmes and instruments.

2.72. The goal is for MSMEs to have various instruments available to them that are appropriate to the various stages and needs of the entrepreneurial process.

2.73. The ANDE has drawn up several programmes to improve the productivity of MSMEs in the value chain and help to develop sectoral productivity by supporting improvements in the business environment, access to information and process quality. These include:

- the Supplier Development Programme, to help develop competitive MSMEs by enhancing their involvement in national value chains; and
- the Public Goods Programme, which supports projects for the development of public goods in specific sectors in order to address market, coordination and/or information failures and thereby generate conditions conducive to greater productivity and sectoral competitiveness.

2.74. In addition, in order to narrow the gap for businesses in remote inland areas the ANDE is working to establish Centres for Entrepreneurial Competitiveness as spaces where MSMEs and entrepreneurs from a given region can access comprehensive support to help them grow and develop.

2.4 Uruguay and the WTO

2.75. Uruguay has made a strong commitment to multilateralism in general and to multilateralism in trade in particular. In fact, Uruguay was one of the first signatories of the San Francisco Charter, as well as a signatory to the Havana Charter, and joined the GATT at an early stage, in 1953. Moreover, it has participated actively in all the negotiating rounds, occupying important posts on various committees.

2.76. Uruguay has defended, and will continue to defend, multilateralism as a way of upholding the rights of the less developed nations within the international system. It supports the view that trade liberalization is mutually beneficial and contributes to the development and well-being of peoples. Thus, Uruguay has always strongly advocated the inclusion of agriculture in the multilateral negotiating agenda. In this connection, it should be recalled that agricultural negotiations were in fact included in the agenda of the Round that bears the country's name, the Uruguay Round, which concluded with the adoption of disciplines in this highly sensitive sector for the first time. It also included the creation of the Dispute Settlement Mechanism, of vital importance to all countries but particularly to the developing countries, to protect the rules of the multilateral trading system. It should be recalled that Uruguay is a founding member of the Cairns Group of agricultural exporting countries, which played a decisive part in bringing the Uruguay Round to a conclusion.

2.77. Although the agreements concluded during the Uruguay Round have been described as insufficient to effectively open up world agricultural trade, for Uruguay they constituted definite progress towards the goal of endowing agricultural trade with rules subject to worldwide acceptance and multilateral supervision. However, the work that remains to be done in this area is considerable, and Uruguay's interests are very much at stake.

2.78. Uruguay's historical commitment to the multilateral system, strengthened by its firm conviction that multilateralism is the best way to approach the agricultural negotiations on both access and government support, is reflected in its proactive participation in the efforts being made in the WTO to conclude the Doha Round or plurilateral agreements.

2.79. In an international context where the multilateral trading system is being challenged, Uruguay regards it as crucial to revitalize the role of the WTO in world trade and to conclude the Doha Round as soon as possible. This is vital for us all, and in particular for a country like Uruguay which, with its small domestic market, depends heavily on foreign trade for its growth and development.

2.80. The multilateral environment is clearly the right place to address the new issues that the new century has brought to the table of world trade, such as electronic commerce.

3 CONCLUSIONS

3.1. Since its last review, Uruguay has continued to consolidate a series of economic reforms that have laid the foundations for economic development by tackling the country's production, social, financial and fiscal vulnerabilities. These reforms stimulated economic growth and encouraged productive investment. The result has been growth in production, employment and foreign trade, and a decline in poverty and extreme poverty. For 15 years the country has been going through a phase of rapid and sustained growth accompanied by a significant decrease in poverty and an improvement in the distribution of income that is historically unprecedented. As explained in this report, the cornerstones of the Government's policies in the review period were to maintain macroeconomic stability, and in foreign trade, to improve the regulatory framework, lay the foundations for electronic government, the single window for foreign trade, and amend the legislative framework to promote private sector participation in the financing of the infrastructure works required to support development. Thanks to these reforms, the country is better equipped to facilitate and promote foreign trade. The current priority is to undertake long-term reforms in education, housing and security. However, external integration remains a key aspect of Uruguay's development strategy. The Government has not forgotten the country's international commitments either at the multilateral or at the bilateral or regional levels. Trade policy forms part of this effort to bring about improvements and to meet the aforementioned national objectives and international commitments.

3.2. Uruguay remains committed to multilateralism. Promotion of free trade and respect for rules are essential in these times when questions are being asked about the rules of the international trading system. Since its inception this system has shown the benefits of rules-based trade, which explains Uruguay's efforts at the World Trade Organization and particularly in connection with the current Doha Development Round. At the same time, it is endeavouring to deepen its external agenda, by strengthening its commitment to open regionalism and seeking at every possible opportunity to use trade policy as a tool for the economic development and well-being of its people.

3.3. As regards the future direction of its trade policy, Uruguay will continue its process of integration in the world economy in accordance with the agreed rules, by further developing integration at multilateral, bi-regional and regional levels, as well as by advancing rapidly with preferential relationship agreements and on the domestic front in order to boost the efficiency and competitiveness of its production sectors and to facilitate trade.
